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FEDERAL EXPRESS

LABOR COMMISSION TESTIMONY

"THE IMPACT OF QUALITY ACTION TEAMS IN THE  
WORKPLACE"

July 28, 1993

## **FEDERAL EXPRESS**

Labor Commission Testimony

July 28, 1993

Mr. Chairman and members of the Commission on the Future of Worker/Management Relations, my name is Edith Kelly and I am Vice President of Quality and Internal Audit at Federal Express Corporation. I want to thank you for this opportunity to testify and to express our views on the impact and success of "employee involvement teams" in the workplace.

During my testimony I will talk with you about our basic philosophy, our culture, and our people programs. All of which work together to foster an environment which encourages employee involvement in quality action teams. I will also discuss the evolution of quality at Federal Express, how we measure that quality, and the role quality action teams play in helping us achieve our vision of 100% customer satisfaction.

Let me start with our philosophy. Federal Express was founded in 1973 and since that time has grown to become one of the largest air express companies in the world. We were founded on a general philosophy of treating people well. This philosophy, PEOPLE, SERVICE, PROFIT (PSP) is the cornerstone of our organization and essentially means that when people are placed first, they will provide the highest possible service to our customers and the profits will follow.

You and I both know that "saying" people first is easier than "putting" people first. But we at Federal Express found out a long time ago that customer satisfaction begins with employee satisfaction. In other words, the only way to keep those customers coming back, which is what brings in the profits, is to treat your employees well.

Our commitment to employee satisfaction is rooted in the premise that all people, in every industry and every organization, come to work with certain needs. At Federal Express we take great pride in creating a workplace that responds to those needs -- one that elicits the best from our people. The result is a workforce that feels empowered to make decisions and resolve problems that if not resolved will ultimately impact our customers.

How did we create such an environment?

We started with a vision, a common goal -- we shared that vision so that each and every employee understood where they fit in the big picture.

Our vision at Federal Express is 100% customer satisfaction....and not just for our external customers, but also for our internal customers (our employees). We believe that everything we do internally is to improve our service to our external customers; otherwise, we shouldn't be doing it. Therefore, our internal customers are very important to us.

We measure our service so that we get a true picture of how our customers perceive us. I will talk later about our Service Quality Indicators and the role they've played in our success.

We implemented programs and policies that allowed our employees to be innovative and take risks. We established a sense of trust...by listening to our employees.

We have accomplished this through open communication, numerous training opportunities and "people" programs and policies--all of which work together to create an environment of trust and involvement.

Our open door policy and employee feedback process procedure are just two of the many people programs we utilize to insure that the communication lines at Federal Express remain open and that we continuously listen to what our employees are saying.

Our open door policy gives employees a process for directing their concerns and questions to the highest levels of management. Our employee feedback process looks closely at our employees' concerns and opinions related to their immediate manager, upper management, pay, benefits, pride in the company, and workgroup cooperation. This annual employee satisfaction survey, has become invaluable in gauging our work-force satisfaction and their sense of empowerment.

As you can see, *communication* is a critical factor in our success. At Federal Express we use our own TV network, divisional and corporate newsletters and computer mail to convey immediate, two-way and factual information.

Another aspect needed to create an open environment is recognition of a job well done. We have several special programs that let us do that including our "bravo zulu" award.

Bravo Zulu awards (borrowed from the U. S. Navy semaphore signal for "well done") give managers leeway to reward employees for outstanding effort and achievement. Many bravo zulus are accompanied with a check, dinner gift certificates, theatre tickets, or another gift best suited for the individual employee's taste.

Recognition programs are also included in our compensation strategy through our MBO (management by objective) programs, our annual Five Star awards, our Star/Superstar awards and our pay for performance incentives. Because customer satisfaction begins with employee satisfaction we structure our recognition and reward programs to reinforce employees actions on behalf of quality and customer satisfaction.

The people programs I've just mentioned and our people first philosophy, have created an environment of trust and involvement for our 94,000 employees world wide. This is evidenced by the high numbers of customers who are "totally satisfied" with the service they receive from Federal Express and the high leadership scores our employees continue to give their managers.

It is this people orientation and our commitment to quality that has helped Federal Express be recognized as a leader in the industry and world.

Now that you have a better feel for our philosophy, culture and our people programs, let's turn to the evolution of quality at Federal Express. We began our operation (in 1973) with a strong emphasis on fulfilling our customers' needs and expectations. And that emphasis has not changed. Over the past 20 years, we have implemented several new services in order to respond to our customers' changing needs, for example, we moved our normal delivery time from 12 noon to 10:30 a.m. and we added Saturday Service. And we continue to make changes to our service because customer satisfaction and outstanding quality are our goals.

However, for several years, our quality efforts were not well connected--various groups moving in their own direction with no common language of quality among the numerous employees. Even though we were tracking customer satisfaction, we were not measuring our performance based on our customers' standards.

We needed a more accurate picture of the service we were providing our customers. We also needed information we could use in a more proactive way. Information that would allow us to correct a problem *before* the customer expressed dissatisfaction. Because as statistics show, most customers don't complain--they just don't use your service anymore. Therefore, we worked to be proactive.

Though we had been tracking the most common complaints from customers for years, we were not using that information as a measurement tool of our overall performance. Instead we based our performance on the percentage of on-time deliveries.

We recognized that we could no longer measure our success in percentages. After all, on a typical day we may have 1.7 million packages flowing through our system. When 99% are delivered to their destination on time, undamaged and with accurate paperwork, the service sounds great. But when you realize that a one percent failure represents 17,000 unhappy customers, it's time to be proactive. We needed the absolute number of failures. In the late 80's we changed our tactics.

By using the eight most common complaints lodged by our customers and gathering additional information through customer satisfaction surveys and focus sessions, we identified twelve failures in our overall performance.

These twelve indicators are each weighted relative to the impact they have on our customers. An example of those indicators include:

*Right Day Lates* - Our customers tell us that a package delivered to them past its committed delivery time causes problems for them. So, we give ourselves one failure point each time a right day late failure occurs.

*Wrong Day Lates* - They also tell us that a package delivered to them on the wrong day causes serious problems for them. Consequently, we weight all Wrong Day Lates with a factor of five.

*Lost Packages* - If we lose our customers packages, they may be unable to recover from the problems caused by our failure. So we weight Lost Packages with a factor of 10.

Ten is the highest weighting factor given to any single failure. We call this measurement system our Service Quality Index or SQI.

With our measurement system in place, we began our formalized quality training. During 1988 and 1989 every member of management was trained in the quality process where they learned to use problem solving tools and techniques.

Leaders were assigned to each of the twelve service quality indicators and quality action teams were formed to address the root causes. The team's goal was to reduce the number of failures in each indicator.

As use of the quality process began to grow, a steering committee of upper management was formed to give the company direction and guidance in their pursuit for 100% customer satisfaction.

Quality administrators were hired to help deploy the quality process through the departments and to train the employees in the problem-solving process.

The administrators became the implementation arm for the steering board, mapping out the actions needed to meet our goals for quality improvement.

Quality action teams were formed at all levels in the company by management and employees alike, to address local problems and various issues.

Federal Express is driven by our goal to provide 100% service to our customers and who knows better how to improve that service than the people doing the job. Quality action teams were the avenue our employees used in resolving customer service problems. Though many of our teams were formed at management's request, numerous teams were formed by a group of front line employees who recognized a service problem and set out to correct it.

In 1990, Federal Express applied for the Malcolm Baldrige National Quality Award. We felt the process of applying for the award would be a good assessment tool for us and our quality efforts. We were surprised and delighted when Federal Express was named the first service company to win the Malcolm Baldrige Award.

Fred Smith, our CEO and founder said winning the award simply gave us a license to practice quality. And he was right. Since winning the award, our employee involvement efforts have magnified! During 1991, one of our employee teams from the Memphis Hub was featured in USA TODAY as one of the top teams in the country. You'll hear their story later in our presentation.

Quality improvement efforts continue all around the world in all divisions of Federal Express. In the Personnel Division alone quality action teams have saved the company more than 27 million dollars. And that's just one division.

In Hub operations, one quality action team saved the company from losing a \$2 million dollar account by using quality tools to form an alignment with the customer and fine-tune processes and procedures to ensure 100% customer satisfaction.

In our customer invoicing area, a quality action team developed a new procedure to eliminate rebilling of our customers (due to invalid credit card numbers). This team saves the company over \$47,000 every month.

But the quality process is not *just* about saving money...it's also about improving existing programs and processes or developing new ones to serve the customer better - the internal customer as well as the external customer.

A quality action team within our customer service division did just that by implementing a new procedure called "operation handshake". By designating a liaison between the customer service division and our courier workforce, and aligning their internal needs, operation handshake has improved the service internally, opened lines of communications, improved teamwork and increased recognition of exemplary performance.

Quality action teams are an integral part of our success at Federal Express and because they are so important, we formally recognize those teams and their successes.

Each quarter, all members of Sr. Management attend the "quality success story presentations" where the best of the best stories (from across the company) are presented.

There are no cash awards given for our employees' time and commitment to a quality action team, just a plaque, a quality pin and the recognition of knowing that they helped make a change for the better at Federal Express.

The impact of quality action teams has meant many things to Federal Express: increased teamwork, improved employee morale, strengthened leadership skills, improved productivity, additional revenue through cost savings, and more satisfied customers.

This focus on empowerment, employee involvement, and quality action teams earned us the special recognition of being the first service company to win the prestigious Malcolm Baldrige National Quality Award in 1990. And, for the second time in the past few years, to be rated as one of the Ten Best Companies to Work for in America.

However, none of these achievements would have been possible without the involvement of our people in quality action teams and other quality improvement efforts. Our "people first" philosophy creates an atmosphere where employees can be innovative in resolving customer's problems and are empowered to do so.

Employee involvement and employee involvement teams are the key to improving and strengthening the relationship between workers and management. At Federal Express we feel this goal can only be achieved by taking the "human side of quality" approach to empowering employees - putting people first.

At this time, I would like to introduce to you Jeff Acree, a member of our quality team from Federal Express who will further discuss their team's success story with you.

-----TEAM---PRESENTATION-----

*IF NEEDED:*

Thank you Jeff. We are proud of this team and I'm sure you can understand why.

Once again, we thank you for giving us this opportunity to discuss the impact of quality action teams at Federal Express and at this time, we'll be glad to answer any questions you might have.

**FEDERAL EXPRESS**  
**QUALITY ACTION TEAM PRESENTATION**  
**LABOR COMMISSION TESTIMONY**

**July 28, 1993**

# FEDERAL EXPRESS CENTRAL SUPPORT SERVICES MEMPHIS HUB OPERATIONS MINISORT

On August 1st, a Quality Action Team was formed to focus on the problems at the MINISORT which is the last opportunity for the Memphis Hub to meet service on its packages. During our analyzation of the operation, we found it to be unorganized and unable to meet the 100% service commitment expected by our customers.

## ROOT CAUSES

No consensus of an operating plan, improperly trained personnel, inconsistency in flight locations, inadequate reference guides, and extremely heavy volumes were causes of the minisort to fail to meet it's time parameters.

## SOLVING THE PROBLEM

The QAT was formed to identify problems and construct a operating plan for the minisort. The following are the steps which were used:

1. Rearranged the orientation of the minisort.
2. Redesigned the three letter I.D. signs to include host cities.
3. Implemented a run out procedure for missed packages.
4. Utilized resources already available to us.
5. Administered more timely movement of packages.

## RESULTS

As a result of our actions we have, reduced manning from 150 to 80 employees. Lowering the manpower at the minisort meant cutting extra hours and not firing employees. This resulted in a pay-roll savings of \$1,280.87 a night, \$20,577.40 a month, and \$246,928.80 a year. By implementing our ideas we were able to reduce the downtime of the minisort from 60 minutes to 38 minutes, which allowed us to save the outbound 22 minutes a night in the pay-roll department. This is a savings of \$775.69 a night, \$3,879.43 a week, \$15,517.73 a month, and \$186,212.71 a year (based on a pay rate of \$10.33 an hour). We also have reduced expediting from an average of 3504 packages a month to an average of 2011 packages. That gives a total savings of 1493 packages a month at a modest cost of \$15.00 a package, with a total dollar amount savings of \$22,395 a month. This leads to a savings of \$268,740 a year. If you add up the numbers, you can see that because of the actions of our QAT we have the potential to save our company \$701,881.51 a year. Even more important than the savings, is the fact that we have reaffirmed our GUARANTEE of on time delivery.

## TEAM PLAYERS

Melvin Washington, Greg Jackson, James Sartin, Thomas Sit Jr., Rodney Pierce, Brent Barr, David Burke, Dawn Mason, Tony Jackson and Jeffrey Acr-

## MINISORT

The desire of the team was to effectively use the Quality Tools to redesign and rearrange the operation of the MINISORT which would provide a more manageable and team-oriented working area. The team, both, management and nonmanagement was composed of a rich diversity of employees (Asians, blacks, whites, males and females). Each member was able to bring his or her own piece of the puzzle to the problem which made the end result a success. Because the team used all of the Quality Tools Federal Express provided to them through training, they were able to succeed not only through their ideas but also to obtain the ideas from other employees who were actually working the operation. The input of the employees working in the minisort was important to ensure that communication was never a barrier. The minisort employees had a greater sense of involvement which was crucial to us creating the teamwork type of environment which has made Federal Express what it is today.

In addition to reducing the number of missed packages and expediting costs, the team increased morale, flexibility, productivity, and most importantly teamwork. The overall service level was increased to both internal and external customers which was vital in achieving the ultimate goal of guaranteed time certain delivery. Due to the success and devoted commitment of this team, it was recognized with such awards as the Corporate Quality Success Story Award and the 1992 Rochester Institute of Technology / USA Today Quality Cup which has been a motivational tool not only for the team but also for others to continue to strive for quality improvement corporatewide.