

## Managing Human Resources, the Fedex Way

### Author's Details:

<sup>(1)</sup> Dr. V.S.P.Rao, Professor and Dean at IBS, Room no: C- 206, 2<sup>nd</sup> floor, C-Wing, IBS college campus, Dontanapally, Sankarpally Road, Hyderabad, Telegana-501203. <sup>(2)</sup> Sharda Singh, Research scholar at IBS, Room no: D- 211, 2<sup>nd</sup> floor, D-wing, IBS college campus, Dontanapally, Sankarpally Road, Hyderabad, Telegana-501203.

### Abstract:

*“Federal Express Corporation (FedEx) invented the express transportation and logistics industry in 1973. The company offered a service to ship packages of many sizes over both short and long distances. Speed and reliability were the core strengths of the company. Frederick Smith, the founder believed right from the inception that in order to stay ahead of competition and to deliver value to customers, he had to create a stimulating workplace and encourage his employees to give their best. FedEx encouraged employees to come out with innovative solutions apart from delivering documents and packages on time. It followed the people first policy at all times and shared the benefits of progress with employees. There was clear communication at all levels. There were sincere and genuine efforts to upgrade skills and competencies of employees through constant training sessions. Employee development was given top priority. The company had put excellent reward programs in place. It went out of the way to attract and retain talent through excellent HR practices. The case study throws light on how those HR best practices have helped the company to outwit competition and deliver unmatched value to customers all over the globe consistently”.*

**Key words:** FedEx, HR practices, People-Service-Profit Philosophy

**JEL classification code:** J5

## INTRODUCTION

In 2014, FedEx delivered more than 10 million packages to customers in more than 220 countries and territories. It had 90,000 fleet vehicles, 650 planes and 300,000 employees running the show all over the globe. With a brand portfolio of transportation, e-commerce and business services, FedEx had annual revenues of nearly and 47 billion. Consistently ranked among the world's most admired and trusted employers, FedEx was known for its employee friendly policies and practices right from the inception. It was among the first few companies in the world to develop a formal HR policy that viewed employees as invaluable assets. The company realized the necessity of developing rapport and building trust with its employees in order to deliver value to customers consistently. To this end, it came out with a people-service-profit philosophy (PSP) (*Refer to Exhibit 1*) that recognized the value of employees as one of the key elements of company success. During the four decades of its operations, FedEx laid a solid foundation for innovative HR practices that, in a way, propelled the company to the top spot in the package and freight transportation business. It was actually a class room project at Yale University assigned to Fred Smith (Smith) that led to the formation of the company in 1973. To compete effectively, Smith felt that all businesses required sharing information, resources, documents, materials with all stakeholders almost on a daily basis. There was an urgent need for reliable and speedy delivery of time-sensitive documents and packages so as to meet the growing needs of an ever expanding market. By delivering documents overnight, which was a revolutionary idea at that time, Smith paved the way for the emergence of express transportation and logistics industry. He proposed a new concept of picking up and delivering cargo from point A to point B by a company operating its own aircraft, depots, posting stations and delivery vans. The carrier would collect packages from pickup stations and carry the same to a central clearing house, from where the items would get sorted out and sent to respective destinations in a quick and meticulously careful manner. Smith got only a “C” grade for the project, but held on to the idea and founded the Federal Express Corporation (original name) in 1971 in Little Rock, Arkansas. Smith moved the company to Memphis in 1973. Memphis was chosen because of its central location within the US and because Memphis International Airport was rarely closed due to bad weather.

## Background

The company began service in 25 cities with a fleet of 14 Dassault Falcon aircraft and 389 employees in 1973. The planes were relatively small in size, collected packages from airports every night and brought them to Memphis, where they were immediately sorted. They were subsequently flown to airports nearer to their

destination and delivered by FedEx trucks the following morning. Brining packages to a central hub, sorting and dispatching to respective locations was indeed a costly idea. The company initially lost \$29 million in its first 26 months of operation but quickly recovered ground thereafter. Smith had to put lot of things in place in order to please customers and ensure the survival of the company. Heavy sums had to be invested in building the physical transportation infrastructure of the business. It had to develop the software that helped in ordering as well as tracking packages. Hand-held scanners had to be given to its drivers who, in turn, alerted customers of when packages would be picked up or delivered. By applying IT to the business, the company was able to run ahead of competition. While competitors were buying space on commercial airlines or subcontracting their shipments to third parties, Smith focused on acquiring more trucks and places for ensuring overnight delivery of packages—constantly encouraging his employees to give their best in order to please customers. Smith realized quite early that for speedy delivery of packages, he would need the unflinching support of a loyal and dedicated workforce. To this end, he designed HR policies and practices that helped the company overcome teething troubles and financial difficulties in the initial years. He was able to inspire the workers to give their best and deliver packages on time, unmindful of the difficulties that come on the way. He was able to instill confidence in the minds of employees through a game-changing ‘people-service-profit’ philosophy. According to that philosophy, the company would take proper care of the employees if they provided excellent service to customers, which would in turn help the company generate more profits year after year. Smith also encouraged employees to offer suggestions and feedback from time to time. Several employee friendly policies were put in place in order to motivate the workforce. All these had a positive impact on employee motivation right from the inception of the company. The extent of employee support and commitment could be understood from the fact that when the company was going through a rough phase during first two years, employees were prepared to sell their personal belongings and even use their own credit cards to purchase fuel for the aircraft. FedEx installed its first drop box in 1975 which allowed customers to drop off packages without visiting the local branch of the company. In 1976, the company turned profitable with an average volume of 19,000 parcels per day. People-Service-Profit philosophy of the company ensured fairness and equity to all employees. All HR policies and practices covering recruitment and selection, training and development, performance appraisal and corporate communications translated the plans into concrete action that helped the company in many ups and downs in its journey from an unknown entity to a powerful brand over the years.

**Talent acquisition strategies:** Being a new venture, getting talent into the company proved to be a challenge. The company was looking for people with drive, enthusiasm and the ability to take risks and go that extra mile. To get the best talent into the company, FedEx had to offer stock options and create a really stimulating environment full of exciting opportunities. As the company picked up speed and was scaling up operations at a rapid pace, it needed a huge talent pool. It was looking for numbers well above 25,000 (including regular as well as temporary hands) almost every year. This forced the company to visit leading campuses located in several countries. To process applications from various locations and sources, FedEx automated the job application and applicant screening processes in 2001. Applicants were encouraged to apply for positions matching their skill sets. The company had openings at various levels including, engineering and operations, maintenance, customer service, administrative support, customer service, IT, Sales, HR etc. It extended internship offers to enthusiastic and qualified college students as well. The eligibility criteria of each job were then matched to the profile of the applicants through an online data base called Personnel Records Information System (PRISM) which identified eligible candidates. The candidates were then required to take an aptitude test before being called for an interview. Those who were able to emerge out of the interview successfully were then subjected to a fitness test, reference checking, etc before being offered a job at FedEx. PRISM helped FedEx greatly in processing a large number of applications from prospective job seekers possessing diverse skill sets from different locations quickly and effectively.

**Performance appraisal and communication policies:** After joining FedEx employees were encouraged to participate in what came to be known as Survey-Feedback-Action (SFA) program (*Exhibit 2: SFA program*) which was initially administered manually but later on converted into a kind of online survey. SFA was used to measure employee satisfaction and the feedback obtained was examined to identify problems that employees

encountered within and outside of their department. It encouraged employees to offer feedback about supervisors, work related problems, overall policies of the company etc anonymously. The results obtained through SFA regarding each manager's performance were tabulated and calculated to obtain a company-wide leadership score (CLS) which formed the basis for granting promotions, rewards and incentives from time to time. Managers whose CLS scores were not showing improvement over the previous year were not granted the annual bonus. SFA, thus, certainly helped FedEx evaluate the performance of its own managers periodically and bring about changes in sync with employee expectations and changing market trends. FedEx appraised the performance of non-managerial personnel against parameters such as customer orientation, ability to get along with team members, technical competencies, loyalty etc. Performance reviews of temporary employees took place after every 6 months. Performance appraisals at FedEx were primarily linked to three metrics—people, service and profits.

FedEx maintained an open door policy, right from inception, to communicate with employees. It encouraged employees to question company policies and practices ---covering hiring, promoting, compensating etc—unhesitatingly. The official to whom a query was addressed from any employee was expected to answer within fourteen days. Any major event—such as mergers, acquisitions, quarterly results etc, happening at the company was informed to the employees through in house satellite cable network called FXTV. Apart from the open door policy, FedEx also followed a Guaranteed Fair Treatment Procedure (GFTP) which permitted employees to vent their grievances (regarding promotions, disciplinary action, performance reviews, job postings etc) in a structured and systematic manner.

**Employee development strategies:** New hires underwent an orientation program that explained the company philosophy, norms, procedures and practices. Lot of importance was also given to on the job training. Apart from job related skills, employees were made to learn a lot about maintaining healthy relations with colleagues and customers. The company developed a job testing program that examined the proficiencies of employees while at work. The test could be conducted from any terminal within the company and employees could generate test scores quite easily putting PRISM to best use. Every employee had to clear the test compulsorily. Those who were unable to cross the hurdle received additional training inputs at regular intervals. FedEx created a Leadership Development Institute to cater to the requirements of managerial personnel as well in mid 1980s. The 11-week management development program sought to improve leadership skills and competencies in addition to providing the capability to run field operations in an efficient way. In 1995 the company tied up with the Christian Brothers University to offer a 40 week training course aimed at imparting IT skills and managerial competencies to its US employees. The company introduced a program in 1988 which is known as 'Leadership Evaluation and Awareness Process'(LEAP) (*Refer to Exhibit 3: LEAP*) that was devised to help non- managerial cadre employees to take up challenging managerial positions at various levels. LEAP tested the leadership capabilities of employees intensely. Every year more than 3000 employees took the test so as to become eligible for promotion from the non managerial cadre to a managerial position.

FedEx hired a good number of temporary (Temps) employees who were paid on an hourly basis. To offer regular employment to such Temps, the company introduced a job posting system called 'Job Change Applicant Tracking System' (JCATS) (*Refer to Exhibit 4: JCATS*). Every Friday the company would post the vacant positions on JCAT and after receiving job applications from Temps, the company would retrieve job records from PRISM to find employment credentials of applicants—in terms of length of service, on the job performance, customer service records etc. After obtaining a numerical score on these criteria, the company would convert a promising Temp into a permanent employee. JCATS also helped regular hands to post their requirements in terms of moving to a new job or location and get things done quite easily.

In late 1990s the company introduced a program called Succession Planning Executive Education (SPEED) enabling employees to slip into senior management positions based on automated, internet-enabled skill assessment over a period of time. Based on how employees performed over time, SPEED separated the meritorious candidates from the ordinary ones and gave a chance to star performers to become eligible for promotion to senior management positions. The system encouraged prospective candidates to get them enrolled at the Leadership Development Institute also in order to improve their leadership competencies.

**Retention & Reward Strategies:** FedEx did everything possible to retain talent. For any reason whatsoever if an employee were to quit, the company collected feedback through an exit interview which was administered online. The departing employee was asked to explain reasons for quitting the company and whether he or she would be willing to join back at a later date, given an opportunity. To this end, the information collected through the exit interview was posted to PRISM and analyzed further for tracing the reasons for quitting the company. Employees were also assured of recognition, rewards and awards (*Refer to Exhibit 5: Recognition Programs & Awards at FedEx*) for delivering value to customers at the individual as well as group level. One such program was known as ‘jump seating’ that allowed employees to fly free of cost to any location where FedEx aircrafts operated.

**Conclusion:** In the area of package and freight transportation, FedEx reached the top of the summit very early in its life. It was all because of its people-friendly policies. Its philosophy of putting people first paid handsome dividends in course of time helped the company to top the list of Fortune “100 Best Companies to Work For in 10 of the past 11 years. It also figured in Fortune’s list of “World’s Most Admired Companies”. The Chairman, Smith, was pretty confident about the future of the company going forward when he expressed thus in the 2014 Annual Report: *“The strength of our people powers the strength of our results. That is embodied in our People-Service-Profit culture and our Purple Promise: “I will make every FedEx experience outstanding.” For proof, look no further than our team members’ extraordinary efforts this past winter and holiday season. Despite the toughest winter FedEx has ever experienced, team members delivered record volumes, and service metrics were among our best ever for a peak season. In fact, many team members volunteered to work on Christmas Day. It’s no coincidence that FedEx was once again recognized by Fortune magazine as one of the world’s 10 most admired companies and No. 1 in the delivery industry”.*

#### **Exhibit 1: People-Service-Profit Philosophy of FedEx**

Founder and CEO Frederick Smith determined to make employees an integral part of the decision-making process, due to his belief that "when people are placed first they will provide the highest possible service, and profits will follow". Resulting from this principle is the FedEx corporate philosophy: People-Service-Profit. These three corporate goals form the basis for all business decisions. The people priority acknowledges the importance of employee satisfaction and empowerment to create an environment where employees feel secure enough to take risks and become innovative in pursuing quality, service and customer satisfaction. Service refers to the consistent and clearly stated service quality goal of 100% customer satisfaction, 100% of the time. A corporate profit should result, if the people and service goals have been met.

Source: Adapted from “FedEx attributes Success to people First Philosophy”, posted on [www.fedex.com](http://www.fedex.com).

#### **Exhibit 2: Survey Feedback Action Program**

SFA is an annual employee survey that provides a statistical measurement of employee satisfaction, as well as subordinates' opinions of management's leadership performance. Each April, every employee is asked to participate in the on-line survey. There are 32 questions relating to the company in general and the employee's superiors. Results are tabulated, and managers then hold feedback sessions with their employees to discuss the survey findings and identify problems within and outside of their department. As a group, they develop formal, written action plans for solving these problems. Groups usually review plans throughout the year to determine whether problems were solved satisfactorily. SFA has become a problem-solving tool that operates both horizontally and vertically throughout the organization. The first ten items on the survey serve as a review of management by subordinates. The scores on these ten items become the numerical measurement that determines whether the company's annual People goal within the People-Service-Profit goal structure is being met.

Source: Adapted from “FedEx attributes Success to people First Philosophy”, posted on [www.fedex.com](http://www.fedex.com).

**Exhibit 3: Leadership Evaluation and Awareness Process (LEAP)**

The process implemented to improve leadership effectiveness and retention within FedEx. LEAP is compulsory for any employee who wants to progress to management level positions within the company. The purpose of LEAP is to evaluate a candidate's leadership potential and ensure that the individual carefully considers his or her interest in and aptitude for leadership. LEAP Panel Evaluation is an interview process conducted by a group of mid-level management trained in LEAP assessment. LEAP candidates present written and oral arguments to the panel supporting specific leadership scenarios. In making their decision, the panel considers the Peer Assessment, Manager's Focused Recommendation and the Employee's Leadership Profile. If a candidate is endorsed, they are eligible to apply for management positions, if not endorsed; an employee must wait six months before trying again.

Source: Adapted from "FedEx attributes Success to people First Philosophy", posted on [www.fedex.com](http://www.fedex.com).

**Exhibit 4: Job Change Applicant Tracking System (JCATS)**

JCATS is an on-line computer job posting system that allows hourly employees to post for any available job. New positions are announced on the system every Friday. An employee wishing to transfer to a new job or new location enters their name in the system, which then retrieves information on each candidate from the Personnel Records and Information System (PRISM). Each employee posting for the job is given a numerical score, based on job performance and length of service, which is ranked in order by the system. Any applicant can log onto JCATS during the week of posting, to find where they sit in the list of applicants. At the end of the week, the person with the highest score is awarded the job.

Source: Adapted from "FedEx attributes Success to people First Philosophy", posted on [www.fedex.com](http://www.fedex.com).

**Exhibit 5: Recognition Programs & Awards at FedEx**

1. The Five Star: The Five Star award recognizes team members who have enhanced service and profitability and exemplified the spirit of teamwork. Managers nominate their team members for this annual award, the highest honor at FedEx.
2. Bravo Zulu: Bravo Zulu award, derived from the U.S. Navy signal meaning "well done," is distributed to individuals within FedEx for outstanding performance beyond normal job expectations. Managers reward employees for outstanding efforts and achievement on the spot.
3. Purple Promise: Team members who consistently deliver superior customer service and make each and every FedEx experience outstanding are eligible for the annual Purple Promise awards.
4. The Humanitarian Award: The award recognizes employees who reach out to others in times of need, exhibiting behavior that goes above and beyond basic community responsibility.

Source: Adapted from "Recognition Program and Awards" posted on [www.fedex.com](http://www.fedex.com).

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