BALANCED SCORECARD COLLABORATIVE

Hall of Fame

UPS

Balanced Scorecard Hall of Fame™ Case Studies

UPS Case Abstract

For 17 straight years, UPS has been Fortune Magazine's most admired transportation company. Yet many of their frontline workers didn't understand and had no stake in the company's strategy. Using the Balanced Scorecard, UPS deployed a 3-year, 5-phase program that included a results-driven measurement system that focused everyone in the company on customers and solutions.

By focusing everyone on the same "point of arrival" measures: customer satisfaction, employee relations, competitive position, and time in transit, the Balanced Scorecard helped UPS transport its strategic message from the corner office into its boxy brown delivery trucks.

UPS is an excellent example of the SFO principle, Making Strategy Everyone's Job.

UPS Case Report

Until it went public in 1999, UPS was a large, privately held, global company. Its shareholders included 115,000 active and retired employees plus their families and heirs, and it had 326,800 employees in more than 200 countries. One of the largest transportation companies in the world, UPS boasts 149,000 vehicles and the ninth largest airline in North America. In 1998, UPS delivered more than three billion packages and documents worldwide, generating revenues of $24.8 billion and net income of $1.7 billion.

A New Focus on Process Quality

Following a culture change in 1994, UPS CEO, Oz Nelson, felt a change in the company's measurement system was necessary. Their stock value had never gone down in price over a 92-year period, so they were not "in trouble", per se. But their culture of "operational excellence"--focused on "measuring for success"--was changed from one of "look at and measure everything" to "focus on key processes". The new emphasis was on <u>process quality</u>. Nelson wanted the measurement of performance to adjust to that change.

Michael Brown, director of corporate measurement, investigated and discovered that the old ways of measuring performance would not work under the new process improvement paradigm. Ninety percent of the measurements were financial, and the reports on these lagged the business activities themselves by 45 days or more. UPS executives felt that the Balanced Scorecard would give them a broader, more strategic and more predictive view of their performance.

A Good Company Gets Better

By the first quarter of FY2000, at the conclusion of a 3-year, 5-phase program to deploy a new results-driven measurement system with the Balanced Scorecard as the unifying framework, UPS had experienced 10 straight quarters where fiscal performance in each quarter exceeded that of the previous one. This included the following results:

- 9.1% increase in 1999 revenue over 1998
- 29% increase in operating profit compared to 1998
- The best quarter (Q1-FY2000) in the company's history, featuring a 35.1% increase in net income (excluding additional non-recurring income)
- Cited for the 17th consecutive year as "America's Most Admired" transportation company in a Fortune magazine survey

"The BSC has been amazingly successful for us," says Bill Klussman, industrial engineering manager, Northwest Region. "Now that our drivers thoroughly understand the direction UPS is headed, they can relate better to our customers, which is helping generate more business for the company. The service provider in front of the customer is now a salesperson, helping market the company and develop sales leads."

"When we rolled this out in 1996, people easily blew past the financial goals, but that was only 25% of how we measure performance," notes operational excellence manager, Doug Schultz. "People weren't as strong in some other areas. In order to drive UPS forward, we had to raise the bar. We did that by measuring people's performance from a balanced approach. The Balanced Scorecard is a roadmap—the shared vision of our future goals—with action elements that let everyone contribute to our success."

In the five years since implementing the Balanced Scorecard, UPS has transformed itself from a "fleet of delivery trucks and airplanes" into a customer-focused, solutions-oriented business that uses leading technologies and e-commerce applications. Named Forbes magazine's 1999 "Company of the Year", UPS delivery people were described in Business Week as "the foot soldiers of the dot.com revolution."

UPS Corporate Strategy

The leaders of UPS decided that the following four "Point of Arrival" (POA) measures represented the essence of their strategic levers for success:

- Customer Satisfaction Index
- Employee Relations Index
- Competitive Position
- Time in Transit

These indicators constituted the "executive dashboard" for monitoring performance. They – and the target values set for each – represented for UPS executives not where they "would like to be" but where they "had to be" in order to accomplish their stated mission—to "enable global commerce."

Accordingly, the leadership group felt that if they could optimize company performance on each of these indicators, then the company would continue to prosper against a field of 22 competitors.

No strategy map has been constructed at UPS. However, it is assumed that there is a cause-effect relationship between the various measurements in their corporate scorecard and the POA strategic goals that guide the company. Part of this assumption derives from the fact that those cause-effect relationships were discussed in the selection of the measures, and also because subsequent positive business results gave strong evidence of the intended relationships.

UPS Balanced Scorecard

UPS took the position that most measures up until 1995 were about activity tracking, rather than results tracking. Accordingly, they redesigned their measurement system, using the Balanced Scorecard, to support "Management by Results." It was a strong cultural shock for managers at all levels to learn that henceforth, to be successful, they would have to achieve results in four measurement areas (the four BSC perspectives), rather than just one of them: financial. The latter dimension became just 25% of their jobs.

Goals were reset for all measures in January and July, rather than once a year, which most felt was too subject to unpredictable weather and other uncontrolled demand variables.

Each strategic measure must connect analytically (cause-and-effect) with one or more of the POA goals. The measures associated with the 1999 scorecard perspectives were altered to some extent to reflect new learning and priorities for the year 2000 scorecard.

UPS Balanced Scorecard (1999)

Financial	Customer
• Volume / revenue / cost index • Profit index	• Claims index • Concerns index • Data integrity • % Package-Level Detail
Internal	**People**
• Quality report card • Operations report card	• Safety • Employee retention • Employee Relations Index

Making Strategy Everyone's Job at UPS

The chronology of change management events at UPS summarized below:

1995:
- Decision to focus on process quality and education of senior management in quality principles
- Goals set for POA ("Point of Arrival") strategies
- Balanced Scorecard created with baselines established for targeted measures
- Only senior management was involved

1996:
- Deployed to the rest of the workforce with launch of a 36-month, 5-phase program.
- Coaching on needed changes began with "early enrollers" and "midstream enrollers" who were ready to implement the program.

1997:
- New assessment system fully operational.
- Shift from measurement of activities to measurement of results.
- Shift from function-driven to process-driven focus.
- Managers measured on results in all 4 perspectives, not just financial or just operational.

1998:
- The Quality and Business Plans, formerly separate, are integrated into one comprehensive business plan driven by the Balanced Scorecard.
- Linkages validated from front-line jobs to POA (Point of Arrival) quantitative results. Now all can see the impact of their efforts on package delivery outcomes.
- Changes in measurement are migrated from "rank and rating" to "criterion or threshold" systems.

Building Awareness

In 1995 UPS embarked on a 36-month, 5-phase implementation program for educating the workforce. It focused on the definition and measurement of results rather than activities, and implemented the Balanced Scorecard within the context of their existing Total Quality Management system.

The steps of this implementation included:

- Educating senior management about Total Quality principles
- Establishing Point of Arrival goals at the Corporate Level
- Establishing a Balanced Scorecard business plan with baselines and POA targets for each region and district
- Deploying scorecard-based plans through a Quality Improvement Process (QIP) at the business unit level and a Quality Performance Review (QPR) at the individual level

In 1996, the Balanced Scorecard was fully implemented at the corporate and business unit levels. UPS communicated the program via a document called "Quality at a Glance", which emphasized four key areas of focus:

- Leadership
- People
- Process
- Measurement/Assessment

This communication took place in 11 domestic and 5 international regions, comprising 60 districts and 1600 business units (in the United States). The primary target was the district, the initiation point where most things get done.

Creating Alignment

UPS internal employee surveys in 1995 showed that one of the least favorable" ratings (67%) was for the item which said "What I do every day makes a difference." Michael Brown reports that frequently people on the front lines or even in lower-level management would sometimes say, "What I do or whether I come to work doesn't make a difference."

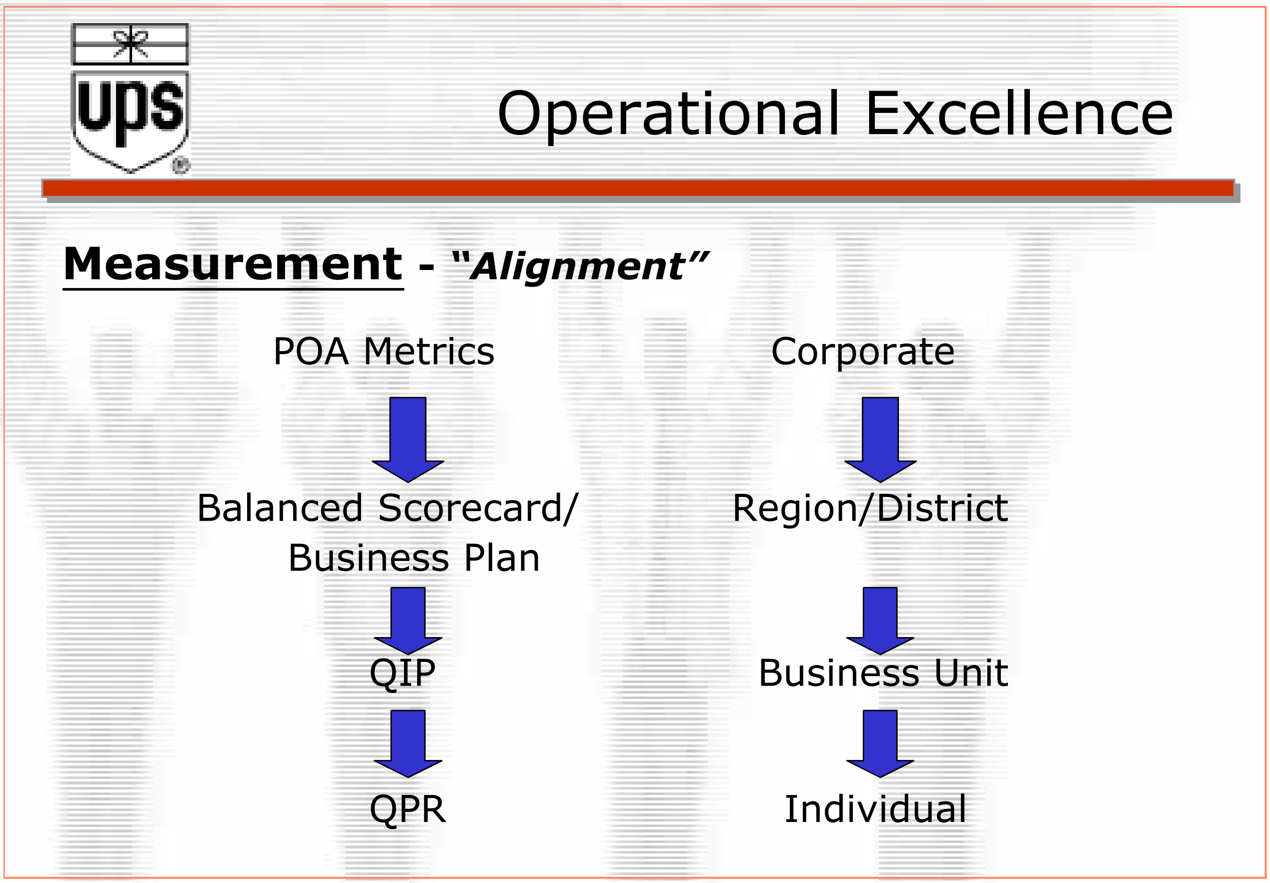
UPS decided that improved alignment among measures would help to correct this misperception and instill a greater sense of personal accountability. Their goal was to establish a direct "line of sight" from what the individual did to the measured business results.

They did not try for the same measures at all levels as a definition of "alignment". Rather, they sought measures at each level which would directly contribute to the measures at the next higher level in a cause-effect way. In fact, they discovered that working on one measure had impact on two or three others. If not, they suspected that the measure might not be the right one for a given operation.

At the business unit level, the Quality Improvement Process (QIP) consisted of goal setting by front-line managers every six months and progress review meetings on a monthly basis. The first-line managers set these goals as targets on their business unit scorecard measures. The goals also became a part of their own personal QPR documents. For each of these unit goals, a strategic action plan was set in place for which that manager had personal responsibility.

This chart summarizes the QIP goal-setting process for the business unit These QIP goals represent targets set for the various Balanced Scorecard measures tracked by the business unit.

The supervisors reporting to these business unit managers were required to establish 4-6 week action plans to support those business unit goals. As with the business unit managers and their scorecard goals, these action plans became part of the supervisors' own Quality Performance Review.



Make Strategy Everyone’s Job

For both managers and supervisors, Quality Performance Reviews replaced a “management-by-objectives” process that consisted of locally determined measures and goals that had no connection to a business unit Balanced Scorecard. District objectives aligned with a corporate scorecard, business unit objectives aligned with a district scorecard, and supervisory objectives aligned with the business unit scorecard.

At UPS the Balanced Scorecard perspectives were weighted differently according to the function and level of the person. Rather than have all QPR items divided into equal 25% weightings, per the Balanced Scorecard perspectives at the corporate level, the role of the employee dictated the weightings for his or her own QPR document. For instance, an account executive in sales might have a 60% weighting assigned to the “Customer” perspective and 40% to the “Financial” perspective, the reason being that their job was to “develop sales volume which produces revenue.” Scorecards at the individual level, therefore, achieved their “balance” among the four perspectives according to locally perceived role priorities.

In all cases the goal was to have a direct line-of-sight “impact visibility” from the front lines to the district level measures and beyond, if possible, for every employee.

Balanced Paychecks

Until 1995, UPS had 26,000 management people who received stock as part of their compensation. Nonmanagement employees were not involved in this part of the reward system. In 1995, the Board of Directors and CEO approved a new plan of stock ownership for non-management—the first such plan in 88 years - whereby they could purchase it. Prior to that, nonmanagement employees were asking, "What's in it for me?"

This new stock plan was launched in time for every single employee to benefit from the 1999 IPO when the company went public with its stock.

Regarding compensation decisions, 50% of salary was based on ratings from the individual's Quality Performance Review (QPR), a tool that functioned as an individual "business plan of action". During periodic performance assessments, employees up for review received a cd-rom for data collection that they would pass around to their manager and 3-7 other employees, each of whom would enter ratings about the subject employee's performance on various "critical skills" categories:

- Core Business Values
- People Skills
- Process Management
- Leadership

Feedback Systems

A software package developed by the Acumen Corporation aggregated the manager and peer ratings on these skills as inputs to a series of graphic reports for the employee and his or her manager to review.

The weightings for the critical skills feedback were assigned as follows:

- 50% for ratings by the employee's manager
- 50% for ratings by the employee and his or her peers

Based on these assessments, a career development review every six months was conducted to provide skill development plans and programs for the individual.

For the individual's overall QPR rating, 80% was based on the 4-perspective business results connected to the manager's business unit scorecard. The remaining 20% of the rating was derived from the above-mentioned "critical skills" feedback per the CD-Rom exercise.

BSCol Hall of Fame

Balanced Scorecard Collaborative Hall of Fame winners have achieved breakthrough performance largely as a result of applying one or more of the five principles of a Strategy-Focused Organization: mobilize change through executive leadership; translate the strategy to operational terms; align the organization to the strategy; make strategy everyone's job; and make strategy a continual process.

Other selection criteria are: implement the Balanced Scorecard as defined by the Kaplan/Norton methodology; present the case at a public conference; achieve media recognition for the scorecard implementation; produce significant financial or market share gains; and demonstrate measurable achievement of customer objectives. Hall of Fame honorees are nominated by the Collaborative's in-house experts and are personally selected by Balanced Scorecard creators Dr. Robert Kaplan and Dr. David Norton.