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Inside the values-driven culture at UPS

By Robert J. Thomas, Jane C. Linder and Ana Dutra

Drawing on a wealth of stable values, strategic history and shared mindsets, the company's leaders have created a strong but flexible performance anatomy that allows the organization to build on past successes and adapt to future challenges.

“What can Brown do for you?”

For millions of people around the globe, this question instantly evokes images of the iconic brown trucks of United Parcel Service. But for Chairman and CEO Mike Eskew, the question has special resonance, because it signals a profound strategic shift: Whereas in the past, UPS was a “one-way” company in two senses of the word—it shipped packages from one place to another, and did so on its own terms—it now strives to be a “one-to-one” company, emphasizing customer relationships and providing customized solutions to a variety of business problems.

This strategic change is just one of many UPS has embraced since its humble beginnings as a messenger service run by a Seattle teenager nearly a century ago. Especially in recent times, when technology and globalization have upended many organizations, the company has been able to build on its past while charting a new course for the future.

In particular, company leaders have clarified the values UPS needs to practice to achieve high performance and have communicated those values throughout the organization. In the process, they have created a strong but flexible performance anatomy—that embodiment of the company’s unique approach to issues common to all businesses—underneath the surface of the brown uniforms and trucks that the public sees every day.

Following a pattern

Today, the elements of that anatomy inform every aspect of UPS, a company with more than 400,000 employees and revenue of some \$42.6 billion in 2005. As a result, the world’s largest package-delivery company also delivers superior financial performance: Its average pre-tax operating profit margin of more than 14 percent

was higher than that of its major competitors over three-year and five-year spans (2002–2004 and 2000–2004).

The creation of a performance anatomy—at all high-performance businesses, including UPS—follows a specific pattern. First, the company’s leaders must have stable values that they can draw on to guide the company through good times and bad, and through periods of both rapid change and relative calm. Second, those values must be brought to life via strategic messages—the rituals, lessons, images and stories that top management uses to show how the values translate into action.

Finally, the strategic messages become, over time, shared mindsets about critical aspects of the organization—mindsets about the balance between strategy and execution; the cultivation of talent; the strategic importance of information technology; the need to measure performance selectively; and the drive for continuous innovation and renewal.

It is the combination of these three elements—leadership values, strategic history and shared mindsets—into a performance anatomy that

makes it possible for the organization to build on past successes while adapting to future challenges.

Identifying values

To date, the *Outlook* Performance Anatomy Case Study Series has focused on how individual companies have developed “winning mindsets” throughout their organizations—ways of thinking that translated into strategic agility and business results.¹ In this, the fourth article in the series, we step back to examine the precursors of those mindsets: the leadership values that have shaped the performance anatomy of UPS in recent years. Only when an organization’s senior leaders understand the importance of culling specific values from corporate history to emphasize and of communicating those values to the company as a whole can they begin to shape the mindsets so critical to high performance.

The members of UPS’s current leadership team have identified several values that they believe are essential to the company’s future success. To give one example, senior manage-

ment believes the company should continue its practice of supporting long-term employment relationships, which often start when people are part-timers working their way through school. This value, which produces a talent-multiplier mindset throughout the company, helps UPS develop long-term relationships in a short-term world.

Another example can be seen in the updated expression of a value first articulated by the company’s founder: “constructive dissatisfaction,” or the idea that the company should never be content to rest on past successes but should always strive for continuous improvement in everything it does. By spreading this value throughout its multifaceted organization, senior leaders are able to ensure that UPS avoids the complacency that would prevent it from reaching its goal of “synchronizing global commerce” throughout the world. This widespread understanding of the importance of constructive dissatisfaction translates directly into the performance-anatomy mindset we refer to as continuous renewal.

Creating “UPSers”

In 1907, 19-year-old Jim Casey started the American Messenger Company to deliver, on foot and bicycle, packages and documents in Seattle. Twelve years later, the name was changed to United Parcel Service, and the company began expanding, first throughout the West and then to New York and other eastern US cities. In its early years, UPS focused on delivering packages that people had purchased from

department stores and had no easy way to transport home.

After World War II, as more Americans moved to the suburbs and did their shopping in cars that could hold their purchases, UPS shifted its attention to the business-to-business market. Its growth ambitions were frustrated, however, by regulations that required carriers to obtain operating rights in each individual state.

¹ “Exploring the mindset of the high performer” (*Outlook*, October 2005) looked at Harrah’s Entertainment; “A star is born” (January 2006) at Constellation Energy; and “Why Marriott shareholders sleep well at night” (May 2006) at Marriott International.

The company spent two decades systematically winning state-by-state authorization to engage in intrastate package transportation. In 1975, UPS became the first private package-delivery company to serve every address in the 48 contiguous United States.



UPS believes that managers who come up through the ranks are more committed, aligned and experienced, traits that serve to deepen the organization's culture of ethics and integrity. In this way, the company seamlessly passes on its legacy from one generation to the next. "It really is a building process," says John Saunders (above), vice president for human resources. "We're not worried about being on a career track, because we view ourselves as being on the UPS track."

UPS was faced with a new challenge in the 1970s in the form of Federal Express, which offered next-day delivery of small packages and letters. UPS had been using the cargo holds of commercial jets since the 1950s to offer two-day package delivery via a service it called UPS Blue Label Air. But the launch of FedEx changed the market; the new competitive dynamics would later prove to be one of UPS's greatest opportunities. Against the backdrop of federal deregulation of the airline industry in 1978, UPS received authorization from the Federal Aviation Administration to operate its own aircraft; soon thereafter, it became the fastest-growing airline in FAA history. Today, it is one of the 10 largest airlines in the world.

Throughout these successive waves of change, UPS leaders maintained their commitment to hiring people when they are young and to attempting to keep them "UPSers" throughout their careers. Today, in a time of fluid workforces, outsourcing and offshoring, such an emphasis seems somewhat contrarian.

In fact, this commitment is stronger than ever at UPS and is captured in a number of specific statements from top management.

"We hire people for careers"

At UPS, most workers start their careers as part-time drivers or full-time clerks. In fact, the company currently employs some 100,000

college students and hires 5,000 entry-level supervisors a year.

Bob Stoffel, senior vice president of UPS Supply Chain Group and a 30-year veteran of the company, considers his own story typical. "I worked my way through college on the loading docks," he says. "I've spent time in industrial engineering, operations and then the round-robin of marketing, R&D and quality. We hire people for careers, not jobs." The numbers bear him out: Fifty-four percent of UPS's current full-time drivers were once part-time employees; 68 percent of its full-time management employees were promoted from non-management positions; and 78 percent of its vice presidents started in non-management positions.

UPS recognizes that its "feeder system" recruitment strategy, coupled with its promote-from-within mentality, means that some new hires will go far in the organization. Notes John Saunders, vice president for human resources: "We tell our human resource representatives, 'You're hiring a CEO today. We don't know who it is. But somewhere, we're hiring one. So make sure you treat that person properly.'"

The company's leaders believe that managers who come up through the ranks are more committed, aligned and experienced, traits that serve to deepen the organization's culture of ethics and integrity. They see this as a way for UPS to seamlessly pass on its legacy from one generation to the next. "It really is a building process," says Saunders. "We're not worried about being on a career track, because we view ourselves as being on the UPS track."

CEO Eskew personally reinforces the importance of homegrown talent. He

meets with every group of newly promoted managers and keeps photo albums of each group, arranged by year, in his credenza. And he knows most of the people in those albums by name.

“I have no plans to bring anybody in from outside”

A corollary to the hire-early, promote-from-within value is that executives are actively discouraged from hiring managers from outside the organization.

Ken Sternad, vice president of public relations, makes the point emphatically: “I have no plans to bring anybody in from the outside. It does not exist in my planning. It’s not in my succession planning, my management planning or the

conversations that I’ve ever had with my boss.” In fact, Sternad adds, searching for outside help raises questions about the executive’s abilities. “If I reach that point,” he says, “I know that my boss is going to be a little skeptical, saying, ‘Are you as good a manager as you could have been?’ ”

To ensure that it doesn’t often have to turn to outsiders, UPS is committed to succession planning. Indeed, every manager is responsible for making sure that he or she has a potential replacement lined up. The company asks its district, regional and senior managers to reexamine and update their plans frequently. As a result, UPS always knows where its next level of leadership will be drawn from.

A refined model of high-performance anatomy



Source: Accenture analysis

Managers are also expected to consult their peers for advice on developing their direct reports. Each month, a different member of the UPS Management Committee (the 12 most senior executives) will spend an hour talking about his or her candidates for the senior positions within their function. “It allows people to talk about their high potentials and gives us an idea of what the pipeline looks like,” says HR executive Saunders. UPS managers are told that they are responsible for their people’s success, making subordinates much more likely to benefit from the thoughtful planning that results.

Another element of UPS’s people strategy is its heavy focus on career development. Each year, the company spends nearly \$380 million on training and development. Nick Costides, director of information systems, explains that “we spend a lot of time one-on-one with people, trying to understand what they want to be and what their capabilities are, and then trying to figure out where the right fit is. We invest a lot in ensuring that people evolve along with the organization.” In combination with succession planning, these investments in people’s careers help the company retain skilled employees while constantly preparing for the future.

When people are hired from outside—to fill a specialized need, for instance—the company makes every effort to give them an early taste of the core UPS experience. As part of the training that managers brought in from the outside are put through to deepen their knowledge of the company’s operations, public relations director Peggy Gardner spent six months in operations, at one point managing 25 drivers in one of the company’s small-package facilities. “I had to dispatch them every morning,” she says, “solve

their problems with customers, solve their problems with their vacations—all the things that come up. I’d never been in operations before, so in many ways, I was winging it. All the other managers around me, though, were incredibly supportive. It was like learning a second language. They didn’t let me fail.”

“We are all owners”

UPS’s ownership-distribution philosophy reflects the company’s long-held belief that employees make better decisions and focus on long-term success when their interests are aligned with the company’s. When UPS was privately held, its employees and retirees owned a significant portion of shares.

After its initial public offering in November 1999, the company continued the tradition of granting stock to employees as part of its Managers Incentive Plan—a profit-sharing program that ties employee bonuses directly to performance on key company goals. Today, more than 53 percent of full-time employees own stock, and together, the company’s employees, retired employees and families of the founders own more than 40 percent of outstanding shares.

“We are all owners, partners,” explains Mike Eskew. “That’s a big part of enhancing the culture. At some point, all our employees have a moment when they realize what it means to be a partner. It’s when they think, ‘I am making this decision for *my* company.’ ”

By the time employees reach upper mid-level management, most have a significant financial investment in UPS. “Fifty to 80 percent of my personal wealth is in this company, so without question, that ownership mentality is about thinking long

term,” explains public relations executive Sternad. “I’ll be 50 this year, and I’m just as concerned about what is going to be happening at UPS 15 years from now as I am concerned about what’s happening next year or next quarter.” PR director Gardner recalls the first time she received stock. “There’s usually a bit of ceremony to it,” she says, “and you spend some time with your boss talking about what it means and about the culture of the company. You learn about the UPS legacy.” The company has even formalized guidelines concerning how much stock it expects employees to hold.

UPS has found that pride of ownership fosters cooperation, breaks down competitive stovepipes and encour-

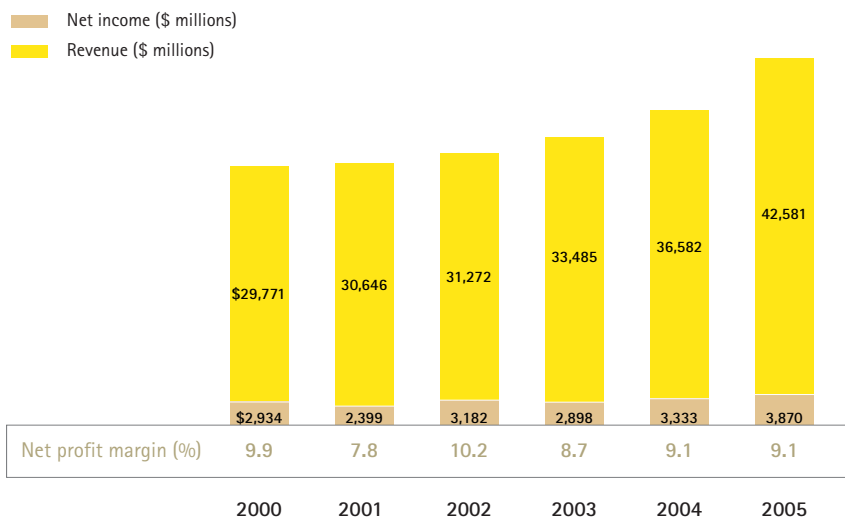
ages employees to share best practices and innovations. “The tradition of the company is, ‘We all own this.’ So why would we hoard it? We’re all caretakers for the company for the time that we’re here,” says Vern Higberg, vice president of the Corporate Strategy Group. “Our objective is leave it in a little better shape for the next person to build on.”

UPS works hard to create a climate that honors its roots and reinforces its commitment to the long-established values. Symbols, stories, images, events, ceremonies—these all serve to drive home the values to employees at all levels.

Cathy Callagee, vice president of information systems, explains the emotional impact that stories from

Delivering superior financial performance

UPS financials, 2000–2005



Source: Hoovers.com



The need for the company to embrace change and never rest on its laurels is known at UPS as "constructive dissatisfaction." This spirit was behind the initiative to leverage the prowess of the company's 3,000 industrial engineers with the launch of Supply Chain Solutions, which generated \$6 billion in revenues in 2005. "Our competitors have been building the pieces, buying the pieces and, yes, they've been following us," says senior vice president Bob Stoffel (above). "But we have a two- to three-year advantage."

the past can have: "We hold an annual management conference, and one evening is devoted to looking back at our history and remembering where we came from. The younger folks, especially the ones coming out of college, kind of look at you like, 'Huh? You're going to quote some guy who died how many years ago?' But it doesn't take them long to feel and appreciate the culture. It's like looking at your family ancestry. You don't ever want to forget it."

Constructive dissatisfaction

The need to embrace change is another value that goes back to the company's inception. Founder Jim Casey made it clear that no matter how successful his company might be, management should never rest on its laurels. To clarify the spirit of his intent, he coined the term "constructive dissatisfaction."

Consider a modern example of this value in practice. In 1993, not content to be delivering more than 11 million packages and documents daily, UPS senior managers were contemplating new ways to grow. It became clear to them that the greatest opportunities were those closest to home. "We knew we needed to grow near to the core, in what we call 'market adjacencies,'" recalls Stoffel of the Supply Chain Group. Adds corporate strategist Higberg: "Adjacencies is a several-hundred-billion-dollar marketplace. Until we saturate that, why would we diversify away from what we know and what we are?"

Executives spotted one opportunity to exploit an adjacency in the challenges faced by rapidly expanding computer manufacturers, which

At the same time, company leaders have to update the strategic messages as times change. For example, when UPS considered itself a small-package company—"The tightest ship in the shipping business"—a *New Yorker* magazine cover captured that belief, depicting children eagerly awaiting the arrival on Christmas Eve not of Santa's sleigh but of its modern replacement: the UPS truck. Now, in the "What can Brown do for you?" era, new images and stories are needed.

were dealing with the complexities of having a growing consumer base, a growing field technician workforce and more complex parts inventories. As a result, their service levels were poor and they were having trouble ramping up outside the United States. UPS had warehouse capacity to accommodate its high-tech customers' parts inventories; it also had the people who could solve complex supply chain problems.

These industrial engineering capabilities represented the perfect solution, says Stoffel: "When you do something 15 million times a day, you had better be very good at it. We wanted to leverage that engineering prowess—and our 3,000 industrial engineers—externally."

Such thinking led a team of executives at UPS to launch the Service Parts Logistics Initiative in 1995. The first order of business was to decide how far down the supply chain the company wanted to go. "We didn't want to compete with our customers, but certain customers wanted us to do the field technician work," says Stoffel. "So we built an end-to-end solution that would include actually

repairing or replacing high-tech components in the field, instead of just delivering equipment.”

UPS wanted to capture the market quickly, and the company’s senior leadership encouraged the SPL team to move aggressively. Today, UPS Service Parts Logistics manages \$1 billion in contracts, offering world-wide support to such customers as IBM, Hewlett-Packard and GE Medical. It has created a comprehensive, integrated package of services that includes repair, courier delivery and storage, giving the company a formidable competitive position. “Our competitors have been building the pieces, buying the pieces and, yes, they’ve been following us,” comments Stoffel. “But we have a two- to three-year advantage.”

A consumer-pull world

Today, constructive dissatisfaction is kept alive by UPS’s senior leadership team, especially Eskew. “The world has become customized,” he observes. “You can’t do mass production anymore. It has become a ‘consumer-pull’ versus a ‘producer-push’ world.”

To compete in that world, UPS has evolved from “a package-delivery company more companies can count on” into one that “synchronizes global commerce,” coordinating the movements of goods, information and funds. The company now provides its customers with an extraordinary capacity to customize its services: from small-package delivery to managing logistics to financing shipments of goods (see box, below).

How UPS customizes its services

While UPS has branched significantly into and supply chain solutions and freight businesses, its main source of revenue continues to be small-package delivery. Operating in more than 200 countries, UPS delivers nearly 15 million packages and documents per day, including 2.2 million delivered by air in the United States and 1.5 million delivered internationally. The company operates a delivery fleet of more than 90,000 vehicles and also owns 268 jets that fly from its hubs in the United States, Canada, Germany, Taiwan, the Philippines, Hong Kong and Singapore. These deliveries produced \$42.6 billion in revenue for the company in 2005. Nearly \$6 billion of the revenue came from the supply chain solutions and freight businesses. The former includes more than a thousand facilities in more than 120 countries; the latter is the leading provider of less-than-a-truckload freight-delivery services in the United States. Rounding out UPS’s portfolio of businesses are the UPS Capital Corporation (offering export-import financing and business credit cards, among other things); UPS Mail Innovations; and its retail operations, The UPS Store and Mail Boxes Etc.

Milestones

Year	Milestone
1907	Jim Casey opens the American Messenger Company in Seattle, Washington, with \$100 borrowed from a friend.
1913	Acquires first delivery car, a Model T Ford, and changes name to Merchants Parcel Delivery.
1919	Expands beyond Seattle to Oakland, California, and changes name to United Parcel Service.
1930	Expands to East Coast and operates in New York and New Jersey.
1953	Uses commercial airlines to provide two-day delivery to major US cities.
1975	Forges "Golden Link," becoming first package-delivery company authorized to serve every address in the 48 contiguous United States.
1978	Deregulation of US airlines.
1982	Begins parcel-delivery operations by air from its hub in Louisville, Kentucky.
1988	Receives authorization from the FAA to operate its own aircraft, and quickly becomes an official airline.
1990	Delivers packages to Asia via UPS aircraft.
1992	Begins electronic tracking of all ground packages.
1993	Establishes UPS Logistics Group to provide global supply chain management solutions.
1994	Creates UPS.com.
1999	Sells 10 percent of its stock in an initial public offering.
2000	Sees online tracking requests reach 6.5 million in a single day.
2002	Begins operations in new intra-Asia hub located in the Philippines.
2003	Changes its logo to reflect strategic move from a package-delivery company to enabling global commerce.
2004	Launches domestic service in China.
2005	Expands the UPS Store to India and China.

The constructive-dissatisfaction mindset plays a crucial role in keeping UPS competitive. CIO Dave Barnes notes that “we continuously examine our processes to see if we can make significant improvements. However, around here, you can’t just be a critic. You have to be constructive and focused on finding better solutions.” The company’s culture of ownership—“We are owned by our managers,” notes one of them, “and managed by our owners”—reinforces this mandate. Eskew adds that employees often flag him down in the cafeteria to offer their suggestions for making the company better.

UPSers talk solemnly about passion and commitment, the source of the energy they tap to keep pushing for better performance. “What we do is right and noble,” says Eskew. “Our people make their customers better. They make business[es] run better. They connect culture, people and lives.”

Eskew anticipates many successes—and changes—in UPS’s future, fueled by its goal of becoming the premier enabler of global commerce. But UPS won’t change what has kept it on *Fortune*’s list of most admired companies in its industry for more than 20 years. “Looking down the road 20 years from now, I think our strategies will be different and the environment will be quicker, but our values will be the same,” he remarks. “Our people will continue to give UPS the heart, soul and spark that it takes to be successful.”

About the authors

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