



HUMAN CAPITAL
MANAGEMENT INSTITUTE

Case Study:

UPS -

How Leadership Affects
Workforce Productivity



United Parcel Service (UPS)

UPS is one of the world's largest package and mail delivery companies with a history dating back more than 100 years and a tradition of outstanding reliability, customer service, and logistics supply chain management. The company has a strong record of financial performance, a highly engaged workforce and annual growth of 5-10%.

- Large organization with 400,000 employees globally and heavy part-time seasonal workforce
- Publicly traded, highly profitable and known for service excellence
- Management rated across the board as high performing
- A record of internal talent growth with most leadership roles at all levels filled internally
- More than 3,000 distribution centers globally with between 60 – 300 employees each

Introduction

Background and Key Questions

As part of an overall analytics review, United Parcel Service's HR leadership focused on distribution center operational leaders, (i.e. center managers). HR leadership partnered with HCM I for advanced analytics to answer key human capital questions including:

- Do leaders impact productivity?
- If leaders impact productivity, what financial impact do they have?
- If leaders impact productivity, where does it show up?
- Do leadership competencies matter? If so, where does value come from?
- If leadership competencies matter, do all leadership competencies matter?

In order to answer these questions, HCM I conducted a detailed analysis to identify key trends, predictive drivers, key metrics, and finally to quantify financial impact linked to business outcomes.

The Analysis

- The analysis included relevant organization data from 2010, 2011 with limited 2012 data
- Systems and data from multiple systems was analyzed including core HR data, performance ratings, competency scores, business operations, center data plus health and safety data
- Included a multivariate predictive model and financial impact model using variables from all relevant data sources including HR, operations, workforce , and other financial cost variables
- Included a best-in-class advanced workforce productivity model for internal HR use

Findings (Answers to Key Questions)

Predictive analytics analysis revealed enabled UPS to gain powerful insight into the productivity generating power of leaders upon the workforce.



Answer: YES

Leadership does impact productivity with the top 25% rated managers able to operate at 10% to 15% lower operational costs per piece shipped versus the bottom 25% quartile rated managers (see chart #1). In addition the 25% rated managers have dramatically lower levels of loss & damage, accidents, leaves of absence and more (see chart #2).

Findings (Answers to Key Questions)

Question: If leaders impact productivity, what financial impact do they have?

Answer:

The financial impact when multiplied by billions of transactions add up to cost savings potential ranging from \$500 to \$700 million dollars annually, attributed primarily to the impact of the center manager upon the overall productivity of the staff at the distribution center.

On average, in year 2, high leadership rated managers have 15% lower average cost per piece shipped

Leadership competency scores made up of select behaviors

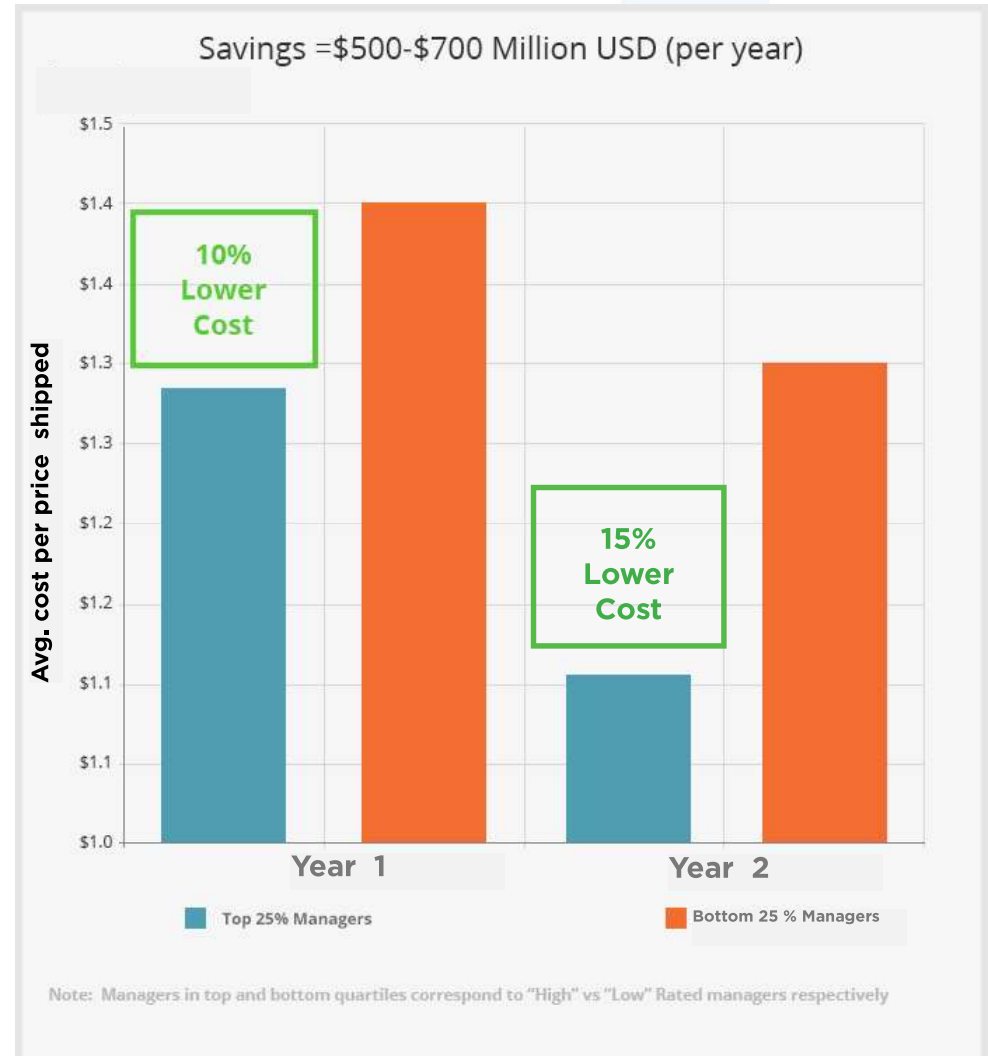


Chart #1 - Leaders Impact on Productivity (Top rated managers operate at a lower cost)

Findings (Answers to Key Questions)

Question: If leaders impact productivity, where does it show up?

Answer:

The top 25% rated managers are strongly correlated to many productivity factors such as:

- 15% lower average cost per piece shipped (see chart #1)
- Increased customer satisfaction survey scores
- Substantial reductions averaging 75% reduction in loss & damage (see chart #2)
- High Center Manager leadership ratings and competency scores link to dramatically lower loss/damage, accidents, leaves of absence and more.

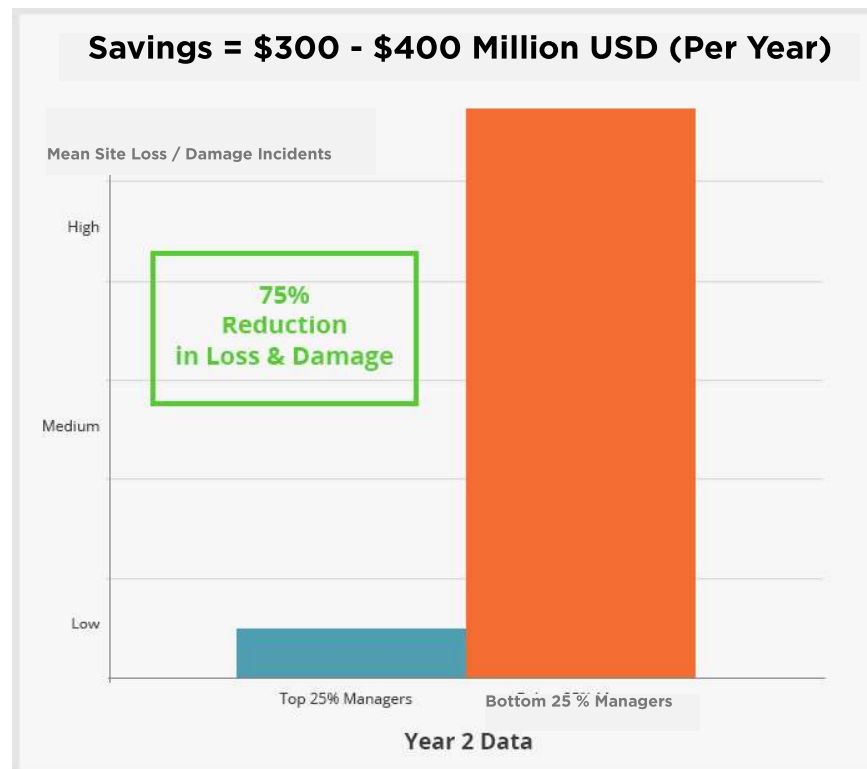


Chart #2 - Leaders Impact on Productivity (Top rated managers minimize loss risk)

On average, Top 25% quartile leadership rated managers have 75% less loss/damage incidents

The financial impact, when multiplied by billions of transactions, add up to cost savings ranging from \$300 to \$400 million dollars annually. This is primarily due to the impact of the center manager on overall distribution center staff productivity.

Findings (Answers to Key Questions)

Question: Do leadership competencies matter? If so, where does value come from?

Answer: YES

Leadership Competencies do make a major difference in Center performance, correlating closely with ratings and other performance factors in higher distribution center productivity and performance as well as reduce loss and risk.

- The top 25% of managers rated across multiple competencies are strongly correlated to the same productivity gains already shown including 15% lower average cost per piece shipped, increased customer satisfaction survey scores and an average 75% drop in loss & damage.

Question: If leadership competencies matter, do all leadership competencies matter?

Answer: YES

While most leadership competencies do matter and correlate with both productivity gains and reduced loss/risk, four leadership competencies mattered far more than others. The most impactful competencies impacting distribution center productivity, reduced loss/damage risk and reduced absenteeism listed in order of impact included:

1. Managing for Results
2. Development Orientation
3. Business and Financial Acumen
4. Customer Focus

While high scores on competencies such as managing for results, customer focus and business & financial acumen may seem obvious; surprisingly, competencies such as strategic perspective, communication/influencing, decision making/problem solving, partnership and integrity showed far less impact upon productivity and loss/damage risk mitigation.

Conclusions

In summary, the impact of effective leadership cannot be overstated. It is possible that by recruiting for, training, evaluating and rewarding certain leadership competencies that UPS could continue to achieve higher and higher levels of productivity, effectively optimizing workforce productivity and potentially dominating the package shipping industry globally.

Top rated distribution center managers drive higher productivity, while minimizing risk and costs, not for themselves but for the entire distribution center.

ROI Impact

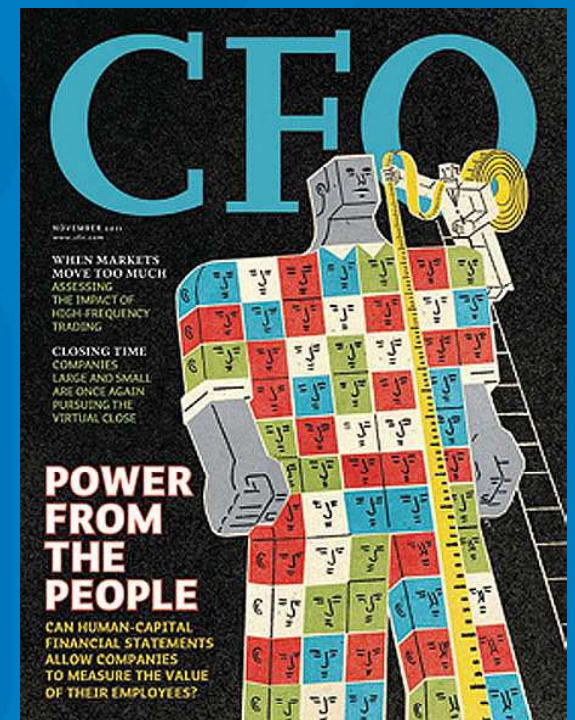
The ROI impact of training, best practice sharing and ongoing performance measurement is a cost savings opportunity of **\$800 Million - \$1.1 Billion annually.**

About Human Capital Management Institute

HCMI is highly specialized in workforce analytics and planning, and provides turnkey consulting, training and human capital technology services. HCMI brings financial discipline, standards and rigor to HR through a unique combination of analytic, financial and HR expertise. With nearly 100 years of specific workforce analytics and workforce planning experience, and extensive practitioner experience in HR and finance, HCMI offers the largest and most experienced global consulting group dedicated exclusively to workforce analytics. HCMI's proprietary models and framework enable data driven decision-making for organizations' greatest asset: the workforce.

Helping organizations advance their human capital practices is critical to our mission and ensuring the success of our clients is HCMI's top priority. HCMI believes that organizations can, and must, find better ways to measure their investment in human capital. We strive to fundamentally change the way organizations make decision about their workforce, and our vision of the future is one in which human capital measurement and information is as integral to business decision making as financial information is today.

This vision of Human Capital Measurement and Planning was featured on the November 2011 cover of CFO Magazine.



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