The Anderson School at UCLA

FEDERAL EXPRESS, INC. (B)

On August 7, 1989, Federal Express Corporation (FedEx) completed a long-awaited merger with Flying Tigers. FedEx had made the decision to acquire Flying Tigers only three weeks after learning that the company was for sale, in December 1988. The acquisition added 6,500 employees to the FedEx payroll, expanded the company's fleet of cargo-carrying jet aircraft by 39 and, most importantly, included international landing rights which would provide FedEx with access to previously unavailable world markets.

FedEx executives expected the merger to go smoothly. After all, their company was one of the great success stories in American business, the "darling of Wall Street" whose very name had become synonymous with overnight delivery. In contrast, Flying Tigers steadily lost money during the early and mid 1980s, and the business faced significant financial challenges if a buyer could not be found. Moreover, FedEx executives thought that Flying Tiger employees would be grateful to be rescued by such a strong, high profile company as FedEx. However, only two years after the acquisition, FedEx's stock price fell for the first time in its history and the company's declining earnings were primarily attributed to the acquisition of Flying Tigers and to subsequent international expansion. It appeared that FedEx had failed to assess the complexity of its new organizational arrangements to the point that the company's motto, "People-Service-Profit," was called into question.

International Expansion

FedEx began its expansion into the overseas delivery market in 1984 with the purchase of Gelco Express, a courier firm based in Minneapolis, which served 84 countries. Other acquisitions followed, primarily in Europe and Asia, although the worldwide shortage of landing slots restricted FedEx's access to the international market. FedEx did not become profitable in the United States until it reached a daily volume of 25,000 packages, and FedEx executives believed that the company needed to achieve similar volumes in each country that it served in order to be profitable in those locations. However, it could not do so without having reliable, efficient services to market to its customers. FedEx's commitment to international expansion thus meant that it would have to subsidize foreign operations until it obtained the desired business volumes.

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The acquisition of Flying Tigers increased FedEx's cargo fleet by 25 percent and vastly enhanced the company's access to foreign markets, especially in Asia, which had provided Flying Tigers with two-thirds of its revenue. Prior to the acquisition, FedEx operated in 27 countries where it employed 14,000 people; following the acquisition of Flying Tigers and subsequent purchases of several local delivery companies, the number of countries served by FedEx increased to 108 and the number of employees working abroad increased to 20,000. Although FedEx's revenues from international operations doubled in the two years following the merger, operating losses from foreign operations increased to more than $200 million annually by 1991. FedEx's net earnings declined from $184.5 million in fiscal 1989, to $115.8 million in fiscal 1990, and to $5.8 million in. fiscal 1991 (see **Exhibit 1**). Further, FedEx's profit projections for the early 1990s have been revised downward, and senior FedEx executives were uncertain about when, if at all, international profitability would be achieved.

Foreign Operations

With the acquisition of Flying Tigers' landing rights, FedEx was able to create an international hub and spoke network based on the system that had proven successful in the United States. FedEx has hubs in Brussels, Frankfurt, Anchorage and, perhaps most important, Tokyo. The basic operating system was the same: couriers picked up packages from customers or customers dropped them off at FedEx offices, the packages were transferred to central sorting facilities located near airports, the sorting of packages began and continued on flights to the appropriate hubs, and packages were routed to their destinations and delivered by couriers to customers. **Exhibit 2** shows an organization chart for FedEx's international operations.

Nevertheless, it is more difficult to implement a hub and spoke system globally than domestically because geographical distances were too great to allow every package to go through a single hub. The number of possible routes through which a package could transit increased dramatically with additional service areas. FedEx has limited operations and facilities in many areas of the world, so that a single courier has to cover a wider area than is typically necessary in the United States. In addition, holidays abroad occurred on different dates than in the United States, other countries often celebrated more official holidays than the United States, and business hours varied widely abroad and were often different from those customary in the United States.

To illustrate, FedEx tried to cut off package deliveries at 5:00 p.m. in foreign countries, yet in Spain and in certain other countries the business day normally extends to 8:00 p.m. Most Europeans were not as time-sensitive as U.S. customers, and paying extra for a 10:30 am delivery was not as important to European as to U.S. businesses. Further, modes of customary transportation varied widely abroad. FedEx vans, which were a familiar sight in U.S. cities had to be supplemented by (FedEx) motorcycles in Singapore. More importantly, reliance on air transport, which characterized FedEx's entrance into the U.S. market, might not be appropriate in all regions. In Asia and Africa, for example, a U.S.-type delivery system may work well because those regions were geographically similar to the U.S. In Europe, however, distances were shorter and trucking was the preferred method of transport. In fact, Europe probably has the best road and train systems in the world. FedEx was not established as a trucking company, and had not

devoted much attention to operational efficiencies in trucking. These examples illustrate the challenges FedEx faced to adapt its operations (and work practices) to foreign locations.

FedEx's culture, human resource policies and operations were closely integrated in the United States. The company has a commitment to 100 percent on-time delivery and could only achieve this goal if it had the full cooperation from its employees. With international expansion, full employee cooperation or high commitment had been more difficult to achieve and, as a result, efficiency and quality of service had suffered. FedEx's domestic strategy had centered on complete control of the delivery system. In the U.S., FedEx employees and equipment handled every component of the delivery process — a process that was continually monitored and modified to increase efficiency.

In contrast, FedEx's international strategy was based on the acquisition of existing companies and the export of domestic policies to foreign locations. The tendency had been to buy local delivery companies, primarily for their road authority or delivery system, with little concern for the kind of products being delivered by those companies. FedEx now found itself with vehicles and drivers accustomed to carrying pianos or produce, rather than packages, in limited geographical areas. FedEx wanted to establish itself abroad as quickly as possible by buying existing local companies, but may have underestimated the difficulty of integrating so many disparate companies into one integrated system. Thus, FedEx has found the export of its domestic business strategy and operating policies to be much more difficult than originally anticipated by senior management.

Despite the acquisition of Flying Tigers, FedEx has neither sufficient aircraft nor landing rights in foreign locations to enable it to transport packages using only its own carriers. In countries where the market was small, FedEx used local couriers and leased space on existing air carriers, which made the standardization of operating procedures and methods more difficult to manage. FedEx specified service standards in its contracts with local companies, and employed on-site managers to monitor compliance. Although FedEx made serious efforts to train employees of local couriers in the company's operating procedures and methods, there was no guarantee that only those employees who had undergone such training would be those picking up or delivering packages for the company. In addition, links to centralized customer service centers were often difficult and sometimes impossible to maintain in foreign locations.

Because of all this, FedEx has had difficulties in consistently guaranteeing delivery times to its foreign customers. Therefore, it was hard for FedEx to impress those customers with the quality of service on which the company built its reputation and market share in the United States.

Competition

While some of the difficulties which FedEx experienced abroad stemmed from the varied environmental and cultural characteristics and work practices in the countries in which it operated, other difficulties may be attributed to sharp competition for the services that FedEx provided. Contrary to FedEx's experience in the United States in the 1970s, major competitors

existed in international markets that were strongly entrenched and competitive. Among the most important were the following:

DHL. DHL was established in San Francisco in 1969 and was presently the largest of all international delivery service companies. Like FedEx, DHL offered door-to-door service and computerized tracking of packages. For the most part, the company contracted with local delivery services and freight forwarders, although it owned and operated some aircraft and delivery vehicles. Unlike FedEx, DHL sought early on to gain a strong presence abroad, especially in Europe and Asia, and it did so during roughly the same period in which FedEx was building its strong presence in its domestic market. By 1989, DHL controlled approximately 45 percent of the entire international express delivery market, and its name became as well known in Europe and parts of Asia as FedEx's name had become in the United States.

United Parcel Service. UPS had also aggressively expanded internationally in the 1980s, and was operating in 150 countries by 1990. The company followed essentially the same policies and procedures abroad as it did in the United States (described in the A case).

TNT. TNT was a large Australian conglomerate that expanded aggressively in the international delivery business during the 1980s, with $300 million in sales for 1990. TNT's "SkyPak" service offered overnight delivery to most of the world, and the company relied heavily on subcontracted freight and courier services. TNT had been marketing an international "business mail" service, which standardized mail service for businesses throughout the world. TNT was the second largest delivery company in Europe (after DHL) at the time, and had been mentioned as a possible candidate for purchase by FedEx.

Psychology of a Merger

When FedEx acquired a company, it attempted to insure that human resource practices in general, and compensation and benefit programs in particular, were at least as attractive as those offered by its competitors. At the same time, FedEx also attempted to achieve a certain standardization and consistency of human resource polices and practices across acquired companies — perhaps analogous to FedEx's attempts to achieve standardization of operating procedures and methods across acquired companies. There was understandable tension between the two sets of employees involved in any acquisition. FedEx had found that its own employees tended to view themselves as "better" than the employees of acquired companies, while the latter often resented having been taken over by FedEx. Further, employees of acquired companies often worried about their job security and their "fit" with the new organization. For its part, FedEx's management was concerned about the possibility that employee resentment and conflict associated with international expansion and acquisition would translate into specific problems of discipline and insubordination, and, more broadly, threaten FedEx's strong organization culture.

Although, FedEx faced these problems all around the world, with numerous local variations, they were particularly evident in the acquisition of Flying Tigers. Flying Tigers' management and employees were proud of their company and unhappy that the business was sold. Flying Tigers got its name from the group of pilots who founded the company after World War II, during which many of them had flown in and around China and the Pacific theater. The

company had built its reputation on the willingness of its pilots to fly anything (including live tigers) anywhere in the world, as evidenced by their motto: "If you can get it to the airport, we'll fly it!" The company's culture was based on a strong sense of individualism. Flying Tiger employees had not only lost their company identity after they were acquired by FedEx, but also their union representation. Even though FedEx's human resource policies included grievance procedures and employee opinion surveys, the formerly unionized Flying Tigers' employees were suspicious of policies set down by management rather than agreed to through collective bargaining.

At the same time, FedEx's management and employees were equally proud of their company and, understandably perhaps, tried to overlay FedEx values, systems and processes on Flying Tigers personnel. In the opinion of Charles Thomson, Vice President of International Personnel for FedEx, who had come from the Flying Tiger organization, this was a mistake.

> "In the early days of the merger, FedEx badly misjudged the heavy freight market and customer base that was Flying Tiger's main business, and that initially cost the company a great deal of business. FedEx lost many key Flying Tigers employees who chose not to join FedEx because they felt that no one would listen to them or take advantage of their expertise. FedEx also initially imposed [on them] many personnel policies and procedures in the international area that were unworkable because of local customs. After a rough first year, FedEx recognized its mistakes and took actions to correct them."

Human Resource Policies

Because business operations had to be modified to reflect customary practices, rules and laws prevailing in region of the world into which FedEx had expanded, many of the company's human resource policies also had to be modified. Given the considerable heterogeneity among countries of the world in which FedEx operated, each country presented certain distinct problems in so far as the adaptation of FedEx's human resource policies and practices to them was concerned (see **Exhibit 3** for a FedEx personnel organization chart, and **Exhibit 4** for a summary of selected human resource policies and practices in nine countries).

Employee Recruitment and Training. FedEx was generally considered to be an attractive employer by job applicants in the United States, and the company had usually been able to attract high quality applicants for domestic jobs. However, employee recruitment abroad had proven to be far more difficult for FedEx. In Hong Kong and certain Western European nations, for example, unemployment levels were so low that most companies, especially service companies, had major difficulties in filling entry level positions. In Japan, where there was considerable enthusiasm about the type of services that FedEx provided, there was little cultural respect for the kinds of jobs that FedEx offered. As an example, the job of courier was not viewed in the same positive light in Japan as in the United States. Further, the employment of women in Japan continued to be restricted to certain labor markets and job groupings, such as office clerical jobs, and this cultural feature served to restrict the labor supply available to FedEx in filling operating and delivery jobs in its Japanese subsidiary.

Employee training, which was vital to FedEx's efforts to provide a uniform image and standardized services and procedures to customers, was not a traditional human resource practice in several of the foreign countries in which FedEx has acquired delivery companies. In these countries, moreover, local managers were often not well-educated or formally trained, and the expatriate managers brought to these countries from the United States by FedEx were typically not provided language or cultural training. Even if appropriate training programs for foreign nationals and expatriate managers had been established by FedEx, the speed with which the company expanded its business to these foreign location made it extremely difficult for the training programs to be translated into local languages and carried out in parallel with the rate of business expansion.

Furthermore, in some foreign locations new employees were frequently obtained through employment contractors on an as-needed basis. In those locations, different people often showed up for work each day, thereby making systematic training impossible. This situation prevailed in Italy, for example — until a FedEx customer sent Fred Smith a photograph of a FedEx "employee" sitting in his truck on a lunch break. The employee's shirt was unbuttoned, his feet were on top of the dashboard of the truck, and a cigar dangled from his mouth. At that point, FedEx decided that the use of contract employees, though convenient and available at relatively low cost, came at too high a price in terms of maintaining the company's desired service and quality image.

No Lay-off Policies. Employment-at-will was a far more prevalent practice in the United States than in most other countries, so that FedEx's no-layoff policy was relatively attractive to job applicants in U.S. labor markets. However, lifetime or continuous employment was common in Japan and many European nations, and in these countries employers also traditionally had greater (customary or legal) obligation to their employees than was the case in the United States. In Italy, for example, a company was legally mandated to provide nine months of severance pay to an employee when he or she left a company. This requirement held even if the employee's exit from the firm was entirely voluntary. For management employees, mandated severance pay could be even more burdensome. To illustrate, one of FedEx's Italian managers chose to leave the company after three years of employment. Although FedEx wanted him to stay with the company, FedEx was nevertheless compelled to pay him $130,000 in severance pay. Not only was FedEx's no lay-off policy a weaker labor market incentive abroad than it was domestically, but the policy had sometimes created a financial burden for FedEx. This occurred whenever FedEx acquired a company and found that it did not need all of the acquired company's employees.

FedEx's acquisition of Flying Tigers, for example, resulted in a surplus of pilots that the company was obligated to absorb because of its no lay-off policy. It also created a serious challenge to FedEx's preference for remaining a nonunion company, given that Flying Tigers' pilots were fully unionized. Although FedEx was not required to recognize or bargain with the Flying Tigers pilots' union, it was necessary to merge its own pilot seniority list with that of Flying Tigers. This process was accomplished through third-party arbitration. As a result of this decision, some FedEx pilots fell hundreds of places in the combined seniority list, with consequent loss of status, assignments to new equipment, and reductions of pay rates and certain

fringe benefits that were linked to pilot seniority. It was hardly surprising, therefore, that dissatisfaction rose among FedEx pilots. Indeed, some pilots sued FedEx over what they considered to be a breach of their original contracts with the company, and FedEx pilots sought to have the Air Line Pilots Association (ALPA) certified by the National Labor Relations Board as their bargaining representative — efforts which proved to be unsuccessful.

Promotion From Within. The policy of promotion from within had been applied consistently by FedEx in the United States, except to certain functional specialties, such as finance and legal affairs, which demanded specialized expertise obtained externally. Further, most managerial positions at FedEx were filled from within the company, usually by people who began their careers in entry-level positions. While FedEx attempted to follow this policy abroad, it had often found it necessary to staff key managerial positions with U.S. personnel. In 1991, FedEx employed approximately 200 expatriate managers overseas. Over time, FedEx intended to reduce the use of expatriate managers and increase the hiring and promotion of foreign national managers, but this would depend heavily on the company's rate of foreign expansion and its ability to adapt local customs and practices to FedEx's organization culture and management development programs.

The criteria for selecting employees for promotion varied considerably among countries. In the United States, most promotion decisions were based on individual ability and merit, and FedEx had formalized these criteria through its Leadership Evaluation Assessment Process (LEAP). By contrast, in many Asian countries, age and length of service (seniority) were the main criteria used to make promotion decisions. Moreover, in Asia, lateral (as distinct from vertical) "promotions" and transfers were more common and important than in the United States. FedEx faced the seniority-in-promotion issue immediately upon its acquisition of local delivery companies in Asia, whose employees had been hired long before FedEx came on the scene. Expatriate managers employed by FedEx in Asia were often younger than many of the employees they managed, and this created tension in employee relations. Recognizing such tension, FedEx planed to reduce its use of expatriate managers and increase its use of local personnel in Asian countries. However and as elsewhere outside of the United States, FedEx's ability to respond to local customs in this regard would depend in part on the rate of business expansion and on the successful implementation of employee training and management development programs.

Grievance Procedures and Voice. The "Guaranteed Fair Treatment" (GFT) procedure and the "Survey-Feedback-Action" (SFA) plan were conflict resolution mechanisms which were developed and refined by FedEx in response to the needs of U.S. employees and managers. Inherent in these policies was an American value system that prized equality and individual rights. However, FedEx had difficulty in exporting these procedures because the value systems prevailing abroad were often very different from those found in the United States.

For example, the three-step GFT procedure allowed an employee with a grievance to file the written complaint initially with his or her supervisor or manager. If the employee was unhappy with the disposition of the grievance at this stage, it was then presented to the next level of the procedure, namely a management committee. If the employee continued to remain unsatisfied with the disposition of the grievance at this level, an International Appeals Board will hear and

rule on the grievance; decisions rendered at this level of the GFT were final and binding. Most grievances filed by U.S. employees of FedEx were resolved at the first step of the GFT. However, the GFT had proven to be unworkable in Asian countries or in Italy, where supervisors and managers believed that they would lose the respect of their employees if they made decisions which were overturned by their superiors — that is, they would lose "face." Recognizing this, FedEx instituted a two-step grievance resolution process in these countries in which the employee's supervisor or manager and the manager's superior served jointly as the first step, and the International Appeals Board served as the second and final step. Supervisors in these countries apparently believed that their authority would not be threatened by this new process, largely because their decisions could not be overturned by their immediate supervisor or manager. That is, if a local manager's decision was overturned at the second step of the GFT, it could be attributed to senior company management or company policy, rather than being taken as a "direct" reprimand of the local supervisor or manager.

The SFA plan also needed to be modified for use in certain foreign countries. In Germany, for example, where work rules and other business matters were subject to consultation with legally mandated works councils, the SFA was viewed with great suspicion. Even though the surveys initiated under this plan were anonymous, the works council at FedEx Germany was concerned that the company might have a method of identifying employee-respondents and that "complaining" employees would receive unfavorable treatment. In Asian countries, every survey question was typically answered with a check in the middle column, which was labeled "sometimes agree, sometimes disagree." Asian employees were especially uncomfortable about criticizing their supervisors and managers, and they also doubted that the confidentiality of their responses would be preserved. FedEx responded to these concerns with extensive training in the purposes and uses of the SFA, and it worked with local employees to revise and reword survey questions so as to promote respondent understanding and useful survey responses. Significant improvement in foreign employees' acceptance of the SFA plan has occurred as a result of these efforts.

The open door policy maintained in the United States by FedEx, although available to all employees worldwide, was still not widely used abroad. In the United States, the company has established a casual atmosphere; employees were on a first-name basis, and executives regularly mingled with employees and solicited their opinions and suggestions. Managers and workers in European and Asian countries were often uncomfortable with this type and level of informality. To illustrate, when Charles Thomson visited a newly acquired company in Brussels, he behaved as he would in the United States. He arrived early, took off his coat, walked around the facility and chatted with employees. Later, Thomson discovered that his behavior had damaged his image among managers in Brussels. He had spoken to employees who were not his direct reports and without their managers being present, and his casual manner and attire offended these managers. When Thomson subsequently apologized for these offenses and remarked that he had merely been attempting to earn the employees' respect, a local Brussels manager responded by saying "of course they respect you, you're a vice-president from America." To the extent that respect was associated with a title and not the person who held the title, the efficacy of an open-door policy in these cultures would be in doubt.

Compensation and Financial Participation. FedEx had a stated policy of paying competitive compensation rates, and its financial participation policies reflected the company's strategy of motivating employees to work hard for the success of the company. As FedEx expanded abroad, it found it necessary to modify existing compensation packages so that they would be in accord with the company's compensation policy. In many countries, this resulted in the raising of pay rates and levels beyond those that prevailed previously (in the acquired companies). To illustrate, FedEx's salaries were about 30 percent higher than those paid by Flying Tigers for comparable positions, 35 percent higher than those of equivalent positions in Japan, and 40 percent higher than those of equivalent positions in Mexico. Although newly acquired employees were generally pleased to receive pay raises, some employees resented the implication that the companies which they previously worked for had not treated them "fairly" as far as compensation was concerned. This practice also significantly increased the fixed costs of these acquired companies and sometimes turned a profitable operation into an unprofitable one.

In certain foreign countries, moreover, legislation sometimes forced FedEx to pay more for employees in certain job specialties than it did for similar employees in the United States. For example, Canadian legislation required companies to follow a policy of comparable worth, that is, equal pay for work of equal value. In practice, this meant that jobs which were judged to have the same or similar value based on assessments along several internal job dimensions (factors) must be classified at the same level and paid the same wage or salary. The effect of this policy was to raise labor costs and reduce pay flexibility. To illustrate, if secretaries and couriers were judged to occupy jobs of the same internal value, Canadian law required FedEx to compensate occupants of these jobs at the same rates. This resulted in higher pay for secretaries employed by FedEx in Canada than for secretaries employed by FedEx in the United States — and also in lower pay for couriers employed in Canada by FedEx than for those employed in the United States. If shortages of one or another occupational specialty occured in Canada, FedEx and other companies could not selectively raise the pay for the occupational specialty in question without raising the pay for other jobs judged to be of comparable value — jobs for which shortages may not exist and which were therefore relatively easier to fill.

Financial participation and incentive compensation programs practiced by FedEx in the United States had also proven to be less successful abroad. For example, in Singapore, an incentive program, which offered a holiday abroad to the salesperson with the highest dollar volume of sales, failed to attract any interest. Upon investigation, it was discovered that the sales personnel viewed the program as having one winner and many losers, and that employees were so averse to losing that the single prize offered by FedEx did not serve as an incentive to achieve high sales. In fact, employees in many of the countries in which FedEx operated preferred group rewards over individual rewards, and FedEx has recently established group incentive plans in some of those countries. In fact, and unexpectedly, these plans had been so successful that FedEx intended to introduce them in the United States.

In recent years, FedEx has relied more heavily on variable pay as part of total employee compensation in order to tie compensation more closely to the performance of the business. Its overall goal was approximately 25 percent variable and 75 percent fixed compensation for employees. While there were some countries and cultures in which a relatively large proportion

of compensation in the form variable pay was acceptable, in other countries it was not only distasteful but unworkable. In Italy and Brazil, for example, the Doctrine of Acquired Rights (which also governed severance pay) stated that an employer could not lower an employee's pay. Implicit in the policy of variable compensation was the notion that an individual employee's pay may vary year to year, based on both individual and company performance. Since Italian and Brazilian laws allowed pay to go up, but not down, FedEx's variable pay plan was unworkable in those countries.

In the United States, FedEx often used overtime hours to insure that packages were handled expeditiously and delivered on time. FedEx's U.S. employees looked favorably on such overtime work, which was compensated at a 50 percent pay premium (that is, one and one-half times the base rate). By contrast, FedEx discovered that German employees tended to value personal time over increased income. As a result, FedEx's German employees consistently refused to stay on past their "normal" work hours, shifts and days, declining overtime pay in favor of leisure. This reduced FedEx's operational flexibility and increases its costs of doing business in Germany. A sufficient number of employees had to be hired to meet peak, rather than average, capacity in order to guarantee package delivery times in Germany.

Evaluation. In countries which had stronger group values and weaker individual values than those prevailing in the United States, resistance to individually-oriented pay, incentive compensation, performance appraisal, attitude surveys, and conflict resolution programs was often observed. This had been FedEx's experience in many of the countries into which it had recently expanded, including several in both Asia and Western Europe. Indeed, and to take an extreme example, individual initiative, which was so highly prized in the United States, was regarded as insubordination in India, where an important characteristic of that nation's culture was to please one's superior. A human resource strategy, policy or practice mounted by FedEx or any other U.S.-based company which does recognize this and other cultural and value differences was likely to result in negative consequences for the business — as FedEx has vividly discovered.

FedEx's Future Abroad

By 1991 FedEx was operating in 127 countries where it employed 17,000 people, and the company expected to be operating in 170 countries by the end of 1992. FedEx's share of the international delivery market stood at about 10 percent in 1991, but operating losses from the company's foreign operations mounted during the early 1990s. Several factors contributed to these losses, including a restructuring of FedEx's business in the United Kingdom, which resulted in a $121 million charge against 1991 income; higher-than-anticipated repair costs to aircraft obtained through the acquisition of Flying Tigers; expenses associated with continued purchases of new local companies; and the adjustment of operating and human resource policies and practices in those companies to comport with FedEx's requirements. On balance, FedEx's foreign expansion had proven to be far more costly and taken longer than was originally anticipated. This rapid expansion posed special difficulties for FedEx's international personnel executives and professionals, who continuously scrambled to staff the new organizations abroad and to coordinate human resource policies and practices in widely varying locations.

Indeed, issues of organizational structure and decision making had become paramount as FedEx continued its foreign expansion. Although there were several FedEx regional offices in foreign locations, most major decisions continued to be made by senior U.S. executives at the company's headquarters in Memphis, Tennessee. The present and planned rapid growth of FedEx's international business may require greater regional (if not country-by-country) authority, autonomy and responsibility. Should this occur, however, it could well bring about a major cultural change in the company, which even with a worldwide work force of 90,000 employees had sought to maintain a single, strong cultural identity. Whereas FedEx recognized the pressures on it to adopt and adapt to local customs as it expanded abroad, its goal had been to make all of its offices "purple," that is, to bring all employees into the FedEx "family." However, some softening of this position may be in the offing. For example, Thomas Oliver, Senior Vice-president for International Operations, said in April 1991 that "it's not necessary for Federal Express to own and operate every aspect of this thing. It's totally impractical." Chuck Thomson had indicated that FedEx was exploring several joint ventures abroad which, should they materialize, were likely to alter FedEx's organizational structure, decision making systems and culture.

In 1990, FedEx received the Malcolm Baldridge National Quality Award for Excellence, becoming the first service company to be so honored. That award was given largely in recognition of FedEx's domestic business operations. Fred Smith characterized the award as "a beginning rather than an end." He went on to say that,

> "Since we were awarded the Malcolm Baldridge National Quality Award, I have been asked many times if this means that we have now achieved the ultimate level of quality. My answer is that the receipt of this award is simply our 'license to practice.' I believe that another profound series of improvements lies ahead."

Smith continued to believe in the FedEx motto, "People-Service-Profit." He added, "When people are placed first, they will provide the highest possible service, and the profits will follow." Smith continued to head and champion his company, and he remained committed to a strong international presence for FedEx despite the losses which the company has experienced abroad during the last several years.

The central decision making, organization culture and human resource policies, which had served FedEx well at home, may be inappropriate to the international marketplace. Customizing these characteristics of FedEx's domestic business to fit local conditions, customs and laws abroad may be insufficient to create the reputation for consistent high quality service which FedEx requires to succeed in the international marketplace. Chuck Thomson and his personnel staff, in particular, faced the twin challenges of integrating foreign employees into FedEx's culture while adapting that culture to fit foreign environments. Though he believed that there was no simple way of meeting or managing these challenges, Thomson also believed that developing effective responses to them was critical if FedEx was to be a successful global business in the 1990s.

Exhibit 1

FEDERAL EXPRESS CORPORATION: SELECTED CONSOLIDATED FINANCIAL DATA

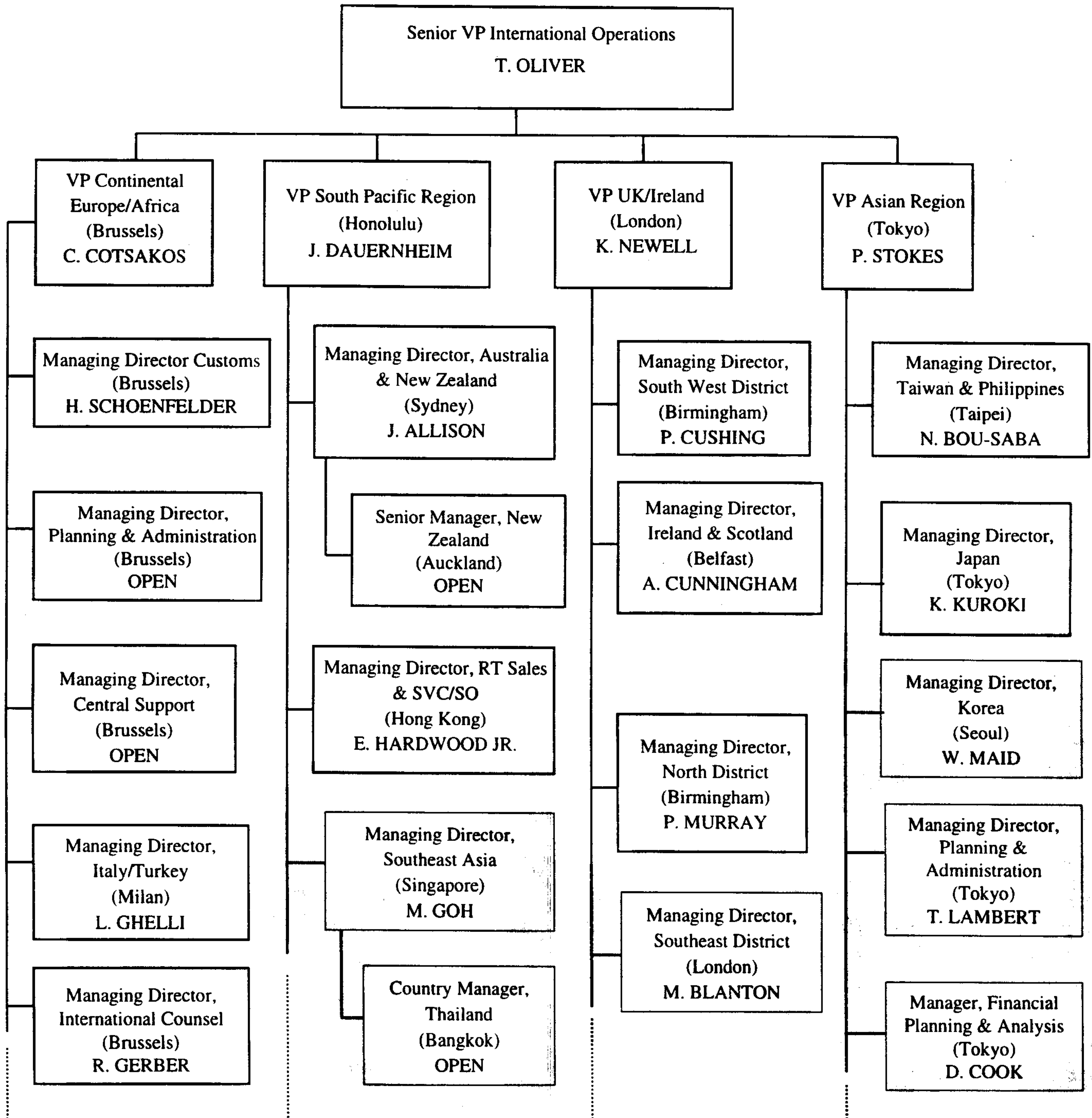
(Years ended May 31st; in millions, except as indicated)

	1991	1990	1989	1988
Operating Results				
Revenues	7,688.3	7,015.1	5,167.0	3,882.8
Operating expenses	7,408.5	6,601.5	4,742.5	3,503.4
Operating income	279.8	413.6	424.4	379.5
Other income (expense)	(238.9)	(195.2)	(126.1)	(77.1)
Income before taxes	40.9	218.4	298.3	302.3
Income taxes	35.0	102.7	131.9	114.6
Income from operations	5.9	115.8	166.5	187.7
Other income (loss)	0.0	0.0	18.1	0.0
Net income (loss)	5.9	115.8	184.6	187.7
Per Share				
Net earnings per share ($)	0.11	2.18	3.18	3.56
Average shares outstanding (thousands)	53,350	53,161	52,272	52,670
Financial Position				
Current assets	1,282.8	1,315.4	1,100.1	630.0
Propety and equipment	3,624.0	3,566.3	3,431.8	2,231.9
Other assets	765.6	793.3	761.5	146.6
Total assets	5,672.5	5,675.1	5,293.4	3,008.5
Current liabilities	1,493.8	1,240.2	1,089.1	572.1
Long-term debt	1,826.8	2,148.1	2,138.9	838.7
Stockholders equity	1,668.6	1,649.2	1,493.5	1,330.7
Business Segment Information				
U.S. domestic revenue	5,057.8	4,784.9	4,144.8	n.a.
International revenue	2,630.5	2,230.2	1,022.1	n.a.
U.S. domestic operating income	671.2	608.1	467.1	n.a.
International operating losses*	(391.4)	(194.5)	(42.7)	n.a.
U.S. domestic identifiable assets	4,032.1	3,798.4	3,007.3	n.a.
International identifiable assets	1,640.1	1,876.7	2,286.1	n.a.
Total worldwide	5,672.2	5,675.1	5,293.4	
Operating Data				
Average daily express package volume	1,309,973	1,233,628	1,059,882	877,543
Average pounds per package	5.5	5.3	5.4	5.3
Average revenue per pound	3.11	3.14	3.04	3.10
Average revenue per package	17.08	16.53	16.28	16.32
Airfreight average daily pounds	2,880,106	3,310,494	4,019,353	n.a.
Average revenue per pound	1.17	1.12	1.06	n.a.
Average number of employees	81,711	75,102	58,136	48,556
Aircraft fleet at year end				
Boeing 747s	18	19	21	0
McDonnell Douglas MD-11s	1	0	0	0
McDonnell Douglas DC-10s	27	26	24	21
McDonnell Douglas DC-8s	0	6	6	0
Boeing 737-200s	0	0	0	0
Boeing 727s	149	130	106	68
Cessna 208s	194	184	147	109
Fokker F-27s	26	19	7	5
Dassault Falcons	0	0	0	0
Vehicle fleet at year end	32,800	31,000	28,900	21,000

* Includes a $121 million charge in 1991 related to restructuring of U.K. operations.

Exhibit 2

**FEDERAL EXPRESS CORPORATION:
INTERNATIONAL OPERATIONS**



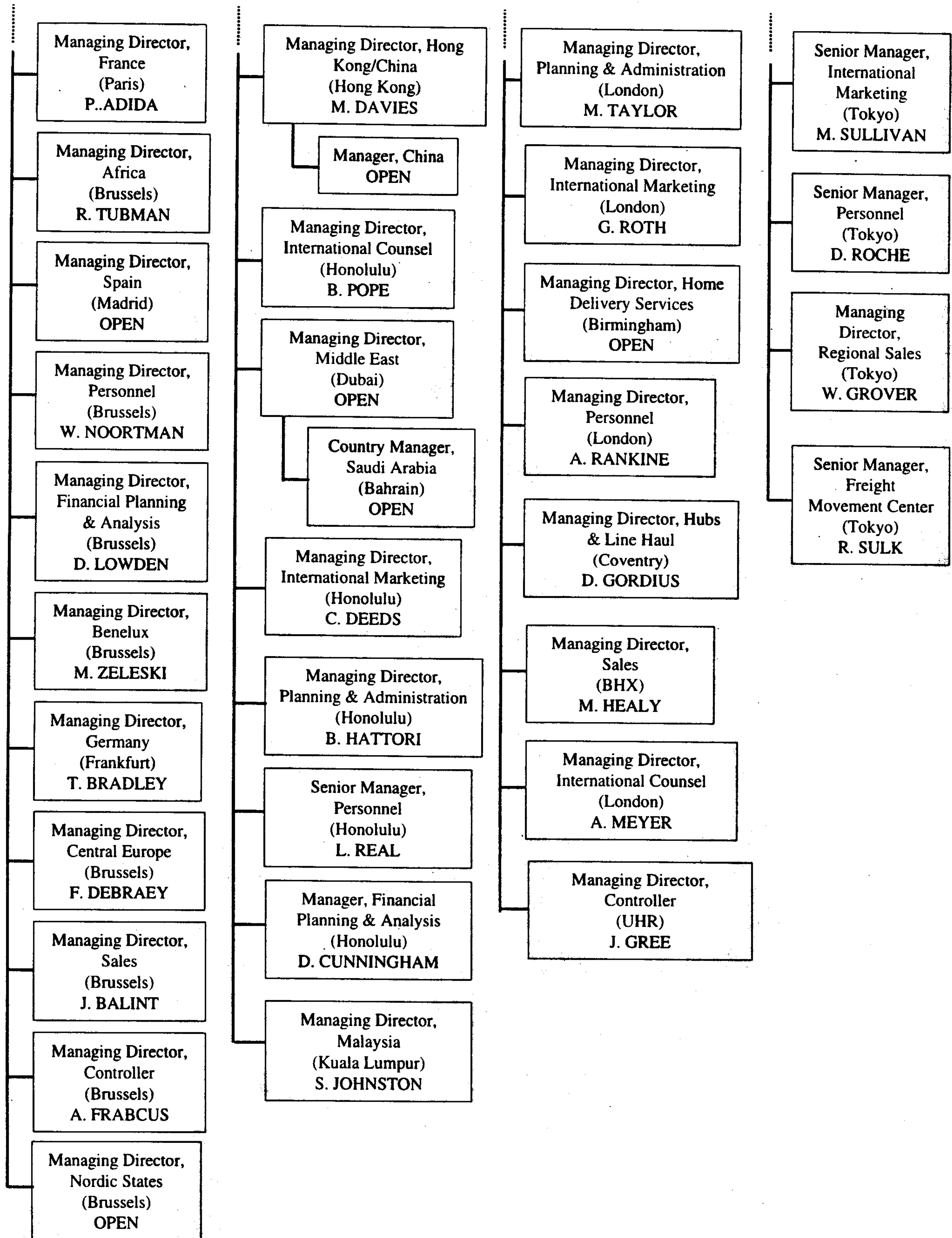

Managing Director, France (Paris) P..ADIDA
Managing Director, Africa (Brussels) R. TUBMAN
Managing Director, Spain (Madrid) OPEN
Managing Director, Personnel (Brussels) W. NOORTMAN
Managing Director, Financial Planning & Analysis (Brussels) D. LOWDEN
Managing Director, Benelux (Brussels) M. ZELESKI
Managing Director, Germany (Frankfurt) T. BRADLEY
Managing Director, Central Europe (Brussels) F. DEBRAEY
Managing Director, Sales (Brussels) J. BALINT
Managing Director, Controller (Brussels) A. FRABCUS
Managing Director, Nordic States (Brussels) OPEN
Managing Director, Hong Kong/China (Hong Kong) M. DAVIES
Manager, China OPEN
Managing Director, International Counsel (Honolulu) B. POPE
Managing Director, Middle East (Dubai) OPEN
Country Manager, Saudi Arabia (Bahrain) OPEN
Managing Director, International Marketing (Honolulu) C. DEEDS
Managing Director, Planning & Administration (Honolulu) B. HATTORI
Senior Manager, Personnel (Honolulu) L. REAL
Manager, Financial Planning & Analysis (Honolulu) D. CUNNINGHAM
Managing Director, Malaysia (Kuala Lumpur) S. JOHNSTON
Managing Director, Planning & Administration (London) M. TAYLOR
Managing Director, International Marketing (London) G. ROTH
Managing Director, Home Delivery Services (Birmingham) OPEN
Managing Director, Personnel (London) A. RANKINE
Managing Director, Hubs & Line Haul (Coventry) D. GORDIUS
Managing Director, Sales (BHX) M. HEALY
Managing Director, International Counsel (London) A. MEYER
Managing Director, Controller (UHR) J. GREE
Senior Manager, International Marketing (Tokyo) M. SULLIVAN
Senior Manager, Personnel (Tokyo) D. ROCHE
Managing Director, Regional Sales (Tokyo) W. GROVER
Senior Manager, Freight Movement Center (Tokyo) R. SULK

Exhibit 3

**FEDERAL EXPRESS CORPORATION:
PERSONNEL ORGANIZATION**

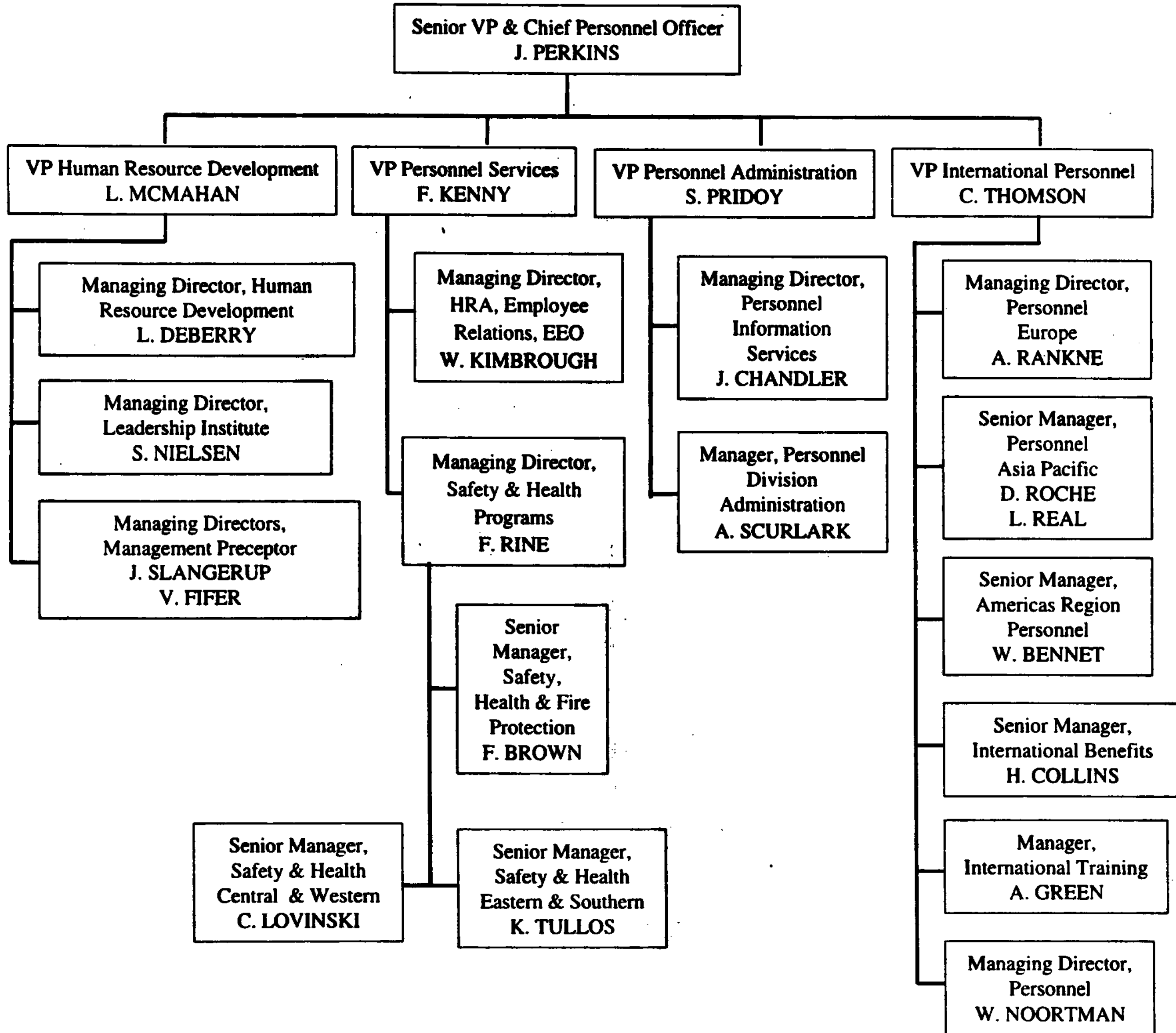


Exhibit 4

SUMMARY OF SELECTED HUMAN RESOURCE POLICIES AND PRACTICES IN NINE COUNTRIES

	Employment Contracts	Minimum Pay	Maximum Hours	Minimum Annual Holiday	Employee Participation
Belgium	Certain terms must be in writing	Yes	8 per day; 40 per week	4 weeks	Works councils
France	Written contracts	Yes	10 per day; 39 per week	2.5 days per month	Codetermination; works councils; employee unions
Germany	Fixed-term agreements	Collective agreement	8 per day; 48 per week	18 days	Codetermination; work councils; employee unions
Japan	Written contracts	Yes	46 per week	20 days maximum	Employee unions
Ireland	Employees may require written statement of terms from employers	No	No	3 weeks	Codetermination
Italy	Written contracts	Collective agreement	8 per day; 48 per week	Collective agreement	Works councils; national collective bargaining agreements
Mexico	No	Yes	8 per day; 48 per week	6 days first year; additional 2 days per subsequent year	Collective bargaining in some industries; mandatory profit-sharing
Spain	No	Yes	9 per day; 40 per week	2.5 days per month	Codetermination; employee delegates and committees
U.K.	Written statement of terms of employment	No	No	No formal requirements	No formal requirements

Sources: David Lewin and Daniel J.B. Mitchell, "Systems of Employee Voice: Theoretical and Empirical Perspectives," *California Management Review*, 34 (Spring 1992), pp. 95-111; Trevor Bain, "Employee Voice: A Comparative International Perspective," paper presented to the Forty-Fourth Annual Meeting of the Industrial Relations Research Association, New Orleans, LA, January 1992; James B. Dworkin and Barbara A. Lee, "The Implications of Europe 1992 for Labor-Management Relations," in Harry C. Katz (ed.), *The Future of Industrial Relations* (Ithaca, NY: New York State School of Industrial and Labor Relations, Cornell University, 1991), pp. 1-24.