

Best HR Practices at Most Admired Companies

*Human Resource Executive
Executive Webinar Series*

December 6, 2005

HayGroup®

About Hay Group



Hay Group can help. We've been trusted advisors to the
World's Most Admired Companies for over 60 years.

- Hay consults with its 9,000 clients worldwide in a wide variety of areas, including:
 - Organizational effectiveness, role clarity, and work design
 - Managerial and executive assessment, selection and development
 - Compensation, benefits and performance management
 - Executive remuneration and corporate governance
 - Employee and customer attitude research

Today's Agenda

- **Most Admired Rankings: Methodology and 2005 Results**
- **Most Admired Companies: A Formula for HR Success**

Fortune Survey of Most Admired Companies

What is it?

- Study of corporate reputations
- Candidates: Fortune 1,000 and Global 500 companies
- Separate rankings of America's and World's Most Admired Companies
- Companies rated both overall and relative to their industry peers

Fortune Survey of Most Admired Companies: Industry Rankings

Attributes:


1. Quality of management
2. Ability to attract and retain talented people
3. Innovativeness
4. Quality of products or services
5. Long-term investment value
6. Social responsibility to the community and the environment
7. Financial soundness
8. Wise use of corporate assets

Global Only:

9. Effectiveness in doing business globally

Fortune Survey of Most Admired Companies: Industry Rankings

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- 
- HR Focus Areas

Global Only:

9. Effectiveness in doing business globally

“All Stars” for 2005

America’s Most Admired

- 1. Dell***
- 2. General Electric***
- 3. Starbucks***
- 4. Wal-Mart***
- 5. Southwest Airlines***
- 6. FedEx***
- 7. Berkshire Hathaway***
- 8. Microsoft***
- 9. Johnson & Johnson***
- 10. Procter & Gamble**

Global Most Admired

- 1. General Electric***
- 2. Wal-Mart***
- 3. Dell***
- 4. Microsoft***
- 5. Toyota Motor***
- 6. Procter & Gamble***
- 7. Johnson & Johnson***
- 8. FedEx***
- 9. IBM***
- 10. Berkshire Hathaway***

* Company also included in Top 10 list in 2004.

Industry Leaders: HR Focus Areas

America's Most Admired 2005

1. Kinder Morgan Energy Partners
2. FedEx
3. American Express
4. Starbucks
5. Alcoa
6. Fortune Brands
7. Altria Group
8. Anheuser-Busch
9. CHS
10. Procter & Gamble

America's Most Admired 2005

11. Berkshire Hathaway
12. United Parcel Service
13. UnitedHealth Group
14. Omnicom Group
15. Norfolk Southern
16. General Electric
17. Walgreen
18. Pactiv
19. Texas Instruments
20. BP

Why Study the Most Admired Companies?

The Most Admired Companies outperform industry peers and the market as a whole

- Shareholder returns for the top ten Global Most Admired vs. the S&P 500 over the last three years:

Most Admired	S&P 500
5.6%	1.8%

Key Differentiators of Most Admired Companies

*What distinguishes the “best” from the rest?
Hay’s research has focused on:*

- Culture
- Leadership development
- Attraction and retention of talent
- Performance management
- Strategy implementation
- Managing through economic uncertainty
- Execution
- Innovation

Most Admired Companies: A Formula for HR Success

Building the Team:

- ***Developing Leaders***
- ***Attracting and Retaining Key Talent***

Maximizing Opportunities:

- ***Encouraging Innovation in Internal Processes and Products and Services***

Most Admired Companies: A Formula for HR Success

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Leadership Development

Summary of Findings— Most Admired Companies:

- Are more satisfied with quality and breadth of leadership talent
- Are more satisfied with processes to identify and develop future leaders
- Make greater use of planned career assignments and individual coaching to develop leaders
- Link leadership development to strategic goals
- Make greater use of competency models

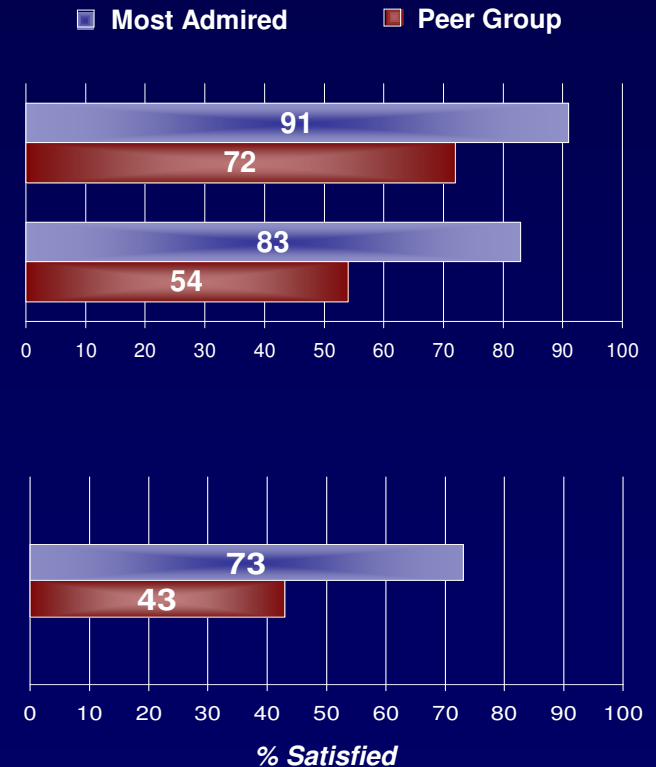
Leadership Development

Most Admired Companies are more satisfied with quality and breadth of leadership talent

Quality and breadth of leadership at executive levels

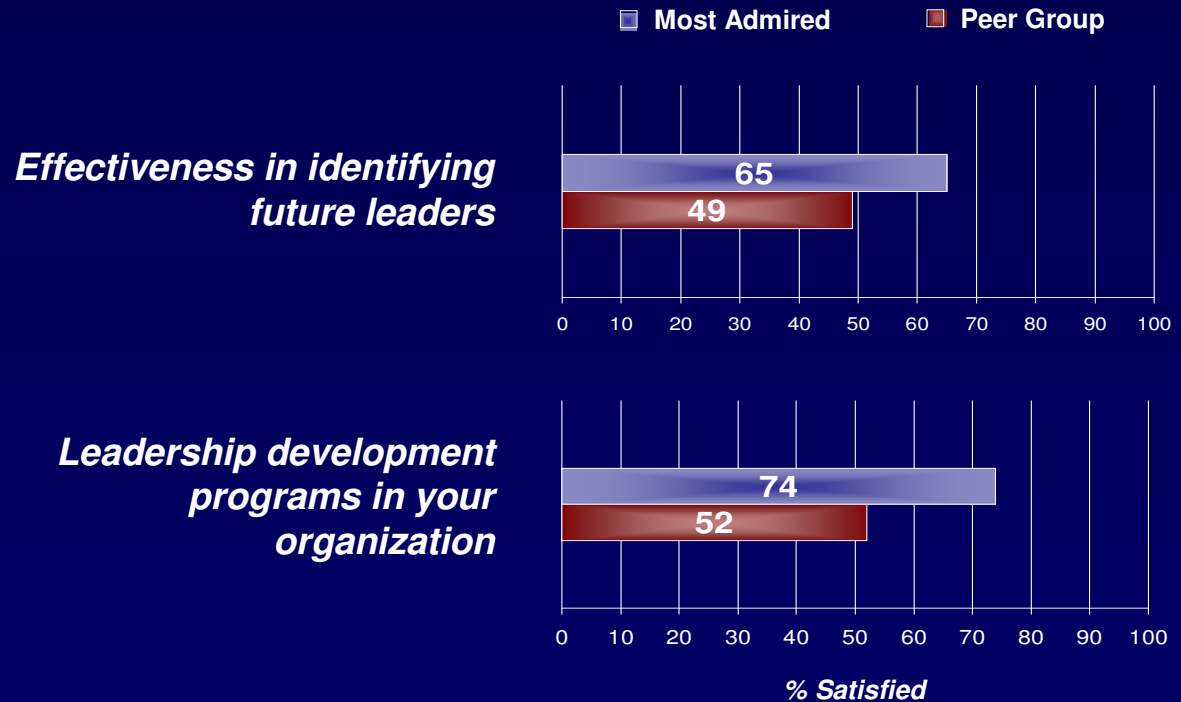
Quality and breadth of leadership at senior management levels

High potentials “pool” for leadership positions



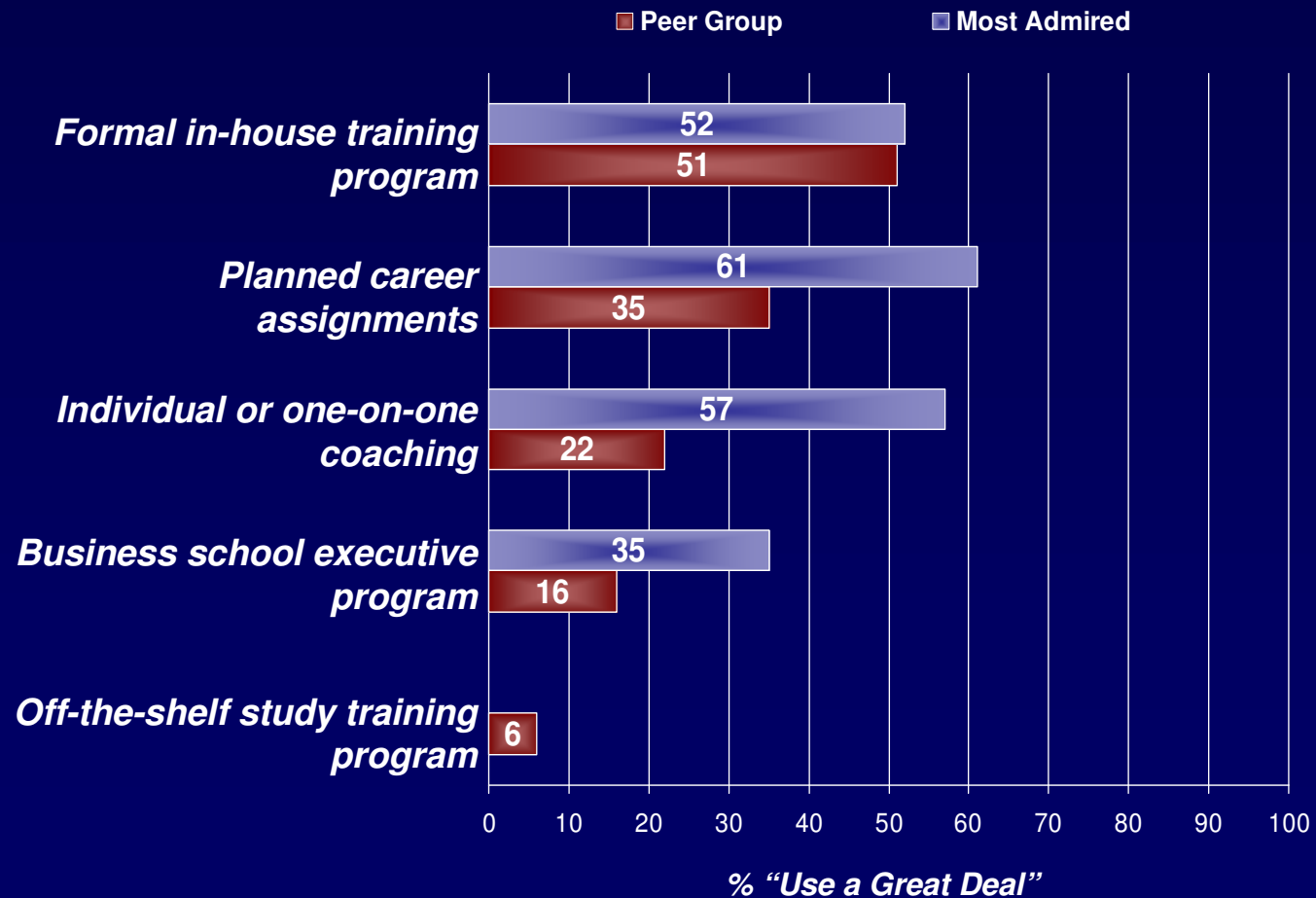
Leadership Development

Most Admired Companies are more satisfied with processes to identify and develop future leaders



Leadership Development

Greater use of planned career assignments and individual coaching



Leadership Development

Summary of Findings— Most Admired Companies:

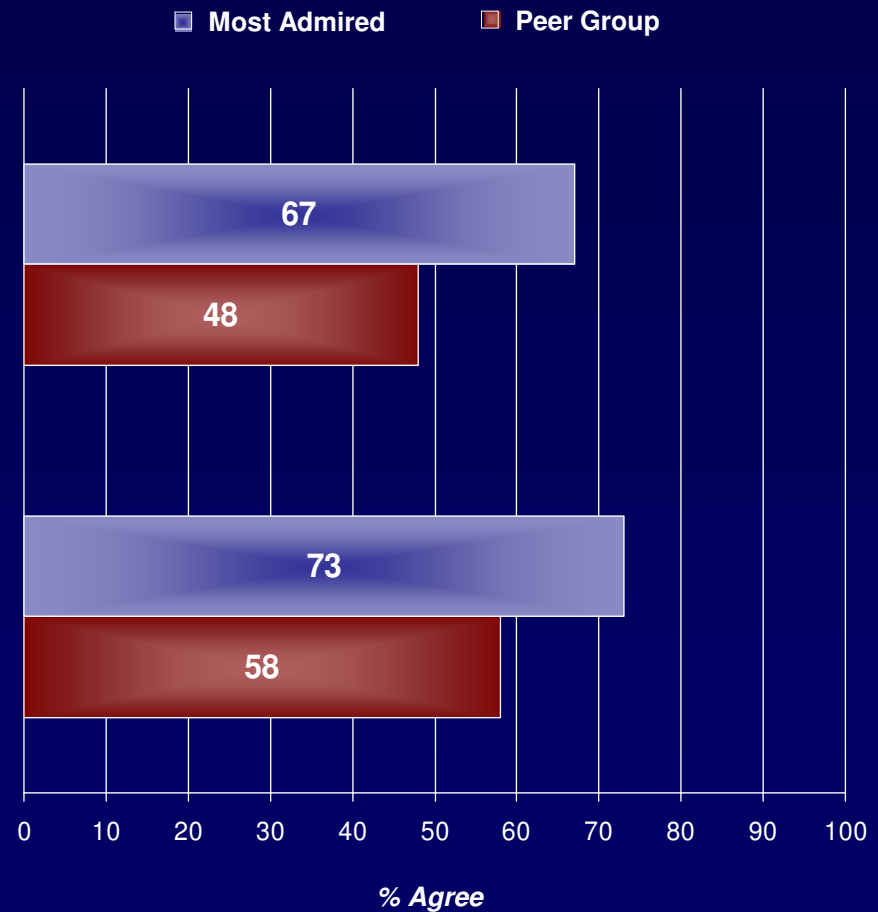
- Leaders devote a significant portion of their time to talent management and provide ongoing coaching to their people
- Leaders have a good understanding of the capabilities of managers at all levels
- People are effectively matched to jobs based on required skills and their personal career objectives and motivations

Leadership Development

Talent development is viewed as a core leadership task

Leaders devote a significant amount of time to hiring and developing talent.

Leaders coach employees and provide them with performance feedback on an ongoing basis.



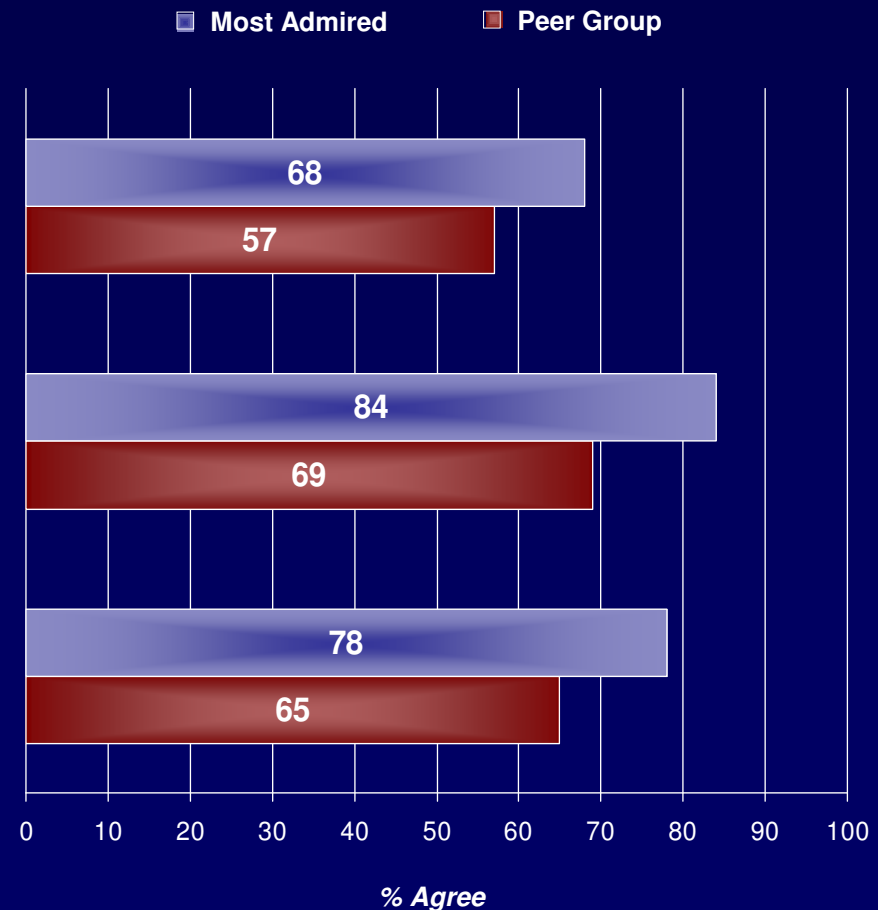
Leadership Development

People and jobs are well aligned

Leaders have a good understanding of the capabilities of managers at all levels.

Organization does a good job of matching people to jobs based on required skills.

Organization does a good job of matching people to jobs based on their personal career objectives and motivations.



Leadership Development

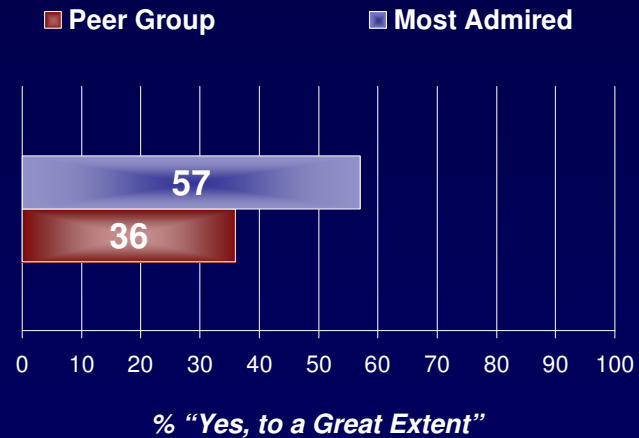
Summary of Findings— Most Admired Companies:

- **Make greater use of competency models to select leaders**
- **Rate social and emotional skills as more important than technical skills for leadership success**
- **See “lack of strategic thinking,” “insensitivity to others,” and “inability to work in teams” as major reasons high potentials derail**
- **Display little patience with behaviors that violate organizational values**

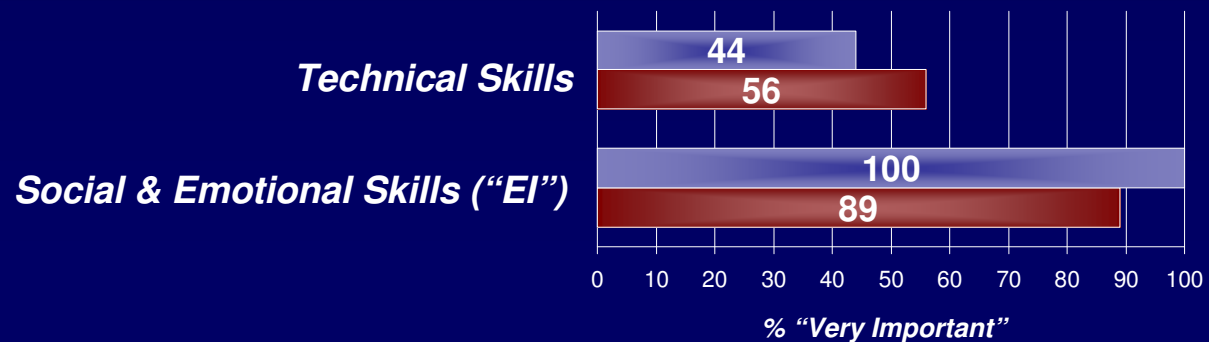
Leadership Development

Key attributes of successful leaders are well defined

Use competency models to aid in identifying and developing leadership talent?



Importance to leadership success of:



Leadership Development

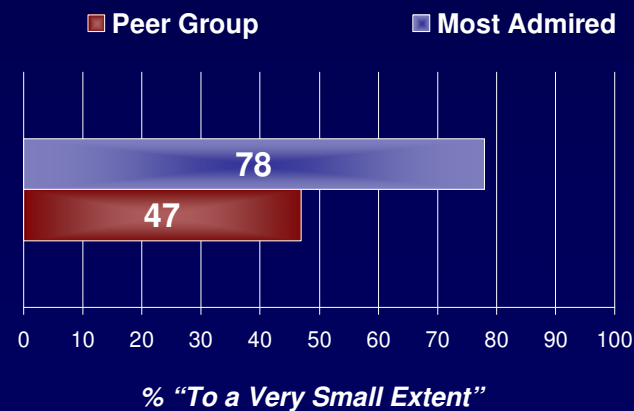
“There are four types of managers. There's the type of manager that has the values, is open, is boundless, et cetera, and makes the numbers. That's easy. You promote him, up and onward. There's the type of person who doesn't make the numbers and has all the values. You give him a second chance and a third chance. Then you have the person that's also easy, who doesn't have the values and doesn't make the numbers – they go out the door. And then you have the toughest one of all in corporations – the fourth guy – the manager who makes the numbers and doesn't have the values. And that's the one people have hung on to over the years too long, because if you're trying to talk values and you don't walk the talk because you've got somebody making the numbers, you lose the confidence of the people.”

Jack Welch, Former CEO, General Electric

Leadership Development

Little patience with behaviors that violate organizational values

Tolerance of inappropriate behavior to meet numbers



Leadership Development

Key Considerations for Leadership Development

- **Know your vision and values**
 - ❖ **Clarity enables leaders**
 - ❖ **Clarity also supports identification and development of talent**
- **Develop your own context for leadership**
 - ❖ **Learn from your own successful leaders**
 - ❖ **Know the right competencies for your environment**
 - ❖ **Consider past and future needs**
- **Commit to both training and development**
 - ❖ **Assess the value and ROI of offerings**
 - ❖ **Make assignments to fill gaps**

Leadership Development

Key Considerations for Leadership Development

- **Respect and reward more than financial performance**
 - ❖ Determine measurements
 - ❖ Make it visible
- **Align compensation with leadership values**
 - ❖ Display a long-term perspective
 - ❖ Balance with assignment-specific opportunities
- **Provide on-going feedback**
 - ❖ Culture alignment
 - ❖ Employee satisfaction
 - ❖ Managerial style/360°
 - ❖ Customer loyalty

Most Admired Companies: A Formula for HR Success

Building the Team:

- *Developing Leaders*
- *Attracting and Retaining Key Talent*

Maximizing Opportunities:

- *Encouraging Innovation in Internal Processes and Products and Services*

Attraction and Retention of Talent

Summary of Findings— Most Admired Companies:

- Take culture and values seriously
- Know success attracts the best people — and people sustain success
- Identify precisely the kinds of people they are looking for
- See career development as an investment
- Promote from within
- Reward performance
- Measure work force satisfaction

Retention: Always a Key Priority

- **The war for talent will continue in the years ahead**
 - ❖ **The U.S. economy is increasingly knowledge-based.**
 - ❖ **Demographic trends suggest that the pool of U.S. workers 35-44 will shrink by 7% between 2002 and 2012.**
 - ❖ **New sources of talent are few. Current employees are working longer hours than ever before, unemployment levels remain low, and women have already been absorbed into the workforce.**
- **In the 2004 U.S. Job Recovery and Retention Survey conducted by the SHRM, 38% percent of HR professionals surveyed reported increases in turnover since the beginning of 2004.**

Turnover is Costly

- **Studies estimate the cost of replacing employees to be between 0.5 and 1.5 times salary**
 - ❖ **For an organization with 2,000 employees and an annual turnover rate of 5%, the cost of turnover is approximately \$3.5 million (assuming an average salary of \$35,000).**
- **And the “hidden” costs of turnover may be even greater, in terms of:**
 - ❖ **Disrupted customer relationships**
 - ❖ **Lost organization- and job-specific knowledge**
 - ❖ **Increased strain on remaining employees**

Turnover is Inevitable

- **As the social contract surrounding employment has been rewritten, individuals have become less attached to organizations**
 - ❖ **Hay Group data indicate that over 15% of employees intend to leave their current employers within the next two years.**
 - ❖ **BLS statistics suggest that the average American today will hold 9.2 jobs between the ages of 18 and 34.**

- **The challenge for organizations is to understand and manage turnover, rather than to eliminate it**
 - ❖ **Retention strategies should focus on retaining key talent and minimizing the disruptions associated with turnover.**

Attraction and Retention of Talent

How are companies responding?

- A lot of creative responses, but not necessarily based on careful analysis
- Rewards alone rarely work (e.g., money can't compensate for a negative environment)
- *No single solution to retention problems*

Attraction and Retention of Talent

Key Drivers

Career Opportunities

- Perceived opportunity for advancement
- Presence and/or clarity of development plan

Enjoyment of the Work

- How well work utilizes skills
- Work/life balance

Leadership

- Clarity and strength of values and mission
- Principled management style
- Perception of strong leadership
- High Level of respect and support

Availability of Training

- Opportunity to learn new skills/develop new talents
- Commitment to training and development
- Keeping up with latest technology

Rewards/Performance Management

- Compensation
- Benefits and perquisites
- Appropriate recognition of contributions
- Timely and useful communication regarding performance

Attraction and Retention of Talent

Key Considerations for Retention of Talent:

- Provide clear and realistic job previews for new hires
- Identify career paths and developmental opportunities for employees early in their careers with the organization
- Promote regular, two-way communication between employees and their immediate managers regarding career progress
- Enhance employees' connections to co-workers to increase their connection to the organization
- Weed out poor managers and poor performing employees
- Demonstrate that the organization puts people first

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Innovation Research

Overview:

- **Having maximized the gains from cost cutting and improvements in operating efficiency, many companies are now looking to promote top-line growth through innovation.**
- **We set out to identify the factors that contribute to the ability of companies to develop, implement, and sustain innovative approaches to challenges and opportunities.**

Innovation Research: Methodology

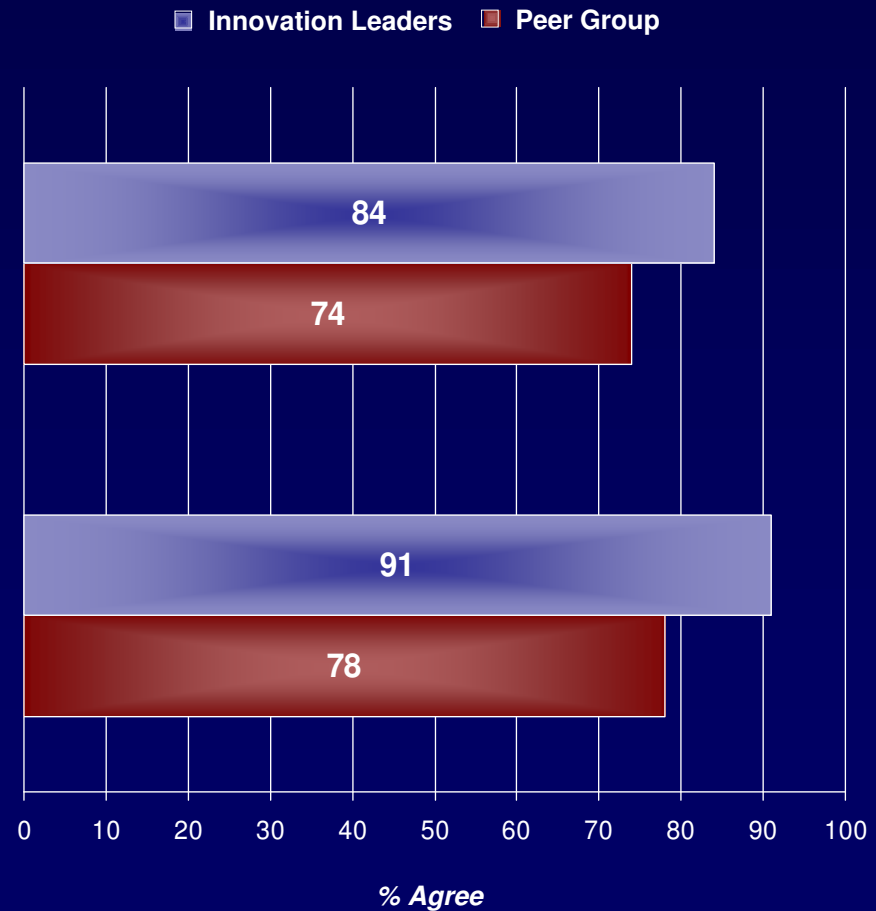
- We surveyed executives in a sample of the organizations that participated in the 2005 Most Admired Companies rankings on a wide range of innovation-related business practices.
- We then compared results for companies that ranked in the top two in their industries on Innovation (i.e., “innovation leaders”) with results for companies ranked lower.

Clear Differentiation in Innovation

Innovation success drives corporate reputations

Our company is innovative in developing new products or services.

Our company is innovative in internal operating methods (using new technologies or creative approaches to improve effectiveness).



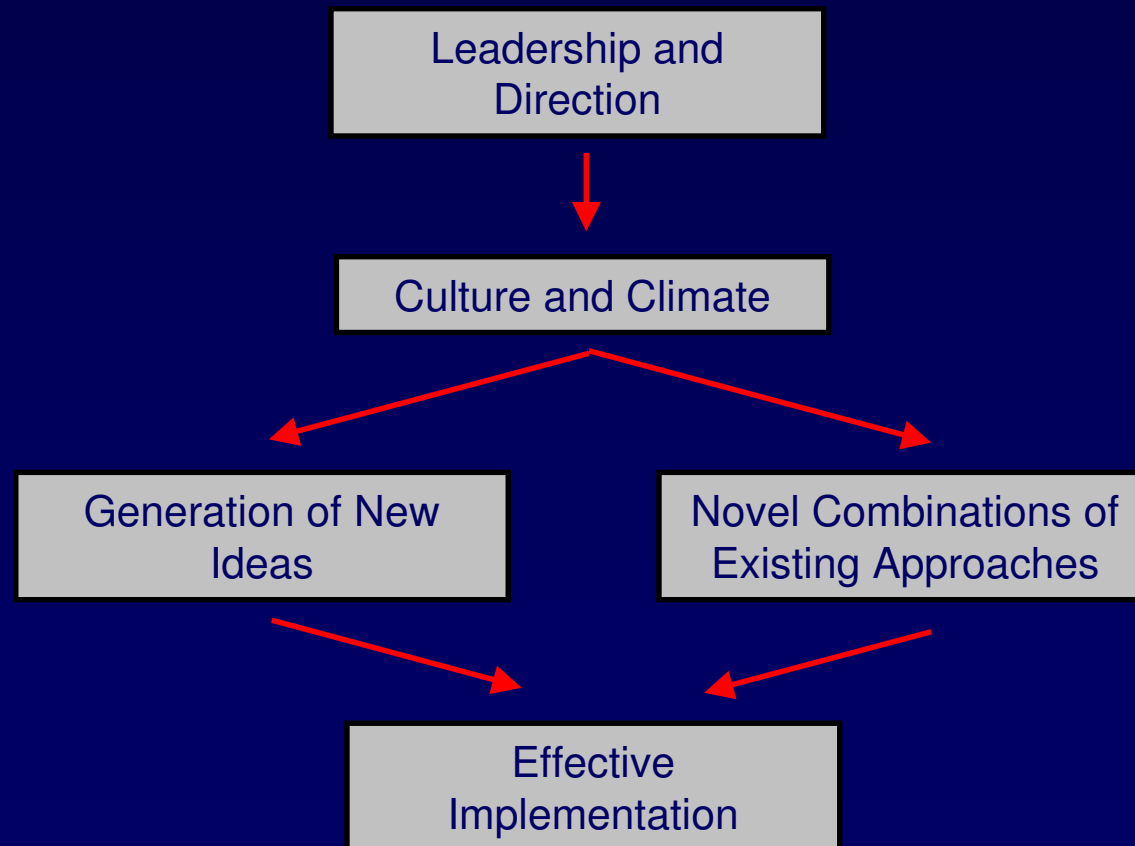
Keys to Innovation

Leadership, culture, and performance management support innovation success

- Innovation is driven by clear direction and an orientation toward action.
 - It must start at the top
- Organizational cultures and climates foster the development of new approaches – and combining existing knowledge in novel ways.
 - The right people in the right environment are essential
- Focused management of investments in innovation and innovative activity drive effective implementation.
 - Both strategy and execution require clarity and commitment

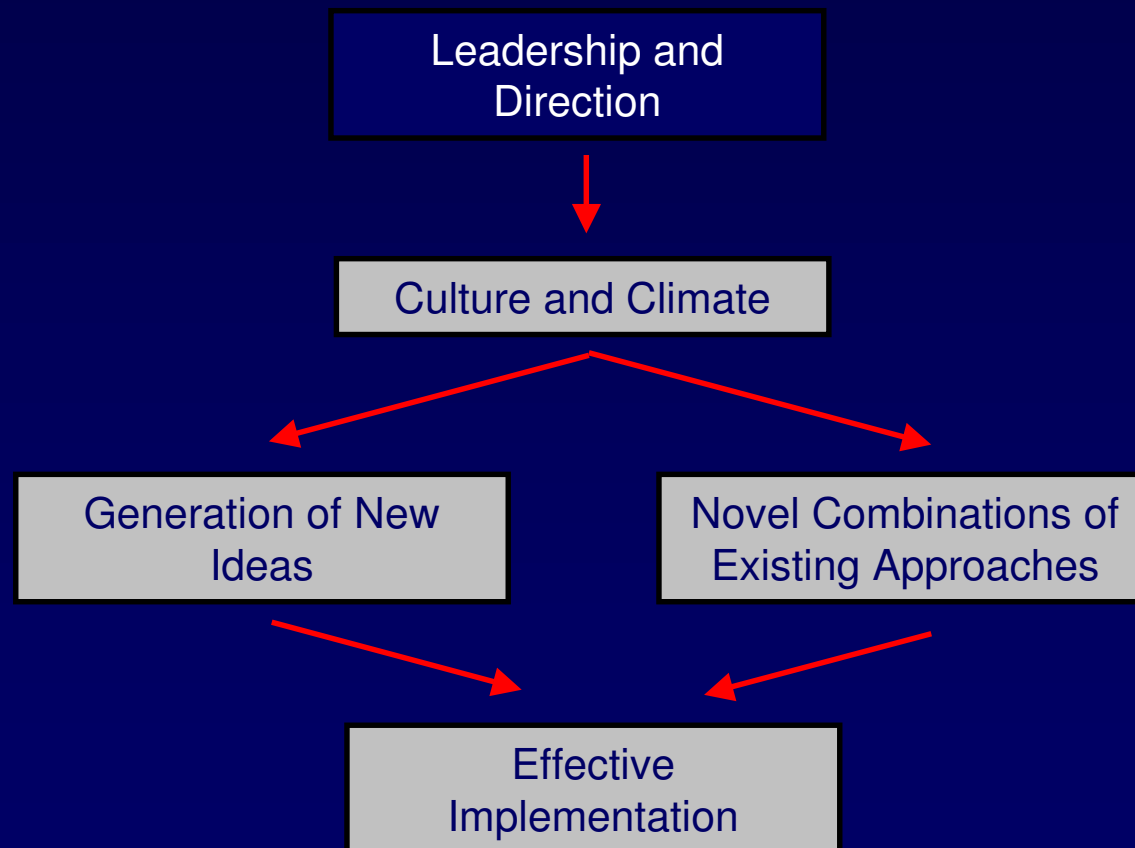
Innovation Model

Organizing for innovation: A conceptual model



Innovation Model

Organizing for innovation: A conceptual model



Leadership and Direction

Innovation is fostered by clear direction and an orientation toward action

- Rather than merely capitalizing on breakthroughs when they occur, innovation leaders take an active approach to promoting and managing innovation.
- Leaders articulate a clear vision for innovation.
- Employees and managers are encouraged to proactively address problems and to “raise the bar” by innovating in areas of current strength.

Leadership and Direction

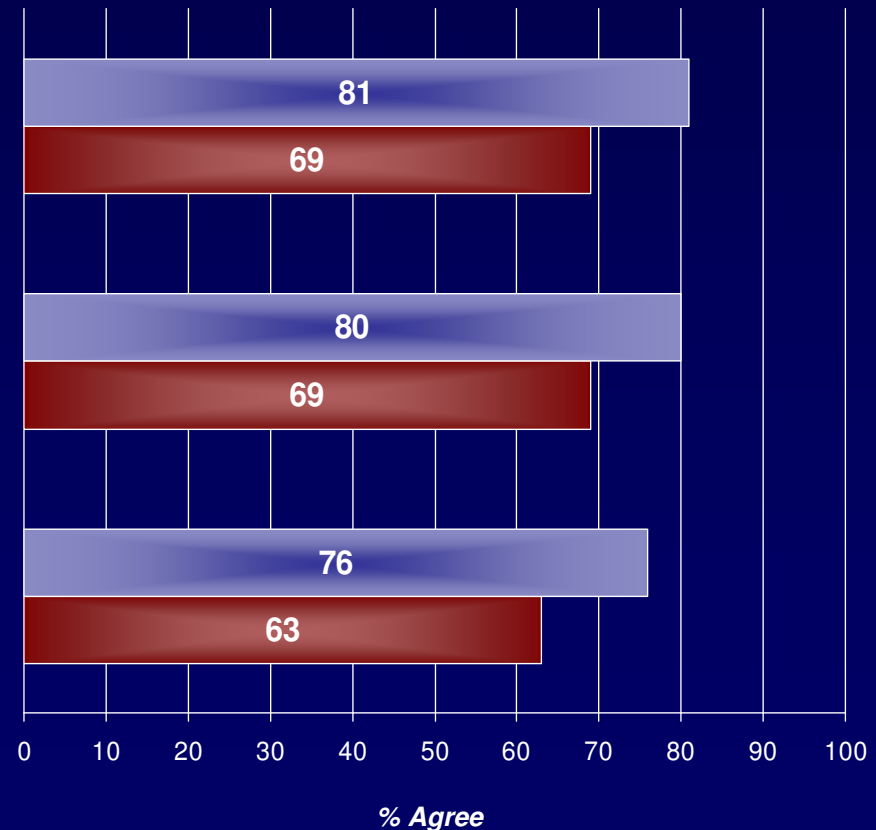
Innovation is guided by leadership direction

■ Innovation Leaders ■ Peer Group

We have a vision for innovation, clearly identifying the areas in which we will pursue new ideas and approaches.

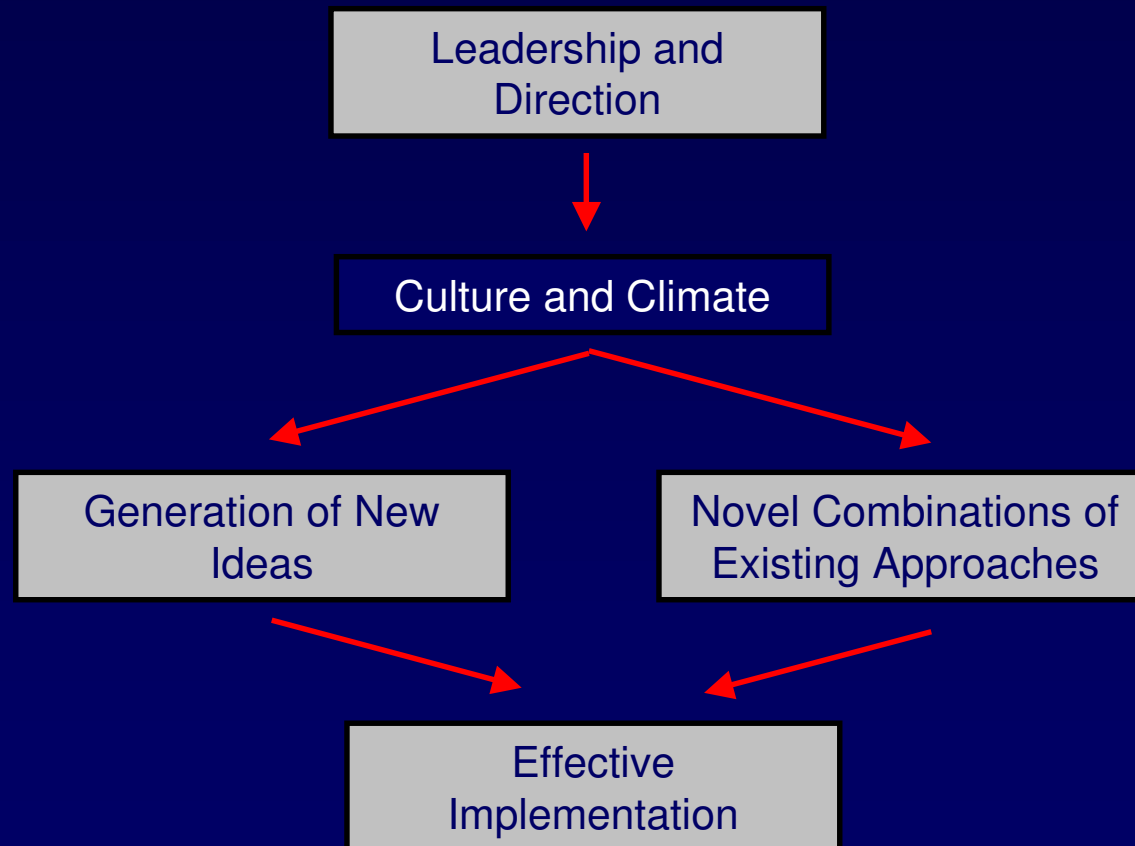
We do a good job of proactively addressing potential problems before they occur.

Managers and employees are actively encouraged to innovate in areas of current strength (i.e., to “fix” things that aren’t broken).



Innovation Model

Organizing for innovation: A conceptual model



Supportive Cultures

Most Admired Companies:

- **Achieve consensus among executives about both their *current* and *ideal* cultures.**
- **Exhibit current cultures that are much closer to their target cultures.**
- **Display cultures that promote both individual initiative and a high degree of teamwork, factors that contribute to the development of innovative approaches.**

Supportive Cultures

Current Culture

Ideal Culture

Most Admired Companies

- **Teamwork**
- Customer Focus
- Fair Treatment of Employees
- **Taking Initiative**

- Customer Focus
- **Teamwork**
- Rewarding Superior Performance
- **Innovation**
- Fair Treatment of Employees

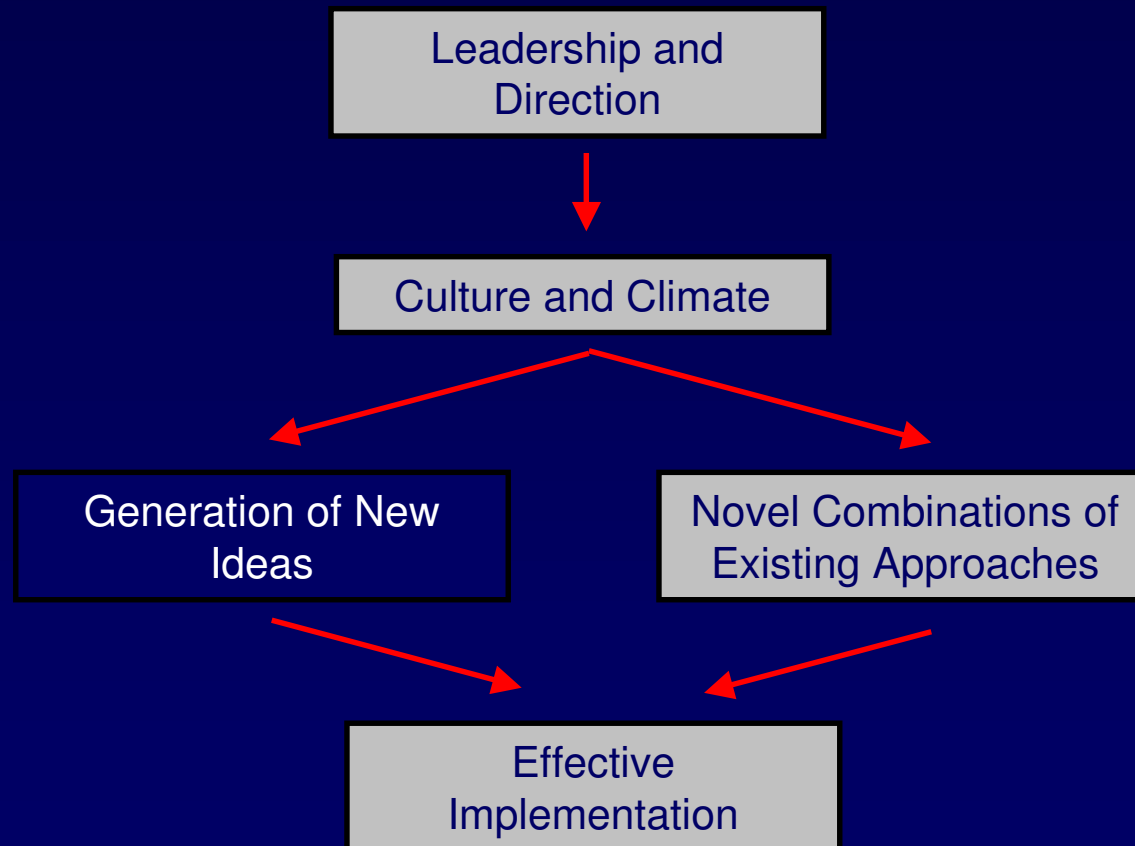
Peer Companies

- Achieving Budgeted Objectives
- Supporting Management Decisions
- Respecting Chain of Command

- Customer Focus
- Teamwork
- Rewarding Superior Performance
- Flexible and Adaptive
- Fair Treatment of Employees

Innovation Model

Organizing for innovation: A conceptual model



Generation of New Ideas

Creativity drives innovation

- As with biological evolution, organizational innovation is fueled by experimentation.
- Innovation leaders invest heavily in innovation.
- As pursuing innovative ideas often requires people to go beyond the formal limits of their responsibility, innovation leaders foster high levels of empowerment.
 - Supported by flexible climates and people who demonstrate initiative and adaptability.
- Managers and employees are encouraged take prudent risks.
 - Supported by organizational cultures that encourage, reward, and support initiative and innovation.

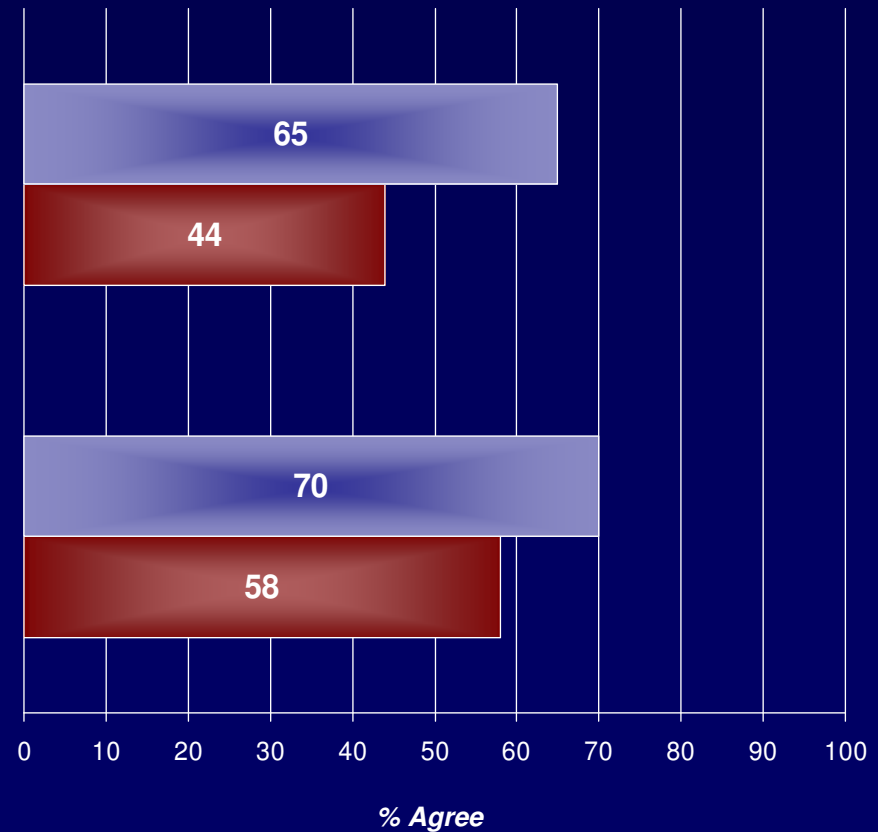
Investment in Innovation

Focused investments in innovation

■ Innovation Leaders ■ Peer Group

We invest more resources in research and development than do our major competitors.

We have clear procedures for determining the level of investment in innovative ideas.



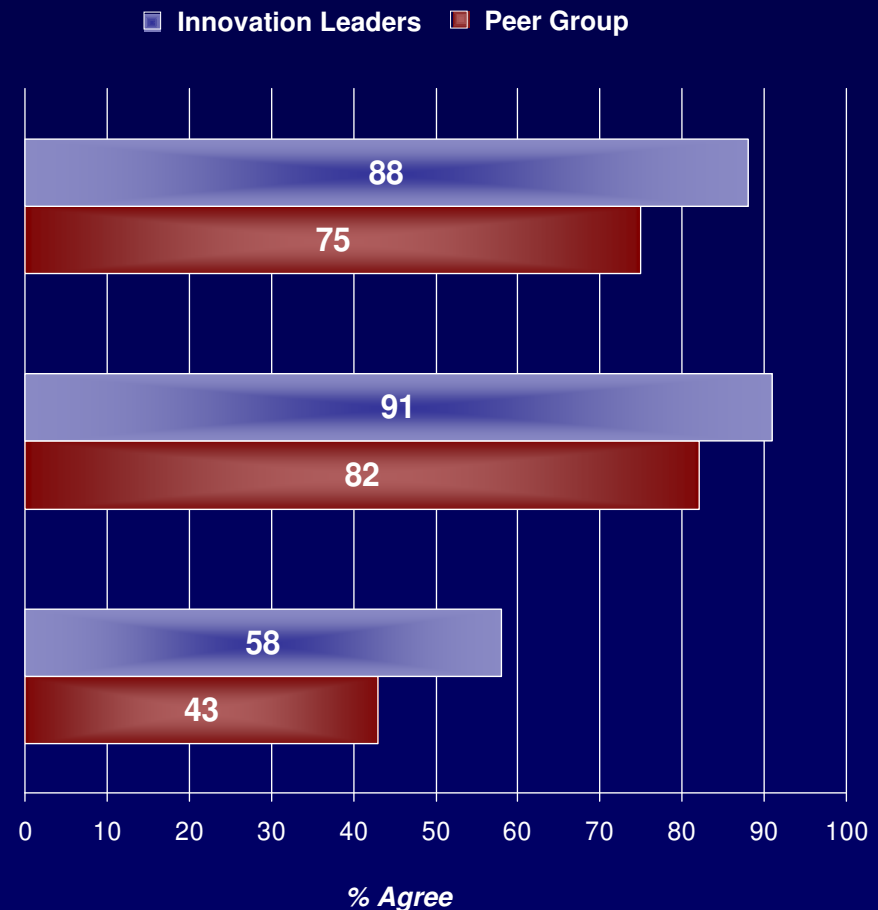
High Levels of Empowerment

Empowerment promotes innovative behavior

Decisions are generally made at the right level (i.e., where the most appropriate knowledge and expertise resides).

Managers are given the decision-making authority necessary to carry out their responsibilities.

Staffing levels are adequate to ensure that managers and employees have sufficient time to pursue and develop innovative ideas.

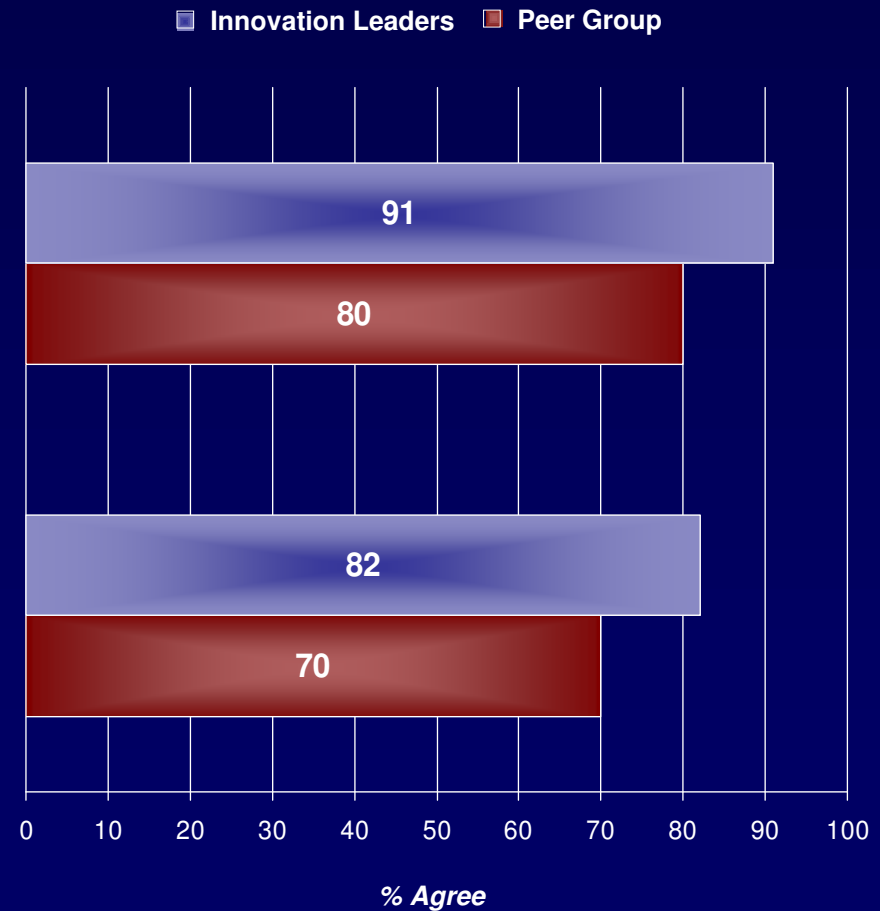


Risk Taking is Encouraged

People are supported in taking chances

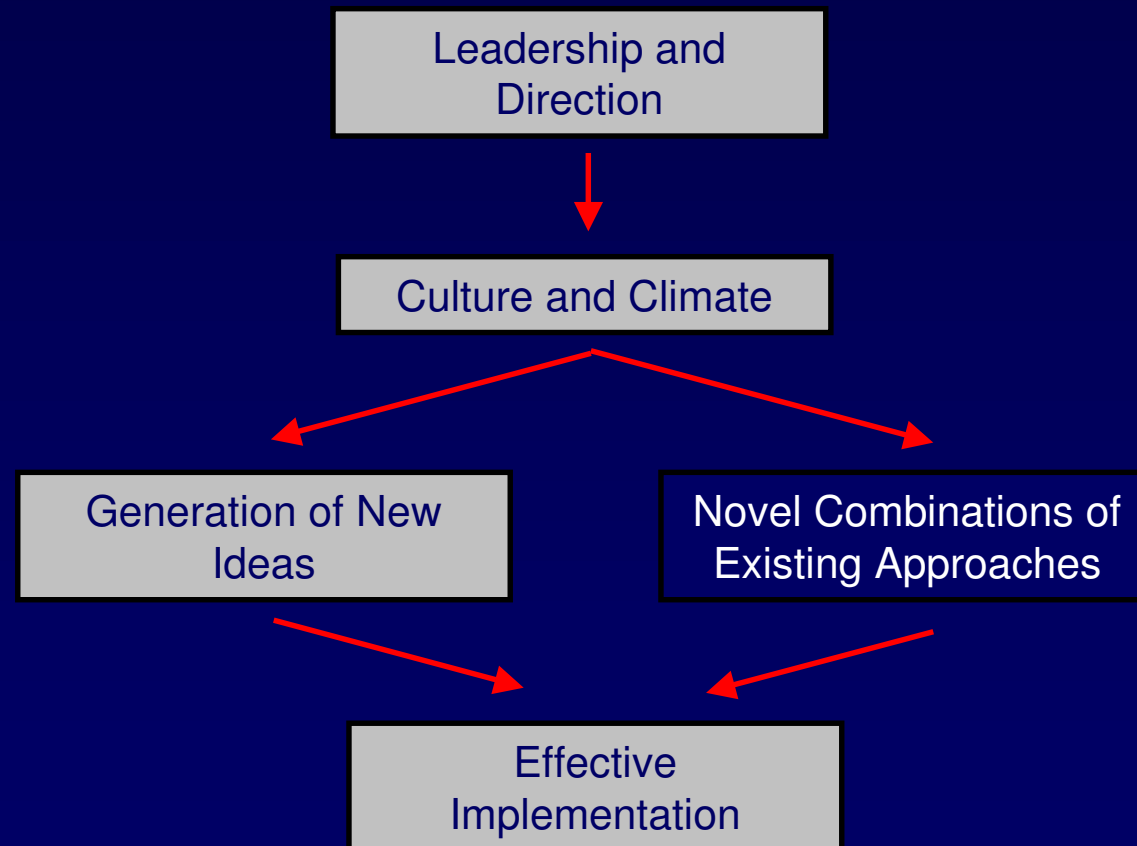
Managers and employees are encouraged to take reasonable risks in an attempt to increase our effectiveness.

Innovative ideas can fail without penalties to the originating person or group.



Innovation Model

Organizing for innovation: A conceptual model



Novel Combinations of Existing Approaches

“Our hidden secret is that P&G has significant continuity in developing a critical mass of knowledge. We work in five industry groups. And by having people in these industry groups, we have an incredible ability to cross-fertilize our know how and to make connections that create real synergies and opportunities in our existing businesses to develop new markets. This ‘web of inter-connectivity’ has been a powerful engine of growth for P&G.”

John W. Leikhim, Director – Corporate R&D: Innovation Capability

Novel Combinations of Existing Approaches

Innovations come from using “old” ideas in new contexts

- **Most organizations make use of cross-functional teams in an attempt to encourage innovation.**
- **However, innovation leaders are more successful in diffusing innovative approaches and best practices across the organization.**
 - **“The best innovators aren’t lone geniuses. They’re people who can take an idea that’s obvious in one context and apply it in not-so-obvious ways to a different context. The best companies have learned to systematize that process.”***

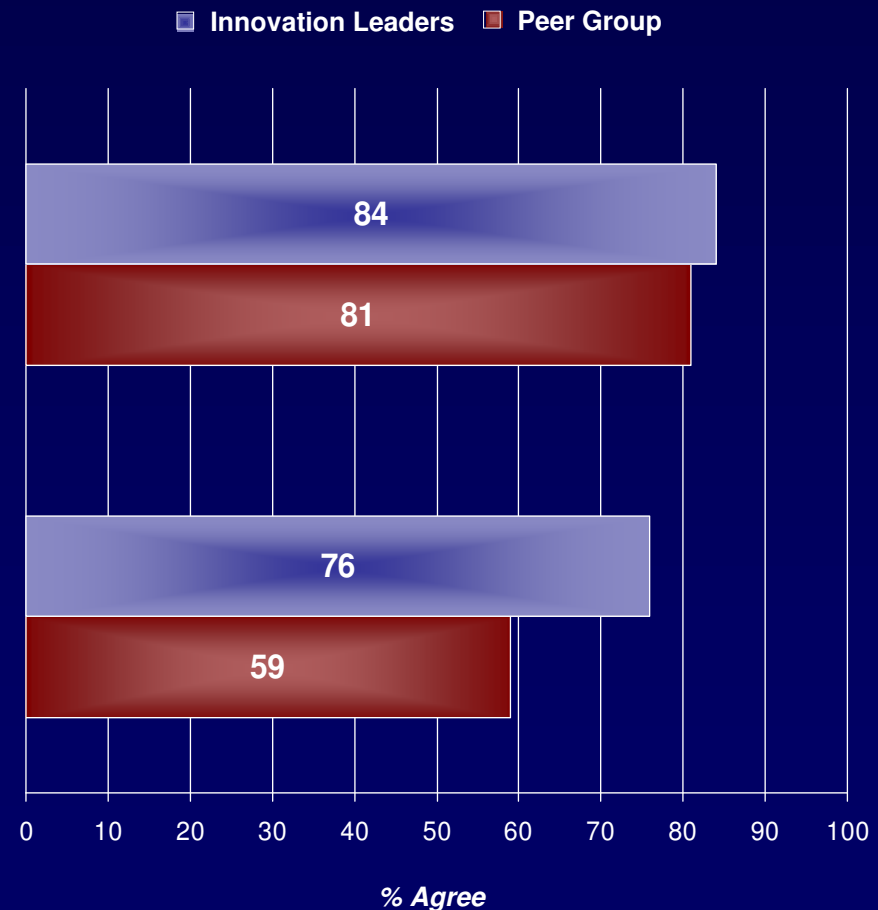
* “Building an Innovation Factory,” *Harvard Business Review*, May-June 2000.

Novel Combinations of Existing Approaches

Cross-functional teamwork and collaboration fosters innovation

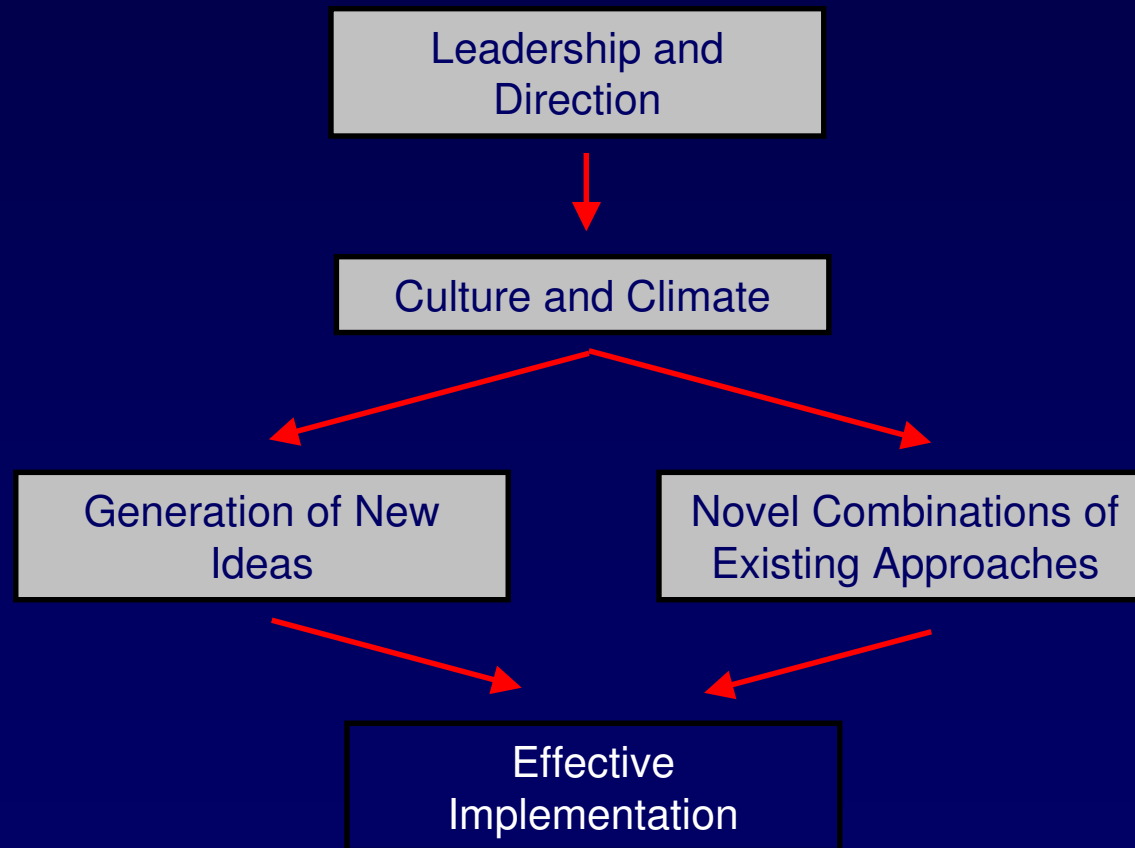
We frequently make use of cross-functional (or cross-organizational) teams to encourage innovative approaches.

We do a good job of capturing innovative ideas/best practices and diffusing them throughout the organization.



Innovation Model

Organizing for innovation: A conceptual model



Effective Implementation

“The trouble with much of the advice business is getting today about the need to be more vigorously creative is that its advocates have generally failed to distinguish between the relatively easy process of being creative in the abstract and the infinitely more difficult process of being innovationist in the concrete. . . . Ideation is relatively abundant. It is implementation that is more scarce.”

Theodore Levitt, Professor Emeritus, Harvard Business School

* “Creativity is Not Enough,” *Harvard Business Review*, August 2002.

Effective Implementation

Innovation is as much about execution as imagination

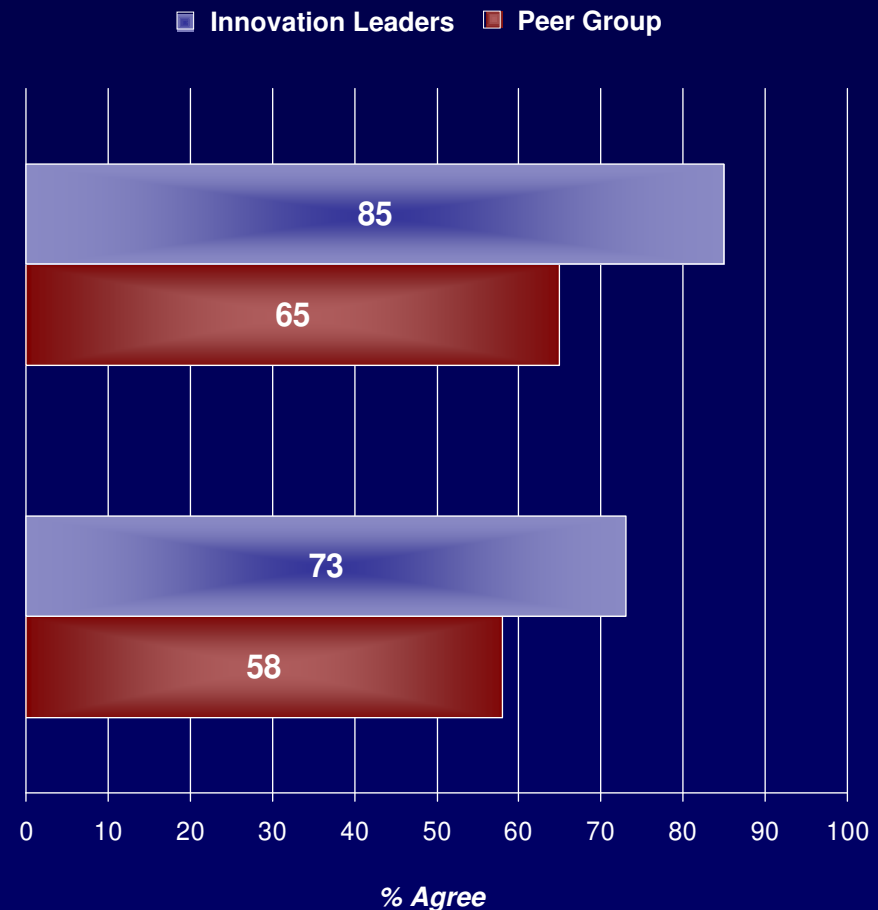
- **Successful innovation requires more than good ideas. Innovative organizations need to translate novel approaches into business practices that improve organizational performance or products and services that reach the market.**
- **Innovation leaders manage implementation by:**
 - **Ensuring that change occurs at an adequate but manageable pace.**
 - **Exhibiting patience with innovative ideas that fail to generate immediate returns.**
 - **Holding individuals and groups accountable for seeing innovative approaches through.**

Effective Implementation

Innovation leaders manage the pace of change

The current pace of change in our company (relative to our industry) is about right.

We do a good job of managing the pace of innovation to ensure that we focus on a manageable number of priorities and initiatives.

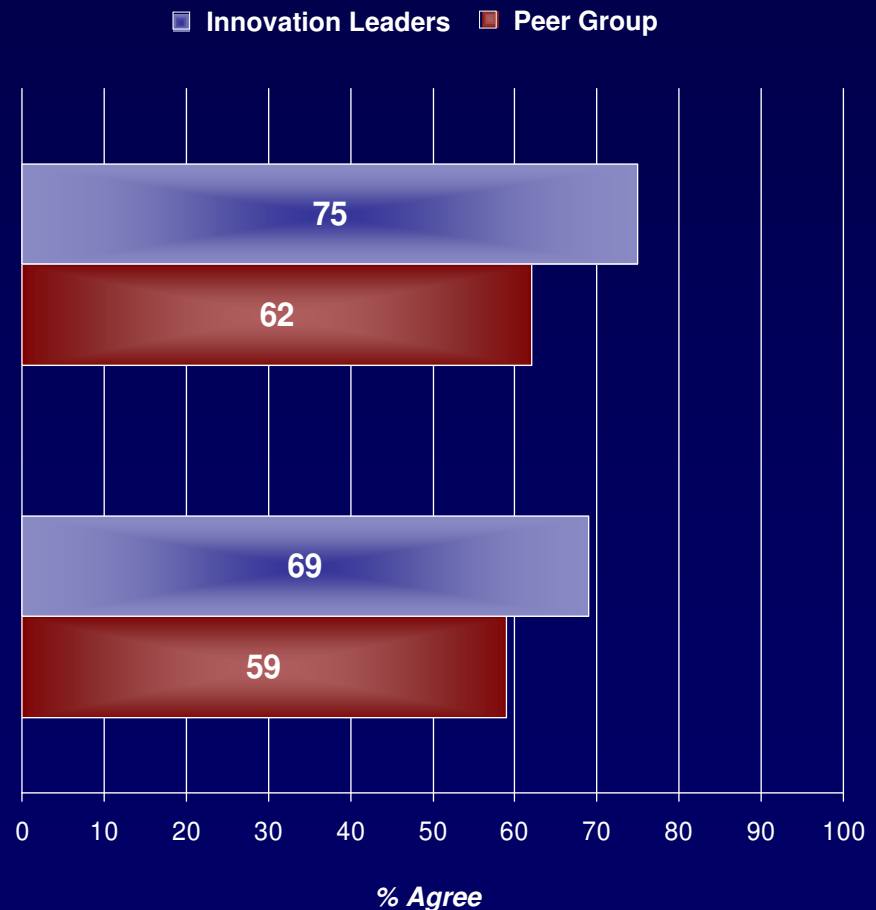


Effective Implementation

Innovation leaders balance patience and accountability

We are patient with promising ideas that don't generate immediate returns (i.e., we don't withdraw funding or support too quickly).

Individuals and groups who initiate innovative new approaches are held accountable for seeing them through to full implementation.



Innovation: Summing it Up

“What does all this add up to? Innovation isn't something confined to a company's R&D unit. It's a mindset that permeates an organization. Successful innovation requires more than brilliant scientists. It takes leaders, entrepreneurial spirit, great ideas, good management, and the right organizational structures.”

“What it Takes to Innovate,” Fortune, Mar 1, 2005

Most Admired Companies: A Formula for HR Success

Building the Team:

- ***Developing Leaders***
- ***Attracting and Retaining Key Talent***

Maximizing Opportunities:

- ***Encouraging Innovation in Internal Processes and Products and Services***

What Makes Most Admired Companies Great?

Making the Ideal Real:

“A knowledge of what constitutes best practices in all domains, and certainly in the area of managing the employment relation, is transmitted with increasing rapidity. The source of real competitive advantage resides in the ability to actually implement practices that other organizations find difficult.”

Jeffrey Pfeffer, “Why Do Smart Organizations Occasionally Do Dumb Things?”

Hay Group Support

In building your team and maximizing opportunities, Hay Group can help:

- **Create clarity and alignment among your senior executive team**
- **Analyze and work through issues of organization, job, and process design**
- **Assess your leadership's styles and work climate and coach individuals to be more effective**
- **Develop an appropriate selection profile for new hires and train staff to be effective in its application**
- **Design and align reward systems to help drive the organization's intent**

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