

Lighting the path to success

Find out what separates the FORTUNE
World's Most Admired Companies from the rest.
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It's 15 years now since Hay Group started work with FORTUNE magazine on the annual World's Most Admired Companies survey.

Even though there has been phenomenal change in this period – from boom to recession and back to recovery, many of the World's Most Admired Companies – like GE and Procter & Gamble – are constants while others have ascended and staked their own claim to Most Admired status. Regardless of business conditions they continue to shine.

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Fifteen years of excellence

Being one of the World's Most Admired Companies (WMACs) means much more than just peer recognition. The best practices that help organizations become and remain Most Admired have direct financial consequences. And as the table shows, these benefits endure over time. Over the last 10 years, shareholders of top the 50 World's Most Admired Companies have enjoyed returns that outperformed the S&P 500 by over five times.

World's Most Admired Companies outperform industry peers and the market as a whole

| | Total shareholder returns | |
|-------------|---------------------------|---------|
| | WMAC | S&P 500 |
| One year | 22.6% | 15.1% |
| Three years | 4.3% | (2.8)% |
| Five years | 8.3% | 2.3% |
| Ten years | 7.8% | 1.4% |

And while some companies have made just a brief appearance at the top of the rankings, others have been consistent leaders.

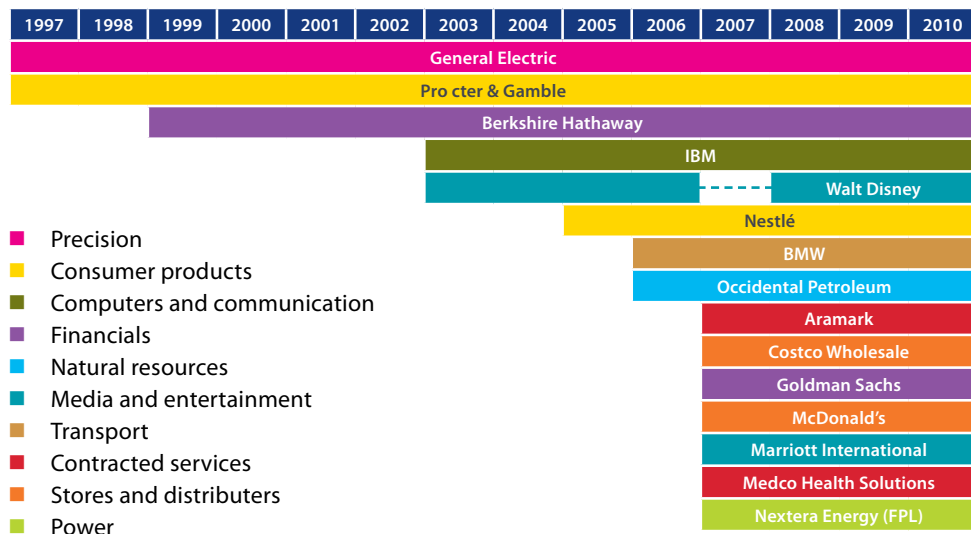
These 'all stars' include Toyota, Johnson and Johnson, Berkshire Hathaway, Procter & Gamble and GE (although in 2011 GE dipped out of the top 10). Technology companies have become more prominent in recent years, with Apple topping the list each year since 2008. The 2011 top ten also includes Google, IBM

and Microsoft. BMW and Singapore Airlines have also joined the top 20 in 2011, joining Toyota in a growing list of non-US companies ranking as Most Admired.

Regulars at the top of the WMAC rankings maintain their place by scoring consistently well in all of the attributes that the World's Most Admired Companies survey covers. See panel 'The study.'

“Even when conditions are tough, WMACs prioritize growth”

World's Most Admired Companies industry stars



Contents of this report

When all is said and done what is the secret of their success? What is it that World's Most Admired Companies do differently? Our report is structured around four essential ingredients to the Most Admired Companies' recipe for success:

1. Strategic excellence
2. Structures and processes that sustain performance over time
3. Achieving success through people
4. Placing a high value on leadership and talent

Read on to learn what it takes to become – and stay – Most Admired.

The study

The Fortune/ Hay Group global survey of corporate reputations focuses on Fortune 1000 companies, along with the largest Global 500 companies and top foreign companies operating in the U.S. These companies are divided into global industry groupings and questionnaires are then sent to industry-specific lists of more than 10,000 senior executives, board directors, and expert analysts. The questionnaire asks respondents to rate companies against nine performance dimensions:

- innovation
- quality of management
- long-term investment value
- social responsibility to the community and the environment
- ability to attract, develop and retain talented people
- quality of products and services
- financial soundness
- wise use of corporate assets
- effectiveness in doing business globally.

The returns are then used to calculate an overall reputation score for each company.

1 Strong, positive cultures that support strategy

This doesn't just mean World's Most Admired Companies are good at making plans (though they are). Where they shine is in their ability to make strategy happen, by aligning both their organizations and their people with key goals and objectives, seeing things through.

Strategy that gets executed

Most companies devote a lot of attention to strategic planning. But Most Admired Companies put those strategies into practice.

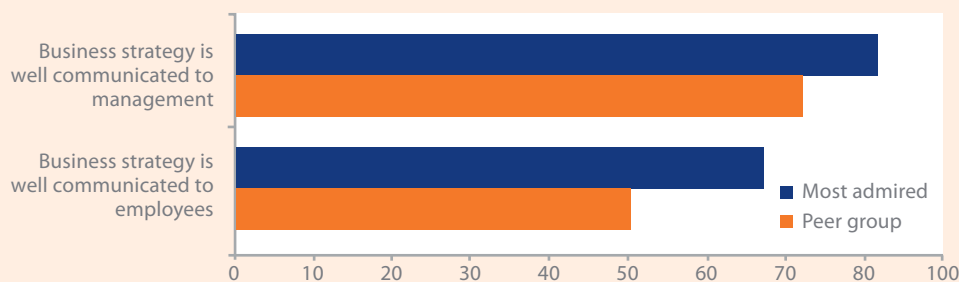
Our research suggests that clarity is key. Within the World's Most Admired Companies, strategic objectives are clearer at all levels and performance measures are more closely aligned with them. And, this effective line of sight is what contributes to success.

WMACs hold their executives more accountable for communicating and executing business strategy. Nearly 80 percent of WMACs

say managers understand their roles in implementing strategy compared to 58 percent in the peer group. And they are much less tolerant of 'off strategy' behaviour, with only 22 percent reporting any degree of tolerance in their organizations for such behavior seeing it as an acceptable way to meet their numbers compared to 52 percent of their peers.

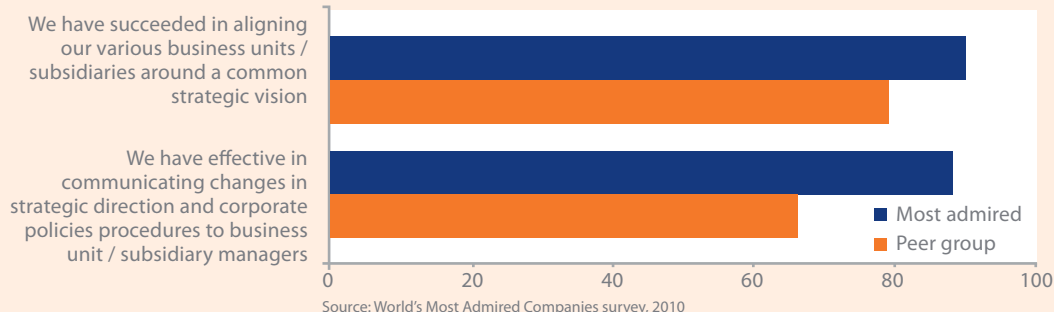
A strong, stable strategy, clearly communicated and understood throughout the organization, serves these exceptional companies in fair winds and foul.

Getting the strategy message



Source: World's Most Admired Companies research, 2010

In step with strategy



Fit for purpose structures that align with strategy

Even though every World's Most Admired Company is structurally different, they share some fundamental elements that make sure their strategies work.

In WMACs, structure and strategy are consistently aligned. So when top companies take a different strategic route into the same market, they will end up with markedly

different structures. Nestlé, PepsiCo and General Mills are very different organizations, for example, even though they compete in many segments.

Critically, structure is always aligned with the business models of the WMACs. When looking at how they should be organized, WMACs examine their product portfolios, customers, suppliers, competitors, geographies and go-to-market models. It's no surprise that WMACs are all structurally unique.

Different roles for the corporate center

Illinois Tool Works is highly decentralized and operates in 52 countries, functioning as 850 separate businesses across seven largely unrelated sectors. It achieves great results because of the autonomy it gives its business units and the role of the corporate center is kept deliberately small.

3M operates a highly centralized R&D facility then pushes its research results out to autonomous business units. These units then decide how to implement each generation of new product. Because developments are based on open source technologies, anyone can contribute. It's a virtuous loop.

Source: World's Most Admired Companies survey, 2009

Strong cultures that are aligned with strategy

Culture has a major effect on the way employees behave and its impact can be tracked right through to the bottom line. World's Most Admired Companies understand the importance of culture and go to great lengths to create and nurture strong cultures that are aligned with the business strategy.

WMACs recognize that culture is critical to making strategy happen. Culture must be aligned with strategy to ensure effective strategy execution.

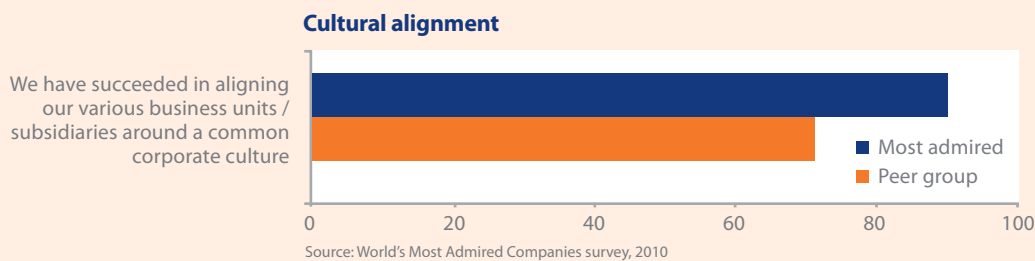
Accordingly WMACs place a high priority on culture. We have found that their leaders are clear about the attributes which the organization wishes to encourage, support and reward. They also tend to have a consistent, shared understanding

of their company's present culture and the direction it should take in the future. WMACs go to great lengths to make sure employees mesh with their culture, presenting their values and their way of working to new hires to evaluate the potential fit.

Their cultures promote both teamwork and individual initiative and WMACs tap into this combination to drive innovation and loyalty.

Culture means business

Representing broadly 'how things are done', organizational cultures are important drivers of employee behaviour, particularly when employees must often be relied upon to act on their own initiative in a way that is consistent with the company's objectives, culture and values.



Keeping culture on course

US carrier and WMAC Southwest Airlines has not changed its mission statement in 22 years and even has a committee tasked with keeping the company's distinctive culture on track. It's a powerful force for inspiring loyalty and attracting high performers.

Source: World's Most Admired Companies survey, 2011

A culture of new ideas

“Internally, we encourage all our people to have an innovative spirit. Our ‘staff ideas in action’ program, which has run successfully since the 1960s, encourages staff to contribute ideas in areas like service innovation, process improvement, cutting waste or improving our products. To sustain this culture of new ideas, we also build innovation into our training programs.”

Christopher Cheng, Senior Vice President Human Resources, Singapore Airlines, quoted in 2011

“Even when conditions are tough, WMACs prioritize growth”



2 Structures and processes that sustain performance over time

For World's Most Admired Companies, dealing with challenges that can trip up lesser organizations – innovation, going global, reacting fast – is just part of 'business as usual'. As a result, they build structures and ways of working that endure.

Innovation every day

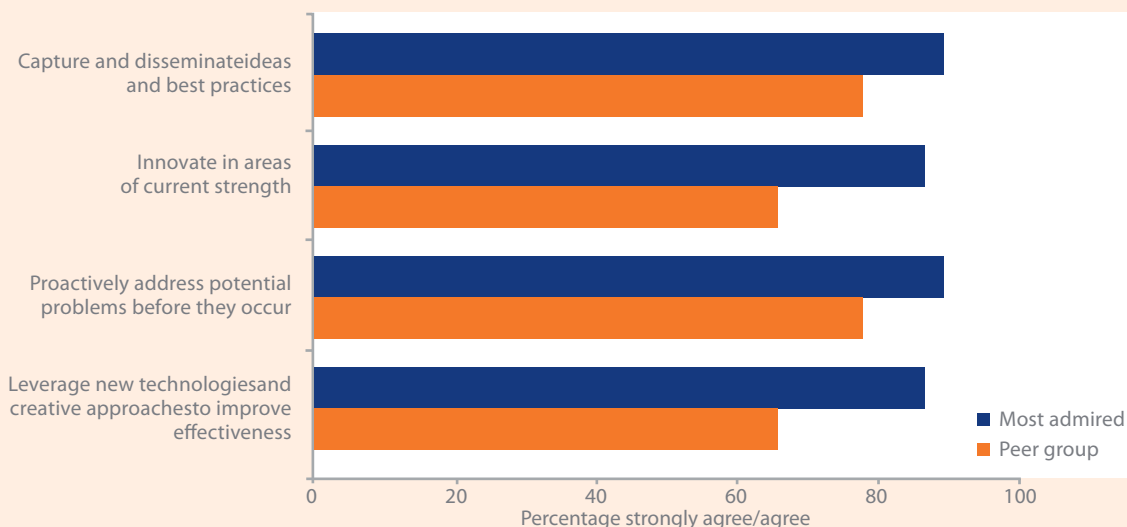
For World's Most Admired Companies, innovation is not a separate function – it's 'baked in' to the way they work.

Recognizing the importance of innovation, Most Admired Companies have embedded it into their cultures. While there is no 'cookie cutter' approach for creating an innovative organization, our results indicate that WMACs succeed in this. They promote alignment around a clear leadership vision. They recognize that having the right people working with the right management in

the right environment is essential to the development of new ideas. And they ensure that processes and practices are in place to translate innovative activity into implementation and end results.

WMACs put employees at the heart of the innovation process, they are ten percent more likely than peers to see it as 'very important'. And if everyone is encouraged to proactively spot problems, fire off ideas and strive to improve things that already work just fine, the company is in a state of constant innovation. This readiness to improve and change makes WMACs adaptable to fluctuating conditions.

How Most Admired Companies innovate



Source: World's Most Admired Companies survey, 2011

“When you’re a company that’s led by innovation, how do you get everyone to understand that it’s not just ‘something for the R&D guys’? BASF addresses this for example by a ‘Simply Dare’ initiative where employees are asked to identify areas for improvement and are encouraged to be a part of the solution. By using a broad network of champions and ‘daredevils’ to collect ideas and push them through to execution, this has so far been a hugely successful and engaging activity”

Dr Andre Becker, Senior Vice President, Global Executive Human Resources, BASF, quoted in 2011

Balancing global scale and local presence

Skill in leveraging their global reach and local operations sets World’s Most Admired Companies apart from their peers.

In particular, WMACs are able to gain economies of scale from their global operations while simultaneously giving local business units the flexibility to respond to local market needs.

Structures and processes that sustain performance over time

WMACs are more successful in developing new ideas centrally and spreading them worldwide. On the flipside, they are also set up to capture

local initiatives and feed these back to the global organization.

WMACs are well coordinated internationally too. They unite far-flung and disparate businesses around strong, consistent strategies and cultures. And their performance management systems are designed to reward behaviors that benefit the whole enterprise, not just the local operation.

Local flexibility. 84 percent of WMACs can respond flexibly to local market needs, compared with 73 percent of peers

Spreading ideas. 78 percent of WMACs are good at spotting new ideas and leveraging them throughout the organization. Only slightly more than half of peers can say the same.

Procter & Gamble: simultaneously global and local

For P&G’s large, global brands, a centralized brand manager makes major brand decisions and sets parameters for local market autonomy. But for P&G’s local brands, the situation is completely reversed. Local managers make local decisions, using local resources. They still adhere to P&G’s global brand frameworks, but they are empowered to act to serve local best interests.

Source: World’s Most Admired Companies research, 2009

“The secret of our success is collaboration between our verticals and local managers in their respective countries”

Dr. Nicolas von Rosty, Corporate Vice President Executive Development, Siemens

Focused on the long term

World's Most Admired Companies look way beyond the next quarter.

Our work with FORTUNE reinforces other studies that show how successful companies share a greater emphasis on the future than peers.

They deliberately build strategies that work at all points of the business cycle, so there isn't a need for radical change when a downturn strikes or the recovery starts. In this way,

WMACs avoid the distraction of frequent strategic change that is a common problem for less focused organizations.

WMACs manage people for the long term too. They pick out high-potential employees and develop them over time with a series of planned assignments. And they reward for the long term. WMACs are 56 percent more likely than peers to have performance measures based on building customer loyalty.

Staying admired

WMACs long-term focus means many names consistently score high in the list:



Nestlé



BERKSHIRE HATHAWAY INC.



P&G

WALT DISNEY

Agility that protects against change and exploits opportunity

Like successful creatures in nature, WMACs are quicker than others to find and exploit new opportunities. They are naturally agile, making them highly adaptable so they can sustain performance in good times and bad.

It's the combination of several key WMAC attributes that creates this adaptability.

Their **active focus on growth** means, among other things, that they are better positioned to benefit after a downturn. And with **innovation 'baked in'** to WMACs, improvements and new initiatives are a constant feature rather than an occasional project. Much more than peers, WMACs **reach out to employees for ideas**, meaning that everyone is part of the solution. And by **enabling employees**, they ensure that motivation is translated into productivity, even in difficult times.



- 83 percent of WMACs innovate in areas of current strength
- 83 percent of WMACs proactively address potential problems before they occur
- 91 percent of WMACs regularly reach out to employees for ideas on how to improve efficiency
- 89 percent of WMACs ensure employee skills keep pace with job demands

3 Achieving success through their people

It's perhaps the most consistent theme in our 15 years of work with World's Most Admired Companies. Recognizing that their employees are the key driver of their success, these top-performing organizations go to great lengths to create the right conditions for people to thrive.

Looking after human capital

"Our people are our greatest asset" may sound like a platitude. But our research shows that for WMACs, it's core to their success.

Most Admired Companies recognize the value of the 'intangible asset' their workforce presents. Indeed they understand that not only people, but their motivation, development, and the climates in which they work are all assets too.

Compared to peers, WMACs are 22 percent more likely to have a human capital strategy in place that has been reviewed and approved at board level. And 80 percent of WMACs regularly review human capital metrics such as employee turnover, employee engagement, recruitment and job offer acceptance rates.

While WMACs evaluate their CEOs on financial and strategic success similarly to their peers, they are 23 percent more likely to evaluate CEOs on success in developing human capital.

"My main job was developing talent. I was a gardener providing water and other nourishment to our top 750 people. Of course, I had to pull out some weeds, too."

Jack Welch, former CEO of GE, the highest-scoring World's Most Admired Company



Engagement that inspires employees to 'go the extra mile'

When employees are highly motivated, they are more likely to give the extra 'discretionary' effort that's particularly important in tough times. World's Most Admired Companies make big investments in engagement.

WMACs continue to focus on engagement, even in tough times. When we carried out our 2010 study with FORTUNE, we found World's Most Admired Companies were emerging from recession with better levels of loyalty than before. Nearly 70 percent of them reported better engagement levels post-downturn, linked no doubt to the fact that they had to implement only half their peers' levels of hiring freezes and layoffs.

Our findings suggest that WMACs are more likely to have developed explicit employer brands to capture distinctive and differentiating aspects of the work experience in their organizations to attract and retain key talent. They are also more likely to have developed a specific definition of employee engagement – and to report that HR staff members across the company have a good understanding of it. But employee engagement is not viewed as exclusively an HR responsibility in WMACs. In terms of ownership of engagement initiatives,

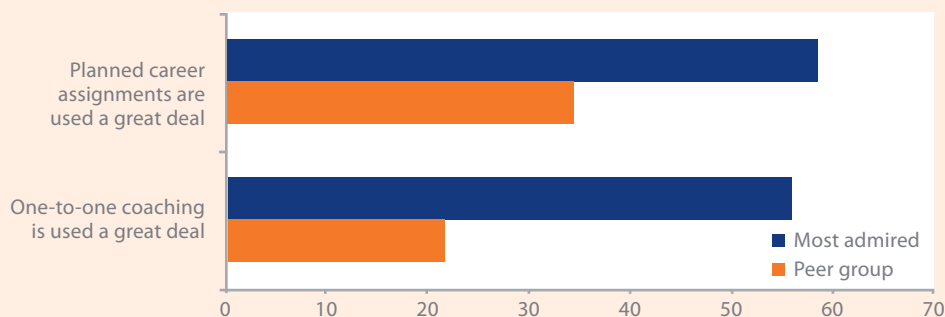
line manager responsibility is markedly higher in these organizations.

The greater clarity and accountability surrounding employee engagement issues in WMACs leads to greater effectiveness and impact. WMACs have a more positive view of the success of their engagement efforts in creating a competitive advantage, reducing complaints about pay fairness and equity, reducing turnover, reducing employee performance problems and strengthening relationships with customers.

But the benefits of the enhanced engagement levels in WMACs extend beyond the boundaries of the organization. As employee engagement has come to be recognized as a major driver of business performance, engagement metrics have emerged as important markers of an organization's current health and future prospects. Notably, WMACs do more to communicate employee engagement levels externally to investors, prospective hires, and current/prospective customers.

How do WMACs keep people engaged? Partly it's to do with empowerment. But it also has to do with personal advancement and growth. Planned career assignments and one-to-one coaching, for example, are used much more widely at WMACs and inspire motivation, especially during periods of economic uncertainty.

Investment in personal growth



Source: World's Most Admired Companies survey, 2010

Engagement cuts costs

Nearly all WMACs report that engagement cuts staff turnover. Given it costs between 50 and 150 percent of salary to replace an employee, the savings are clear.

Engagement drives growth

Hay Group research suggests that firms with high levels of engagement see revenue growth 2.5x that of peers and a 40 percent reduction in employee turnover.

But engagement is only part of the story

Even when employees are highly motivated they can often struggle to be productive. The missing piece is 'enablement' – removing the barriers to performance so engagement translates into results. As the next section shows, the business case for doing this is clear.

“Our philosophy is that you can’t have business growth without personal growth. In fact, they’re inseparable. When the business is growing and you’ve got employees that are themselves growing professionally it’s a very powerful combination and one can really drive the other”

David Henderson, SVP of Talent Management, PepsiCo, quoted in 2011

“At the end of the day, when you’ve got lots of employees feeling very good about what they get out of a company, you’re going to end up with lots of employees expending discretionary effort.”

Richard Floersch, executive vice president and chief human resource officer, McDonald’s

“WMACs leverage their employees by helping everyone to be part of the solution”

Enablement: turning motivation into results

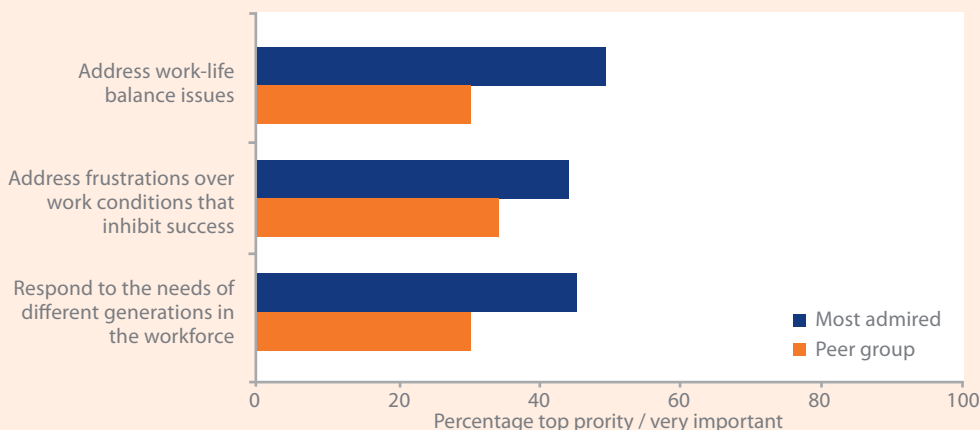
World’s Most Admired Companies understand that for employees, motivation alone is not enough. People must also feel equipped and empowered to ‘get the job done’.

Hay Group research shows that while nine out of ten employees are committed to success, less than two-thirds believe they are as productive as they could be. That’s a lot of wasted eagerness and it’s something that WMACs grasp. They channel employees’ motivation into results by:

- Working ‘smarter’ – simplifying work processes
- Creating systems and processes – such as effective reward – that encourage employees to become part of the solution
- Prioritizing work/life balance issues to sustain performance and avoid burnout
- Ensuring that employees’ skills remain aligned with changing work demands

Leaders at WMACs are 30 percent more likely to expect employees to lead.

How WMACs remove the barriers to productivity



Source: World’s Most Admired Companies survey, 2010World’s Most Admired Companies survey, 2010:

As Hay Group studies have shown, there is a significant financial benefit from ensuring employees are enabled

| | Employee performance | Employee retention | Customer satisfaction | Financial success |
|-----------------------------------|--|-----------------------------|-----------------------------|-------------------|
| | Increase in employees above performance expectations | Reduction in turnover rates | Customer satisfaction rates | Revenue growth |
| High engagement only | 10% | -40% | 71% | x2.5 |
| High engagement + high enablement | 50% | -54% | 89% | x4.5 |

Based on linkage case studies using Hay Group’s global normative database

“We’re a ‘learning organization’ with a culture of constantly upgrading ourselves. Our training budget is about 12 percent of our payroll and we’re constantly adapting our programs to make sure employees’ skills are up-to-date”

Christopher Cheng, Senior Vice President Human Resources, Singapore Airlines, quoted in 2011

Succession and onboarding

Just as critical as World’s Most Admired Companies keeping a close watch on strategy, they keep a focus on their leadership pipeline. Over 90 percent of WMACs have well-defined succession plans while only 65 percent of their peer group are making careful plans to ensure top-team continuity. They are more likely to have emergency succession plans too, for top officers as well as the CEO.

Having greater bench strength internally maintain continuity and provides WMACs

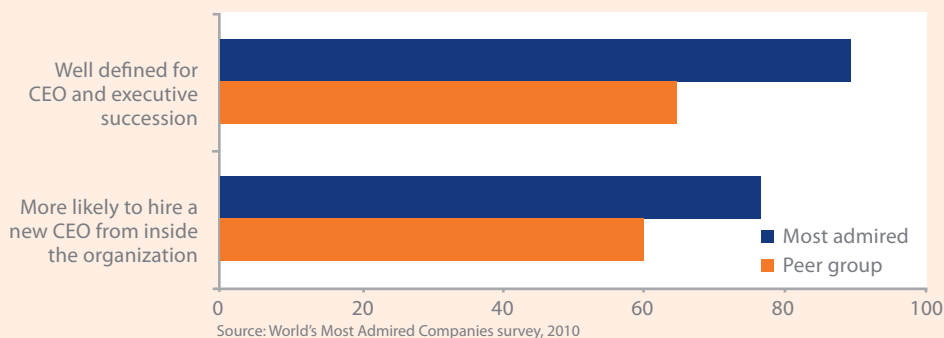
with greater ability to avoid having to opt for costly external hires.

WMACs don’t just take care of the top team, though. They place a great deal of emphasis on looking after their workforces, carefully integrating new hires and then keeping their skills sharp once they’re on board. They have an eye on long-term people trends too. Our studies show that WMACs tweak their employer value propositions to reflect the different needs of different groups: millennials, Generation X, baby boomers and veterans, and people at different life stages.

“Our onboarding process starts way before someone joins us for his or her first day. We have a pre-hire experience, then an ‘enculturation’ period, then the skills training piece. Overall, for the first 90 days we really try to orient people to who we are and what we stand for”

Karin Princivalle, Senior Vice President of Human Resources, Medco, quoted in 2011

Planned succession



4 Placing a high value on leadership and talent

For success to be driven by people, organizations must also ensure that they have the best talent, and the best leaders. This strong focus on leadership and talent has been a standout feature of World's Most Admired Companies since our work with FORTUNE began.

Focused on attracting and developing the right talent

Throughout our 15 years of work with World's Most Admired Companies, we've found that they consistently work hard to ensure the right talent is in place.

WMACs always do three things well:

- rigorous selection procedures for evaluating new hires
- strong emphasis on growth and development opportunities
- close linkage of pay and performance.

WMACs also work hard today to burnish their employer brand, a critical factor when talent in many important areas is surprisingly scarce. They are on top of trends such as the need for more flexible working, the differing needs of different generations and the diversity of cultures in which they operate.

World's Most Admired Companies' focus on attracting and developing people means they can attract the best while avoiding overpaying for top talent.

"Companies that have a reputation for growing and developing people, and deploying them in assignments that stretch their capabilities, attract the best talent," he says. "It becomes a repeatable cycle: attract, develop, deploy, compete. When companies consistently do this, they achieve a talent advantage that makes them agile, adaptable and best-in-class."

Moheet Nagrath, global human resource officer, Procter & Gamble

Leadership excellence

Effective leadership sets the best apart from the rest. It's been a consistent theme of our work with WMACs over 15 years.

World's Most Admired Companies place a premium on the importance of leadership and do a better job of selecting and developing leaders. Their leaders take a 'hands on' approach to developing talent, devoting as much as 30 percent of their time to the task.



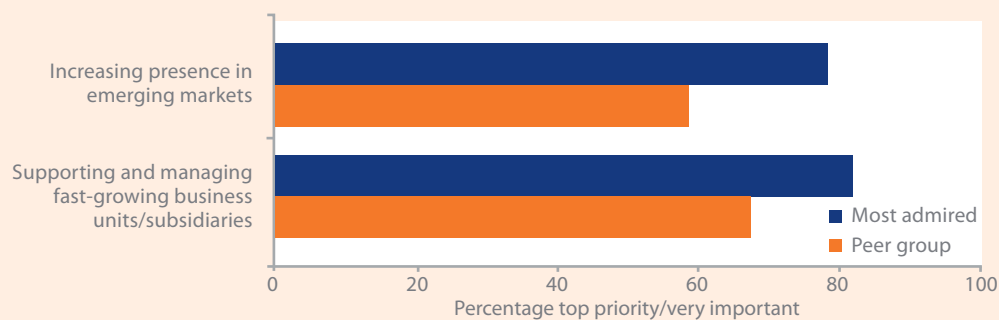
We have found six standout themes in our studies. WMACs:

1. place more value on leadership development
2. use competency models and developmental programs more frequently when choosing and promoting leaders
3. are less tolerant of inappropriate behaviour to 'meet the numbers'
4. have leaders who demonstrate better emotional intelligence
5. equip their leaders better
6. are significantly more satisfied with the quality and breadth of senior leadership.

"We co-create leadership programs with our executives, because they're experts in running their business and we're experts in how people learn, grow and develop"

Annmarie Neil, Psy D, Vice President and Chief Talent Officer at Cisco

Leadership satisfaction



Source: World's Most Admired Companies survey, 2011

Unlocking the value of reward programs

Reward is essential to attracting and retaining staff at all levels. It's also an essential tool for driving performance, particularly in tough economic conditions. World's Most Admired Companies realize this – and they make reward work harder for them too, getting more ROI from it.

How do WMACs get more for less? There is no single key to success. Rather, several practices come together to put them in this enviable position:

1. Make sure reward is **aligned** – with your strategy and culture. WMACs' reward programs show a high degree of stability over time, which helps them stay on course strategically.
2. Promote a **'total reward'** approach that makes best use of intangible components, for example flexible working. Companies get more mileage out of reward when employees understand and appreciate that it consists of both monetary as well as other components.

3. Engage **line managers** in the rollout of reward programs. As they take the lead role in planning, coaching and assessing employee performance, line managers are well positioned to influence employees about the extent and relevance of reward programs.

4. **Communicate** reward strategies effectively. Explaining their rationale is key. WMACs are much better than peers at documenting their reward philosophy and providing total reward statements.

5. Focus on **execution**, not design. WMACs are more effective than peers in executing their rewards programs on a global basis.

6. Link reward tightly to **performance**. Aligning performance metrics to reward encourages higher levels of performance.

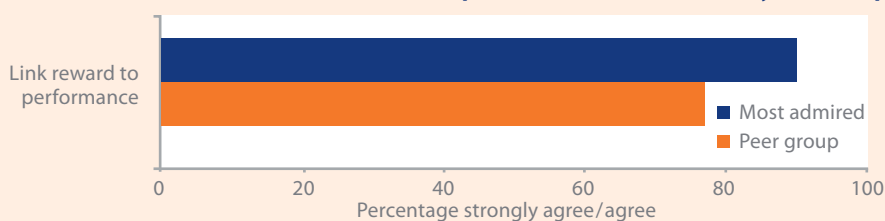
82 percent of WMACs **reinforce** their reward strategy in communications with employees

At three-quarters of WMACs, employees understand that reward has both **tangible and intangible** components

"We pay well, we have rich benefits and we do a good job of articulating those benefits to our employees"

James Brickey, head of HR and total rewards, Anheuser-Busch

At World's Most Admired Companies, reward is more closely linked to performance



Source: World's Most Admired Companies survey, 2010

Paying more for performance

While their base salaries can be up to five percent lower than peers, WMACs pay their very top people more than average – up to 20 percent more when bonuses are taken into account. These people are being rewarded for their ability to deliver and ensure their companies stay at the top of their sectors. They are the ones who are driving strategy and motivation their people.

Summary

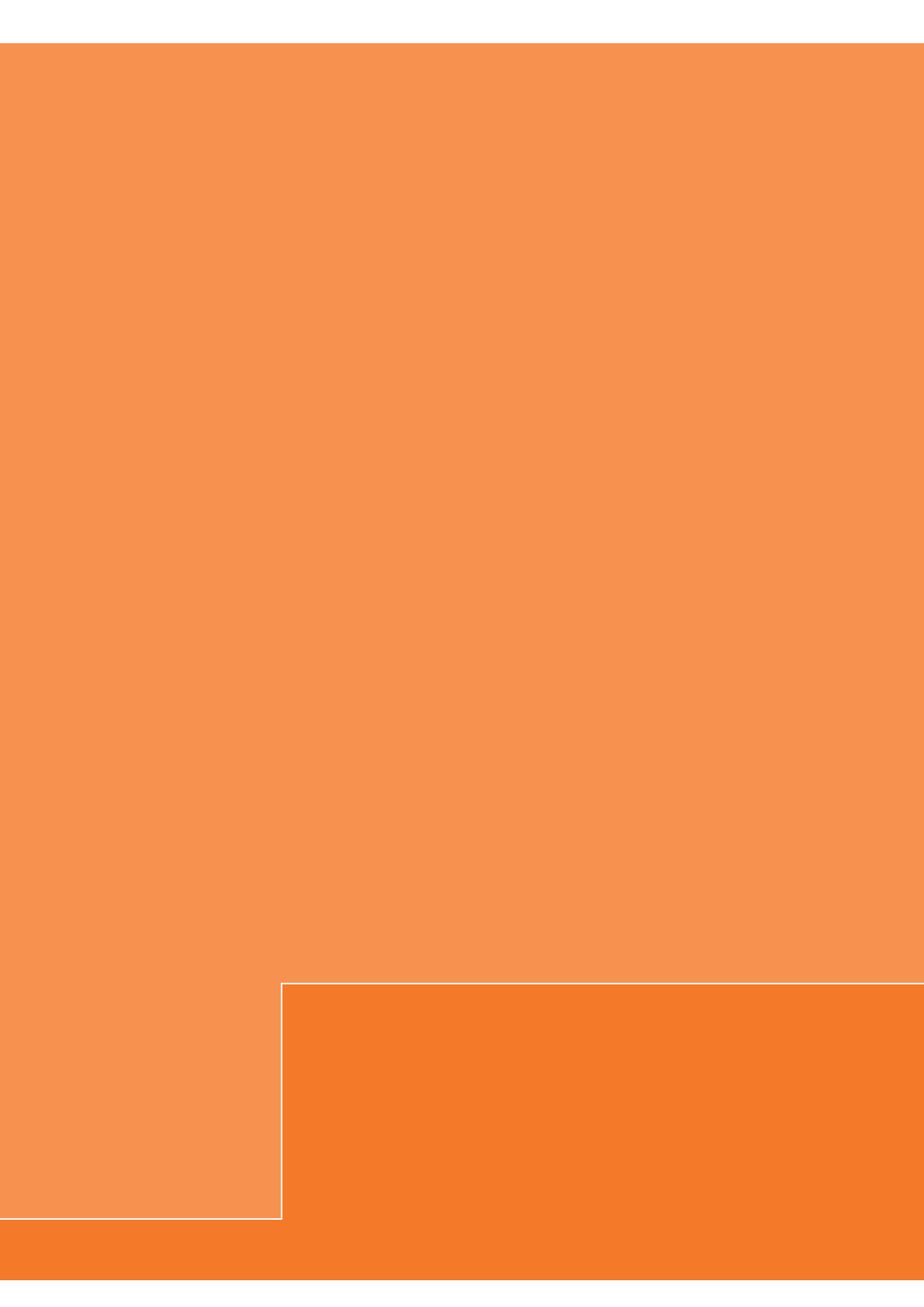
While there is no magic formula that companies follow to become Most Admired, the fifteen years of our study with FORTUNE have shown that consistent performance in four specific areas is something that all the top companies have in common.

They are able not only to devise great strategies, but put them into practice too.

And WMACs structure themselves for the long term, by making themselves able to deal effectively with short-term opportunities and threats. They go to great lengths to create the right conditions for their people to thrive. Finally, they make sure they have the right leaders and the right talent.

Added together, these practices create organizations that outperform their peers, year after year.





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Kuala Lumpur
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