For ten years Hay Group, together with Fortune magazine, have identified the World’s Most Admired Companies. But what does it take to reach the top spot and stay there, year in, year out? >>
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“Within the Most Admired Companies, the top 10 significantly outperform industry peers and the markets, giving average shareholder returns of 19.6 per cent...”
When, together with Fortune magazine, Hay Group began to research a list of the world’s Most Admired Companies, we aimed to break new ground by exploring not only which companies are the most admired in their industries, but also the reasons for their strong reputations. Each year, the survey results have provided fascinating insights into the nature of corporate success.

Now in its tenth year and with a decade of detailed data, the Most Admired Companies survey can go even further and shed light on what makes corporate reputations durable. What does it take not just to make it into the Most Admired Companies list, but to stay there, year after year?
The study

The Fortune/Hay Group global survey of corporate reputations began, in 1997, by identifying the 500 largest public companies in the world as listed in the Fortune Global 500. These companies were then divided into 19 global industry groupings and a questionnaire was then developed for each of these. The questionnaire listed companies in that industry that were either in the Fortune Global 500 list or had scored highly in earlier surveys of the most admired firms.

Sent to industry-specific lists of more than 10,000 senior executives, board directors and expert analysts, the questionnaires asked 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.
As well as the insights it provides, there is a practical reason for taking an interest in the survey: within the Most Admired Companies, the top 10 significantly outperform industry peers and the markets, giving average shareholder returns of 19.6 per cent, nearly three times the Standard and Poor’s average of 7.1 per cent for the period 2004–2007.

So who are the ‘all stars’? On the whole, they tend to be companies that have strong brands and/or star CEOs. A total of 55 companies have appeared in the Top 25 ‘all star’ list from 1997 to 2007 and of the 1997 Top 25, 12 also feature in 2007: GE, Coca-Cola, Microsoft, Warner, Mercedes-Benz, Toyota Motor, Johnson & Johnson, P&G, Citigroup, Caterpillar, IBM and Boeing.

Seven companies have appeared in the Top 25 every year: GE, Coca-Cola, Microsoft, Berkshire Hathaway, Toyota Motor, Johnson & Johnson, Citigroup and the star performer amongst these is GE, which has been first or second every year.

And it is decidedly a global list. Toyota has rocketed up the list from 1997 to 2007 as high as number two. Other non-US companies that have been recognized among the Top 25 all stars include:

- Japan: Toyota, Sony, Honda Motor
- Germany: BMW
- France: L’Oréal
- UK: Tesco, BP
- Other: Nokia, Singapore Airlines, Nestlé.

So what drives this consistent success? There are seven key areas in which the Most Admired Companies excel.

**Success through people**

Perhaps the single most important factor distinguishing the Most Admired Companies from the rest is a focus on achieving success through people. The leaders of such companies take a ‘hands on’ approach to developing talent, devoting as much as 30 per cent of their time to the task and to coaching staff.
In the executive scorecards of the Most Admired Companies, there is a greater focus on developing human capital. As Jack Welch, former CEO of GE, the highest-scoring Most Admired Company, puts it: “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.”

And as the 2007 survey showed, the boards of the Most Admired Companies are also strongly oriented towards taking care of human capital. They are more likely than their peers to have strategies and metrics related to the management of human capital. They have better plans for CEO and executive succession, whether emergency or planned: 91 per cent of them have well defined plans compared to 65 per cent of their peer-group companies. And reflecting their focus on nurturing talent, the Most Admired Companies are also more likely to hire a new CEO from inside the organization (77 per cent compared to 60 per cent of peer group companies).

As Beverly Behan, managing director of the board effectiveness practice of Hay Group points out: “Increasingly, ‘rigor’ has replaced ‘rolodex’ as the watchword in CEO succession planning - meaning that the best

The Most Admired Companies are prepared for the unexpected loss of the CEO or other top executives

- We have developed a comprehensive profile for the CEO's successor that reflects our strategy and business model.
- In terms of a CEO successor, our board has a preference for an internal candidate.
- Our board receives regular updates on the development of internal candidates for top leadership positions.
boards aren’t looking for a rolodex of outside candidates when it comes to the corner office; they are looking for rigorous processes to help them develop and assess their internal executive talent to make smart decisions about corporate leadership.”

**Strong organizational culture**
Representing, broadly, ‘how things are done’, organizational cultures are important drivers of employee behavior, 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.

The Most Admired Companies display a different cultural profile to their peers. Their leaders tend to have a consistent, shared understanding both of what the company’s culture is at present and where it should go in the future. Their cultures tend to promote both individual initiative and high levels of teamwork and this drives innovation as well as employee loyalty.

For the Most Admired companies, it is crucial that employees should mesh with their culture. To this end they identify precisely the people they are looking for and present their culture and values to potential hires to evaluate the potential fit.

**Profound employee engagement**
Hay Group defines this as a ‘result achieved by stimulating employees’ enthusiasm for their work and directing it toward organizational success’ and it is particularly important during times of economic uncertainty. The Most Admired Companies are more successful at maintaining high levels of loyalty and motivation in hard times. One of the ways in which they achieve this is by ensuring that opportunities for personal advancement and growth – one of the main drivers of employee engagement – are consistently available, whatever the economic conditions.

The Most Admired also have a strong emphasis on reward strategy, performance management, employee development and on creating a culture that motivates and supports employees.

**Strategy that gets executed**
Most companies devote significant attention to strategic planning. But the Most Admired Companies are much more successful than peers at making their strategies happen. Our research indicates that this has a lot to do with clarity: in the Most Admired Companies, strategic objectives are clearer at all levels of the company and performance measures are more closely aligned with strategy.
In addition, executives are held more accountable for carrying out strategic plans. As well as making the strategy clear, most Admired Companies follow through on it, too. They are less tolerant of ‘off strategy’ behavior to meet financial targets and more likely to take action if executives do not actively support strategy.

**Managed innovation**

It is no surprise that the Most Admired Companies are good at innovation. But it is neither the volume nor the quality of their innovations that makes the difference: it is the active management of innovation to ensure that the best ideas make it to market. In the Most Admired Companies, innovation starts at the top, with visionary leaders who direct innovation and establish a culture in which it can flourish. These leaders promote high levels of initiative while at the same time promoting the cross-functional teamwork that ensures best practices are used appropriately across the organization.

Companies that lead in innovation also take a proactive approach to it, continually looking to reinvent themselves and thus often addressing potential problems before they occur. And rather than exploring completely new areas, they often innovate in areas where they are already strong.

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**Innovation: 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.

% agree

- Most Admired
- Peer group
**Balance of global and local**

Skill in leveraging global scale and local presence sets the Most Admired Companies apart from their peers. They are better at integrating their operations globally to exploit opportunities of scale while simultaneously being successful in providing local business units with the flexibility to respond to local market needs. They also use knowledge management and ‘organizational learning’ effectively, developing new approaches centrally and then disseminating them worldwide. And on the flipside they are able to capture local innovations and best practices and feed these back into the global organization.

Good international coordination is also a mark of the Most Admired Companies. Even if they have far-flung, disparate business units that may be geographic, functional or project-based, these are united around a common strategic vision and a common corporate culture. And they operate to consistent, self-imposed internal standards to ensure that they are more aligned globally.

The performance management systems of the Most Admired Companies are also geared up for global operation, in particular to ensure that local managers are prepared to sacrifice local priorities to benefit the global enterprise.

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**For global leaders, vision and culture are key to integration of operations**

- **We have succeeded in aligning our various business units/subsidiaries around a common strategic vision.**
- **We have succeeded in aligning our various business units/subsidiaries around a common corporate culture.**
- **We are effective in communicating changes in strategic direction and corporate policies/procedures to business unit/subsidiary managers.**

![Graph showing percentage agreement for global leaders' vision and culture](image-url)
Ten years at the top

Compensation strategies are more likely to be centralized, enabling a global approach to talent management and matching people to the best opportunities.

**Long-term focus**

The Fortune/Hay Group survey concurs with other studies which show that successful companies share a greater emphasis on the future than their peers. Their performance measures are structured to focus on the long term and they are less tolerant of executives who compromise long-term objectives for the sake of short-term demands.

They also take a long-term approach to talent management, identifying high-profile employees and developing them through a series of different career assignments over time.

On the whole, the Most Admired Companies will continue to hold to their long-term objectives even in the face of an economic downturn, when there is strong pressure to respond to the crises of the moment.

How to stay one of the Most Admired

So over the ten years that the Fortune/Hay Group survey has been running, seven skills have emerged that clearly mark out the Most Admired Companies from their peers: excellence in talent management, strong organizational culture, profound employee engagement, delivering of strategy, managing innovation, balancing global and local and focusing on the long term.

But how do the Most Admired Companies stay that way? What distinguishes the likes of GE and Toyota from the many companies that have made only fleeting appearances on the list in the last ten years?

An important insight is that they do not follow any particular blueprint. There is no single, optimum way of doing talent management or reward, for example: companies devise the approaches that work for them. The success of these organizations cannot be bought ‘off the shelf’.

What they do have in common is alignment. Whether it’s corporate culture, the attitude of managers, consistent strategy or global coordination, the top performers are aligned around a common goal, vision and, often, a strong brand.

And while the consistent performers may not have top-down structures,
they are extremely well disciplined, ensuring that everyone is working in concert over time and keeping focused even during economic uncertainty. Such discipline is not, however, achieved by authoritarian approaches. The consistently Most Admired have practices that are extremely supportive towards staff. Organizational structure should be designed with the organizational strategy in mind; however it is not structure, but behavior that makes a difference.

Above all, staying at the top of the Most Admired list is about constantly building, refining and developing the operating themes through which the company has won its success. It’s not that the Most Admired Companies have stumbled upon some magic bullet; rather, they are better able to do the right things more frequently and better. The end result is a competitive advantage which is almost impossible to replicate because it is built into the very fabric of the organization.

There is no better illustration of this than the simple fact that Toyota is prepared to take its competitors on plant tours, confident in the knowledge that no one is going to be able to reproduce excellence that has been painstakingly built over many years.

While it may be easy for companies to achieve a brief fifteen minutes of fame in the Most Admired list because of, for example, the buzz around a specific industry, staying at the top is about the hard work of constant improvement.

Fortune joined forces with Hay Group ten years ago to conduct research into the World’s Most Admired Companies. A glance at the data from 2002 – 2007 highlights the fact that those that get it right tend to enjoy success over the long-term.

Those companies that ranked in the top 10 of the World’s Most Admired delivered shareholder returns of nearly three times the Standard and Poor’s average. The positive effect can be a lasting one.
“The Most Admired Companies are more successful at maintaining high levels of loyalty and motivation in hard times.”
Hay Group is a global management consulting firm that works with leaders to transform strategy into reality. We develop talent, organize people to be more effective and motivate them to perform at their best. Our focus is on making change happen and helping people and organizations realize their potential.

We have over 2500 employees working in 87 offices in 47 countries. For more information please contact your local office through www.haygroup.com.