Built for brilliance

For WMACs, the key to long-term success is nurturing core values while simultaneously adapting products, services, and culture to stay relevant to their customers.
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Methodology and results
What is it?

- Annual rankings of reputation conducted by FORTUNE magazine and Hay Group
- Candidate companies:

  **FORTUNE 1,000 Companies**
  - Companies rated both overall and relative to their industry peers by executives, directors and analysts

  **Non-US Global 500 Companies**
  - companies with revenues of $10 billion or more

Approximately 700 companies from 30 countries were surveyed

Industry rankings generated for 57 industries
### Determination of industry rankings

Raters are asked to assess each eligible company in their industry on each of nine attributes:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Ability to attract and retain talented people</td>
</tr>
<tr>
<td>02</td>
<td>Quality of management</td>
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<td>03</td>
<td>Quality of products or services</td>
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<td>04</td>
<td>Innovativeness</td>
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<td>05</td>
<td>Long-term investment value</td>
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<td>06</td>
<td>Financial soundness</td>
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<td>Wise use of corporate assets</td>
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<td>08</td>
<td>Social responsibility</td>
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<td>09</td>
<td>Effectiveness in conducting business globally</td>
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Determination of overall ‘All Stars’

Raters are also asked to identify the ten companies they admire most (regardless of industry) from a list of the highest scoring companies from the previous year.
## ‘All Stars’ for 2013

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>2012 Rank</th>
</tr>
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<tbody>
<tr>
<td>01</td>
<td>Apple</td>
<td>1</td>
</tr>
<tr>
<td>02</td>
<td>Google</td>
<td>2</td>
</tr>
<tr>
<td>03</td>
<td>Amazon.com</td>
<td>3</td>
</tr>
<tr>
<td>04</td>
<td>Coca-Cola</td>
<td>4</td>
</tr>
<tr>
<td>05</td>
<td>Starbucks</td>
<td>8</td>
</tr>
<tr>
<td>06</td>
<td>IBM</td>
<td>5</td>
</tr>
<tr>
<td>07</td>
<td>Southwest Airlines</td>
<td>10</td>
</tr>
<tr>
<td>08</td>
<td>Berkshire Hathaway</td>
<td>7</td>
</tr>
<tr>
<td>09</td>
<td>Walt Disney</td>
<td>13</td>
</tr>
<tr>
<td>10</td>
<td>FedEx</td>
<td>6</td>
</tr>
<tr>
<td>11</td>
<td>General Electric</td>
<td>15</td>
</tr>
<tr>
<td>12</td>
<td>McDonald’s</td>
<td>11</td>
</tr>
<tr>
<td>13</td>
<td>American Express</td>
<td>16</td>
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<tr>
<td>14</td>
<td>BMW</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Procter &amp; Gamble</td>
<td>9</td>
</tr>
<tr>
<td>16</td>
<td>Nordstrom</td>
<td>21</td>
</tr>
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<td>17</td>
<td>Microsoft</td>
<td>17</td>
</tr>
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<td>18</td>
<td>Nike</td>
<td>26</td>
</tr>
<tr>
<td>19</td>
<td>Whole Foods Market</td>
<td>28</td>
</tr>
<tr>
<td>20</td>
<td>Caterpillar</td>
<td>19</td>
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INCLUDES RANKING FROM 2012
<table>
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<tr>
<th>WMAC leaders: Top 20 across HR focus areas</th>
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</table>

INCLUDES RANKING FROM 2012

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>01</td>
<td>Apple (1)</td>
</tr>
<tr>
<td>02</td>
<td>Qualcomm (9)</td>
</tr>
<tr>
<td>03</td>
<td>Exxon Mobil (35)</td>
</tr>
<tr>
<td>04</td>
<td>Royal Dutch Shell (not ranked)</td>
</tr>
<tr>
<td>05</td>
<td>Amazon.com (11)</td>
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<tr>
<td>06</td>
<td>Google (8)</td>
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<tr>
<td>07</td>
<td>Whole Foods Market (17)</td>
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<td>08</td>
<td>Nordstrom (19)</td>
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<tr>
<td>09</td>
<td>Marriott International (not ranked)</td>
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<tr>
<td>10</td>
<td>Starbucks (18)</td>
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<td>11</td>
<td>Walt Disney (3)</td>
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<td>12</td>
<td>Nestlé (14)</td>
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<td>13</td>
<td>Nike (23)</td>
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<td>14</td>
<td>Caterpillar (16)</td>
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<td>15</td>
<td>J.P. Morgan Chase (46)</td>
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<td>16</td>
<td>Deere (26)</td>
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<tr>
<td>17</td>
<td>VF (37)</td>
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<tr>
<td>18</td>
<td>American Express (36)</td>
</tr>
<tr>
<td>19</td>
<td>Boeing (not ranked)</td>
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<tr>
<td>20</td>
<td>Colgate-Palmolive (44)</td>
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The value of reputation

WMACs outperform industry peers and the market as a whole*

<table>
<thead>
<tr>
<th></th>
<th>Total shareholder returns</th>
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<tbody>
<tr>
<td></td>
<td>WMAC</td>
</tr>
<tr>
<td>One year</td>
<td>19.5%</td>
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<tr>
<td>Three years</td>
<td>14.4%</td>
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<tr>
<td>Five years</td>
<td>6.7%</td>
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<tr>
<td>Ten years</td>
<td>12.0%</td>
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* Note: Average total shareholder returns for the WMAC global top 50 All Stars versus the S&P 500
Key differentiators of World’s Most Admired Companies

Focus of past research

- Board governance and human capital management
- Culture
- Leadership

- Strategy implementation
  - Organizational design and operating model effectiveness
    - Execution

- Ability to attract and retain talent
- Employee engagement and enablement
- Performance management
- Reward program effectiveness

What distinguishes the ‘best’ from the rest?

- Effectiveness in conducting business globally
  - Managing through economic uncertainty
    - Innovation
Culture and the World’s Most Admired Companies
The World's Most Admired Companies: Built for Brilliance

– Geoff Colvin, Fortune Senior Editor, March 18, 2013

“Success in today's economy seems volatile, momentary, evanescent. It's tempting to conclude that nothing lasts very long anymore. Yet that clearly isn't right; two of this year's top 10, Coca-Cola and IBM, are over 100 years old. The more accurate conclusion is that nothing today lasts very long without constant attention…

Everything in your company today will become obsolete with shocking speed if not obsessively managed. So a critical question for business leaders now is how to manage in that environment – specifically, what must be managed for change, and what must be managed for continuity, if we're to be admired in 30 years?

The answer seems clear. **Products, services, and strategies must be managed for change**, faster all the time. Their life expectancies are shrinking. **Brand and culture must be managed for continuity**. Look at the three old-timers on today's list: Coke, IBM, and Disney. They possess arguably the strongest brands on earth, and all have titanium-strength cultures.”
Findings from the research

Key points

- Culture is seen as a competitive advantage
- CEOs and leadership play an active role in nurturing culture to preserve the value of culture as a competitive advantage over time
- The WMACs have learned to balance the tension between ‘continuity’ and ‘adaptability’ in their corporate cultures
  - The World’s Most Admired Companies have figured out how to nurture core values and culture for the long-term…
    - While continuing to evolve their cultures to stay relevant to their markets, customers, and employees
"I don’t know how it started, either. All I know is that it’s part of our corporate culture."
Culture: Three interdependent webs of meaning

Three elements of culture

- **Fields of anthropology and philosophy**
  - The collective and symbolic fabric of meaning through which people interpret their experience and guide their action

- **Field of sociology**
  - The form that action typically takes
  - The pattern of social and power interaction

- **Field of psychology**
  - The core goal-state, wants and needs people usually strive to reach and satisfy

Organization purpose and meaning

Point of shared meaning

People relationships and networks

Individuals’ motives and values
Culture as competitive advantage
Most Admired Companies agree that corporate culture is a source of competitive advantage

- However, more than half the companies surveyed also believe they need to change their cultures to respond to changing market conditions

Our corporate culture gives us a significant advantage relative to our competitors

Changing market conditions are forcing us to change our corporate culture
“IBM has never defined itself by what it sold. We’ve defined ourselves as a consequence of our character and our culture. We believe it’s important to understand with clarity what it is about our company that won’t change – that’s our character.”

– Senior executive, IBM

What IBMers value:

- Dedication to every client’s success
- Innovation that matters – for our company and for the world
- Trust and personal responsibility in all relationships

IBM is #6 on the World’s Most Admired Companies ranking
The role of CEOs in shaping culture
“Muhtar Kent [CEO of Coca-Cola] is very direct, very pragmatic, and reinforces the same message to all of us about our behaviors: be constructively discontent, faster, stronger, more entrepreneurial, and innovative. It’s because our customers and consumers ask for it – it’s a business imperative. He’s been very overt about what we need to change, and do it in a way that preserves our values.”

– Senior executive, The Coca-Cola Company

Coca-Cola’s values:

- **Leadership**: The courage to shape a better future
- **Collaboration**: Leverage collective genius
- **Integrity**: Be real
- **Accountability**: If it is to be, it's up to me
- **Passion**: Committed in heart and mind
- **Diversity**: As inclusive as our brands
- **Quality**: What we do, we do well

Coca-Cola is #4 on the World’s Most Admired Companies ranking
Do CEOs pay attention to culture?

Most Admired Companies report that their CEOs purposefully serve as role models to shape culture

- In addition, the Most Admired say that corrective action would be taken for leaders who fail to uphold corporate values

Our CEO purposefully acts as a role model to shape the desired culture of this organization

If a senior leader failed to adhere to corporate values, corrective action would be quickly taken

% Strongly agree/agree
CEOs help to shape culture

“Role modeling of senior leadership is incredibly important. Ginni Rometty [CEO of IBM] has helped us see the connection between culture and business results. She is asserting that we will achieve better business results through a more engaged employee base. That has reaffirmed culture as a differentiating factor for the company and how it can drive revenue growth and expand business on a daily basis. Ginni reenergized the topic of culture and character, put her own imprint on it, and has kept it on the agenda for everyone here.”

− Senior executive, IBM
CEOs help to shape culture

“Carlos Rodriguez [CEO of ADP] is an active driver of culture. He says talent is one of the top three priorities for him. He leads from the front. He challenges himself and his direct reports in terms of both substantive results and behaviors. It’s critical that the organization sees that we line up our financial capital with the human capital. A belief system must be role-modeled and coached from the CEO.”

− Senior executive, ADP

ADP’s values:

- Integrity is everything
- Insightful Expertise
- Service Excellence
- Inspiring Innovation
- Each person counts
- Results-driven
- Social responsibility

ADP is #1 Most Admired in Financial Data Services
Shaping culture in global companies
Coca-Cola has more than 140,000 employees in over 200 countries

— Senior executive, The Coca-Cola Company
How do Most Admired Companies ‘nurture’ their cultures?

**Performance management and formal onboarding processes are most frequently used to reinforce culture in the Most Admired Companies**

- However, from an employee ‘lifecycle management’ approach, it appears that many may be missing an opportunity to influence culture ‘early’ in the cycle through recruiting and selection

Our recruiting and selection process formally tests new hires for 'fit' with our corporate culture.

- New employees are formally educated on our corporate culture in induction/onboarding processes.

- Culture and values are formally incorporated into our employee performance management process.

% Strongly agree/agree
Testing for culture fit

ADP is a company that has been growing through acquisitions, needing to integrate culture

- “We are creating greater rigor to have more alignment in our culture. It used to be up to a local unit to figure out integration. Now, we do culture fit assessments and integration right away and will move talent to other parts of ADP to increase success.

- We can test for culture – for example, we look at sales compensation plans and ask, “Do they care about the team?” ADP is a team-oriented culture. We can tell just by looking at their compensation programs if they would be difficult to integrate, and, if so, the deal would be quickly taken off the table.

- We look at delivering for client needs, financial results, and do they fit the values of ADP – how they treat their employees.”
  - Senior executive, ADP
How are HR practices used to shape culture?

Most Admired Companies report they are less frequently using culture and values in reward and recognition decisions, compared to performance management and promotion decisions.

- Culture and values are formally incorporated into our employee performance management process
- Culture and values are explicitly evaluated in reward and recognition decisions
- Corporate culture and values are formally used in making promotion decisions

% Strongly agree/agree
The role of the front line manager

IBM is a company where more than 50 per cent of the employees have been with the company for less than 5 years

- “We emphasize the role of the front line manager. For the employee, that first line manager represents IBM. So we need to equip the first line manager to set the right example, know the company history, know the culture, and have the teachable moments with employees. This is important, particularly when most IBM employees don’t work in an IBM office. Globally, more than 40% of IBM employees work from a client site or at home on any given day.”

  – Senior executive, IBM
Extending culture to external stakeholders
Is corporate culture reinforced with external stakeholders?

Although we see companies communicating their culture and values as part of their brand, the use of culture and values as a screening device for suppliers is still an emerging practice.

- Our corporate culture and values are actively communicated externally to the market as part of our brand.
- Our corporate culture and values are used to select and manage our suppliers.
- Our corporate culture is actively communicated and reinforced with our customers.
Coca-Cola uses Supplier Guiding Principles (SGP) to communicate its values and expectations of suppliers

- “We have very strong guiding principles for all our suppliers around the world. We have high standards that we audit: human rights, work place rights, ethics, compliance, how you do business. It’s our accountability and reflects upon our brand and we want to work with our suppliers and partners in that shared vision of success.”
  - Senior executive, The Coca-Cola Company
Culture comparisons: Most Admired vs. peers
IBM

“Historically, we have learned to focus on the core things that should not change. Part of our business model is being willing to change everything. We have come to see change as a norm.”

– Senior executive, IBM
Organizational culture assessment

Follow up research

- Hay Group invited companies to complete its Organizational Culture Assessment (OCA) instrument
  - The OCA consists of 40 questions that identify 20 attributes of culture
  - Respondents complete the questionnaire twice: once to identify the ‘current’ culture and a second time to identify the ‘future’ desired culture
- Data were then analyzed to compare and contrast results from the Most Admired Companies and peer companies
The top-ranked attributes of the current cultures for both Most Admired Companies and peer companies are very similar.
Differences appear between the top-ranked culture attributes for the Most Admired Companies compared to peer companies

- Most Admired Companies place a larger emphasis on core values and customer needs.
How do the Most Admired Companies evolve their cultures?

**Coca-Cola**

- “The consistency of our culture comes from core values: how we treat each other, how we lead in the market, how we work with our consumers, our customers, and our local communities. Those are things we hold true to. It’s like our DNA. We say when we see a Coke person, ‘They bleed ‘red’.’

- On the flip side, we need to be constructively discontent. We learned we need to change to stay relevant to our consumers. Our customers are always looking for innovation, for us to add value to the partnership. We need to continually meet the demands of our customers.

- That is the art and science: how to protect our core values and at the same time let go of what we need to, to be faster, nimbler.”
  
  - Senior executive, The Coca-Cola Company
Culture change comparison

Differences in emphasis between Most Admired Companies and peer companies on cultural attributes for the future

Differences in focus: WMACs vs. peer companies

- Values
- Inclusive decision making
- Customer focus
- Breadth
- Individual autonomy
- Long-term horizon
- Fair treatment
- Risk tolerance
- Innovation

Greater focus for Most Admired Companies

Greater focus for peer companies

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“We need to shift our culture to enable future performance. But the soul of the company is what you take with you, even as you pivot your business. We are shifting our model from being a ‘leader in payroll’ to being a ‘leader in human capital management.’ This implies a different culture is needed, different skill sets. But we need to shift without disrupting our rich history.”

− Senior executive, ADP
Findings from the research

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Levers for culture change

Guided by
- Inspiration, history, purpose, mental models of founders and leaders
- Dominant individuals' and leaders' motives and values
- Relationships and networks
- Dominant country environment

Driven by
- Aspiration
- Strategy and goals
- Leaders’ posture and role modeling
- Organization structure design
- Organizational capability
- Management systems
- Brand
- Symbols and artifacts

Delivered by
- Leaders’ behaviors
- Employees' engagement and behaviors

The key is to identify and focus on the relevant catalysts for change

Short and long term engagement and results
Visit our website
www.haygroup.com/fortune

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