

# How to Sustain Performance Like a World's Most Admired Company

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**T**his year's top 50 World's Most Admired Companies (WMACs) have outperformed the S&P 500 index by five times over the past 10 years in total shareholder returns. But what factors have driven their success?

Each year, Hay Group partners with "Fortune" magazine to identify the WMACs and evaluate how these companies are able to consistently outperform their peers. In the past, researchers have looked at attraction and retention of talent, leadership development, performance management, strategy implementation and innovation. Last year, the study examined how WMACs drew on the reservoir of goodwill associated with engaged workforces in order to deal with difficult times and position themselves for growth.

Looking ahead, it's clear that leaders will need to revisit strategies, systems, processes and roles to ensure their success continues. So this year, the researchers looked into the specific approaches WMACs are taking to sustain performance. What is it they do that keeps them successful year in, year out, despite changing business conditions?

Hay Group surveyed senior executives in a sample of the organizations that participated in the 2011 WMACs rankings on a wide range of business priorities and practices. Researchers then compared results for companies that ranked in the top three in their

## THE PROFILED WMACS

This article features three of the World's Most Admired Companies (WMACs). They are:

**BASF**, one of the world's leading chemical companies, employs about 110,000 with 385 production sites. It employs a Verbund (German for "linked" or "integrated") philosophy, which takes an integrated approach to manufacturing, research, infrastructure, processes, energy and waste management, and overall management philosophy.

**Goldman Sachs Group Inc.** is a leading global investment banking, securities and investment management group that employs about 30,000. Founded in 1869, it provides financial services to a diverse client base that includes corporations, financial institutions, governments and high-net-worth individuals. Based in New York, it has offices in the world's major financial centers.

**Medco** is a leading pharmacy benefits manager that employs more than 20,000, including 2,400 pharmacists and more than 500 nurses. Marketing itself as "the world's most advanced pharmacy," it operates the United States' largest mail order pharmacy, serving millions of Americans.

industries in overall corporate reputation (WMACs) with results for other participating companies (peer companies). In sum, researchers found three key areas where WMACs stood out:

- Focus on priorities for growth. WMACs are actively targeting growth sectors and emerging markets more than peers.
- Culture of innovation. For WMACs, innovation is an organizational capability, not the responsibility of particular departments.
- Employee involvement and enablement. From addressing work-life balance issues to linking rewards tightly to performance, WMACs are doing more to equip employees with the means to succeed
- Following the study, researchers interviewed three of the leading companies to learn more about why these three areas matter for WMACs and what, specifically, they think and do in relation to each one. This paper reports the thoughts of Goldman Sachs, Medco and BASF.

## ACTIVELY PRIORITIZING GROWTH

All companies would surely claim they're looking for growth. But the research shows WMACs are doing it a lot more actively. Emerging markets are "very important" or a "top priority" for 79 percent of them, compared to 59 percent of their peers.

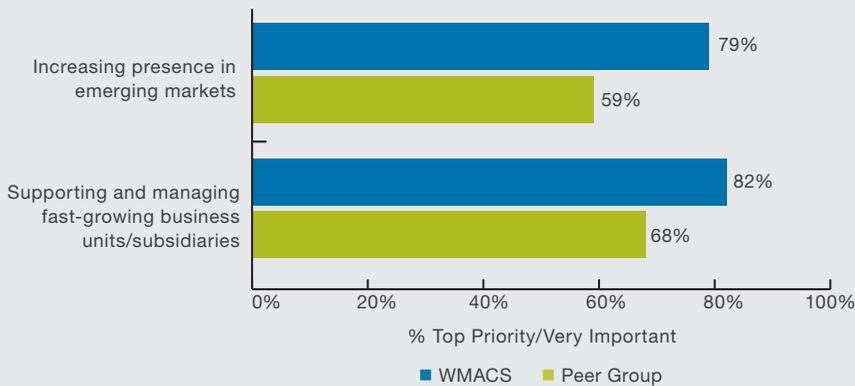
There's a notable gap too when it comes to high-growth business units. Supporting and managing these units is a high priority for 82 percent of WMACs, compared to 68 percent of their peers.

Even when conditions are tough, WMACs prioritize growth. It might seem counterintuitive when protecting core businesses is the pragmatic option. But it's helping WMACs stay ahead.

For Goldman Sachs, emerging markets represent an opportunity to replicate its successful model in growth sectors:

"The idea is to be Goldman Sachs in more places, not try to change the business model, but really to take our model to new markets. We're building a presence in

**FIGURE 1** Focus on Priorities for Growth — How Much of a Priority Are These Issues?



the BRIC (Brazil, Russia, India and China) countries as well as other growth markets.”

Medco takes a talent-first approach to growth markets:

“Our first focus with high-growth business units, whether international or domestic, is on seeding the right talent. We have very robust talent management processes so our growth businesses have the right leaders, skills, capability and resources. And we align reward and recognition with the achievement of these businesses’ very specific performance targets.”

BASF recognizes that emerging markets need special attention when it comes to HR policies, noting that while the company has a near-zero attrition rate in Europe, turnover becomes a factor in Asia. For this multinational, transferring people hired in Asia to other parts of the world for a period is one way the company addresses this and it has the additional benefit of creating a truly transnational workforce.

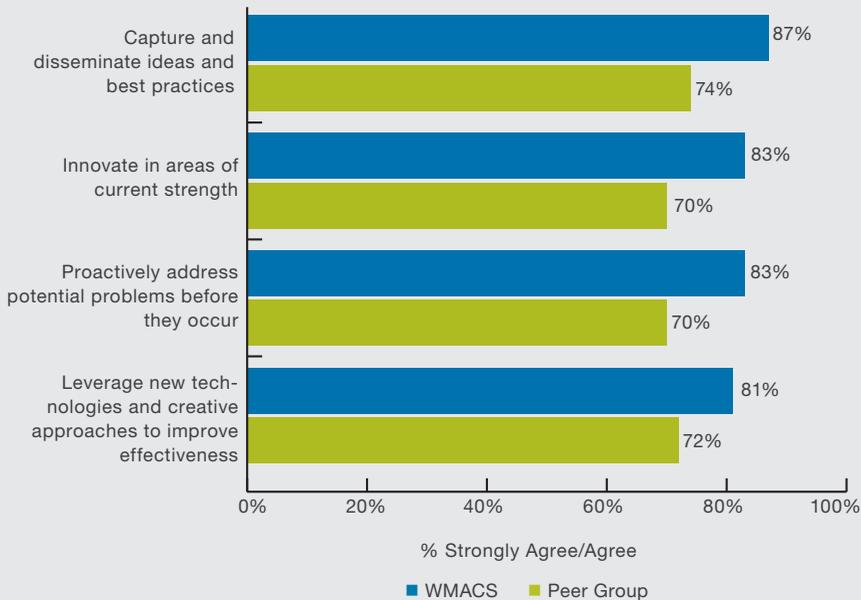
## PROMOTING INNOVATION

As with growth, most organizations will say innovation is critical to their success. What’s different with WMACs is that innovation is not a separate function, but part of the way they operate. Naturally, they give it high priority: 88 percent of WMACs see innovation and product development as very important compared to 79 percent of peers. What’s interesting is how they innovate:

- Eight-seven percent (74 percent of peers) capture and disseminate innovative ideas and best practices.
- Eighty-three percent (70 percent of peers) innovate in areas of current strength — working to fix things that aren’t broken.
- Eight-three percent (70 percent of peers) proactively address potential problems before they occur.
- Eighty-one percent (72 percent of peers) leverage new technologies and creative approaches to improve effectiveness.

So WMACs not only innovate as they operate, they involve everyone in the

**FIGURE 2** Culture of Innovation — How the World's Most Admired Companies Innovate



process. If employees are 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. It's this readiness to improve and change that makes WMACS so adaptable to fluctuating conditions.

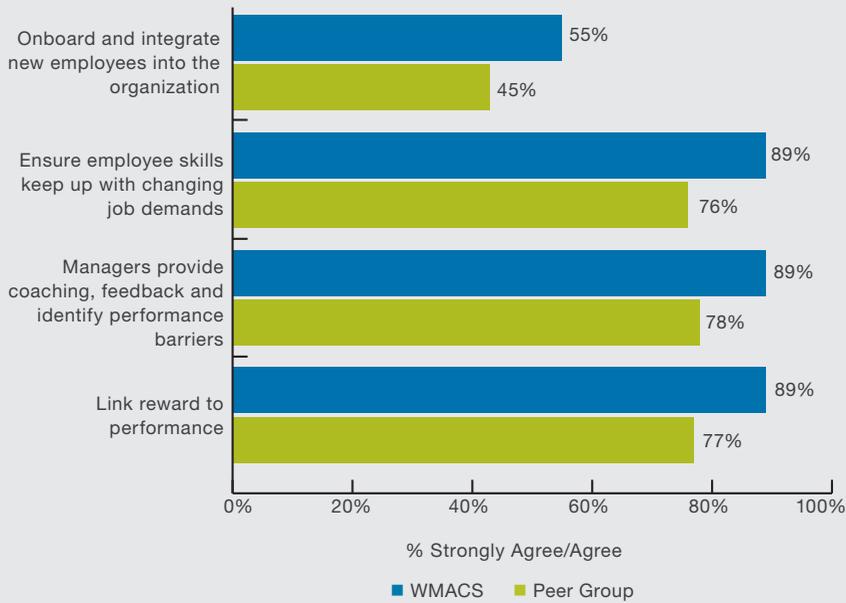
It's instructive to hear directly from WMACs about innovation. What they all do, in their own different ways, is “bake in” innovation to the way the company works. So it's not an activity, it's a way of working.

Medco recognizes that collaboration is the key and that technology now has a powerful enabling role to play:

“We start with the notion that people working together drive innovation. So we spend a lot of time on providing a collaborative environment — both the tools and the physical or virtual workspace. In 2003, we had three collaboration tools — email, audio conferencing and videoconferencing. Now, we have over 20 tools to bring people together: from client solution centers to ‘imagineering’ labs and crowd-sourcing, where we have 1,000 people helping with screen designs for customer service reps. We're even exploring an Avatar-style 3D virtual work environment.”

For BASF, the challenge is subtly different. When a company has led by innovation, how does it get everyone to understand that innovation is not just “something for the R&D guys”? One way BASF addresses this is by a Simply Dare initiative where employees are asked to identify areas for improvement and are encouraged to be a part of the solution. Using a broad network of champions and “daredevils” to collect ideas and push them through to execution has so far been a very successful and engaging activity.

**FIGURE 3** Enabling Employees to Succeed — How World’s Most Admired Companies Invest In Performance



Goldman Sachs encourages a “culture of ideas,” a goal that’s helped by the investment bank’s flat structure:

“We have 30,000 people, but only four layers. Everyone is expected to contribute ideas. In an early meeting, I remember a temp who had an idea and spoke up. The most senior people in the room stopped talking, listened to what she had to say, and said, ‘Great idea.’ Our central strategy group is very small and a lot of the ideas are generated from within the divisions. So Goldman Sachs has a culture of ideas that drives innovation.”

## ENABLING EMPLOYEES

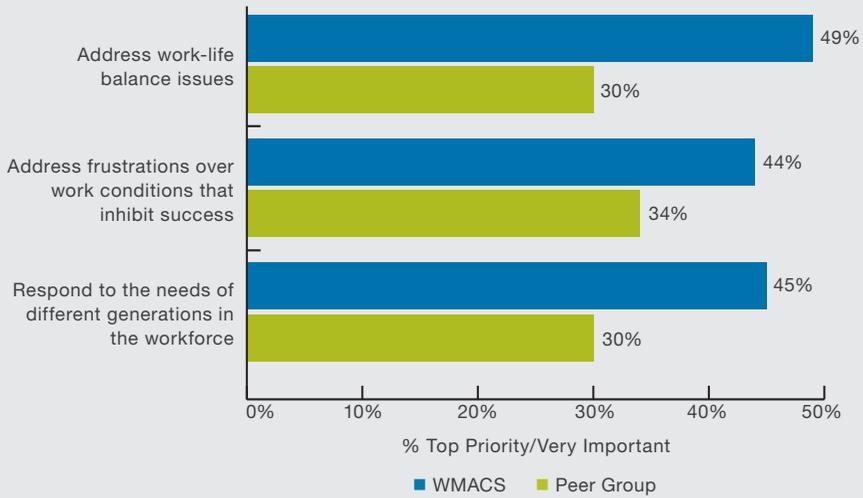
Employee engagement is critical, but the research shows it’s not enough to sustain high performance over time. People must also have systems and work environments that help them to be effective on both a personal and organizational level. Motivated employees must also be able to channel their enthusiasm into productive action.

## IMPROVING EFFICIENCY AND EFFECTIVENESS

When employees are being asked to work hard, they want to feel that they are working “smart” as well.

Both WMACs and peers look to improvements in their internal operations to sustain performance. Simplifying work processes to manage workloads and increase efficiency (63 percent of WMACs vs. 69 percent of their peers), along with restructuring or reengineering the organization to enable strategic delivery more effectively or at lower cost (55 percent of WMACs vs. 57

**FIGURE 4** Enabling Employees to Succeed — How the WMACs Reduce Barriers to Productivity



percent of their peers), is seen as a “top priority” or “very important” over the next two years.

What sets WMACs apart is the degree to which they involve their employees in this process. Ninety-one percent of them regularly reach out to employees for ideas on how to increase efficiency. Only 76 percent of their peers do likewise. And the biggest gap between WMACs and peers in the entire survey was regarding the issue of “encouraging managers and employees to take reasonable risks to improve effectiveness.” Ninety-four percent of WMACs were prepared to do this, compared to 77 percent of peers.

Just as they do with innovation, WMACs leverage their employees by helping everyone to be part of the solution. As a result, they strike a balance between growth and running efficient operations.

At Goldman Sachs, this involvement feeds back into employee engagement: “We also believe very strongly that everybody should feel they have a voice, they are going to be listened to, and if they have a good idea, it’s going to get picked up. So we often put together multidisciplinary, multiregional task forces that tackle a particular issue. It’s very important for us because if our employees don’t feel engaged, if they don’t want to come into work every day, we really haven’t got anything — our people are our main asset.”

### **WORK-LIFE BALANCE**

Possibly reflecting the high workloads in performance cultures, work-life balance concerns are more of a “top priority” or “very important” human capital issue within WMACs than in peer companies (49 percent of WMACs vs. 30 percent of their peers). Long-term solutions to work-life balance concerns need to focus on helping employees work more productively, decreasing the

likelihood that work tasks will crowd out personal time. Perhaps recognizing this fact, 44 percent of WMACs indicated it's a priority to address work conditions that inhibit success, while 34 percent of peer firms share this view.

BASF sees work-life balance climbing the agenda, even to the extent of being mentioned by potential recruits, something that would have been very rare just a few years ago. For its part, BASF takes an approach that sees what fits to regional cultures. For example, its award-winning program in the United States allows job sharing as well as flexible working times and locations to a very large degree.

And Medco's internal research shows that people working from home "have significantly higher productivity and engagement scores than people working in the office." So the company works hard to allow flexible schedules and support virtual meetings. Also, as the organization becomes more structured by business process rather than having leadership hierarchies related to particular sites, it becomes easier for employees to progress in the company without the family disruption of relocating.

## **ONBOARDING NEW STAFF, RESPONDING TO GENERATIONAL NEEDS AND KEEPING SKILLS CURRENT**

At a time when companies are running leaner and needing to get the most from all of their people, it becomes critical for all businesses to get new employees up to speed quickly, especially those focused on growth and expansion. WMACs place greater importance than their peers on integrating new employees into the organization (55 percent of WMACs vs. 43 percent of their peers).

Medco's approach gives some insight into the lengths WMACs go to ensure employees are up to speed:

"Our onboarding process starts well before someone joins us for his/her first day. We have a pre-hire experience, then an 'enculturation' period, then a skills training piece. Overall, for the first 90 days we really try to orient people to who we are and what we stand for. At pre-hire, we do job previews where candidates talk to colleagues about what it's like to do their jobs. When people arrive, we introduce them to engagement elements like our employee survey and our community work — and of course to all relevant colleagues. Then we move into skills training, which for customer service reps is five weeks in the classroom then a two-week post-classroom 'nesting' period where we give them a lot of encouragement and support."

WMACs also see responding to the different needs of different generations in the workforce as more of a "top priority" or "very important" when compared to their peers. Hay Group research shows that respect and recognition are particularly important parts of the employer value proposition for younger employees (Millennials, Generation X), whereas more senior employees (Baby Boomers) tend to be more focused on stability and how pay and performance management systems align rewards and contributions.

Finally, keeping employee skills current is a key concern. Most organizations today are in a constant state of change. Over time, even modest changes can leave an employee's skills and abilities out of sync with work requirements. WMACs are more likely to report that their organizations do a good job of ensuring that employee skills keep pace with changing job demands (89 percent of WMACs vs. 76 percent of their peers).

## **STRATEGIC PERFORMANCE MANAGEMENT**

WMACs do more to actively manage and reward performance in a way that promotes effective execution. Eighty-nine percent of WMACs both actively provide coaching and link reward to performance, compared with 78 percent and 77 percent of peer firms, respectively.

In BASF's case, the company very consistently links its bonus awards to performance, doing so to ensure that the highest performers are truly rewarded. The annual bonus is linked to two factors: the group's overall return on assets and the employee's performance rating based on individual target agreements.

## **CONCLUSION**

WMACs are extremely good at sustaining performance over time. Hay Group's most recent study shows that they do this by paying attention to three specific areas: growth, innovation and enabling employees. Their approach in each case is characterized by an obsessive attention to detail and a relentless focus on the link between employees and performance.

When peers might be thinking of shoring up or reinforcing their positions, WMACs are going for growth, both in new markets and with new ventures. And while for many companies innovation is something that sits in a silo as a separate, discrete activity, for WMACs it has become part of their organizational DNA. In WMACs, everyone is potentially an innovator, from line worker to CEO.

And this inclusive approach extends to where WMACs show perhaps the most difference from peers: enabling their people. It's not just about giving them a voice, which these companies actively do. WMACs also help people get up to speed quickly, are responsive to work-life balance issues and to the needs of different workforce generations, and actively manage and reward performance.

This year's findings suggest that the secret of sustained success is to keep growing and innovating, and to make sure employees have everything they need in order to perform, regardless of the economic conditions. ■

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## AUTHORS

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