

A Regular Series on Workforce Issues

Lessons Learned From The “Most Admired Companies”

Structure, Process, and People: the Keys to Execution



consultants, and academics can readily point to the right things to do. What separates great companies from others is the ability to make the ideal *real*. A.G. Lafley, CEO of Procter and Gamble, tops on the list of the World's Most Admired household and personal products companies, agrees. “It’s not a secret what needs to be done,” Lafley argues. “The challenge is to put the strategy, systems, and capabilities in place and then drive deployment and execution.” Our research was designed to determine the factors that allow the Most Admired Companies to succeed where many others fail.

As part of our research effort, we surveyed senior operating and human resources executives in more than 150 companies worldwide. Roughly half of those who responded were from the top three-to-five Most Admired Companies in their industries, with the other half representing lower-ranked companies. Our findings, together with Hay Group’s experience consulting with clients over the last 60 years, suggest a number of principles of job design, organization design, and management processes that together provide a solid foundation for high performance.

The Most Admired Companies lay the groundwork for execution excellence by achieving high levels of clarity in roles and responsibilities and linking accountabilities at all levels to

Hay Group partners with Fortune magazine annually to identify and rank the World’s and America’s Most Admired Companies and uncover the business practices that make these companies both highly regarded and successful. Our past research studies have focused on a wide range of topics, including attraction and retention of talent, leadership development, performance measurement, corporate culture, strategy implementation, and responses to economic uncertainty.

Over the course of our research, we have found again and again that the Most Admired Companies are better able to carry out strategies, deliver on goals and plans, and generally get things done. So this year we set out to identify the factors that contribute to the ability of the Most Admired Companies to execute.

Knowledge of best practices is not what determines competitive success for companies, but rather the ability to successfully *implement* and *sustain* these practices. Most executives,

The Top 10 2004 Global “Most Admired Companies”

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

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- A.G. Lafley, CEO of Procter and Gamble

corporate strategies and business priorities. Despite increasingly complex organizational structures, they succeed in clarifying decision-making processes to effectively manage interdependencies across units and functions.

But putting the right systems in place alone is not enough. Most Admired Companies also ensure that they have the capability to execute by investing in the identification and development of talent and providing managers and employees alike with the authority and freedom they need to put their capabilities to work. Finally, to sustain excellence, the Most Admired Companies continuously manage performance to ensure that people follow through on commitments and objectives.

When all of the pieces come together, companies become more resilient and better capable of adapting their structures to changing business needs and conditions. And they build a culture of accountability where individual achievement directly supports organizational success.

Goal Alignment

An organization's structure should be driven by its business strategy. In developing strategies, companies need to determine the markets in which they will compete, the products and services in which they will invest, and how they will maintain an advantage over competitors. As a first step toward sustainable implementation, organizations need to identify the functions required to implement their strategies and the capabilities they currently have that are a source of differentiation. Then,

once the high-level organizational structure is determined, all requirements must be translated into specific job accountabilities, with each one clearly connected to the bigger picture.

The Most Admired Companies appear to be enjoying greater success in both of these areas. They report that they are more confident that all of the functions critical to their success are in place. And they also indicate that they have been better able to translate strategic goals into clear action plans with clear accountabilities. In the Most Admired Companies, executives, mid-level managers, and employees alike understand corporate objectives and, equally important, how they are expected to contribute to the achievement of these objectives in their individual job roles.

Clear Interdependencies

Effective organization design entails translating strategy into job-specific accountabilities. But companies must also ensure that jobs and processes are designed to support key interrelationships of accountabilities when they require collaboration and coordination across functions and business units. The task of managing interdependencies is ever more challenging for companies given the complex, heavily matrixed, and

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- Fred Smith, Chairman and CEO of FedEx

team-based structures prevalent in today's organizations.

Overlapping accountabilities often result in frustration, turf battles, and confusion over responsibilities. But gaps in accountabilities can be equally problematic. Notably, the Most Admired Companies are far more likely than their peers to report that jobs have been designed to ensure that there are no breaks in accountabilities across roles and functions.

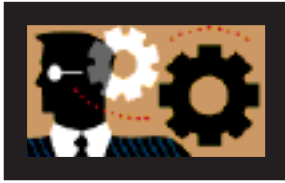


While clarifying responsibilities is critical to managing interdependencies, so too is fostering a culture of teamwork, collaboration, and trust. The Most Admired Companies are markedly more positive than their peers regarding the extent to which leaders work collaboratively across organizational lines to solve business problems. “This company is run by a team,” says Fred Smith, Chairman and CEO of FedEx, which is among the top ten World's Most Admired Companies. “It has to be run by a team. If you have people that won't get with the program, you cannot keep them around.”

Clear Decision-Making Processes

Through flatter structures, broader roles, and the use of teams, many organizations have created significant “white space” between business units and functions. As organizations have

become more complex, decision-making has become more complex – and often more problematic. Whereas once people were likely to have had either sole ownership for a decision or responsibility for contributing to it, in today's organizations there are more situations where both decisions and accountabilities are shared. In these cases, the role a job plays in the decision-making process must be explicit, or else the lack of clarity may result in conflict, gridlock, or lost opportunities.



The Most Admired Companies indicate that decision-making accountabilities and processes are better defined than their peers, making it clearer who should have input into decisions and who is primarily accountable for making them. And they are also more positive than their peers regarding the extent to which decision-making processes and reporting relationships promote timely decision making.

Along with defining accountabilities clearly, effective decision making also requires that organizational leaders foster open dialogue about organizational issues and business conditions. To identify the optimal solutions to problems, leaders need to encourage sharing of information, ideas, and perspectives. The Most Admired Companies are more likely than their peers to report that leaders are honest about the realities of the business with each other and in communications with employees. The Most Admired Companies are also more likely to indicate that leaders are not afraid to surround themselves with people who will challenge them on their thinking nor afraid to encourage employees to speak candidly with them. Reflecting on management

meetings at FedEx, Mike Brown, □ Co-CEO of FedEx Services, observes that “discussions do get heated from time to time.” But, he adds, “it’s just business. It’s not personal. We’re trying to make the best possible decisions for our company, our employees, and our shareholders. We’re all comfortable with each other and not afraid to challenge each other. We have a culture that rewards people for bringing things forward.” The consequence of such openness is better decision making, not fear of retaliation as might be found in □ lower-performing companies.

Authority to Act

Well-designed jobs have explicit decision-making responsibilities, along with authority commensurate with their accountabilities. Without appropriate decision-making authority, people cannot (or will not) act as required by their jobs and the organization’s business strategy. When the scope of decision making is unclear, or managers and employees receive mixed messages, they will be inclined not to take risks or even make simple decisions. Clarity of accountability for individuals and others with whom they interact is absolutely essential for organizations to get things done without friction.

“They need to own the task. None of us would be where □ we are now if we weren't helped by someone earlier in □ our careers.”

- Richard Antoine, Global Human Resources Officer of Procter and Gamble

Our findings suggest that the Most Admired Companies promote higher levels of empowerment among managers and employees than their peers. They are considerably more likely to report that decisions are made at the right level in the organization (i.e., where the most appropriate knowledge and expertise resides). And they also have a more positive view of the extent to which

managers and employees are encouraged to take reasonable risks in an attempt to increase organizational and personal effectiveness.

Developing Talent and Placing People in the Right Roles

Our research has indicated that the Most Admired Companies are more successful in implementing their strategies than peer companies. But, in truth, companies don't carry out strategies—people do. Accordingly, a key component of execution is identifying and developing talent and ensuring that the right people are in the right roles. The Most Admired Companies recognize that people are the key to driving long-term competitive advantage. While in some companies talent management is viewed primarily as an HR responsibility, the Most Admired Companies view people development as a core accountability for line managers. Procter and Gamble, for example, holds line managers responsible for conducting talent reviews and taking the lead in dealing with poor performers. “They need to own the task,” says Richard Antoine, P&G’s Global Human Resources Officer. There is an expectation at P&G, Antoine adds, that all will invest in others. “None of us would be

where we are now if we weren't helped by someone earlier in our careers.”

The Most Admired Companies are more likely than their peers to report that leaders devote a significant amount of time to hiring and developing talent and that they coach employees and provide them with performance feedback on an ongoing

basis throughout the year. Given their focus on talent management, it is not surprising that we have found that the Most Admired Companies are more satisfied than their peers with their leadership development processes and more confident regarding the quality and depth of leadership talent in their organizations.

Our findings also indicate that the Most Admired Companies do a more effective job than peer companies of placing people in the appropriate job roles. The Most Admired Companies are more positive than their peers



regarding the extent to which leaders have a good understanding of the capabilities of managers at all levels and the extent to which the organization does a good job of matching people to jobs based on required skills and the personal career objectives and motivations of employees.

Holding People Accountable

As Larry Bossidy and Ram Charan have observed, “Clear, simple goals don’t mean much if nobody takes them seriously. The failure to follow through is widespread in business, and a major cause of poor execution.” Leaders in the Most Admired Companies, more so than in peer companies, reinforce the accountabilities of managers and employees by managing performance and following through consistently to ensure that people do the things they

commit to doing. In the Most Admired Companies, executives are more likely to be held accountable for their roles in implementing strategies—and where they fall short, corrective action is more likely to be taken.

Most Admired Companies encourage managers to focus on the accountabilities most critical for business success by tying performance measures directly to business strategies and linking compensation to the achievement of performance objectives. In our past research, we have found that leaders in Most Admired Companies view their performance measures as more challenging than leaders in peer Companies. But, perhaps attesting to their confidence in their ability to execute, leaders in Most Admired Companies also tend to see their performance measures as clearer and more realistic.

Conclusion

Changing the way work gets done in organizations is one of the most difficult and potentially divisive challenges facing executives. However, getting it right enables the organization to be more successful in executing strategies, responding to competitive threats, and engaging employees through a positive work climate. The success of the Most Admired Companies in achieving high levels of clarity through the design of organizational structures, jobs, and decision making processes—and high levels of capability through diligent talent management—provides important lessons for all organizations regarding the keys to putting best practices in place and increasing overall effectiveness. ■

About Hay Insight

Hay Insight, the Hay Group’s survey research division, is a global leader in employee and customer opinion research. Through customized survey programs focused on organizational objectives, we help organizations attract and retain talent, improve operating efficiency, manage change more effectively, and enhance customer satisfaction and business performance.

Over the last 28 years, Hay Insight has assisted more than 3,000 organizations. The breadth of our experience enables us to identify best practices for our clients, not only within their own industries but also across industries.

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About Hay Group

Hay Group is a leading organizational and human resources consulting firm with 73 offices in 38 countries worldwide.

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- Executive Assessment,
- Selection, and Development
- Compensation, Benefits, and
- Performance Management
- Executive Remuneration and
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