

how the best companies for leadership reward innovation and growth

What the top 20
leadership companies do
to set themselves apart.

The pressure to innovate, whether in product, process or people, is mounting as the speed of business accelerates. And at the heart of this drive are individuals who must be stimulated, motivated, updated and properly rewarded to focus on fast change.

Appropriately rewarding growth and innovation is challenging; many companies tend toward rewards that recognize shorter-term, bottom-line financial accomplishments with cash incentives. But when the day-to-day is changing constantly, companies must find ways to incent processes that encourage longer-term growth and innovation, not just year-end final gain, from an employee population

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that is already pressed for time and stressed about balancing their careers and personal lives.

Hay Group's 2013 "Best Companies for Leadership" study queried 18,000 employees at 2,200 companies worldwide to identify the top 20 companies for leadership. As a group, these organizations stand apart in their leadership reward programs, including their performance metrics, performance management processes and focus on nonfinancial rewards.

Starting With the End in Mind

As a key reinforcement tool, rewards in the best companies for leadership are typically aligned with performance measures that are appropriately balanced among:

- Hard and soft measures (financial, customer, operational, human capital)
- Short-term and long-term objectives
- Individual, team and corporate performance.

At the top 20 best companies for leadership, according to survey

results, it is the organization's own performance model and reward strategy — as opposed to external influencers like competitive industry pressure or demographic changes — that drive the money, mix and messages companies use to incent their employees. And their reward strategy begins with clearly defined goals. In fact, 82 percent of the top 20 companies base their rewards (or reprimands) on a rigorous measurement of performance against goals, compared with 58 percent of all other companies. Additionally, 89 percent of the top 20 companies encourage their leaders to set challenging or aggressive goals, compared with 69 percent of all other organizations.

That goal-setting mindset goes a long way toward reinforcing the message that innovation and growth are important to the organization. At the best companies for leadership, the performance goal setting (or performance planning) process clarifies where the business needs to go, what executives must do to take it there,

and how the organization expects employees to behave in the pursuit of these goals.

At Procter & Gamble, which tops the 2013 best companies for leadership list, the company makes it clear that in addition to being paid well for doing the jobs they have now, it wants individuals to aspire to greater levels of responsibility. "This is about how you get work done, strategic thinking, the ability to handle more complexity, how aware you are of your impact on others and many other things that impact your effectiveness in a large multifunctional, multiregional group," said David Taylor, group president of global health and grooming. "People understand what it takes, and it's part of the way we give feedback each year."

Aligning Expectations

If growth and innovation are company goals, then rewards and company structure must reinforce that messaging. The best companies for leadership do so in a variety of ways: At 80 percent of the top 20 companies, employees in startup or innovation areas are viewed as having equal importance to those driving operational improvement, compared with 56 percent of all other companies surveyed. And 90 percent of the best companies for leadership state that senior leaders communicate that their firm's survival depends on adapting to evolving market trends.

While many companies are focused only on the top and bottom lines, the best companies for leadership emphasize customer intimacy and

Top 20 Best Companies for Leadership

Procter & Gamble	McDonald's	Siemens
General Electric	Telefonica	Oracle Corp.
Microsoft Corp.	Facebook Inc.	Citigroup Inc.
Coca-Cola Co.	Intel Corp.	Caterpillar Inc.
Unilever	Samsung Group	Toyota Motor Corp.
IBM Corp.	3M Co.	Ford Motor Co.
Wal-Mart Stores Inc.	Nestle	

Source: "Best Companies for Leadership" study, Hay Group

operational effectiveness, and they do more to cultivate an innovative culture by rewarding and stimulating collaboration across units to improve performance and develop new lines of business. Indeed, at 70 percent of the top 20 companies, employees are encouraged to learn in areas outside their expertise, compared with 48 percent of all other companies. Additionally, those employees identified as potential successors or key talent receive greater support in setting and meeting personal and career goals that align with those of the company.

“The idea that leaders are expected to build both their organization and the people within their organization is a well understood norm for us,” said Mark Biegger, chief human resources officer for Proctor & Gamble. “We’ve placed an emphasis not just on the bottom-line deliverables, but on the organization and the institutional deliverables, as well,

so we can continue to build a strong foundation going forward.”

Performance feedback is key to reinforcing innovation and growth goals. The authors’ company has found organizations that build a culture of leadership view performance coaching as an ongoing process, not just a once-a-year activity, and that they engage daily or weekly in:

- Observation and listening
- Feedback (what was done and the effect it had)
- Listening to employee responses, concerns and obstacles
- Feed-forward (suggestions for what to do differently or better)
- Follow-through (making sure feedback is being ingested, support provided and growth goals met).

Rewarding Talent With Opportunity

Pay for performance at the best companies for leadership is not just about base salary increases and

incentive pay, though the top 20 often have key talent reward programs that provide more aggressive base pay positioning for key employees, and often provide off-cycle base salary increases and restricted stock grants to make up for compensation shortfalls for this group.

Rewards also come in the form of differentiated opportunities for promotions, career development, nonfinancial recognition and meaningful work opportunities. Companies that are truly aligning their total rewards programs with the performance they hope to achieve provide differential treatment to key talent groups in areas including career development, succession planning and assignment planning. They also ensure those programs are clearly aligned with organizational objectives. At the best companies for leadership, 84 percent of the top 20 companies have created leadership development programs that better enable

employees to deliver on company goals and strategies, compared with 62 percent of all other companies.

Proctor & Gamble actively supports leaders who want to develop different skill sets by offering opportunities to do so across functions and industries: Taylor was an electrical engineer who started at the company in U.S. manufacturing. He transitioned to a plant manager role, and from there to a brand manager, brand director and then a general manager in China. Along the way, regular conversations with his management about his personal aspirations resulted in development opportunities that led to successive roles. “At each stage, there is an opportunity for the individual to self-declare, and for their boss or other sponsors or mentors to identify

opportunities that would both challenge you and serve the business,” he said.

McDonald’s Corp., which has been in the top 10 of the best companies for leadership for the past four years, attributes its recognition as a best company for leadership in part to its protocols around performance calibration and talent plans and assessments, said Rich Floersch, executive vice president and chief human resources officer at McDonald’s. The company’s Hamburger University is famous as a talent-development resource, and McDonald’s also dedicates a half-day of every senior leadership meeting — four to five annually — to talent discussions.

“We do a real deep dive on our talent across the different areas of

the world. And we start talking about development plans. We start talking about swaths of talent. We talk about two to three moves out, who are we going to make big bets on,” Floersch said.

Up-and-coming leaders are regularly invited to present to the executive team and get to know the board, access that in and of itself is often seen as a reward, and which often leads to other recognition.

“When we do our succession reviews, we don’t want to have a situation where we’re just looking at nice pictures on a page. We want to have some actual experience getting to know these individuals,” Floersch said. “And it works both ways, which I think is a great retention signal to our people that we value them.”

Best Companies for Leadership Study: Reward Research

Question	Top 20	All others
Views employees in new startup or innovation areas as having equal importance to those driving operational improvement.	80%	56%
Rewards and stimulates collaboration across business units to develop new lines of business.	76%	54%
Rewards and stimulates collaboration across business units to improve performance.	81%	59%
Encourages people to use appraisals and other feedback to improve their performance.	89%	72%
Recognizes or rewards employees for really new and different business ideas.	77%	58%
Uses rewards or reprimands that are based on a rigorous measurement of performance against goals.	82%	58%
Encourages people at my level to set challenging/aggressive goals.	89%	69%
Leadership development programs better enable employees to deliver on my company’s goals/strategies.	84%	62%
Employees are encouraged to learn in areas outside their area of expertise.	70%	48%

Source: “Best Companies for Leadership” study, Hay Group

The Best and Brightest

As a group, the 2013 top 20 best companies for leadership do more than other companies surveyed to establish strong individual goal-setting processes, reward performance based on rigorous measurement against goals, encourage and measure collaboration activities across the organization and reward talent with opportunity. When aligned with growth and innovation goals, these reward systems can encourage individual performance and position an organization to innovate, grow and move forward with intention. **WS**

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