

Research Highlights—North America

Top Companies for Leaders 2007



About the Research

Hewitt initiated the Top Companies for Leaders research in 2001 seeking to identify those factors that allow financially successful organizations to consistently produce great leaders. Our first results, published in 2002, uncovered a link between financial success and great leadership practices, and identified differentiating elements found only in top companies. Subsequent undertakings in 2003 and 2005 further expanded our examination of successful leaders and their impacts on the organization, and provided the foundation for our 2007 global study. The 2007 Top Companies for Leaders study was conducted by Hewitt Associates in partnership with FORTUNE and The RBL Group.

Top Companies for Leaders Project Team

Robert Gandossy

Principal and Global Practice Leader, Consulting
(203) 852-1100
robert.gandossy@hewitt.com

Michelle Salob

Global Project Manager, 2007 Top Companies for Leaders
(770) 956-7777
michelle.salob@hewitt.com

Shelli Greenslade

Global Research Manager, 2007 Top Companies for Leaders
(847) 295-5000
shelli.greenslade@hewitt.com

Jon Younger

Principal Consultant, The RBL Group
jyounger@rbl.net

Robin Guarnieri

Research Specialist, Consulting
(203) 852-1100
robin.guarnieri@hewitt.com

Leadership Is Critical to Businesses Today

Today, leadership differentiates successful businesses from unsuccessful ones. Only companies with a ready supply of leadership talent are able to manage the unrelenting pressures of the day: to become leaner, to be good corporate citizens, to grow profits at double-digit rates, and to do so in the midst of intensified competition, tightening demographics, and a business arena that is indeed global.

Most CEOs and Boards will tell you they do not have senior leadership talent to sustain double-digit growth in this environment; and buying that talent on the outside—except for key strategic hires—is time-consuming, increasingly cost-prohibitive, and often ineffective. Many organizations have come to realize the only way to ensure a strong pipeline of leadership talent is to find it and develop it themselves—a task that is becoming increasingly challenging.

What an effective leader needs to do today is vastly different than in the past. Today, leaders must have the capacity to lead complex organizations with global scope and scale, demonstrate visionary thinking as well as the ability to execute, hold the highest standards of ethics, develop others at all levels, understand the business as a whole, and build influential relationships with customers and stakeholders.

In this increasingly complex and global marketplace, companies must leverage talent for the corporate entity rather than single functions, business units, or geographies and build leadership practices that have consistency across the world. Nurturing these multifaceted capabilities requires dedicated focus, passion, and commitment—something that all of the Top Companies for Leaders do.

What It Means to Be a Top Company for Leaders

Leadership is part of the organizational fabric at the Top Companies for Leaders. You can sense it the moment you walk through the door. There's a genuine belief that the way to propel the business forward is through investment in leaders—current as well as future leaders. Developing talent and future leaders is a way of operating; it is intertwined with running the business. It is not simply an action item on a “To Do” list. This is true for Top Companies everywhere, whether it be New York, Shanghai, or Wiesbaden.

How does this investment come to life? First and foremost, through an active and supportive senior management team who own and truly drive the leadership agenda. The Top Companies have clear strategies around leadership, and they execute on these strategies. Their leadership agenda includes having the right leadership practices and processes for the organization, maintaining a maniacal focus on critical talent at all levels, and sharing a continuous desire to improve. Clear expectations and accountability are common in the Top Companies—ensuring leaders know what behaviors are expected of them. As a result, the Top Companies have cultures that cultivate and nurture their talent, and they have a reputation for doing it well.

Trends of the Global Top Companies

Globalization Is a Pressing Issue

The single most pressing challenge over the next three to five years, as ranked by both the Global Top Companies and all other companies, is business growth (68% vs. 51%). The Global Top Companies rank expansion to new markets second, with globalization and cost pressures tying for third. The other companies rank increased competition and cost pressures as second and third, respectively.

While there are many issues of overlapping priority, the Global Top Companies are looking beyond traditional boundaries to anticipate the next big wave of expansion. What's more, they are actively preparing for it. As one CEO told us, "It is part of our DNA to move people around. Having international experience is increasingly important for future leaders...I know our next CEO will have much more international experience than me."

Developing a Global Talent Pipeline Is a Key Focus

The future success of the organization rests in the hands of those equipped to manage and lead an international company. This requires a real development mind-set, and leaders at Top Companies understand this. As one executive told us, "We like to have top talent get experience outside of their home country. It is a big priority with [the CEO and COO]." Most of the Global Top Companies (85%) believe their organization currently has the talent pipeline it needs to be successful in the future, in contrast to only 42% of all other companies.

Global Top Companies push their talent into stretch roles that will prepare them for future opportunities. Through the talent-review process, roles are identified that challenge talent to take on new experiences—moving to a different geography, business line, or function, or simply taking on greater responsibility. In addition to formal assignments, many Global Top Companies use action learning as a vehicle to both develop talent and arrive at creative solutions to some of the business's most vexing problems. Personal relationships are also key. Leaders take an active and personal interest in developing and preparing the next generation of leaders at the Global Top Companies. From informal mentoring to a formal apprenticeship model, these personal connections are another critical ingredient for success.

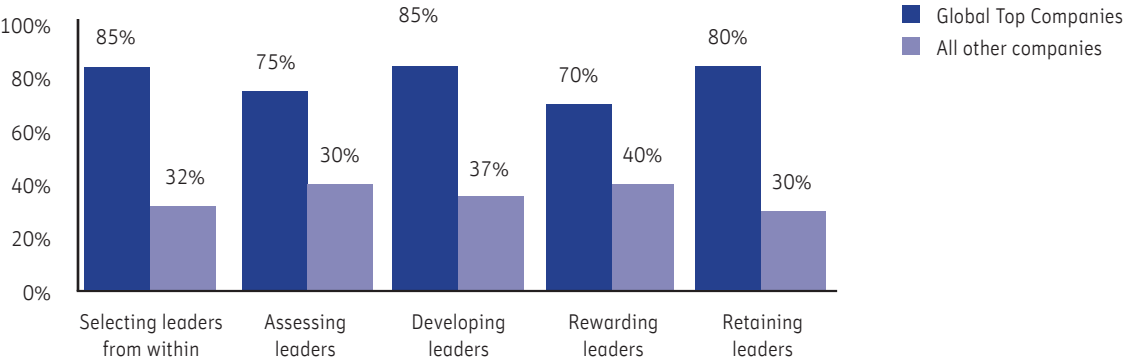
The Top Companies Have a True Strategic Commitment to Leadership

It is not just involvement of senior leaders. It's a mind-set, a fundamental belief that this is how to run the enterprise. Senior leaders must model the behavior they are looking for from others. These actions must be "lived" consistently, regardless of time or place. As a human resources executive put it, "There isn't one speech in which [the CEO] doesn't mention the importance of talent and leadership development."

Top leaders passionately believe in their role in growing talent. As one CEO told us, "The most important thing in leadership development is the commitment of leaders to actually manage and develop talent...then you can talk about the programs." Another executive espoused that "it's our personal responsibility to have at least two people who can take our place—if everyone follows that path we will have a lot of ready people."

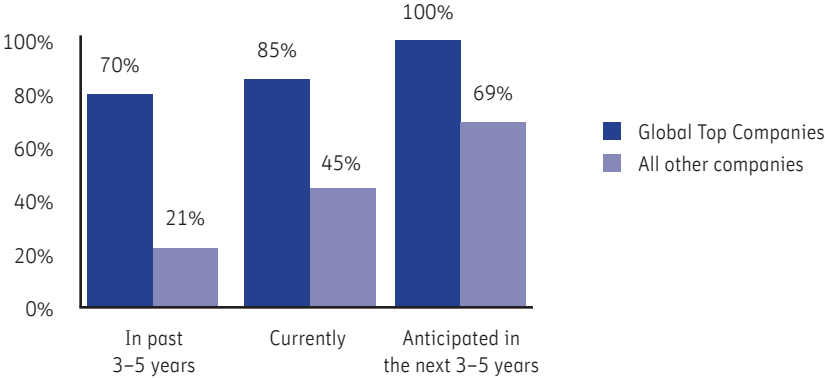
The Global Top Companies bring to light the importance of leadership as a business imperative. This is evident in their strategies, their priorities, and their behaviors. It starts with the business strategy to which leadership practices are clearly aligned.

**Explicitly aligned business strategies actually used in the following leadership practices
90% of the time or more**



Not surprisingly, leadership development is given a far higher priority at the Global Top Companies for Leaders. This is true historically, in the present, and in the anticipated future.

Leadership development is a high priority to senior management in your organization



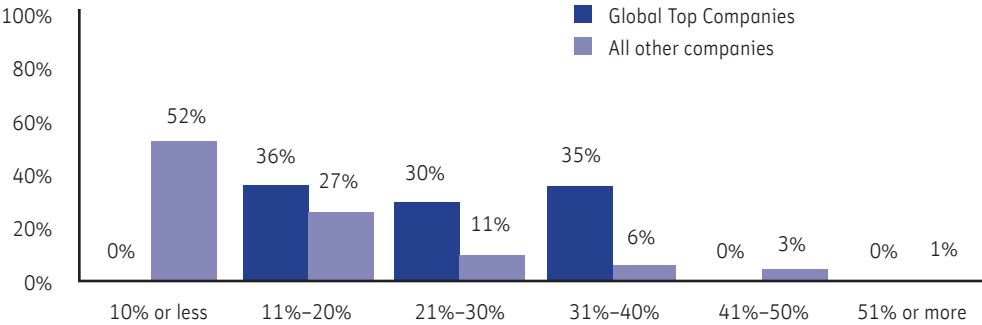
The Senior Team Drives the Leadership Agenda Through Time and Behavior

Senior teams, particularly the CEOs at the Top Companies, drive the leadership agenda. They talk about the importance of leadership and make it a top priority. They “walk the talk” and lead by example. As one CEO told us, “I make it my job to meet people, see how they are doing, and be visible, because for better or worse, I am the spokesperson for the organization to Wall Street, our communities, and related external stakeholders...employees want a CEO they can believe in that acts in an ethical way and is honest about how the business is doing.”

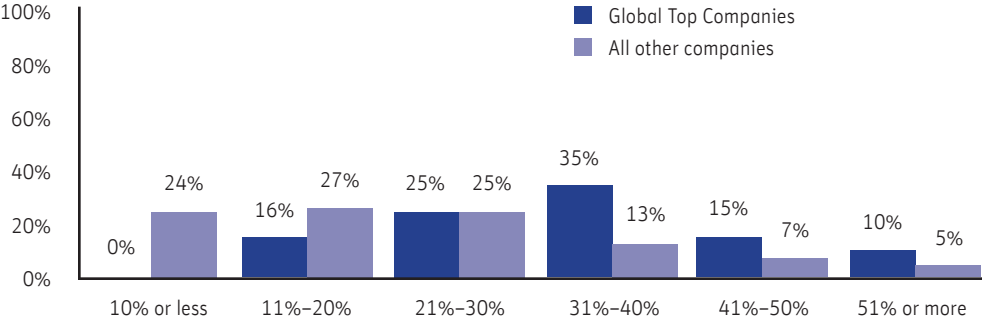
The amount of time spent directly on leadership issues at all levels, from the Board of Directors to front-line management, is significantly greater at the Global Top Companies compared to all other companies. One executive told us, “The most useful practice is using your own experiences to develop those who come after you.”

Percentage of Time Spent Directly on Leadership Development

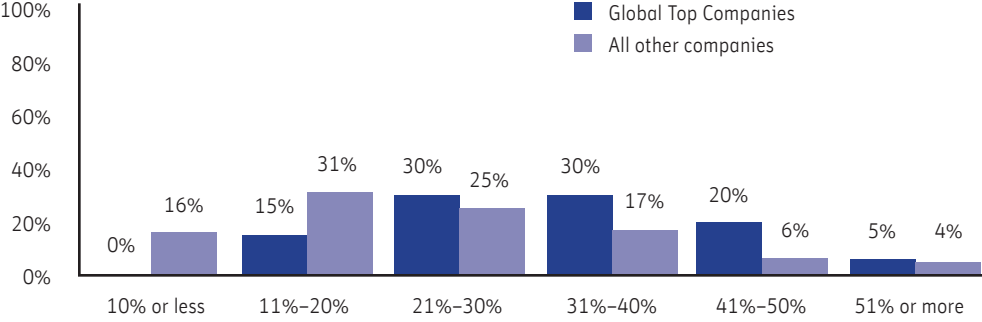
Board of Directors



CEO



Senior Management



This keen focus on developing leaders is evident not only at the senior team level, but also at the business unit level, where all of the Global Top Companies have a strong focus on leadership, compared to only 63% of all other companies. A strong focus on leadership at the geographic level is also clear in the Global Top Companies (95%), in contrast to only 40% of all other companies.

Expectations Around Leadership Are Clear

At the Global Top Companies, the use of leadership competencies demonstrates clarity around expectations for leaders. Most of the Global Top Companies (85%) believe that the desired leadership behaviors are well understood at all levels of the organization, compared to 37% of all other companies.

Global Top Companies consistently apply their competency models across the organization (79% vs. 46%), and their competencies are significantly more aligned with their overall business strategies than at other companies (84% vs. 53%). Expectations are reinforced through multiple mechanisms, including communications, selection and promotion decisions, performance management, succession plans, pay, education, high-potential selection, and 360° feedback.

The Global Top Companies communicate to their employees about the critical skills needed for the future success of the organization, helping to clarify expectations for everyone. In contrast, nearly two-thirds of all other companies do not believe they are communicating these critical skills well.

Company and Ranking	Headquarters Country
1. General Electric Company	United States
2. Procter & Gamble	United States
3. Nokia Corporation	Finland
4. Hindustan Unilever Limited	India
5. Capital One Financial Corporation	United States
6. General Mills, Inc.	United States
7. McKinsey & Company	United States
8. IBM	United States
9. BBVA	Spain
10. Infosys Technologies Limited	India
11. Inditex, S.A.	Spain
12. Medtronic, Inc.	United States
13. Eli Lilly and Company	United States
14. McDonald’s Corporation	United States
15. Whirlpool Corporation	United States
16. Natura Cosméticos S.A.	Brazil
17. GlaxoSmithKline	United Kingdom
18. Australia and New Zealand Banking Group Limited	Australia
19. ICICI Bank Limited	India
20. Wipro Limited	India

Key North American Findings

In North America, our Top Companies research has found many companies have the basic fundamentals around leadership practices and processes in place. Compared to the first time we conducted this study in 2002, many companies have made significant strides in building leadership capability. The development of talent has clearly become more important everywhere. In 2007, we find that companies identify top talent, conduct talent reviews with increasing depth and transparency, link succession planning to developmental opportunities, broaden skill sets with stretch assignments and planned moves, and provide coaching and action learning that work. While the gap between the good and the great seems to be narrowing, the Top Companies in North America continue to distinguish themselves.

Three Leadership Truths Continue to Differentiate

In our previous Top Companies research (2002, 2003, and 2005), we identified three fundamental principles we termed the Three Leadership Truths. These principles were the foundation for what separated the best companies from the rest:

Senior team involvement and support. One of the key enablers of building leadership quality and depth is active involvement from the CEO and Board of Directors.

Having a maniacal focus on talent. Top Companies are serious about their investment in top talent. They more actively manage and develop their best talent, and provide differentiated compensation, development, and exposure to senior leadership.

Having the right programs in place and leveraging them effectively. The integration and execution of leadership programs is what makes them real. Companies differentiate themselves by effectively using their practices to develop leaders in support of their business strategy.

In 2007, we find that these Truths still hold, but the bar has been raised—significantly. North American Top Companies drive these principles deeper into their organizations; they refine their tools and practices to make them even more relevant and effective in cultivating leaders.

Leadership Practices Explicitly Align to Business Strategy

North American Top Companies focus on leadership practices as a way to drive their future business success and therefore tie those practices tightly to strategy. Eighty percent of North American Top Companies explicitly align leadership development practices to business strategy, compared to only 31% of all other North American companies. As one Top Company executive told us, “Leadership development is so much a part of our culture that we do not think of it as a discrete activity, but instead of how it is linked to the way we do strategic and operational plans.”

The way in which North American Top Companies select, reward, and retain leaders reinforces the link to strategic goals. While this alignment may seem obvious, fewer than a quarter of all other companies explicitly align their practices for selecting leaders internally and externally to their business strategy. By aligning leadership practices with business strategy, the North American Top Companies leap ahead of the pack in achieving their desired outcomes.

True Accountability Reinforces Desired Behaviors and Effective Execution

Not surprisingly, North American Top Companies reinforce desired leadership behaviors and competencies through more organizational practices than other companies, including selection, performance management, education, and 360° feedback.

North American Top Companies use a variety of rewards systems to reinforce “how” leaders need to behave in the organization. They report achieving this accountability by tying it to a portion of the annual performance review and rewards plans. Fewer than half of other companies reinforce competencies through annual and long-term incentives. In contrast, at North American Top Companies, 65% reinforce with annual incentives and 80% with long-term incentives. To further emphasize accountabilities, 23% of North American Top Companies report tying a high percentage (26% or more) of a leader’s annual incentive to development of his or her direct reports, compared to only 5% of all other companies.

As one executive stated, “I think it all starts with the CEO. He rolled out full-spectrum leadership. We institutionalized the program—we train leaders in this and it’s tied to rewards, succession planning, and performance management. By doing this from the top, it sent a very clear message. If you do not demonstrate the behaviors embedded in this model, it becomes an impediment to your career. As a result, senior leadership became early adopters. This put into words the things we wanted to model.”

Many North American Top Companies have review processes in place that specifically look at leaders’ effectiveness, not merely business results. “If someone doesn’t get a good review, that person will get very specific feedback on what the leadership components are that they need to work on. If their leadership is such that it’s actually negative to a team, people will actually get downgraded in terms of their evaluation and their compensation. ‘People’ is a very, very core part of the evaluation process.”

While the Human Resources or Leadership Development function is most likely to have primary responsibility for development of leadership processes, at North American Top Companies, ownership of the overall success or failure of leadership development starts at the very top of the organization. For example, senior management is frequently held accountable for the success or failure of succession management at 74% of Top Companies, compared to 43% of all other companies.

Relationships Are Critical

Personal networks and relationships within and across businesses are key to the success and career progression of top talent. As one executive told us, “To be successful in the global market, you have to collaborate.” Most participating companies provide their high-potential talent with additional opportunities to interact with senior leadership. But exposure to the very top of the house, including the Board of Directors, is more common at North American Top Companies. The majority (89%) of North American Top Companies provide high-potential talent with consistent exposure and access to the CEO, compared to only 60% of all other companies.

Senior leadership actively participates in the development of top talent. This may involve everything from informal conversations with direct reports to formal mentoring of emerging talent.

One senior leader reported that she sponsors a monthly executive roundtable for 20 high-potential leaders from across the business, providing access to her and also connecting participants to each other. Another told us, “I spend my time building one-on-one relationships with people, helping others select key assignments.”

Measurement Fuels Continuous Improvement

Nearly all North American Top Companies measure the overall effectiveness of leadership in their organizations, compared to only 59% of all other companies. While organizational performance is often used as a measure by all companies, North American Top Companies also include retention of key employees (94% vs. 79%), ability to fill key positions (83% vs. 56%), and ability to attract top candidates (78% vs. 56%).

In addition to these activity measures, North American Top Companies also are more likely to monitor broader outcomes. While the majority of all companies track the number of job openings filled from the succession pool, North American Top Companies are more likely to track the performance of the placed successor over a specific period of time (60% vs. 31%). While most companies track participant evaluations of leadership development learning programs, North American Top Companies are more likely to evaluate changes in leaders’ behaviors as a result of development processes (74% vs. 46%).

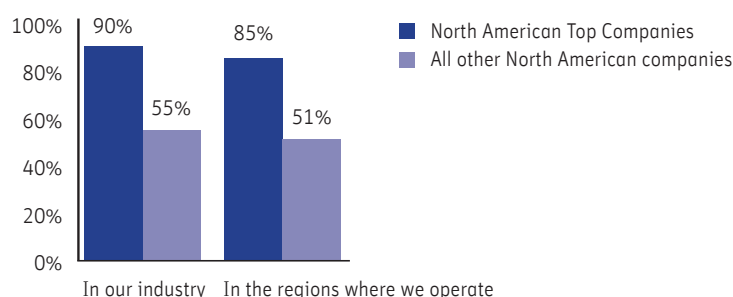
A differentiator between the North American Top Companies and others is seen in the use of metrics for program effectiveness. One Top Company, for example, uses metrics to evaluate the success of leader placement decisions two to three years after the placement was made. Another Top Company uses metrics to track how effectively business units are moving talent. As a result, talent movement has increased from a trickle to a substantial number of movements over the past five years.

The use of metrics is not simply what differentiates the best from the rest; the impetus behind the measures is what truly sets them apart. The North American Top Companies are continually striving to improve. Through the use of metrics, they can identify with more certainty where to place their bets.

Leadership Reputation Is a Competitive Advantage

Most of the North American Top Companies believe their organization has a strong external reputation for leadership in their industry and the regions where they operate, compared to only about half of all other companies. Similarly, most North American Top Companies are intentional in their efforts to build a reputation for strong leadership, compared to just half of all other companies. Many participating companies ranked “stronger leadership brand” among the top three things their organization could improve upon or change and their efforts to attract the high-quality leaders they need.

Strong to very strong external reputation for leadership.



North American Top Companies understand the importance of their leadership reputation—or brand—in attracting and retaining critical talent as well as clients. Our findings reveal that corporate social responsibility is an emerging and important component of the leadership brand. Eighty-five percent of the North American Top Companies report that corporate social responsibility is a significant component of their corporate brand, as well as their leadership brand (75%). This is not the case at the other companies, where approximately two-thirds report that corporate social responsibility is a core component of their corporate brand, and even fewer (40%) report that it is a significant component of their leadership brand.

North American Top Companies look for outside developmental opportunities that benefit the individual, the community, and the reputation of the organization. As one CEO told us, “We have everywhere a very big impact in the communities we operate in. We encourage, almost mandate, people to take leadership roles in social, community organizations... Many get great leadership experience from community roles.” In addition to the impact on community and reputation, this nontraditional development provides additional avenues when formal opportunities in the company are limited.

North American Top Companies for Leaders 2007

1. General Electric Company
2. Capital One Financial Corporation
3. Procter & Gamble
4. General Mills, Inc.
5. McKinsey & Company
6. IBM
7. Medtronic, Inc.
8. Washington Group International, Inc.
9. Eli Lilly and Company
10. Avery Dennison Corporation
11. McDonald's Corporation
12. Whirlpool Corporation
13. Lockheed Martin Corporation
14. Cummins Inc.
15. Caterpillar Inc.
16. Colgate-Palmolive Company
17. Sonoco Products Company
18. 3M Company
19. American Express Company
20. Liz Claiborne, Inc.

In addition to the North American Top Companies list, the judges panel also chose to recognize three smaller companies (under 10,000 employees) with outstanding leadership practices and cultures.

North American Small to Midsized Top Companies for Leaders 2007

1. Pella Corporation
2. Business Development Bank of Canada
3. Westfield Group

How the Top Companies Lists Were Selected

Hewitt and our research partners, FORTUNE and The RBL Group, invited human resources executives from around the world to participate in the Top Companies for Leaders study in early 2007. Study participation was open to organizations of any type (e.g., public, private, nonprofit), size (employee and revenue), and location. From those invitations, 563 companies from around the globe participated.

Participating companies completed a detailed questionnaire examining the factors influencing both the depth and quality of leadership. All entries were analyzed for responses consistent with strong leadership practices. Based on this analysis, 250 globally were identified as finalists.

Each finalist company was then asked to complete in-depth interviews with Hewitt to gain greater clarity and precision around their specific leadership practices. In addition, one or more senior business executives from each finalist company were interviewed. Hewitt scored company survey data by assigning points to questions and responses, yielding both category and overall scores. All finalist companies were then screened for financial performance relative to their industry.

An esteemed panel of judges—composed of authors, academics, and journalists—gathered in each region to select and rank a 2007 Top Companies for Leaders list in Asia-Pacific, Europe, Latin America, and North America. The judges considered many variables in selecting and ranking the lists, including survey and interview data, company reputation, leadership culture and values, and business performance over a five-year period. Finally, a separate judges panel, composed of one representative from each regional panel, considered all regional Top Companies (45 total) and selected a ranked Global Top Companies for Leaders list.

Eligibility for Regional and Global Top Companies Lists

All organizations were eligible to participate in the survey process. However, global organizations were eligible for the list only in the region in which they are headquartered. Subsidiaries of publicly traded companies were eligible for the list if they were publicly traded, separate from their parent company. Subsidiaries of non-publicly traded parent companies were eligible only if they had a separate Board of Directors.

Global and Regional Judges and Partners

Global Judges Panel

Dexter Dunphy is Distinguished Professor, University of Technology, Sydney, Australia. His primary research and consulting interests are in corporate sustainability, the management of organizational change, and human resource management. He has published more than 90 articles and 25 books. During his 35 years of professional experience, he has consulted with more than 160 private and public Australian organizations working to enhance managerial skills of senior executives, managers, and other professionals through workshops, consulting, and coaching.

Santiago Iñiguez de Onzoño is Dean of Instituto de Empresa in Madrid and an avid contributor to the field of quality control in executive education. He led consortium initiatives with several leading Latin American business schools to create the Sumaq Alliance, serves as a Chairman of EQUAL (European Quality Link), and is a member of the International Advisory Board of AMBA (Association of MBAs, U.K.). In addition to his consulting efforts, he has published several business management articles, practical case studies and books pertaining to moral and political philosophy.

Nicolas Majluf is a professor in the Department of Industrial and Systems Engineering of the Catholic University of Chile. Dr. Majluf has extensive experience in academic and consulting forums, and has received advanced degrees in management, operation research, and industrial engineering. His consulting expertise focuses on strategic management and organizational design, including clients from public and private sectors in an assortment of industries.

Michael Useem is Director of the Center for Leadership and Change Management at the Wharton School, University of Pennsylvania. He has completed several studies on corporate organization, ownership, governance, restructuring, and leadership. Dr. Useem has presented leadership and change seminars to more than 55 leading organizations globally and has consulted on corporate governance and organizational change. As a professor, he has developed MBA and executive MBA programs on leadership, teamwork, governance, and decision making for national and global managers.

North American Judges Panel

Jim Kouzes is a highly regarded leadership scholar, popular speaker, experienced executive, and the coauthor of several award-winning and best-selling books describing leadership principles and practices generating high performance in individuals and organizations. He is an executive fellow, Center for Innovation and Entrepreneurship, Leavy School of Business, Santa Clara University. Jim and Barry Posner developed the Leadership Practices Inventory (LPI), the prevalent and renowned assessment instrument designed to evaluate leadership behaviors. The *Wall Street Journal* named Jim as one of the twelve best educators in the U.S.

J. Bonner Ritchie is renowned for teaching, consulting, and conducting research in the areas of leadership development, organizational change, conflict resolution, organizational philosophy, and ethics. He is Professor Emeritus of International Organizational Behavior at the Marriott School of Management at Brigham Young University. During his professional career, he served as a faculty member of five leading U.S. universities and three within the Arab nations. His library of publications includes the coauthoring of *Organizations and People*, many book chapters, and more than 50 professional articles.

Michael Useem—See Global Judges Panel

Partners

FORTUNE, the leading biweekly business magazine, is known for its unrivaled access to industry leaders and decision makers throughout the world. FORTUNE's annual ranking of the 500 largest corporations—the *FORTUNE 500*—is the ultimate benchmark of business success. Founded in 1930, *FORTUNE* magazine has grown to a worldwide circulation of more than 1 million and a worldwide readership of nearly 5 million. The Web site, www.fortune.com, is part of **CNNMoney.com**, which averages more than 9 million unique visitors per month according to Nielsen/Net Ratings. The FORTUNE Conference Division extends the magazine's editorial mission into live settings, hosting a wide range of annual conferences for top-level executives, including the FORTUNE Global Forum, the FORTUNE Innovation Forum, and the Most Powerful Women Summit. FORTUNE—along with *FSB: FORTUNE Small Business*, *Money*, *Business 2.0*, and the Web site **CNNMoney.com**—is part of The Time Inc. Business and Finance Network, which is a division of Time Warner, the world's largest media company.

The RBL Group specializes in helping clients deliver a strong leadership brand and a strategic HR agenda. Dave Ulrich and Norm Smallwood, the firm's co-founders, have just written a book, *Leadership Brand* (HBSP, September 2007), which discusses criteria important to the Top Companies for Leaders study. The RBL Group delivers results-oriented, quality solutions by engaging people and processes that help HR and line executives integrate the latest thinking into their organizations through practical tools and approaches. For more information please visit www.rbl.net.

How Do You Become a Top Company for Leaders?

Five Questions to Ask About Your Organization

The Top Companies for Leaders research helps companies understand how financially successful companies grow great leaders. But how do you move in the right direction to build a great leadership culture and practices to help your organization achieve its business goals? The first step is to simply get started by addressing the following five key questions:

Do your senior leaders realize that leadership matters more than ever, and are they making the strategic commitment to leadership? Make sure your CEO is the organization's biggest champion for leadership and is interacting with top talent, holding others accountable for building leadership qualities, and exposing the Board to leaders.

Do you understand your critical leadership capability gaps and how to address them?

Compare your organization's leadership practices and point of view on growing leaders to those of the Top Companies. Understand what you do well and what practical steps will lead to improvement that will drive business performance.

Do your leadership strategies and practices clearly drive business performance? Develop a comprehensive leadership strategy with detailed plans for assessing, selecting, developing, and rewarding leaders that tightly aligns with your organization's business strategies. For example, a growth strategy requires very different leadership activities than a strategy around operational efficiency.

Do you have a bench of leaders who are ready, willing, and able to succeed in critical roles? Conduct a data-driven review of your existing and up-and-coming leadership talent, identify your high potentials and critical talent, and cultivate them through differentiated development. Develop leaders in step with business needs through activities such as transparent feedback, high-impact coaching, action learning teams, shadowing and mentoring, and increased interaction with the top team and Board.

Do you understand what motivates your top talent? Assess what high potentials need and whether they are getting it. Determine whether their managers know and deliver. Then provide skills and tools for leaders who make growing key talent part of running the business.

Your organization can be a place to grow great leaders. Equipped with the latest knowledge from the Top Companies for Leaders research, our global team of experienced leadership consultants can help you move forward no matter what your starting point. For more information on leadership brand, visit www.rbl.net. For more information on Hewitt's leadership consulting services, please visit <http://www.hewitt.com/topcompanies> or contact:

Michelle Salob

Global Project Manager
Top Companies for Leaders 2007
(770) 956-7777
michelle.salob@hewitt.com

Jim Donohue

Principal and Practice Lead
Leadership Consulting, North America
(612) 339-7501
jjm.donohue@hewitt.com