

A recent study from Hay on Most Admired Companies for HR efforts (people management, innovation, product/service quality and management quality) recognizes some CSI clients: Marriott, Intuit, Daimler, American Express, McDonalds, GE, Nestle and others. Interestingly enough, article says ... "Most Admired for HR" tend to concentrate on developing talent from within and provide a clear line of sight for promising talent in the organization.

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## Rewarding the Performers

**Reward programs are powerful tools in creating and keeping talent, but an exclusive recalibration of Fortune magazine's "Most Admired Companies" list shows total rewards isn't all about money.**

By Paul Gallagher

Most companies know that an engaged employee means money in the bank for the employer. But after an employment deal is clinched, after an employee's pay is bumped and after "atta boys" are doled out to the high-performers, not every company succeeds in attracting, retaining or developing its greatest asset – its talent.



What differentiates the admirable employer from the merely adequate?

New research from Philadelphia-based Hay Group, the global management consulting firm, and interviews with top HR executives at some of America's most successful multinational companies indicate that alignment, communication – and a dash of cachet – may separate the most respected companies in HR from the also-rans.

For the fourth year, Hay Group has recalibrated its "Most Admired" companies list for Fortune magazine to create the exclusive "Most Admired for HR" list for *Human Resource Executive*® magazine. The latter HR-focused list is derived from key data within the "Most Admired" list, recompiled with a focus on what Hay terms "attributes of reputation." ( [See chart](#) .)

To create the "Most Admired Companies" rankings for *Fortune*, Hay Group surveyed more than 3,700 executives, directors and analysts to rate companies in their own industry on eight criteria. Half of those criteria which could serve to describe essential HR functions – Management Quality, Product/Service Quality, Innovation and People Management – were then pulled and recompiled to create this magazine's "Most Admired for HR" list. (See sidebar, [The Numbers Game](#) .)

Among the findings: Companies that rank among the "Most Admired for HR" tend to concentrate on developing talent from within and provide a clear line of sight for promising talent in the organization. They also offer clear communication on total rewards throughout the organization, from senior-level management to the rank-and-file employee.

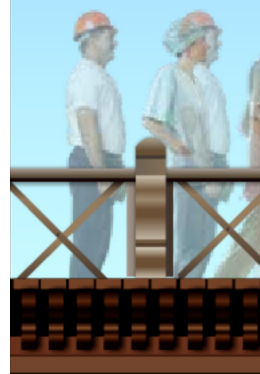
By and large, "Most Admired for HR" companies also lean toward paying lower base salaries for management and professional employees – about 5 percent lower than average, according to Hay's Mark Royal.

"It's a striking finding," says Royal, a senior consultant in Hay's Chicago office.

It would be easy to conclude that successful companies owe some of their admiration and employee loyalty to the almighty dollar, but Royal says the research

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points elsewhere. By emphasizing talent development from within, through mentoring, coaching and "actively managing the careers of employees and leaders at all levels," he says, companies are able to avoid paying salary premiums to import talent.

Some companies, such as farm equipment manufacturer John Deere & Co. of Moline, Ill., count on an army of nearly 500 internal career coaches, about 80 to 100 of whom are active at any given time. Anheuser-Busch has created what James Brickey, head of HR and total rewards for the St. Louis-based brewer, calls "a formidable succession-planning program."

While human resource executives interviewed for this story stress that they pay competitive base salaries, they also depend on an arsenal of intangible benefits, such as development programs and the star power that reputation and brand quality can create. The goal is the same: Keep employees engaged and keep them focused on a long-term relationship.

At "Most Admired for HR" companies, workers who do add value over time tend to be rewarded with more bonus and financial incentives, according to Royal.

"There's the message . . . that, 'If you're with us for the long term, moving up to the senior levels or contributing to our growth, you're going to see some very tangible compensation benefits,'" says Royal.

### Sowing Rewards for Teamwork

That's certainly the message that Deere cultivates, according to Mertroe B. Hornbuckle, vice president of human services. Ranked 14th among the "Most Admired for HR," Deere has a global workforce totaling around 56,000 – about 30,000 of whom are located in Brazil, Russia, India, China, Mexico and Canada. Hornbuckle says Deere has created a three-pronged strategy that hinges on a combination of short-term cash incentives, "profitable shareholder value-added" and "aligned high-performance teamwork."

Since his ascent to CEO of the 171-year-old company in 2000, Bob Lane has emphasized the importance of creating shareholder value to align the workforce and grow the organization's bottom line.

In essence, the concept entails charging each division 1 percent each month of the company's assets they use. The goal, says Hornbuckle, is to achieve a 7 percent gain of SVA at the end of the year, so the division's profits must exceed those charges.

The short-term cash incentive program is based on SVA gains over the business year, and every employee is eligible to benefit from the plan.

For junior-level management up to senior managers, a mid-term incentive plan adds to the SVA plan a four-year cash incentive program. Describing it as a modified economic value-added plan, Hornbuckle says benefits are delivered based on market performance, similar to the short-term SVA.

The combination of short-term and four-year, cumulative incentive programs "have been great global business drivers" and have aligned employees to Deere's growth strategy, says Hornbuckle.

For top management – Hornbuckle estimates around 600 employees fill these ranks – a stock-option program serves as a long-term incentive. The top 25 employees can also participate in a restricted stock-option program.

But the current economic climate may put a damper on the tangible compensation benefits, says Royal. In a spot survey, taken "several months before the economic meltdown," he says, 31 percent of the 1,000 organizations surveyed – including 248 U.S.-based companies – indicated that they are either freezing or considering



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freezing salaries.

"I think it's going to put more emphasis on organizations to think more broadly about what constitutes rewards," says Royal.

Again, many of the "Most Admired for HR" companies seem to understand the value of communicating intangible benefits, such as talent development, and even the strength of their brand.

At 11th-ranked Anheuser-Busch, Brickey says, emphasizing the brand and the heritage of America's first national brewery is a key part of talent development and retention.

"That's something that's very hard to place a monetary value on, but it's something that I think we leverage as well as anybody," he says.

### **Trading on Heritage**

As America's largest brewery, with a nearly 50 percent market share of beer sales, Anheuser-Busch enjoys an almost legendary status, thanks to its 156-year history and a marketing powerhouse that has churned out such notable icons as the Budweiser Clydesdale horses, stick-to-the-psyche jingles and catchphrases -- and those annoying, but effective, frogs.

Anheuser-Busch is readying for its \$52 billion sale to Belgium-based brewer InBev. While both companies say they expect the sale to be finalized before the year is out, the credit crisis may delay those plans.

Despite cultural differences between the two multinational super brewers, Brickey says he's upbeat that rewards and recognition programs won't be sacrificed, and neither will reliance on the Anheuser-Busch heritage and tradition.

"Although we don't know what the design of our programs [will] look like, those attributes are something that I think both companies will really leverage in a very effective manner," he says.

From the monetary perspective, Brickey says, Anheuser-Busch's compensation programs are straightforward, mixing base salary with a variable short-term bonus plan and long-term stock options. As recently as a few years ago, he says, the long-term plan was limited to stock options, but the company has diversified the rewards to include restricted stock and additional performance requirements.

Traditionally, Brickey says, the compensatory rewards have been entirely discretionary, but that subjective mechanism is changing. "We've changed the mix," he says. "Not the overall dollars we deliver, but having a more objective base. The goal there was to have a more aligned tie with company performance and not so much with individual performance."

For those employees who are not eligible to receive pay-for-performance bonuses, Anheuser-Busch provides additional days off, restaurant dinners and spot cash-award bonuses from managers, who draw from a pool of money allotted to the managers by the company. If managers distribute the money across the board to the employees, Brickey says "it's not impactful," but it does have clout when managers distribute it to one or two individuals.

"Employees are very well educated on it," says Brickey. "They know what they can do to receive those dollars, and then it's just a matter of ensuring that [the reward] is closely aligned with the action."

Blending rewards with succession planning, Anheuser-Busch depends on leadership and management councils to not only develop talent, but also drive engagement of promising employees. The two councils -- the Leadership Development Council and the Management Development Panel -- are two-year assignments, made up of promising middle managers.

"Those are great retention vehicles, but are also seen as rewards for doing a good job," says Brickey.

While he says the talent pipeline is full, he hedges a bit when he considers whether Anheuser-Busch could be considered a talent magnet.

"I would say it's been cyclical for us," he says. "We used to joke around here that we'd close the employment doors at 5 o'clock and we'd have [job seekers'] arms and legs sticking out." During the dot-com boom, however, the House of Bud wasn't particularly attractive to young talent, he says.

Those fortunes have changed again, thanks to HR's marriage to the company's marketing department for college recruitment fairs, and the sheer visibility of the brand.

"If we don't leverage that key strategic advantage for this company, it's a real missed opportunity," says Brickey. "We pay well, we have rich benefits and we do a good job of articulating those benefits to our employees. Other companies do that, too."

But other companies, he says, don't have the name brand or the tradition of Anheuser-Busch, and a retention rate that Brickey puts at 96 percent of full-time salaried employees.

### **Hitch a Wagon to a Star**

Hay Group's Royal says another trait "Most Admired for HR" companies share is brand power, which helps to attract and retain talent. In short, everyone loves a winner, and being associated with a winner can be its own reward.

"Most Admired companies benefit from a sort of virtuous cycle when it comes to attracting talent," says Royal. "They enjoy strong reputations and that helps them draw more than their fair share of the best and brightest people."

Like others interviewed for this story, Fortune Brands relies on intoxicating brand power to attract and retain talent. Placing No. 1 on the "Most Admired for HR," Fortune Brands is a holding company, headquartered in Deerfield, Ill., with business units boasting such names as Jim Beam and Maker's Mark bourbons, Titleist and FootJoy golf accessories, and home hardware brands such as Moen.

Rosalyn D. Wesley, director of human resources at the corporate office, says each of the operating companies that make up Fortune Brands has its own HR department, though she does work with the departments in such areas as performance management and diversity initiatives.

Attracting and keeping talent, says Wesley, is not a problem; she estimates turnover in the "low single digits" at every level, from entry level to the executive ranks. It's not exactly the pay that's bringing in the talent, although Wesley says the company offers a competitive salary and does have pay-for-performance compensation plans and other bonus plans.

"And, by the way, you're getting a company that's No. 1 and No. 2" in all of the industries represented by the company, she says. "And, let's face it, I think people want to be with a winner."

At the executive level, in addition to annual bonus targets, employees can participate in a long-term incentive plan as well as a company stock-option program. The various operating companies determine their own pay-for-performance rewards for their executives and non-executives alike, and include annual merit increases and other bonus programs, including stock-option grants.

Although there are some standards in employee rewards, Wesley says "there's no one-size-fits-all" formula. Each of the operating businesses has a certain amount of

latitude to tailor their rewards to fit their demographic.

Florence Pramberger, senior vice president of HR for Beam Global Spirits & Wine Inc., one of the Fortune Brands companies, says HR departments do intersect, at times, particularly on economies of scale items, such as shopping for healthcare insurance.

She adds, however, that each business of Fortune Brands has its unique culture, and that culture is tended to by its own HR department.

"In any event," Wesley adds, "we are adamant about setting clear, objective performance standards and awards [programs], and [ensuring] accountability for all targets met [or] not met."

In an organization as diversified as Fortune Brands, she says, communication between all operating businesses is essential, and communicating business goals and benefits to every employee is paramount. Each employee receives formalized individual total rewards statements, detailing company rewards, their work/life balance and retirement benefits.

That communication through such total compensation statements is yet another trademark of the "Most Admired for HR" companies, says Royal. "I think that's evidence of the extent to which Most Admired companies are playing up the total value of their offerings," he says.

For Wesley, total rewards also extend beyond cash incentives to include tuition reimbursement programs, matching gifts to charitable organizations and internal development programs.

The importance of promoting total rewards and benefits to employees means that everyone gains a larger picture of the cash-value equivalent and cultural value they get by staying with the employer, thus creating a more engaged and committed workforce.

"Even if a recruiter were to call" an employee, offering more cash, says Wesley, "we want people to think many times over before they would go just for the dollars."

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