



MOST ADMIRED COMPANIES

THE TOP 5: GE, FEDEX, SOUTHWEST, P&G, AND STARBUCKS

FORTUNE

HOW
GE
STAYS
ON TOP

PLUS:

Triumph of the Prius—
Inside **TOYOTA**'s
Hybrid Revolution

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CEO
Jeff Immelt
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No. 1

AMERICA'S MOST ADMIRABLE

HOW WE CONDUCT THE MOST ADMIRABLE SURVEY

The Most Admired list is the definitive report card on corporate reputations. Our survey partners at Hay Group started with the FORTUNE 1,000—the 1,000 largest U.S. companies ranked by revenue—and the top foreign companies operating in the U.S. They sorted the companies by industry and selected the ten largest companies in each. To create the 65 industry lists, Hay asked executives, directors, and analysts to rate companies in their own industry on eight criteria, from investment value to social responsibility. This year only the best are listed: A company's score must rank in the top half of its industry survey.

To create the top 20 and overall list of Most Admired Companies, Hay Group asked the 10,000 executives, directors, and securities analysts who had responded to the industry surveys to select the ten companies they admired most. They chose from a

list made up of the companies that ranked among the top 25% in last year's survey, plus those that finished in the top 20% of their industry. Anyone could vote for any company in any industry. The difference in the voting rolls is why some results can seem anomalous—for example, FedEx is one of the top ten Most Admired Companies but only second in its own industry.

A total of 611 companies in 70 industries were surveyed. Due to an insufficient response rate, the results for 29 companies in five industries are not reported: advertising, consumer credit, health care, pharmacy and other services, precision equipment, and printing. Thus American Express (No. 17) and 3M (No. 20) are on the overall list even though their industries—consumer credit and precision equipment—did not have enough responses to merit a category. **F**

In a year when the market was dodgy and the economic news mixed, companies like GE that take the long view got a boost. **BY ANNE FISHER**

1. General Electric

2. FedEx

3. Southwest Airlines

4. Procter & Gamble

5. Starbucks

6. Johnson & Johnson

7. Berkshire Hathaway

8. Dell

9. Toyota Motor

10. Microsoft

11. Apple Computer

12. Wal-Mart Stores

13.* United Parcel Service

13.* Home Depot

15.* PepsiCo

15.* Costco Wholesale

17. American Express

18. Goldman Sachs

19. IBM

20. 3M

*Indicates a tie in rank.

CORPORATE LEADERS: THE ATTRIBUTES OF REPUTATION

Distilling a company's reputation isn't as easy as a quick thumbs-up or -down. We narrowed the focus to eight areas of leadership, then averaged our voters' scores to arrive at a final ranking. Here are the leaders for each specific attribute; see the foldout section that follows for the list of leaders by industry.

Innovation

People management

Financial soundness

Quality of management

Use of corporate assets

Social responsibility

Long-term investment

Quality of products/services

**WHERE
COMPANIES
RANK
IN THEIR INDUSTRIES**

54. Electronics

2005/2004 SCORE

1	1	General Electric	8.20
2	4	Siemens	7.15
3	2	Emerson Electric	6.75
4	8	Royal Philips Electronics	6.52
5	3	Sony	6.47

WHAT MAKES GE GREAT?

For the sixth time, GE is America's **MOST ADMIRABLE** company. Its success does not come easy. BY GEOFFREY COLVIN

PLUS: SEVEN EXPERTS TALK ABOUT GE'S STRENGTHS.

On paper, the most admired company in America—and the world—may not look all that distinguished. It isn't the biggest or the most profitable; it's not the fastest growing or the most valuable. Its stock has been practically inert for years. Allegations of managed quarterly earnings keep showing up in the press. What's to admire?

Yet this company, General Electric, is No. 1 on our list once again, the most admired company for the sixth time in the past decade. (It last reached the top slot in 2002.) And if you're wondering whether we've got some pro-GE bias in our survey—nope.

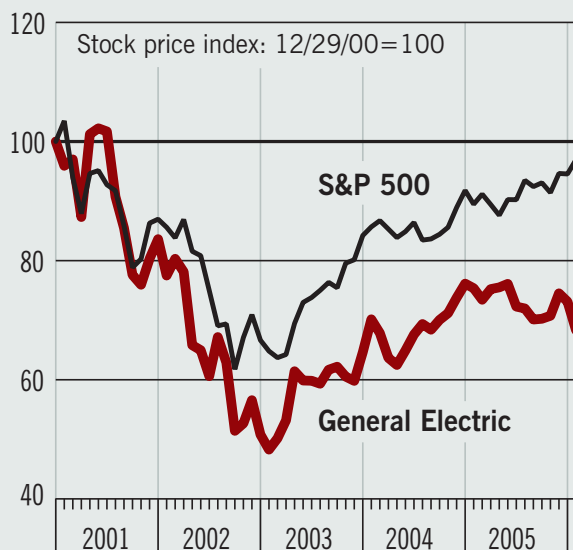
GE has also ranked No. 1 in the *Financial Times*' "most respected" survey for seven of the past eight years, and it topped a recent *Barron's* ranking of most admired companies. The results speak for themselves. But why does the world love this company so much?

The answer lies in the fact that our survey (like the others) is a poll not of consumers but of businesspeople working in the same hard world as GE. They admire GE the way golf pros voted Tiger Woods Player of the Year in 2003, when he didn't win a major championship or top the money list: Through good years and bad, GE consistently does things the rest only wish they could.

For the past century or so, for example, GE has continually set the agenda of management ideas and practices that other companies will follow. Practically everyone in business realizes this. GE's record of being ahead of the game is remarkable. Under Charles Coffin, who led the firm from 1892 to 1912, GE set principles of organizational design that would guide large companies—above all, the idea that the company's most important product was not light bulbs or transformers but managerial talent. In 1900 the company started the first corporate R&D lab, and in the 1930s it focused on cooperative labor relations, adopting pension plans and profit-based bonuses to keep employees away from unions. In the 1950s it produced the famous "blue books"—five volumes of ultra-detailed guid-

UNDERRATED?

Wall Street has yet to reward GE's Immelt.



GE Fast Facts

MARKET CAP:
\$354 billion

EMPLOYEES:
300,000

CEO BASE PAY:
\$8.3 million

SHAREOWNERS:
Five million

2005 EARNINGS:
\$18.3 billion

**AVERAGE ANNUAL TOTAL
RETURN SINCE 1996:**
13.5%

ance for GE managers—that shaped management everywhere. In the 1960s it led the move to strategic planning. In the 1980s and 1990s, it took concepts like leadership development, Work Out, and Six Sigma and made them the stuff of the global management culture. Most organizations will never establish any kind of intellectual leadership. Maintaining it for 100 years is a unique achievement.

But wait a minute. A lot of those ideas are dead. Isn't strategic planning now generally scorned, for example? Aren't the blue books and the whole centralizing ethos behind them long since abandoned? Yes—and GE led the scorning and abandoning. Here is another GE trait that businesspeople especially admire: an ability to change direction unabashedly. “Most people inside GE learn from the past but have a healthy disrespect for history,” says CEO Jeff Immelt. “They have an ability to live in the moment and not be burdened by the past, which is extremely important.”

It's hard to find any other organization that so enthusiastically destroys its own creations. Coffin created an organizational structure based on functions; Ralph Cordiner (CEO, 1950–63), broke it to pieces. He got GE into computers, and then Fred Borch (CEO, 1963–72) bailed out. Reg Jones (CEO, 1972–81) established a layer of sector executives and bought a coal-mining company; Jack Welch (1981–2001) abolished the layer and sold the mines. Welch built up the insurance business; Immelt offloaded it. Immelt is putting his own stamp on the company by reemphasizing its scientific research labs and a long-dormant marketing function.

The result of GE's seamless, constant reinvention of itself is that while companies are constantly emulating GE, they're frequently a step or more behind, and they know it. That's another reason they consistently admire the company.

GE does one more big thing: develop people, evaluate them, and act on the results. The company takes a lot of heat for getting rid of the bottom 10% of its employees every year, but that's only the end point of a process of constant appraisal. The fired ones are not surprised when the ax comes down. And the result is an extraordinarily high-performing organization. “The ability to demand high performance without being heartless,” says Immelt, “has been a part of GE for a long time.”

Dan Mudd is the president and CEO of Fannie Mae; as president and CEO of GE Capital Japan from 1999 to mid-2005, he saw this dynamic from the inside. “GE, like anywhere else, has a little bit of politics, a little bit of personal stuff and all that,” he says, “but compared with all the other organizations I know, it's minimized. It's upfront. You know what you have to do to succeed.” Most companies, frankly, don't have the stomach to give frequent, rigorous evaluations—and to fire those who need to be fired. They admire a company that does.

But then there's the matter of the stock price, down about 18% since Immelt took over in September 2001. In the view of one fan who knows a bit about the market, GE's recent lassitude in that regard isn't so important. Warren Buffett says, “I think the people who respond to FORTUNE's survey are looking beyond the recent action of the stock—looking at the challenges Jeff has faced and how well he is handling them.” Of course, a flailing stock is nothing to admire. The fact that GE's reputation has stayed so solid despite the stock's woes probably reflects a belief among those surveyed that GE will rise again.

It's all about the long term. No other U.S. company has been as dominant for as long as GE. Of the 12 firms that Charles Dow put into his original Dow Jones industrial average in 1896, GE is the only one still in the index, and most of the others are dead. Survival is another achievement to admire.

Could GE blow it? Sure. All it would take is a slight slackening of rigor, a tiny easing of standards, a growing taste for self-congratulation, and GE could go the way of Woolworth, Studebaker, and Bethlehem Steel.

Immelt quite properly says, “I would never run the company to be the most admired.” But because GE's stature is based on so much more than just a good year or two, alarm bells should go off in Fairfield, Conn., if it isn't at least in contention.

THE GE MYSTIQUE

General Electric matters—but don't just take FORTUNE'S word for it. We asked seven management experts, including four former GE stars, what makes America's most admired company stand out. **INTERVIEWS BY BETSY MORRIS**

Kevin Rollins

CEO OF DELL

GE is a major customer of Dell.

About three years ago Michael Dell and I met with GE management and discussed their leadership development programs. We knew that at Dell we were not growing our own leaders fast enough. We were having to hire from outside—and that demoralized our internal folks.

We wanted to study GE's model. So we sent an executive to go through the GE training program, then created a course tailored for our people. It has worked amazingly well. We have maybe 15 or 20 people in each course, once a year. They're taken offsite for two weeks and are immersed; it's all executive-taught. They come away with renewed energy to be a great leader but also renewed appreciation for the fact that Dell wants them to do well. Michael and I have spent a ton of time out there.

What makes GE the gold standard is the consistency of performance over a very prolonged period. I'm sure Jeff Immelt's pulled his hair out many times when people want to know what it was like to work with Jack Welch; and what's he doing that's like Jack Welch; and Jack Welch, Jack Welch, Jack Welch. But Jeff's a great leader and businessman in his own right.

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Kevin Sharer

CEO OF AMGEN

Worked at GE from 1984 to 1989, as a corporate strategist with Jack Welch and as CEO of the Americom satellite broadcasting unit.

GE has set a standard in leadership development in a way that all of us have benefited from. It has also set a standard in candor—that is, dealing with reality and rigor in communicating around the company. Everybody has a real chance to know exactly where they are. There is no puffery. That is buttressed by rigorous, fact-based, honest assessment of the business situation. There isn't an ounce of denial in the place.

In addition, there's a real pride in being part of GE—a common sense of purpose. It's well known but still worth noting that the operations and financial promises are not "we'll give

it our best shot" kind of promises. They're really sacrosanct. Finally, GE is aggressive. They think big and they take risks.

GE has been able to display these characteristics over decades, over CEO transitions, through business cycles. I think the sticking power of the place is a large part of why it's so admired. GE is able to just do it again and again.

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Clay Christensen

PROFESSOR, HARVARD BUSINESS SCHOOL

Author, *The Innovator's Dilemma* (1997).

GE is the best school of management in the world bar none. As innovators, though, I don't admire them very much. They have gotten new growth businesses through acquisition, but in terms of internally generated growth engines, they have not been famous for that in the last ten years.

The advantage of a GE-type structure is that every business unit has a finite life. A single monolithic business unit has a very hard time sustaining itself. But if you can create new growth within the corporate umbrella, then the corporation can sustain its prosperity even though the individual business units are dying. The major growth engine at GE has been GE Capital, which has disrupted the traditional banking structure. So it's been a great growth engine. But the fact that it's been a great growth engine in the past means it likely won't be in the future. That's my biggest worry for GE. I don't see a new engine of growth that's comparable to what they've enjoyed in the past.

One challenge is that the bigger a business gets, the less and less interest it has in small opportunities. And all the big growth markets of tomorrow are small today. I look at GE and the result of the past success is that their business units are now huge. So in theory, they can keep the growth going, but I think they'd have to slice the business up again. I've heard nothing about the awareness of the need to do that.

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Chris Kearney

CEO OF SPX

Senior counsel at GE's plastics business from 1988 to 1995.

I went from BorgWarner to GE. BorgWarner was a conservative, well-run company with a history of solid operating performance. Being thrust from that culture into GE was like the scene in *The Wizard of Oz* where it turns from black and white to color. Your eyes open to a totally different way of thinking and challenging yourself and the organization. I felt I was working with some of the best and brightest businesspeople on the planet.

There's a lot of GE DNA that runs through SPX, with GE people in key positions. What I've attempted to do is to create the sense of empowerment and lack of boundaries I felt at GE. Jack Welch challenged people not to grow incrementally but to create new markets. I've used that phrase here. Last year I was in China visiting one of our smaller businesses that makes home and commercial heating products. I was sitting in this room in this little factory, and they had the shades pulled and the projector on, and they were doing this slide presentation, talking about how many more products they were going to make in China to send to the U.S. I looked at them and said, "You guys need to get up and pull the shades and look out the window. There's a world exploding right here in your own backyard."

That's something ingrained in me from my GE Plastics days—to look at the world differently and figure out what you're not doing.

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Shelly Lazarus

CEO OF OGILVY & MATHER WORLDWIDE

GE board member since 2000.

I remember once, early on in my time on the board, Jeff Immelt was talking about an acquisition. He said now what they had to do was to "GE-ize" it. Everybody in the company knows what that means. To be able to attract talent—that's only the starting point—then to develop it so they have a pick of leaders who all believe in a common cause and are proud to be part of the institution. I think that is the magic.

People love being part of GE. It's like the highest state of being. One reason is that GE really is a meritocracy. It really does reward those who deliver. Everybody sees that it is the most successful people who are getting ahead. That inspires people to stay. It's a virtuous circle. The fact that the rest of the world also looks at GE and says, "My God, they are so successful, what a glorious company"—it just sort of feeds the sense of pride and belief insiders have to start with.

GE leadership spends a great deal of time thinking about people. That's not common. The head of HR comes to our board meetings because he is considered so crucial. People like working for a company where it's all about them, and about making them as successful as they can be.

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Larry Johnston

CEO OF ALBERTSON'S

President and CEO of GE Appliances from 1991 to 2001.

GE's 100-year-plus track record is simply about having the very best people at every single position. That is its No. 1 core competency. No one has better people. No one else's bench strength comes even close. It's that obsession with people that requires all GE leaders to spend a huge amount of their time on human resources processes—recruiting, reviewing, tracking, training, mentoring, succession planning. When I was at GE, I spent over half of my time on people-related issues. When you get the best people, you don't have to worry as much about the execution, because they make it happen.

Another secret that keeps GE ticking is the culture of life-long learning at the personal level and the concept of always trying to make everything better at the business level. The philosophy is that there is an infinite capacity to improve. Even if you're the best, you can get better. The real winners never stop wanting to get better.

At GE, a thirst exists to search out best practices. That "not invented here" syndrome just doesn't exist there. When I was in the appliance business, we learned a way to improve inventory processes from a tiny company in New Zealand. We ended up rolling it out across the entire company. It was a multibillion-dollar idea. It wasn't something we invented, but our people were constantly on the lookout for those kinds of ideas. That sets GE apart.

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Noel Tichy

DIRECTOR, GLOBAL LEADERSHIP PROGRAM, UNIVERSITY OF MICHIGAN BUSINESS SCHOOL

Head of GE's Crotonville leadership development program from 1985 to 1987.

Jeff Immelt took over in 2001 with a 20-year run ahead of him. That was a tough time—the end of the bubble, 9/11, corporate scandals. He has been able to look at the situation he is in and zero-base GE. What do we keep? What don't we keep? Jeff's answer was to propose a new set of values—imagine, solve, build, and lead. These fit with his agenda of moving into whole new sets of businesses, from energy to customized medicine. Jeff is doing what his predecessors did before him: transforming GE to fit tomorrow's world.

The stock price often takes a while to catch up to what GE is doing. The Most Admired survey may be a leading indicator; it appears to recognize that this guy—in terms of technology, globalization, and initiatives like eco-imagination and recommitment to GE's R&D tradition—has turned the dial up considerably.

I talk to a lot of CEOs, and they watch Jeff very carefully. He's also a very easy human being to hang out with. — *Interview by Geoffrey Colvin*