FT REPORT - WORLD'S MOST RESPECTED COMPANIES

Two giants share vital attributes
Durability, stability and growth put General Electric and Microsoft top of the table
By Michael Skapinker

If there is one thing that business leaders respect above all in a company, it is consistent domination of an industry over many years.

This is the seventh year that the Financial Times and PwC have asked chief executives which companies in the world they respect most and, each time, they have given the same answer: The company we respect most is General Electric, followed by Microsoft.

It was the longevity of the two companies' achievement that so impressed the chief executives interviewed, 915 of them across 25 countries. One respondent said of GE: "I respect their durability, stability and continuous growth over decades." Another paid tribute to GE's "sheer scale".

Microsoft is a far younger company than GE, but many chief executives marvelled at how powerful it was. "They are so dominant and successful," one respondent said.

Others may carp at Microsoft's hold on its industry, but not the chief executives interviewed here. They would no doubt love to occupy a similar position with their own businesses. "They have a monopoly," said one admirer. Another chief executive said the reason he respected Microsoft was simple: "They rule the world."

GE and Microsoft are not the only companies that have retained respondents' respect throughout the time we have been running these rankings.

The top five companies this year have been in the top 10 in each of the past seven years: Toyota and IBM, in third and fourth places respectively in 2004, have always been near the top of our list.

Coca-Cola is also a perennial presence in the top 10. It is fifth this time, up a place, in spite of its recent leadership troubles, which saw Douglas Daft replaced as chief executive by Neville Isdell. The comments of the chief executives we interviewed show that they regarded Coca-Cola's reshuffle as a temporary difficulty; most of them focused instead on what the company had achieved over the decades.

"There's hardly any village in the world where Coca-Cola isn't known," one chief executive said. "For 100 years, they have maintained dominance," said another. "A fabulous brand story," commented a third.

Places eight to 10 on our most respected list are occupied by new faces: all three companies have risen sharply this year.

Eighth place is held by Citigroup. Some may be surprised to see the financial services giant rising from 31st last year, given its regulatory problems on three continents.

Citigroup's performance is analysed elsewhere in this report, but chief executives made it clear that they still admired the group, in spite of its ethical problems, because of its size, the worldwide nature of its operations, and how long it had been around.

Many of the respondents have clearly seen Citigroup at work in their own countries. "I like their global presence, the way they look and their approach to customers," one chief executive said. "They are a big company, but they stay in touch with local customers."

Procter & Gamble has gone from 18th place last year to ninth in 2004, with respondents commenting favourably on the company's brands, marketing and ability to regenerate itself. The other rising company in the top 10 is Hewlett-Packard, up from 29th to 10th. Carly Fiorina, its chief executive, is given great credit from respondents for successfully integrating Compaq.

While the consequences of the corporate scandals of the past few years continue to reverberate, most chief executives have turned their attention to how to win back investor and public confidence. It is noticeable that most of the companies that won overall respect also won high marks for the quality of their corporate governance.

GE received the highest rating for its corporate governance from business leaders. Several chief executives commented on the quality of the information published by GE. Its corporate governance structure was transparent and easy to understand. Chief executives thought it was no accident that GE had managed to maintain its reputation for ethical behaviour.

"After all these years, they have never been brought into disrepute," one chief executive said. Another commented: "The complexity of their business makes their ability to stay out of trouble more impressive."

Respondents also commended GE for the way it handled the transition from Jack Welch, its long-serving boss, to Jeff Immelt, its current chief executive. "The structure of top management has survived Jack Welch. It has held up. They do not cut corners," one chief executive said.

The same was said about the company chief executives rated second for the quality of its corporate governance: IBM. "Good and very transparent policies, a high standard of corporate governance - and no scandals," said one chief executive.

Several respondents mentioned different companies' approach to top executive remuneration. One chief executive said of IBM: "It recognises its responsibility to shareholders. It won't give extravagant pay packets for mediocre work."

A striking feature of the top four companies, GE, Microsoft, Toyota and IBM, is that they were in the top 10 on every criterion we asked chief executives about: in addition to overall respect and corporate governance, chief executives also put them in the top 10 for corporate social responsibility and innovation.

Fund managers named Microsoft and GE respectively first and second for generating shareholder value.

What about wider constituencies? Campaigning organisations put Microsoft first and IBM second for corporate social responsibility, although they did not rate GE or Toyota highly.

The campaigners did, however, award Microsoft, GE and Toyota the first three places for their corporate governance.

Another notable feature of our survey of international business opinion, is how dominant US companies remain.

Whatever reservations people around the world may have about recent US foreign policy, they still look to US companies for lessons in how to run a business.

Toyota, the Japanese carmaker, is the only non-US company in the top 10. Of the top 50 companies, 26 are American.

The only other countries with any substantial representation are Germany, with six companies in the top 50, Japan with five and the UK with three, or five if you include Anglo-Dutch groups Unilever and Royal Dutch/Shell.

It is not only the most respected companies that have been remarkably consistent over the years; so have the industrial sectors they represent.

You might expect that the move away from heavy manufacturing to services in most developed countries would be reflected in our rankings.

You would imagine, too, that the bursting of the dotcom bubble would be seen in the decline of information technology, telecommunications and electronics companies at the top of the table.

Neither of these assumptions turns out to be true.

The number of engineering companies in the list of the 50 most respected companies has declined from 14 to 10 since 2002, but it is higher than the eight engineering companies that appeared in the top 20 in 2000.

There are more companies in the top 50 from the engineering sector than there are from any other industry.

There are eight IT companies in the top 50 this year.

That is two fewer than there were in 2000, but two more than there were in 2003.

Qualities that business people most admire
By Michael Skapinker

Respected captains of industry - though disparate - generally show great vision, tenacity and creativity. What does it take to become one of the world's most respected business leaders? You do not have to be the current head of a company - you do not have to run a company at all. Asking the world's chief executives which of their colleagues they most respect produces some unexpected results.

Let us start at the top. The world's most respected leader is still active, even if he has stepped back from day-to-day management. Bill Gates, founder of Microsoft, is this year's most respected business leader, as he was last year and the year before.

Why do his fellow chief executives rate him so highly? "Because he is a genius, with creativity and a vision of the market," one business leader says. Another says: "You can't argue with the astonishing vision that has got him where he is. Sheer brilliance."

Several admired his personal story and the fact that he created a new company, rather than joining an established one. "He started from nothing and became an internationally successful businessman. I admire that," one of our respondents says.

The next name on the list is not a surprise, because he has been on it in each of the seven years we have asked chief executives to nominate their favourite business leader. But perhaps it should be a surprise, because Jack Welch stepped down as chairman and chief executive of General Electric in 2001. His departure from the helm of GE and his divorce - which brought his array of lavish retirement perks into the public eye - have done nothing to dim the esteem in which he is held by his peers. His second place in this year's ranking is, in fact, one higher than last year.

Why do people still respect Mr Welch? "He changed the way corporations operate and exerted an influence on leaders of industry," one chief executive says. "He is an icon," says another.

Mr Welch is not the only business leader to make the list after his days of management glory were over. Lee Lacocca, of Chrysler fame, is in 11th place, while Lou Gerstner, the man who refashioned and revived IBM is 15th. Sam Palmisano, Mr Gerstner's successor, does not go unrecognised. He is one place below, in 16th.

Encouragingly for GE, Jeffrey Immelt, Mr Welch's successor, also scores highly. He is the seventh most respected business leader this year, up from tenth place last year. "He's done a great job since he's taken over," one respondent says. Another comments: "He's picked up the ranch from Jack well and has been a very successful man." Respondents admire Mr Immelt for what they saw as his own qualities. "He is very ethical; he has very high morals in business," one fellow chief executive says.

Third place is no surprise. When Renault acquired control of Nissan, then in serious trouble, one US automobile chief executive says the company would have been better off "buying Dollars 5bn worth of gold bars, putting them on a ship and dumping them in the middle of the Pacific." To prove him wrong, Renault sent Carlos Ghosn, a French Lebanese-Brazilian to run the

Japanese manufacturer. The Nissan turnaround successfully accomplished, Mr Ghosn is returning to Paris to head Renault, too.

The next few places in our ranking are occupied by some familiar names. Warren Buffett, the fabled investor and head of Berkshire Hathaway, wins his customary plaudits. "He is extremely smart," says one chief executive. "He says he only does things he understands." Several chief executives referred to the way Mr Buffett declined to invest in internet companies when others were rushing to do so. "He sticks to his fundamentals and does not follow trends or fashions," one respondent says.

Michael Dell, founder of the eponymous computer company, the fifth most admired business leader, wins plaudits for selling his products directly over the telephone or the internet and bypassing the retail trade. "He's just completely changed the whole nature of the industry," says one of the interviewed CEOs.

Hiroshi Okuda of Toyota, in sixth place, wins recognition for "his long-term approach to building a very large brand".

Three of Europe's airline pioneers appear in various places on the list. Richard Branson, creator of Virgin Atlantic and many other companies, is in 12th place. Our respondents admired Mr Branson for being innovative and different. "He's an interesting personality," one chief executive says. "He's aggressive and can be crazy, but he built brand value quickly."

Stelios Haji-Ioannou, founder of the low-cost airline EasyJet, makes his first appearance, in 32nd place. Michael O'Leary, head of Ryanair, is at 61st.

In 17th place is proof that you do not have to run a business at all to be one of the world's most respected business leaders. Alan Greenspan, chairman of the US Federal Reserve, has, as one of the respondents said, "the biggest job that I can think of".

Another chief executive describes him as a "magician of economics".

There is only one woman on the list: Carly Fiorina of Hewlett-Packard. She is high up - in eighth place, one higher than in 2003. She wins respect for her company's merger with Compaq. But, depressingly for those who look forward to chief executives being judged for what they do rather than their gender, many of our respondents admired Ms Fiorina for being a woman at the top. "She has made Hewlett-Packard. She also proved that a woman can do it, which we all like," says one of her fellow chief executives.

Executives dream of brilliant boardrooms - FANTASY MANAGEMENT: Survey reveals surprising choices
By Michael Skapinker

Asking chief executives which figures from history they would have on their boards was bound to produce a wildly divergent list - and it did.

Jack Welch bumps up against Winston Churchill. Nelson Mandela swaps management tips with Leonardo da Vinci. Michael Dell exchanges supply chain snarl-up stories with

Napoleon Bonaparte. Mahatma Gandhi talks corporate social responsibility with Bill Gates.

For the record, our exercise in fantasy management put Mr Welch at the top of the chief executives' wish-list, followed by Bill Gates, Winston Churchill, Carlos Ghosn and Jesus Christ.

Others on the list ranged from Thomas Edison and Walt Disney to Richard Branson and Tony Blair, and from Warren Buffett and Sam Walton to Martin Luther King and Alexander the Great.

Some of the responses suggested that our chief executives were not being entirely serious in their choices. A few said they wanted Jesus Christ on their board of directors because their companies could do with a few miracles.

But the exercise helped chief executives ponder a different question: If you could get away from the humdrum directors that are actually available to you, what sorts of people would you really like to help you run your company?

Who could provide the skills and insights that your existing directors do not have? If you were not constrained by the here-and-now, who would you most like to see when you walked into the boardroom?

Assembling a fantasy leadership team poses the most basic of questions: What does leadership mean?

Some clearly hoped for a little more glamour than was now on offer around their boardroom tables. "Charisma, leadership and a bit of fun," was one chief executive's reason for wishing he could recruit John F. Kennedy to his board.

Several of our respondents wished they had got hold of some of the world's best known entrepreneurs at earlier stages in their careers. Looking at what Bill Gates has made of Microsoft, one chief executive said: "I wish he had done the same for my company."

Many clearly wished they had thought of recruiting Mr Dell before he set up on his own - although we will never know whether entrepreneurial leaders such as Mr Gates and Mr Dell would have thrived in conventional, established companies; almost certainly not.

The presence of such names on the list as Albert Einstein and Leonardo da Vinci showed a different desire: for innovation and some original thinking. Several said they would have liked to know what some of history's greatest minds would have made of today's business world.

"I would love to transport his brilliant mind into 2004 to see what he could do," one respondent said of Albert Einstein. "He invented things way ahead of his time, which would be more than valuable to us," was another chief executive's reason for wanting Leonardo da Vinci on the board.

An inventor with business acumen would have been even better for some of our respondents. Several chief executives were enthusiastic about the idea of having Thomas Edison on their boards and in their business leadership team. "He had a unique combination of intelligence and entrepreneurship. He was an excellent leader who built an excellent organisation."

Some respondents were not looking for new ideas, but for the successful implementation of old ones. That was why one chief executive would have liked Henry Ford as a fellow director. Ford invented the system of mass production, which, with various refinements, we are still using.

Aggression and certainty were what the chief executives who opted for Julius Caesar were looking for. "A strong character. He thought he was right," said one chief executive. "He was very aggressive in his approach to success. He would be highly successful in business today," another responded.

The Mandela and Gandhi names appeared to point to a very different desire: for more humane, ethical organisations. As one of the more serious respondents who nominated Jesus Christ, said: "I think we need a stronger moral base and philosophy than we have today."

Others clearly think that business today lacks vision and could do with some of the ambitious goals that an earlier generation of political leaders had set for their countries.

One of the chief executives who nominated Kennedy said of the late US president: "In the 1960s, he managed to spread an atmosphere of pressing forward - that we can go to the moon." Another said: "He was a strong leader and a good communicator. He will stay in the minds of the whole world for a long time."

Churchill evoked similar sentiments. "He proved his strength in the most difficult situation, under extreme pressure and took responsibility," was one response. Another CEO wanted him on the board because he was "absolutely respected as a leader and every company needs that". One chief executive said: "He was probably the greatest man of the 20th century. An asset to any organisation."

Another said he would have wanted Churchill as a director of his company purely for selfish reasons - "solely because I'd love to talk with him". At least one chief executive was realistic enough to know that having Churchill as a director would not make board meetings any easier to run. "It would be trouble on the board."

The need for a new sense of possibility also appeared to lie behind those chief executives who wanted Walt Disney as a member of their team.

It was his ability to imagine a different business proposition that attracted them. "His name represents imagination, optimism and dreams," one respondent said.

Challenges are greater than ever
It's time to rebalance the boardroom agenda, says Kieran Poynter, chairman of PricewaterhouseCoopers.
By Kieran Poynter

In reviewing the findings of this year's report on the World's Most Respected Companies, I was reminded of another piece of research that one of my team carried out recently with the UK investment community.

That research initiative, conducted among investors and analysts, revealed a striking degree of consensus among the respondents.

Asked what single change would most improve their ability to do their job, they said: "We would like to be able to work out how quickly a company is growing."

This does not seem too unreasonable a request. But it is one which has become more challenging in the current environment. And a key reason for this is that the pressure to demonstrate regulatory compliance is all too often coming to dominate the board agenda, forcing to one side key issues such as innovation, customer focus, strategy formulation, calculated commercial risk-taking, and transparency about all these true driving forces of shareholder value.

The link with the World's Most Respected Companies is clear. Look at the close similarity between the topmost reaches of the overall global rankings, and the table for innovation which we publish this year for the first time.

The companies attracting the strongest and most durable respect are those that continue to innovate, take risks and challenge existing thinking. It is no coincidence that so many of the most respected leaders are visionary ground-breaking entrepreneurs, and that the rankings for "dream" board members from history are dominated by pioneering geniuses, ranging from Einstein to Da Vinci, and from Edison to JFK.

While visionaries still represent the ideal, it is not hard to see why compliance has become such a focus for many boards in recent years. The corporate sector worldwide has been battling its way through the cultural and regulatory backlash that followed the scandals of the early 2000s.

We have seen regulations such as Sarbanes-Oxley in the US, and the new combined code and operating and financial review statement in the UK. These are often criticised for pushing companies towards box-ticking routines which do not in themselves result in well-managed, ethical businesses with high levels of integrity and trust.

Not surprisingly, the seismic shifts in the corporate landscape in recent years have had an equally profound impact on the accounting profession. More than ever, reputation is now core to the profession's sustainability.

And however great the quality and professionalism of an accounting firm's staff, its reputation is to a large extent determined by the reputation of its clients.

So how do the consistently high-performing companies in these rankings maintain their position year-on-year? This comes back to the right boardroom agenda.

At times such as this in the business cycle, organisations need to work hard to maintain a sensible balance between managing downside risk and exploiting upside opportunity.

The temptation, given the events of recent years, has been to adopt a lopsided focus on covering the downside, often in a mechanistic way.

The world's most respected companies know the importance of regulatory compliance and demonstrably sound corporate governance. But they also keep these requirements in perspective. They do not forget that the real reason for being in business is to create wealth - and that a continuing focus on innovation in all its forms is pivotal to a company's ability to build value and reputation.

As our rankings confirm once again, the most respected companies are those that combine an outstanding track record of value creation, with the culture and strategy to sustain that value creation into the future. But a closer look shows many of them have something else in common. Within the past few years, a large proportion have effectively bet their company on a ground-breaking idea or transformation.

All companies of every size need to get their governance, systems and controls right. But this survey underlines the critical need for boards to take a balanced approach to these imperatives, and to remain focused on the real ingredients of long-term value: innovation and risk.