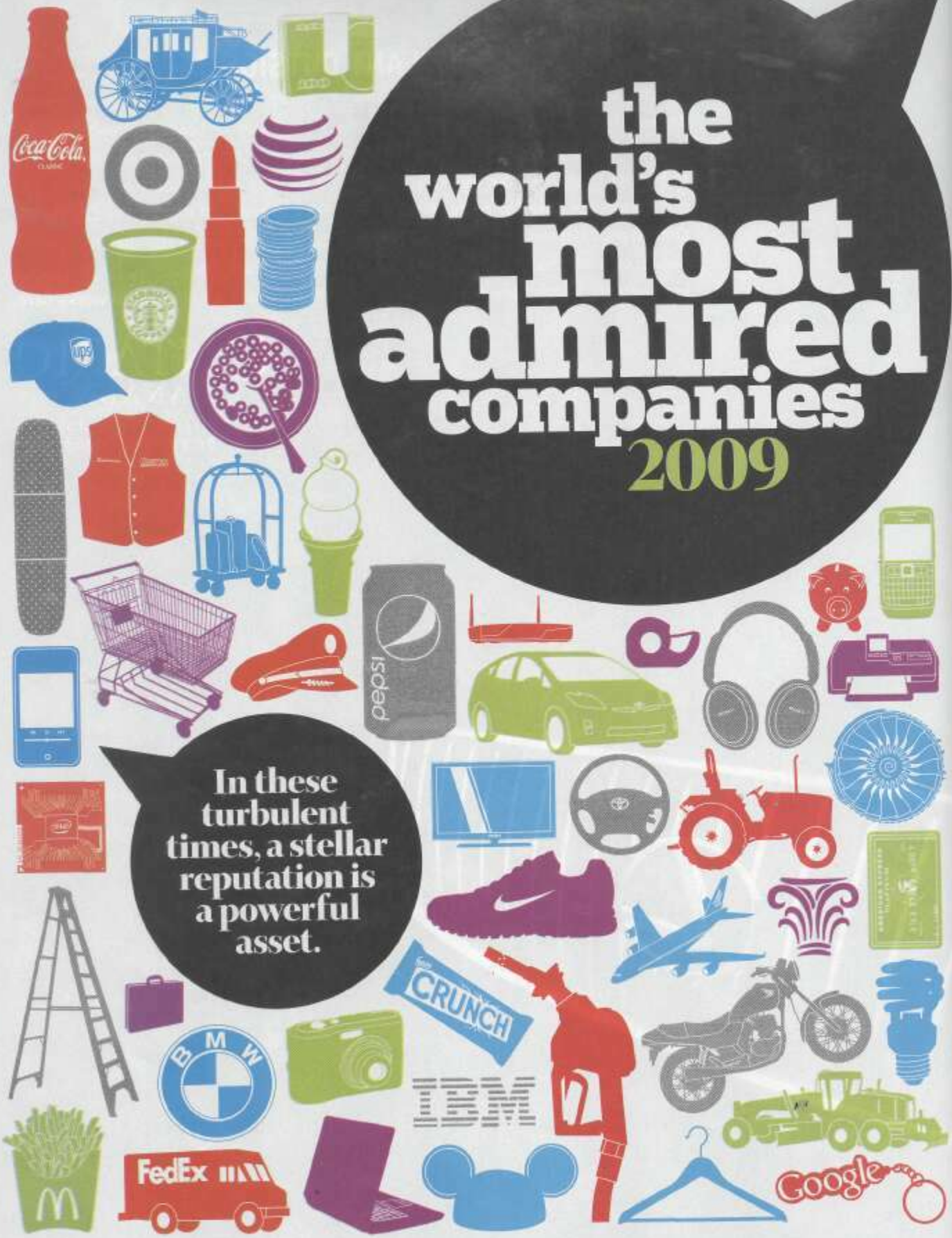
the world's most admired companies 2009

In these turbulent times, a stellar reputation is a powerful asset.



ILLUSTRATIONS BY PETE SUCHESKI

THE WORLD'S MOST ADMIRED COMPANIES? In this environment isn't that sort of like the World's Most Trusted Con Men? World's Nicest Pit Bulls? Most Beautiful Slag Heaps? Isn't it just one giant contradiction? ¶ Actually, it isn't. The most admired companies in the world are truly admired still. It shouldn't be surprising: Any company that can perform well and maintain its good name during the worst recession in 75 years is arguably more admirable than the best performer during boom times. That's why *Fortune*'s new corporate reputation rankings remain critically important this year. With admiration in such short supply, it's more valuable than ever—and in a season of global economic tumult, reputation is more volatile than ever. ¶ For the first time, we present this year a single global ranking of corporate reputations. With the interlinked nature of the world economy painfully clear, it no longer made sense to generate separate lists of American and global companies. We've expanded this new directory beyond our previous global list to create the most comprehensive worldwide reputation ranking anywhere (for methodology, see box, "How We Conduct the Most Admired Survey," in "The List of Industry Stars").

And what a year to do it, as recession, corporate collapse, and scandal rolled around the world, hammering the reputation of business overall. The latest Trust Barometer from the Edelman public relations firm, which gauges trust in business and other institutions (but not in individual companies), found vertiginous drops in regard for business. Across 20 countries, 62% of respondents say they trust business less now than a year ago. Trust in U.S. business is even lower than it was after Enron and the dot-com bust.

Trust in U.S. business is even lower today than it was after the Enron scandal and the dot-com bust.

Little wonder that we see increasing evidence of companies growing jealously protective of their reputations. Leslie Gaines-Ross, whose job at the Weber Shandwick public relations firm is helping companies build and fix reputations, recently experienced a first: She was asked to testify as an expert witness in a lawsuit over a company's damaged reputation. Morgan Stanley's new bonus plan specifies that bonuses can be clawed back from employees who cause "reputational harm" to the firm. You can even buy reputation insurance: A new product from the insurance broker Lockton will, in certain circumstances, "reimburse the named insured for reputation harm."

All of which makes you wonder what the Most Admired Companies have—how they built and manage to keep this ever more precious asset of a sterling reputation. The Hay Group management consulting firm, which collaborates with Fortune on the Most Admired research, has uncovered some answers. Most important is a strong, stable strategy, which confers important benefits in unstable times. Companies that change strategies must usually change organizational structures as well, and making that change in a recession is a heavy burden just when corporations can bear it least. It forces employees to focus inward rather than outward and becomes a giant sink of time and energy.

By contrast, companies whose strategies hold up in a recession, like those in the Most Admired, can press ahead undistracted and make major competitive gains. A good example is Southwest Airlines, No. 7 on the list and a Most Admired company for the past 13 years. It hasn't changed its strategy because of the recession—in fact, it hasn't changed it in 38 years. As CEO Gary Kelly notes: "To this day we still operate one aircraft type, [the Boeing 737]. We still fly in the domestic U.S. We still operate with a single class of service. We just try to be really good at what we do." The Southwest strategy has worked great throughout business cycles, but it's especially effective now. As a low-fare carrier, says Kelly, "we tend to do very well comparatively in a recession-era environment, and we'll probably pick up a lot of business."

Southwest's example isn't unusual. Hay Group found that, in general, less admired companies change structures far more often than the Most Admired, the main reason being a strategy switch. An extreme example is the Detroit automakers, which are turning themselves inside out as they seek strategies for survival at a moment when they should be focused on serving buyers. By contrast, the Most Admired "are more confident in their strategies and as a result are more likely to use this opportunity for rapid expansion and a chance to take market share," says Mel Stark, who oversees Hay Group's research on the Most Admired. He found that the Most Admired are far likelier to be expanding globally now than are their less admired peers.

Just look at Coca-Cola (No. 12). Says CEO Muhtar Kent: "One thing we don't do in this crisis is cut marketing around the world. We continue to make sure that our brands stay healthy and that we exit this tunnel with more market share than when we went in." For strong companies, now is an especially good time to do that: "Crises offer you the best opportunity to communicate with consumers

THE 50 ALL-STARS*

because airwaves are cleaner—there's much less congestion there," Kent points out.

Or consider McDonald's (No. 16), the rare company whose stock is actually higher than it was a year ago. CEO Jim Skinner says that in the 1990-91 recession, "the U.S. represented 58% of the revenues. Today it's only 35% of the revenues. We're in 118 countries." And not all of them are in recession, which makes them great places to find growth now.

Since the right strategy means a company needn't mess with its organizational structure, you may wonder what that magical winning structure is. Turns out there isn't one. Centralized, decentralized—the Most Admired have every type of structure, Hay found. Similarly they share no common operating model. They'll even do the same things differently in different parts of their own company. "Procter & Gamble manages its brands very differently in developed markets than it does in developing markets," Stark observes.

What the Most Admired do share is a focus on identifying and developing talent globally. That's how they make those widely varying structures and operating models succeed: by spending plenty of money and effort on training managers to work within them. Johnson & Johnson chief Bill Weldon says one of the most important things his company (No. 5) is doing is "helping employees recognize that we're going to continue to invest in them and their development."

With admiration in such short supply today, a company's reputation is more valuable than ever.

Even admired companies may have to lay people off in a historic recession; many on the list have done so. But because they realize the importance of human capital, their leaders try hard to avoid it. Southwest, famed for its titanium-strength culture, has never had layoffs. CEO Kelly makes no promises about maintaining the streak—"No one can predict how this year is going to unfold"—but he understands what's at stake. "It's one thing to say it, but you have to prove to your people that you really do love them and care about them," he says. "And if you have layoffs every five years, or if you make a promise to your employees that you don't fulfill, and you do that often, well, it's kind of hard to hold out that your employees are really the most valued part of the company."

FedEx (No. 7) has undergone layoffs, but it has also cut pay, and the higher you go in the company, the greater the percentage cut. That saves jobs and helps stabilize the company. "All of our management compensation is heavily related to the performance of the company," says founder and CEO Fred Smith. "At the first-line management level it's maybe 15% or 20%. At my level it's 90%. So obviously, as the economy has gotten weaker,

a lot of that expense has simply gone away." On top of those automatic adjustments, FedEx also announced in December that it was cutting the pay of salaried employees by 5% this year. Smith cut his own pay 20%.

Emulating those practices can do much to improve any company's performance and reputation. As always, and especially in this eventful period, other factors can also influence reputation, sometimes dramatically. A company's leader is critically important. Satyam Computer Services, once a leading Indian outsourcing firm, has thousands of smart, energetic, loyal employees—but had one crooked CEO. The company was successful but is now for sale because that one man destroyed its name. Gaines-Ross of Weber Shandwick says, "The leader still makes or breaks a company's reputation—we should never forget that."

In general the Most Admired are led by long-serving chiefs whose successions are orderly, no-surprises transitions. For that reason this may be a critical period for the No. 1 company, Apple. Steve Jobs, its CEO, co-founder, and guiding spirit, is on a six-month medical leave. Maybe he'll come back and serve many more years at the top. But if a transition is in the offing, Apple's knockout reputation will depend heavily on how the handoff goes and how the company holds up.

Similar issues will eventually face Berkshire Hathaway (No. 2), which is unimaginable without Warren Buffett. The reputational stakes are high: Berkshire is one of only three companies that have ranked No. 1 in their industry in all of our global Most Admired surveys, which started 12 years ago (the other two are General Electric and Procter & Gamble). But since Buffett seems hale and hearty at 78, we don't know when the issue will arise.

A company that faltered by this measure, but then found its footing, is Coca-Cola. After three messy successions, it has just completed a smooth and well regarded one, as Neville Isdell handed the CEO's job to Kent. The company has jumped from No. 19 to No. 12 in our ranking.

Now—more than in many years—a company's industry can also affect its reputation. One of the more striking social phenomena of the moment is that absolutely no one seems willing to identify himself or herself as a banker. No wonder. Edelman's Trust Barometer finds that in the U.S., trust in banks among 35- to 64-year-olds has dropped from 69% to 36% in just the past year.

Yet all trends can be defied. Look down our Most Admired list, and you'll find that the top 20 include three very powerful banks: J.P. Morgan Chase, Goldman Sachs, and Wells Fargo. In fact, Wells Fargo was No. 38 on last year's U.S. list but has jumped to No. 14 in the new global ranking. The bank bailed out of subprime mortgages in time to avoid disaster and remained strong enough to buy Wachovia when it went over the edge last fall.

That big move up exemplifies the most powerful lesson from the new survey. A time of economic misery doesn't have to harm a company's reputation. On the contrary, there's no greater opportunity to stand out. When so many are scorned, what better chance to be admired?

The word's most admired companies 2009. **Fortune**, Amsterdan, v. 159, n. 5, p. 36-39, March. 2009.