Who's Generating Real Economic Value?

The fifth annual ranking of CEOs who have created real economic value underscores what Jim Collins once observed, "that good to great does happen" once you understand the "underlying variables that make it happen."

by J.P. Donlon

Now in its fifth year, the annual ranking of the *Chief Executive*/Applied Finance Group wealth creators—and destroyers—attempts to capture those business leaders who best generate real economic value, as opposed to accounting value. With analysis from Drew Morris of Great Numbers!, *Chief Executive* seeks to identify those leaders whose companies have created real returns in excess of their risk-adjusted cost of capital.

There is no single performance metric that is without some shortcoming. All measures involve trade-offs, but we find that Economic Margin (EM) comes very close until something closer to perfect is devised. EM is expressed as a percentage and calculated as operating cash flow minus a capital charge and divided by invested capital. CEOs of enterprises with positive EM are generating wealth; those with negative EM are destroying it. To reduce the effects of predecessor policies that may affect performance, we only rank public companies whose leaders have been occupying their CEO position for a minimum of three years. We use the S&P 500 because the data needed is public; however, the principles involved apply to any for-profit enterprise. (For more detail on our methodology, see "Ranking CEO Wealth Creation," p. 59.)

Topping this year's list was New York-based Coach, the $4.7 billion handbags and accessories maker led by Lew Frankfort. The company, which ranked 84 last year, has been in the top 100 for the past three years. Coach, which started out in 1941 as a family-run women's accessories firm and was briefly owned 20 years ago by Sara Lee, was hit hard in the 2008 recession. Coach uses a flexible, cost-effective global sourcing model in which independent manufacturers supply its products. This allows the company to bring a broad range of products to market rapidly and efficiently. Its profitability hit all-time lows in 2009. With a low starting point and an incredible snapback that was helped by running an excellent business (great inventory management, strong marketing, impressive sales initiatives at stores and a core product in high demand), Frankfort and his

2012 Top 10 Wealth Creators

	CEO	COMPANY
1	Coach	Lew Frankfort
2	Philip Morris	Louis C. Camilleri
3	Fastenal	Willard D. Oberton
4	ONEOK	John W. Gibson, Jr.
5	Cameron International	Jack B. Moore
6	Alexion Pharmaceuticals	Leonard Bell, M.D.
7	Discover	David W. Nelms
8	T. Rowe Price	James A. C. Kennedy
9	National Oilwell Varco	Pete Miller
10	W.W. Grainger	James T. Ryan

team achieved a near-perfect score while shooting past other high performers such as Phillip Morris, Fastenal and ONEOK. [*Note: An abbreviated list begins on the page opposite, for the full list, visit ChiefExecutive.net/2012WealthCreators.*]

Coach's steady rise is marked in contrast by the precipitous fall of Express Scripts, which ranked No. 1 in 2011. Following years of consolidations among pharmacy benefits managers (PBMs), St. Louis-based Express Scripts completed its $29 billion merger with Medco Health Solutions, creating the largest PBM with $116 billion in annual revenues. As a result, however, the combined business is not as lucrative as the standalone business, dropping Express Scripts to 198 in the rankings.

We note with interest that a good number of companies have held onto their placement among the top 100 over the years even though their relative rankings may have jumped up and down from year to year. These include Allergan, American Express, Autozone, CF Industries, CH Robinson, Marsh & McLennan, Rockwell Automation, Priceline.com, T. Rowe Price and U.S. Bancorp, among others. These companies all have at least two things in common: high EM factor relative to their industry sector and a stable (i.e. non-cyclical) economic margin. They do this by having a sustaining customer advantage by fulfilling an unmet customer need. Most of these firms also have rock-solid balance sheets and low capital requirements, which allows them to re-invest profits faster than companies with debt and high capital requirements.

The elements of wealth creation are not confined to these ranked companies. Any number of privately held companies can apply the principles discussed here regardless of ownership status (see sidebar, p. 58). Create a long-lasting competitive advantage, differentiate your offerings based on value, fulfill unmet or under-served customer needs, stay the course and everything should fall into place. In fact, private companies have some advantages that listed ones do not. In recent years, many investors have favored firms that pay a steady dividend, looking at the equity markets as a supplement to their fixed-income portfolios. Privately held firms don't have to worry about dividends, as such, and can keep a close eye on debt and a solid balance sheet.

Keep in mind that, like all lists, this one has a starting point. Five years ago, the world was a scary place. Many businesses were affected by the recession. Some companies now rising to the top bottomed out in 2008/2009 and have come back strong. MasterCard, which topped the list in 2009, isn't ranked this year because the new CEO, Ajay Banga, who took over from Robert Selander, doesn't qualify under the "three-years-on-the-job" rule, but its performance has been fairly steady the whole way. The lesson here is that good businesses will suffer hardship from time to time, but this tends to be short-lived and management needs to stay the course with its star fixed on these wealth-creation principles.

Overall Rank	Company	CEO	2012 Score	2011 Score	Change In Score	Market Value/Invested Cap.	3-Year Economic Margin	EM Change	Management Quality
1	Coach	Lew Frankfort	[illegible]	[illegible]	[illegible]	A	A	A	A
2	Philip Morris	Louis C. Camilleri	[illegible]	[illegible]	[illegible]	A	A	A	A
3	Fastenal	Willard D. Oberton	[illegible]	[illegible]	[illegible]	A	A	A	A
4	ONEOK	John W. Gibson, Jr.	[illegible]	[illegible]	[illegible]	B	A	A	A
5	Cameron International	Jack B. Moore	[illegible]	[illegible]	[illegible]	A	A	B	A
6	Alexion Pharmaceuticals	Leonard Bell, M.D.	[illegible]			A	B	A	A
7	Discover	David W. Nelms	[illegible]	[illegible]	[illegible]	A	A	A	A
8	T. Rowe Price	James A. C. Kennedy	[illegible]	[illegible]	[illegible]	A	A	B	A
9	National Oilwell Varco	Pete Miller	[illegible]	[illegible]	[illegible]	B	A	A	A
10	W.W. Grainger	James T. Ryan	[illegible]	[illegible]	[illegible]	A	B	B	A
11	C.H. Robinson Worldwide	John P. Wiehoff	[illegible]	[illegible]	[illegible]	A	A	C	A
12	Fossil	Kosta N. Kartsotis	[illegible]			A	A	B	A
13	Rockwell Automation	Keith D. Nosbusch	[illegible]	[illegible]	[illegible]	A	B	A	A
14	Sherwin-Williams	Christopher M. Connor	[illegible]	[illegible]	[illegible]	A	B	B	A
15	SLM	Albert L. Lord	[illegible]	[illegible]	[illegible]	B	A	A	A
16	Autozone	William C. Rhodes, III	[illegible]	[illegible]	[illegible]	A	A	C	A
17	Wynn Resorts	Stephen A. Wynn	[illegible]	[illegible]	[illegible]	B	B	A	A
18	Franklin Resources	Gregory E. Johnson	[illegible]	[illegible]	[illegible]	A	A	C	A
19	F5 Networks	John McAdam	[illegible]	[illegible]	[illegible]	A	C	A	A
20	Perrigo	Joseph C. Papa	[illegible]			A	C	A	A
21	Precision Castparts	Mark Donegan	[illegible]	[illegible]	[illegible]	A	A	C	A
22	Monster Beverage	Rodney C. Sacks	[illegible]			A	A	C	A
23	Varian Medical Systems	Timothy E. Guertin	[illegible]	[illegible]	[illegible]	A	A	C	A
24	American Express	Kenneth I. Chenault	[illegible]	[illegible]	[illegible]	A	A	D	A
25	Brown-Forman	Paul C. Varga	[illegible]	[illegible]	[illegible]	A	A	B	A
26	Starbucks	Howard D. Schultz	[illegible]	[illegible]	[illegible]	A	B	B	A
27	Ross Stores	Michael Balmuth	[illegible]	[illegible]	[illegible]	A	A	C	A
28	Halliburton	David J. Lesar	[illegible]	[illegible]	[illegible]	B	A	C	A
29	Edwards Lifesciences	Michael A. Mussallem	[illegible]	[illegible]	[illegible]	A	C	B	A
30	Dominion Resources	Thomas F. Farrell, II	[illegible]	[illegible]	[illegible]	A	B	C	A
31	CF Industries	Stephen R. Wilson	[illegible]	[illegible]	[illegible]	C	A	B	A
32	Robert Half	Harold M. Messmer, Jr.	[illegible]	[illegible]	[illegible]	A	D	A	A
33	Nike	Mark G. Parker	[illegible]	[illegible]	[illegible]	A	A	C	A
34	Estée Lauder	William P. Lauder	[illegible]	[illegible]	[illegible]	A	C	A	A
35	Chipotle Mexican Grill	Steve Ells	[illegible]	[illegible]	[illegible]	A	B	C	A
36	TJX	Carol M. Meyrowitz	[illegible]	[illegible]	[illegible]	A	A	C	A
37	U.S. Bancorp	Richard K. Davis	[illegible]	[illegible]	[illegible]	A	B	C	A
38	Allergan	David E.I. Pyott	[illegible]	[illegible]	[illegible]	A	C	B	A
39	McGraw-Hill	Harold W. McGraw, III	[illegible]	[illegible]	[illegible]	A	A	A	C
40	IntercontinentalExchange	Jeffrey C. Sprecher	[illegible]	[illegible]	[illegible]	A	A	D	A
41	Priceline.com	Jeffery H. Boyd	[illegible]	[illegible]	[illegible]	A	A	F	A
42	FirstEnergy	Anthony J. Alexander	[illegible]	[illegible]	[illegible]	B	C	A	A
43	Netapp	Daniel J. Warmenhoven	[illegible]	[illegible]	[illegible]	B	D	A	A
44	PACCAR	Mark C. Pigott	[illegible]	[illegible]	[illegible]	B	C	A	A
45	Cerner	Neal Patterson	[illegible]	[illegible]	[illegible]	A	C	B	A
46	Monsanto	Hugh Grant	[illegible]	[illegible]	[illegible]	A	A	D	A
47	Marsh & McLennan	Brian Duperreault	[illegible]	[illegible]	[illegible]	A	A	B	C
48	Mattel	Robert A. Eckert	[illegible]	[illegible]	[illegible]	B	A	C	A
49	Viacom	Philippe P. Dauman	[illegible]			C	C	A	A
50	Exxon Mobil	Rex W. Tillerson	[illegible]	[illegible]	[illegible]	B	B	C	A
51	Yum! Brands	David C. Novak	[illegible]	[illegible]	[illegible]	A	B	C	A
52	Microsoft	Steven A. Ballmer	[illegible]	[illegible]	[illegible]	B	A	D	A
53	Expeditors International	Peter J. Rose	[illegible]	[illegible]	[illegible]	A	A	F	A
54	Emerson Electric	David N. Farr	[illegible]	[illegible]	[illegible]	B	B	C	A
55	Mead Johnson Nutrition	Stephen W. Golsby	[illegible]	[illegible]	[illegible]	A	A	F	A

Overall Rank	Company	CEO	2011 Score	2010 Score	% Change In Score	Market Value/Invested Cap.	3-Year Economic Margin	EM Change	Management Quality
56	Cognizant Technology Solutions	Francisco D'Souza	[illegible]	[illegible]	[illegible]	A	A	D	A
57	Rockwell Collins	Clayton M. Jones	[illegible]	[illegible]	[illegible]	A	A	D	A
58	DuPont	Ellen J. Kullman	[illegible]	[illegible]	[illegible]	B	B	C	A
59	Bed Bath & Beyond	Steven H. Temares	[illegible]	[illegible]	[illegible]	B	B	C	A
60	Moody's	Raymond W. McDaniel, Jr.	[illegible]	[illegible]	[illegible]	A	A	F	A
61	Noble Energy	Charles D. Davidson	[illegible]			B	B	B	A
62	Abbott Laboratories	Miles D. White	[illegible]	[illegible]	[illegible]	B	B	B	A
63	Oracle	Lawrence J. Ellison	[illegible]	[illegible]	[illegible]	C	C	A	A
64	Linear Technology	Lothar Maier	[illegible]	[illegible]	[illegible]	A	A	D	A
65	McKesson	John H. Hammergren	[illegible]	[illegible]	[illegible]	C	B	B	A
66	Qualcomm	Dr. Paul E. Jacobs	[illegible]	[illegible]	[illegible]	B	B	B	A
67	United Parcel Service	D. Scott Davis	[illegible]			A	C	B	A
68	Genuine Parts	Thomas C. Gallagher	[illegible]	[illegible]	[illegible]	B	B	C	A
69	American Tower	James D. Taiclet, Jr.	[illegible]	[illegible]	[illegible]	A	C	B	A
70	Colgate-Palmolive	Ian M. Cook	[illegible]	[illegible]	[illegible]	A	A	F	A
71	Honeywell	David M. Cote	[illegible]	[illegible]	[illegible]	C	C	A	A
72	Ralph Lauren	Ralph Lauren	[illegible]	[illegible]	[illegible]	B	B	C	A
73	Teradata	Michael Koehler	[illegible]	[illegible]	[illegible]	A	A	F	A
74	Goodrich	Marshall O. Larsen	[illegible]	[illegible]	[illegible]	B	B	C	A
75	Amazon.com	Jeffrey P. Bezos	[illegible]			A	A	F	A
76	BB&T	John A. Allison, IV	[illegible]	[illegible]	[illegible]	B	C	A	A
77	Red Hat	James M. Whitehurst	[illegible]			A	D	B	A
78	Pall	Eric Krasnoff	[illegible]	[illegible]	[illegible]	A	B	C	A
79	Visa	Joseph W. Saunders	[illegible]	[illegible]	[illegible]	B	F	A	A
80	Whole Foods Market	John P. Mackey	[illegible]	[illegible]	[illegible]	A	D	A	A
81	McDonald's	James A. Skinner	[illegible]	[illegible]	[illegible]	A	B	D	A
82	AFLAC	Daniel P. Amos	[illegible]	[illegible]	[illegible]	B	A	F	A
83	Wells Fargo	John G. Stumpf	[illegible]	[illegible]	[illegible]	B	B	D	A
84	Scripps Networks Interactive	Kenneth W. Lowe	[illegible]	[illegible]	[illegible]	B	A	F	A
85	Waters	Douglas A. Berthiaume	[illegible]	[illegible]	[illegible]	A	A	F	A
86	UnitedHealth Group	Stephen J. Hemsley	[illegible]	[illegible]	[illegible]	B	A	D	A
87	Harley-Davidson	James L. Ziemer	[illegible]	[illegible]	[illegible]	B	C	B	A
88	O'Reilly Automotive	Gregory L. Henslee	[illegible]	[illegible]	[illegible]	B	B	C	A
89	Illinois Tool Works	David B. Speer	[illegible]	[illegible]	[illegible]	C	B	B	A
90	Centerpoint Energy	David M. McClanahan	[illegible]	[illegible]	[illegible]	B	A	D	A
91	Amphenol	Adam Norwitt	[illegible]	[illegible]	[illegible]	B	B	D	A
92	KLA-Tencor	Richard P. Wallace	[illegible]	[illegible]	[illegible]	C	D	A	A
93	Salesforce.com	Marc Benioff	[illegible]	[illegible]	[illegible]	A	D	C	A
94	United Technologies	Louis Chenevert	[illegible]	[illegible]	[illegible]	B	A	D	A
95	VF Corp	Eric C. Wiseman	[illegible]	[illegible]	[illegible]	B	B	C	A
96	CMS Energy	David W. Joos	[illegible]	[illegible]	[illegible]	B	B	C	A
97	Parker Hannifin	Donald E. Washkewicz	[illegible]	[illegible]	[illegible]	C	C	A	A
98	Intel	Paul S. Otellini	[illegible]	[illegible]	[illegible]	C	B	C	A
99	Gilead Sciences	John C. Martin, Ph.D.	[illegible]	[illegible]	[illegible]	B	A	F	A
100	Equifax	Richard F. Smith	[illegible]	[illegible]	[illegible]	B	C	B	A

2012's 10 Worst Wealth Creators

Overall Rank	Company	CEO	2011 Score	2010 Score	% Change In Score	Market Value/Invested Cap.	3-Year Economic Margin	EM Change	Management Quality
359	Chesapeake Energy	Aubrey K. McClendon	[illegible]	[illegible]	[illegible]	F	F	F	F
358	Stanley Black & Decker	John F. Lundgren	[illegible]	[illegible]	[illegible]	F	F	F	F
357	L-3 Communications	Michael T. Strianese	[illegible]	[illegible]	[illegible]	F	D	F	F
356	Ameren	Thomas R. Voss	[illegible]			F	F	D	F
355	PerkinElmer	Robert F. Friel	[illegible]	[illegible]	[illegible]	F	F	D	F
354	Carnival	Micky Arison	[illegible]	[illegible]	[illegible]	F	D	F	F
353	Sealed Air	William V. Hickey	[illegible]	[illegible]	[illegible]	F	D	F	F
352	Waste Management	David P. Steiner	[illegible]	[illegible]	[illegible]	F	F	D	F
351	Southwest Airlines	Gary C. Kelly	[illegible]	[illegible]	[illegible]	F	F	D	F
350	Symantec	Enrique Salem	[illegible]	[illegible]	[illegible]	D	F	D	F

How Wealth Creation Metrics Can Help Every Business Become More Valuable

By Drew Morris

Running a business that generates revenue exceeding its combined costs (including capital), called an *economic profit*, is the essence of every executive's, manager's and business owner's role, regardless of its ownership structure or size. The Economic Margin (EM) metric we use here to reveal an S&P 500 company's wealth creation ability can also be used to measure that of a small or mid-size privately held company.

Based on the EM formula (operating cash flow less a risk-adjusted cost of capital, as a percent of invested capital), to make your business worth more, you can: improve operating cash flow, reduce both risk and the capital your business requires, and prudently manage your overall capital investment. To be more specific, here are a few things you can do to increase your business's value, starting now:

Boost operating cash flow. You probably already manage receivables, payables and expenses well, have streamlined operations and use technology to cut costs. What else can you do? Revenue growth can drive operating cash flow dramatically, because fixed costs are already covered, and the new-found revenue will contribute proportionally more to profit (and operating cash flow). So grow revenue. Here are two major ways to do that. One is to get customers to like your business better, so they buy from you next time, instead of saying, "I'm moving on," or worse, badmouthing your business. The second way is to strengthen your value proposition.

Creating zealous customers begins with having them come to believe that your business thinks they're important and does things that empower or enable them. Also, the company "sings in harmony" to them, rather than the dissonance of: Sales: "Buy our products!" Engineering: "We'll design them to only last three years." Operations: "No replacement parts after that." Yes, real companies do that.

There are a host of ways to beef up a value proposition: a big one is product or service design. This can be achieved by creating products that remove hassles, such as Oxo hand tools, or that provide needed features, such as L.L. Bean's Wind Challenger jackets. You can also work to deliver peace of mind by providing a longer, or lifetime, guarantee or refining the design of your customer experience. Companies like Amazon and Zappos excel at that by hiring people customers can count on and training them to provide a great customer experience.

Manage your business design. Specifically *how* your company makes money on a sustained basis

makes a major difference. It might seem that your job as CEO is to run the business you have, even if it's low profit and/or low growth. But from the perspective of your company's owners, your job is to create a more valuable business. How? Try new things on a small scale. Once something shows promise, let it grow. Examples of how business design factors into wealth creation can be found in the results of each of the three wealth creators from this year's list, and one of the wealth destroyers, Archer Daniels Midland, profiled in the sidebar on the next page. Milliken, a privately held former textile maker in South Carolina that remade itself into a thriving provider of high-tech materials is another great example (see John Bussey's *WSJ* column, Jan. 13, 2012).

Make wise choices. Sage decisions about the best initiatives to tackle can profoundly influence wealth creation. These initiatives include optimizing prices, making a powerful brand promise integral to your value proposition and many others. For more on making value-informed decisions, see the section on The Fortune Finder in "Leading Your Business to Maximum Results" (*Chief Executive*, Jan./Feb. 2008).

Management risk. The loss of a dominant customer, a privacy breach, product recall, technology failure, natural disaster, capital crisis or major lawsuit can dramatically reduce what your business is worth. A considered, comprehensive risk-management plan could save your business.

Ranking CEO Wealth Creation

By Drew Morris and Michael Burdi

Our ranking is based on the performance of companies in the S&P 500 Index (and their CEOs) for the three years ending on June 30, 2012. It's based on reported financial results during that period and estimates for the next 12 months. Only companies with CEOs who were in their roles for the entire July 2009 through June 2012 period were ranked. Not ranked are the 13 REITs in the 2012 S&P 500.

The four components of the ranking, explained below, were developed and calculated by the Applied Finance Group (AFG), an independent equity-research advisory firm using their proprietary metrics and data. A proprietary, weighted combination of each company's component rankings—taking into account the industry the company is in—is used to produce an overall score: 100 is awarded to the best wealth creator; 1 to the worst. The list itself shows these overall scores as a sequential ranking: The component rankings are shown as letter grades with companies in the top 20 percent of each component metric receiving an A grade; the bottom 20 percent receiving an F.

Market (or Enterprise) Value/Invested Capital (MV/IC)

This measure shows the degree to which investors consider the company's assets valuable, relative to their cost. Market value is what a buyer would have to pay to buy the company outright, that is, to purchase all of the stock and pay off all of the loans, leases and other obligations. Note that market value depends on the stock price. Invested capital is the inflation-adjusted total of all of the investments in the business. It does not depend on the stock price: so by its nature, MV/IC reflects the market's take on the value of the investments made in the business.

The Average of the Past Three Years' Economic Margins

Economic Margin (EM) measures the degree to which the company is making money in excess of its risk-adjusted capital cost—riskier businesses are accorded relatively higher capital costs. EM is expressed as a percentage of invested capital. It's calculated as (Operating Cash Flow minus Capital Charge/Invested Capital). Companies with positive EM (greater than 0 percent) are creating wealth; those with negative EM are destroying it.

EM Change

This is a 12-month forecasted EM, based on the ratio of the most recent EM to the three-year average.

Management Quality

This AFG-proprietary measure rewards a company with positive EM for growing its asset base and penalizes one with negative EM for doing the same thing. In other words, if a company is making money and it adds assets in such a way that it can make even more, that's good. So is selling off a money-losing division. That said, it's also valid that adding scale can dramatically increase profitability in a business with high fixed costs.

A Validity Check on the Ranking Method

The top 50 companies in the ranking delivered an average Total Shareholder Return (TSR) of **93.5** percent between January 2009 and June 2012 (the period covered in the reported financials). The bottom 50 companies' TSR averaged **-21.1** percent, while the S&P 500's average was **50.8** percent (without its 13 REITs). The top 50's median TSR was **73.5** percent; the bottom 50's was **-21.8** percent.

Total Shareholder Return		Jan. '09 - Jun. '12
Top 50	Average	93.5%
	Median	73.5%
Bottom 50	Average	-21.1%
	Median	-21.8%
S&P 500		50.8%

As the table above shows, the top 50 companies in the wealth-creation ranking far outperformed the bottom 50 companies and the S&P 500 between July 2009 and June 2012. Note: Total Shareholder Return = Share-Price Return percent plus Reinvested Dividends, expressed as a percent.

For more on Economic Margin and how companies scored, see http://www.economicmargin.com/moreinfo.htm.

A Look at Some of the Best and Worst Companies

Again this year we've profiled companies in the top and bottom ranks that we haven't written about previously, to provide a fresh set of management insights. The write-ups reflect company events and performance up until June 30, 2012.

Three Top Wealth Creators...

Fastenal
Willard D. Oberton
Rank: 3

Fastenal distributes fasteners and other maintenance, repair and operations (MRO) items, primarily in the U.S. Its wealth-creation ability largely stems from a solid business design. Fasteners, its core offering, are essential to customers' ability to keep production going—so they're very costly to be without. And fastener cost is inconsequential to its customers, so Fastenal can price them so as to earn decent margins.

The company's competitive advantages include store siting, an exceptionally broad and locally available inventory and an internal (and economical) logistics capability that gets needed parts to its stores daily by 8 a.m. Fastenal locates its stores in sparsely populated areas that will only likely support one store of its type. But it's likely that the local store has what customers need, even if they're in the boondocks.

Business design aside, though, it seems that CEO Willard D. Oberton still has work to do on employee satisfaction: a recent Glassdoor.com update showed that 56 percent were dissatisfied or worse. An aligned workforce could take Fastenal even further.

National Oilwell Varco (NOV)
Pete Miller
Rank: 9

NOV is an equipment supplier to the oil and gas drilling industry.

Demand drivers have been the rise of oil prices over the '09-'12 period and the increasing need to drill for oil offshore in more complex, deeper wells. The additional offshore wells, and the upgrades needed to existing offshore rigs, fuel demand for what NOV offers.

Skilled at acquiring companies, NOV has made itself the only source of rig equipment for many of the largest offshore drillers. It has acquired complementary players without overpaying, and has effectively integrated the acquisitions into a full-range offering. As a result, NOV now occupies the low-cost position as the largest rig-equipment company. In short, it is well-positioned to benefit from increased demand—by design.

Rockwell Automation
Keith D. Nosbusch
Rank: 13

Rockwell provides process-control equipment for production lines.

Its master stroke was integrating its controls into a single architecture, reducing customers' costs and hassle, and—significantly—enabling it to serve a wider variety of industries, such as food and beverage, and refining.

It has also geographically diversified in recent years, reducing its dependence on the U.S. manufacturing sector.

...and Destroyers

Citigroup
Vikram Pandit
Rank: 335

Along with other megabanks, Citigroup failed to manage the risk associated with its exposure to CDOs and home mortgages. It's still taking hits from mortgage loans gone south. And like other such banks, the uncertainty about the full extent of its exposure is unclear (litigation risk, etc.).

But there's another dimension to Citigroup's troubles: its worldwide presence gives it higher exposure than most banks to the global economy and its trouble spots. For example, manufacturing weakness in China can adversely affect many emerging-market economies.

In a way, running Citigroup is like running a conglomerate: something will almost always be causing trouble. The expectation (or hope) is that the other areas can cover the problem.

Vic Pandit, Citigroup's CEO since 2007, has made some progress in fixing things, but being gargantuan brings risk—and a discount.

Archer Daniels Midland (ADM)
Patricia Woertz
Rank: 346

ADM processes agricultural output such as oilseeds, wheat and corn into products used to make food and chemicals.

The basic problem facing ADM CEO Patricia Woertz is a challenged core-business design. It has little power over the prices it can charge its customers (large food manufacturers) or the cost of the agricultural commodities it buys and then processes. As a result, profits can be squeezed by either event—or both at once.

But investors put their capital into ADM expecting a remunerative future. What's a CEO to do? Woertz decided she couldn't just run ADM's inherently challenged business

in the best way she could: she chose to focus on opportunities. So far, so good.

One opening she pursued was making ethanol from corn. As it turned out, others also saw that opportunity, and there is now overcapacity in ethanol production, cutting the expected returns from ADM's investment.

In everything, timing and luck have their say.

Chesapeake Energy
Aubrey McClendon
Rank: 359

Chesapeake Energy explores for and produces natural gas and oil in the U.S. Due to the oversupply of natural gas, some of which is due to Chesapeake's push to expand production over the past several years, its returns are well below its cost of capital.

The firm ranked as the worst wealth creator based on CEO Aubrey McClendon's aggressive, arguably reckless, management style. He has played fast and loose with economic-value creation, overpaying for assets and leases and growing too fast—outspending available cash flow and taking on too much debt. Essentially, he is betting that the company's history of saving itself through creative financing will continue to get them through coming crises.

At Chesapeake, we've also seen rich CEO compensation, sketchy disclosure of same, resistance to pay for performance (until recently) and perceived conflicts of interest. The company has been given a "poor" governance rating by Morningstar. It has a very well compensated board ($400K each per year) that was, until this spring, seemingly asleep. *—Drew Morris*

How to Move Up in the Rankings

In publishing this list, *Chief Executive* aims to show CEOs both where they stand with respect to their peers (awareness being the mother of improvement) and to make clear how to go about improving one's standing. Improving will require several actions that the company's CEO, division heads and general managers can take:

At the corporate level:

- Measure wealth-creation throughout the company.
- Manage your portfolio of businesses from a wealth-creation perspective. This includes opportunity sensing—entering lucrative or fast-growing businesses as well as putting businesses making sub-par contributions into other hands or shuttering them. Set the contribution hurdle rate to maximize economic-value creation.
- Ensure that the company's capital structure is right. This affects the capital charge and invested capital. Equity is more expensive than debt, but too much debt can kill a company.
- Avoid overpaying for acquisitions or buying back stock at its peaks.

At all levels:

- As did the leading Wealth Creators, put together a prosperity design for your company. How, exactly, will you achieve uncommon success? How will you improve: customers' feelings about your company and its offerings, your value propositions, the promises your brands represent, etc.? How will you get all you can out of your assets, including your intangible assets? (For more, see, "The Economic Stimulus Package Inside Every Business," *Chief Executive*, Jan/Feb 2009 (online), and "Do Intangibles Matter?" *Chief Executive*, July/August 2008).
- Finally, manage internal and external risks across the company and its aggregate risk-reward profile by taking a wide-angle lens to what could happen.

Drew Morris *drew.morris@greatnumbers.com is the founder and CEO of Great Numbers! The company helps executives find the various dimensions of the upside in their businesses and mold it into a prosperity design—a blueprint for delivering that upside. He has no stake in any of the companies mentioned.*

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