CEO Value Maximizers

In the sixth annual ranking of the *Chief Executive*/Applied Finance Group wealth creators, more and more leaders are showing that they have both the discipline and staying power to sustain real value creation.

by **J.P. Donlon**

Everyone talks about shareholder value, but markets and managements tend to talk past each other in terms of what true value really is. There needs to be a shared vocabulary and a set of common standards upon which everyone can agree.

Traditional accounting-based valuation methods provide an incomplete view of a company's value by not accounting for investment to generate the earnings, cost of capital, inflation or cash flow. The Wealth Creation Index (WCI) created in partnership with Applied Finance Group (AFG), a global performance advisory and equity research firm, and Drew Morris of Great Numbers!, seeks to identify real value—as opposed to Generally Accepted Accounting Principles (GAAP) value.

AFG uses a proprietary framework it calls Economic Margin (EM) to evaluate corporate performance from an economic cash flow perspective that is an alternative to accounting-based valuation metrics. EM measures the return a company earns above or below its cost of capital and, thus, provides a more complete view of a company's underlying economic vitality.

The core of AFG's framework is the conviction that accurate valuations require understanding how well a firm has used its invested capital. Currently, common measures of corporate performance are based on earnings, such as earnings growth, price to earnings and Return on Equity (ROE). Accordingly, firms will often undertake actions that increase earnings (and taxes)—but that do not create value—in the hope of inducing stock analysts' upgrades. Many argue that importance placed on the role of earnings is misplaced because earnings are only a part of the shareholder wealth-creation process. EM corrects these accounting distortions by taking into account asset life, asset mix, asset age, capital structure and growth, effectively linking the income statement and balance sheet. EM levels have a much higher correlation with market values.

EM measures the degree to which companies are making money and growing the underlying business over and above its risk-adjusted cost of capital. It's expressed as a percentage of productive capital and calculated as operating cash flow minus a capital charge—all divided by invested capital. Companies with positive EM—greater than zero—are creating wealth; those with negative EM are destroying it.

KEY TAKEAWAYS

Companies that excel at wealth creation consistently:

- Manage capital wisely through economic ups and downs
- Create and sustain value-producing niches
- Build and continually enforce strong brands

2013 Top 10 Wealth Creators

COMPANY	CEO
1 / Dun & Bradstreet	Sara Mathew
2 / Gilead Sciences	John C. Martin, Ph.D.
3 / Monsanto	Hugh Grant
4 / Sherwin-Williams	Christopher M. Connor
5 / Fastenal	Willard D. Oberton
6 / Celgene	Robert J. Hugin
7 / LyondellBasell Industries	James L. Gallogly
8 / Teradata	Michael Koehler
9 / Cameron International	Jack B. Moore
10 / McGraw Hill Financial	Harold W. McGraw, III

Gilead Sciences, Monsanto, Sherwin-Williams and Fastenal, all of whom are in the top five, are repeat performers over recent years, showing that as value creators, their CEOs have the discipline and staying power to manage resourcefully through good times and bad.

There is no single, unified measure that will serve every business leader's metric. After coming up with the Theory of Relativity, Einstein spent his remaining years searching for a unified field theory that would explain all the known laws of the universe—and he came up empty. So until something like that happens in economic finance, EM comes as close as any business owner can hope in reckoning how every business dollar invested in the business is working.

Sara Mathew of Dun & Bradstreet enters the WCI ranking at No. 1 this year, not bad for someone who only became CEO in January 2010 and first became eligible this year. Having previously served in various executive positions, such as president, COO and CFO, the former P&G executive has carefully guided the 171-year-old provider of business data and risk-management services at a time when the company continues to be challenged to revive business growth.

Last year, it failed to find a buyer for the company; but in its favor, D&B has an astute business design, anchored by the enduring demand for information businesses must have: customers' creditworthiness and in-depth sales-lead characterizations. In the U.S., D&B is the definitive source of both. And the investment required to recreate its information serves as a barrier to entry, which protects D&B's pricing. Nicely profitable (EBT 20 percent-plus over the past three years) and well-managed, D&B employs (lower-profit) partnering to grow internationally. Earlier this year, Mathew announced that she will retire by May of 2014.

Gilead Sciences (see p. 33), Monsanto, Sherwin-Williams and Fastenal, all of whom are in the top five, are repeat performers over recent years, showing that as value creators, their CEOs have the

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Overall Rank	Company	CEO	2013 Score	2012 Score	Change In Score	Market Value/Invested Cap.	3-Year Economic Margin	EM Change	Management Quality
1	Dun & Bradstreet	Sara Mathew	100.0			A	A	A	A
2	Gilead Sciences	John C. Martin, Ph.D.	95.8	70.8	35.4	A	A	A	A
3	Monsanto	Hugh Grant	91.1	79.6	14.5	A	B	A	A
4	Sherwin-Williams	Christopher M. Connor	90.3	90.1	0.3	A	B	A	A
5	Fastenal	Willard D. Oberton	89.6	97.5	-8.1	A	B	A	A
6	Celgene	Robert J. Hugin	89.3			A	A	B	A
7	LyondellBasell Industries	James L. Gallogly	89.3			B	A	A	A
8	Teradata	Michael Koehler	89.3	75.3	18.5	A	A	A	A
9	Cameron International	Jack B. Moore	89.0	94.6	-5.9	A	A	B	A
10	McGraw Hill Financial	Harold W. McGraw, III	88.5	81.6	8.5	A	A	A	A
11	Alexion Pharmaceuticals	Leonard Bell, M.D.	86.9	93.8	-7.3	A	C	A	A
12	Brown-Forman	Paul C. Varga	85.6	85.5	0.1	A	B	B	A
13	Ecolab	Douglas M. Baker, Jr.	84.8	31.6	168.2	B	A	A	B
14	Dominion Resources	Thomas F. Farrell, II	84.1	84.1	-0.1	A	B	C	A
15	Monster Beverage	Rodney C. Sacks	83.8	86.1	-2.7	A	A	A	F
16	Scripps Networks Interactive	Kenneth W. Lowe	83.8	73.3	14.3	B	A	B	A
17	VF Corp	Eric C. Wiseman	83.5	71.1	17.6	B	A	A	A
18	Progressive	Glenn M. Renwick	83.3	60.0	38.8	A	A	B	A
19	Total System Services	Philip W. Tomlinson	81.5	58.3	39.7	B	C	A	A
20	McKesson	John H. Hammergren	81.2	76.7	5.8	C	A	A	A
21	FMC	Pierre R. Brondeau	81.2			A	B	B	A
22	Cabot Oil & Gas	Dan O. Dinges	81.2	38.4	111.2	A	D	A	A
23	Noble Energy	Charles D. Davidson	80.4	77.6	3.6	B	C	A	A
24	T. Rowe Price	James A. C. Kennedy	80.4	93.8	-14.2	A	A	D	A
25	Mastercard	Ajay Banga	79.6			A	A	D	A
26	Fossil	Kosta N. Kartsotis	79.4	91.2	-13.0	A	A	C	A
27	Franklin Resources	Gregory E. Johnson	79.1	86.7	-8.7	A	A	D	A
28	Halliburton	David J. Lesar	78.8	84.1	-6.3	A	A	D	A
29	O'Reilly Automotive	Gregory L. Henslee	78.8	73.1	7.9	B	C	A	A
30	Autozone	William C. Rhodes, III	78.6	89.2	-11.9	A	A	C	A
31	W.W. Grainger	James T. Ryan	78.3	91.5	-14.4	A	C	B	A
32	Starbucks	Howard D. Schultz	78.3	85.0	-7.8	A	C	B	A
33	C.H. Robinson Worldwide	John P. Wiehoff	78.1	91.5	-14.7	A	A	D	A
34	Estee Lauder	William P. Lauder	77.5	82.7	-6.2	A	C	A	A
35	IFF	Douglas D. Tough	77.5			A	B	C	A
36	Robert Half	Harold M. Messmer, Jr.	77.3	83.3	-7.2	A	F	A	A
37	Equifax	Richard F. Smith	77.3	70.8	9.2	B	B	B	A
38	Aon	Gregory C. Case	77.0	67.4	14.3	A	B	A	C
39	Perrigo	Joseph C. Papa	77.0	86.1	-10.6	A	C	B	A
40	Honeywell	David M. Cote	76.8	76.2	0.8	B	C	A	A
41	Flowserve	Mark A. Blinn	76.8			A	B	C	A
42	CBS	Leslie Moonves	76.8	27.7	177.5	C	B	A	A
43	Wynn Resorts	Stephen A. Wynn	76.5	87.0	-12.0	B	B	B	A
44	Tesoro	Bruce A. Smith	76.0	60.0	26.6	C	B	A	A
45	Allergan	David E.I. Pyott	76.0	81.9	-7.2	B	B	B	A
46	Rockwell Automation	Keith D. Nosbusch	75.7	90.9	-16.7	A	B	C	A
47	Fiserv	Jeffery W. Yabuki	75.2	32.2	133.5	D	A	A	B
48	Dover	Robert A. Livingston	74.9	62.0	20.9	C	B	B	A
49	ONEOK	John W. Gibson, Jr.	74.9	96.0	-22.0	A	A	D	A
50	TJX	Carol M. Meyrowitz	74.9	82.1	-8.8	A	C	C	A
51	Home Depot	Francis S. Blake	74.4	70.2	6.0	A	D	A	A
52	Coach	Lew Frankfort	74.4	100.0	-25.6	A	A	F	A
53	NYSE Euronext	Duncan L. Niederauer	74.1	45.0	64.9	C	A	A	B
54	Moody's	Raymond W. McDaniel, Jr.	74.1	77.6	-4.4	A	A	F	A
55	Precision Castparts	Mark Donegan	74.1	86.1	-13.9	B	A	C	A

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How Wealth-Creation Metrics Can Help Every Business Become More Valuable

In addition to the recommendations provided in this sidebar last year (see *Chief Executive*, Nov./Dec. 2012, pp. 58-9), here are five major takeaways from an analysis of the Index's past six years' Best and Worst Wealth-Creator profiles: the reasons why businesses did well or didn't:

- **Design:** Far and away, the most powerful reason for prospering, or failure to do so, was the design of the business—how it makes money. Amazon is a good example. Their customer-value proposition (product range and selection, information on and customer reviews of what it offers, the actual buying experience and the pricing) is compelling, combined with the overall design of its service and the business's seemingly endless ability to scale. That said, Amazon's choice to operate on razor-thin margins has both fueled its revenue growth and led investors to continue griping, ("When are we going to make some real money here?") as it continues to reinvest in its business. But its three-year total return is 27 percent, so Jeff Bezos just might be right, long term. In contrast, Dell, once a business-design innovator, is now reduced to offering commodity technology and competing on price.
- **Capital Management:** The next reason for notable success, or the lack thereof, is wise management of capital. While Gilead Sciences, one of this year's top wealth creators, has proved adept at this practice by, for example, partnering rather than making "whole hog" investments, the Rowan Companies, one of this year's worst, has a pattern of investing in oil-drilling rigs, on which there's an uncertain return. It hasn't exceeded its risk-adjusted cost of capital in the past three years.
- **Brand Building:** A strong brand can make an enormous contribution to business value. Here, a great example is Brown-Forman's Jack Daniels' brand (another of this year's profiled best wealth creators).
- **Product Design:** The design of what your business offers—its products and services—is another pivotal factor in succeeding or not, witness Apple.
- **Leadership:** And the last factor, for this year, in how well a business fares lies in the mindset of its leader—intent. What do you, as a leader, want, and how serious are you about it, really? This is not about beating up the sales force for better results. Rather, it's about wanting to grow and then figuring how, specifically, your business will do so (harnessing a great business design, brand, suite of offerings, etc.). Amazon's Bezos is the top-of-mind poster child for intent. Others come to mind, like David Novak, CEO of Yum Brands (Pizza Hut, KFC and Taco Bell), with its energetic push to deepen its global presence. —*Drew Morris*

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, 2013. It considers 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 2010 through June 2013 period were ranked. Not ranked are the 15 REITs in the 2013 S&P 500, as well as News Corp and Sprint, the data for which was unavailable due to a pending corporate spin-off and an acquisition, respectively. 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 return a company earns above or below its risk-adjusted cost of capital. Riskier businesses are accorded relatively higher capital costs. EM is defined as (Operating Cash Flow— Risk-Adjusted Capital Charge)/Productive Capital. Productive Capital consists of the cash-flow generating assets, excluding goodwill and intangibles. Companies with positive EM (greater than 0 percent) are creating wealth; those with negative EM are destroying it. To learn more about the economic-margin framework visit EconomicMargin.com.

EM Change

This is a 12-month forecasted EM, based on the ratio of the most recent EM to the 3-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.

The top 50 companies in the ranking delivered an average Total Shareholder Return (TSR) of 124.78 percent between January 2010 and June 2013 (the period covered in the reported financials). The bottom 50 companies' TSR averaged 29.3 percent, while the S&P 500's actual was 44 percent (without its 15 REITs). The top 50's median TSR was 112.10 percent; the bottom 50's was 28.2 percent.

Total Shareholder Return

Jan. '10 - Jun. '13

TOP 50	
Average	124.78%
Median	112.10%
BOTTOM 50	
Average	29.3%
Median	28.2%
S&P 500	
Actual	44.0%

As the table at above shows, the top 50 companies in the wealth-creation ranking far outperformed the bottom 50 companies and the S&P 500 between July 2010 and June 2013. 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 www.economicmargin.com/moreinfo.htm.

Overall Rank	Company	CEO	2011 Score	2010 Score	% Change In Score	Market Value/Invested Cap.	3-Year Economic Margin	EM Change	Management Quality
56	Priceline.com	Jeffery H. Boyd	73.9	81.3	-9.1	A	A	F	A
57	Actavis	Paul M. Bisaro	73.9			D	A	A	A
58	American Express	Kenneth I. Chenault	73.6	85.8	-14.2	A	A	F	A
59	Chubb	John D. Finnegan	73.6	65.1	13.1	B	B	C	A
60	Prudential	John R. Strangfeld, Jr.	73.6	19.2	284.4	C	C	A	A
61	Intuit	Brad D. Smith	73.1	67.1	9.0	A	B	A	C
62	Cognizant Technology Solutions	Francisco D'Souza	73.1	78.2	-6.5	A	B	D	A
63	F5 Networks	John McAdam	73.1	86.7	-15.7	A	B	C	A
64	Yum! Brands	David C. Novak	73.1	79.0	-7.5	A	C	C	A
65	Discover	David W. Nelms	72.8	93.8	-22.3	A	A	F	A
66	Pioneer Natural Resources	Scott D. Sheffield	72.8	69.7	4.6	A	D	B	A
67	Oracle	Lawrence J. Ellison	72.8	77.0	-5.4	C	A	B	A
68	Red Hat	James M. Whitehurst	72.6	74.8	-2.9	A	D	B	A
69	Regeneron Pharmaceuticals	Leonard S. Schleifer	72.6			A	F	A	A
70	International Game Technology	Thomas J. Matthews	72.6	63.4	14.4	C	B	B	A
71	Delphi Automotive	Rodney O'Neal	72.3			C	A	C	A
72	Exxon Mobil	Rex W. Tillerson	72.3	79.0	-8.5	B	B	C	A
73	Chipotle Mexican Grill	Steve Ells	72.1	82.4	-12.6	A	C	C	A
74	Ross Stores	Michael Balmuth	72.1	84.7	-14.9	A	B	D	A
75	Invesco	Martin L. Flanagan, CPA	71.8	59.7	20.2	B	C	C	A
76	Colgate-Palmolive	Ian M. Cook	71.8	76.5	-6.1	A	A	F	A
77	BlackRock	Laurence D. Fink	71.5	53.8	33.1	B	C	C	A
78	EOG Resources	Mark G. Papa	71.5	30.5	134.5	B	D	A	A
79	Allstate	Thomas J. Wilson, II	71.3	57.2	24.7	C	C	A	A
80	Amazon.com	Jeffrey P. Bezos	71.0	75.0	-5.4	A	B	F	A
81	IntercontinentalExchange	Jeffrey C. Sprecher	71.0	81.3	-12.6	A	A	F	A
82	Viacom	Philippe P. Dauman	71.0	79.3	-10.4	C	A	A	C
83	Charles Schwab	Walter W. Bettinger II	70.7	70.8	-0.1	A	B	D	A
84	Nike	Mark G. Parker	70.7	83.3	-15.0	A	B	D	A
85	Amphenol	Adam Norwitt	70.7	72.5	-2.4	B	B	D	A
86	CMS Energy	David W. Joos	70.5	71.1	-0.8	B	C	B	A
87	PPG Industries	Charles E. Bunch	70.5	69.9	0.8	B	C	C	A
88	Travelers	Jay S. Fishman	70.5	46.7	51.0	C	C	B	A
89	McCormick	Alan D. Wilson	70.0	69.1	1.3	B	B	D	A
90	Wells Fargo	John G. Stumpf	69.7	73.3	-5.0	B	B	C	A
91	NetFlix	Reed Hastings	69.4	31.6	119.5	A	A	F	A
92	PACCAR	Mark C. Pigott	69.4	80.1	-13.4	B	D	B	A
93	EQT Corporation	Murry S. Gerber	69.4	31.1	123.5	B	D	B	A
94	Fidelity Nat'l Information Services	Frank R. Martire	69.4			F	A	A	B
95	Ameriprise Financial	James M. Cracchiolo	69.2	63.7	8.6	B	B	B	C
96	AFLAC	Daniel P. Amos	68.9	73.3	-6.0	A	A	F	A
97	Qualcomm	Dr. Paul E. Jacobs	68.9	76.7	-10.2	C	C	B	A
98	Linear Technology	Lothar Maier	68.9	77.0	-10.5	A	B	F	A
99	Principle Financial Group	Larry D. Zimpleman	68.7	44.1	55.6	B	C	B	A
100	U.S. Bancorp	Richard K. Davis	68.7	81.9	-16.1	B	B	D	A

2013's 10 Worst Wealth Creators

331	Fedex	Frederick W. Smith	9.6	18.0	-46.6	F	F	C	F
332	Southwest Airlines	Gary C. Kelly	8.1	7.8	3.1	F	F	C	F
333	Devon Energy	John Richels	7.5			F	F	D	F
334	Waste Management	David P. Steiner	7.3	7.2	0.4	F	F	D	F
335	Archer Daniels Midland	Patricia A. Woertz	7.0	9.5	-26.3	F	F	D	F
336	Frontier Communications	Mary Agnes Wilderotter	6.5	33.9	-80.9	F	D	F	F
337	Carnival	Micky Arison	5.2	6.7	-22.3	F	F	D	F
338	Forest Laboratories	Howard Solomon	4.4	18.9	-76.7	F	F	F	F
339	Alcoa	Klaus Kleinfeld	3.6	8.9	-59.6	F	F	F	F
340	Washington Post	Donald E. Graham	1.0	19.4	-94.9	F	F	F	F

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discipline and staying power to manage resourcefully through good times and bad. Interestingly, the CEOs of Monsanto, along with Yum! Brands and Honeywell are each recent honorees of the Chief Executive of the Year award and are among this year's top 100 wealth creators.

A number of firms shot up in the ranking this year, improving their scores across the board. These include the independent exploration and production company Cabot Oil & Gas, which is riding the natural gas boom. (In a recent presentation to investors, Cabot said it produced about 268 billion cubic feet of natural gas equivalent, a record despite recent lower prices for Marcellus shale natural gas.)

Others get their boost from being able to sustain value-producing niches. Jumping to 13 in the ranking this year is Ecolab, a global leader in water, hygiene and energy technologies and services that protect people and vital resources. With 2012 sales of $12 billion and 44,000 employees, the company delivers comprehensive solutions and on-site service to promote safe food, maintain clean environments, optimize water and energy use and improve operational efficiencies for customers in the food, healthcare, energy, hospitality and industrial markets in more than 170 countries around the world. Ecolab's three-year economic margin is only rated at a B level, but their management quality is a solid A.

The fundamentals of wealth creation are not confined to these public companies. Privately held firms can apply the principles outlined here regardless of structure or ownership status. Create a unique and long-lasting competitive position, differentiate your offerings and deliver value. Of course, it never hurts to be in businesses that have low capital requirements, which allow for faster re-investment of profits. But even capital-intensive businesses like Monsanto's agri-science and Honeywell's aviation and defense technologies show that one can invest for the future and still show stellar results today.

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 to follow reflect company events and performance up until June 30, 2013.

Three Top Wealth Creators–

RANK: 2 — Gilead Sciences
John C. Martin, Ph.D.

Proprietary pharmaceuticals has long been a "hit record" business. When such a company has a hit on its hands, life can be very good for its shareholders: high margins and a high growth rate, both of which get reflected in its stock price. Gilead's once-daily pills for HIV are the treatment of choice for their effectiveness, convenience, safety and affordability. Gilead also has a portfolio of treatments for liver, cardiovascular and respiratory diseases. Too, it has a promising near-term, new-drug pipeline, including a treatment for Hepatitis C, which contributed to its high MVIC and EM Change scores.

Dr. Martin has made good decisions about the therapeutic areas Gilead has pursued, the drugs themselves, partnering with other firms at times to deliver winning outcomes and has wisely managed its capital.

RANK: 12 — Brown-Forman
Paul C. Varga

Hooch. It's evergreen. But Brown-Forman has managed their product line and their business remarkably well for a very long time, which has continued on Varga's watch. Its Jack Daniels' powerful lifestyle brand gives its fans (yes, there's a social-networking "fan club" called Friend of the Order), plenty of opportunities to show others who they are (shirts, hats, barrelheads—yes, really), both of which likely contribute to the sale of its bourbon. Then, there's the innovation behind its ultra-premium-priced brand extensions: Jack Daniels' Tennessee Honey and its ready-to-drink products like Jack and Cola. Under Varga, Brown-Forman has tuned its portfolio of businesses for the better, divesting consumer durables and wine brands. It's growing nicely internationally, and has a long history of sage management of capital.

RANK: 16 — Scripps Networks Interactive
Kenneth W. Lowe

"I want my HGTV!" she said. Both Scripps' HGTV and its Food Network programming attract upscale viewers, who, in turn, attract advertisers who want to reach them and cable channels who want to carry the content. Both advertisers and the cable carriers pay Scripps to reach these viewers. As a result of distributing its one-time-cost content widely, Scripps delivers nice margins (EBT 35 percent+ last three years). The depth and quality of its content is a barrier to entry.

—and Destroyers

RANK: 340 — Washington Post
Donald Graham

Graham has continuously evolved the Post company, mainly for the better, since 1991. But it's hard to prosper when hit with the double whammy of newpapers' print decline and the for-profit-education industry's slide, including the Post's Kaplan (education) division, brought on by students' less than acceptable student-loan repayment record, the resulting investigations and declining enrollment industry-wide.

But after our measurement period ended, Graham did manage to get the declining Post out of its portfolio, courtesy of Jeff Bezos.

RANK: 319 — Rowan Companies
W. Matt Ralls

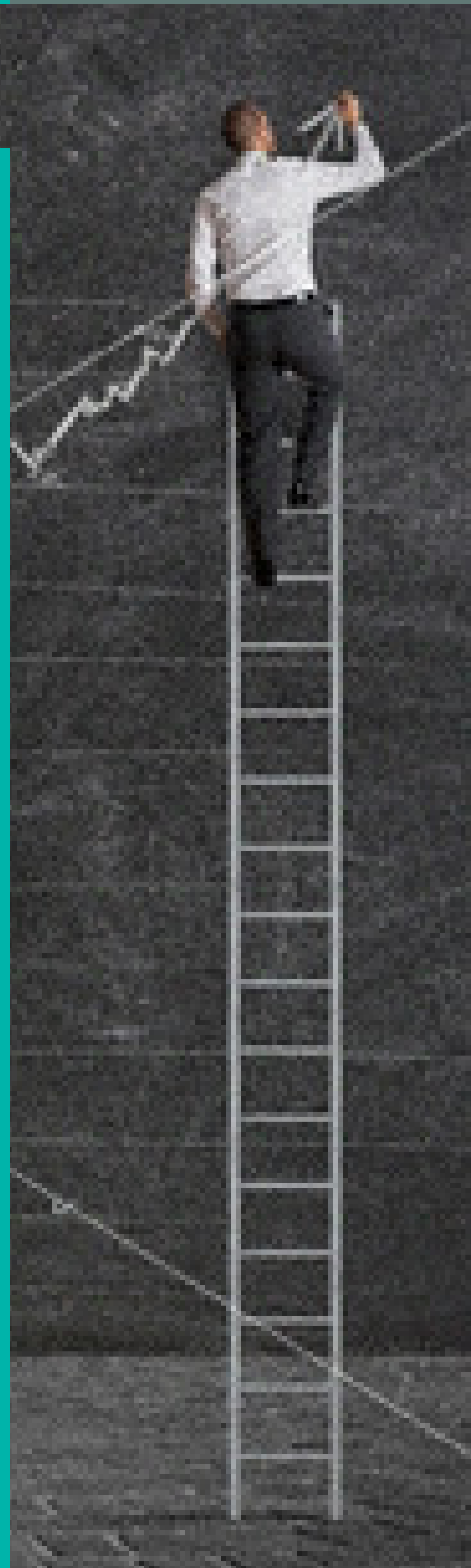
Rowan is an oil exploration and production company that provides drill rigs under contract to customers worldwide and is paid a daily rate for their use. When a rig sits idle, Rowan still bears a significant fixed cost. Demand for Rowan's drilling services depends significantly on oil prices, with all of their long-known volatility. In their industry, drilling contracts are awarded based on competitive bidding, where the winner is often determined by price—and there is now an oversupply of rigs.

In 2011, Rowan chose to make a significant capital investment in four new high-end drilling rigs. But the company may not be able to recoup its investment due to customers' lack of willingness to pay a sufficient price for their use. In other words, Rowan went for a full-featured offering, which does bring higher utilization and therefore revenue but without contracts to use them and without knowing whether they would be able to earn back their investment because of the challenged pricing environment they're in. This is not news; for the past three years, they've been investing without earning more than their cost of capital (thus the "F" grades on Management Quality in the rankings).

RANK: 321 — Dell Computer
Michael Dell

Dell began with a great value proposition: "My PC is exactly what I want!" and a great business design: direct to consumer sales and a just-in-time supply chain, which combined to produce a 12 percent cost advantage back in 1997. Dell rode the wave up.

Dell then skewered its brand with customer-service-outsourcing gaffes, turning off customers, some for good. In recent years, Dell has evolved too slowly, missing key market shifts: cloud, smartphones and tablets. It's difficult to catch up from behind. In trying to do so, Dell has overpaid for acquisitions, such as Perot Systems. Dell's trying to go private, ostensibly so it can fix this set of issues, although it's unclear that will help them do more than cut prices and profits further. 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:

- Use EM to 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 the business unit level:

- The general managers of businesses need to find the best things they can do to boost operating results.

At all levels:

- 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, include your intangible assets? (For more, see, "The Economic Stimulus Package Inside Every Business," *Chief Executive,* Jan./Feb. 2009 online.)
- Manage internal and external risks across the company and its aggregate risk-reward profile by taking a wide-angle lens to what could happen.

For more on how to move up in the rankings, please contact the authors.

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.*

Michael Burdi *is senior analyst at The Applied Finance Group. AFG is a Chicago-based independent equity-research advisory firm specializing in performance and valuation measurement using Economic Margin.*

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