

The Five Best-Managed Companies

Aggressive, innovative and sure of their goals, 1978's top performers share a remarkable talent for building growth and decisively responding to change.

For U.S. business, 1978 was a riddle wrapped in a mystery inside an enigma. At home, with factories working away at a healthy 85% of capacity, industrial production climbed smartly, unemployment dropped and corporate profits hit high levels. Yet without a war, an oil embargo or any other cataclysmic happening, inflation soared to double-digit levels and interest rates rose sharply. Abroad, the once dominant dollar plunged so low that a West German magazine depicted George Washington seated in a wheelchair. Meanwhile, on jittery Wall Street, traders took one look at Jimmy Carter's latest formula for fighting inflation and promptly handed the stock market an historic drubbing, chopping 104 points off the Dow Jones industrial average in a fortnight of feverish selling. Then, when Carter announced sweeping moves to bolster the dollar, Wall Street reacted in a way that was somehow typical of this strange year by racking up the biggest one-day gain ever—35 points—in the Dow.

It was hardly a year to inspire business confidence, capital spending or long-range corporate planning. Nevertheless, scores of companies in disparate industries successfully navigated their way through the churning seas of uncertainty. Five of them—Boeing Co., Caterpillar Tractor Co., Continental Illinois National Bank & Trust Co., General Electric Co. and Schlumberger Ltd.—were picked by DUN'S REVIEW as the five companies that did the best job of all.

All five produced record sales and earnings in 1978, and all are leaders in their respective industries. More than that, they all displayed distinguished qualities of corporate excellence that make top-notch companies stand out from the crowd. Piling strength on strength in the commercial aircraft industry, Boeing cashed in on an unbeatable combination of technological know-how and marketing acumen. Boldly committing itself to the heftiest capital investment program in its history, Caterpillar reaped the rewards of painstaking planning. Continental Illinois demonstrated that aggressiveness and innovation can pay off big in the conservative banking industry. GE proved that a sprawling giant can undergo massive restructuring and emerge stronger than ever. And in the tough business of oil exploration, Schlumberger reaped the rewards of unsurpassed technology and a unique management style.

How the five best did it is told on the following pages.

Schlumberger can handle even this tidy sum readily. It had more than \$650 million in cash and equivalents on its 1977 balance sheet, current assets are more than twice current debt, long-term debt is a paltry \$56 million—in other words, an impeccable balance sheet.

On top of all its ongoing projects, Schlumberger is enmeshed in one of the most important engineering projects in its history: the development of a new oil service technology called measurement while drilling (MWD). Aimed at raising productivity, MWD gives oil drillers vital

information never before available about the drilling process. While drilling is in progress, it sends back data about the direction the drill bit is taking, the amount of time the equipment is working at peak efficiency and the presence of unsafe conditions that could cause blow outs. Says Bernard Alpaerts, a Schlumberger group vice president: "It can mean faster, safer drilling. On an offshore drilling operation that can cost, say, \$50,000 a day, the service could save 10% to 20% in time."

Dozens of companies, including Wro-

torola, Westinghouse and Raytheon, are racing to develop and bring out equipment for the MWD market, which could reach \$500 million-to-\$1 billion in size by 1985, according to oil service analyst John B. Walker of Paine Webber Mitchell Fielding. Walker predicts that Schlumberger will get 50% or more of the business for MWD services because of the superiority of its equipment.

How much will this mean to the company? Alpaerts will only say: "It may not be the right arm of Schlumberger, but it may be the left arm."



Here Comes Continental Illinois

A decade ago, Continental Illinois National Bank & Trust Co. was known as a conservative but expanding Midwest bank with a handful of foreign branches scattered about the globe. At the time, its greatest distinction was that its chairman, David M. Kennedy, was tapped to be the first of the Nixon Administration's many Treasury Secretaries.

What a difference ten years can make. Today, as the seventh-largest bank in the nation and the biggest between the two coasts, Continental Illinois is an international money-center bank offering services across the entire banking spectrum. More important, it is rated by security analysts and the banking industry as one of the top five banks in the nation serving the corporate community. Under the dynamic leadership of Chairman Roger E. Anderson, Continental Illinois has garnered a reputation for quality service, innovation and a pragmatic, rather than conservative, approach to banking.

Anderson, who went to work for Continental in 1946, spent most of his tenure in international operations. Since taking over the CEO reins in 1973, he has aggressively competed with the major New York banks for customers both here and abroad, while instituting strict operating and financial controls and planning goals within the bank. He has also stressed management training and development, producing a depth and breadth of executive talent rivaled by few in the industry. "Continental has superior management at the top, and its management is very deep," says an analyst at First Boston Corp. "It has excellent people all through the bank."

The results of Anderson's leadership are evident. Continental Illinois has achieved one of the best and most consistent performance records in the industry over the past five years. Its 14.9% return on equity in 1977 was surpassed only by BankAmerica Corp., at 15.8%, among the ten top banks in the nation, while it inched out Citicorp. (14.7%), Manufacturers Hanover (14.3%) and J.P. Morgan (14.2%) and far surpassed Chase Manhattan (7.5%). For the first half of 1978, Continental's return on equity climbed further to 15.4%.

The company's profits grew at a 13.8% compounded annual rate in the five years to 1977, and they are expected to hit another record of about \$168 million, or \$4.50 a share, this year on gross revenues (net interest income) of around \$600 million. And in 1979 it should earn at least \$5 a share.

Soaring Loan Business

Most important to Continental has been the growing impact of its loan business, which soared from \$2.6 billion in 1973 to \$4.9 billion at the end of 1977. And its domestic loan business was up 19% over a year earlier at the end of 1978's third quarter. According to Continental's own figures, its share of the commercial and industrial loan market rose from 3.91% at the end of 1974 to 4.79% in the first quarter of 1978—for the only substantial gain among the major banks. In the same period, BankAmerica's share stayed relatively flat, while such banks as Morgan Guaranty, Manufacturers Hanover and Citibank experienced declines.

Analysts rank Continental's loan portfolio on a par with J.P. Morgan's, which is considered by many to be the premier corporate bank in the country. With one of the lowest percentages of nonperforming loans and loan charge-offs in the industry, Continental has maintained the industry's highest reserve for loan losses as a percentage of total loans, giving it an ample cushion for any future losses. It also boasts the highest loan recovery rate.

That performance is remarkable considering the stormy atmosphere in which banks have operated during the 1970s. Wildly gyrating interest rates, the misfortunes of the dollar and the collapse of the real-estate market during the recession have all played havoc with a number of New York banks. In fact, Continental was one of the very few top banks to score impressive earnings gain in dismal 1976.

When Anderson became CEO, he realized that effective controls were needed if Continental was to successfully compete in markets dominated by the better-known New York banks. He set up a system requiring the heads of the bank's 26 departments to report to top management both quarterly and annually on a variety of targets. These included such short-range goals as return on equity, expenses and profits; strategic goals like expanding market share, new services and long-range expense control; and personal goals, such as hiring and promoting more women and minorities and using staff more effectively.

Such controls were particularly important to oversee the bank's mushrooming



Anderson: Competing successfully against the giants

foreign operations. Because Illinois state law forbids branch banking, Continental had little experience in opening offices. Thus when it began its rapid overseas expansion in the late 1960s and early 1970s, it had to spend much of its time learning the mechanics of setting up branches, a lesson that the other banks had learned years before. Under Anderson, foreign operations have become much more efficient, and Continental's 77 facilities in 38 foreign countries currently bring in 39% of revenues and 17% of operating earnings.

Efficiency at the Top

At Anderson's urging, in 1976 Continental's board of directors also set up a three-man Executive Office to oversee the bank's increasingly complex activities more effectively. Anderson handles internal controls and potential new ventures and serves as Continental's ambassador abroad. Vice Chairman Donald C. Miller watches the money-market and

macroeconomic picture. President John H. Perkins is in charge of government relations and municipal financing.

To make banking easier for corporate clients and assure quality service, Anderson also undertook a massive reorganization of Continental's commercial banking department in 1976 and 1977. The department was divided into three service areas: one for American corporate customers, the second for foreign customers and the third for multinational corporations.

According to Anderson, the results of the reorganization have been felt more quickly than anticipated. Continental has not only seen substantial growth in the volume of loans to overseas subsidiaries of American companies, but has increased lending to foreign multinationals to finance their U.S. operations. "The latter has been particularly important in light of the recent expansions and increase in acquisitions by overseas companies in the U.S.," he says.

Anderson believes the reorganization will also help Continental meet increased competition for loans over the next five years, particularly from foreign banks, the commercial paper market and insurance companies.

Anderson's aim is to make Continental one of the three top U.S. banks serving industry. He won't say what banks he expects to overtake, but insists: "We expect to reach that goal in the next few years."

To boost profit margins in its overseas operations, Anderson explains, Continental will be opening fewer new facilities and concentrating on getting more business through the existing offices. "It would be unrealistic to expect overseas profit margins to equal those in the U.S.," he says. "But we have already substantially increased our multinational business abroad and that will continue. We are also concentrating on getting more business from national companies overseas. And while foreign corporate business is the most difficult market for an American bank to penetrate, we think we'll be looking better in the future."

Banking Innovator

In addition to improving its services, Continental has also demonstrated its ability to come up with innovative ideas. It was the first bank, for instance, to set up a formalized money-market center for customers, providing a variety of services such as foreign-exchange execution and management and short-term money-market management, as well as the traditional areas of estate planning and trusts.

And in an effort to attract medium-term borrowing and compete against other funding sources open to corporations, in the early 1970s Continental startled the industry with the then radical idea called the "cap" loan—whereby a corporation can borrow money at interest rates within a set range that are maintained for the life of the loan no matter how high the prime rate goes. Thus, unlike traditional loans tied to the floating prime, the "cap" loan allows the corporate customer to determine the cost of the loan over its lifetime and budget accordingly. Several other major banks have followed in Continental's footsteps and offer "cap" loans.

In the future, Anderson says, Continental will strengthen the marketing and promoting of its noncredit services such as export financing, cash management and letters of credit. But it will continue to give most of its attention to the bread-and-butter business of commercial lending. "It will be more of the same," he notes. "At Continental, we put the emphasis on the bottom line."