Most Admired companies? Please. Scanning the headlines these days makes you wonder if there are any companies worthy of our esteem. Enron, Arthur Andersen, Kmart, Global Crossing, Warnaco, Tyco—need we continue?

And yet in a year when corporate America is not exactly attracting waves of affection, you’ve told us that there are still companies that win your respect. A FORTUNE poll of 10,000 executives, analysts, and directors conducted late last fall—well after Enron’s shenanigans first came to light—found that the same names kept emerging. Seven of the ten Most Admired companies in the nation in 2002—General Electric, Southwest Airlines, Wal-Mart, Microsoft, Berkshire Hathaway, Home Depot, and Intel—are old reliables from the past two years. One, Johnson & Johnson, regained its top ten berth after a three-year absence. Just two, FedEx and Citigroup, are making their first showing in the 20-year history of the list.

What do these companies have in common? FORTUNE’s Most Admired seem to perform at their best when the heat is on, consistently delivering to shareholders, customers, and employees. As a group, the top ten racked up a total return of 9.7% in 2001, compared with –11.9% for the S&P 500 (see table), a remarkable achievement in a depressed market. Take much maligned yet perennially admired Microsoft, which fought a two-front war against the Justice Department and a slumping PC industry and emerged unscathed, with its stock up more
than 50% in 2001. Or megabank Citigroup, which earned more than $14 billion despite a recession, Sept. 11 fallout, and exposure to Enron and Argentina. But it’s not just one year that counts; it’s also performance over time. Consider No. 1 GE. Though its 2001 total return was a less than stellar −15.1%, over the past five years, on average, it has delivered an S&P-clobbering 21.2%.

Market forces helped push Dell Computer, Cisco Systems, and Charles Schwab out of the top ten this year. By slashing prices Dell was able to grab market share in 2001 despite sluggish sales, so we can ascribe its fall more to a sinking tide in the PC industry than to any less than admirable moves Dell made. (After all, it’s tough to grow 30% every year when you get to be a $32 billion company.)

Cisco is another story. The company lost $1 billion in its past fiscal year, thanks in large part to a staggering $2.25 billion charge it took to write off stuff it just couldn’t sell. (So much for CEO John Chambers’ ballyhooed up-to-the-second-data-gathering ability.) More important, its once-beloved stock fell 53% in 2001, underscoring the tight correlation between shareholder returns and reputation. Last December we reported that Cisco’s ranking in MVA (market value added, or the difference between the total capital investors have put in a company and that which they can take out) dropped from No. 2 in 2000 to No. 11. So what happened to Cisco’s corporate rep? You guessed it—it went from No. 2 to No. 11. Although the company is still sitting on a $5.3 billion cash pile and is picking up share in markets like Internet-based phone systems for corporations, it now has something it never had before—“a credibility problem,” says Aaron Goldberg, VP at Ziff-Davis Market Experts.

Need you ask why Charles Schwab dropped from No. 8 all the way to No. 25? Commissions down 41% in 2001, trading-related revenue down 55%, plus its first quarterly loss since 1987—it was not a pretty year for Schwab, which made its name as a no-hassle discount broker but last year decided to venture into the advice business, a move that may pan out in the long run but for now has given its brand an identity crisis. “It’s something they had to do, but it certainly changes what they stand for,” says Cerulli Associates banking analyst Matt McGinness. Still, Schwab gets high marks for innovation, and it remains No. 1 in its industry group (see “Who’s on Top and Who Flopped”).

For happier stories, let’s start with this year’s No. 7. At Johnson & Johnson, 2001 was the 69th consecutive year of sales increases and the 17th straight year of double-digit earnings-per-share growth, fueled by a 17% rise in sales of drugs like anemia fighter Procrit and the antipsychotic Risperdal. J&J’s stock was up an industry-beating 14% for the year. The 116-year-old health-care company is also poised to make a bundle on the launch of drug-coated coronary artery stents, which could generate anywhere from $500 million to $3 billion in sales in 2003, according to analysts.

Such an opportunity probably wouldn’t have existed had CEO Ralph Larsen not rallied his 900 top managers around the theme of innovation at a meeting back in 1997, when J&J’s pipelines were dry and the firm was viewed as a lumbering giant. “We thought we were paying a lot of attention to R&D, but our scientists didn’t think so,” Larsen recalls. Galvanized, the company made a handful of savvy acquisitions, put a scientist on its executive committee, and successfully leveraged its beloved brand name into the faster-growing and more profitable drug and medical-device sectors. “What’s different today is the attention that the drug business gets,” says Mara Goldstein, a pharma analyst at CIBC World Markets. Larsen’s bet has paid off, and next month, after 13 years at the helm, he hands over the reins to William Weldon, 53, a 31-year J&J veteran.

Being most admired is all about delivering what you promise to multiple audiences, and that’s something No. 8 FedEx has down pat. Just as Johnson & Johnson found it had to move beyond its roots, FedEx has successfully transcended its image as simply an air express carrier for business to become a one-stop shop for any shipping need. Acquisitions like RPS in 1998 and American Freightways last year have rounded out FedEx’s offerings to include ground and freight, respectively, a prescient move given the corporate cost cutting that followed. “Having the ground network in place has been particularly important as the economy has slowed,” says Jim Winchester, transportation analyst at Lazard Freres. “It allowed us to walk and chew gum at the same time,” quips founder and CEO Fred Smith. Customers agree: George Kurth, director of supply chain and logistics at Hyundai Motor America, consolidated his $450,000 monthly shipping business from a hodgepodge of companies into FedEx a few months back. “We wanted the best,” he says.

Those developments, plus a landmark seven-year, $7 billion deal to transport priority, express, and first-class mail for the U.S. Postal Service, helped FedEx increase its operating margin from 4.2% in the first half of 2001 to 6.6% in the second half. FedEx’s stock was up almost 30% for the year, and it’s up 61% from its post–Sept. 11

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low, while UPS’s stock is up just 19%. Partly because of that impressive stock run-up, FedEx won the hearts and minds of the broad business audience this year, while still trailing Big Brown in its industry rankings.

You may have scratched your head last year to see that Citigroup, the über-bank formed by the 1998 merger of Citibank and Travelers Group, finished in the top three in six of the eight attributes of reputation that FORTUNE measures (see “Who’s on Top and Who Flopped”) yet failed to make the top ten. What did CEO Sandy Weill have to do to get some love? It turns out he just had to wait. The company hit No. 9 this year, bolstered by a 23% increase in profits from its massive consumer group (which added 1,350 branches when it gobbled up Mexican bank Banamex last year), earnings of more than $14 billion on revenues of $83.6 billion, and a return on equity of 20.4% in 2001. “Our company is a good example of a merger that worked,” says Weill. “The combination of commercial banking and investment banking has really paid off for our customers.”

Indeed, the firm was the No. 1 underwriter of global debt and equity last year, up from No. 4 in 2000, and the much-hyped cross-selling synergies between the corporate and investment banking sectors have started to take shape. “They have managed to show that they have a diversity of earnings and that they are capable of doing well even in a poor economic environment,” says US Bancorp analyst Andy Collins. “They are just a cash-creating machine.” And though brain drain is always a challenge in the financial services industry, the loss of COO Jay Fishman, for example, was mitigated by the addition of former IMF honcho Stanley Fischer. “It’s an extraordinary company, the way [Weill] collects people,” says Spencer Stuart Chairman Tom Neff.

Weill is also collecting some criticisms. Allegations that the brokerage side of Citigroup sold convertible Enron bonds to institutional investors when Citi’s lending side knew that Enron was in trouble were brought to light after our surveys were in. But it remains to be seen whether those allegations will be enough to hurt Citi’s reputation—they have certainly not hurt its stock price much.

Speaking of Enron, let’s set the record straight: Despite what you may have heard, that now notorious energy firm was never voted into the Most Admired’s top ten. Why? For one thing, history shows that you need a solid record of performance over many years to earn the business community’s highest esteem (see “The Right Stuff”). “It’s very easy for people to admire some organization of the moment—it’s like a flashbulb going off,” says David Bliss, vice chairman of Mercer Delta Consulting. As the flashbulbs faded last year, the Most Admired continued to burn bright.

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