India’s top-performing CEOs

A new INSEAD study reveals the emerging nation’s top-performing CEOs. Who made the list and what earned them top marks?

In 1998, a young MBA graduate takes over an ailing iron mill, adopts a backward integration strategy securing raw materials and steers a remarkable turnaround making Jindal Steel and Power (JSPL) the most valuable Indian steel company with annual revenues of US$2.6 billion. Today the 41-year old Naveen Jindal ranks number one among a list of top executives in a new INSEAD study ranking nearly 400 CEOs of Indian publicly-traded companies, published this month in conjunction with India’s Business Today.

“Naveen Jindal exemplifies the profile of a CEO who is most likely to secure a high ranking on our list,” says **Balagopal Vissa**, lead researcher and an INSEAD associate professor of entrepreneurship. “The perspective we took was that the most objective way to look at the performance of the CEO was to look at shareholder returns the CEO delivers over his or her entire tenure or reign at the helm. Jindal’s turnaround of a sponge iron mill followed deals that secured cheap access to valuable raw materials such as coal and iron ore at a time when competitors were paying much less attention to these inputs. This strategy insulated JSPL from price volatility in commodity markets, thus bringing down production costs and boosting profitability. Between 1998 and 2011, Jindal delivered a staggering total shareholder return of 13,784 percent, increasing JSPL’s market capitalisation by about US$12.1 billion.”

The study showed that youth and education mattered, specifically an MBA degree. “Again Naveen Jindal exemplifies the CEO who's likely to be highly rated on our list,” opines Vissa. “Naveen is young, he came into the job with an MBA, in this case, from UT Dallas, and that's typical of the CEO who does well on our list.”[Click here for the full ranking of top Indian CEOs.]

“Indian companies have only been exposed to serious foreign competition since the economic reforms of 1991 (that favoured free markets, low tariffs and taxes and foreign investment while dismantling entry barriers such as licenses and permits) and that decade saw many of them improve their game significantly to emerge stronger and grow rapidly in the 2000s,” notes Vissa. “The question of what makes for good executive leadership takes on increased importance as these companies face new challenges resulting from this rapid growth, as well as a possible cyclical slow-down in the Indian economy in the next few years.”

The rankings

Vissa’s study builds on previous work in 2010 by INSEAD professors Morten Hansen, Herminia Ibarra and Urs Peyer which ranked nearly 2,000 global business leaders - the late Steve Jobs ranked first on their list. The original study was published in the Harvard Business Review. [Click here to read more.] The Indian study similarly entailed an analysis of shareholder returns during the full tenure of lead executives during the period between 1995 and 2011. They selected CEOs from the India-based S&P CNX 500 Index, from companies that had been in the index for at least four consecutive years. The final tally included 374 CEOs representing just over 200 companies.

The ranking combined three measures: country-adjusted returns to eliminate any increases attributable to an upswing in the general stock market; industry-adjusted returns that did the same for increases due to global sector outperformance; and change in market capitalisation during a CEO's tenure adjusted for inflation.

"Using three metrics is a balanced approach," avers Vissa. "While the first two metrics risk being skewed toward smaller companies (it is easier to get large returns if you start from a small base), the third metric is skewed toward larger companies."

The data showed the median age when the executives became CEO was 54, and those still in office had an average tenure of 6.7 years. Only 1.3 percent were women and 91 percent were Indian nationals.

Noticeably, CEOs from India's growth sectors like IT and telecommunications were largely missing from the top 25. Only one - Sunil Mittal of global telecommunications company Bharti Airtel - featured. "Our ranking covers individuals who started their job as CEO during the time period between January 1995 and June 2009." Vissa clarifies. "That's one reason you won't find the usual suspects like Narayana Murthy of Infosys or Azim Premji of Wipro on the list (the two represent India's leading global IT services companies). They took the helm before 1995, though we suspect they probably would have done well if included."

Meanwhile, the explosive growth of India's mobile subscribers from about 10 million in 2002 to 750 million at the end of 2010 has made telecommunications one of the fastest-growing markets. But it's an overcrowded 15-player sector. "The fierce competition to gain subscribers by undercutting prices, makes it challenging for the companies and their CEOs to be truly successful," adds Vissa.

The young professionals

Also surprising, young executives were just as likely to succeed as their senior counterparts - a CEO who started his job 10 years younger than the average age improved his ranking by 15 places, the study found. Bhaskar Bhat (#4) became CEO of Titan Industries when he was 47 years old, for instance, while Sunil Duggal (#14) became CEO of Dabur India aged 45.

"It could be they were high-quality to begin with and rapidly rose through the ranks," suggests Vissa. "It could also be indicative of a 'threshold effect' where some experience is required but doesn't add value beyond a certain point."

But having an MBA degree proved to add value improving placement in the ranking by 15 spots. "For companies in India that are growing very fast, the key challenge is to take functional managers that have an expertise in specific areas such as sales and marketing and to transform them into business leaders," says Vissa. "The prevalence of professional managers armed with MBA degrees suggests that the 'visible hand' of managerial capitalism may be playing an increasingly important role in the Indian economy."

Organisational types

There were two very interesting sets of results in the type of organisation the CEO came from. One was that the study found no significant difference in the performance of CEOs of domestic private enterprises or Indian subsidiaries of foreign multi-national companies. "It's a good thing," reflects Vissa, "it tells us that home-grown private enterprises such as large family-run business houses have evolved a milieu where competent people are able to thrive at the top. It also tells us that Indian leaders' ability to deliver appears to have less to do with their firms' origins and more to do with the fundamentals of how they lead their business."

On the other hand, CEOs of leading state-owned enterprises (SOE) were systematically ranked worse, the study revealed. Other things being equal, leading an SOE led to a drop of 35 places in the ranking, which is substantial, says Vissa, given that the list has fewer than 400 CEOs. "The Indian state needs to provide a milieu at the top so competent people can thrive and drive shareholder value. That's a huge challenge and a big political issue in India."

State-owned enterprises represent about a fifth of the Mumbai market's capitalisation. "Outright privatisation hasn't been done in a while but many state-owned enterprises are getting listed on the stock market," observes Vissa. "Hopefully that could impose some discipline but there's still a long way to go."

Founder/entrepreneur phenomenon

How did entrepreneurs perform? The Indian business landscape is dotted with vibrant new business ventures yet only 5 percent of the CEOs evaluated were founders. Sunil Mittal of Bharti Airtel and Nimmagadda Prasad of Matrix Laboratories are the only founder-entrepreneurs among the top 25. "Over the last 15 years, India has seen an explosion of entrepreneurial start-ups and it also now has a good ecosystem for entrepreneurship," explains Vissa. However, entrepreneurs don't appear to make it to the top seat very often. One reason for this is due to significant trade sale activity within the Indian business landscape - small startups become big and get acquired by other incumbents thereby not even making the initial public offering (IPO) stage. In instances when they make an IPO, founders sometimes hire CEOs and professionals to take over management and day-to-day operations – similar to the development of such Silicon Valley giants as Yahoo in their nascent stages.

"I see this as a good sign," says Vissa. "In the past, a Narayana Murthy had to learn new skills all the way from starting up from nothing to running a billion-dollar enterprise. It's very difficult for most people to learn and adapt along the way. It's very important to have an ecosystem where entrepreneurs build a company from zero to US$100 or US$200 million, exit the company and have somebody more experienced take it to the next stage."

Runway effect

The study also evaluated the company's health when a new CEO took over. Vissa's data set which had 122 pairs of predecessors and successors found that it was easier to score better when following in the footsteps of a poorly-performing CEO. "There is a 'runway effect' at play," says Vissa, "where taking over from a low base provided a greater opportunity for success." This finding also matched results from the list of global CEOs.

"The overall image that emerges from our data is one of hope and optimism," concludes Vissa. "A crop of relatively young CEOs armed with MBAs, often from top Indian business schools, are delivering shareholder value in an economy where it is a challenge to sustain competitive advantage. Executives have had to step up to innovate, grow and stay ahead of the competition and a number of these high-quality CEOs are able to perform extraordinarily well in any type of private enterprise – firms linked to Indian business houses or to foreign multinationals. It suggests that traditional Indian business houses are successfully professionalising their upper echelons."

Balagopal Vissa is Director of the INSEAD Leadership Programme for Senior Indian Executives.

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