

## Are rankings worthwhile?



By [Grace Segran](#)

**The ranking of companies and business leaders has become something of a cottage industry in recent years. But what do they tell us about anything? Quite a bit, it turns out. You just have to learn to read between the numbers.**

Three years ago, a handful of INSEAD professors felt that all this ranking and list-making was more of a sport than an exercise to shed some light on what actually makes a CEO “number one” (or two or three...). So they collaborated with Harvard Business Review (HBR) to produce research that led to a unique classification of nearly 2,000 CEOs.

The report, entitled *The Best-Performing CEOs in the World* was published in January 2010 and co-authored by INSEAD’s [Herminia Ibarra](#), Cora Chaired Professor of Leadership and Learning; Morten Hansen, Professor of Entrepreneurship; and [Urs Peyer](#), Professor of Finance. Based on the long-term shareholder returns the CEOs generated, the study looked at the performance of CEOs over 14 years from 1 January 1995 to 30 September

2009 across countries and industries, contrasted insiders and outsiders, compared CEOs who have MBAs with those who didn't, and revealed a shortage of women CEOs the world over.

The report led to a further ranking in January 2012 of 400 CEOs from India's publicly-traded companies; and in March 2012 of 300 CEOs in Latin America. The rankings show how CEO's operate in different parts of the world and what it takes to be successful in different environments.

Aside from being interesting reading in a "business-as-sport" kind of way, these rankings can be a useful guide in succession planning and in conducting CEO searches because they help identify some of the key characteristics of today's successful business leaders co-author Hansen told INSEAD Knowledge. But he adds that the rankings are "just a first step and that we are now adding CSR and progressive workplace because today boards of directors, senior managers, and investors intensely want to know how CEOs handle the ups and downs of running businesses over an extended period. Only by analysing performance over their tenure and beyond can we begin to understand the nature of great leadership."

## **The MBA edge**

The authors found a definite correlation between holding an MBA and achieving high performance as a CEO over the long-term. "In our global list, CEOs with an MBA ranked on average a full 40 places higher than those without. Indeed, half of our top-10 went to B-school," Ibarra told INSEAD Knowledge. "CEOs without MBAs had average shareholder return of 81 percent over the course of their entire tenure, while those with MBAs averaged total returns of 93 percent, a substantial improvement."

In India, in particular, having an MBA degree dramatically improved CEO performance. Within the India-specific ranking, having an MBA improved a CEO's position by 15 places, suggesting that Indian corporate culture has increasingly been shaped by managerial techniques and strategies learned in business schools.

Many of these MBA-clad CEOs are also younger than the average CEO from the global ranking. For example, the top performing Indian CEO, Naveen Jindal, took over one part of his family business in his early thirties, armed with an MBA from the University of Texas at Dallas. He has since turned

Jindal Steel and Power (JSPL) into India's most valuable steel company (in terms of market capitalisation) with annual revenues of US\$2.6 billion.

"A generation of relatively young Indian CEOs, educated at top Indian business schools, are delivering impressive shareholder performance," says Ibarra. "This has been true even in the older, more traditional Indian businesses, indicating that older Indian companies are successfully integrating modern management techniques into their top ranks."

## **Family business and cultural knowledge**

Latin America is different from India and the rest of the world in that local expertise ("who you know") matters significantly more than educational background - only 12 Latin American CEOs among the top-50 had MBAs. Instead, CEOs in Latin America succeed when they are able to leverage their local knowledge and key relationships with business families and the government ministers.

Family businesses account for 75 percent of Latin American companies. As a result, CEOs are often drawn from among family members. Examples include Daniel Servitje Montull of Mexico's Grupo Bimbo and Paolo Rocca of the Argentinian steel pipe manufacturer, Tenaris. Other CEOs (such as Guillermo Garcia of Molinos Río de la Plata, controlled by the Pérez Companc family) have developed the ability to work closely with family members in running the business.

"In general, the family and government are ultimately responsible for the larger decisions that determine corporate culture, while CEOs merely execute the decisions," says Hansen. "This is a stark contrast to mature markets, where shareholders tend to look for a CEO who will make major decisions regarding the company's strategy and vision for the future."

## **So what?**

From the three reports, we know what factors make good CEOs. So what do you do with that information?

Ibarra believes two things need to change: MBA programmes need to become more global and people need to change their mindset of what a

good leader is.

“Just because chief executives with MBAs did better than their peers between 1995 and 2009, it does not follow that future leaders with MBAs will perform higher than those without,” she argues. She believes that the degree and the schools in which it is taught have to adapt to a changing world. “Our research shows that high performance is evenly distributed across the world. Business schools thus need to scour the globe for role models, innovative ideas and the best students. The MBA curriculum and experience needs more global cases, more discussions of multicultural issues and more comparisons of international ways of doing business.”

She says that business schools, boards of directors, the press, MBA holders and chief executives need to reset the metrics of performance for leadership. “Our ranking offers a long-term lens through which to see business leaders but the problem is really one of mindset. Many chief executives live by the quarter. This is wrong. Great results take time to build. And that is one thing you don't need an MBA to understand.”

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