How do you measure success at the top?

By Shellie Karabell

Perhaps at no other time in history has CEO compensation come under such scrutiny. What makes these business leaders, who are more often than not men, worth so much money?

Three INSEAD professors have devised a metric to measure CEO performance; and out of that comes a list of the top 200 CEOs. Prepared by Professors Morten Hansen, Herminia Ibarra and Urs Peyer, the results were published recently in the Harvard Business Review and on the INSEAD Knowledge website.

“The initial idea was to get an idea of what kind of strategies, and leadership styles make someone successful, and we looked at this from a global perspective as part of our focus on global business,” explains Peyer.

The final 200 were drawn from a compendium of 1,999, taken from the S&P Global 1200 and the S&P BRIC 40, selecting CEOs in power between 1995 and 2009. “Basically we ranked CEOs based upon their performance during their entire tenures,” states Peyer. “We didn’t want to cut anyone out; but...this list is a bit in contrast with what we sometimes see which are short-term, ' The Best CEO of the Year,' 'The Most Recognised CEO' and all of these lists that look at the very short term. We wanted to base our analysis on an entire career."

The final list of 200 is dominated by CEOs of US companies - some 40 per cent. Twenty-three are from the UK; twenty-one from Asia; eight from France; and three from Germany. Even Russia's Gazprom made it into the top ten. "We were surprised to find such a variety of countries and natinalities," says Peyer. It does come through that regardless of which country a CEO is working in, he or she can make a difference." But there are far, far more men than women on the list: only 29 women out of 2,000 were up for consideration. "We think it is harder for female CEOs to make it to the very top because we see that those on our list have had much shorter terms in office. The hope is that the more recent (female) CEOs who started, for example, in the year 2000 or so will deliver in the same degree as their male counterparts."The main criteria? "Shareholder value," affirms Peyer, despite some of the negative connotations that term has taken on recently, referring to short-term gains in lieu of long-term value. "We still think that's the best metric," counters Peyer. "I know there has been some discussion of CEOs being accused of trying to manage the share price; but, as Jack Welch (the legendary former CEO of GE) has commented on what maximising shareholder value means, it's to [have an impact on] value, not just the share price for the sake of the share price."

But affecting the share price is perhaps the most important offshoot of creating shareholder value. Take the top CEO on the list, Apple's Steve Jobs. "How many dollars of stock market capitalisation did Steve Jobs add during his term?" queries Peyer, then answers his own question: "Until the end of 2009, when we stopped measuring, it was about $150 billion. Put another way, this is about a 3,200 stock return - which is amazing. He created that together with his whole team, but as a leader he has certainly made his contribution to it."

Among the other companies in the top 10: CISCO, Reliance, Samsung and eBay, with CEO Meg Whitman one of the few women to make the list. No General Electric - about the only company to be in the Dow Jones Industrial Average since that index's inception, the grandfather of American business. "GE didn't quite make it," cautions Peyer; "Jack Welch was CEO before 1995, so he didn't make the list; and Jeff Immelt (GE's current CEO) has not performed as well as other guys who compete with him for these top spots." But isn't it hard to follow a legend like Welch? "No one that follows a superstar can make it again to superstar status," admits Peyer, referring to his research results. "There is a lot of anticipation when these guys take the job, and they may not live up to the standards of their predecessor. But it's also true that if you follow a CEO who has not been very successful in his job, it seems to be easy to get to the top of the rankings."

In the end, who's at the top does make a difference. "If it were simply the firm and all its other employees and its assets (responsible for returning outstanding shareholder value), you should see that a stellar performer is followed by another stellar performer if the CEO doesn't matter, and the rest of the firm stays in place and delivers. But we didn't find that."

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