# Top 50 Ranking of China’s Business Leaders Exposes Common Myths

By Herminia Ibarra

**“A general who fears to unsheathe his sword is not a good general,” says Mr. Li Jiaxiang, Chairman of Air China from 2004 to 2008 and the #1 performing corporate leader in China according to our new ranking (just published in the Harvard Business Review China and the centerpiece for the magazine’s launch events in Beijing and Shanghai).**

Under his leadership, the company’s total shareholder return outperformed its industry peers by 1,022%, corresponding to a compound annual return above the industry average of 129%, with a corresponding market capitalization increase of CNY 237 bn (USD 36.7 bn). A former general in the China Air Force, Mr. Li put into practice leadership skills he honed in his military career.

Though ours is not the first ranking of Chinese business leaders, it is the first ever such ranking to rely on objective long-term stock market performance.

The problem with many of the **other current rankings** is that they are heavily influenced by company reputation and media coverage. Those that do use financial measures tend to use quarterly earnings. But that’s a poor measure, especially in China where short-term stock price fluctuations are higher than in Western markets.

Our ranking — and the study it is based on — bridges the Chinese and Western worlds by measuring leader and company performance in a way that makes sense for investors and management thinkers across the globe — long-term financial performance. We used the same method we employed in our widely-read **global ranking of CEOs** of the largest companies in the world, published in Harvard Business Review in 2010.

We track shareholder returns and market capitalization changes from the first day the leader took the helm to the last (or until March 31 2012 if still in office). The only difference is that in the China study, we defined the "corporate leader" as the person holding the highest executive position, i.e., with ultimate profit and loss responsibility for the firm. In Western countries this person is typically the CEO; in China they typically have the title Chairman of the Board.

Our measure is objective, using stock market data as opposed to reputation. It's also systematic, as we analyzed all large listed companies. And it's long-term, by tracking shareholder performance during the entire tenure of the leader. We used it to assess 509 leaders of the 244 largest state-controlled and non-state-controlled (private) companies on the Chinese stock exchanges. Measured this way, we found several patterns that run counter to popular myths about Chinese companies and the leaders who run them.

**Myth #1: Manufacturing is the key to Chinese competitiveness**

A quick look at the top rankers reveals that success for many came from actively pursuing an international strategy — 19 of the leaders in the top 50 ranking have done so. For example, the #2 in our ranking — Mr. Wang Dongming, Chairman of **Citic Securities**, the top firm in China's securities market — used international diversification to reduce the risk of a potential slow-down in China. Likewise, the #3 leader, Ms. Dong Mingzhu, of air-conditioning company **Gree Electric Appliances** saw the global downturn as a "golden chance for overseas customers to recognize that they can pay less for the best quality machines." Her strategy consisted of internationalizing Gree's brands, not merely setting up plants all over the world. While not household names today, Gree and a bunch of others on the top of our list may soon become internationally recognized brands like Samsung, Sony and Starbucks.

**Myth #2: Private firms have a performance advantage over state-controlled firms, or vice versa**

A surprising finding for us was that ownership control does not explain performance. Although our top 50 list has more leaders from state-controlled than private firms, state ownership has no statistical impact on the leader's place in the ranking. Leaders of state-controlled firms may receive more favors and thus do better, but that's not the case among our top 50. Leaders of private firms may be freer from the shackles of the Government and thus perform better, but that’s not the case in our top 50 either. Perhaps these two advantages cancel each other out in China. In any case, there is more than one route to top long-term performance.

### Myth #3: Leaders of large firms do better

Size does matter but small is beautiful in China. Leaders who took over a smaller firm (measured by the market capitalization when they started out) performed better than those that had a larger market cap, taking into account whether company is private or public. Take for example, Mr. Li Jianhong, # 4 on our list, who took over **China International Marine Containers** in 1995 with a market cap of less than CNY 1 bn. He increased the company’s market capitalization by 31 times over his tenure (1995 to 2007) and generated an outstanding industry adjusted total shareholder return of 3,425%.

### Myth #4: Chinese top leaders stay in power a long time

Given their cultural and political history, one might imagine that Chinese leaders typically stay in power a long time. But, compared with the global average tenure of 8.8 years (among the top 50 global leaders), the average tenure of the top 50 leaders in China is shorter (6.8 years). The tenure of leaders in the state-controlled firms (6.7 years) is comparable with that in the private-controlled firms (6.9 years) in our ranking. Clearly, the market for Chinese business leaders, even if heavily internal (most leaders were promoted from within), is as dynamic as their economy.

These findings surprised us because they go against conventional wisdom. But we also found some commonalities with other leader rankings we’ve done around the world. (Earlier this year we published a ranking of the **best Indian CEOs** in *Business Today*.) Just as in our global ranking, Chinese leaders have a better shot at performing well during their tenure if they inherit a poor-performing company. The better-ranked the predecessor’s performance during his or her entire tenure, the more poorly-ranked is his or her successor. This finding suggests that the Chinese market has become highly competitive — thus it is hard for top performers to stay on top.

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