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The Best-Performing CEOs in the World

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For years, people have bemoaned executives' zealous focus on short-term results, which often leads CEOs to make moves that undermine their firms' long-term prospects and, some say, act irresponsibly. But all the talk won't change anything if the business world doesn't adopt a new way of measuring performance.

Three professors from France's Insead believe they have the answer: an innovative scorecard that evaluates CEOs on the basis of the results they delivered over their entire tenures in office. It incorporates three metrics: industry-adjusted shareholder returns, country-adjusted shareholder returns, and increase in market capitalization over that time frame. Using this scorecard, the authors have studied and objectively ranked the performance of thousands of CEOs of major corporations around the world. In this issue, we reveal who made it into the top 100.

This is the second installment of the ranking, which we published for the first time three years ago. Since then, the authors have expanded the group of CEOs studied, making it even more global. And, recognizing the growing sentiment that great financial performance is no longer enough, they also looked at social and environmental ratings to see which of the top CEOs also did well on those metrics.

(Abridged version of report follows)

It's no accident that chief executives so often focus on short-term financial results at the expense of longer-term performance. They have every incentive to do so. If they don't make their quarterly or annual numbers, their compensation drops and their jobs are in jeopardy. Stock analysts, shareholders, and often their own boards judge them harshly if they miss near-term goals. And without equally strong pressure to manage for a future that stretches beyond 90 or 180 days, CEOs' behavior is unlikely to change. Developing a simple yet rigorous way to gauge long-term performance is crucial; after all, in business, leaders default to managing what's measured.

Five years ago we launched a global project to address that challenge. But we wanted to do more than just devise the right metrics. Our goal was to implement a scorecard that would not only get people talking about long-term performance but also alter the way that boards, executives, consultants, and management scholars thought about and assessed CEOs. We wanted this innovation to shine a spotlight on the CEOs worldwide who had created long-term value for their companies, and we wanted to give executives around the world critical benchmarks they could aim for.

Three years ago, in the January–February 2010 issue of HBR, we introduced such a scorecard. It evaluated chief executives on their entire tenure in office. We used it to rank the performance of nearly 2,000 CEOs. This month we are publishing a new version of that analysis. We have expanded it along two important new dimensions—making the group of CEOs we studied truly global, and examining which CEOs and companies were able to do well not only financially but also in terms of corporate social performance.

Judging CEO Performance

For the most part, we used the same methodology that we did three years ago. (See the sidebar "How We Created the Scorecard.") We wanted to accomplish three things:

Assess the long-term performance of each CEO, from the first day on the job to the last. (Or for CEOs still in office, until August 31, 2012, our last day of data collection.) To do this, we looked at how much total shareholder returns had changed over that time period (adjusting for country and industry effects), plus the overall increase in market capitalization.

Reflect the global nature of business. In 2010 we drew candidates from the S&P Global 1200 and BRIC 40 lists; this year we worked with three other emerging-market indexes as well. The pool of CEOs studied increased by roughly one-third, from 1,999 in 2010 to 3,143 this year.

Be objective. Other rankings use reputation and surveys, which tap into popularity and celebrity status, to score CEOs. Instead, we use only performance data—notably, total shareholder performance. Other metrics, such as sales, profitability, and innovation rates, are useful, too, but they differ by industry, which makes comparisons difficult.

Granted, one downside of using truly objective measures is that our ranking may not exclude CEOs who have disappointed stakeholders on dimensions where performance is more subjective. This can be especially challenging with CEOs from emerging markets where rules are still being established. But even though CEOs are held accountable in areas that shareholder performance cannot capture, it remains the principal standard by which they are judged.

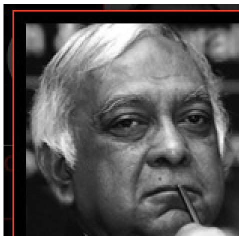
Who's Up, Who's Down

The top 100 CEOs on our list performed exceptionally well. On average, they delivered a total shareholder return of 1,385% during their tenures and increased their firms' market value by $40.2 billion (adjusted for inflation, dividends, share repurchases, and share issues). The contrast between their results and those of the bottom 100 CEOs was striking: On average, the bottom 100 produced a total shareholder return of -57% and presided over a loss of $13.6 billion in market value.

It comes as no surprise that the best-performing CEO over the past 17 years was Steve Jobs of Apple, who was #1 on our 2010 list as well. From 1997 to 2011, Apple's market value increased by $359 billion, and its shareholder return experienced average compound annual growth of 35%. That remarkable accomplishment is likely to go unbeaten for a long time.

Jeff Bezos of Amazon.com has now climbed to the #2 spot, up from #7 in our 2010 list. Under his leadership, the company delivered industry-adjusted shareholder returns of 12,266% and saw its value increase by $111 billion. In recent years the online retailer has expanded aggressively into new segments such as cloud-based computing services, while working to get the most out of the markets it already occupies. Its revenue growth shows no signs of slowing: Sales increased by 40% in 2011.

The highest-ranked woman on the list is Meg Whitman, currently the CEO of beleaguered HP, whose performance as the CEO of eBay from 1998 to 2008 earned her the #9 spot. Overall, only 1.9% of all the CEOs we studied were women.



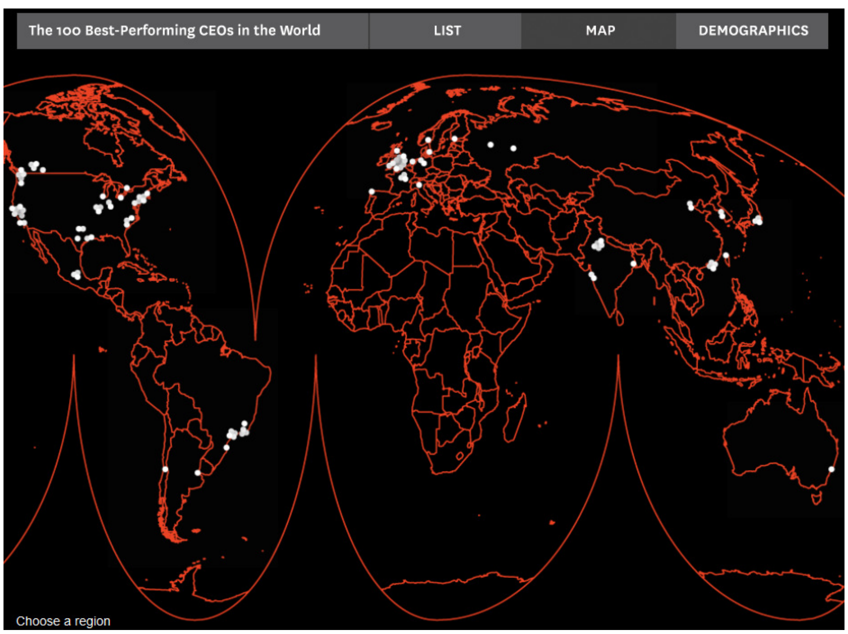
OVERALL RANK
13
*TIE
Subir Raha
COMPANY
INDIA
Oil & Natural Gas
TENURE
2001—2006
INDUSTRY
Energy
MBA ✓
INSIDER
TOTAL SHAREHOLDER RETURN
COUNTRY ADJUSTED
729%
INDUSTRY ADJUSTED
915%
MARKET CAPITALIZATION CHANGE ($ BILLIONS)
+57

There was considerable turnover in the top 100—this year about half (43) of the CEOs are new to that list since 2010. The change happened largely because in creating the 2013 ranking, we examined a bigger, more international sample of CEOs. To make the top 100 in 2010, CEOs had to rank in the top 5% of the executives in the study; this year they had to land in the top 3.2%. The majority of newcomers to the top 100 are from emerging markets, not surprisingly, but eight U.S. CEOs made the cut for the first time.

One notable new name is Lars Sørensen, the CEO of Novo Nordisk, a company that made its name selling insulin for diabetics. He shot up from #233 in 2010 to #20 in our current ranking. After Sørensen took over the company, in 2000, he spent 10 years and $500 million expanding the sales force to make it truly global. When all his competitors were investing in diabetes pills, Sørensen shut down Novo's pill research and instead focused the company on its core competency—insulin and other injected diabetes medications, notably prefilled insulin "pens" that eliminate the hassle of using a vial and syringe. His bet that sales would continue to grow in the wake of a worldwide diabetes epidemic has clearly paid off.

Even industries that have gone through tough times in recent years have seen some exceptional results. Airlines, for example, have not been doing well, but Air China, under the leadership of Li Jiaxiang (#17 on our list), bucked that trend. During his tenure, from 2004 to 2008, the company's total shareholder return was 1,022 percentage points higher than the average for its industry peers, while its market capitalization rose by $37 billion. With his guidance, Air China obtained a 50% share of the market in major Beijing airports and joined the largest airline alliance in the world.

The World of CEOs Is Not Flat



With a truly global sample to study, we can do a better job of comparing countries and regions. This is a significant advance; for decades most analysis of CEO performance has been U.S.-centric. Now we're able to examine data country by country—and we find real differences when we do.

China has been the growth miracle of the past decade, so you might expect CEOs there to have done very well. We find that the opposite is true: Among the 3,143 CEOs we analyzed, the average rank of Chinese executives was 176 places lower than the average rank of U.S. executives. Only three Chinese companies' CEOs made the top 100, though 17% of all the executives studied were from China. The Chinese leaders we asked about this discrepancy theorized that as the country's companies become more innovation-focused, their performance will improve.

Likewise, the average rank of Japanese CEOs was 562 places lower than that of their U.S. counterparts, although this is not a big surprise, since Japan's economy has struggled for many years. On the whole, U.S. CEOs did not shine either, despite holding six of the top 10 slots. Their average rank was 215 places lower than Latin American CEOs', 140 places lower than Indian CEOs', and 137 places lower than British CEOs'. Continental European and U.S. CEOs ranked about the same. U.S. CEOs have not been as competitive on a global scale as one might think.

One bright spot is Brazil, whose CEOs make up only 4.5% of the total sample but 9% of the top 100. They include Roger Agnelli of Vale (#4) and Embraer's Maurício Botelho (#11). Botelho took over the state-owned company in 1995, when it was reporting losses of around $300 million a year, and over the next 12 years, built it into a world-class competitor. (Interestingly, Brazil is also overrepresented in the bottom 100, suggesting that companies from that country play a high-risk, high-reward game.) Another standout is Mexico, whose average CEO ranked 108 places higher than the average U.S. CEO.

The national and regional differences get even more interesting as we turn to the question of why some CEOs got better results than others.

What Accounts for Success?

Our 2010 article looked at several factors that might be relevant to good performance (whether CEOs were hired from inside the company, had an MBA, and so on). We tracked those factors again, and our global comparison revealed some insights into differences across the world.

The insider-CEO story. Management thinkers have long debated whether it is better to appoint an insider as CEO or get someone from the outside to run the company. But most studies have focused on U.S. corporations.

In our full sample of 3,143 CEOs, 74% were insiders. India had the lowest proportion (63%) and Japan the highest (90%). Overall, insiders did better than outsiders; the insiders' average rank was 154 places higher than the outsiders'. This is similar to what we found in the 2010 global ranking. It didn't hold true, however, in major parts of the world. Insiders got better results in the United States, the United Kingdom, and Latin America, but there was no difference between insiders and outsiders in continental Europe, China, and India.

What about the idea that outsiders are preferable when a company is in trouble? We find that boards—especially in the United States and Europe—do have a slightly greater tendency than normal to hire outsiders when the company is underperforming (measured as having an industry-adjusted total shareholder return of -24% or worse for the two years before the CEO started). But the results those outsiders produced varied by region. In the United States they didn't get better performance from struggling companies than insiders did. In Europe outsiders did better; the average rank of those who took over subpar performers was 370 places higher than the average rank of their insider counterparts.

In Latin America, however, the picture was different: The average rank of insiders who had taken the helm of poor performers was 750 places higher than that of outsiders who had. Regional factors help explain this disparity. A large number of Central and South American firms are family controlled; another large segment is government controlled. Business families—and, in some cases, governments—exercise a strong influence on long-term strategies and investment decisions, which makes it more difficult for a CEO who is new to a company to operate.

The upshot: In the United States, outsider CEOs usually do not deliver the goods, whether the company is underperforming or not. But this finding can't be generalized to other parts of the world. Boards need to keep regional success factors firmly in mind when selecting CEOs.

The curse of great prior performance. If you want to create a lot of shareholder value, it pays to take over a company that hasn't been doing well—at least if you're in the United States, China, India, or the United Kingdom. In those countries a poorly performing predecessor is often followed by a high-performing one. But there is no such effect in continental Europe, Japan, and Latin America.

The greater continuity in company performance in Latin America is probably a reflection of the long-term control exercised by business families, investor syndicates, and governments, whose visions don't change even as CEOs come and go. In Latin America those parties generally make the important bet-the-company decisions and policies, while CEOs are mainly responsible for execution.

An MBA degree. In the wake of the financial crisis, MBAs were accused of being value destroyers. We supplied the debate with some contrary data in 2010, showing that the average MBA ranked 40 places higher in the study sample than the average non-MBA. We saw similar results in this year's list. In this case, we did not discover that CEOs of certain nationalities benefited more from an MBA than others.

Industry. In general, industry differences count for very little in our analysis, explaining only about 5% of the variation in CEO performance. That said, the high-tech industry is overrepresented in the top 10, with five CEOs, including Amazon.com's. CEOs from the energy industry, who make up only 5% of the group studied, are overrepresented in the top 100, where they occupy 15% of the slots.

The Legacy Litmus Test

A truly stringent standard of excellence takes into account not only what results CEOs deliver over the long term but whether they've positioned their companies to succeed after they've left the helm. Here are the CEOs whose companies did very well over their entire tenure (in the top 10% of our 3,143 CEOs) and also during the three years after their departure. Many CEOs are not eligible for this list, of course, because they are still in office or because three years haven't passed since they left. At the top of this ranking we find Tim Koogle, who was the CEO of Yahoo from 1995 to 2001. His successor, Terry Semel, increased the company's market value by $24 billion from 2001 to 2004.

1. Tim Koogle
Company: Yahoo, United States
Industry: Information Technology
Tenure: 1995–2001
Country-Adjusted TSR: Tenure 566% Post-tenure 1,041%
Industry-Adjusted TSR: Tenure 559% Post-tenure 1,076%
Market Cap Change: Tenure +14B Post-tenure +24B

2. V.S. Jain
Company: Steel Authority of India, India
Industry: Materials
Tenure: 2002–2006
Country-Adjusted TSR: Tenure 788% Post-tenure 1,759%
Industry-Adjusted TSR: Tenure 843% Post-tenure 1,925%
Market Cap Change: Tenure +10B Post-tenure +13B

3. Pangal Jayendra Nayak
Company: Axis Bank, India
Industry: Financial Services
Tenure: 2000–2009
Country-Adjusted TSR: Tenure 2,149% Post-tenure 3,217%
Industry-Adjusted TSR: Tenure 1,984% Post-tenure 2,674%
Market Cap Change: Tenure +4B Post-tenure +4B

4. José Eduardo de Barros Dutra
Company: Petrobras, Brazil
Industry: Energy
Tenure: 2003–2005
Country-Adjusted TSR: Tenure 58% Post-tenure 243%
Industry-Adjusted TSR: Tenure 201% Post-tenure 1,329%
Market Cap Change: Tenure +67B Post-tenure +183B

5. Márcio Artur Laurelli Cypriano
Company: Bradesco, Brazil
Industry: Financial Services
Tenure: 1999–2009
Country-Adjusted TSR: Tenure 36% Post-tenure 268%
Industry-Adjusted TSR: Tenure 645% Post-tenure 1,206%
Market Cap Change: Tenure +41B Post-tenure +29B

6. Yun Jong-Yong
Company: Samsung Electronics, South Korea
Industry: Information Technology
Tenure: 1996–2008
Country-Adjusted TSR: Tenure 1,559% Post-tenure 471%
Industry-Adjusted TSR: Tenure 1,437% Post-tenure 380%
Market Cap Change: Tenure +128B Post-tenure +17B

7. David Thompson
Company: Teck Cominco, Canada
Industry: Materials
Tenure: 2001–2005
Country-Adjusted TSR: Tenure 235% Post-tenure 423%
Industry-Adjusted TSR: Tenure 244% Post-tenure 422%
Market Cap Change: Tenure +8B Post-tenure +14B

8. Chee Onn Lim
Company: Keppel Corporation, Singapore
Industry: Industrials
Tenure: 2000–2008
Country-Adjusted TSR: Tenure 237% Post-tenure 511%
Industry-Adjusted TSR: Tenure 324% Post-tenure 756%
Market Cap Change: Tenure +5B Post-tenure +9B

9. José Sidnei Colombo Martini
Company: CTEEP, Brazil
Industry: Utilities
Tenure: 1999–2009
Country-Adjusted TSR: Tenure 2,288% Post-tenure 2,205%
Industry-Adjusted TSR: Tenure 2,001% Post-tenure 3,484%
Market Cap Change: Tenure +6B Post-tenure +2B

10. Subir Raha
Company: Oil & Natural Gas, India
Industry: Energy
Tenure: 2001–2006
Country-Adjusted TSR: Tenure 729% Post-tenure 394%
Industry-Adjusted TSR: Tenure 915% Post-tenure 512%
Market Cap Change: Tenure +57B Post-tenure +13B

Doing Well and Doing Good

Many management thinkers argue that it is no longer enough to do well financially; companies also need to improve the well-being of (or at least not harm) the communities in which they operate, the environment, and their employees. (See, for example, “Creating Shared Value,” by Michael E. Porter and Mark R. Kramer, HBR January–February 2011.) That’s the good news. The bad news is that stellar performance on both dimensions is no common or easy feat.

This year we examined the correlation between the financial performance of leaders on our list and their social and environmental performance as measured by MSCI, a highly reputable firm that rates major companies. Despite all the rhetoric, we discovered that the correlation between the two sets of data is, well, zero. You can see this clearly in the exhibit “Does Doing Good Help CEOs Do Well?” Companies are scattered all over this chart. Though many articles suggest that responsible corporate behavior—say, in sustainability—will automatically improve your bottom line, clearly it’s not as simple as that. Some companies probably aren’t managing with such issues in mind. Some may not have attractive social or environmental strategies; some may have misalignment between those strategies and the overall corporate strategy; and some may have incomplete measures of social or environmental practices.

But the chart did reveal outliers. Five percent of the CEOs for which we had sufficient data fell into the box at the top right; they delivered great financial performance year over year and performed strongly on social and environmental dimensions. It is a rare achievement, indeed, but it is possible.

These trendsetting CEOs are the new role models for leaders pursuing the paradigm of creating shared value. One example: Franck Riboud of Danone, a French multinational with $27 billion in annual sales. Danone’s excellent financial performance earned him a spot in the top 10% of this year’s sample (a truly amazing achievement for a consumer goods company); at the same time, the company received extremely high ratings from MSCI. Another outlier is Natura’s Alessandro Carlucci (who made the top 6% for financial performance), a leader among CEOs who believe that alleviating poverty and inequality and protecting the environment are intimately tied to their business agendas. Carlucci and Riboud have both confronted the key social or environmental issue in their industry (in Danone’s case, obesity and unhealthful food consumption; in Natura’s, deforestation and poverty) and redirected their company’s strategy to tackle it.

We also looked at CEOs whose companies had high social and environmental performance in 2010 but whose financial performance kept them out of the top 15% of the group studied that year. Since doing both well and good can be a long-term strategy, we wanted to see whether any of those CEOs had then moved into the top 15% of the current financial ranking. We found four: the leaders of Adidas, Inditex, Hermès International, and Eaton.

At Adidas, CEO Herbert Hainer oversaw the implementation of a triple-bottom-line philosophy, a massive push to slash the company’s carbon footprint, and the increased use of recycled polyester as well as sustainably farmed cotton in products. One of Adidas’s latest sustainable innovations is DryDye technology, which removes the need for water in the dyeing process. At Eaton, Alexander Cutler has embedded sustainability into the company’s culture and practices. The diversified power management company develops innovative products and processes, such as hybrid electric and hydraulic power trains and electric power control systems, that help customers and consumers conserve resources and reduce their carbon footprint.

This new breed of leaders not only rejects the idea that financial market demands are more important than stakeholders’ needs but also demonstrates that companies can excel at meeting both. These CEOs have shown the way, and others can learn from them.

We don’t foresee a time in the near future when measures of social performance will be as objective as the measure of long-term financial performance we’ve developed. That said, we will continue to track how CEOs are doing in the two areas, with the aim of encouraging leaders to shine in both.

Everyone in the business world seems to agree that executives should be less obsessed with quarterly earnings and more focused on the long term—everyone, that is, except the decision makers who hire and fire executives and the people who buy and sell company stock. The short-term emphasis won't change until a new paradigm for evaluating performance emerges. Talk alone won't bring about that change; we also need a whole new method of evaluating CEOs. Here, we're proposing two key improvements: a robust, objective measure of leaders' performance over their full terms in office, benchmarking all chief executives of major global companies; and an assessment of the correlation between a firm's financial results and its environmental and social practices. We hope that boards of directors, pension funds, hedge funds, and other shareholder activists will use these measures to better evaluate CEOs and to guide the selection of tomorrow's leaders.

How We Created the Scorecard

We selected the CEOs we tracked from the following indexes:

- S&P Global 1200, 1997–2010
- S&P CNX 500, 1998–2010 (for India)
- Shanghai and Shenzhen Stock Exchanges, 1998–2010
- MSCI Emerging Markets Latin America Index and AméricaEconomía 500, 2002–2010
- S&P BRIC 40, 1997–2010

To make sure we had reliable and sufficient data, we excluded CEOs who had assumed their role before 1995 or after August 31, 2010. (For example, Tim Cook of Apple is not eligible because he became CEO in 2011.) And we included only those whose tenure lasted more than two years. All told, we ended up with 3,143 CEOs from 1,862 companies, of whom 1,007 were still in office on the date we stopped measuring performance. The entire group represented 64 nationalities and came from companies based in 37 countries.

Metrics. We pulled financial data from Datastream and Worldscope and calculated daily company returns for the entire length of each CEO's tenure (or until August 31, 2012, if the CEO was still in office). We calculated three sets of numbers:

Country-adjusted company returns. We computed a company's total shareholder return (including dividends reinvested) for the CEO's tenure. We then computed the average return for other firms from the same country over the same period and subtracted that figure from the company's return. This measure thus excludes any increase in stock return that is merely attributable to an improvement in the general stock market of a country.

Industry-adjusted company returns. We also deducted the average return for the industry, to exclude any increases that were the result of rising fortunes for the overall industry.

Market capitalization change. We measured the change in the company's equity market capitalization over the CEO's tenure. We adjusted this figure for inflation in each country and translated values into U.S. dollars, using 2011 exchange rates. We added to this number the inflation-adjusted value of the dividends and shares repurchased, and subtracted the adjusted value of shares issued.

We then ranked all CEOs for each metric—from 1 (best) to 3,143 (worst)—and calculated the average of the three rankings for every CEO to create the final overall ranking. Using three metrics is a balanced and robust approach: While the first two metrics risk being skewed toward smaller companies (it's easier to get large returns if you start from a small base), the third is skewed toward larger companies.

Analysis. We performed regression analysis on the data set of 3,143 CEOs. This allowed us to "control" for some factors and isolate the effect that one factor (such as having an MBA) had on a CEO's standing in the ranking. Significant effects are reported in this article.

Nana von Bernuth, project manager, led the effort to create and analyze the ranking.