Publication: The Economic Times Mumbai;Date: Jan 1, 2013;Section: Career & Business;Page: 8

MBAs May Make Better CEOs

A new study suggests an MBA could bring skills to the job of CEO that help a company perform better

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If an MBA should prepare students for anything,it's running a company well. Plenty of research, however, claims that it doesn't. But new research calls those findings into question, suggesting that MBAs are significantly less likely to be among the most ineffective corporate leaders. The research is from 'Executive' magazine and Applied Finance Group, a Chicago equity research and valuation firm. Using a complex proprietary methodology, AFG measuredthedegreetowhichcompanies in the S&P 500 are making money in excess of their risk-adjusted capital costs. The result was a list of 359 CEOs who had been in that position for at least three years — a corporate "naughty and nice" list. The 50 companies at the top of the list had total shareholder returns that averaged 93.5% from January 2009 through June 2012; the 50 at the bottom averaged total returns of -21.1%.

Among the top 10 on the list, half hadMBAs— moreor lesswhat you'd expect. But among the bottom 10, only two were holders of the degree, findings that one expert says should be cause for cautious optimism. "We hope they do better with an MBA," says professor William Sahlman of Harvard Business School. "The fact thatthereis a disproportionate number of CEOs with an MBA at the top of the list compared to the bottom of the list is suggestive that they do, but it's only suggestive."

Who's at the top? Lew Frankfort, CEO of the New York-based handbags and accessories company Coach and a Columbia Business School grad, earned the No. 1 spot, thanks to "great inventory management, strong marketing, impressive sales initiatives at stores, and a core product in high demand," according to the magazine. Joining him in the top 10 are two Harvard Business School alumni, David Nelms of Discover Financial, at No. 7, and Pete Miller of National OilwellVarco, atNo. 9, along withStanford Graduate School of Business alum James AC Kennedy of T Rowe Price, at No. 8, and DePaul University Kellstadt Graduate School of Business grad James Ryan of WW Grainger, at No. 10.

Unlike a lot of earlier research on this subject, which relies heavily on company stock performance and other measures that can be influenced by factors outside management control, the AFG methodology relies on measures that isolate management andfinanceskills—thekindof thing MBAs should have in spades. They include"economic margin,"or operating cash flow minus invested capital, and management quality, a measure that rewards companies that increase their asset base or divest money-losing divisions.

Drew Morris, CEO of Great Numbers!, who provided the analysis of the ranking for the magazine, does not credit an MBA for putting CEOs on top. "They need good business sense, and they need to listen to people who know finance and know what they're talking about," he says. "That's been lacking in some CEOs lately."

Morris didn't point any fingers, but thebottom of thelistincludes a number of "wealth destroyers," including two MBAs. John F Lundgren, CEOof Stanley Black&Decker and a Stanford MBA, is the second worst at No. 358, and William Hickey, CEO of Sealed Air and an HBS MBA, is the seventh worst at No. 353.

Theimpactof a CEO'sMBA(or lack of one) on company performance is very much disputed territory. One 2010study by threeInsead professors of more than 1,100 CEOs in the US and Europe found that those with MBAs created far more shareholder wealth than those without the degree. But another study that same year concludedthatwhileCEOswith MBAs lead to short-term performance improvements, no relationship exists between MBAs and long-term gains. The authors wrote: "CEO education does not seem to be an appropriate proxy for CEO ability."

Maybe not, but if the AFG data can be believed, it may be too early to write it off completely.

Bloomberg BusinessWeek