



NATIONAL RESEARCH  
UNIVERSITY

# Senior Management Labor Market: from Economic Growth to Crisis. The case of Russia

**Sergey Solntsev**

NRU Higher School of Economics (Moscow)

9th Eurasia Business and Economics Society Conference (Sapienza University of Rome, 11.01.2013)

- Motivation
- Background
- Data
- Insiders vs. Outsiders
- Russian vs. Expatriate Managers
- Concluding remarks

# Motivation

Labor Market for Hired Senior Managers started to emerge in the early 2000s in Russia :

- After economic recession in 1990s Russia experienced a significant economic growth in 1999-2008 (about 7% GDP growth per year)
- New strategies of the Russian companies – expansion, IPOs and loans (in Russia and abroad)
- Senior managers' replacement: owners were replaced by hired managers
- Growing demand for senior managers.

How companies met the demand for hired senior managers :

- Train internal candidates?
- Outbid (headhunt) successful senior managers?
- Attract from abroad?

Fall 2008 – start of new economic decline

- What has changed during the Crisis?

# Background

Hambrick and Mason (1984), Hambrick (2007)

- demographic characteristics of executives can be used as valid ... proxies of executives' cognitive frames

Frydman (2006), Murphy and Zabochnik (2007)

- general and specific human capital to argue an increase of outside CEOs

Lindell (1991), Daily (1994), Fahlenbrach and Stulz (2011)

- impact of economic growth and crisis on corporate governance and CEO succession

## Background – 2: Russia

Lazareva, Rachinsky and Stepanov (2008), Dolgopyatova, Iwasaki and Yakovlev (2009), Dolgopyatova (2012)

- quality and institutes of the corporate governance in Russian firms

Rachinsky, (2002), Guriev et al. (2004), Dyomina and Kapelyushnikov (2005), Kuznecovs and Pal (2012).

- correlation between CEO replacement, firm performance and quality of corporate government

Murvyev (2003), Roshchin and Solntsev (2005)

- senior management labor markets (insiders/outside, turnover etc.)

Gurkov (2009), Danilov, Simachev and Yakovlev (2010) and Golikova et al. (2011).

- reaction of the Russian firms on the economic crisis in 2008

Original data on the appointments of senior managers in Russia

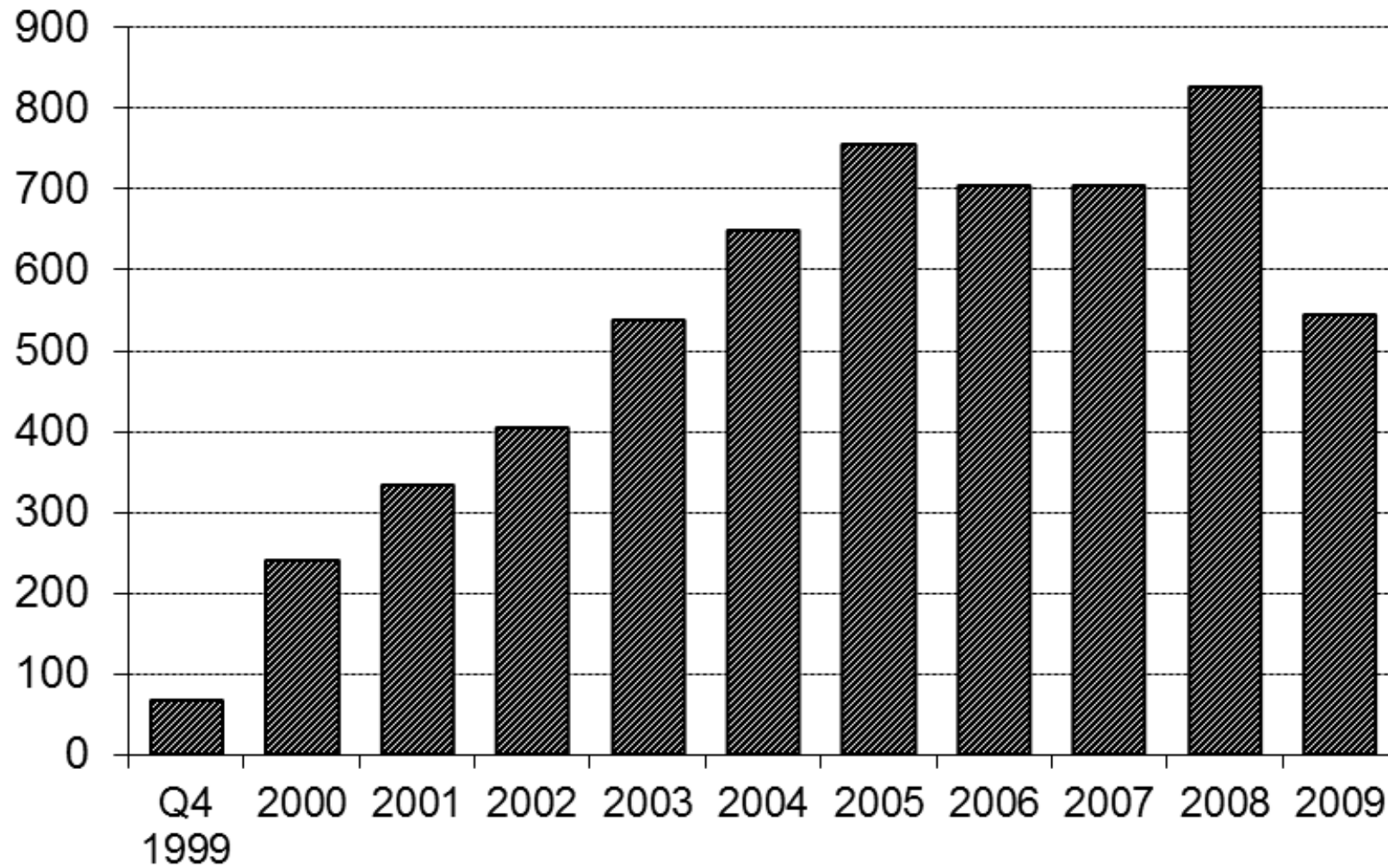
- 5771 appointments
- from late 1999 till 2009
- personal details of senior managers
- gender, age, nationality, education, work experience
- companies' details
- economic sector, Russian firm or TNC subsidiaries in Russia

Information collected from

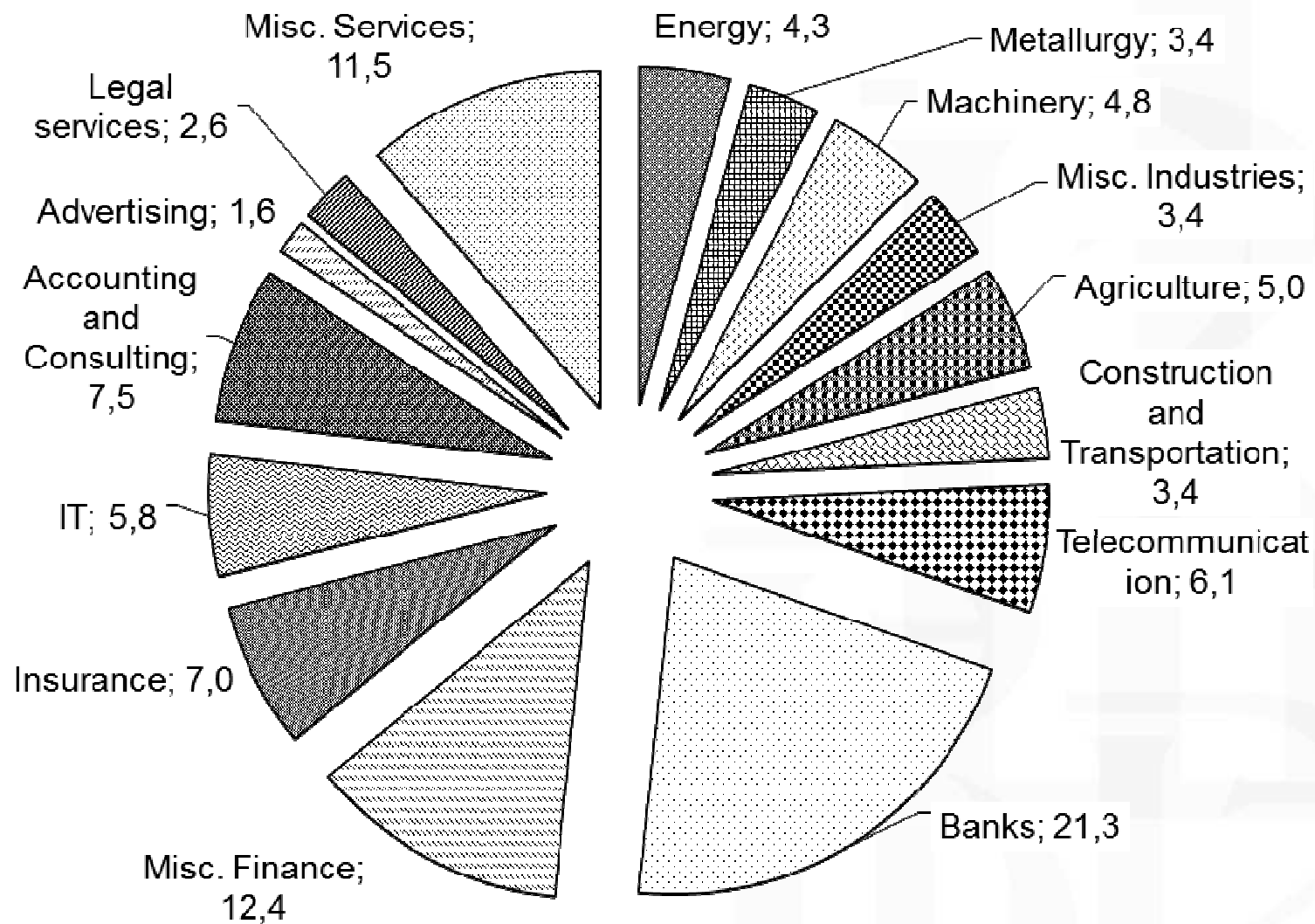
- Russian business daily newspaper Vedomosti (with FT and WSJ)
- companies' websites

Similar principles are widely used in papers on the corporate governance, Lauterbach and Weisberg (1994), Agrawal, Knoeber and Tsoulouhas (2006) and others.

# Data - by year



# Data - by economic sectors, %

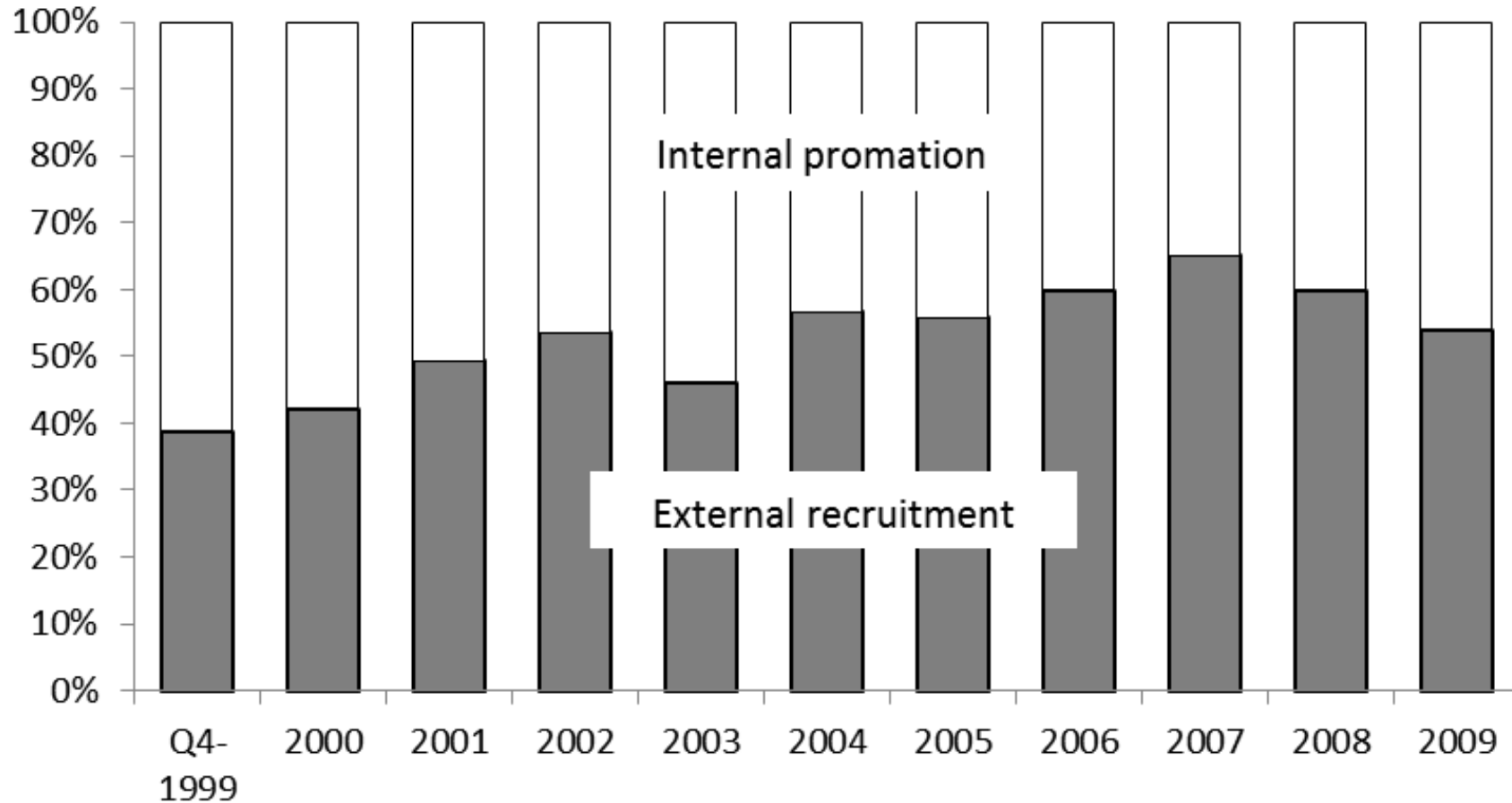




# Typical Senior Manager in Russia

- Male (84%) (Female - 16%)
- Russian citizen (87%) (Expatriate - 13%)
- Young: average age is 30-40 y.o. (about 50%)
- Diploma in economics (27%) or engineering (31%)
- Moves every 2-3 years to his/her next executive position

# Insiders vs. Outsiders



Q4-1999 – 2002, 2003-2007 – growth of outsiders' share  
 2003, 2007-2009 - decline of outsiders' share

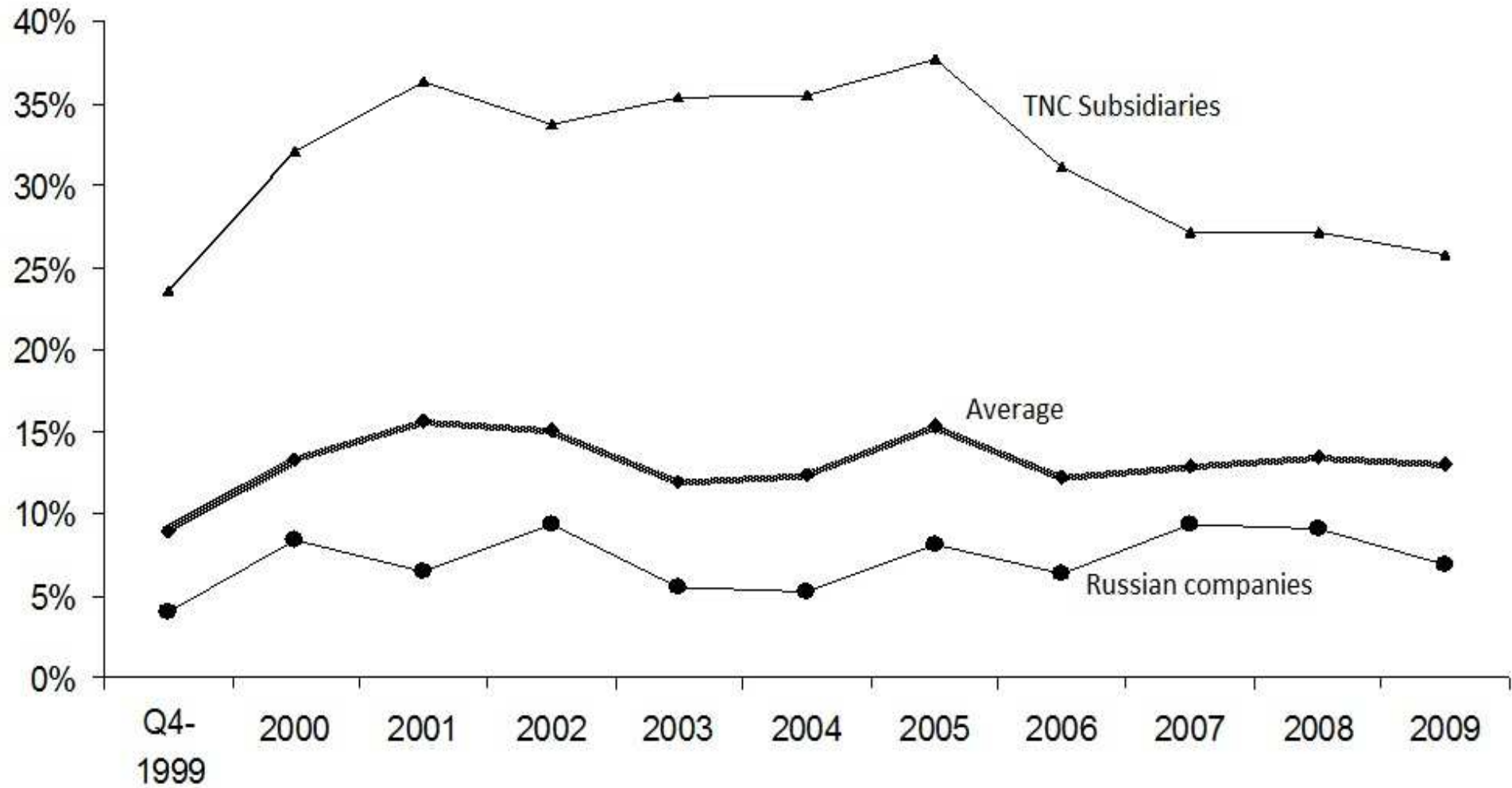
# Probability of external appointment (Probit regression, marginal effects)

Independent variables	Specification				
	(1)	(2)	(3)	(4)	(5)
Senior manager					
Gender (male – 0, female – 1)	-0,063***	-0,044**	-0,056***	-0,056***	-0,058**
Nationality (RF – 0, nonRF – 1)	-0,012	-0,020	-0,004	0,005	-0,008
Age (26-50)					
25 year and less	-0,109	-0,113	-0,109	-0,101	-0,095
51 years and more	-0,039*	-0,049*	-0,021	-0,045*	-0,037
Degree of Senior Manager					
in Economics	0,033**	0,037**			0,028
in Humanities and Social Science	0,135***	0,137***			0,135***
Experience at previous position (1-9 year)					
Less than 1 year		-0,236***			-0,227***
10 years and more		-0,035			-0,036
Number of observations	5584	4400	5527	5222	4232
LR $\chi^2$	181	218	250	338	329
Pseudo R <sup>2</sup>	0,024	0,036	0,033	0,047	0,057
Log likelihood	-3738	-2900	-3665	-3421	-2732

# Probability of external appointment (Probit regression, marginal effects) – cont.

Independent variables	Specification				
	(1)	(2)	(3)	(4)	(5)
<b>Companies' details</b>					
Russian (0) / TNC subsidiary (1)	-0,118***	-0,096***	-0,090***	-0,084***	-0,070***
<b>Sector (Misc. sectors)</b>					
Agricultural company			0,024	0,036	0,051
Industrial company			-0,096***	-0,091***	-0,065**
Bank, insurance or financial company			0,103***	0,115***	0,106***
IT company			0,042*	0,063***	0,057**
<b>Year (Q4-1999, 2000)</b>					
2001	0,096**	0,114**	0,104**	0,081*	0,099*
2002	0,141***	0,084*	0,141***	0,156***	0,101**
2003	0,061	0,039	0,061	0,048	0,040
2004	0,160***	0,162***	0,166***	0,150***	0,165***
2005	0,159***	0,148***	0,169***	0,159***	0,166***
2006	0,194***	0,172***	0,185***	0,181***	0,173***
2007	0,239***	0,239***	0,229***	0,226***	0,235***
2008	0,194***	0,226***	0,188***	0,181***	0,221***
2009	0,161***	0,211***	0,144***	0,138***	0,198***

# Russian vs. Expatriate Senior Managers



# Probability of expatriate manager's appointment (Probit regression, marginal effects) – cont.

Independent variables	Specification				
	(1)	(2)	(3)	(4)	(5)
Senior manager					
Gender (male – 0, female – 1)	-0,081***	-0,066***	-0,082***	-0,077***	-0,061***
Age 51 and more (20-50)	0,147***	0,118***	0,122***	0,126***	0,106***
Degree of Senior Manager					
in Economics	0,127***	0,109***			0,108***
in Humanities and Social Science	0,039**	0,023			0,020
Experience at previous position (1-9 year)					
Less than 1 year		-0,031**			-0,030**
10 years and more		0,010			0,002
Number of observations	5585	4401	5528	5223	4233
LR $\chi^2$	788	595	603	573	583
Pseudo R <sup>2</sup>	0,184	0,192	0,142	0,144	0,197
Log likelihood	-1750	-1256	-1829	-1704	-1188

# Probability of expatriate manager's appointment (Probit regression, marginal effects) – cont.

Independent variables	Specification				
	(1)	(2)	(3)	(4)	(5)
Companies' details					
Russian (0) / TNC subsidiary (1)	0,237***	0,208***	0,240***	0,237***	0,186***
Sector (Misc. sectors)					
Agricultural company			-0,007	-0,007	-0,011
Industrial company			-0,024*	-0,026**	-0,015
Bank, insurance or financial company			-0,025**	-0,025**	-0,031***
IT company			-0,057***	-0,057***	-0,041***
Year (Q4-1999, 2000)					
2001	-0,011	-0,038	-0,020	-0,021	-0,042
2002	0,031	0,007	0,025	0,035	-0,011
2003	0,007	-0,010	0,002	0,012	-0,010
2004	0,008	0,048	0,000	0,012	0,046
2005	0,038	0,101***	0,035	0,048*	0,094***
2006	0,025	0,080**	0,013	0,024	0,077**
2007	0,042*	0,113***	0,036	0,052*	0,117***
2008	0,028	0,078**	0,021	0,028	0,064*
2009	0,007	0,063*	0,004	0,016	0,062*

# Concluding remarks

- Typical senior manager is 30-40 years old man with degree in economics, engineering or science.
- During the economic growth in Russia companies preferred to use external recruitment instead of internal promotion:
  - percentage of the external appointments reached 65% in 2007.
  - average work period at one position was only 2.7 years.
- Expatriate managers occupied about 13% of senior management labor market. TNC subsidiaries appointed expatriate managers 4 times frequently than Russian firms.

## During the economic crisis in 2008-2009

- The main change - a shift in the demand from general to specific human capital and the decrease of demand for general human capital
- Relatively small changes could be explained by the economic policy of the Russian authorities – rare changes of inefficient companies' owners and management teams





NATIONAL RESEARCH  
UNIVERSITY

# Thank you for your attention!

**Sergey Solntsev**, senior research fellow, Laboratory for Labor Market Studies,  
National Research University Higher School of Economics (Moscow),

[lirt.hse.ru](http://lirt.hse.ru)