

# **CEO Characteristics, Political Connections, and Company Performance**

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# Motivation (1)

- With the rise of behavioral economics and finance, **characteristics and experience of CEOs** have recently received attention of corporate finance scholars.
- Bertrand and Schoar (2003) find significant CEO fixed effects on firm policies and performance when tracing them across firms.

# Motivation (2)

- Subsequent research has shed more light on the effects of particular **traits of top managers**
  - Overconfidence, traced back to early life experience (Malmendier et al., 2011)
  - Education (He and Hirshleifer, 2017)
  - Professional experience of corporate distress (Dittmar and Duchin, 2016)

# Motivation (3)

- A parallel literature has studied whether **CEO turnover** is linked to previous performance (Jenter and Lewellen, 2017)
- Little is known whether CEOs have the same effects and are replaced under similar circumstances in **emerging markets** where
  - ownership is concentrated,
  - state ownership is common,
  - political connections are even more important than in developed economies (see Cao et al. (2017) on CEO turnover and political connections).

# This project (1)

- We have collected detailed **biographical data on CEOs** for >400 of the **largest Russian companies** for the period 2004-2015.
- We first present statistics describing this part of the Russian business elite. These include
  - Turnover rates
  - Personal characteristics (year of birth, birthplace, gender, citizenship)
  - Education
  - Political connections (previous or current positions in public administration or politics)

# This project (2)

- We also present some preliminary **analysis of CEO turnover.**
- The main questions are
  - How sensitive is CEO turnover to previous performance?
  - Is this sensitivity affected by political connections of the outgoing CEO?

# The sample (1)

- We start with the largest 400 companies by sales and the largest 200 listed companies by market capitalization, taken from two lists compiled by the Expert Rating agency in 2009.
- From these, we exclude
  - financial institutions,
  - informal business groups without a holding company being a legal entity (we replaced them by the largest group firm if it is large enough).

# The sample (2)

- This gives a **total sample of 434 firms**.
  - The largest firm is Gazprom with sales of RUB 3,519bn in 2008 (USD 120bn) and market cap of RUB 3,887bn in Sept, 2009 (USD 123bn).
  - The smallest firm in terms of sales is S.P. Korolev Rocket and Space Public Corporation Energia with sales RUB 11,291m (USD 384m).
  - The smallest firm in terms of market cap is JSC Prime Solar with market cap of RUB 503m (USD 16m).

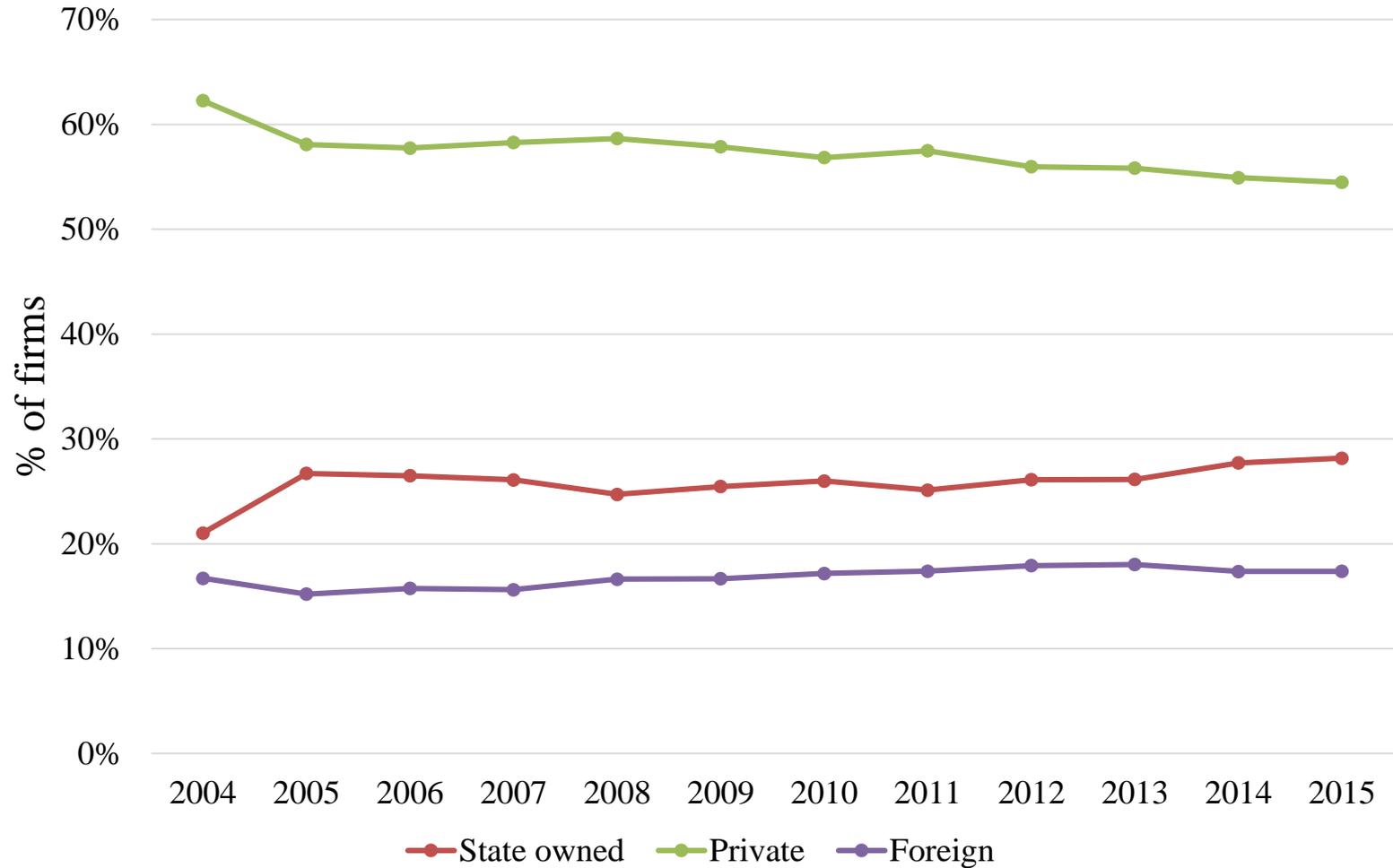
# The sample (3)

- We follow firms from  $\max(2004, \text{incorporation year})$  to  $\min(2015, \text{liquidation year, bankruptcy year})$ .
- This gives 4,899 firm-years, of which we observe the identity of the CEO for 4,865 firm-years.
- There are 1,242 unique CEOs in the dataset (some manage several firms).

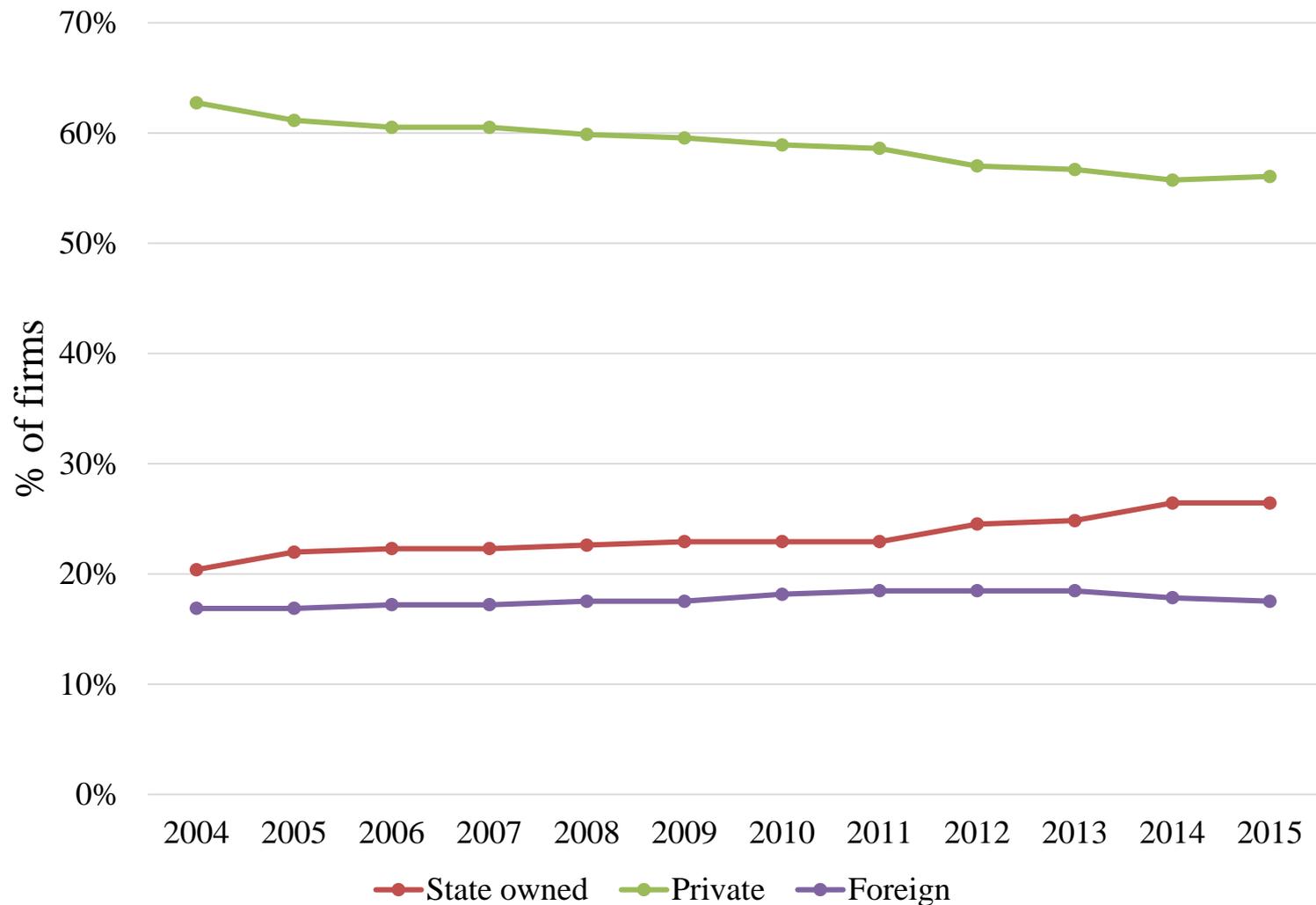
# Data

- CEO identities: Interfax SPARK, quarterly filings.
- CEO biographies:
  - labyrinth.ru, a database of biographies of Russian politicians and business people
  - Wikipedia
  - LinkedIn profiles
- Accounting data: Bureau van Dijk Ruslana, Interfax SPARK
- Ownership data: Quarterly filings of companies, Interfax SPARK, Vedomosti, Forbes, Wikipedia.

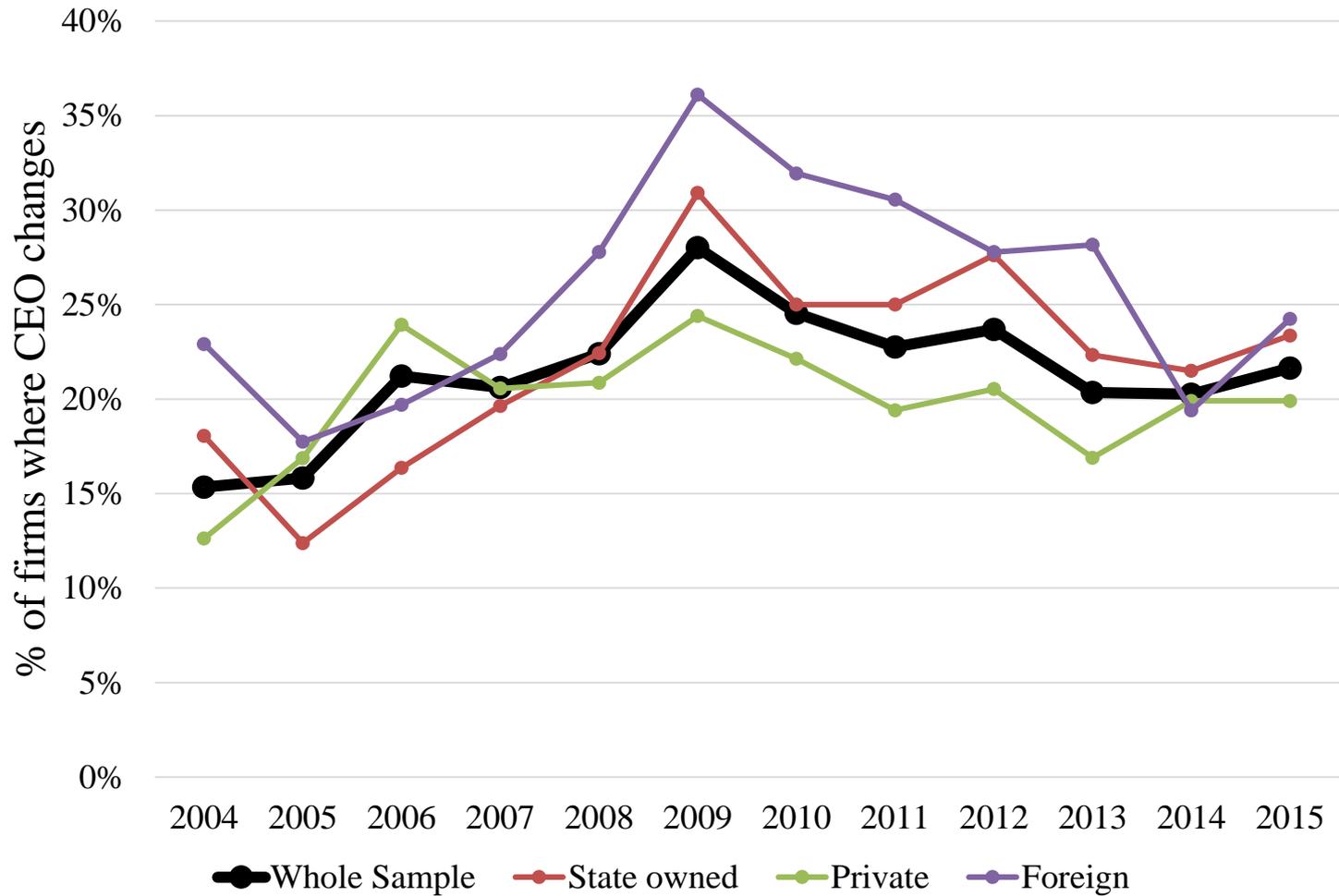
# Ownership: all firms



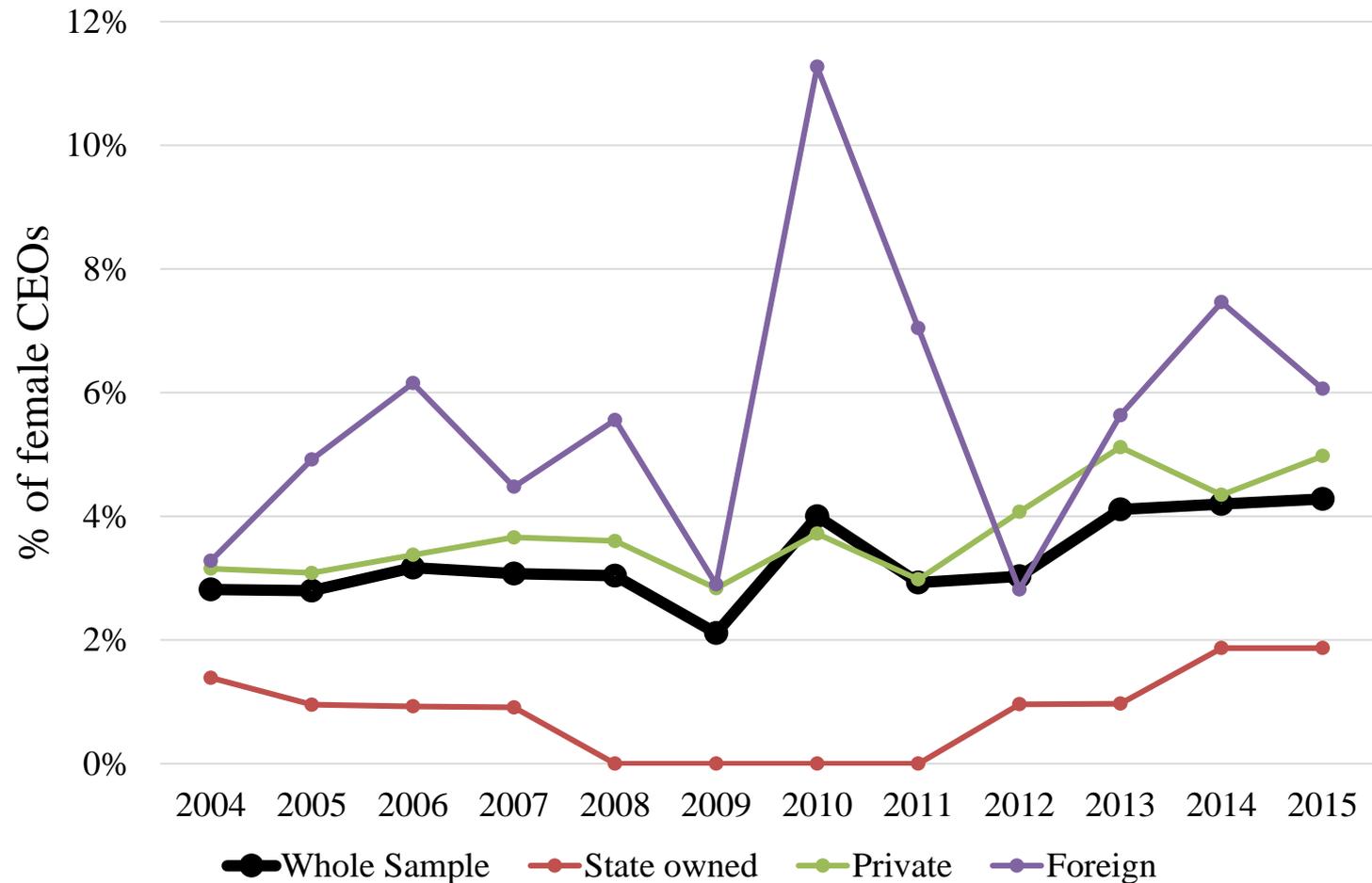
# Ownership: balanced panel



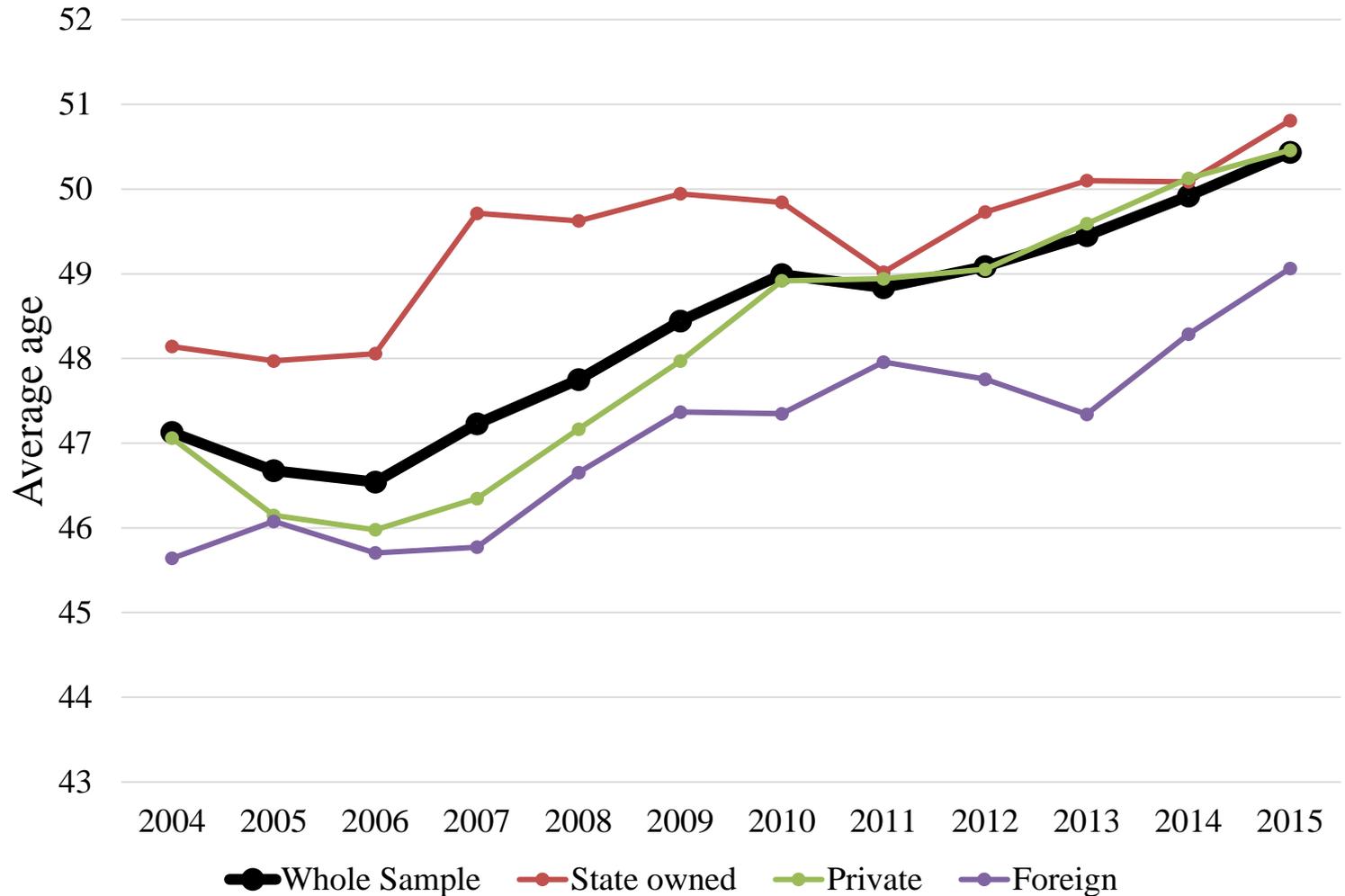
# CEO turnover



# CEO characteristics: Gender



# CEO characteristics: Average age

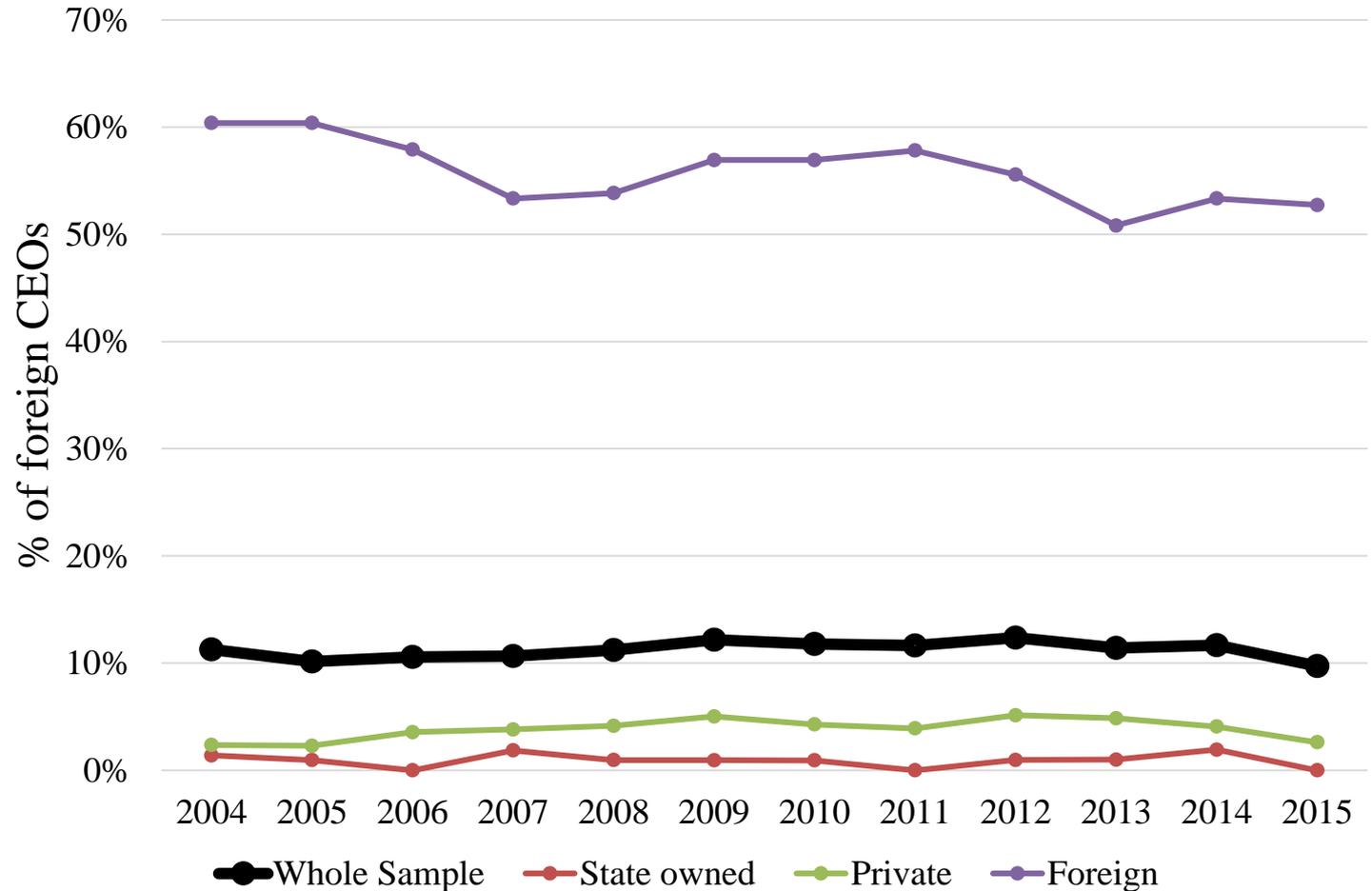


# CEO characteristics: Birthplace

- Among CEOs born in the former Soviet Union, 85% are born in Russia
- Among those born in Russia, the most frequent regions are

Region	% of CEOs	Population share within Russia in 1975 (%)
Moscow	20.3	5.6
St Petersburg	7.7	3.2
Chelyabinsk region	4.5	2.5
Bashkortostan	3.8	2.8
Sverdlovsk region	3.8	3.2

# CEO characteristics: Foreign citizen



# Education (1)

- Share of unique CEOs in the dataset with higher education: 97,3%
- Second higher education: 52,1%
- We collect data on the major of the first and second higher education, university and year of graduation.

# Education (2)

First degree in	All CEOs (%)	Russian CEOs (%)	Foreign CEOs (%)
Economics / Business	22	19	44
Law	4	4	4
Engineering/ Natural sciences*	64	67	37
Humanities	5	5	7
Other	5	5	8
Total number	953	853	100

\* Among CEOs with technical education, 91% have a degree in engineering and 9% in natural sciences.

# Education (3)

- Out of 611 CEOs with 1<sup>st</sup> technical education, 182 (or 30%) got a 2<sup>nd</sup> degree in business/economics.
- Location of universities of (1<sup>st</sup> degree, if obtained in Russia): Moscow and St Petersburg account for 51%.

# Education (4)

<b>Most frequent universities</b>	<b>% of CEOs</b>
<b>Lomonosov Moscow State University</b>	4.74
<b>Ural Federal University</b>	3.05
<b>Moscow Aviation Institute</b>	2.48
<b>Saint Petersburg University</b>	2.48
<b>Bauman Moscow State Technical University</b>	2.14
<b>Plekhanov Russian University of Economics</b>	2.14
<b>MGIMO</b>	2.03
<b>Gubkin Russian State University of Oil and Gas</b>	2.03
<b>Financial University under the Government of the Russian Federation</b>	1.92
<b>Magnitogorsk State Technical University</b>	1.69
<b>Ufa State Petroleum Technological University</b>	1.69

- These top 11 universities account for 25% of the CEOs.
- The top 32 universities account for 50% of the CEOs.

# Education (5)

- 24% of CEOs have “Kandidat nauk” and 8% have “Doctor nauk” (for comparison, S&P 1500 firms: 7.7% with PhD title (He and Hirshleifer, 2017))

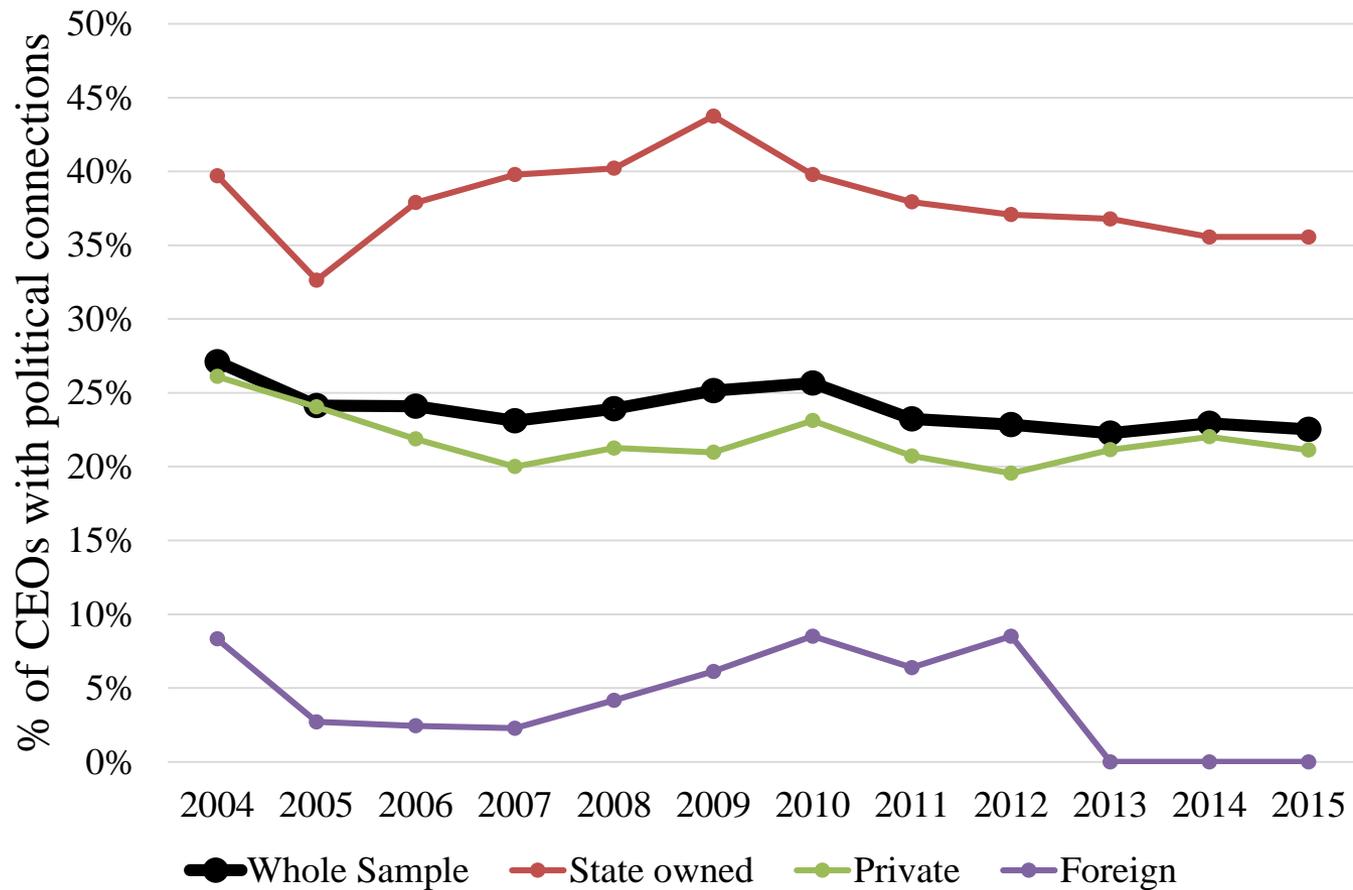
Field	%
Candidate of technical sciences	44.85
Candidate of economic sciences	39.69
Others	15.49

Field	%
Doctor of technical sciences	40.68
Doctor of economic sciences	47.46
Others	11.85

# Political connections (1)

- We define a **political connection** as a former or current position in parliaments or public administration and national, regional or local level.
- 20.1% of CEOs are politically connected (19,2% in private firms).
- For comparison, in a sample of large Chinese non-SOEs, Cao et al. (2017) observe 34% politically connected CEOs (they also include military officers).

# Political connections (2)



# Performance sensitivity of turnover (1)

- We study two questions related to CEO turnover:
  - How sensitive is CEO turnover to previous performance?
  - Is this sensitivity affected by political connections of the outgoing CEO?
- It is very difficult to **distinguish voluntary from forced CEO turnover.**
- We use all turnovers (21.6% of firm-years).

# Performance sensitivity of turnover (2)

- Our preferred measure of performance is return on assets (ROA) based on operating profit.
- We regress turnover on  $ROA_{t-1}$  and control variables (size, leverage, CEO age, CEO tenure, listing status).

# Performance sensitivity of turnover: Results

Dep.variable: Turnover	All firms		State-owned firms	
ROA(t-1)	-0.144**	(-2.16)	-0.112	(-1.03)
Log size	-0.017	(-1.26)	-0.022	(-0.99)
Leverage	-0.038	(-0.92)	-0.042	(-0.38)
CEO age	-0.008	(-0.79)	-0.004	(-0.18)
CEO age squared	0.000	(0.82)	0.000	(0.25)
CEO tenure	0.040***	(7.66)	0.048***	(4.91)
CEO tenure squared	-0.001***	(-4.69)	-0.001***	(-3.36)
Listed	0.033	(0.97)	0.037	(0.61)
Firm FE	included		included	
Year FE	included		included	
N	3634		1054	

# Performance sensitivity of turnover and political connections

- We interact our performance measure with our measure of political connections.
- Sample: domestically owned, private firms.
  - Political connections of CEOs are likely to have a small impact in state-owned companies
  - We have very little foreign companies with politically connected CEOs.

# Performance sensitivity of turnover and political connections: Results

Dep.variable: Turnover	Private firms		Private firms	
ROA(t-1)	-0.190**	(-2.32)	-0.228**	(-2.38)
Log size	-0.017	(-1.00)	-0.021	(-1.14)
Leverage	-0.045	(-0.97)	-0.033	(-0.57)
CEO age	-0.005	(-0.41)	-0.016	(-1.31)
CEO age squared	0.000	(0.30)	0.000	(1.10)
CEO tenure	0.037***	(5.73)	0.044***	(5.76)
CEO tenure squared	-0.001***	(-3.33)	-0.001***	(-3.56)
Listed	0.033	(0.77)	0.011	(0.25)
Pol_connection			0.059	(0.85)
ROA(t-1) # Pol_connection			0.401*	(1.81)
Firm FE	included		included	
Year FE	included		included	
N	2146		1865	

# Performance sensitivity of turnover, Summary of results (1)

- Replacing a CEO is associated with worse ROA based on operating profit the year before in private firms but not in state-owned firms.
- This relation is stronger when the CEO is *not* politically connected.
- In the presence of political connections, turnover is not related to past performance.
- Robustness: Logit model, CEO for at least two years, outgoing CEO less than 60 years old

# Other performance measures

- ROA based on total earnings (net income) and revenue growth
- Worse performance on these dimensions reduces turnover in state-owned companies but not in private ones.

# Performance sensitivity of turnover and political connections: Results (3)

- Many studies have found that political connections are value-enhancing (Faccio, 2006, Fisman, 2001)
- Political connections can lead to managerial entrenchment, which can be costly to firms.
- Our result is similar to the one found in Cao et al. (2017) for Chinese firms but depends on the choice of performance measure.
- Potential endogeneity problem: Firms may endogenously hire connected CEOs.

# Going forward (1)

- Performance before and after turnover, in particular when CEOs are politically connected
- Other sources of political connections (boards of directors, large shareholders)
- Linking the CEO data to more detailed ownership data: concentration of ownership and large owners on the board of directors may limit the power of the CEO.

# Going forward (2)

- Can study the founder – CEO succession:
  - rarely within families because founder are still quite young
  - Founders often continue to interfere in day-to-day management
- Is CEO education related to CEO ability and company performance?
- “Military CEOs”