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CHIEF EXECUTIVE OFFICER TURNOVER IN CHINA AND RUSSIA: IMPLICATIONS FOR CORPORATE GOVERNANCE AND STRATEGIC MANAGEMENT

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CHINA

If the development and execution of a winning strategy is essential to firm performance and the Chief Executive Officers (CEOs) play an important role in it, CEOs should be rewarded or punished on the basis of their firm's performance. When firm performance is good, the CEO should be able to stay in the position. When firm performance is poor, the CEO should be punished or even removed from the office. The linkage between firm performance and CEO turnover thus is widely used as an indicator to gauge the effectiveness of corporate governance in developed market economies in the west.

In emerging market economies such as China, however, the above indicator may not work. There are several distinct features about CEO turnover in China. The first is the high rate of CEO turnover. During the four years of 2005 to 2008, a total of 1,363 CEOs of the listed firms stepped down from the office. To put it in perspective, there were only 1,466 firms listed in 2005 and 1,710 firms listed in 2008. On average about 20% of the listed firms changed their CEOs each year during the period. In contrast, the annual rate of CEO turnover in the United States is only about 12%.

On average about 20% of the listed firms changed their CEOs each year during the period. In contrast, the annual rate of CEO turnover in the United States is only about 12%

The second distinct feature about CEO turnover in China is the short tenure of the outgoing CEOs. For the 1,363 CEOs who stepped down during 2005 to 2008, on average they were in office for only 2.9 years. More than half of them (716 CEOs, 52.5%) were in office for two years or less, more than three quarters of them (1053 CEO,77.3%) were in office for four years or less, and only 20 CEOs (a mere 1.5%) were in office for 10 years or longer. In comparison, the average tenure of the outgoing CEOs in the US is about 8 years.

Another distinct feature is the young age of the outgoing CEOs. On average the CEOs were only 47 years old when they stepped down from the office, and the majority of them (874 CEOs, 64.1%) were under 50 years old. Less than 6% of the outgoing CEOs reached 60 years old, the generally accepted retirement age for male CEOs in China. Thus, most CEOs of the listed firms in China were far below the retirement age when they stepped down from the office. In comparison, the average age of outgoing CEOs in the United States is 62 years old, and most of these CEOs step down due to reaching their firm's mandatory retirement age.

Because of the above distinct features, the forces behind CEO turnover in China can be very different from those observed in the west. By conducting a systematic analysis, in this study we attempt to find out what happened to the outgoing CEOs, explore the causes of CEO turnover in China, and discuss the implications for corporate governance and strategic management.

SAMPLE AND DESCRIPTIVE STATISTICS

China is a very dynamic economy where things can change fast. To gain a more up-to-date knowledge of CEO turnover in China, we decided to conduct an in-depth analysis of the turnover events occurred in 2008, the most recent year for which all the relevant information was available. We selected all the 908 firms listed in the Shanghai Stock Exchanges as our sample. We then collected all the relevant information about their CEOs from company reports, announcements, media reports, and internet sources. Among the 908 listed firms, 166 (18%) of them experienced CEO turnover during the year, with 7 of them having two CEO turnovers. Thus, there were a total of 173 CEOs in the firms listed in the Shanghai Stock Exchanges left the office in 2008.

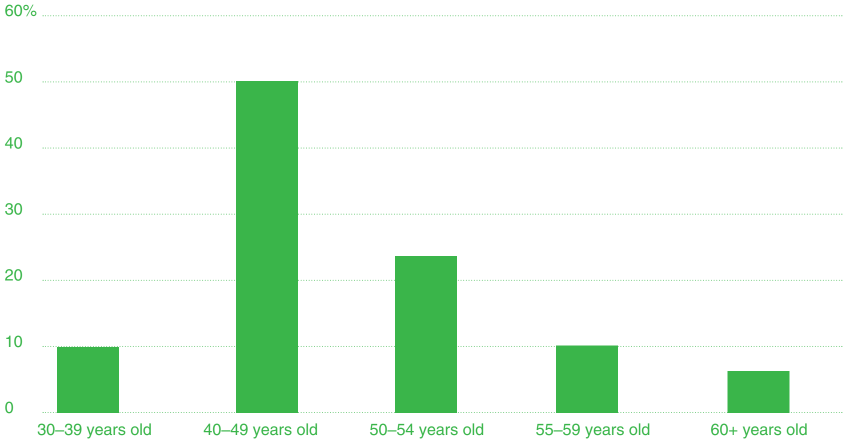
Over 80% of the firms that experienced CEO turnover did not have operational losses in 2007, and over 75% of the firms that had operational losses in 2007 did not experience CEO turnover

To assess the impact of firm performance on CEO turnover, we used operational profits/losses to measure firm performance. Compared with other performance measures, operational profits/losses directly reflect a firm's earning power from ongoing operations. In China, if a listed firm experiences losses for three consecutive years, it will be delisted and removed from the stock market. Thus, operational profits/losses can play an important role in investors' assessment of the CEOs.

Our analysis shows a statistically significant difference in firm operational performance in 2007 between firms that experienced CEO turnover and firms that did not. Among the 166 firms that experienced CEO turnover in 2008, 19.9% of them (33 firms) had operational losses in 2007. Among the 740 firms that did not experience CEO turnover in 2008, only 13.8% of them (102 firms) had operational losses in 2007. Although the difference is statistically significant, it should be noted that operational loss is neither a necessary nor a sufficient condition for CEO turnover. Over 80% of the firms that experienced CEO turnover did not have operational losses in 2007, and over 75% of the firms that had operational losses in 2007 did not experience CEO turnover. Thus, poor firm performance is only one of the reasons of CEO turnover in China.

Among the 173 outgoing CEOs, 27 CEOs (15.6%) simultaneously served as the chairman of the board of directors before stepping down,

FIGURE 1/ Age Distribution of the Outgoing CEOs in China

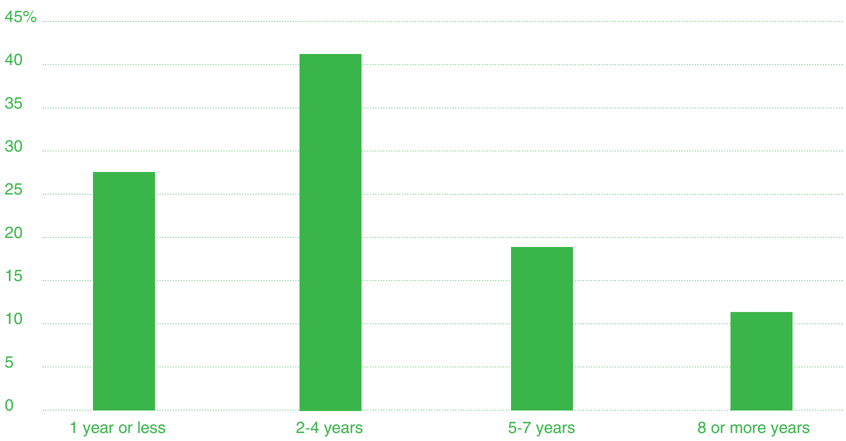


Data source: Companies Annual Reports (2007– 2009)

and the rest (84.4%) served only as the CEO of the firm. Figure 1 below provides a visual presentation of the age distribution of the outgoing CEOs. The average age of the outgoing CEOs were 47.9 years old when they left the office. About 60% of them (104 CEOs) were under 50 years old, 24% (41 CEOs) were between 50 and 54 years old, 10% (17 CEOs) were between 55 and 59 years old, and only 6% (11 CEOs) reached 60 years old.

Figure 2 below provides a visual presentation of the tenure distribution of the outgoing CEOs. Their average tenure in office was 3.5 years, which was 0.6 year longer than the average CEO tenure of 2.9 years during

FIGURE 2/ Tenure Distribution of the Outgoing CEOs in China



Data source: Companies Annual Reports (2007– 2009)

2005 to 2008. This finding indicates that on average Chinese CEOs stayed longer in the office in 2008 than in earlier years. About 28% of the CEOs (48 CEOs) were in office for only one year or less, 42% (72 CEOs) were in office for 2 to 4 years, 19% (33 CEOs) were in office for 5 to 7 years, and less than 12% (20 CEOs) were in office for 8 years or longer.

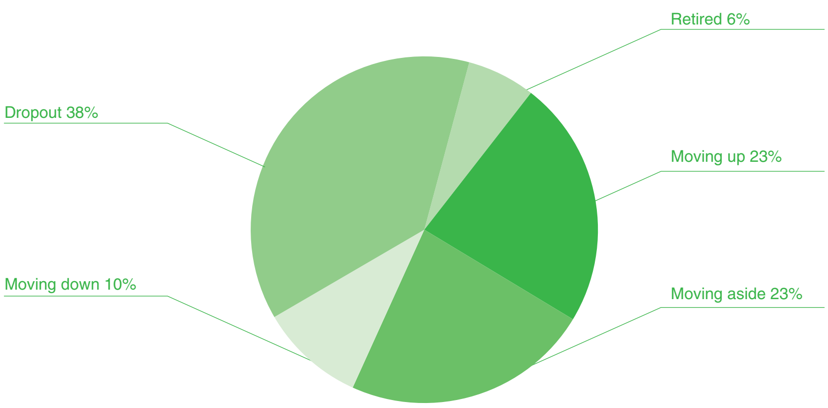
WHAT HAPPENED TO THE OUTGOING CEOS?

Our analysis suggests that what happens to the outgoing CEOs is much more complicated at the listed firms in China than in the west. In the west, most CEOs step down in the form of retirement. For the small number of CEOs who step down before reaching the age of retirement, people can easily classify them into voluntary turnover and involuntary turnover on the basis of what happens to them afterwards. If these CEOs do not take a top job at another organization of similar or higher status, they are generally considered fired and thus are put in the group of involuntary turnover. In contrast, most CEOs in China step down at a young age (60% before the age of 50 and 84% before the age of 55). Moreover, although it is the norm in the west that firms ask their CEOs to step down only when there is something wrong with the CEO or performance, it is not the case in China. Many firms in China actually have a term limit for their CEOs. Thus, it is not very meaningful and informative to simply classify CEO turnovers in China into voluntary turnovers and involuntary turnovers.

Among the 173 outgoing CEOs, only 11 CEOs were reported as retired due to their age

Among the 173 outgoing CEOs, only 11 CEOs were reported as retired due to their age. For the remaining 162 CEOs, we classified them into four

FIGURE 3/ Status of the Outgoing CEOs in China



Data source: Companies Annual Reports (2007– 2009)

large groups on the basis of their job status after the turnover: moving up (40 CEOs), moving aside (40 CEOs), moving down (17 CEOs), and moving nowhere (65 CEOs). Moving up indicates that the outgoing CEO got into a higher organizational position. It includes two subgroups, one consisting of CEOs who became the chairman of the board of directors of the listed firm, and the other consisting of CEOs who took a top position (such as CEO and vice president) at the listed firm's controlling shareholder or parent company. Moving aside indicates that the outgoing CEO received a lateral organizational move. It also includes two subgroups. One consists of CEOs who previously acted as both the CEO and the chairman of the board of directors and remained as the board chairman after stepping down from the CEO position. The other consists of CEOs who became a vice chairman of the board of directors of the listed firm. Moving down indicates that the outgoing CEO moved into a lower organizational position (such as vice president and chief engineer) at the listed firm. The last group, dropout, includes outgoing CEOs who did not hold a top position at the firm, its controlling shareholder, or any other major organization after they left the office.

TABLE 1. AGE AND TENURE OF OUTGOING CEOS IN EACH GROUP

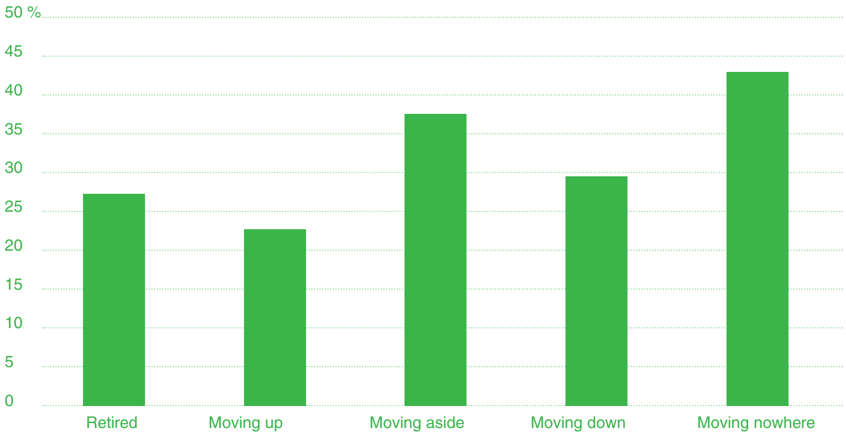
Group		No. of CEOs	Age (years)		Tenure (years)	
			Average	Range	Average	Range
Retired		11 (6.4%)	61.1	58-65	5.6	2-10
Moving up	Becoming board chair	25 (14.5%)	47.5	36-58	3.9	0-10
	Becoming top officer at the controlling share-holder	15 (8.7%)	49.3	39-57	2.8	1-7
Moving aside	Staying as board chair	21 (12.1%)	46.4	38-54	4.0	0-9
	Becoming vice board chair	19 (11.0%)	49.2	36-60	4.7	1-10
Moving down		17 (9.8%)	44.5	37-53	3.0	0-7
Dropout		65 (37.6%)	46.6	31-59	2.8	0-11
Total		173 (100%)	47.9	31-65	3.5	0-11

Data source: Companies Annual Reports (2007– 2009)

Figure 4 below shows that percentage of firms that experienced operational losses in 2007 or 2008 for each of the above five groups of CEOs. The dropout group had the highest percentage (43%) of firms under operational losses, followed by the moving aside group (37%), the moving down group (29%), and the retired group (27%). The moving up group had the lowest percentage (22%) of firms under operational losses. However, their differences are not statistically significant.

Because the cause of turnover for the retired group is rather straightforward (the age of the CEO), our analysis below focused on the other four

FIGURE 4/ Percentage of Firms under Operational Losses for Each Outgoing CEO Group



Data source: Companies Annual Reports (2007– 2009)

groups in which the average age of the outgoing CEO was below 50 years old, more than 10 years away from the commonly accepted retirement age of 60 years old.

MOVING UP
BECOMING BOARD CHAIRMAN OF THE FIRM

Among the 25 CEOs who became the board chairman of the firm, we found seven CEOs took the position following the retirement of the current board chairman. For example, on June 10, 2008, Mr. Jin Zhi-Guo, the 51 years old CEO of the Tsingtao Brewery Company, was elected chairman of the board directors of the company, following the retirement of Mr. Li Gui-Rong. Mr. Jin had been the CEO of the company for seven years. Since he became the CEO, the company's revenues had increased from 3.77 billion Yuan in 2000 to 13.7 billion Yuan in 2007, and its net profits had increased from 95 million Yuan to 600 million Yuan. Apparently, good firm performance contributed to Mr. Jin's promotion to the board chairman position. In fact, none of the seven CEO replaced the retired board chairman under operational losses.

At 12 firms the CEO moved up after the current board chairman took a top position, mostly the CEO position, at the controlling shareholder or the parent company of the listed firm. In six companies, the leadership change happened under poor firm performance. For example, Louyang Glass Company reported an operational loss of 87 million Yuan in 2007 and 294 million Yuan in 2008. However, the CEO of the company, Mr. Gao Tian-Bao, was still promoted to the board chair position, while the current board chair, Mr. Zhu Lei-Bo, became the CEO and board chairman of the parent company, Luoyang Glass Group. It seems that the CEO was not held responsible for the poor performance at these companies.

TAKING A TOP POSITION AT THE CONTROLLING SHAREHOLDER

Although being the CEO of a major listed firm is often the last stage of one's career in the west, it is not the case in China. Most the listed firms in China have another firm as its controlling shareholder. In many cases, the listed firm can be considered as a subsidiary of the controlling company, and its top managers are appointed by the controlling shareholder. In the early years it was quite common that top managers of the controlling shareholder also acted as top managers of the listed firm. To increase the independence of the listed firms, the Chinese government banned this practice in 2002. Since then, becoming a top manager of the controlling shareholder has become a natural next step for the outgoing CEO of many listed firms.

Most the listed firms in China have another firm as its controlling shareholder

Among the 15 CEOs who took a top position at the controlling company, only two got the promotion under poor firm performance. Both happened at state-controlled companies. One was at the China Eastern Airlines that reported a net loss of 1.4 billion Yuan, and the other was at Huaneng Power International that reported a net loss of 421 million Yuan in 2008. In both firms the board chairman also stepped down, one later became an independent director of another state-controlled company, and the other became a provincial vice governor.

MOVING ASIDE STAYING AS BOARD CHAIRMAN

In the west, particularly in the United States, when the board chairman passes the CEO title to another executive, the board chairman usually is close to retirement. This change signals the start of a planned relay succession process. In a relay succession, the board chairman/CEO first passes the CEO title to the successor. If the successor proves to be up to the challenge, he will then assume the board chair position as planned when the current board chairman retires. This scenario was hardly what we observed here. The average age of the 21 CEOs who remained as the board chairman was only a bit over 46 years old, with the oldest being 53. Thus, these executives were far away from retirement.

If succession planning was not the reason for these board chairmen to step down from the CEO position, then what was? We found that among the 21 firms in this subgroup, four firms experienced consecutive operational losses in both 2007 and 2008, and five firms experienced operational losses in 2008. We suspect that poor firm performance was a likely reason for the leadership change at these firms. For example, the founder of Ningbo Bird Co., a manufacturer of cell phones, stepped down from the CEO position after the company reported a net loss of 593 million Yuan in 2007 and a net loss of 127 million Yuan in 2008. By appointing a separate CEO, these poorly performing firms might hope to increase the chance of turning performance around.

After the CEO completes the term of office, he has to step aside, turning the CEO to a vice president waiting in line

At the other firms that were not under poor performance, the change was often reported as being caused by the completion of the term of office. Having a term limit is a rather unique characteristic of the listed firms in China. In many firms, there is a one to three term limit for the CEO, with each term of two to four years. After the CEO completes the term of office, he has to step aside, turning the CEO to a vice president waiting in line. For example, at Anhui Quanchai Engine Co., a manufacturer of diesel engines and related products, the board chairman passed the CEO title to a vice president after serving three terms for nine years, although he was only 46 years old at that time.

BECOMING A VICE BOARD CHAIRMAN

We found 19 CEOs who became a vice chairman of the board of directors after stepping down. Within this group, six firms reported operational losses in 2007 or 2008, and none of these firms experienced a change in board chairman. Because becoming a vice board chairman is a lateral move for the CEO, especially when the board chairman stays, apparently neither the CEO nor the board chairman was held responsible for the poor performance at these firms.

At the other firms that were not under poor performance, the change was mostly reported as change of job assignment and completion of the term of office. One representative example was the turnover of Mr. Ba Zhengrong at the Beijing Capital Development Co. Mr. Ba was ranked No.1 in the CEO/Cass Business School annual ranking of up-and-coming global CEOs under the age of 45 in 2007. Despite such an impressive record, Mr. Ba still had to step down at the age of 39 after serving as the CEO for eight years.

MOVING DOWN

Making the CEO a vice president of the firm clearly indicates an organizational demotion. It rarely happens in the west. If the firm finds the CEO no longer acceptable, the common practice is to force the CEO out because it does not make much sense to keep a disgruntled demoted CEO in the top management team or on the board of directors. To our surprise, we found that it was quite a common practice for an outgoing CEO to become a vice president of the firm in China. It happened to 17 CEOs (almost 10%) in our sample. One of them, Mr. Wang Gang of Beiya Industrial Group, was actually both the CEO and the board chairman before becoming a vice president of the firm.

Moreover, we found that most of these events did not happen under poor firm performance. Among the 17 firms in which the CEO became a vice president, only 5 firms (29.4%) experienced operational losses, and 12 firms (70.6%) experienced no operational losses in 2007 or 2008. Although making the CEO a vice president may reflect a punishment of the CEO at the firms under poor performance, it should not be the case at the firms under good performance. In fact, change of job assignment and completion of term of office were the reported reasons of CEO turnover in all the 12 firms that reported no operational loss in 2007 or 2008. For example, at Shanxi Antai Group Co., a manufacturer in the coal industry, Ms. Huang Jing-Hua, after acting as the CEO for two terms of six years, became the Chief Engineer of the company, a position she had been holding since 2002. Because there was no sign of poor performance or discussion of performance problems at these 12 firms, it seems that becoming a vice president is not considered a demotion for the CEOs of these firms. Instead, it is an expected part of the job rotation process.

Although making the CEO a vice president may reflect a punishment of the CEO at the firms under poor performance, it should not be the case at the firms under good performance

DROPOUT

This group is by far the largest, including 65 CEOs. Except for one who moved to Canada, there was no information about where these CEOs ended up after they stepped down. One thing for sure was that these CEOs no longer held a prominent managerial position at the listed firms or their controlling shareholders.

Poor firm performance was a main reason for CEO turnover in this group. We found that 28 CEO turnovers happened under operational losses. For these 28 CEOs, 23 of them (82%) had tenure of three years of less, and 19 of them (68%) were accompanied by board chairman turnover. Clearly, these CEOs and board chairmen were held responsible for their firm's poor performance, and can be regarded as fired. In fact, many of these firms explicitly announced CEO (and board chairman) turnover as the start or part of a restructuring process.

Change of controlling shareholder was another main reason. We found that 20 CEO turnovers happened following a change of the controlling shareholder. In the west, the replacement of the acquired firm's top managers often happens when the acquired firm's performance is poor.

When the acquired firm's performance is good, the acquiring firm often keeps the acquired firm's top managers in place to minimize disruption. In contrast, the controlling shareholders in China seem to be more concerned with putting their own people in the top management positions than the disruption caused. Although half of the 20 firms did not experience performance problems, their new controlling shareholders still replaced the CEOs with their own people. In fact, the new controlling shareholders also replaced the board chairmen with their own people in all but three of the 20 firms.

IMPLICATIONS FOR CORPORATE GOVERNANCE AND STRATEGIC MANAGEMENT IN CHINA

To summarize, our analysis of CEO turnover leads to the following observations. First, being the CEO of a listed firm is not the final step of one's career as most CEOs leave the office at a young age of under 50. Second, firms replace their CEOs rather frequently as evidenced by the fact that the average CEO tenure was only 3.5 years and over two thirds of the CEOs' tenure was less than five years. Third, there is a link, although weak, between poor firm performance and CEO turnover. Fourth, firm performance is not the only factor that determines whether the CEO will move up, move aside, move down, or dropout after leaving the office. Fifth, it is the controlling shareholder that makes CEO appointment and replacement decisions. Lastly, at some firms being the CEO is just part of the job rotation process for a few selected top managers.

> When the listed firm has a controlling shareholder, the CEO will work for the interests of the controlling shareholder, not the interests of the firm and the other shareholders

The above observations have important implications for corporate governance and strategic management at the listed firms in China. First, when the listed firm has a controlling shareholder, the CEO will work for the interests of the controlling shareholder, not the interests of the firm and the other shareholders. Because the controlling shareholder makes CEO appointment and replacement decisions, the CEO has strong incentives to please the controlling shareholder so that he or she can either move up after leaving the office or stay in the office longer. Although the Chinese government attempts to increase the independence of the listed firms by prohibiting an individual to hold managerial positions simultaneously both at the listed firms and the controlling shareholders, the listed firms will not become truly independent as long as their CEOs' careers are in the hands of the controlling shareholders.

Second, many CEOs of the listed firms do not have the final say in their firms' strategies. When the firm has a controlling shareholder, the CEO's strategy has to get the approval of the controlling shareholder. Even if the firm's ownership is widely dispersed, that is, the firm does not have a controlling shareholder, the CEO may still be just one of the top managers. Most firms have a term limit for their CEOs. After the CEOs complete the term of office, they either move up as the board chairmen, or move aside as a vice board chair or a vice president. The new CEOs (i.e., the successors) have to work with their predecessors who still hold a prominent position in the board of directors or the top management team. In these firms, leadership thus is more likely to be shared by the current and former CEOs. To understand who is actually in control at a listed firm in China, people must study the firm's ownership and leadership structures.

Third, the frequent leadership at the top of the listed firms not only can disrupt the stability and continuity of their strategies, but also make the CEOs become short-term oriented in strategy development. Developing and executing a successful strategy takes long time. To minimize the disruption to firm strategies, many U.S. firms expect their CEOs to stay in office for at least ten years. Some companies, such as GE, even expect their CEOs to be in office for fifteen to twenty years so that these CEOs have adequate time to formulate and execute their own strategies. Although the average tenure of the outgoing CEOs in 2008 was longer than in earlier years, it was still only three and half years. If these CEOs are indeed influential in firm strategy development, they are unlikely to develop and execute long-term strategies. Being aware of their short tenure, these CEOs are likely to be short-term oriented to increase their chance of promotion and to maximize their own interests. They may even undertake actions that can boost short-term performance but have a negative impact on long-term performance.

If these CEOs are indeed influential in firm strategy development, they are unlikely to develop and execute long-term strategies

RUSSIA

To explore CEO turnover in Russia, we selected as our sample the biggest 125 companies listed in the Moscow Interbank Currency Exchange (MICEX) and the Russian Trading System (RTS), representing about 25% of all the firms listed in the above two stock exchanges at the end of 2008. We tracked CEO turnover at the selected firms from 2005 to 2009. We found 74 CEO turnovers in total. However, these turnovers were not evenly distributed over the years. Table 2 below shows a significant increase in the number of CEO turnovers from 2007 to 2009, peaked in 2008 with 23 turnovers, representing about one third of the turnovers during 2005 to 2009. Apparently, more firms replaced their CEOs during the recent financial crisis.

TABLE 2. NUMBER OF CEO TURNOVERS FROM 2005 TO 2009

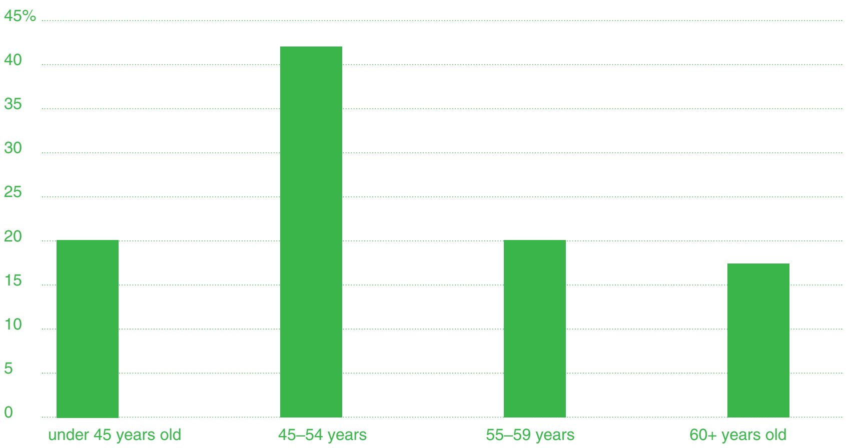
Year	2005	2006	2007	2008	2009	Total
Number	8	10	16	23	17	74
Percentage	10.8%	13.5%	21.6%	31.1%	23.0%	100%
CEO age	58	52	51	52	51	52
Tenure (years)	10.7	6.8	4.5	3.1	3.9	4.9

Data source: Companies Annual Reports (2007– 2009)

AGE AND TENURE OF OUTGOING CEOS

The outgoing CEOs were older than their counterparts in China, but still much younger than their counterparts in the U.S. The average age of the outgoing CEOs was 52 years old when they left the office (47 years old for Chinese CEOs and 62 years old for U.S. CEOs). Figure 5 below provides a visual presentation of the age distribution of the outgoing CEOs. About 20%

FIGURE 5/ Age Distribution of the Outgoing CEOs in Russia

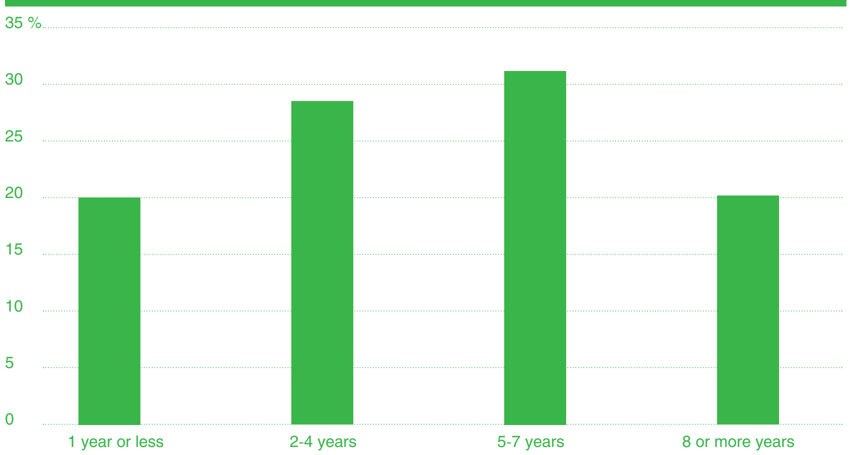


Data source: Companies Annual Reports (2007– 2009)

of them (15 CEOs) were under 45 years old, 42% (31 CEOs) were between 46 and 54 years old, 20% (15 CEOs) were between 55 and 59 years old, and 18% (13 CEOs) reached 60 years old.

Russian CEOs also had a longer tenure than Chinese CEOs. The average CEO tenure was five years in Russia, compared to 3.5 years in China. Figure 6 below provides a visual presentation of the tenure distribution of the outgoing CEOs. About 20% of them (15 CEOs) were in office for only one year or less, 28% (21 CEOs) were in office for 2 to 4 years, 31% (23 CEOs) were in office for 5 to 7 years, and 20% (15 CEOs) were in office for 8 years or longer. This information suggests that large Russian firms have a higher level of leadership stability at the top than large Chinese firms.

FIGURE 6/ Tenure Distribution of the Outgoing CEOs in Russia



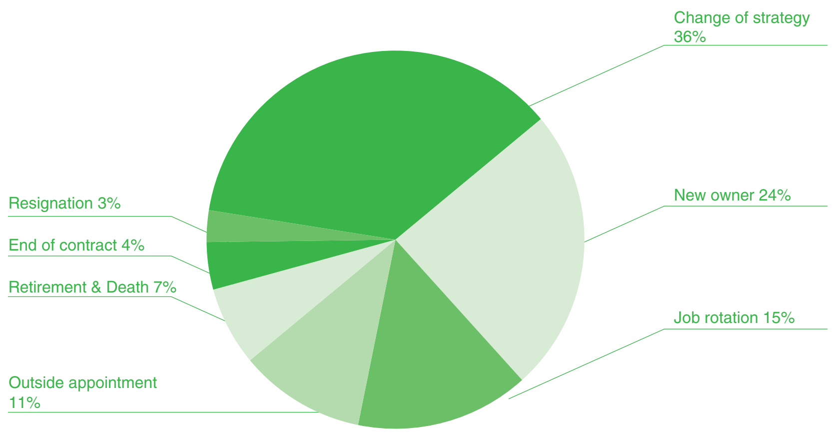
Data source: Companies Annual Reports (2007– 2009)

CAUSES OF CEO TURNOVER IN RUSSIA

Consistent with the relatively young age of the outgoing CEOs, only a small number of CEO turnovers (5 cases, 7%) were reported as being caused by the age or death of the CEO. The most cited cause of CEO turnover was change of strategy (27 cases, 36%). This finding was not surprising, given that most CEO turnovers in our sample happened during the financial crisis. To cope with the adversities caused by the financial crisis, many firms elected to change or adjust their strategies. If they did not think that the current CEO was able to lead the change or was a good match with the new strategy, they would replace the CEO. Research in the west shows that although CEO turnovers are often caused by environmental change or

Most CEO turnovers in our sample happened during the financial crisis. To cope with the adversities caused by the financial crisis, many firms elected to change or adjust their strategies poor firm performance, they do not necessarily lead to better strategies or improved performance. In fact, in many cases, the disruption at the top can make things at the firm even worse, leading to another round of leadership change. It was still too early to tell whether CEO turnover could really help Russian firms to better cope with the adversities caused by the financial crisis.

FIGURE 7/ Reported Causes of CEO turnover in Russia.



Data source: Companies Annual Reports (2007– 2009)

The second most cited cause of CEO turnover was change of ownership (18 cases, 24%), indicating that new owners tended to bring in new CEOs. This pattern is very similar with that we saw in China. In both countries, the controlling shareholders exert strong influence over executive appointment decisions. The major benefit of having a controlling shareholder is that the controlling shareholder has strong incentives to monitor management performance and has the power to discipline bad management. Meanwhile, there is a high risk that the controlling shareholders abuse their power to pursue their own interests at the expenses of minority shareholders, especially when legal protection of minority shareholder rights is weak.

The major benefit of having a controlling shareholder is that the controlling shareholder has strong incentives to monitor management performance and has the power to discipline bad management

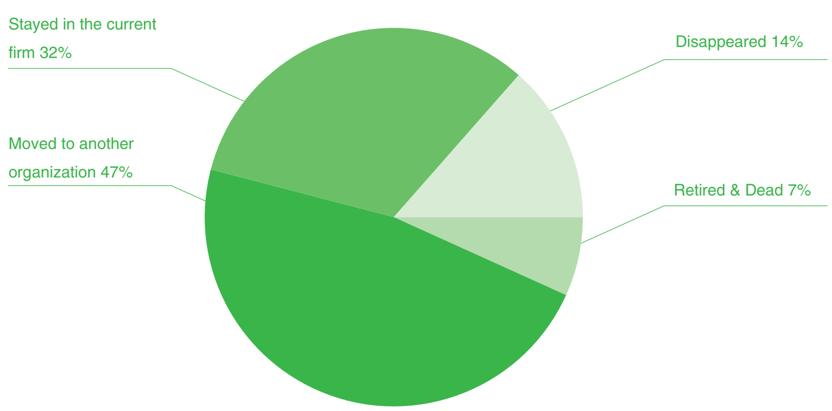
The next two most cited causes of CEO turnover were job rotation (11 cases, 15%) and outside appointment (8 cases, 11%). Job rotation means that the outgoing CEO took another position either at the current firm or at the firm's holding company. Outside appointment means that the outgoing CEO stepped down because of taking a job at another organization. Although only a small number of CEO turnovers were attributed to outside appointment, we actually found that many of the outgoing CEOs went on to take a job at another organization, an issue we discussed below.

WHAT HAPPENED TO THE CEOS AFTER STEPPING DOWN

A rather unique feature of the outgoing CEOs in Russia was that many of them went on to take a job at another organization. We found in our sample 60 CEOs who took a new job after stepping down, with 35 CEOs (47%) taking a job at another organization. This pattern is quite different from that in China, where most outgoing CEOs took a job at their current firm or the controlling shareholder. Except for five CEOs who took government positions, all the other 30 CEOs joined another company, either as the CEO or a senior executive. This finding suggests that Russia has a quite active external managerial labor market where firms can recruit managerial talents. Meanwhile, it also suggests that many Russian firms are unable to locate and promote top management talents from within, probably because of the lack of a well-established internal management development system. Figure 8 below provides more information about what happened to the outgoing CEOs in Russia.

Many Russian firms are unable to locate and promote top management talents from within, probably because of the lack of a well-established internal management development system

FIGURE 8/
What happened afterwards to the outgoing CEOs in Russia.



Data source: Companies Annual Reports (2007– 2009)

Like in China, we found that some CEOs in Russia took a less prominent position at the current firm after stepping down. For the 25 CEOs who took another position at the current firm, eight became the chairman of the board of directors, twelve became a member of the board of directors, and five became a vice president. The age of the 17 CEOs who became a director or a VP ranged from 42 to 60, with the average of being 52 years old. Given that they are not close to retirement, it is important for their firms to make sure that they have a good working relationship with the new CEOs. Moreover, these firms need to make it clear to the executives directly involved as well as other inside and outside stakeholders about who is actually in charge to avoid confusion and conflicts.

IMPLICATIONS FOR CORPORATE GOVERNANCE AND STRATEGIC MANAGEMENT IN RUSSIA

Although we did not have firm performance data, our analysis of the age and tenure of the outgoing CEOs, the reported causes of CEO turnover, and what happened to the CEO after they stepped down still has some important implications for corporate governance and strategic management in Russia. One of our findings was the increase in CEO turnover during the recent financial crisis. Undoubtedly, the financial crisis has created a very difficult time for many firms, pushing them to modify their current strategies or to adopt completely new strategies. The question is, do these firms need new CEOs to develop and carry out their new strategies? Although new CEOs can bring in new perspectives and ideas, they normally do not have the same level of knowledge and understanding of the firms as the old CEOs. Moreover, our analysis showed that many of the new CEOs were brought in from the outside, meaning that they were CEOs or senior managers of other firms. If these outside CEOs left their previous firms because their previous firms did not think them to be able to successfully cope with the challenges imposed by the financial crisis, it is questionable that these CEOs would have a high chance of success in their new firms. Thus, when facing an unexpected change in the external environment, firms should first try to cope with the challenge under the leadership their current CEO. Even if CEO replacement is inevitable, they should look into their own executive team before looking outside for the new leader.

> Russian companies seemed trying to reshape their leadership by bringing in more frequent changes

Related to the increase in CEO turnover, we also found a decrease of the tenure of the outgoing CEOs during the financial crisis. This change was opposite of what we observed in China, where there was an increase in the average tenure of the outgoing CEOs in 2008. Given their frequent CEO changes in the past, Chinese companies probably had realized the importance and the need of a certain level of leadership stability at the top.

In contrast, Russian companies seemed trying to reshape their leadership by bringing in more frequent changes. Both approaches reflect a revision of these companies' past practices. However, Chinese companies might not have done enough, and Russian companies might have done a bit too much. Moving forward, Chinese companies and Russian companies need to balance leadership stability and change at their top. Although it is impossible to specify an ideal length of CEO tenure for each firm, we suggest firms to give their CEOs at least five years to develop and carry out their strategies.

To ensure a certain level of leadership stability at the top, firms need to become more engaged in leadership development so that they can have a pool of internal CEO candidates to choose from. We found that many outgoing CEOs moved to top management positions at other firms. This finding suggests that Russian firms are open to outside succession. Although outside succession has become increasingly popular, particularly in the United States, it is more likely to lead to a mismatch between the firm and the outside CEO than inside succession, in which the firm selects an internal candidate as the CEO. The reason is that there is a higher level of information asymmetry between the firm and the outside CEO candidates, which makes it difficult for the firm and the outside CEO candidates to accurately assess each other. In contrast, the risk of mismatch is much lower in inside succession because the firm and the inside CEO candidates really know each other well. Therefore, we urge Russian firms to invest more in internal leadership development and become more resistant to the idea of outside succession.

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