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Top management team diversity and organizational characteristics of banks in Russia

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ABSTRACT

Background: Several worldwide studies demonstrate that the diversity of a top management team (TMT) depends on the organizational characteristics of business organizations. Though this topic has been studied in different countries, it is not well researched in Russia, especially for some industries, including the banking sector. The main purpose of the research is to study diversity of TMTs of banks in Russia and investigate if it depends on banks' organizational characteristics.

Methods: Data on top management team characteristics is collected for 178 banks (32% of banks operating in Russia). The data includes age, gender, citizenship, education, functional expertise, and work experience of the team members. In addition, data on organizational characteristics of banks was collected from their websites, including size, ownership, type of business, and number of years of operation in Russia. The variance coefficient, which demonstrates the level of TMT diversity, was calculated for all TMT members of each bank. Correlation analysis between TMT diversity and organizational characteristics of banks was completed in SPSS software.

Results: The calculated variance coefficient for different top management characteristics shows that TMTs in the Russian banking sector are mostly homogeneous (in terms of age, gender, nationality and previous work experience). TMTs are only diverse in terms of educational background and functional expertise. The research also shows that TMT diversity metrics correlate with some organizational characteristics, including capital concentration, type of ownership, and nationality of capital (international or local). There is no correlation of TMT diversity with type of banking business and headcount.

Conclusions: It can be surmised that boards of directors of banks in Russia should appoint more diverse TMTs to achieve higher organizational outcomes. Nevertheless, this should be researched

further, and the authors recommend studying the impact of TMT diversity on bank performance in Russia.

Keywords: Top management, diversity, performance, banking sector, Russia.

INTRODUCTION

TMTs are considered in different research fields, including psychology, behavioural and social sciences, business and management, economics, etc. The first research related to TMTs appeared in the mid-1980s and was based on the perception that managers have their personal perceptions and values which influence their decision-making and therefore organizational performance. Based on this hypothesis researchers began to pay more attention to TMT studies. Upper echelons theory also appeared in the 1980s and considered basic demographic characteristics, such as age, gender, race, and nationality (Hambrick, Mason, 1984). Following the development of organizational

demography theory, scholars began to study more demographic TMT characteristics, including tenure within the company, previous experience and qualifications. Later, heterogeneity (nowadays it is often called TMT diversity) became one of the main topics in upper echelons theory.

TMT diversity is well researched in the USA and Europe. In Russia few researchers have considered this topic, and none of them have analysed the correlation between TMT diversity and organizational characteristics of banks. Therefore, the current research focuses on the diversity of TMTs of banks in Russia and investigates if it depends on banks' organizational characteristics.

LITERATURE REVIEW

The Russian Banking Sector

According to Central Bank of Russia (CBR) data, there are 538 credit institutions licensed to conduct banking operations on the Russian market in 2018. Although the number of credit institutions has been decreasing for several years, there are still as many banks in Russia as in the USA, Germany, Austria, and France respectively. Concentration of capital in the Russian banking sector is high.

The large number of banks and high concentration of capital makes the Russian banking sector unique. Russia is among the countries with hundreds of banks, but a low real level of competition, such as Macedonia, Slovakia, Oman, and Greece. The main reason for the low level of competition is the power of state-controlled banks in Russia, which are

directly or indirectly controlled by the Bank of Russia or the Russian Federation. Though the number of state-controlled banks is low (only 5% of the total number of banks), they own more than half of total assets of the Russian banking sector (Banking Supervision Report, 2016).

Currently, the structure of the Russian banking sector's total assets is as follows: state-controlled banks (58.6% of the banking sector's total assets), large private banks (29.8%), foreign-controlled banks (8.8%), and small and medium-sized banks based in the Moscow Region as well as in other regions (2.8%). According to the Centre for Economic Research of the Moscow Financial and Industrial Academy, there are only three big national economies where state-controlled banks continue to play the main

role in the banking sector: China, India, and Russia. Most credit institutions in Russia are local, and only 27% of them are foreign. In other developing countries, this indicator is higher, for example in East Europe around 70% of banks are controlled by foreign capital, while the figure for Latin America is 40%.

Top Management Teams in the Russian Banking Sector

In the banking sector in Russia the day-to-day operation of banks is managed by members of the executive board. Executive board members are the main decision-makers in a bank's operations in Russia and therefore in the current research TMTs of Russian banks are considered as teams of executive board members.

The day-to-day activities and implementation of a bank's strategy is managed by an executive board. According to the internal documents of the banks analyzed and Russian legislation, the CEO plays the main role in managing the day-to-day activities of a bank; he/she leads the executive team of directors in carrying out the long-term objectives and priorities established by the board of directors. The CEO "also maintains a dialogue with the chairman of the board, puts in place adequate operational planning and financial control systems, ensures that the operating objectives and standards of performance are not only understood but also 'owned' by the management and other employees, monitors operating and financial results against plans and budgets, takes remedial action where necessary and informs the

board of significant changes." (Jackson et al., 2003, p. 194).

Executive directors of banks in Russia are employed full-time and are responsible for their area of day-to-day functional or operational business. They attend the executive board meetings and report directly to the CEO. Executive directors in banks in Russia set the direction, mission and policies for the business.

TMT Characteristics and Diversity

The first research related to TMTs appeared in the mid-1980s and was based on the perception that managers have their personal perceptions and values which influence their decision-making and therefore organizational performance. Based on this hypothesis researchers began to pay more attention to TMT studies. Upper echelons theory also appeared in the 1980s (Hambrick, Mason, 1984). Since then many studies have been related to the research of TMT characteristics.

For the purposes of this research all publications devoted to TMT characteristics were found in Elsevier's Scopus database. The search words included "top management", "TMT", "team", "CEO", "chief executive officer", "CFO", "chief financial officer", and "characteristics". 262 article abstracts were selected for analysis, and finally it appeared that only 98 publications (71 articles, 20 conference proceedings, 4 book chapters, and 3 reviews) are relevant to the topic. Figure 1 demonstrates the staggering exponential growth of TMT publications since the mid-1980s.

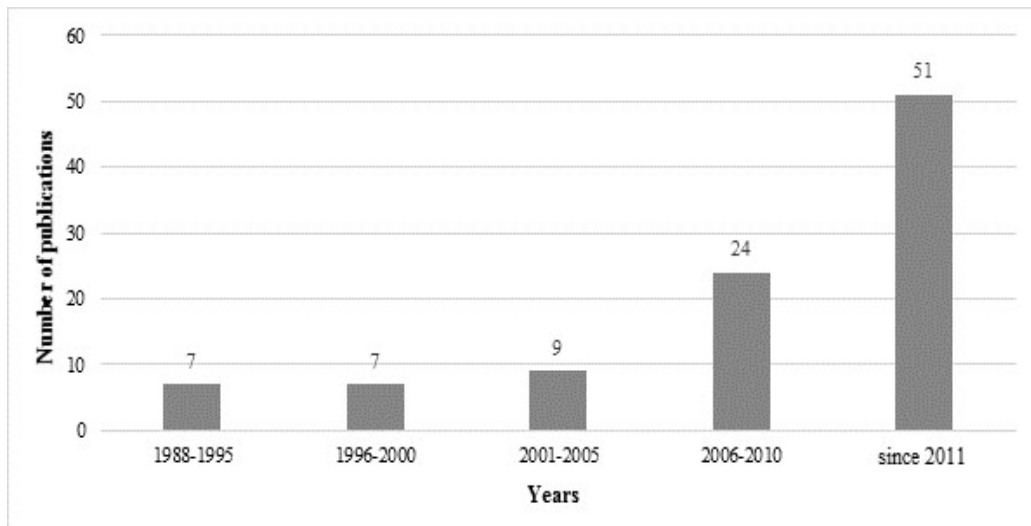


Figure 1. Number of Publications Devoted to TMT Characteristics since 1988
(Developed by the authors)

The literature review shows that TMT characteristics can be researched on both individual and group levels. On the individual level, researchers consider the characteristics of the CEO or CFO and on the group level they consider heterogeneity or diversity of the TMT. Some papers consider both the individual and group levels, including characteristics of the board of directors. In the table below classification of publications devoted to TMT characteristics based on the level of analysis is presented. The first researchers of TMT characteristics referred to heterogeneity (Gu, 2008), which nowadays is often called diversity (Yoon et al., 2016). In the majority of publications, the authors hypothesize that homogeneous teams are less productive, and a homogeneous mindset leads to slow strategic change. As in the current turbulent environment it is crucial for business organizations to be quick and adaptive to the changes in the external environment, organizations must choose the right level of heterogeneity within their TMT.

The first researchers of executive teams considered basic demographic characteristics, such as age, gender, race, and nationality (Barnard, 1938). Following the development of organizational demography theory (Pfeffer, 1983), scholars began to study more demographic TMT characteristics, including tenure within the company, previous experience and qualifications (Korac-Kakabadse et al., 2001). A long tenure, measured in years since appointment as executive board member, points to more entrenched executives who have more time to develop their skills and knowledge. The more years the TMT member works in the organization, the more experienced he/she becomes, and this can help him/her to make the right decisions.

Functional tracks and other career experiences of each TMT are also important characteristics (Hambrick, Mason, 1984). Researchers analyse functional background (Yoon et al., 2016; Díaz-Fernández et al., 2014), international experience (Bany-Arifin et al., 2014; Herrmann, Datta, 2005), executive experience (Bjornal et al., 2016; Yang et

al., 2011) or industry experience (Ahrens et al., 2015; Knockaert, 2015).

For a deeper understanding of what TMT demographic characteristics are considered most often, all 98 selected publications were analysed. The literature review found that age and education of TMT members are researched more often than other characteristics (in 45 and 43 publications respectively). Also, researchers quite frequently consider tenure (32 publications), experience (29 publications), and functional background (23 publications). Interestingly, gender is analysed in only 11 publications, and the majority of them were published within the last decade. This shows that interest in the gender topic within upper echelons theory appeared with the expansion of social gender studies. Board membership and shareholding of TMT members are also researched in a small number of publications (in 10 publications each), probably because this data is not always available in secondary sources of information. Only in a few studies do researchers analyse turnover (3 publications) and nationality (2 publications).

The latest publications are usually devoted not to TMT characteristics themselves, but to TMT diversity. TMT diversity can be regarded as the differences in TMT members with respect to their demographics (Oduor, Kilika, 2018), for example, diversity in TMT tenure (Jaw, Lin, 2009). According to Katz (1982), group tenure is positively associated with internal communication, but only up to a point: after that, increases in tenure bring less communication. Other researchers consider educational diversity (Yoon et al., 2016; Zahra, Wiklund, 2010), functional diversity (Bjornali et al.; 2011; Buyl et al., 2011), and gender diversity (Wen et al., 2015; Yang, Wang, 2014).

TMT diversity is a popular topic in the American and European management literature. But in the meantime, TMT diversity is poorly researched in Russia, especially in some industries. Therefore, further research of TMT diversity is required. This study investigates TMT diversity in the Russian banking sector and its correlation with organizational characteristics of banks.

RESEARCH DESIGN AND METHODOLOGY

Research Design

This research adopts mixed research techniques and a quantitative approach to data sources and analysis. Such an approach helps to provide insightful and objective knowledge for the study and answer the research questions below:

What are the main TMT characteristics in the Russian banking sector?

Are top management teams diverse in banks on the Russian market?

Is there a correlation between TMT diversity and organizational characteristics of banks?

The literature review found out the TMT characteristics most frequently used for analysis of TMT diversity. All of them are investigated in the research, including diversity of TMT age, gender, nationality, work experience, and education. The research investigates the linkage between organizational characteristics of banks and TMT diversity. The theoretical model below addresses the main purpose of the research (Figure 2).

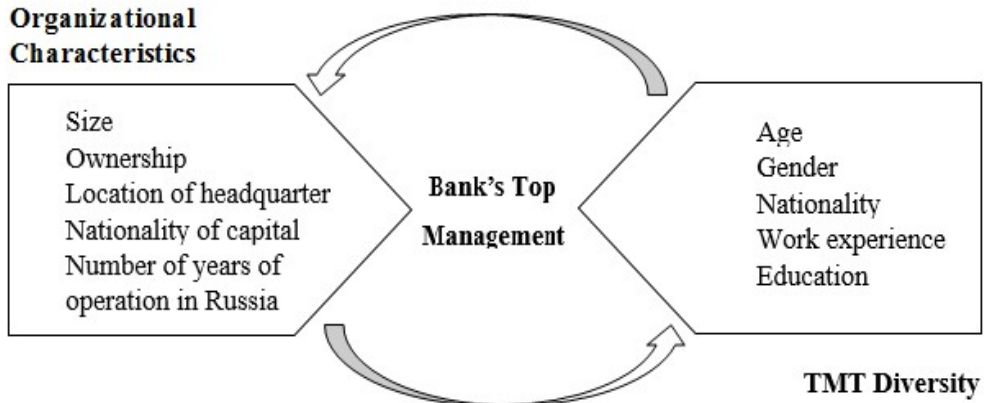


Figure 2. Theoretical Model of the Research
(Developed by the authors)

Data Collection

The research includes different types of secondary data. Firstly, data on TMT members was collected from banks' websites. Data on demographic characteristics, work experience, and education is available. According to Russian legislation, banks must publish these data for top managers. The websites of 178 banks were studied and data on TMTs was summarized in Excel for further coding. For the majority of banks this data was published in Russian; therefore, it has been translated into English for coding purposes. A summary of data collected on TMT characteristics is presented in Table 1.

Table 1

Data Collected on TMT Members' Characteristics
(Developed by the authors)

Type of Data	Variables	Source of Data
Demographic characteristics	<ul style="list-style-type: none"> • Name • Gender • Age • Nationality 	Websites of banks (usually in the "Corporate Governance" section)
Work Experience	<ul style="list-style-type: none"> • Position • Core function • Job history • International experience 	
Education	<ul style="list-style-type: none"> • University • Major • Additional education • Academic degree • Field 	

Secondly, data on organizational characteristics of banks was collected from their websites. The authors collected the following data for 178 banks: size, ownership, location of headquarters, nationality of capital (local/international), and number of years of operation in Russia. And finally, data for calculation of financial performance indicators was

gathered from banks' financial statements. According to Russian legislation, all banks must submit their financial reports to the Central Bank of the Russian Federation. This simplified the data collection as all financial statements are published on the CBR website. The data collected and their sources are indicated in Table 2.

Table 2

Data Collected and Source
(Developed by the authors)

Type of Data	Variables	Source of Data
Organizational characteristics of banks	Size, ownership, location of headquarters, nationality of capital, number of years of operation in Russia	Banks' websites
	Headcount	Banks' financial statements

Additional sources of information for this research included Russian banking law, annual business reports of banks, consultants' reports, and international organizations' public documents (International Monetary Fund, World Bank annual investment reports). Moreover, data analysis also relied on various publications, such as newspapers and analytical magazines.

Sample

The size of the banks in this survey is mostly average. 50.6% of the sample have less than 500 employees. Only 3.4% have more than 10,000 employees. According to the EU definition from the Centre for Strategy and Evaluation Services¹, an institution that has less than 250 employees is defined as a small or medium-sized enterprise. In this study, 51 banks (28.7% of the sample) are therefore

small or medium-sized organizations. The majority are large banks.

The review of the banking sector in Russia has shown that most banks are private, and only a few are government-controlled. In this survey 15.2% are government-controlled banks and 84.8% of the sample are private banks. Most banks are local (74.7%); only 25.3% are international banks. More than 80% of banks in the sample are universal, which means that they provide different types of financial services for both private and corporate clients. Three other categories are represented by 5-6% of banks. This accurately represents the Russian banking sector as a whole, where there is a small number of corporate, retail or investment banks.

The concentration of capital refers to the shareholder structure of a bank. If there is one shareholder who controls key decision-making processes, then the concentration of capital is high. If there are many minority shareholders, then this

⁵ Centre for Strategy and Evaluation Services: <http://www.cses.co.uk/>

concentration is low. More than sixty percent of banks have a high concentration of capital and 28.7% have a low capital

concentration. The rest of the banks have several shareholders who control the main management decisions.

Data Analysis

The current research is quantitative and statistical analysis was applied for analysis of the coded data. For some variables coding was not required (name of TMT member, age), but other variables were coded for further analysis in SPSS. To evaluate the diversity of TMTs, the coefficient of variance (CV) was calculated. The formula for CV is outlined below

$CV = (SD/\mu) * 100$, where SD – standard deviation, μ – mean.

$SD = \frac{\sum_{i=1}^N |x_i - \mu|^2}{N}$, N – number of values.

- <17% – very homogeneous;
- 17–33% – homogeneous;
- 35–40% – slightly homogeneous;
- 40–60% – slightly heterogeneous;
- > 60% – heterogeneous.

Finally, correlation analysis was applied to investigate if TMT diversity depends on organizational characteristics of banks.

RESEARCH FINDINGS

The variance coefficient was calculated for all TMT members of each bank. The research found that the variance coefficient for the age of TMT members is in the range of 0% to 38%. This means that top management teams' members are homogeneous in terms of their age. This

finding can be explained by the fact that the majority of top managers in the banking sector are experienced individuals with an average age range of 40-50 years. Details on the calculated variance coefficient are outlined in Table 3.

Table 3

Variance Coefficient for Age of TMT Members
(Developed by the author)

Variance Coefficient	Frequency	Percent
< 17%	110	60.0
17–34%	67	39.4
35–39%	1	0.6
40–60%	0	0
>60%	0	0
Total	178	100.0

The variance coefficient for the gender of top managers shows this indicator is in the interval of 0% to 47%. This means that teams are more heterogeneous in terms of

gender than in terms of age. The low level of heterogeneity can be explained by the fact that the majority of top managers are men (77.5%). Details are presented in Table 4.

Table 4

Variance Coefficient for Gender of TMT Members
(Developed by the authors)

Variance Coefficient	Frequency	Percent
< 17%	59	33.1
17–34%	24	13.5
35–39%	83	46.6
40–60%	12	6.7
>60%	0	0
Total	178	100.0

TMTs in the Russian banking industry are homogeneous in terms of nationality. Though the variance coefficient is in the interval of 0% to 99%, for the majority of banks (87.6%) it is less than 17%. The low level of heterogeneity in terms of nationality means that usually TMTs are represented by Russian citizens; only in a few banks are there foreign members. Details are presented in Table 5.

Table 5

Variance Coefficient for Nationality of TMT Members
(Developed by the authors)

Variance Coefficient	Frequency	Percent
< 17%	156	87.6
17–34%	0	0
35–39%	5	2.8
40–60%	4	2.2
>60%	13	7.3
Total	178	100.0

As data for education of TMT members is also available, the variance coefficient for academic majors was analyzed (Table 6). Only in 11 banks are teams homogeneous as all their top managers studied economics at university. In 75.8% of banks top management teams are heterogeneous in terms of education, as some TMT members have studied mathematics, physics, law or another field.

Table 6

Variance Coefficient for Academic Majors of TMT Members
Source: Developed by the authors

Variance Coefficient	Frequency	Percent
< 17%	11	6.2
17–34%	2	1.1
35–39%	4	2.2
40–60%	26	14.6
>60%	135	75.8
Total	178	100.0

TMTs are homogeneous in terms of membership of top managers in the board of directors. This conclusion is made based on the variance coefficient below (Table 7).

Table 7

**Variance Coefficient for Membership in Board of Directors
of TMT Members**

(Developed by the authors)

Variance Coefficient	Frequency	Percent
< 17%	86	48.3
17–34%	18	10.1
35–39%	42	23.6
40–60%	26	14.6
>60%	6	3.4
Total	178	100.0

In 48.3% (86 banks) there are now top managers who are also members of the board of directors. The research shows that in the Russian banking industry usually not more than 1 top manager is represented in the board of directors. In large banks, this number may be 2 or 3 individuals (according to legislation, representation of top managers can be no more than 25% of board members). This leads to a low level of heterogeneity in terms of membership in the board of directors.

Data analysis demonstrates that the majority of top managers have previous experience in banking. Only a few managers worked in other industries before joining a bank. This leads to a low variance coefficient (for 50.6% it equals less than 33%), i.e. a low level of heterogeneity (Table 8). This finding can be explained by the fact that successful work in the banking sector requires specific knowledge and skills, for example the skill of working with a large amount of financial data.

Table 8

**Variance Coefficient for Previous Industry Experience
of TMT Members**

(Developed by the authors)

Variance Coefficient	Frequency	Percent
< 17%	86	48.3
17–34%	18	10.1
35–39%	42	23.6
40–60%	26	14.6
>60%	6	3.4
Total	178	100.0

The variance coefficient was also calculated for previous functional experience of top managers. The research showed that top managers have different functional expertise, including general management, finance, sales, and human resource

management. The results of calculating the variance coefficient are indicated below (Table 9).

Table 9

**Variance Coefficient for Previous Functional Experience
of TMT Members**

(Developed by the authors)

Variance Coefficient	Frequency	Percent
< 17%	7	3.9
17–34%	1	0.6
35–39%	6	3.4
40–60%	60	33.7
>60%	104	58.4
Total	178	100.0

For 58.4% (104 banks) the variance coefficient is more than 60%. This means that top management teams in the Russian banking sector are heterogenous in terms of previous functional experience of TMT members. If we consider current functional expertise of top managers, the variance coefficient is also high (for

58.4% of banks it is more than 60%). High level heterogeneity of a TMT in terms of current functional experience means that usually a TMT consists of heads of functional departments of a bank. The results of the calculation are presented in Table 10.

Table 10

**Variance Coefficient for Current Functional Experience
of TMT Members**

(Developed by the authors)

Variance Coefficient	Frequency	Percent
< 17%	7	3.9
17–34%	1	0.6
35–39%	6	3.4
40–60%	60	33.7
>60%	104	58.4
Total	178	100.0

The research also found that top management teams in the Russian banking industry are homogeneous in terms of their little international work experience. In 86% of banks all TMT members have working experience only in Russia. This can be explained by the fact that each country has its own regulatory

environment and financial markets are different; therefore, the work experience of TMT members usually relates to the market where the bank operates.

The variance coefficient for the duration of membership in the board varies from 0% in some banks to 76%. Nevertheless, in the majority of banks

(177 out of 178 banks) this indicator equals 3%; only in one bank does it equal 76%. This means that TMTs in the Russian banking sector are homogeneous in terms of the duration of their membership on the executive board. TMT members are appointed at the same time, usually, and if the board of directors decides to change

TMT members, they replace all top managers simultaneously.

To sum up, the minimum, maximum, average, and standard deviation of the variance coefficient for all TMT characteristics were calculated. The results are presented in Table 11.

Table 11

Variance Coefficient for TMT Characteristics
(Developed by the authors)

TMT Characteristics	Minimum	Maximum	Average	Standard Deviation
Gender	0	0.47	0.3193	0.12531
Citizenship	0	0.99	0.0843	0.21111
Number of years of work experience	0	0.76	0.0124	0.05687
Education	0	1.22	0.7051	0.25557
Current functional expertise	0	1.11	0.6113	0.25746
Work experience in the banking sector	0	0.43	0.2198	0.18367
Functional work experience	0	1.15	0.6392	0.21162
International work experience	0	0.43	0.0435	0.11173
Membership in the board of directors	0	0.64	0.2103	0.21433

The calculated meanings of the average, maximum, and standard deviation for the variance coefficient for different top management characteristics show that TMTs in the Russian banking sector are heterogeneous in terms of their current functional expertise, functional work experience, and education background. This finding can be simply explained by the fact that TMTs in banks usually consist of heads of functional departments, who should have an educational background and work experience related to their function. If we consider other top

management characteristics, TMTs are homogeneous. On average, TMTs in Russia consist of a majority of Russian men with the same duration of membership in the executive board and usually with work experience in the Russian banking sector without an international working background.

To identify if TMT heterogeneity depends on the organizational characteristics of banks, the correlation coefficient was calculated. The results are presented in Table 12.

Table 12

**Correlation Coefficient Between Characteristics of Banks
and TMT Variance Coefficient**
(Developed by the authors)

	Gen- der	Citizen- ship	Turn- over	Education	Banking Work Experience	International Work Experience	Current Functional Expertise
Type of Ownership	.877	-.039 .587	.172** .005	.006 .919	-.070 .286	-.191** .009	.164** .008
International/ Local	.068 .283	.438** .000	-.052 .398	.069 .261	-.065 .319	.104 .153	-.064 .304
Capital Concentration	-.147* .016	-.204** .004	.151* .011	-.075 .209	.131* .040	-.187** .008	.000 .996
Type of Business	-.025 .684	.084 .232	.023 .702	.050 .405	.002 .981	-.087 .222	.028 .647
Location of Headquarters	.037 .523	-.107 .109	.004 .948	.027 .631	.017 .777	-.227** .001	.086 .131
Headcount	-.066 .200	-.073 .221	-.038 .450	-.043 .393	-.073 .178	.027 .646	-.008 .878
Number of Years in Russia	-.029 .600	-.038 .542	.124* .020	.002 .967	.094 .099	-.152* .016	-.033 .543

The research shows that the level of significance for some cases is on the required level (0.01 or 0.05), which means that there is a statistically significant linkage between some organizational characteristics of banks and TMT diversity. **Firstly**, all organizational characteristics, except type of business of a bank (investment, corporate, retail, or universal), have a correlation with some TMT diversity metrics, but the correlation coefficient is not high. **Secondly**, the highest correlation of 0.438 is between TMT citizenship diversity and nationality of banks' capital (international or local). This means that in international banks there are both global and local managers, and therefore TMT diversity is higher than in local banks with homogenous Russian TMTs. **Thirdly**, capital concentration is the most impactful organizational characteristic for TMT diversity, as it has

the highest number of statistically significant correlations. It has a negative correlation with gender diversity (-0.147), citizenship (-0.204), and international work experience (-0.187). High capital concentration of a bank refers to low numbers of shareholders, and in Russia this is usually common for large state-owned banks and private banks with one or several local owners. In such banks TMTs are usually homogeneous in terms of gender (male environment), citizenship (local Russian managers), and international work experience (managers with mostly local experience). **Fourthly**, type of ownership is correlated with three TMT diversity metrics (positively with TMT turnover diversity and TMT functional diversity, and negatively with TMT work experience diversity). **Finally**, the longer a bank operates in Russia, the more diverse its TMT is in terms [...]

CONCLUSIONS

Based on the research, the authors can conclude that TMTs in the Russian banking sector are mostly homogeneous. TMTs are homogeneous in terms of their members' age, gender, nationality, and previous work experience. Top managers in banks are usually Russian men aged 40-50 years with previous work experience only in the banking sector. TMTs' members have diverse educational backgrounds (economics, mathematics, physics, law or another field) and functional expertise (general management, finance, sales, human resource management, etc.). The research also found that in Russia TMT diversity metrics don't correlate with type of banking business and headcount, but do correlate with some other organizational characteristics, including capital concentration, type of ownership, and nationality of capital.

A large number of international research papers have demonstrated that organizations with mostly homogeneous TMTs are less successful and have lower organizational performance results. It can be surmised that the same situation may apply for the Russian banking sector, and therefore boards of directors of banks should appoint more diverse TMTs to achieve higher organizational outcomes. Nevertheless, this should be researched further. It is recommended that further research should be devoted to the analysis of TMT diversity's impact on bank performance in Russia.

In considering the conclusions of the study, limitations have been identified with regard to the research only addressing the banking sector of Russia, as it might not be fully representative. This limitation has affected the results of the study, as a broader sample could have led to further insights. Even though this limitation may apply, the paper is still valid. The study adds to existing knowledge and can be used to justify further studies.

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