

Russia CFO Route to the Top

INTRODUCTION

The modern chief financial officer is a leader. The role is evolving fast in terms of complexity and scope, so the remit of the modern CFO extends far beyond traditional financial responsibilities such as accounting, controlling, treasury and tax. A successful CFO also shapes strategy, advising CEO and board on strategic, operational, risk and compliance issues as well as working closely with major investors and financial institutions.

The Russian CFO market is progressing rapidly and follows key UK and US trends, so we have carried out extensive research in order to provide international benchmarks. These benchmarks highlight some gaps in experience and in career planning. Attention should be paid to closing these gaps in order to establish a vigorous talent pipeline.

In many Russian companies, the CFO is the key decision-maker after the CEO. There are several reasons why this is so. First, a series of financial crises from 2008 demanded an intense focus on operational finance; second, the M&A scene in Russia is especially dynamic, and third, the need for CFOs to collaborate closely with major shareholders on special projects.

We hope that this report will be a useful tool to encourage closer understanding of the role of the CFO in Russia, and the part that succession planning and talent development must increasingly play in its evolution:

- » Career development for current and future CFOs. Which areas of experience must be developed in those for whom a CFO role is three to seven years away?
- » Defining a CFO profile. How can market information help create a smooth CFO succession plan?
- » International trends. What can mature markets tell us?

METHODOLOGY

The research uses data drawn from public sources and Spencer Stuart research that analyses the professional background and career paths of CFOs of the 100 largest Russian public companies by market capitalisation (using the 2016 ratings prepared by RIA Rating). Ratings are based on data from the Moscow Exchange, RIA Rating estimates of foreign exchange floors and issuers' data, and Bank of Russia data. Capitalisation is estimated as of December 30, 2015.

We have compared Russian market data with Spencer Stuart CFO benchmarks from the UK (FTSE 100) and the US (Fortune 500) markets.

Industry acronyms

CON – Consumer goods and services
FS – Financial services
IND – Industrial
LS – Life sciences
TMT – Technology, media and telecommunications

Function acronyms

DFD – Divisional financial director
FP&A – Financial planning and analysis
GM – General management
CD/M&A – Corporate development/Mergers and acquisitions
Control – Financial controller
IR – Investor relations
ONF – Other non-finance
OGF – Other group finance
PS – Professional services

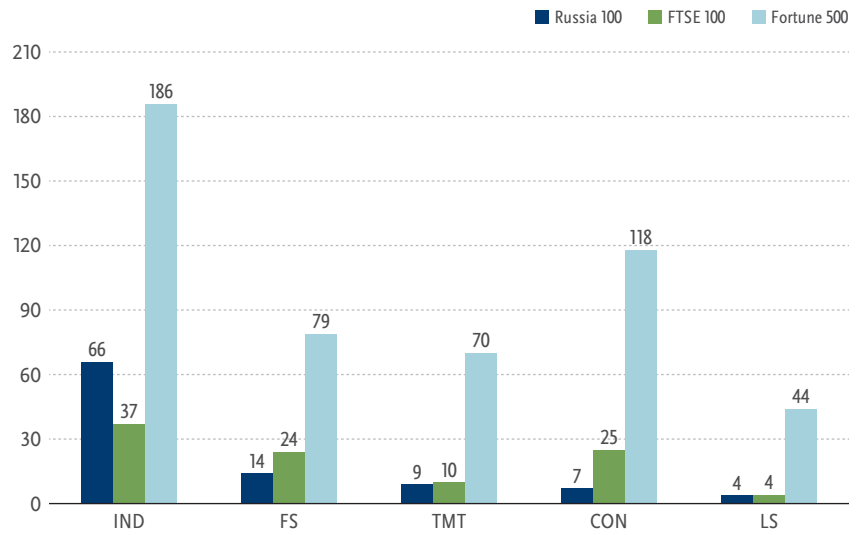
KEY FINDINGS

- » 15 of the CFOs at the 100 largest Russian companies are women, compared with 11 in the UK and 13 in the US.
- » The average age of the Russian CFO is 43, compared with 52 in both the UK and US.
- » The average CFO tenure in Russia is five years, compared with 4.5 in the UK and close to 5.5 in the US.
- » 55% of CFO appointments are internal hirings, compared with 48% in UK and 61% in US.
- » Russian CFOs promoted internally come predominantly from finance controller or divisional finance director roles.
- » Annual CFO turnover among the 100 largest Russian companies is 13%, the same as in the UK and US.
- » 24% of Russian CFOs sit on their board.

Companies List

Acron	Mail.ru	Rosgosstrakh
Aeroflot	Mat' I Ditya	Rosneft
Alrosa	Mechel	Rosseti
AvtoVAZ	Megafon	Rostelecom
Bank of Moscow (VTB)	MGTS	Rusagro
Bashneft	MMK	Rusal
Chelpipe	MOESK	Rushydro
Chelyabinsk Zinc Plant	Moscow Credit Bank	Saint Petersburg Bank
Cherkizovo	Moscow Exchange	Sberbank
CTC Media	Mosenergo	Severstal
Dixy Group	Mosoblbank	Sistema
Dorogobuzh	Mostotrest	Slavneft - Megionneftegaz
E.On	MTS	Slavneft Yaroslavnefteorgsintez
Enel	NGP (Novorossiysk Grain Plant)	Sollers
ETC	Nizhnekamskneftekhim	Southern Kuzbass
EVRAZ	NLMK	Surgutneftegaz
FSK UES	NMTP	T Plus
Gazprom	Norilsk Nickel	Tatneft
Gazpromneft	Novatek	TGK-1
Global Ports	OGK-2	Tinkoff Credit Systems
Globaltrans Investment	O'Key Group	TMK
Hals Development	OTC Pharm	TransKonteyner
Inter RAO	Otkritie	United Aircraft Corporation
Irkutskenergo	Pharmstandard	United Wagon Company
KAMAZ	Phosagro	Uralkali
Kazanorgsintez	PIK	Uralsib
Krasnoyarskaya HES	Polymetal International	Vimpelcom
Kubanenergo	Polyus Zoloto	Vozrozhdenie Bank
Kuybishevazot	Promsvyazbank	VSMPO AVISMA
Lenta	Protek	VTB Bank
LSR Group	QIWI	X5 Retail Group
Lukoil	RAO ES Vostoka	Yandex
M.Video	Raspadskaya	
Magnit	Rosbank	

COMPANY BREAKDOWN BY INDUSTRY



POSITIONS ANALYSED

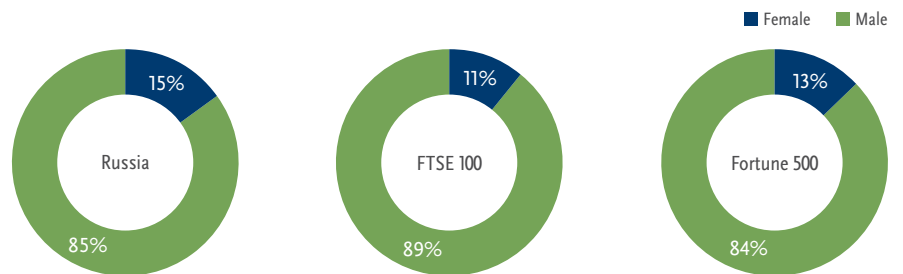
100



97
ACTIVE CFOs

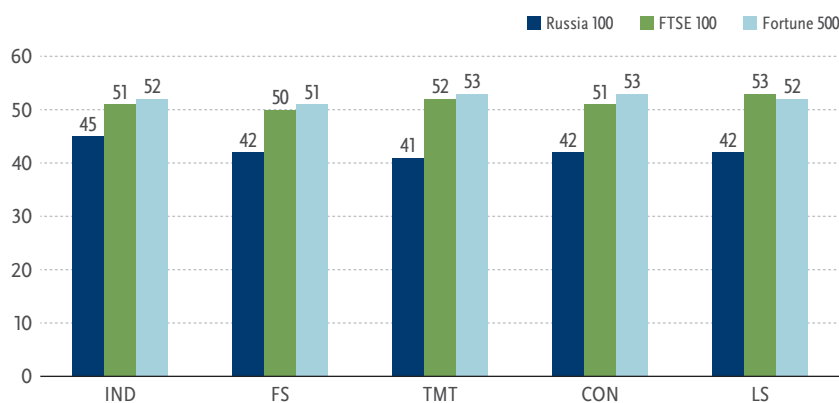
3 VACANT
POSITIONS

DIVERSITY



Russia has more female CFOs than both the UK and the US. In the early years of the Russian corporate environment (1991-2000) the role of financial director was looked upon as “women’s work”. Previously the Soviet management paradigm meant that few men worked in accounting and financial planning departments, so such work was associated predominantly with women. The gender balance started to shift in the late 1990s and early 2000s, when international consumer companies started to introduce management trainee programmes in the local market. Men began to be appointed to many of the junior roles in financial planning and analysis, accounting and reporting. At the same time, men began to outnumber their female colleagues in small and medium business financial roles from the 1990s, gradually moving up to middle-level management positions in large companies.

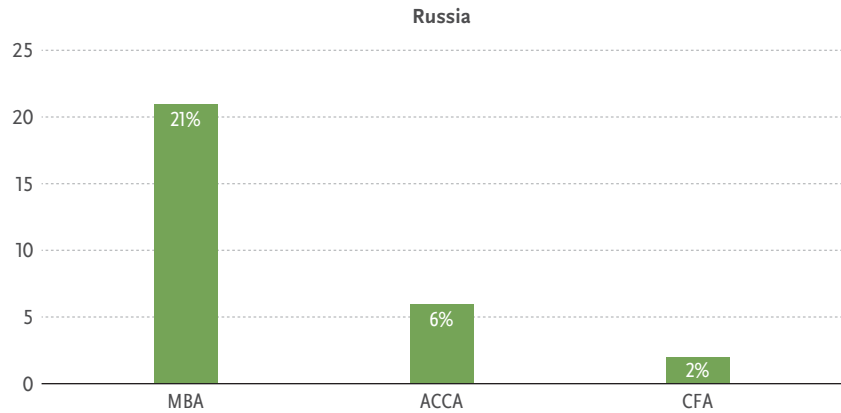
AGE



In any economy, the presence of a relatively young senior management tier indicates a rapidly developing market. In the industries we reviewed, Russian CFOs are on average nine years younger than their UK and US peers. In 2007, the average age of a CFO in Russia was 40, according to “The portrait of the modern financial director”, research conducted jointly by Financial Management magazine and Moscow International Higher Business School (MIRBIS).

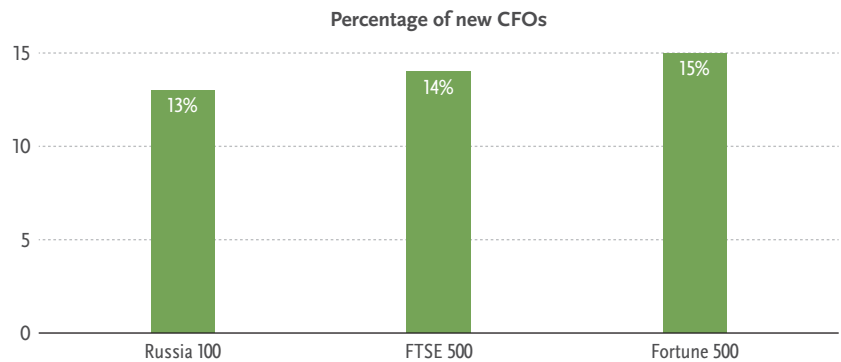
Several factors have combined to account for the relative youth of many financial executives in Russia. This cohort had an advantage over older managers who grew up in the Soviet economy, without any international experience or management schooling. Nowadays young executives compete with older colleagues who have been educated and trained in international companies in 1990-2010, have gone through crises and corporate restructuring and experienced a competitive market environment. These factors lead to the increase of average CFO age.

EDUCATION AND QUALIFICATIONS



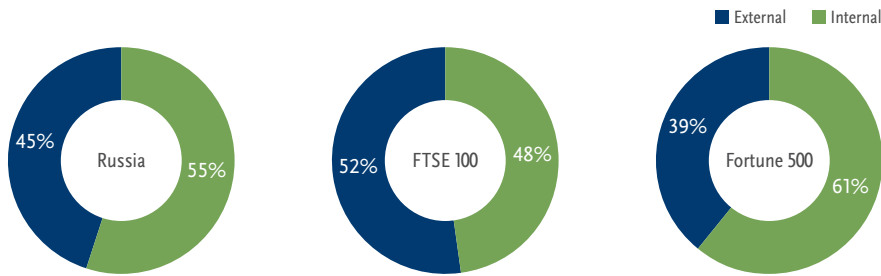
MBA and especially ACCA and CFA professional qualifications are not currently perceived as essential at the top 100 Russian companies. However, these qualifications are significant in appointments that entail a leadership role in Russian branches of international companies, or at smaller Russian companies.

CFO TURNOVER 2015



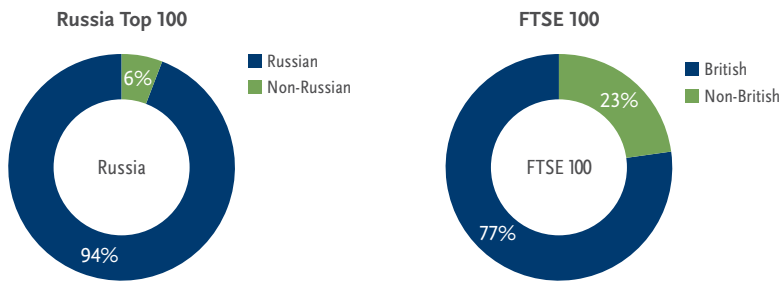
On average, turnover of CFOs at the largest Russian companies is about the same level as that in the UK and US. In 2015 one in seven of Russia's top 100 companies appointed a new CFO.

INTERNAL OR EXTERNAL HIRING



In slightly more than half of cases a CFO was appointed from internal candidates. There is an even split between internal and external appointments. The largest Russian companies are more likely than the largest British companies to promote internally to CFO roles, but less likely than in the US, where 61% of CFOs are drawn from internal candidates.

CITIZENSHIP



In 2015, only six CFOs of the 100 largest Russian companies were foreign citizens. Russian nationals are replacing expatriates in top management, a trend that has been apparent over the past three years. According to research by RANEP, the volume of work permits issued in 2015 for highly qualified managers dropped by 57% overall, compared with 2013. The number of permits in the same period issued to UK citizens fell by 68%, to Germans by 58% and to US citizens by 50%.

POSSIBLE CFO CAREER TRACK



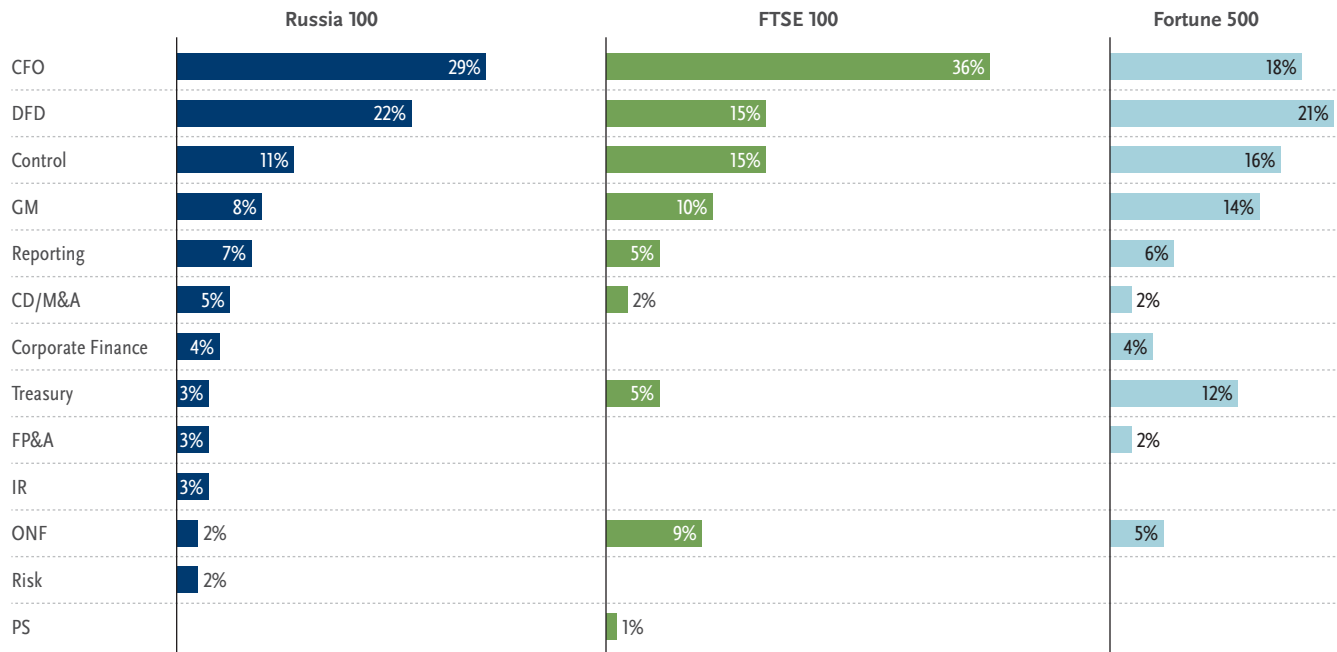
The illustrated career paradigm does not reflect any actual hierarchy in any individual company, but it is a useful starting point for companies aiming to review development areas in order ultimately to enrich their talent pipeline.

In general, reporting, accounting, audit and treasury roles represent starting positions within the financial function. External relations roles necessarily are taken by experienced professionals, able to protect the company's financial position by deploying complex finance and investment management skills. Operational finance management fosters the ability to forge strong partnerships to drive cross-functional projects. M&A assignments and business development initiatives develop an understanding of, and contribute to, the long-term strategy of an organisation at a senior level. This accrued blend of experience and skills provide a CFO with a clear path to a board-level appointment.

Example of a career path in finance:

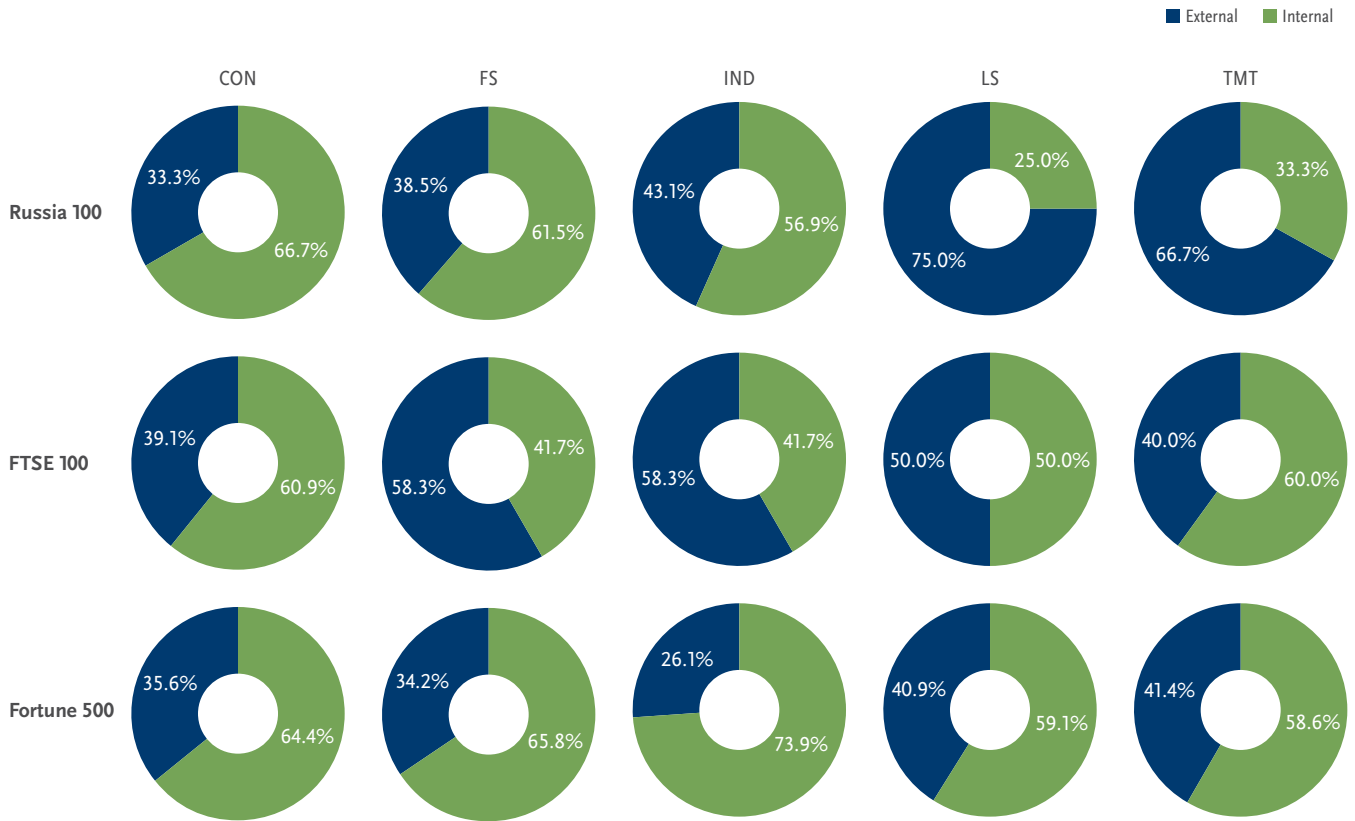
1. Auditor in Big Four firm
2. Analyst, senior analyst in financial planning and analysis
3. Financial manager, supply chain (business partner for supply chain function)
4. Treasury director
5. Corporate finance director
6. Finance director, international assets
7. CFO

PRIOR POSITION OF CFOS



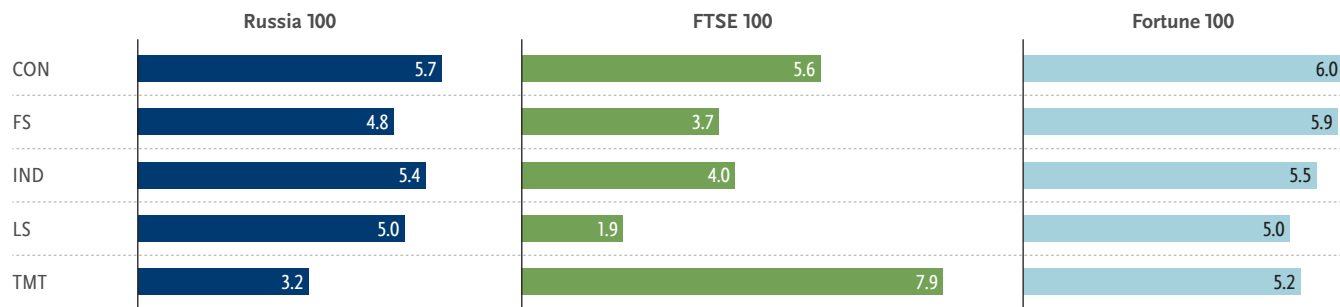
29% of CFOs in Russia and the UK has had previous experience in the role. First-time CFOs have often previously worked as finance director of a division or subsidiary of their company. The next largest pool from which CFOs in Russia are drawn is that of financial controller or director of controlling. Contrary to popular belief only 7% of CFOs have previously worked as chief accountant or head of reporting. In the UK and US even fewer CFOs are promoted from reporting roles.

INTERNAL AND EXTERNAL HIRING, BY INDUSTRY



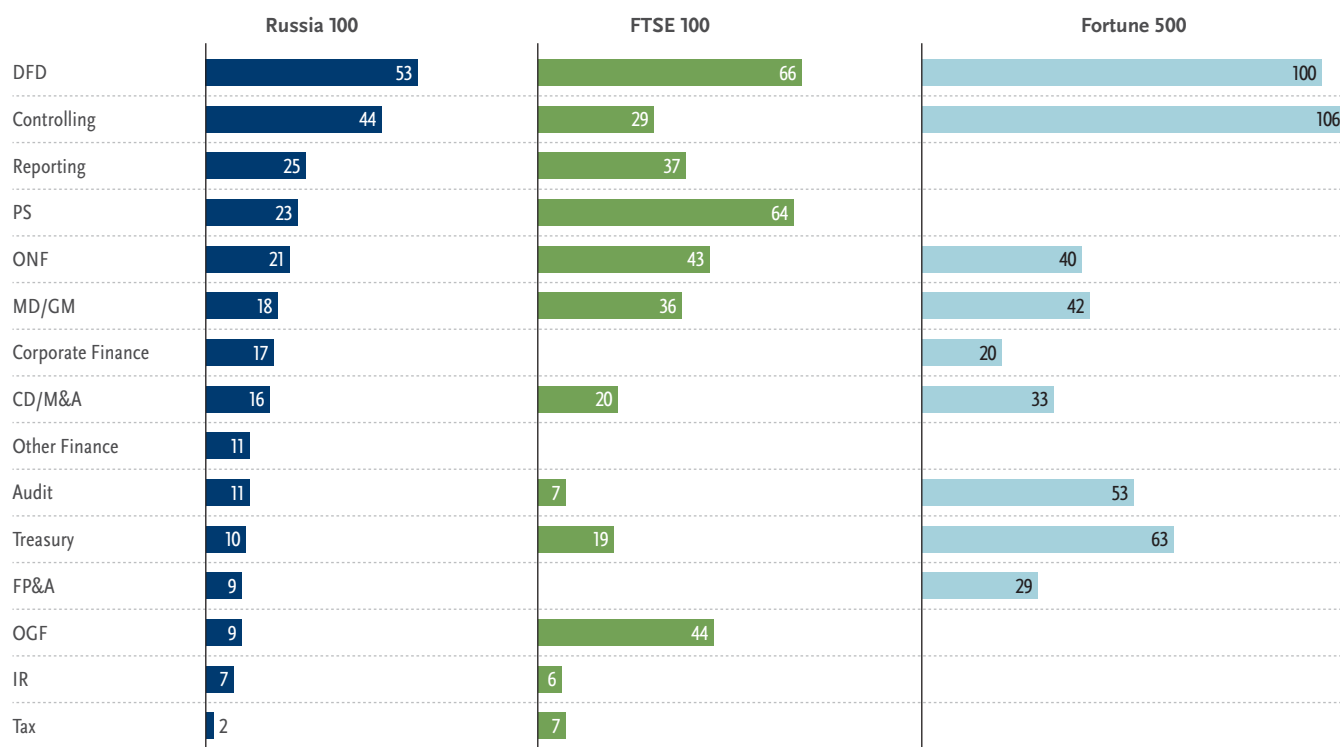
Compared with UK companies, Russian telecom and pharmaceutical companies more often seek CFO candidates from external sources. Companies in Russia’s consumer and financial services sectors prefer to promote from within. In industrial companies, UK CEOs and board members prefer to draw on external experience, while in Russia internal candidates were appointed to 56% of CFO positions. Fast-moving consumer goods (FMCG) companies facing tough competition frequently leverage internal development and training by hiring from within.

TENURE



Despite the seeming instability of Russian management teams, the average tenure of a Russian CFO is longer than that of UK peers across all industries, except for TMT. The relatively shorter tenure of British CFOs may indicate that they are being promoted to other operational roles within a company.

FINANCE BACKGROUND, ALL CFOS



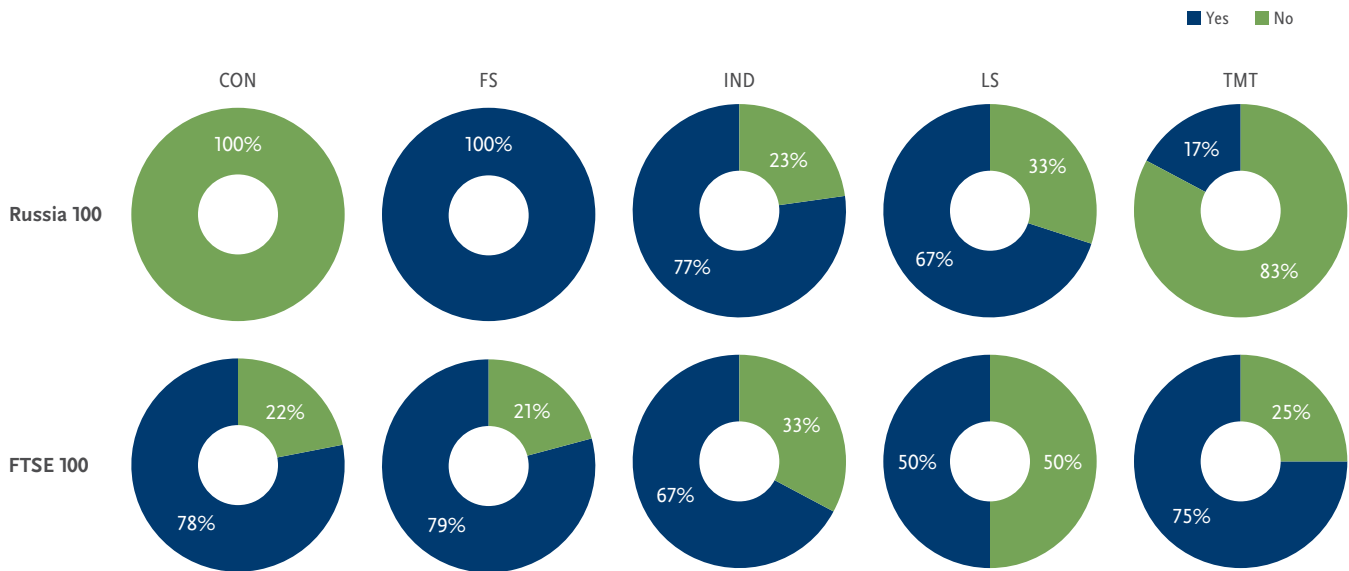
When examining the career profile of CFOs we have checked all positions served, therefore totals exceed the number of CFOs in each market. Both internal and external promotions are counted.

In Russia, as in the UK, many CFOs are promoted from finance director roles at a company division, business unit or subsidiary. The career ladder of CFOs in UK companies is structured in a way that allows professionals to move every two or three years from one financial area to another. In Russia, such a transition usually happens only when an individual changes his or her employer, whereas their counterparts working for international companies expect planned transitions as a part of their professional development programme.

More than 64% of British CFOs have worked in consulting companies, while in Russia only 23% have accrued similar experience. In Russia only 21% of CFOs have other functional experience such as risk, compliance or project management, compared with 43% in UK.

The fact that so many finance professionals in Russia have to change employers in order to progress in their careers reiterates how important it is to devise structured professional development and succession programmes.

SAME SECTOR PREVIOUS EXPERIENCE



NO DATA on Fortune 500

No CFO in Russia’s financial services industry comes from any other sector. In contrast, our study found that not one Russian CFO working in FMCG had any experience of the consumer sector prior to their appointment – all were hired from other sectors. 83% of CFOs in the TMT sector came from other industries, compared with their counterparts in the UK, where only 25% of CFOs do not have relevant sector experience.

ROUTES TO THE TOP: INTERNAL VS EXTERNAL HIRING

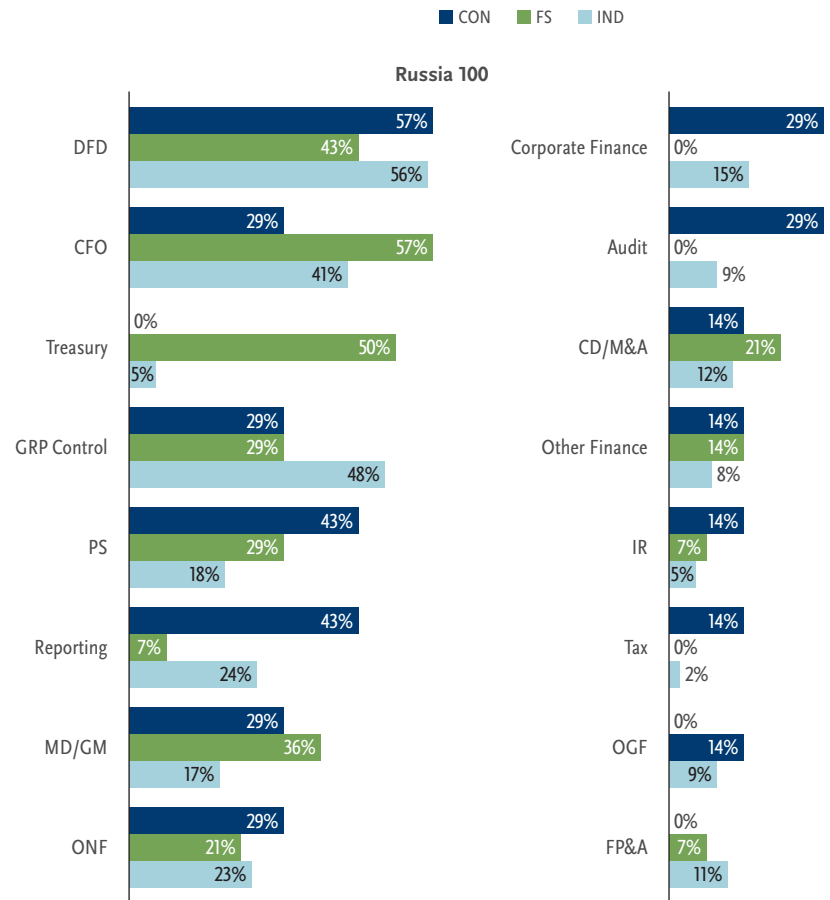


We have checked all previous positions served by CFOs therefore totals exceed 100%.

In Russia it is essential for both internal and external CFO appointments to have experience as financial director or finance controller of a division or business unit. Only 25% of current CFOs have worked in reporting-related positions. This indicator is slightly higher among UK companies.

UK companies especially value consulting experience, and external CFO candidates are often expected to have had a previous CFO role. That said, the career paths of UK CFOs quite often encompass functions unrelated to finance, such as project management, risk and compliance.

ROUTE BY SECTOR



Again, we checked all positions served by CFOs therefore the total exceeds 100%. As there are only four pharmaceutical and nine TMT businesses in the largest 100 Russian companies by capitalisation, we have not included their data in this chart.

While it is obvious that treasury experience is vital for banking, in manufacturing and FMCG it is more technical, so in those sectors treasury directors rarely move into CFO roles. FS companies tend not to appoint CFOs from reporting or internal audit directors. An individual with consulting experience will have a better chance of becoming a CFO in an FMCG or a FS company than in industry, whereas a financial controller has a better chance of being promoted to a CFO position in an industrial company.

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