

Putin Manages Russia Like a Family Business

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May 04, 2015



Over the last two years, observers have increasingly compared the regime of President Vladimir Putin with that of former Soviet leader Josef Stalin. Every new crackdown on the opposition draws warnings of a "new 1937." However, the comparison between the two regimes is inaccurate both in terms of the scale and the very nature of the repression in each. Under Stalin, repression was an integral part of economic motivation, somewhat similar to the motivation in modern investment banking.

How did the Stalinist system motivate people? The vast majority of workers, and especially those in agriculture, lived in squalid conditions. But anyone who managed to earn special mention in that system, experienced dramatic improvements in their lives. The acme of career success in that system was achieving the title of "Stakhanovite" — a worker who surpasses all production requirements.

Their photograph appeared in the newspaper, and in place of hard physical labor, they traveled around the country on trains delivering inspirational speeches to other laborers.

The authorities also afforded them the extremely rare privileges of owning a car and a home on the waterfront. This desire to improve one's living conditions and please the authorities also motivated Soviets under Stalin to denounce their co-workers, neighbors and even close relatives.

In investment banking, and especially in entry-level positions, promotion is based not on absolute, but on relative achievement. If a starting analyst knows that only six out of 10 new hires will get promoted, one way to succeed is to excel at work. The second way to improve your chances is to never miss a chance to politely inform your boss when a rival analyst makes a mistake.

In the Soviet system, repression was needed to clear the way for young and ambitious individuals to climb the career ladder. They needed to see that there were constantly new openings for the positions of general, people's commissar and factory manager, and that they could attain those heights if they worked hard enough. Stalin's repression was a mechanism for intimidating the entire population.

The significant growth that the Soviet economy achieved in the 1930s was largely the result of brutal "investment banking-style" motivation that was forcibly imposed on the entire country.

All of the world's planned economies died out long ago, victims of their inherent inefficiency. For example, Cuba gave up its planned economy many years back and North Korea manages to survive only because the authorities close their eyes to the country's unofficial private sector. But if to compare Stalin's planned economy to others of the same type, then it did achieve impressive results.

Still, this analysis in no way justifies classifying Stalin as an "effective manager." Stalin was a ruthless mass murderer. No economic achievement can justify that sea of blood.

Fortunately for Russia, Putin is no Stalin. Putin's system of control follows the classic "family business" model. He hands out senior posts exclusively to loyal family and friends. Punishment is meted out not for unprofessional behavior, but for showing disloyalty to the "family."

A minimum degree of repression is needed to protect the family business from a hostile takeover. It is necessary to have a very severe punishment for protestors, but to apply it very selectively. In order to persuade the majority of Moscow's potential protestors to stay home, the authorities have only to hold show trials against 100 demonstrators.

In the investment banking style of management, promotion depends on professionalism. In the family business style of management, loyalty is key. When Stalin had to quickly build the atomic bomb, he gathered the country's top professionals, including those imprisoned in the Gulag. He understood that even absolute loyalty would not help someone understand physics.

Russia is currently facing serious economic problems. Which top economists did Putin round up to help find a solution? Not a single one, despite the fact that leading U.S. and European universities have a number of highly-qualified native Russian professors on their faculties.

The only plan for overcoming the crisis that economists in the government and Central Bank have is to wait until oil prices rise to their former levels and petrodollars start flowing back into the country again.

The situation is no better in other sectors. Just look at who heads Russian Railways and the state's oil and gas corporations. Loyalty to the ruling circle is replacing professionalism in all areas of life.

An investment banking management style in government can yield positive results. Former Singaporean Prime Minister Lee Kuan Yew motivated civil servants with those principles. Anyone who managed to climb to the top of the political ladder in Singapore and become Prime Minister earns an annual salary of \$2 million. Government ministers earn from \$1 million to \$1.5 million per year. However, any Singaporean public servant involved in corrupt dealings faces not only dismissal, but also prison.

What future awaits the "family business" style of management in Russia? In all likelihood, Putin will hand over the reins to someone in his immediate "family" or inner circle, or else pass them to a different "family." However, no worthy successor has yet appeared in Putin's inner circle.

Many observers considered Igor Sechin as a possible candidate, but now his management skills are in question. When Sechin took over as head of Rosneft three years ago, the company was generating annual profits of 342 billion rubles (\$11 billion at 2012 rates). Now Rosneft is requesting 1.3 trillion rubles (\$25.5 billion) in government assistance for new projects.

There are no other worthy candidates in Putin's "family." That is why the most likely alternative is for Putin to hand power to another family — for example, to that of Chechen leader Ramzan Kadyrov. Kadyrov values loyalty above professionalism. Kadyrov's resources could prove a decisive factor if Putin's unexpected passing required an urgent transfer of power. Who else but Kadyrov could bring 10,000 loyal soldiers to the Kremlin within 24 hours of taking office?

Another possible outcome is a hostile takeover of Putin's "family business" by an "investment bank." It sometimes happens that a large but poorly managed family business can get swallowed up by a small investment bank. Russia has one such highly effective "investment bank" — the Progress Party headed by Alexei Navalny. The key difference between an investment banking-style party and others is its ability to attract the most talented individuals.

Of course, just having a strong team does not mean Navalny will be able to full make use of it. In the world of finance, money is the main resource. In politics it is the strength and influence of the politician's public voice. The moment Navalny was permitted to run for the office of Moscow mayor, he demonstrated that he could quickly win the election — despite his overwhelming disadvantage in terms of media, administrative and financial resources.

That is why the authorities will not give Navalny a second chance. Thus, the question of whether this or that family business will continue to rule Russia or an investment banking-style of governance will supersede it depends on whether Navalny can somehow win the right for his party to stand for elections.

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