

Vladimir Putin, CEO of Russia Inc.

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2005/56/ENT

Working Paper Series

VLADIMIR PUTIN, CEO of RUSSIA Inc.

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Abstract

This article compares Russian President Vladimir Putin to effective business executives, studying his performance through the same lenses used to assess CEOs of large corporations, and reviewing the degree to which his various constituencies are satisfied with his performance. This article also clarifies the peculiar psychological interplay between leaders and their followers and explores the potentially collusive group dynamics between leaders and led. Through its clinical orientation, this article also extends more traditional studies of leadership by studying the “inner theater” of leaders—that is, highlighting significant episodes in leaders’ lives that influence their leadership style. Furthermore, the article touches on the significance of the historical moment—the interplay between personality and an important period in a country’s history. The article ends by making a number of speculations on what kind of leader the Russian Federation needs to bring it to the next phase of its development.

KEY WORDS: Russian Federation; leadership; clinical approach; historical moment; life cycle; fight-flight; dependency; control; paranoia.

Introduction

In studying leaders in the business world—our particular area of expertise—we have found that many CEOs, on attaining the position of top leadership, go through a three-stage “life cycle”: a distinct period of entry, a period of consolidation, and a period of decline. The period of entry is typically characterized by a high degree of uncertainty as the fledgling leaders struggle to understand what their new position entails, deal with the legacy of their predecessors, and search for business themes that will take the organization forward. Once their power is consolidated, the environment in which they operate is understood, and the key themes are identified, the new CEOs concentrate on pursuing these themes to make their mark on the organization. In most instances, it is during this period of consolidation that they reach their highest performance and build a solid foundation for the organization’s future. In the final stage, the period of decline, CEOs begin to lose their interest in doing new things (though they typically retain their interest in preserving their power base!), often becoming myopic, complacent, and stuck in their ways. They may even engage in paranoid thinking, fearful (frequently with good reason) that others are trying to get rid of them. Leaders in this end stage can become real threats to companies they have led successfully for many years. A dramatic example is the first Henry Ford, who rejected all proposed changes to the famous Ford Model T for 20 years, in spite of changing consumer tastes and a shrinking market share. Ken Olsen, the former CEO of Digital Equipment Company (a firm that no longer exists), was likewise out of touch with market reality, a failing that contributed to the decline and fall of his organization.

Effective business leaders manage to shorten period one with careful preparation and period three through a timely exit. They make the most of period two, the phase of consolidation. But no one is capable of running a complex modern corporation indefinitely. Much research has shown that in today’s fast-changing world, a tenure of seven to eight years is close to optimal for well-prepared, highly capable CEOs.

This observation about the life cycle of CEOs and their optimal period of tenure makes the subject of this article—Russian President Vladimir Putin, evaluated here as the CEO of “Russia Inc.”—even more intriguing. Propelled into the top job from virtual obscurity on the eve of 2000, Putin has worked his way through the entry period, consolidated his power, and

started making his mark on the country. He has two more years to go before his term expires (his last, according to the constitution), and it will be interesting to see what these years will bring to him and the country he is responsible for. Will it bring an improving performance and a smooth leadership succession, or can we look forward to an early decline and the traditional Kremlinesque intrigues around the transfer of power?

In this article, we will compare the Russian president with effective business executives, studying him through the same lenses we use when assessing CEOs of large corporations. We will look at his performance to date, consider his inner theater and leadership style, evaluate the organization he has built and the team he has assembled, and try to predict his future actions.

Five Years at the Helm: Expectations and Results

When Vladimir Putin succeeded Boris Yeltsin on December 31, 1999, a virtual unknown was abruptly catapulted into the Russian presidency. As in bygone days, a leader was selected without the Russian citizenry having any say in the matter. But from the moment that Putin—a shadowy bureaucrat known as the “gray cardinal”—was appointed president of the Russian Federation, Russians and the international community have been captivated by him. As is the case with many business leaders, people project their own fantasies onto Putin, and onto his past, present, and especially future course of action. Effective CEOs use this tendency (either consciously or unconsciously) to rally their followers behind their vision and to use their creative energy to achieve extraordinary results. Let’s see how Mr. Putin has fared.

CEOs have to deal with multiple constituencies—employees, shareholders, customers, suppliers, and regulators. Each constituency has its own specific expectations of a newly appointed business leader. Every situation has its own flavor, of course, but shareholders usually expect a new CEO to protect and even increase the value of their holdings; employees, who spend half of their waking time at work, look for meaning, fairness, and safe and pleasant working conditions; and outside stakeholders seek beneficial relations, predictability, and respect for rules and agreements.

When Putin became Russia's president, his key stakeholders had expectations similar to those presented above. The Russian economy had not yet recovered from the market reforms of the early 1990s and the financial crisis of 1998, the standard of living was inferior to that of the 1970s, unemployment was running high, and salaries were rarely paid on time. Thus the first results that the primary shareholders of Russia Inc.—the Russian citizens—expected from their new leader were sustainable economic growth and dividends in the form of an improved standard of living.

But people also looked at the president with hopes of finding what they had lost with the collapse of the Soviet Union and the Communist system. In the late 1980s, after the collapse of the value system of the Soviet Union, Boris Yeltsin had played with new forms of meaning through energetic speeches about democracy and freedom that excited the Moscow crowds. But in the intervening years he had failed to create a better, fairer, and freer existence for the typical Russian. When people looked back on Yeltsin's accomplishments, they saw Russia's humiliating withdrawal from Eastern Europe and the former Soviet republics, massive inflation that had destroyed their savings, a non-transparent privatization process, a powerful oligarchy, increasing corruption, and an unglamorous war in Chechnya. But the Russians' hope were reborn when a young (and sober) Putin assumed the top job: Russians wanted a better life, but they also wanted a more meaningful life—and they thought that perhaps Putin might usher in that new life.

While the Russian people are certainly Putin's primary constituents, another constituency consists of Russia's international counterparts. The leaders of most Western countries, wary of Yeltsin's unpredictable personal behavior and his inconsistent foreign and domestic economic policies, had a distinct set of expectations as Putin took the helm. First of all, they wanted some clarity and consistency in Russia's attitudes and policies regarding the West, to enable the establishment of meaningful working relationships. Second, they wanted Putin to reaffirm that Russia had chosen the route of democracy and market economy; they wanted Russia to become a reliable partner in promoting this cause in the world, especially in the former Russian hemisphere. Third, they hoped that the new leader would proclaim a definite end to Russia's imperialistic and military ambitions; they wanted Russia to support this new worldview not only by reforming the army but by bringing home all Russian troops that had been stationed abroad.

Fast-forwarding to the present

In many ways, it was fortunate for the new CEO of Russia Inc. that the shareholders' expectations were clear. Because there was great convergence among political analysts and Russian citizens about what needed to be done, no guesswork was needed. Now let's fast-forward five years, bringing us to the present, so that we can reflect on how Putin has lived up to his shareholder's expectations.

With Putin's ascendance to the top job, the Russian economy, which had been struggling for almost a decade, rebounded, posting stronger growth than most developed economies in the world. Over the five years of his presidency, Russia's GDP has increased by 60 percent, personal income (per individual) by 65 percent, spending on education by 100 percent, average salary by 70 percent, and average pension by 40 percent. The Russian population has been enjoying the dividends of Putin's economic policy through a higher disposable income (aided by the introduction of the 13 percent flat income tax), the acquisition of real estate and cars, the importation of foreign goods, a dramatic increase in travel to foreign countries (helped by the strong ruble), a 30-fold increase in the use of mobile phones, and a growing college enrollment.

These numbers seem to speak for themselves, but they are deceptive. Yes, Russia Inc. grew fast over the first five years of Putin's tenure, but if we compare Russia's growth to that of the other former republics, it had one of the slowest growth rates. Even Leonid Kuchma's Ukraine has a better track record. In fact, according to some experts, the Russian economy would have actually contracted under Putin if energy prices had remained at their 1999 levels. While Russia has built a war chest of foreign exchange reserves totaling almost \$200 billion, the appreciation in oil prices is largely responsible for that amount. And while the personal income of Russians more than doubled in nominal terms, domestic prices also increased almost twofold. In real terms, then, the economic results of Putin's tenure thus far are merely average.

If we were to assume a very generous interpretation, we might suggest that Putin is a visionary CEO who is building a foundation for future growth; he is in fact, we might say, undertaking profound structural reforms, the results of which are to be harvested in the next five to ten years. But a close look at the facts shows that this is not the case. The structure of the Russian economy has not changed under Putin, its dependence on raw-materials exports

has only increased, its manufacturing sector is still shrinking, and its services are still contributing less than 50 percent of the GDP. Finally, the number of new start-ups—a key indicator of economic growth—remains low compared to both Eastern and Western Europe. A mere handful of giant industrial financial groups controls from 60 to 70 percent of the Russian economy. Furthermore, corruption which had a head start under Yeltsin has not decreased but dramatically increased, ranking the former superpower (according to Transparency International, the worldwide corruption watchdog) among the world's most corrupt nations.

Surprisingly, ordinary Russians are still quite pleased to have Putin as president. Although his huge popularity has slipped a bit recently, most citizens praise the way he has been running the country. An opinion poll conducted in May 2005 by Public Opinion (involving a representative national sample of 1,500 Russians) showed that the majority of Russians (71%, down from 85% a year before) still like Putin as a person. When it comes to assessing his work as president, the picture is slightly different: only 4% of respondents rate his job as “excellent,” while 36 % say “good” and 39% say “fair.” However, from 40 to 50% of respondents say they would vote for Putin if the elections were held in May 2005, and from 35 to 45% say they trust Putin as a leader. Many of the respondents believe that Putin has been working hard to understand the everyday cares and concerns of ordinary people.

Does this relatively high rating mean that Putin has been successful in providing meaning to the Russian people? Has he put together a forward-looking, compelling vision for Russia Inc. that speaks to the collective imagination and is unifying its citizens? Unfortunately, no. On the contrary, Putin speaks with an apparently sincere bitterness about the collapse of the Soviet Union, an event he once called “the greatest tragedy of the twentieth century.” Such statements resonate well with the majority of Russians, especially the older generations. But most of them have already mourned the past and are eager to look into the future. As one Ukrainian politician put it a number of years ago: “Those who do not regret the collapse of the Soviet Union have no heart, but those who dream about restoring it have no brain.” One cannot move forward while looking back, but so far Putin has failed to draw an appealing picture of Russia’s future for its population.

And how is Putin faring with his broader constituency? He got off to a good start, certainly. He swiftly gained the recognition, support and even personal friendship of key international

leaders, delivering what they sought: sobriety, accuracy, reliability, responsibility, and good manners. He spoke about the interests of his country, but he also listened attentively to his partners and seemed ready to promote a market economy and democracy throughout the world. As the new leader of Russia, Putin became hugely popular in the West—especially in Germany, where he had previously worked as a Soviet spy, and whose language and culture he openly admired. World leaders were ready to put on hold their concerns about such hot topics as the war in Chechnya to please their newly acquired friend. However, as hugs, smiles, and elaborate dinners at the Winter Palace failed to turn into specific democracy-supporting policies and practices—indeed, Putin became increasingly defensive and conservative in his international policy—cracks began to emerge in what initially appeared to be solid relationships. Assuming that Putin has considerable freedom of action (and his hands are not tied by the people around him), his handling of the Ukrainian and Georgian crises, his antiwar stand on Iraq, and his inflexible position at the WTO talks turned away even such friends as Tony Blair. Furthermore, his sentencing of entrepreneur Mikhail Khodorkovsky to nine years in prison and his levying of tax penalties on large companies, including TNK-BP, scared international investors and made Western governments increasingly apprehensive. Although Putin’s popularity in the West is still relatively high—he maintains much better relationships with foreign heads of state than did any of Russia’s leaders in the last hundred years—the downward trend is worrisome.

Putin does not seem to be functioning well in his leadership role—but why? Given his many positive qualities and the favorable timing of his ascendancy, why has he failed to fully fulfill the relatively simple expectations of his shareholders? The answer is simple: he has not done what effective CEOs do.

What Do Effective CEOs Do?

Business leaders come in all sizes and shapes. Some of them exhibit charismatic, flamboyant behavior; others are humble and even shy. However, those who are effective have certain things in common—traits and actions that make their businesses stand out as high-performance organizations. Effective leaders can be recognized by the following:

They articulate a vision for the future that is attractive to the organization's constituencies and that clearly outlines a path for success in their particular business.

They set challenging but reachable specific goals as milestones on the path to that vision, creating small wins along the way.

They strive for alignment between vision, strategy, and behavior.

They study the competition and develop strategies for staying ahead.

They select a constellation of fellow leaders who are not only professionally competent but share the organization's vision and values.

They strive to energize their followers and absorb uncertainty for them by putting their own necks on the line. They listen to their people, making each opinion count.

They provide stretch for their people by creating growth and development opportunities, and they build trust by walking the talk.

They create transparent organizations built on openness and honesty.

Knowing that the only true oracle are the clients, they create organizations that are client-centric.

They combine operational autonomy with personal accountability for their subordinates, giving people a sense of ownership in their work, and they encourage innovation.

They embrace change, getting rid of outdated personal mental models and organizational structures and processes.

They put the interests of the organization before their own self-interest, working to create an organization that will thrive beyond their tenure.

If the algorithm for effective leadership is so clear, why do only a few people manage to become effective leaders? And why, in our particular case, has Putin not been more successful in his leadership role? The corporate or political environment, the available resources, and pure luck play their part in making a specific leader successful, of course, but it is a leader's style, determined largely by his or her "inner theater"—the unique life-script that each person writes in response to deep motivational needs—which distinguishes truly remarkable leaders from mediocre ones.

Political leaders such as Putin have a great opportunity to externalize their private motives and act them out on a public stage. In trying to shape their own identity, those who are

uniquely effective simultaneously shape a given period in the history of their nation. In cases of transformational leadership, there is a psychosocial match between the themes in the inner theater of the leader and the “historical moment” in the society; personal identity, public identity, and public ideology converge at such a moment. As leaders attempt to resolve the themes that occupy their personal inner theater, they shape their society.

Thus if we want to know why Putin has not done for Russia Inc. what successful business leaders do for their corporations, if we want to understand his past actions (and non-actions) as well as his future actions, we need to look beyond the directly observable and try to reconstruct his inner theater.

Who Is Vladimir Putin?

Entering the mind of a political leader—reading his or her personality from personal and political behavior—is always a daunting task. The danger in trying to “diagnose” a politician’s behavior is that psychological diagnosis inevitably results in reductionism—that is, oversimplification of the enormous complexity of human behavior. Moreover, as we all have discovered in the course of daily life, the better we know a person, the more difficult it is to put a label on him or her. Furthermore, understanding a contemporary political leader is always a highly speculative exercise, given the paucity of information available. Even if we could talk one-on-one with such a person, he or she would probably remain “on stage,” concealing personal fears, anxieties, wishes, desires, and needs.

Studies of adult development have taught us that an individual’s history holds the answers to adult behavior. Childhood and adulthood form a continuum, as does the whole span of a person’s career. Thus a look at Putin’s childhood experiences, and at his career before he arrived in Moscow, will help us understand the way he looks at the world. Although it is difficult to prove a direct correlation between Putin’s personal experiences and his actions, and it is hard to isolate his actions from all the other factors that color the political climate in Russia, an investigation of his history is indispensable to an understanding of his leadership.

Rewinding into the past

Winston Churchill once described Russia as "a riddle wrapped in a mystery inside an enigma." Observers of Russia in the 21st century could surely say the same of President Putin. The book *First Person*, published in 2000, offers 24 full hours of interviews that three Russian journalists conducted with Putin, and yet only a glimpse of the man comes through. The interviews reveal an intense patriot, a practicing member of the Russian Orthodox Church, an abstainer in a country of heavy drinkers, a fitness nut, an ex-judo star, and a family man with a strong sense of right and wrong. No humor comes through, though: there is a degree of flatness in everything Putin says. Listen to how he sums up his life at the beginning of the book:

In fact, I have had a very simple life. Everything is an open book. I finished school and went to university. I graduated from university and went to the KGB. I finished the KGB and went back to university. After university, I went to work for [Mayor Anatoly] Sobchak [in St. Petersburg]. From Sobchak, to Moscow and to the General Department. Then to the Presidential Administration. From there, to the FSB [Russia's internal security services]. Then I was appointed Prime Minister. Now I'm Acting President. That's it!"

But is that all? Was it really such a simple life, or has Putin deliberately taken the spark out his background? Putin's comments about his family suggest that his apparent gift for dullness might be an inherited survival strategy. He describes them as "very ordinary" but mentions with pride that his grandfather, a cook, "was transferred to one of Stalin's dachas [and] worked there for a long time." He adds that "for some reason they let [my grandfather] be. Few people who spent much time around Stalin [survived], but my grandfather was one of them." Subsequently, Putin introduces the salient quality that may have enabled his grandfather to survive: "My grandfather kept pretty quiet....My parents didn't talk much about the past, either." Like ancient Roman emperor Claudius, who pretended to be mentally deficient to evade the murderous Caligula, this "very ordinary" family survived for generations in a deadly environment, apparently using reticence and dullness as a safety net. Like Claudius, Putin has mastered the "stealth game" of playing dumb. When the journalists whose interviews comprise *First Person* asked him what kind of role he played in a specific event, he would either deny that it had taken place or, if a flat-out denial was impossible, suggest that he had just stumbled into it by accident. But let's rewind even further.

Putin was born on October 7, 1952, six months before the death of Stalin in Leningrad. As the only surviving child among his siblings (one older brother having died in childbirth and another having died eight years before Vladimir's birth of diphtheria during the Nazi siege of the city), he formed the third generation of his family to live in that city. We can surmise that being the only surviving child must have influenced the way he was treated by his parents. Frequently, that role in the family leads to overprotection on the part of the parents and/or tremendous pressure on the part of the child to live up to idealized memories of the "angel" child/ren. Some children cope with overprotectiveness by presenting a bland exterior that gives them a degree of distance, allowing them to maintain their individuality and making it more difficult for the caretakers to get a handle on them. Others, seeing themselves as "replacement children," suffer from "survival guilt" and feel driven to live up to parental expectations. Overprotection and pressure to be responsible may lead to feelings of claustrophobia and a desire for more individual freedom in developing children. In Putin's case, this might account for the the polarity between conforming and rebelling, order and disorder, that runs like a red thread through his life. It is clear, however, that whatever rebellious streaks he had were suppressed as time went on: conformity and the need for order gained the upper hand.

According to some of his teachers, Putin was not initially a model student. As a youngster he did not do well in the sciences and did not always follow school rules. In fact, a considerable part of Putin's early education seems to have taken place on the street. For some time, he hung out with a group of "hooligans," often getting into fights with other, much bigger boys. Perhaps what saved him from becoming a hooligan himself was the children's sports society that he joined. There he took up first sambo (a Russian version of wrestling) and later judo, a sport that he still practices today. He became very committed to judo, traveling an hour across town to participate, seeing it as a way of toughening himself up so that he could survive the "jungle" of the streets. To some extent, judo can be seen as a metaphor for much of Putin's later way of dealing with others. One of the main lessons taught by judo is never to tackle a person head on, but to get into the right position and then flip your opponent, using a point of leverage to allow you to overcome someone who is bigger. This seems to be Putin's approach in life. His bland exterior also reflects his judo training (and his years in the KGB): he seems to work at not appearing as a threat to others.

As a kid, Putin not only enjoyed the “stealth sport” of judo but also loved spy novels and spy games. He said later that he was influenced to join the KGB because of patriotic movies and books describing the heroic feats of Soviet clandestine agents. To Putin, being a spy seemed to be the way to “put things right,” to do his patriotic duty, in what seemed to him a highly chaotic, unpredictable world. It would let him remain invisible while providing him with the ideal setting to make an impact, to create order. And what better agency to help him make these wishes come true than the KGB?

The invisible man

After his graduation from law school in St. Petersburg the KGB invited Putin to join the force. After a stint in counterintelligence with some seasoned hard-liners, Putin was sent to the Andropov Red Banner Institute in Moscow for additional training. Subsequently, he was offered a spot in the most coveted division: foreign intelligence. The KGB assigned Putin to Dresden, where his duties included economic espionage and the recruitment of spies. His work was successful, but not exceptional. His stint in Dresden, however, gave him some ideas about the way people operate in the West. He was greatly disappointed by the reunification of Germany, which happened while he was in Dresden, feeling that he and his colleagues had been abandoned by their Russian leaders. The turbulent ending of his tour of duty in Germany must have reinforced his belief in the need for an ordered, planned world.

In the 1990s, after the downfall of the Soviet Union, Putin left the KGB, having worked for fifteen years for the security service. He described that move as the “toughest decision of my life.” He became an advisor to Anatoly Sobchak, the mayor of St. Petersburg. Being Sobchak’s right-hand man was his first high-level political post, a job that turned out to offer intensive on-the-job management training.

In 1996, after Sobchak's political defeat in the mayoral elections, Putin resigned, and he soon moved to Moscow. Anatoly Chubais, the architect of Russian privatization, had noticed him and introduced him to Yeltsin. In 1998, he was appointed deputy head of management in the presidential administration. Even in this very senior position, Putin managed to keep a low profile, never appearing as a threat to others. Under Yeltsin, he used his charm, loyalty, KGB training, discipline, and common sense in a series of jobs that included running the FSB.

Putin's vertical rise can have only one explanation. In the drunken, tottering Yeltsin, Putin had found yet another man in need of a strong, reliable, loyal deputy, and he made himself indispensable. Beset by corruption scandals, health problems, and the threat of impeachment, Yeltsin needed the guarantee of a safe exit from political life. Because Yeltsin and his entourage believed that Putin was the man to help him make that exit, he was rewarded with the job of prime minister in 1999. When Yeltsin bowed out of politics, he appointed his protégé as his successor. Putin's first decree as acting president was to grant Yeltsin immunity from prosecution. In March 2000, Putin was elected president, and four years later he won reelection to the presidency for his second and final term with 71% of the votes.

This background does not suggest that Putin is a natural leader. Rather, during his pre-presidential years he was a rather colorless bureaucrat, more efficient at executing orders than giving them. The blandness that we mentioned earlier as a survival strategy has served him well: it kept him from being seen as a threat early on, and it still allows him to get things done without creating waves. Presumably as a result of this survival strategy, he comes across as an extremely reserved, emotionally detached man who likes to communicate in colorless riddles. Complementing his poker face, he has a subtlety of speech: people who have to deal with him need to work hard to pick up what he is trying to say. But the bland exterior does not mean that Putin is unemotional. On the contrary, many recollected incidents from his childhood have proven otherwise. Furthermore, clinical experience has shown that many very emotionally restrained people use the tactic of detachment to defend themselves against strong emotions, fearing that if they let go the process will become uncontrollable. (This may also explain why Putin avoids strong drink.)

A hunger for control

Although Putin comes across as a rather colorless bureaucrat, his "inner theater" suggests otherwise. One major theme in that theater appears to be his perception of two starkly different worlds. There is a world of order and safety, where everyone does what he or she has been told. But there is also an unsafe world, a world of chaos that threatens to engulf the unwary. This division, probably built on childhood memories of his parents' experiences during the war, underlies his "law and order" rallying cry. His actions, both personal and political, seem to be predicated on the desire to control and subdue the chaos of the unsafe world. His goal, then, is to make Russia a well-oiled, meticulous operating machine.

This personal penchant for control dovetails with the needs of society. After the wild Yeltsin years, most ordinary Russian citizens yearned for a measure of order, and Putin took note of that wish. But even as far back as childhood he saw the need for control. His later experiences at the KGB strengthened that belief in an orderly society, as did the collapse of East Germany, the breakaway of many of the original Soviet republics, and his time in the major capital of the Russian criminal world, St. Petersburg. Whatever his position—whether deputy mayor, head of the FSB, prime minister, or president—he acted in accordance with these internalized principles, trying to impose a greater sense of order on society.

Putin's desire to gain and maintain control is most obvious in his uncompromising stand on Chechnya. That is the only domain where he has not been cagey about his intentions. The Chechen resistance has become much more than a mere battle for territory for Putin; it is an opportunity for him to take the lead, to show that he is in total control. Although by nature Putin appears to be a pragmatic politician with little ideological drive, in this instance he seems to be obsessed with defending the power and prestige of the Russian state. He seems unwilling to accept that only a political solution can bring an end to the conflict. In a similar exercise of control, he has decreed that the Kremlin should appoint the governors for the various Russian regions.

There is an upside to Putin's desire for control, of course: as was mentioned earlier, Putin deserves credit for ending the chaotic policy-drift of the Yeltsin years and for inspiring economic activity, helping put in place the foundations of sustainable economic growth, and somewhat reversing capital flight. But in spite of all these efforts, in most areas reforms have fallen far short of what they need to be to create a more liberal market order. But the major downside, from the West's perspective, is monumental: extrapolating from previous evidence, we can see that Putin prefers policies that enhance state—better yet, presidential—control over the economy and the political sphere. He seems quite apprehensive of the chaos and messiness that democracy and its multiple constituencies could bring to the country. Control and coercion are closely linked, even in the crowd-pleasing Putin. Under his watchful eye, the growing influence of the intelligence services has permeated all levels and agencies of the government, upping the intimidation factor. As Putin has consolidated his power, he has left very little room for organized action by anyone who would dare to challenge him.

Putin's desire for control dictates his teambuilding as well. Like effective CEOs, Putin understands the importance of organizational architecture to the successful implementation of his plans. However, he bypasses progressive approaches to forming a team in favor of the old-boy network. Loyalty and devotion to Putin seem to be the prime requirements for high office in his administration. He ignores the emerging generation of Western-educated Russians, apparently unconvinced that they can help him bridge the gap between East and West. In keeping with a person who made his career in government bureaucracy and who wishes to reestablish the authority of the state, Putin sees only one way to increase order in the fractured Russian society: by enlisting the help of the people with whom he started his career, and whom he trusts—that is, the state security services. In Putin's Kremlin, his political base, known as the *siloviki*—a group of people (many of them old acquaintances from St. Petersburg) associated with the more nationalistic, xenophobic elements of the military and security services—have gradually increased their hold on power. The consequence of this insidious development has been that the Kremlin controls the executive branch, the Duma, and the judiciary. These powerholders are also responsible for a crackdown on the independent media, the present capital flight, the scorched-earth policy in Chechnya, and the bullying of Georgia, the Ukraine, and other neighbors.

Given these developments and the importance of this inner circle, an intriguing question is, Who is controlling whom? Is Putin the puppet master or the puppet? Is he in the driver's seat or merely a passenger? Alternatively, is he an equal member within a group of like-minded individuals? Is the present slow pace of reform a consequence of Putin's lack of understanding of the need for further reform, or does it mean he lacks the political authority and power to carry out needed reforms? Given Russia's lack of transparency, it is difficult to know.

Unfortunately, fear has returned to Russia. The tendency of the Kremlin to persecute opponents who do not share Putin's worldview contributes to these fears, of course. In addition, Putin's interventionist approach to economic policy, aimed at redistributing financial wealth from the oligarchs (who are relieved of "excessive" profits) to the ruling bureaucracy and the now-favored *siloviki*, is viewed by political analysts as a worrisome sign. Although a frightened oligarchy will be more cooperative and valuable to the Kremlin than one that is completely stripped of its assets or sent into exile, Putin's economic plan seems unlikely to accomplish his aim of doubling Russia's GDP within a decade. That goal would require a

loosening, not a *strengthening*, of controls. It would require a reenergized liberal reform program and a weakening of the bureaucracy. Given Putin's mindset, background, and record to date, such a shift is unlikely to happen. This conclusion suggests that Putin's presidency is entering the third stage of a CEO's life cycle—that of decline—and facing all the risks associated with that stage.

Paranoia, Societal Regression, and the Need for Heroes

Paranoid thinking has been called the “disease of kings,” because it is typical of the worldview of people who spend their lives wielding power. The best way to understand paranoid thinking is to view it as a distortion of a healthy response to danger. We all need to be somewhat vigilant to survive; some people take that healthy vigilance a step further. Given Putin's position of power and his history with the KGB, we can assume that he is no stranger to suspiciousness.

Looking at Russia's geography alone, we can posit that Putin and his inner circle have reason to engage in paranoid thinking. In addition to the terrible problems in Chechnya, the Ukraine—once a trusted ally—is taking a more Western posture. Countries such as Georgia, Moldova, and Azerbaijan, with their xxx xxx, also give cause for worry. Moreover, the erratic leaders of countries such as Belarus, Turkmenistan, and North Korea would give any neighbor a serious headache, as would a number of unstable autocrats running the republics of central Asia. As if that were not enough, Russia's relationship with Japan has been strained for years because of a number of disputed islands, and China's increasing success makes that country more of a perceived threat to Russia's Far East. Finally, Russia's relationship with the West is the chilliest it has been in years. Dangers, perceived or real, are everywhere.

While most of us can distinguish between real danger and safety (though we might not always choose wisely), some leaders see danger everywhere and hostile intent in everyone. Leaders such as Putin are especially vulnerable to paranoid thinking, because they do in fact face many dangers, both obvious (the aforementioned geographical ones, for example) and concealed (in the form of opponents seeking ouster, constituents seeking radical reform, and extremists considering assassination). One cannot be an effective leader without rubbing some people the wrong way, so even Putin, the so-called stealth president, has enemies. There will always be people who feel stepped upon and dream of (or attempt) retaliation, just as there

will always be followers who envy a leader's power and plot to attain it. For leaders, then, ideas of persecution are nothing less than a rational response to a world populated by real (and possibly also imagined) enemies.

Unfortunately, when paranoid thinking takes root, leaders often begin to distort information, engage in delusional thinking, and practice faulty reality-testing. These problems are aggravated when, in response to the sirens of paranoid thinking, leaders question the trustworthiness of even their most trusted advisors, and may suffer from delusions of conspiracy and victimization. Fearing that others may do them harm, such leaders will listen for—and may find—hidden meanings in even the most innocent remarks. Thus the balance between vigilant behavior and full-fledged paranoia is extremely delicate. Once the pendulum has swung toward paranoia, suspiciousness spreads like the plague, becoming the habitual mode of thinking of the whole inner circle.

Given the insidiousness of paranoia in political life, leaders tend to surround themselves with people considered to be loyal—but they then feel compelled to constantly test that loyalty. The only people who can survive long in the atmosphere of sycophancy that develops are flatterers, but even at their most ingratiating, followers cannot prove beyond a shadow of a doubt their complete love and loyalty. Knowing that mere suspicion would be enough to cause their dismissal, members of a paranoid inner circle often engage in complex intrigue to protect or further their careers. Such political games feed fear and anxiety in the political environment and make it all but impossible to get necessary work done. As outsiders, we do not know whether these kinds of psychological developments are taking place in Putin's government. However, paranoia certainly *could* flourish in the climate of control and coercion that exists in today's Russia.

Knowing the dangers of paranoia, effective leaders ground their behavior in sound political practices that limit and test danger, and they rely on trusted associates—people who can speak their mind without fear of reprisal—to help them stay safe and sane. Does Putin have such associates, men and women unafraid to tell the truth? It seems unlikely, given that so many in his inner circle have connections with the police, the army, and the former KGB. Many of these people, hostile toward the West and eager to have Russia regain its Soviet glory, seem rather susceptible to paranoid thinking. Moreover, they seem to prefer secrecy to transparency, as was demonstrated during the Chechen hostage crisis at the Theater Center in

Dubrovka (a preference that proved deadly, since with additional information more of the gassed hostages would probably have survived). Keeping people in the dark, a key weakness of the paranoid style, is not an effective way to create a either high-performance business organization or a smoothly functioning society.

When paranoid thinking takes over and control becomes ever tighter, societal regression is a danger. As control gets pulled from the general public and hoarded at the top, the “little” people feel increasingly powerless. In that mindset, they are easy prey for delusional ideation—that is, for ideas completely detached from reality—and for authoritarianism. Times of societal trouble—for example, the time in Russia after the fall of Communism, when people experienced a crisis of self-respect—are the ideal breeding grounds for societal regression. Under paranoid leadership, and especially during stressful times such as described above, a rigid, bipolar view of the world is common, with the world split into camps of friends and enemies. Encouraged by their leadership, people populate their inner world with conspiracies and enemies. This shared search for and fight against enemies results in a strong national conviction of the correctness and righteousness of their cause and energizes them to pursue that cause. A variant of the well-known fight/flight response, it is also a way of coping with emerging anxiety, channeling it outward.

Another way to cope with anxiety is to “contain” it. People look to their leaders for help with this task. Leaders who are effective at containment radiate certainty and conviction, thus creating meaning for their followers and offering a holding environment that creates a modicum of security. Anxious followers, grateful for the security, project a sense of grandiosity on their leaders, perceiving them as capable of even more containment and unification than they are.

Vladimir Putin, given his considerable need for control and the prevalence of the paranoid mode in his inner circle, has become an ideal “container.” Whether consciously or not, he seems to be catering to Russia’s desire for a powerful leader. However, his people’s expectations, and their projections on him of grandeur and power, put enormous pressure on him. It is very difficult for any leader to remain “sane” under such circumstances. Organizational and political leaders who find themselves idealized are in a hall of mirrors, with others mimicking their words and actions. It remains to be seen how Putin will hold up

to his subjects' need for heroes. His increasingly autocratic stance suggests that he is feeling the pressure.

Soon after Putin took office, the Russian media reflected on what some viewed as a growing personality cult around him. Historically, totalitarian Communist regimes have produced quite a few remarkable personality cults, such as those of Chairman Mao of China, Ho Chi Minh of Vietnam, Kim Il Sung ("The Great Leader") of North Korea, and his son ("the Dear Leader"). Near-deification of a leader has a long tradition in Russian political culture as well. From the days of the czars to the days of Lenin and Stalin, personality cults have held sway—and they have not served Russians well. Typically, the adulation goes to the leader's head, leading to disastrous result for its citizenry.

What are the signs that we may have a personality cult in Russian today? Putin's portrait can be found in most officials' offices. A common practice in other countries, this alone would not be alarming. But people in Russia go a few steps further. Pop songs extol Putin's discipline. Cafés, ice-creams, and tomatoes are named after him. He is the hero of a new textbook for young schoolchildren, in which he is depicted as a man who flies fighter jets, refrains from smoking, and loves his family. Portraits of him are for sale in many shopping centers, as are *matryoshkas* (popular Russian wooden dolls) with his face painted on them, and T-shirts carrying his image. Carpets that depict his image are quite popular among Moscow officials and company managers. (Some of these carpets are unique pieces, produced exclusively to show people's fidelity. For example, the Duma ordered a special carpet with Putin's portrait.) One of the leading Russian oil and gas companies, Surgutneftegaz, made a real breakthrough in the personality cult department by creating a calendar showing "Putin's Twelve Moods." Each month is associated with a certain facial expression indicating a mood state. (Given Putin's famous poker face, this must have been a challenging task!)

Actual and would-be despots are everywhere in our world's history, although they thrive best in the fertile ground of dramatic change. Troubled times makes people anxious, and anxiety prompts people to search for strong leadership. The prevalence of human anxiety explains why authoritarianism, totalitarianism and leadership by terror have been with us since the dawn of time. To any student of history, personality cults are a worrisome sign. They have led some political analysts to use the f-word—fascism, that is—to describe the peculiar mix of centralized control, personality worship, and Russian nationalism that is now being

consolidated under Putin's leadership. We seriously doubt, however, that Putin will slide into the kind of behavior made famous by his most notorious predecessors, Stalin and Lenin. Russia may not be a pluralistic society like most Western countries, but it certainly is much more pluralistic than it has ever been in the past. That doesn't mean, however, that we should lessen our vigilance. Good government—government based on a system of checks and balances—is more necessary today than ever before. After all, Stalin, in his early years, was a rather unassuming, charming bureaucrat.

The Agenda for the Next Two Years

Organizational wisdom states that there is one task no CEO should neglect: preparing a successor. To many scholars of organizations, the acid test of effective leadership is how well one's successor does. The legendary chairman of GE, Jack Welch, proclaimed succession-preparation to be his most important task *nine years* before his planned retirement! (He seems to have done well in picking Jeffrey Immelt.) Putin faces an even greater challenge than Welch did, though he has not publicly acknowledged the task: he not only needs to find the right person, but he has to set the precedent of transferring power in Russia after his constitutional term expires. He has two Russian traditions working against him: Russian leaders tend to hang on to power until they are carried out in a coffin, and they favor an “*apres moi le deluge*” perspective on developing successors.

And yet the worst thing Putin could do to Russia's future and to his own legacy would be to give in to the growing voices of some of his key lieutenants and hang on to the top job through some form of political manipulation—for example, the formation of a unified state with Belarus, or a constitutional amendment allowing an additional term. The scope of this article doesn't permit a discussion of the potentially disastrous consequences of such a decision to the fate of democracy in Russia, and to Russia's international standing. We will, however, touch briefly on the economic and human consequences.

With Putin as the head of state beyond 2008, Russia Inc. would have a CEO who had already entered the third and final stage—decline—of his life cycle at the helm. Studying Putin in the year 2005, we can already see signs of transition into this stage. He appears to be increasingly internally focused; his tolerance of criticism is diminishing; he refuses to change the

entourage of people around him; he talks more and more about the glorious past, and less and less about the future. If these trends persist (a very likely scenario if Putin were to stay in power), this modus operandi would have a devastating effect on Russia's development. The outdated structure of its economy would be preserved, corruption would increase even more, the bureaucratization of the government would accelerate, and innovation in all areas would stall. Sooner rather than later, serious economic troubles would result, even if oil prices stayed high. And if oil prices went down, Russia would suffer a severe crisis.

But apart from these developments, an emotionally ailing (albeit physically healthy) president without an exciting vision for the future would deeply traumatize the collective psyche of the Russian population, especially its younger members. Traditional skepticism about reform and deep mistrust of the government would soon be back, straining the creative energy of the population and pushing the most industrious individuals to leave the country.

The decision to remain president would have deeply negative consequences for Putin himself as well. It would significantly reduce his legitimacy and consequently increase his dependence on the people who helped him engineer the third term. Without the inspiration of a personal vision for Russia, Putin could easily become a hostage to the job, with boredom replacing excitement. Furthermore, by staying on he would guarantee a negative legacy: he would be remembered as yet another KGB man who seized power, played the democracy tune when it suited him, and abandoned it when it was no longer convenient. Whatever modest contributions he made to stabilize the nation during his terms in power would soon be forgotten, while the corruption of power and the stagnation of Russia Inc. would be long remembered. In contrast, by stepping down in two years and holding fair and democratic elections, Putin would go down in history as a transitional CEO who took the helm at a difficult time, preserved Russia Inc., and laid the foundation for future growth and development, even though not generating much of it himself.

But Putin needs to do more than simply pass the baton in 2008; he needs to work hard at ensuring that Russia's new leader will be an effective CEO. Does this mean handpicking one of his protégés? Absolutely not. The best thing Putin could do is relinquish power completely and *not* choose his own successor, instead leaving it to the people for the first time in Russia's history. To facilitate that process he needs to do a number of things:

As a starter, Putin should soon make it very clear that he will be stepping down as president in 2008 and that there will be presidential elections in full accordance with the Russian constitution. As a great believer in the power of the media, he should make this statement on TV as soon as possible and then reinforce the message by repeating it through the other media. He should specify that he is not going to endorse any of the candidates and encourage the Russian people to make their own choice, and then make good on that claim by keeping a healthy distance from the election campaign. Furthermore, he needs to make sure that the presidential race is as fair and open as possible, that all candidates have equal access to the electorate through mass media and other channels, and that voting takes place according to the law, untainted by intimidation and fraud. Finally, he should graciously hand power to the winning candidate, whoever that may be.

These recommendations may sound like common sense, but acting on them would require courage and stamina, given Russia's history and current political climate. If Putin chooses to go this route, he will face strong opposition from his inner circle, which wants to make sure that *it* stays in power. The secret services and regional elites do not want to bet their future on the will of the voters. Power and money is at stake. Today, however, Putin has enough political power and influence to push this program through. If he decides to take this route, he will be hugely popular both before the elections and for many years after, whatever the outcome may be.

Life after Vladimir Putin

As noted earlier, Putin initially gained popularity in Russia and in the West because he was such a contrast to his predecessor, Boris Yeltsin. That raises the question whether the new CEO of Russia Inc. should again be quite different from the current one.

Precedents for the change paradigm

We cited earlier some traits that successful CEOs share. A number of further characteristics are shared particularly by CEOs who have done well at succeeding strong and long-standing predecessors. We suggest that these characteristics may also apply to the leaders of countries. First, we have found that many effective successors are what can be described as "inside-outsiders." Such individuals combine a deep knowledge of the organization they will be

responsible for with an independent, almost outside view of it. Take, for example, three Russian leaders who were highly effective at executing large-scale country transformations: Peter the Great, Catherine the Great, and Josef Stalin. They all possessed this combination of an insider's deep knowledge and an outsider's "marginality." Peter the Great in his early teens discovered the foreign settlement in Moscow, and he spent much of his formative years there, acquiring knowledge that he used very effectively in the transformation of his country. Catherine the Great, who was born a German princess, moved to Russia at the age of 15 to marry an heir to the throne and spent 17 years becoming acquainted with a bewildering new culture before becoming an absolute monarch. Stalin came from Georgia, which although part of the Soviet Union was a distinctively different country. Looking at the world from different perspectives helped him to be more effective in influencing the destiny of the Soviet Union.

Furthermore, in many instances, successful newcomers have particular expertise in whatever interventions need to be taken. Extremely successful leaders such as Jack Welch of GE (being an "inside-outsider," working outside the core business) and Louis Gerstner of IBM (an outsider) are good illustrations in the business world. In the political arena, Peter the Great had a deep knowledge of industry, navigation, and military—areas in which the country made great leaps forward during his reign. Catherine the Great was an astute student of government, diplomacy, philosophy, and literature, giving her the grounding she needed as Russia created a new administrative system, made significant territorial acquisitions, became a heavyweight in European politics, and laid the foundation for great scientific and artistic breakthroughs. Stalin was a student of theology, a discipline that prepared him for life as a professional revolutionary preaching the benefits of Marxist ideology and helped him create a mighty military-industrial complex and lead the Soviet Union into the nuclear age (though at a high cost in human suffering).

The leadership style Russia needs

Balancing Russia's leadership tradition, its current situation, and our previous observations about CEOs and succession, we would like to offer our assessment of the kind of presidential successor needed to take Russia Inc. to a higher level of national and global performance:

First, from what we understand of the Russian cultural context, the new president needs to have a rather authoritative, entrepreneurial style. That person also needs to have charismatic appeal, because Russians like to have leaders who are larger than life, as illustrated by Peter

the Great, Catherine the Great, Field Marshal Zhukov, and (unfortunately) Josef Stalin. Even with the country's many advances, these are still the kinds of leaders many Russians most easily identify with.

Furthermore, a résumé that includes a successful prior professional career would help ensure that the new president of Russia Inc. would be effective. Given the unique circumstances of present-day Russia, it would be preferable if that person had been successful in creating from scratch (rather than through privatization) a sustainable, high-performing organization with high visibility and a perceptible impact on society. Examples of individuals with that sort of accomplishment under their belt include entrepreneurs Dmitry Zimin, who created VimpelCom and was CEO for over 10 years; Ruben Vardanian, president and CEO of Troika Dialog, and Roustam Tariko, founder and president of Russian Standard. Entrepreneurs of this ilk have experience with creating and conveying meaning; energizing their members by providing vision of future success; reconfiguring existing resources (some of which they may not control); designing and assembling flexible, high-performing organizations and networks; destroying outdated structures to clear the path for creative energy; renewing themselves and their organizations; and truly owning the organization—that is, putting its long-term interests above personal concerns.

Although Putin has missed many opportunities to turn Russia around, they still exist. A new leader could use these to his or her best advantage. The most promising opportunities, we believe, are in the western parts of Russia, largely because those areas feel the strongest connection with Europe. The slogan “Russia to Europe” may well become a very powerful vision for the new presidency. It would resonate well with a significant part of the Russian population, though not with existing political elites at either the national or the regional level. Making a formal request to the European Union to consider some form of association with Russia would allow the country to tap into such important resources as the Union's experience in integrating new members, its know-how in legal and administrative areas, and its auditing and consulting capabilities. Even in the worst-case scenario—that is, if the EU considered but rejected any formal association with the European Union—Russia would benefit from the application, since as an applicant it could use the EU's strengths to help bring Russia's economy, its legal and administrative systems, its pension and social security systems, and its legislation more in tune with the 21st century. To formulate and implement this unifying vision would require of the new president the boldness and courage of business

leaders such as Mikhail Friedman and Victor Vekselberg, who entered into a 50:50 joint venture with global giant BP. That new leader would need to make significant changes in who governs the country and how it is done.

From our perspective as business analysts, we recommend the following changes:

On the systems side, the new CEO of Russia Inc. should restructure the federal government on a party basis and make it responsible to the voters for its performance. At the same time, he should close down the presidential administration, which presently is an alternative center of power with vague functions, zero responsibility, and enormous influence. Such changes would not require a constitutional amendment, but only decisiveness and commitment—traits that many Russian entrepreneurs have demonstrated recently, moving from the “one-man show” governance model to a model consisting of a professional CEO and a powerful board run by independent directors.

The new CEO of Russia Inc. should spearhead a move to revise the constitution to reduce the number of administrative units (currently 86) and optimize the system of regional administration. Even a very wealthy country could hardly afford to have a full-fledged governor and a council of ministers in a region of only 50,000 inhabitants, as is the case in various parts of Russia today. The persistence and fresh perspective of an entrepreneur would go a long way toward moving this issue forward.

On the people side, the new CEO of Russia Inc. should combine the accountability of the elected party representatives with professionals fit for the job. He should also end the corrupt practice of letting government officials run business empires on the side. Such decisive changes would require the personal courage and integrity of a person such as Ruben Vardanian, who fired some of his best performers for not living up to company values.

Great visions remain empty slogans if they are not supported by the leader’s personal commitment and behavior. The new CEO of Russia Inc. should be able to connect with the Russian people and become a living symbol of his vision, as Andrey Korkunov has done for his chocolate company and Oleg Tinkov for his beer empire. Acting from behind the scenes will not ignite the Russian population: the new president should get closer to the people, roll up his sleeves, and get his hands dirty in

building a new Russia, as Peter the Great did 300 years ago and as many Russian entrepreneurs do presently.

The new CEO of Russia Inc. should take innovative approaches to many issues and adopt entrepreneurial decisiveness in dealing with them. Successful leaders in the business sphere are famous for their ability to renew themselves and their organizations. The impasse in Chechnya, for example, cannot be resolved within the existing paradigm, nor can Russia's problems with the military, the educational system, or health care. Each of these domains requires the fresh looks of an outsider, though one who understands how the system works—someone like Mikhail Khodorkovsky or Dmitry Zimin, both of whom knew and used the system when they created organizations based on opposite principles.

The new CEO of Russia Inc. should not come to the job with plans of personal enrichment, but rather with a vision of making the country more competitive internationally and helping it become a better place to live and work, preparing it for long-term growth. One of the major tasks will be to root out corruption. Over the past 15 years Russia has produced many wealthy individuals, however, whose fortunes will last for many generations to come. For many of them, the time has come to give something back to society. These people should set an example of non-corrupt political leadership and help instill a new, more entrepreneurial culture in the government.

Who specifically should come after Putin? That is a question for the voters to decide, not for us to predict or recommend; this article is not an executive search exercise. We believe, however, that if the current president makes it clear that he will step down and will do everything possible to create the conditions for fair elections in 2008, capable candidates will present themselves. Our focus in this article is restricted to outlining some of the skills and competencies this individual would need to run Russia Inc. as a world-class organization. We realize that this would be a daunting task, but there are plenty of entrepreneurial types in Russia who love nothing better than a challenge, and who know how to share both the demands and the delights of leadership. The late general and politician Alexander Lebed once said, "Russia is like a dinosaur. A lot of time is needed for change to reach the tail from the head." The task of creating a turnaround in that country will surely be monumental, as Lebed suggested. But it can be done, with the right team of people in place!