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Putin's Shareholder Revolt

By Tom Thomson

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In October, I argued in a Moscow Times comment that Prime Minister Vladimir Putin has evolved from a tough-talking politician to a corporate executive looking to increase Russia's economic productivity, attract investors and build brand equity. Since then, an unprecedented number of citizens, many of whom have benefited from Russia's dynamic market economy, have participated in mass street demonstrations in Moscow and other cities. Like dissatisfied shareholders in a publicly held company, the affluent middle class demands better governance, honesty and competent leadership. Now is the time for Putin to demonstrate a CEO's analytical skills to identify problems and show leadership skills to provide solutions to emboldened and skeptical citizens.

The days of taking Russian voters for granted are over. Putin faces an angry, distrustful citizenry led by a middle class that is tired of the status quo and now demands change.

Politics, like business, demands credibility from its CEO. While Putin's efforts to outline his views on political and economic policies in a series of newspaper articles offer an insight into his political campaign, they have barely resonated among the deeply skeptical electorate

looking for concrete actions rather than pronouncements.

When a company's management or employees are involved in illegal activities, a CEO must take decisive actions to restore shareholder confidence and protect the company's reputation. While the government's decision to install web cameras at every electoral polling station is a welcomed step, it fails to prevent the election fraud that is expected on March 4.

Putin should signal that election fraud will not be tolerated by ordering immediate criminal investigations against election officials and political operatives suspected of wrongdoing, including those that are affiliated with United Russia. He should demonstrate a long-term commitment to fair elections by promising to introduce campaign-reform legislation on the day he takes office.

An effective CEO must be able to work with difficult stakeholders — including competitors, shareholder activists and government regulators — to resolve problems. To be sure, the Kremlin's disdain for domestic and international election observers has relaxed somewhat, and it is prepared to work with a newly formed election-monitoring organization sponsored by United Russia and Yabloko. But this is not enough. Like it or not, independent election observers like Golos and the Organization for Security and Cooperation in Europe are viewed as credible by many Russians and by most foreign audiences. Rather than criticize them, Putin should encourage recognized election observers to monitor polling stations.

The stakes are very high for Putin. The gains that he has achieved over the last 12 years could be severely undermined if the government fails to take timely steps to adequately address the opposition's complaints, which will inevitably have an impact on the investment climate.

Russia's accession to the World Trade Organization has been decided, but the U.S. Congress still needs to be convinced to grant Russia permanent normal trade relations. At the World Economic Forum at Davos, PricewaterhouseCoopers' 15th annual Global CEO Survey noted that Russian and global CEOs view Russia and other emerging markets as important growth opportunities. Meanwhile, Putin failed to attend the summit, and there were renewed calls to kick Russia out of BRICS. On Thursday, Putin pledged to lift Russia from 120th place to 20th place in the World Bank's Doing Business ranking. It's difficult to see this after a dismal 2011, in which capital flight topped $84 billion.

Russia's electoral politics are not for the faint of heart. Holding meetings with opposition leaders to identify issues of common interest could help to set the stage for discussions rather than confrontations after the March 4 election. The peaceful protest demonstrations could escalate into violent confrontations if rising tensions are left unchecked. This, in turn, could undermine Russia's stability and jeopardize its hard-won gains in economic growth. It will also elevate the risk factors for foreign investors.

Putin has started to meet with friendly constituent groups. Strengthening relationships with supporters during an election campaign is always important, but under current circumstances building a dialogue with your opponents may be even more important.

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The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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