

To Be or Not to Be: Statism and Paradoxical Evolution of Corporate Governance in Russia

LEE SUN-WOO | SEOUL NATIONAL UNIVERSITY

This article explains the dynamics of the “path-breaking” evolution in the corporate governance of Russia’s big private businesses since Putin rose to power in 2000, based on the discursive institutionalism. For the goal, it pays attention to several political factors such as Putin’s state bureaucracy and tax reform, economic recovery, and newly rising coherent elite groups, which constructed statism. Due to these factors, the Russian state could be empowered in both ideational and material dimensions, and the power relations between the state and businesses also transformed significantly. Under the hegemonic domination of Putin’s statism, as a result, owner-managers began to reinterpret the problem of corporate governance and spontaneously accepted prominent foreign shareholders, though they were subject to supervision and constraint by the outside owners. These behaviors were caused more by political incentives of owner-managers than by economic interests, because the external owner would increase the costs of which the offensive state must pay in the instance of arbitrary threats to businesses. The existence of prominent external shareholders itself could protect the assets of oligarchs and legitimize their political statuses. In other words, changes in the interests and strategies of owner-managers who collided with the empowered state, which “attacked” and confiscated big private businesses through nationalizing them, consequently brought about changes in corporate governance toward the “Anglo-Saxon model.”

Keywords: Discursive Institutionalism, Statism, Nationalizing, Corporate Governance, “Anglo-Saxon Model,” Authoritarian Empowered State, Putin, Big Businesses, Owner-managers (Oligarchs), Multinational Investors

Introduction

This article aims to explain the dynamics of the “path-breaking” evolution that has taken place in the corporate governance of Russia’s big private businesses¹ since Vladimir Putin rose to power in 2000. This paper focuses on the unique political economic contexts rather than limiting its view to economic efficiency in order to examine how conversion of big businesses was brought about.

Since the mid-1990s when the shift in the political economic system was in full swing along with neoliberal reforms and privatization, big Russian businesses attracted attention. A research conducted in 2002 showed that eight oligarchs controlled 85 percent of the country’s top 64 businesses. According to Sakwa (2004: 190-191), the share of big businesses remained undiminished even during Putin’s term. Big businesses used to concentrate on speculative action of “virtual economy” to accumulate financial assets in the 1990s but switched their main business areas to “real economy” after 2000. In addition, amendments to the laws concerning corporate governance have been made in favor of the “Anglo-Saxon shareholder-oriented model” (Rodionov and Skaletsky, 2002; Porshakov, 2004; Roberts, 2004).

Big-scale product market regulations in Russia continue to be managed politically through patrimonial connections because the state is still the major coordinator of the national economy with extensive public ownership of assets. Nonetheless, since the later part of Putin’s first term, only large private businesses have shown a real shift toward the “Anglo-Saxon model” beyond the legal changes.² In fact, individual “majority shareholder-managers”

¹ In regard to Russian big businesses, researchers use a variety of terms, including “financial industrial groups,” “financial-industrial businesses,” “oligarchs,” and “big businesses.” See Johnson (1997), Hoffman (2003), Sakwa (2004), and Hanson and Teague (2005). This article chooses to use the term “big businesses.”

² While changes in corporate governance at the legal level started to progress at the end of the 1990s and the beginning of the first decade of the new millennium, actual changes at the firm level began around 2002-03. In other words, corporate governance of big private businesses had evolved toward the “Anglo-Saxon model” very slowly until 2002. According to UBS Warburg, however, indicators of “transparency” and “dilution protection” both rose by approximately 15% points by 2003, although the “asset integrity” category rose by only 8% points. Furthermore, according to S&P, 89% of the corporate information had already been made available through annual reports, websites and so on. Also, businesses started to open themselves to the public voluntarily, and since 2002, this trend has grown consistently. For more details, see Standard and Poor’s (2004). Since the introduction of “Sarbanes-Oxley Act” in 2002, even U.S. companies have not had an easy time making IPOs on the New York Stock Exchange (NYSE). Nevertheless, Vimpelcom, Rostelecom,

(owner-managers) have few incentives to make Initial Public Offering (IPO) or sell stakes to others or to voluntarily change corporate governance to the “Anglo-Saxon model” in countries like Russia where owner-managers are still thriving and the state-controlled range remains very wide. Rather, the corporate governance type in big businesses had been more closely related to the “German model” right after the post-Soviet reform. Then, what caused the “new phenomena,” a patterned conversion in the corporate governance of some big private businesses in Russia during this period?

In an ex-communist country, the institutional and ideational contexts such as property rights influenced by the relation between the state and businesses are quite different from those of countries in which market systems have gone through a long process of development (Stiglitz, 2002: 136-142). Under such conditions where a unique relationship exists between the state and businesses, certain political factors influenced the relations in line with the rise of Putin. The imbalance of power between the state and businesses increased substantially and the political economic contexts surrounding corporate governance also changed tremendously in Russia. Thus, when considering the evolution of corporate governance of Russia's big private businesses, it is necessary to take into consideration interactions between the relevant actors and each actor's specific goals and incentive mechanisms that are determined in accordance with the political economic contexts. Therefore, this article intends to look into the causes of the evolution of corporate governance based on the judgment that the trend of adopting the “Anglo-Saxon model” cannot be explained properly solely through the functionalist approach. Instead, this paper attempts to provide an alternative political analysis of the conversion of corporate governance by criticizing existing approaches that consider economic interests or efficiency and future profitability as the main independent variable.

Wimm-Bill-Dann and MTS, etc., have all been traded on the NYSE from before 2004 to the present. In addition, Lukoil, Sibneft and Norilsk Nickel among others had already been listed on the trustable London Stock Exchange (LSE). Since 2004, many firms including Sistema, etc., have also been permitted to penetrate the LSE (Heinrich, 2005; Belyankina, 2006: 2; Markus, 2008: 79-82). Furthermore, according to the recent annual financial reports of big Russian businesses in the main industrial sectors and their subsidiaries, at least the private leading firms of respective sectors have fulfilled the main requisites for advanced corporate governance since the middle of the first decade of the new millennium. As a typical case, Lukoil and TNK-BP have already drawn up a “consolidated financial statement” in the oil sector based on the U.S. GAAP in accordance with international accounting standards. The cases of Wimm-Bill-Dann in the agricultural and food sector, Vimpelcom in the telecommunication sector, and Norilsk Nickel in the metal sector are all alike. As for these, see Wimm-Bill-Dann (2003), Lukoil (2006: 70-75), TNK-BP Holdings (2006: 22-26), and Vimpelcom (2006: 26-34).

The following section examines and criticizes existing theoretical approaches that explain changes in corporate governance, provides an alternative theoretical view called discursive institutionalism, and elaborates on the main hypothesis of this article. The third section examines the political factors that brought about the metamorphosis of Russia's state during Putin's term of office. The fourth section analyzes how the evolution of corporate governance of big businesses came about, noting the political dynamics of the changed interactions in the reversed power relation between the metamorphosed state and private businesses. In conclusion, this article attempts to evaluate the actual characteristics of Russian capitalism during Putin's term, focusing on the state-business relationship. It also attempts to predict possible paths of future Russian capitalism in brief.

How to Explain Institutional Changes in Corporate Governance

Existing Theories and Limits

1) Agency Cost Theory

The agency cost theory explains the evolution of corporate governance to the "Anglo-Saxon model" from a functionalist perspective of emphasizing economic efficiency. According to the agency cost theory, shareholders watch the businesses they have shares in to prevent or remedy management failure and to ensure dividend payouts to shareholders, which emerged as a crucial issue in reducing "transaction costs" (Jensen, 1986; 1987). According to Jensen and Meckling (1976), even efficiency of resource allocation for a higher earnings rate could also be guaranteed by shareholder-oriented management.

The agency cost theory, however, regards shareholders as the sole rational actors in the process of change in corporate governance. It focuses only on the interaction between shareholders and professional management as the process of securing shareholders' economic interests and efficiency, hence failing to consider the dynamics between shareholders and other actors or the political economic contexts in which relevant actors are embedded. Thus, it has already been pointed out that even U.S. corporate governance, which has served as the ideal model of the agency cost theory, has actually developed through specific historical and political factors. Efficiency here could only be obtained through the exceptional path taken by America

(Whitely, 1996; Roe, 2000). The supposition of shareholders as the atomized main actors is also valid only in the historical conditions of the U.S. where minority shareholders were widely distributed. In other words, the economic environment in the U.S. gradually met the prerequisites for the “Anglo-Saxon model” as tension between professional managers and minority shareholders reached a climax in supervising management.

When it comes to agency cost theory, there is a clear limit in attempting to explain the evolution of big Russian businesses toward the “Anglo-Saxon model.” As the agency cost theory only focuses on mutual tension between shareholders and professional management, exogenously regarding the former as “principals” and the latter as “agencies,” there is fundamental difficulty in applying this theory to Russia because “majority shareholder-managers” had already risen while all minority shareholders, employees and labor unions went down with the privatization process and the financial crisis in Russia in the 1990s (Boycko, Shleifer, and Vishny, 1995: 79; Lazareva, Rachinsky, and Stepanov, 2007: 25).

2) Rent-Protection Theory

Under equal pressure on the demand for capital, owner-managers and professional managers are expected to show a difference in the way they depend on the capital market, wherein owner-managers will have lower preference towards outside shareholders. According to the rent-protection theory, when benefits of controlling private firms are greater to the initial owners, they attempt to maintain a lock on control (Bebchuk, 1999). Thus, if their voting block decreases or their status as controlling shareholders weakens, “majority shareholder-managers” would never sell their stakes which would subsequently lead to abandonment of the premium on their right of management. In addition, if existing owner-managers receive relatively large private benefits from dominating various subsidiaries via the majority shares in the parent holding, as it was in Russia, they have fewer incentives to adopt corporate governance which works in favor of other shareholders. The lock on control precisely corresponds to the owner-managers’ economic interests. Particularly, under the lucrative macro-environment of big businesses promoted by Boris Yeltsin’s regime, Russian owner-managers could enjoy their status of controlling shareholder even through the fragility of corporate governance in the 1990s (Ickes, Murrell, and Ryterman, 1997).

If so, why did “majority shareholder-managers” in Russia make an IPO, change corporate governance to the “Anglo-Saxon model” and even sell a

significant part of their dominant stakes to others since 2003-04? The changes in legislation or code of practice can be explained easily as being part of Putin's policies, while private owner-managers' voluntary disclosure is more difficult to understand. A desperate financial need might motivate owner-managers to raise funds by going IPO or by selling their stakes to prominent outsiders to establish an industrial alliance. In order for this to happen, owner-managers have to initiate the corporate governance reform. Although going IPO would contribute to bringing in more capital, existing controlling shareholders might lose much of their right of management.

Generally, this hypothesis cannot be persuasively applied to Russia's case because big Russian businesses that maintain sub-holdings in the natural resources sectors seem to have considerable "retained earnings" since 2000, to the extent that they do not cry out to increase their equity capital. Although big businesses have sold part of their shares to pay off their debt for a while, their status can be regained before long. In particular, sharp rise in oil prices have provided enough "cash" to them without inducing burdensome outside owners. Furthermore, according to Leff (1978) and Chandler (1982), big businesses are able to transfer some financial assets into capital for business acts like expanding into other business sectors, investing in foreign markets and taking over related subsidiaries by making full use of "internal capital markets" through financial subsidiaries such as "pocket banks." Russia's big businesses have been under these self-same conditions in the 2000s. For instance, as presented in Alfa Bank's annual report of 2003, TNK-BP expanded to Ukraine in 2003 and Alfa Telecom merged with Echo Telecom in 2004. These moves were made possible by "insider trading" of Alfa, the main "pocket bank" (Lee, 2007a: 144).

As for voluntary disclosure, another functionalist argument is based on future profitability. According to this argument, managers would not necessarily submit to pressures from minority shareholders by changing corporate governance. Since the 1990s, managers have often initiated transformation of corporate governance that would be profitable to all shareholders in order to raise productivity and bring about innovative technology under intensified competition in the global product market (Vitols, 2000: 6-7). This notion may be applied to explain several cases in Russia (i.e., the IT or telecommunications industry, etc.). Vimpelcom, for example, was the first firm in Russia to switch to the "Anglo-Saxon model" by entering the NYSE in 1995. It seems partly to have aimed at increasing equity capital, and subsequently making itself compete effectively in the global market. Hence, it is difficult to conclude that all big Russian businesses have

evolved toward the “Anglo-Saxon model” regardless of globalization. However, this changing trend in corporate governance among big private businesses, especially in the sectors of natural resources and energy that were not under the pressure of global competition, appeared infrequently until 2003-04. Therefore, this explanation does not properly capture the process of change in corporate governance of Russia, either.

Discursive Institutionalism and Political Hypothesis

This article introduces an alternative explanation of an approach based on discursive institutionalism. Existing approaches on historical institutionalism regard a specific type of corporate governance (economic institution), polity (political institution) and policy as the outcome of history at a specific time and emphasize the tendency of institutional continuation, notwithstanding changes in its environment. Hence, contingency is emphasized; furthermore, the concept of “path-dependency” such as “critical junctures” or “feedback effects” is also more accentuated than it is in rational choice institutionalism. Sole emphasis on “critical junctures” or “feedback effects” is not only overly deterministic, but also makes it difficult to explain the dynamics of institutional change (Thelen, 1999: 396). Rather, Orren and Skowronek (1994; 1996) understood that institutions reflect the construction of the heterogeneous factors, which consist of different processes and logics, respectively. Then, for polity or corporate governance to change, the most important aspect is how the relevant actors perceive future changes in their respective interests through the variations in the distribution of power among the groups involved in existing institutions (Streeck and Thelen, 2005).

The actor-centered institutionalism or discursive institutionalism focuses on the newly rising discourse or idea as an endogenous factor of change in each actor’s interest, the power relation among them and even the relevant institution itself, rather than existing new institutionalism (Blyth, 2002; Schmidt, 2009). Although this theoretical view also recognizes the influence of material institutions on the actors’ choice such as the views of other institutionalism, discursive institutionalism emphasizes the discursive or ideational contexts as well. As for this, Schmidt (2009) recommends bringing the state back into comparative analysis of political economy. He also stresses that politics where the involved actors would compete through ideational as well as material foundations decisively influences changes in policy and polity. Competing discourses related to obtaining power of the state would have impact even on changes in an economic institution. During

the changes in specific institutions, collision among actors or coalitions who have different ideational and material foundations is inevitable, and in the process, a new dominant discourse will often have the actors behave on bounded rationality and make an unpredictable “path-breaking” institutional change. So the outcome of evolution can vary regardless of when until the political factors surrounding the institutions reach equilibrium. Also, competition among discourses is likely to be more violent and frequent in new democracies, as can be seen in Russia, than in other Western democracies.

Therefore, this article pays attention to several political factors such as Putin’s state bureaucracy and tax reform, which framed the “consolidation of vertical power” as an institutional context. In addition, this paper focuses on economic recovery and newly rising coherent elite groups within the political economic contexts that constructed statism. Due to these factors, the Russian state could be empowered in both ideational and material dimensions, and the power relations between the state and businesses also transformed significantly. In particular, property rights became disadvantageous to private businesses (Barnes, 2003: 175). Thus, this article argues that the Russian political factors allowed the state to obtain supremacy over private businesses since 2000. Also, changes in the interests and strategies of owner-managers who collided with the empowered state, which “attacked” and confiscated big private businesses under reversed power relations, consequently brought about changes in corporate governance toward the “Anglo-Saxon model”

Accordingly, it can be hypothesized that owner-managers often reinterpret the problem of corporate governance and spontaneously accept prominent foreign shareholders, though they are subject to supervision and constraint by outside owners. Under the hegemonic domination of statism and consequent asymmetrical power relations, these behaviors are deduced more causally by political incentives of owner-managers (i.e., protecting their properties even partially from the state and legitimating the status of normal billionaires) than by economic interests, because the external owner would increase the costs of which the offensive state must pay in the instance of customary threats to big businesses. In any case, to sell stakes to prominent multinational partners, a requirement for advanced corporate governance would be that all shareholders profit. Once various shareholder groups attain ownership, the result is that these “dealing shares” will strengthen the internal mechanism to monitor management and accelerate the transformation to the “Anglo-Saxon model” once again.

Putin's Statism and Empowered State in Russia

Russian people have already been disappointed with the fragile democratic state, the quasi-neoliberal reform and the pro-West direction of Yeltsin's regime amid the financial crisis at the end of the 1990s. Neoliberalism as a transitional test turned out to be a failure while only some oligarchs became wealthy in the distorted reform. In fact, despite excessively enormous resources of the Russian presidency based on the 1993 constitution, Yeltsin could not afford to reform the state itself because of the tasks guided by IMF and the low approval ratings (Lee, 2009: 236-241).³ However, the economic crisis and the incompetence and corruptions of Yeltsin's regime made the actors, such as the people or electorates and particularly the elites, begin to feel the need to modify the neoliberal policy and reform the state. Thereafter, when the Chechen issue rose, Prime Minister Putin took the political chance to consolidate his image as a charismatic state rebuilder because he had the advantage of his incumbency over his competitor in the Communist Party of the Russian Federation (CPRF), Gennady Zyuganov. A multitude of citizens found the right man for leading the state reform (Colton and McFaul, 2003: 180-182). As a result, the well-fought election in 1999 of the Unity (23.79%) and of Putin (53.44%) in 2000 at last provided the opportunity for the new regime to have its own idea, statism.

State Bureaucracy and Tax Reform

Putin and his regime attempted to push through a comprehensive reform package named the "Gref Program" during the first term. Putin's policy line particularly paid attention to the state bureaucratic reform because the state itself was perceived as a major impediment to reform achievement, according to the "Gref Program" (Aslund, 2004: 402-406). As the resistance of the societal actors could not be stronger in Putin's term than Yeltsin's, the president could set a reformist direction. Compared to the transitional period

³ Moreover, Yeltsin did not exercise his vast institutional power because he could not take hold of the state bureaucracy, but rather, relied too much on *decretismo* and "family" as a political clan under the delegative presidentialism and clientele-oriented mechanism without democratic principles (see Breslauer, 1999). On the other hand, Putin rarely issued decrees but pushed on his policies by thoroughly controlling the bureaucracy. However, he was also never grounded on horizontal democratic procedures but on the superior executive procedures (Shevtsova, 2004).

of the 1990s, the reform evidently must have contributed to improving the efficiency of governance somewhat (Brym and Gimpelson, 2004). However, it is still difficult to say that the bureaucratic capacity was completely achieved in Russia. Corruption of political figures and lower bureaucrats still spread, and government restructuring continues to be distorted to the present (Gaman-Golutvina, 2008: 41).

Rather, the state bureaucracy reform influenced other aspects related to the metamorphosis of polity. Above all, it is notable that Putin sought to simplify state bureaucracy, while the agencies of the executive branch under the direct control of the presidency increased as part of the reform running parallel with the foundation of the 7 “federal districts.” Thus, much of the political decision-making processes were concentrated on a few ministries, posts and especially the Kremlin. The centralization not only eradicated the constitutional veto players, but also formulated the “consolidation of vertical power” of the state, which allowed the “core” power organs of the executive, particularly the security agencies, to ensure that directions from the top would be implemented and obeyed (Shevtsova, 2005: 233-234; Yakovlev, 2006: 1041-1048).⁴ It became difficult for the officers of other state institutions, including the regional governments, Duma and the judiciary branch, and even social organizations and the press to supervise the political “core.”⁵ Although a power struggle among the “core” or departmentalism might often come about, they could not help being subordinate to the Imperial President in the end. In short, the reform strengthened the autonomy and enforceability of the state bureaucracy which Putin controlled at the top, but it was neither able to rationalize individual bureaucrats nor set the “rule of law.”

Among Putin’s reforms during his first term, the tax reform deserves the greatest attention, because it simultaneously represented the direction toward

⁴ The effect could be maximized with the appointment of new elite groups into key posts in the power organs, e.g., Presidential Administration, Security Council, Procurator General’s Office, Ministry of Internal Affairs (MVD) and Federal Security Service (FSB) in the later part of Putin’s first term. Until then, “consolidation of vertical power” was a mere institutional frame and incomplete to work without a hitch because discursive statism could not yet dominate Russian politics. As for this, see the following parts of this section. As pointed out, even the presidency of the period also had quite strong institutional foundations, though Yeltsin’s leadership based solely on the “family” could not control the bureaucracy under the condition of divided government. For instance, the periodical conflicts between Yeltsin and Procurator Generals or Prime Minister Yevgeny Primakov in Yeltsin’s term are well-known.

⁵ In addition, the “core” maintained even the off-budget slash fund, respectively, according to Holmes (2006: 306).

a liberal market economy and empowered state. The tax system used to be recognized as one of the most important indicators of a capable state. In Russia, groups in the federal government that supported the market, some liberals, corporate collaborators in the Duma, and big businesses (especially those in the oil sector), all agreed on a tax reform blitz in 2001. The reform package significantly lowered the rates of both corporate tax (from 35% to 24%) and personal tax (introduced a 13% flat rate), simplified the code and eliminated many existing tax privileges.

In regards to the tax reform, a more important point is that Putin would have overcome the organizational constraints on the tax bureau to improve collection. The tax authority had already set a regular bargaining system to cope with tax arrears. The right to deal with state debts, which had been divided among four separate departments, became concentrated into a single department (*Rossiiskaya Gazeta*, November 5, 2001). In the reform process, moreover, Putin had the independent tax authority be subject to the Federal Tax Service (FTS) under the Ministry of Finance, reduced the number of federal agencies, and in particular, placed tax polices in the MVD for centralization (Easter, 2006; 40-44).

These attempts might suggest in part that the tax administration should be more thorough in collecting all kinds of tax. It cannot be denied that there was some advancement in the ability to collect tax revenues. Nonetheless, the revised tax collection system still focused on target-driven collection rather than general compliance of the imposed (Berenson, 2008: 146-147). Given that tax auditors could assign the target amount or adjust the amount of bill or arrears discretionally without being monitored, and tax police and even tax authority became more subordinate to the “core,” the President was given more opportunities to abuse the taxation system. In terms of the administrative aspect of institutional resource, therefore, tax reform also contributed more obviously toward establishing statism rather than improving the state capacity on the Weberian scale.

Economic Recovery

In Russia, despite the fact that balance of trade and federal government’s budget surplus continued from 1999-2000, almost all the main macroeconomic indicators began to turn for the better toward the end of Putin’s first term, i.e., both the percentage of GDP growth and “industrial production growth” exceeded 7% and “fixed capital investment growth” went above 10% for the first time in 2003. Also, “the growth rate of export”

indicated a 25% rise and “current account” was in excess of \$60 billion. As a result, “foreign currency reserves” jumped above \$120 billion in 2004 (World Bank, 2004; 2006). Furthermore, state-controlled energy firms added “oil money” to the national finance.

The rapid economic recovery not only strengthened Russian state in the side of material capacities but also brought in the more important political advantages. Above all things, economic recovery could most directly bring about a rise in public support for Putin (Way, 2005: 258-259). Needless to say, the main factor of an economic recovery was the drastic rise in the price of natural resources. The world oil price had risen to around \$100 a barrel as compared to \$10 per barrel at its lowest in 1998. Natural gas and metal prices also rose as much as that of oil. Due to such an unpredicted turn of fortuitous events during Putin’s term, the majority of the people thought that their new regime was performing very well regardless of the actual success or failure in its reform, including the state bureaucracy and tax reforms. This led them to uphold Putin’s policy passionately at the end of his first term and the beginning of the second, though they had to give up a part of their democratic rights (Hiro, 2007).

Putin did not need to become a populist who wastes “cash” because of his high popularity. Unlike the state of the Yeltsin period, consequently, Putin’s state had no incentives to provide special rents to the oligarchs. The regime had no more need for dealing with the fiscal deficit in the short-run at the expense of unfair sale of valuable state assets or long and short-term state treasury bonds (GKO) to big private businesses at a discounted price, because it did not have to be attached to the balance of the national finances.⁶ In fact, Held’s so-called “strategies of displacement” (1987: 240-241) which satisfies the groups that can effectively request and mobilize the opposition against the state at huge costs to the majority of the people had been taken for immediate “cash” by the Yeltsin regime. However, Putin’s state already had ample income, and further, the regime could even secure the corrupt but abundant political funds from the monopolistic state-controlled businesses, e.g., Gazprom (Weinthal and Jones Luong, 2006: 237).

Favorable economic conditions enhanced Putin’s popularity and led to subsequent victories in the parliamentary election in 2003 and the presidential election in 2004. Therefore, Putin’s regime did not have to degenerate into a disabled populist regime which gives direct grants and

⁶ See Lee (2009) for causality among cozy dealings between the regime and big businesses, Yeltsin’s clientele-oriented populism and the chronic deficit of national finance.

subsidies to the populace. The regime could now reinforce the direction of statism, unlike its predecessor. On the other hand, the oligarchs were gradually losing resources to sustain their political status. After all, the factor of economic recovery contributed to legitimating statism along the fiscal health, thus allowing Putin's regime to achieve overwhelming superiority over private businesses.

Newly Rising Elite Groups

The landslide victory of the ruling party, United Russia, acquiring an absolute majority (300 out of 447) in 2003 and the same of Putin (71.31%) in 2004, maintaining overwhelming support for Putin's regime and unparalleled economic recovery all together gave the reelected president larger space to pursue his own line.⁷ Moreover, as Putin distanced himself from Yeltsin's "family" and brought in new elites to head the posts of the political "core" of the bureaucratic authoritarian polity at the time,⁸ the regime could complete "consolidation of vertical power" beyond the level of institutional configuration by adopting and promulgating the statist ideology of new elite groups.

Among the new elite groups, the "siloviki" and the "technocrats" in particular, the former group originated from the military and security offices of the Soviet era, i.e., the KGB, army, prosecution, police and so on, who seem to have significantly influenced the construction of the statist idea of Putin's regime. Clearly anti-West, the "siloviki" had criticized Yeltsin's socioeconomic and diplomatic lines. They asserted that the state not only intervene in the market for national interests, but also attempt to regain the position of a great power in international politics by, for instance, utilizing abundant natural resources as diplomatic leverage.⁹ At last, by a salient ideologue of the regime, Surkov (2009), the ideas were conceptualized toward the "Sovereign Democracy" and even validated as the unique Russian way of democracy. Then the "siloviki" attempted to inspire the entire society with

⁷ Of course, it was guessed there were widespread illegal interventions of the regime in the elections (Fish, 2005).

⁸ According to Way (2005), one of the most remarkable distinctions between the two presidents was that Yeltsin could not maintain solid elite organizations except for the fragmentary nepotistic clans while Putin was able to do so.

⁹ But, of course, all of the Putin regime's policy could not be said to be only made and enforced by the statist idea. Rather, discursive statism would work more as part of an ideational resource for the elite groups than as a macro-cultural determinant of overall policy outcome.

sovereignty, patriotism, nationalism and statism, and because of these tactics, the group was suspected by the West of pursuing authoritarianism (Kryshtanovskaya and White, 2003; Baev, 2004; Shevtsova, 2004; Bremmer and Charap, 2007-08).

The idea for such a policy was also represented in Putin's thesis, which is understood by Olcott (2004: 3) as follows: "whereas Putin recognizes the importance of market forces and the need to protect private property, but he believes that both must be managed to insure that neither takes precedence over the interests of state, which exercises its control in the name of Russian people." The statist idea proposed by Putin and the hegemonic elite group were being supported more and more by the Russian people, and some state-controlled media have diffused the discursive agenda as well. Even a few major oppositions, e.g., CPRF and Liberal Democratic Party of Russia (LDPR), followed his statism.

Another elite group from St. Petersburg, the "technocrats," also seemed to support the role of the state in leading the nation's economic development, but have relatively less faith in patriotism or nationalism compared to the "siloviki."¹⁰ At the same time, this group was distinguished from the more traditional "liberals," i.e., German Gref and Alexei Kudrin. However, according to Shevtsova (2005: 235), even the difference between the "siloviki" and the "liberals" would not amount much in their focus on the state's role beyond the neoliberal regulatory state, though other elite groups have supported a more liberal market than the "siloviki." Hence, the "technocrats" also seem to have a similar statist idea regarding the role of the state, which should intervene in the economy at least partially (Balzer, 2005; Bremmer and Charap, 2007-08).

¹⁰ But it is hard to say that the role of Russia's state constitutes the developmental state in which a relatively authoritarian regime should intervene in economic matters, even going so far as distorting the signal of market prices for late industrialization. According to Johnson (1982), Amsden (1989), Wade (1990) and Evans (1995) et al., the developmental state has various strategic institutions or "embedded autonomy" to connect itself with businesses and to resolve problems with collective action, including capable bureaucracy, administrative guidance, political finance and subsidy and so on. In addition, Russian capitalism also lacked the specific coordination mechanisms of the coordinated market economies (CMEs) which have been conceptualized by Hall and Soskice (2001) et al. The author has already discussed this issue in another paper in which it is stated that the state-business relation during Putin's term was merely an unstable coexistence of political authoritarianism and economic capitalism without any institutional complementarity for economic development, and Putin's state was still closer to a pro-capital state such as a developmental rather than a pro-labor state (Lee, 2007b: 381-383). Indeed, the relation is still different from that of the proactive developmental state or other CMEs. Although Russia's state may evolve into a developmental state, such a possibility seems to be very low at the moment.

In sum, the rising of new elite groups led to establishing the policy idea of Putin's regime beyond the change in polity. Namely, the state completed the substantial functioning of "consolidation of vertical power" by spreading the dominant discourse on statism in the aspects of the ideational foundation along with economic recovery.

Political Dynamics of the Evolution of Private Corporate Governance

State's "Attack": Reversed Power Relation between the State and Big Businesses

The failure of Yeltsin's regime produced a new idea for the revival of the state to prevail in Russia as a social reaction. Hence, Putin's new regime shaped the "consolidation of vertical power" as an institutional frame for statism through a series of state reforms. In the political economic context, moreover, sharp economic recovery and Putin's popularity laid down the cornerstone for constructing the statist discourse and the rise of new elite groups, which decisively led to the domination of statism at the beginning of Putin's second term.

"Consolidation of vertical power" had the consequence of concentrating almost all essential power on the "core" of the state, e.g., the Kremlin, a few powerful bureaucratic organs of the federal executive branch and new elite groups under the immediate control of the Russian president. In line with the rise of statism, furthermore, the tripartite system for the separation of power was restricted as even the Constitutional Court of the Russian Federation became more subordinate to the "core" and the President. After all, Russia's state closed the transitional defects both materially and ideationally, and this political condition helped to delegate vast power to Putin. In contrast, big businesses were deprived of their resources and discourses in justifying their overstated status, due to their notorious illegal dealings in the 1990s. The failure of the transitional period was mostly blamed on them. Although some entrepreneurs competitively entered into the legislative branch to obtain political influence, the new political "core" was already overwhelming the Duma. As a result, property rights of private businesses were weakened tremendously.

It is worth mentioning that the current political economic context is still strongly influenced by the unique historical legacies related to property rights

from the Czarist and Soviet era to the Yeltsin era.¹¹ In Russia, property rights have not developed as they have in the West, where the bourgeois culture and various institutions of market capitalism have formed historically over many centuries (Cohen, 2000: 48; Pipes, 2005: 1-26). Russia had been under Communist rule for 70 years, and hence, was unable to build trustable social organizations. Moreover, given the judiciary's inability to constrain the various state agents including federal and regional governments, property rights have been threatened by state factors as well as societal factors (Huskey, 1992: 224-231; Frye, 2004: 454-458).

Under the hegemonic presence of statism, the contextual tendency related to property rights became stronger but more favorable to the state as the concept of property rights was re-perceived by the actors involved during Putin's term. The "core" of the state could interfere with businesses arbitrarily through the support of the judiciary. Even the courts would give preferential treatment to the state in conflicts between the state and businesses, and tax bureaucracy could also be used by the "core" as a tool. The only concern of big businesses was to cut down the tax rate, but they might not have predicted the other effects of the tax authority which was no longer independent. After the middle of the first term, if the tax bureaucrats were pressured strongly by a specific elite group, they would apply tax arrears to big private businesses that are in profitable industries or are useful for various political goals as a mean of coercing them to nationalize or become state-controlled firms (Kryshtanovskaya, 2002). As the need to sell public enterprises to private capital at very low prices decreased because of the consistent balance of national finance, the state could metamorphose from a captured seller into a greedy M&A raider. The ministries and businesses who had failed in asset competitions in the 1990s, particularly those firms directly controlled by the Kremlin such as Gazprom, siloviki-controlled ministries such as FSB, and firms supported by an influential elite faction such as Rosneft, gained new opportunities in the reversed power relation between the state and private businesses (Tompson, 2005: 191). As a result, the newly rising "core" elites strengthened the loyalty to the regime, responding not only to ideational incentives but also to the selective economic rents as

¹¹ There have been two dominant arguments concerning which factors serve to promote securing property rights. One emphasizes the importance of societal factors such as civic participation or social capital. For more detailed explanation of "social capital," see Putnam (1993). The other focuses on various characteristics of the state such as whether it is conceivable that the arbitrary use of power by the bureaucrats or elected officials on behalf of the dominant group can attenuate property rights. See North (1981) and Frye and Shleifer (1997).

material compensations.

Russian Union of Industrialists and Entrepreneurs (RUIE) was, in fact, organized to reflect the aggregated interests of businesses on a strategy of corporatism, and oligarchs also began participating in it in 2000 (Hanson and Teague, 2005: 661). However, even though the members of this business leaders' group requested that the state impose some restraints on the zeal of the tax offices and so forth in 2005, Putin ignored such requests. It was said that RUIE had been controlled by the Kremlin and that Putin recently became averse to the organization as a new fort of corrupt owner-managers (Markus, 2007: 289). If even RUIE was not permitted to provide its opinion to the regime, the life and death of businesses would have to be dependent upon the discretionary power of the state backed by statism. Particularly, the energy sectors, which is useful for both domestic politics and diplomatic leverage, cannot help being vulnerable to the appetite of the state. As the state obtained the power to take over any assets, even businesses with solid ties to the regime might be "attacked" at any time.

The new political dynamics reflected by the rise of statism has already appeared at the beginning of the regime in the cases of Boris Berezovsky's ORT and Vladimir Gusinsky's NTV. At the end of the first term, however, the Yukos affair rather explicitly revealed the extremely reversed state-big business relationship where Putin and the Kremlin were more directly involved. This affair demonstrated certain changes in the interactions among the involved actors in all aspects including the causes, processes, results, and so on.¹² Owner-manager Mikhail Khodorkovsky, who was distinctively hostile to Putin and his policies and gave hints of his naked desire to seize political power, was finally arrested and his oil group dismembered.

The prosecution, tax administration and the judiciary that became more subordinate to the Kremlin played an important role in the process of this affair (Easter, 2006: 46; Fortescue, 2006: 157-168). In the first place, the prosecutor's office had not only scrupulously investigated Khodorkovsky and Platon Lebedev's illegal acquisition of shares beforehand, it also instructed the tax authority to enforce the law concerning Yukos. Although the tax bureaucracy could not have reviewed a signed-off audit which had been intended to give businesses some sense of security beforehand, the authority purposely questioned the work of the lower offices and totally denied the

¹² For more detailed facts about the dismantling of Yukos, see Hanson and Teague (2005: 677-680), Tompson (2005: 192-194), Weinthal and Jones Luong (2006: 244-246), and Fortescue (2006: 121-148).

legality of original tax to Yukos. This reopening clearly seemed to disrupt Putin's principle "rule of law" but also brought about the new "rule by law," as Remington (2004: 228) describes. Even the Constitutional Court rendered judgment in absolute favor of the state in regard to the issue, which had a big impact on businesses (*Vedomosti*, February 27, 2004). This meant that if the Kremlin intends it, the state would always be able to hassle businesses *de facto* more lawfully than ever before.

Above all, Putin's will could be planned and even be implemented because not only did the majority of the Russians support the attitude of the regime, they were also sure of Khodorkovsky's guilt. A popular opinion in Russia was also that the privatization of the 1990s had been not fair at all and the criminal oligarchs should be punished even in the 2000s (*Ria Novosti*, June 1, 2005; Markus, 2007: 303). Then, the main axis of social cleavages in Russian politics transferred from whether Soviet or not to whether state or capitalists. In addition, as explained, Russian people already came to prefer the intervention of the state to resolve economic problems after 2000 (Whitefield, 2005: 144). The "consolidation of vertical power" could actually function to serve Putin's will, and even the state's "attack" could be politically justified because the statist discourse, the presence of leading elite groups and people's consistent support were firmly based as the ideational resources for the regime.

The Kremlin itself had to make the final decision in dismantling Yukos. Interestingly, after its dismantlement, Gazprom led by the "technocrats" (Aleksei Miller and Dmitry Medvedev) and Rosneft led by the "siloviki" (Igor Sechin) competed vigorously to merge its main production company, Yuganskneftegaz. This conflict disclosed some differences in the ideological, political and economic interests of each elite group under the same regime (Lee, 2007b: 374-378). Nonetheless, no matter who took over the assets, it would inevitably be absorbed into the state-controlled firm under the mediation of Putin at the top. In short, the influential political "core" backed up by the various state agencies as well as the new dominant discourse on statism created a severely threatening environment to the security of the owner-managers' assets and survival.

Owner-Manager's Choice to "Exit"¹³: The "Anglo-Saxon Model"

Under the disappearance of the macroeconomic conditions suitable for financial speculation and the corrupt rents given during Yeltsin's term, it became more difficult for the owner-managers to increase assets because of the political risks incurred by the state.¹⁴ In addition, the oligarchs could not defend their legitimacy and overcome the "attack" of the empowered state despite their desperate declaration that the substantially weakened discourse on liberal market economy or democracy of the 1990s should run counter to statism (Kagarlitsky, 2004). As described, prominent private media groups, which would have supported big private businesses, had already been absorbed into the state at the beginning of the regime. Thus, the incentive and strategy mechanisms of the "majority shareholder-managers" were revised completely from speculative and corrupt accumulation of wealth into protection of their properties and political survival, but there seemed to remain few exceptions where private owner-managers could defend themselves against pressure from the state.

However, some cases proved that inducing external shareholders into ownership as an "exit" strategy through the strategic sale of stakes or listing of substantial shares could effectively guarantee the security of big businesses. To sell stakes to potential investors, of course, the requirement for the "Anglo-Saxon model," which would be profitable to all the shareholders, should be met. Fortunately, the rise of natural resources and economic growth throughout the world, and even the stable foreign exchange rate, gave additional incentives to foreign capital to invest in Russia. The dispersed owners — foreign external shareholders or minority shareholders — and among them, the prominent multinational investors directly backed by their home governments seemed to be most effective, even though the Russian entrepreneurs had a loathing for foreign capital since privatization. Foreign governments were able to get Russia's courts and the state itself to pay the sharply rising costs for interfering with private businesses through a lawsuit or through raising diplomatic issues against Russia (Markus, 2008: 86-93).

¹³ The "exit" would mean one of the strategies of the capital side for governing their properties, a concept used by Hirschman for the first time. See Hirschman (1978).

¹⁴ According to Han (2004), the increasing asset specificity of big businesses from financial to industrial capital after the 1998 crisis mainly contributed to strengthening the state capacity. This analysis also seems to be partly meaningful. However, as explained, state capacity rarely improved, and even the state power against society could more decisively be fortified due to Putin's statism.

For example, although Vimpelcom was already listed on the NYSE in 1995, this attempt to go IPO had an unpredicted political effect in 2003-04. In August 2003, Alfa Group bought a blocking stake in Megafon, which had been affiliated with a company named Telecominvest until then. Telecominvest had been supported by the regime and a political clan from St. Petersburg. When the FTS finally presented Vimpelcom with a bill for \$157 million in back taxes, the parent holding, Alfa Group, resisted Leonid Reiman who was then the minister of communications and had power behind Telecominvest. Interestingly, this fight proceeded very differently from other clashes between the state and big businesses. Telenor, a Norwegian phone company whose share of 54% was owned by the Norwegian government, had maintained 30% of the shares in Vimpelcom, Telenor's interests were directly connected to the future of Vimpelcom. Unlike other conflicts, Vimpelcom could shake off the state's grip with the direct help of Norway's Prime Minister Jens Stoltenberg instead of Alfa, and ultimately, this multinational investor finally made the Kremlin give up threatening Vimpelcom altogether (Arvedlund, 2005). However, Telenor worked furiously against Vimpelcom's expansion into the Ukraine in 2005 because of the uncertainty of obtaining future profits. This demonstrated that substantial risks may follow when the "majority shareholder-manager" gives up the right of management. Thus, it proved that an owner-manager would not necessarily dispose of a substantial stake for economic interests only, but rather, often do that in order to protect their assets and to survive.

Whereas Vimpelcom fought a feud with just one faction of the state, more serious tension between the Kremlin and big businesses in the energy sector was disclosed in the case of TNK-BP in 2005. In 1999, prior to this occurrence, TNK had attempted to usurp the control over a subsidiary of Sidanko, but British Petroleum (BP), which owned 10% of the shares in Sidanko and occupied almost all the seats of its "board of directors" at the time, defeated the hostile M&A tryout with the help of the U.S. government and defended its interests from TNK (Goldman, 2003: 145-146). Ironically, in 2003, Alfa and its partner, Renova, sold one-half of their stakes in TNK to BP, resulting in a new international oil giant, TNK-BP. According to the annual reports issued after the merger, the corporate governance of the firm clearly moved toward the "Anglo-Saxon model." Also, BP-appointed directors occupied more than half of the seats on the board, and it is inferred that the owner-manager of TNK, Mikhail Fridman, had realized the political effects of a prominent external shareholder entering into the owner group from the Sidanko incident. This choice made by Alfa differentiated itself decisively

from that of Yukos. As it had been with Yukos, a back-tax claim of \$1 billion was levied on TNK-BP by the tax administration in 2005. BP's CEO John Brown, however, met Putin and other top politicians, and as a result of these visits, BP was able to reduce the bill to about one-quarter of the originally imposed amount. BP then had to appease the Kremlin by bringing up the subject of potential investments in Russia (*Russia Journal*, September 5, 2005).

It is reasonable to question why Yukos was unable to overcome an "attack" from the state despite switching its corporate governance toward the "Anglo-Saxon model." The case of Yukos can be distinguished from that of TNK on two points. Firstly, Yukos had protected the interests of its minority shareholders but had not been able to ally itself with its prominent external shareholders such as BP, i.e., dispersed ownership might not have been sufficient to guarantee property rights. Just before it was dissolved, Yukos attempted to attract strategic investments from either Exxon-Mobile or ChevronTexaco. It is surmised that Putin and the "siloviki" would desperately resist that move. After all, Yukos was dissolved because it had attempted to draw foreign capital, and at the same time, it failed to do so. Secondly, the political behavior of Khodorkovsky, owner-manager of Yukos, had angered Putin and his elite groups by overtly giving donations to a number of non-government parties, some individual deputies in the Duma and, even more, to social organizations (Jack, 2004: 211).

On the other hand, another "exit" strategy of Roman Abramovich went beyond the issue of just changing corporate governance when he had been the "majority shareholder-manager" of Sibneft, which had already published figures calculated in accordance with the U.S. GAAP even before the 1998 financial crisis. It also became the first energy firm to appoint independent directors. In addition, it boosted dividend payments to three-quarters of its net profit in 2001 (Heinrich, 2005: 5). Yet Abramovich suddenly decided to sell this valuable asset to Gazprom in 2005. The undervalued price of the right of management roused many questions as to whether the oligarch might have been forced to give up Sibneft. However, Christopher Weafer at Alfa Bank said, "It's difficult to say now that he had a gun to his head." In fact, Abramovich had already given up his other Russian assets step by step, i.e., Russian Aluminum and Aeroflot, as well (Kramer, 2005).

Abramovich's choice evidently collided head on with the rent-protection theory. In particular, an owner-manager abandoning the oil major when oil prices were still rising sharply cannot easily be understood. In addition, whereas market capitalization of Sibneft was approximately \$14 billion, the

net income of this company reached as much as \$6 billion in 2004 (Sibneft, 2004: 9-10). Thus, it is still difficult to explain the initial owner's decision to sell all his shares in the firm which had infinite potential to grow based on the approach of economic interests. Even if Abramovich was satisfied with being just one of the world's billionaires who desires only a luxurious life and to belong to the prestigious English soccer club Chelsea in which many superstar play, there still remain doubts about his sale of Sibneft. There is a great possibility that he decided to protect his property at least partially, before he lost all of it. Maybe Abramovich decided that the private business side could never reverse the power relation again, and in that case, he might align himself with the hegemonic statist discourse despite the fact that quite a few owner-managers still seem to resist the state by reforming their corporate governance system.

Unlike the U.S., minority shareholders did not initiate the reform of corporate governance in Russia. Rather, owners who had more than a blocking stake voluntarily attempted to switch to the "Anglo-Saxon model" to "exit" from the greedy state, which is contrary to various economic theories. To achieve their goals, the "oligarchs" actually had to pay more attention to the voice of external shareholders, increase the number of independent directors and improve the transparency of financial management. These changes were neither functionalistic nor "path-dependent." In other words, Putin's regime had all the power through institutional "consolidation of vertical power" and ideational statism, and consequently, the empowered state motivated "majority shareholder-managers" to "exit" from the range of the state's influence. Notwithstanding that these owner-managers would lose part of their rights of management or even run counter to their calculated short-term economic interests, they reinterpreted the problem of corporate governance and opted for the influential external shareholders to increase the cost that the state had to pay for intervening arbitrarily in businesses. The existence of prominent external shareholders itself could protect the assets of big private businesses and partially legitimize their political statuses. This political dynamic might cause a "path-breaking" evolution, termed discursive institutionalism, of private corporate governance in Russia, at least in the oil and gas sectors the state prefers to take over. Corporate governance in other sectors also seems to have accepted institutional isomorphism. Paradoxically, the "Anglo-Saxon model" of some big businesses emerged in Russia where neoliberalism failed but statism rose anew.

By 2006, however, the state had already controlled approximately 30% of the oil sector and sustained a monopoly over almost all of the gas through

Gazprom (Orttung, 2006: 2). In addition, the state had leverage over big private businesses in the oil and gas sectors through Transneft which controls the pipeline monopoly has prevented big private businesses from resolving collective action dilemma (Gorst, 2004). In short, it can be said that the large state-controlled business spheres, particularly concentrated in the energy sector, and big private businesses, which have managed to evolve toward the “Anglo-Saxon model,” coexist unstably in Russian capitalism today.

Conclusion

State-controlled businesses and big private businesses are competing against each other in Russian capitalism today. It is difficult to predict how the characteristics of Russian capitalism will change during Medvedev’s term in office, but this turbulence still continues to date. For example, government environmental inspector Oleg Mitvol said, “violations, whether they are committed by foreign or Russian companies, should be punished in the same way under the laws of the Russian Federation.” Hence an issue was raised out of TNK-BP’s violation of environmental regulations in Sakhalin in November 2006 (Elder, 2006). Although Mitvol denied any other political intentions, the state seems to clarify the state’s intention to not tolerate any businesses that go against the state.

If the characteristics of Russia’s state in Medvedev’s term are similar to those of Putin’s, a predicting that Russian capitalism will follow one of two paths is possible. The first is that the state itself will have both capability and autonomy over businesses, while its discretionary power is checked partly by democratic principles. Thus, in this model, the state would guide the businesses into making economic development by its selective industrial policy, guidelines in R&D, etc. in the case of the East Asian developmental states (Evans, 1995). In addition, the weakened labor force might regain some influence, which would result in the state contributing to long-term economic growth under political stability. However, there is little possibility of realizing this scenario due to the fragility of democracy in Russia and the lack of bureaucratic capacity.

There is another possibility — the authoritarian regime may increase the scale of state-controlled sectors and suppress private businesses more and more (Holmes, 2006). As Abramovich’s strategic choice implies, Russian capitalism can evolve toward patrimonial state capitalism that is operated inefficiently, if the state-controlled sectors expand through “attack,” for the

time being without developing coordination mechanisms. In this case, each political “core” of the state might pursue its own interests and rent-seeking in the natural resource sectors. Furthermore, the state could use them as a tool to take a new position in the global stage. The larger the state-controlled business is, the greater the possibility to distort the market coordination. Although public enterprises must not be assessed just from the viewpoint of economic efficiency, excessive scale of them would obstruct market forces on long-term economic growth. Also, such a tendency may run parallel to deepening authoritarianism.

On the other hand, the state would not be able to bear the increasing cost of getting involved in big businesses if the latter attempt to “exit” consistently through conversion to the “Anglo-Saxon model.” Although the requisites for Anglo-Saxon capitalism, i.e., the infrastructures for flexible capital and labor market, consolidation of property rights, re-regulation and so on, are still insufficient, prominent and influential foreign shareholders who have been welcomed as reliable allies would force the oligarchs to reform their corporate governance and, by extension, lead to changes in the model of Russian capitalism to be in line with the era of globalization. Even changing to this model, however, does not necessarily mean that Russian capitalism will match political and economic democracy. Although many businesses that meet the requisites for the “Anglo-Saxon model” may participate in the Russian market, the issue of inequality will still remain due to the fundamental limits of the Anglo-Saxon market capitalism (*The Economist*, June 17, 2006). In any case, the state-controlled areas are not yet small, and the discourse on statism is still dominant in Russia.

The state and big businesses in Russia fight vigorously against each other to build the path of Russian capitalism and to obtain each of their own political and economic interests. The state still seemed to be stronger than big businesses until recently, but the latter’s resistance against the former through the latter’s “exit” strategy cannot be ignored. More attention must be given to whether the unstable coexistence between the state and big private businesses under Putin’s regime will continue or not during the term of office of Medvedev, who has a rather more liberal mind than Putin.

References

- Amsden, A. H. 1989. *Asia’s Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press.

- Aslund, A. 2004. "Russia's Economic Transformation under Putin." *Eurasian Geography and Economics* 45(1): pp. 397-420.
- Arvedlund, E. E. 2005. "Putin Capitalism: A Threat to Russia's Future?" *International Herald Tribune*, March 3.
- Baev, P. K. 2004. "The Silence of the Siloviki: Have They Lost Putin's Trust?" *Eurasia Daily Monitor*, July 18.
- Balzer, H. 2005. "The Putin Thesis and Russian Energy Policy." *Post-Soviet Affairs* 21(3): pp. 210-225.
- Barnes, A. 2003. "Russia's New Business Group and State Power." *Post-Soviet Affairs* 19(2): pp. 154-186.
- Bebchuk, L. A. 1999. "A Rent-Protection Theory of Corporate Ownership and Control." NBER Working Paper no. W7203.
- Belyankina, T. 2006. "Corporate Governance in Russia." Seminar paper, Humboldt-Universität zu Berlin.
- Berenson, M. P. 2008. "Rationalizing or Empowering Bureaucrats? Tax Administration Reform in Poland and Russia." *The Journal of Communist Studies and Transition Politics* 24(1): pp. 136-155.
- Blyth, M. 2002. *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*. Cambridge: Cambridge University Press.
- Boycko, M., Andrei S., and Robert V. 1995. *Privatizing Russia*. Cambridge: The MIT Press.
- Bremmer, I. and Samuel C. 2007-08. "The Siloviki in Putin's Russia: Who They Are and What They Want." *The Washington Quarterly* 30(1): pp. 83-92.
- Breslauer, G. W. 1999. "Boris Yeltsin as Patriarch." *Post-Soviet Affairs* 15(2): pp. 186-200.
- Brym, R. J. and Vladimir G. 2004. "The Size, Composition and Dynamics of the Russian Bureaucracy in the 1990s." *Slavic Review* 63(1): pp. 90-112.
- Chandler, A. D. 1982. "The M-Form: Industrial Groups, American Style." *European Economic Review* 19(1): pp. 3-23.
- Cohen, S. 2000. *Failed Crusade: America and the Tragedy of Post-Communist Russia*. New York: W. W. Norton & Co.
- Colton, T. J. and Michael M. 2003. *Popular Choice and Managed Democracy*. Washington D.C.: Brookings Institution Press.
- Easter, G. 2006. "Building Fiscal Capacity." In T. J. Colton and S. Holmes, eds., *The State after Communism*. Oxford: Rowan & Littlefield Publishers, Inc. pp. 21-52.
- Elder, M. 2006. "Mitvol Tries to Allay Investor's Fears." *The Moscow Times*, November 15.
- Evans, P. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton and New Jersey: Princeton University Press.
- Fish, M. S. 2005. *Democracy Derailed in Russia: The Failure of Open Politics*. New York: Cambridge University Press.
- Fortescue, S. 2006. *Russia's Oil Barons and Metal Magnates: Oligarchs and the State in*

Transition. New York: Crown.

- Frye, T. 2004. "Credible Commitment and Property Rights: Evidence from Russia." *American Political Science Review* 98(3): pp. 453-466.
- Frye, T. and Andrei S. 1997. "The Invisible Hand and the Grabbing Hand." *The American Economic Review* 87(2): pp. 354-358.
- Gaman-Golutvina, O. 2008. "The Changing Role of the State and State Bureaucracy in the Context of Public Administration Reform: Russian and Foreign Experience." *The Journal of Communist Studies and Transition Politics* 24(1): pp. 37-53.
- Goldman, M. I. 2003. *The Privatization of Russia*. London and New York: Routledge.
- Gorst, I. 2004. "Russian Pipeline Strategies: Business versus Politics." Prepared in Conjunction with an Energy Study Sponsored by the Petroleum Energy Center of Japan and the James A. Baker III Institute for Public Policy of Rice University.
- Hall, P. and David S., eds. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.
- Han, B. 2004. "The Politics of Reform in a Privatized State: The Case of Russia." Ph.D. Dissertation of the State University of New York, Buffalo.
- Hanson, P. and Elizabeth T. 2005. "Big Business and the State in Russia." *Europe-Asia Studies* 57(2): pp. 657-680.
- Heinrich, A. 2005. "Why Corporate Governance in the Russian Oil and Gas Industry is Improving." *Corporate Governance* 5(4): pp. 3-9.
- Held, D. 1987. *Models of Democracy*. Stanford: Stanford University Press.
- Hiro, D. 2007. "Putin's Popularity: Russian Voters Crave Stability and Security, Which is Why Vladimir Putin's Quasi-Authoritarian System Continues to Score an Envious Approval Rating." *The Guardian*, June 7.
- Hirschman, A. O. 1978. "Exit, Voice and State." *World Politics* 31(1): pp. 90-107.
- Hoffman, D. 2003. *The Oligarchs: Wealth and Power in New Russia*. New York: Public Affair.
- Holmes, S. 2006. "The State of the State in Putin's Russia." In T. J. Colton and S. Holmes, eds., *The State after Communism*. Oxford: Rowan & Littlefield Publishers, Inc. pp. 299-310.
- Huskey, E. 1992. "The Administration of Justice: Courts, Procuracy and Ministry of Justice." In E. Huskey, ed., *Executive Power and Soviet Politics: The Rise and Decline of the Soviet State*. Armonk and New York: M.E. Sharpe. pp. 221-248.
- Ickes, B. W., Peter M., and Randi R. 1997. "End of the Tunnel? The Effects of Financial Stabilization in Russia." *Post-Soviet Affairs* 13(2): pp. 105-133.
- Jack, A. 2004. *Inside Putin's Russia: Can There Be Reform without Democracy?* Oxford: Oxford University Press.
- Jensen, M. C. 1986. "Agency Costs of Free Cash Flow, Corporate Governance and Takeovers." *American Economic Review* 76(2): pp. 323-329.
- _____. 1987. "The Takeover Controversy: Analysis and Evidence." In J. Coffe, L. Lowenstein, and S. Rosa-Ackerman, eds., *Knight, Raiders and Targets: The*

- Impact of Hostile Takeover*. Oxford: Oxford University Press.
- Jensen, M. C. and William H. M. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economy* 3(4): pp. 305-360.
- Johnson, C. 1982. *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford: Stanford University Press.
- Johnson, J. 1997. "Russia's Emerging Financial Industrial Group." *Post-Soviet Affairs* 13(4): pp. 333-365.
- Jones L., Pauline W., and Erika W.. 2004. "Contra-Coersion: Russian Tax Reform, Exogenous Shocks and Negotiated Institutional Change." *American Political Science Review* 98(1): pp. 139-152.
- Kagalitsky, B. 2004. "Crisis of Khodorkovskiyism." *The Moscow Times*, April 15.
- Kramer, A. 2005. "Russian Gas Giant to Buy Nation's No. 5 Oil Producer." *The New York Times*, September 29.
- Kryshtanovskaya, O. 2002. "Business Elites and Oligarchs: Summary of 10 Years." *Universe of Russia* 11(4): pp. 3-60. [In Russian]
- Kryshtanovskaya, O. and Stephen W. 2003. "Putin's Militocracy." *Post-Soviet Affairs* 19(4): pp. 289-306.
- Lazareva, Olga, Andrei Rachinsky, and Sergei Stepanov. 2007. "A Survey of Corporate Governance in Russia." CEFIR/NES Working Paper no. 103.
- Leff, Nathaniel H. 1978. "Industrial Organization and Entrepreneurship in Developing Countries: The Economic Groups." *Economic Development and Cultural Change* 26(4): pp. 661-675.
- Lee, S. J. 2007a. "Changes in Russian Financial-Industrial Group after the 1998 Financial Crisis." *Journal of Slavic Studies* 22(1): pp. 133-154. [In Korean]
- Lee, S. W. 2007b. "Power Competition among Elite Groups under Putin." *Russian Studies* 17(2): pp. 363-390. [In Korean]
- _____. 2009. "Post-Soviet Neoliberal Reform and the Political Clientelism: A Case Study of Russia in Transition." *Journal of Korean Politics* 18(1): pp. 229-257. [In Korean]
- Lukoil. 2006. *Annual Report*.
- Markus, S. 2007. "Capitalists of All Russia, Unite! Business Mobilization under Debilitated Dirigisme." *Polity* 39(3): pp. 277-304.
- _____. 2008. "Corporate Governance as Political Insurance: Firm-Level Institution Creation in Emerging Markets and Beyond." *Socio-Economic Review* 6(1): pp. 69-98.
- North, D. C. 1981. *Structure and Change in Economic History*. New York: W. W. Norton & Co.
- Olcott, M. B. 2004. "Vladimir Putin and the Geopolitics of Oil." Prepared in Conjunction with an Energy Study Sponsored by the Petroleum Energy Center of Japan and the James A. Baker III Institute for Public Policy of Rice University.
- Orren, K. and Stephen S. 1994. "Beyond the Iconography of Order: Notes for New

- Institutionalism." In L. C. Dodd and C. Jillson, eds., *The Dynamics of American Politics: Approaches and Interpretations*. Boulder: Westview Press.
- _____. "Institutions and Intercurrence: Theory Building in the Fullness of Time." In I. Shapiro and R. Hardin, eds., *Political Order*. New York: New York University Press. pp. 111-146.
- Orttung, R. 2006. "Business-State Relations in Russia." *Russian Analytical Digest* no. 8.
- Pipes, R. 2005. *Russian Conservatism and Its Critics*. New Haven: Yale University Press.
- Porshakov, S. A. 2004. "Recent Corporate Governance Trends in Major Russian Companies." *An Update of the National Report: Corporate Governance and Economic Growth in Russia*. Unpublished Manuscript.
- Putnam, R. 1993. *Making Democracy Work: Civic Tradition in Modern Italy*. Princeton: Princeton University Press.
- Remington, T. F. 2004. *Politics in Russia*, 3rd ed. New York: Longman.
- Ria Novosti*. June 1, 2005.
- Roberts, G. H. 2004. "Convergent Capitalism?: The Internationalization of Financial Markets and 2002 Russian Code." *Europe-Asia Studies* 56(8): pp. 1235-1248.
- Rodionov, D. and Victor S. 2002. *Russia Equity Research: Corporate Governance Analyzer*. Moscow: Brunswick UBS Warburg.
- Roe, M. J. 2000. "Political Precondition to Separation Ownership from Corporate Control." The Center for Law and Economic Studies Working Paper no. 155.
- Rossiiskaya Gazeta*. November 5, 2001. [in Russian]
- Russia Journal*. September 5, 2005.
- Sakwa, R. 2004. *Putin: Russia's Choice*. London and New York: Routledge.
- Schmidt, V. A. 2009. "Putting the Political Back into Political Economy by Bringing the State Back in Yet Aagain." *World Politics* 61(3): pp. 516-546.
- Shevtsova, L. 2004. "The Limits of Bureaucratic Authoritarianism." *Journal of Democracy* 15(3): pp. 67-77.
- _____. 2005. "Vladimir Putin's Political Choice: Towards Bureaucratic Authoritarianism." In A. Pravda, ed., *Leading Russia: Putin in Perspective*. Oxford: Oxford University Press. pp. 229-254.
- Sibneft. 2004. *Annual Report*.
- Standard and Poor's. 2004. "Russian Transparency and Disclosure Survey 2004: Positive Trend Continues despite Political Obstacles." *Survey Report*, October.
- Stiglitz, J. E. 2002. *Globalization and Its Discontents*. New York: W. W. Norton & Co.
- Streeck, W. and Kathleen T. 2005. "Institutional Change in Advanced Political Economy." In W. Streeck and K. Thelen, eds., *Beyond Continuity*. Oxford: Oxford University Press. p. 1-39.
- Surkov, V. 2009. "Commentaries on the Discussion of Paragraphs pro Democracy." *Russian Studies in Philosophy* 47(4): pp. 85-96.
- The Economist*. June 17, 2006.
- Thelen, K. 1999. "Historical Institutionalism in Comparative Politics." *Annual Review*

- of *Political Science* 2: pp. 369-404.
- TNK-BP Holdings. 2006. *Annual Report*.
- Tompson, W. 2005. "Putin and the 'Oligarchs': A Two-Sided Commitment Problem." In A. Pravda, ed., *Leading Russia: Putin in Perspective*. Oxford: Oxford University Press. pp. 179-202.
- Vedomosti*. February 27, 2004. [in Russian]
- Vimpelcom. 2006. *Annual Report*.
- Vitols, S. 2000. "The Reconstruction of German Corporate Governance: Reassessing the Role of Capital Market Pressure." Prepared in the First Annual Meeting of the Research Network on Corporate Governance, Berlin.
- Wade, R. 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton and New Jersey: Princeton University Press.
- Way, L. A. 2005. "Authoritarian State Building and the Sources of Regime Competitiveness in the Fourth Wave." *World Politics* 57(2): pp. 231-261.
- Weinthal, E. and Pauline J. L. 2006. "The Paradox of Energy Sector Reform." In T. J. Colton and S. Holmes, eds., *The State after Communism*. Oxford: Rowan & Littlefield Publishers, Inc. pp. 225-260.
- Whitefield, S. 2005. "Putin's Popularity and Its Implications for Democracy in Russia." In A. Pravda, ed., *Leading Russia: Putin in Perspective*. Oxford: Oxford University Press. pp. 139-160.
- Whitley, R. 1996. "The Social Construction of Economic Actors: Institutions and Types of Firms in Europe and Other Market Economies." In R. Whitley and P. H. Kristensen, eds., *The Changing European Firm: Limits to Convergence*. London: Routledge.
- Wimm-Bill-Dann. 2003. *Annual Report*.
- World Bank. 2004. *Russian Economic Report* (June).
- _____. 2006. *Russian Economic Report* (December).
- Yakovlev, A. 2006. "The Evolution of Business-State Interaction in Russia: From State Capture to Business Capture?" *Europe-Asia Studies* 58(7): pp. 1033-1056.

LEE SUN-WOO is currently a Ph.D. Candidate at SNU (Seoul National University), Department of Political Science & International Relations. His research interests are comparative politics, Russian politics and North Korean politics. His published works include "Power Competition among Elite Groups under Putin," "Post-Soviet Neoliberal Reform and the Political Clientelism" and "Military-first Politics' and 'North Korean' Economic Reform." *Address*: Department of Political Science & International Relations, Seoul National University (SNU), Gwanak-ro, Gwanak-gu, Seoul, Korea [Email: lee99@snu.ac.kr]

