



Leadership and Change Management

A Cross-Cultural Perspective

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13 Leadership and change management

A cross-cultural perspective from Russia

*Natalia Vinokurova, Vyacheslav Boltrukevich
and Alexander Naumov*

Leadership is freedom; to be a leader is to fulfill one's potential.

(Sergey Filippov)

This chapter is devoted to Sergey Filippov, the former Director General of one of the largest aluminum plants in the world, the Bratsk aluminum smelter. Filippov became famous as a successful Russian practitioner in introducing effective production systems. His ways to run a plant are hotly debated in the Russian business and academic communities. In fact, his management ideas have been victoriously implemented by other plants and have gotten expected results.

This case study is based on personal interviews with Sergey Filippov. The authors also used his book, with the self-explanatory title *Break the stereotype!*, together with articles and interviews published in the media.¹

The executive style of Sergey Filippov is a good example of implementing leadership to manage organizational changes successfully. Conventionally, leadership is being studied by using the following approaches:

- explaining leadership qualities or skills;
- defining different leadership styles; and
- studying situational and contingency leadership.

The first approach explains the early formation and development of Filippov's leadership skills, which were formed long before he began to work, and the experience that he gained from his managerial positions. The second one closely connects his leadership and intellectual qualities with his strong character traits. The third approach shows how he chooses the right leadership style to solve problems at the Bratsk aluminum smelter. Real leaders can be defined by their abilities to lead their companies and employees with changes through crisis to survive and achieve business success. One important thing is to determine what leader's behavior would be effective in the current context. It could include three key factors:

- 1 the leader's ability for vision and to convey this vision through communication to followers;
- 2 the understanding of what he or she is actually doing in the business; and
- 3 the ability to get power from "below" – from followers.

Sergey Filippov is a successful person in the Russian sense. In Russia, someone's success is usually based on self-realization, including the recognition of their activity by the surrounding

community. Success also means the capacity to build effective social communications in the competitive output of production. This is an important Russian cultural trait. Given severe environmental conditions, and the social, political, and economic instability in the country's national development, Russian business people pay a lot of attention to developing different communication skills. All social connections are important to help overcome the challenges of difficulties in a new environment. Good social links and existing social capital promote better chances for doing business well. Business in Russia itself is mainly perceived as a process of interpersonal interactions rather than a process of producing a competitive product or service (McCarthy, Puffer and Vikhanski, 2005). Russian business culture is more focused on understanding business as a communication process, as the most efficient way of building personal relationships with the local authorities, as they concentrate both administrative and financial resources (Vinokurova, Kratko, Raskutina and Nazarenko, 2012). Hence, there is a special nuance in how the Russian word "success" is understood; it is "caught" as something short-run and temporary. When success is caught, even if for a short time, it allows the individual to improve and strengthen social communications and relationships. A situation of uncertainty does not allow for any planning – not only for business succession, but also the support of the operational and tactical activities of companies (Polyakov and Vinokurova, 2011). Thus, social capital gives a person the opportunity to obtain in an unstable environment a variety of physical and monetary resources along with so-called administrative support. Today, this is more important than money or profits. Using administrative resources, a business person is able to prepare a more favorable environment for their enterprise and to compete with less business management efforts.

This hypothesis is confirmed by data collected from a Russian opinion poll, conducted February 16–17, 2013, which polled 1,600 people in 130 towns and cities in 42 regions, districts, and republics across Russia. The sample represents the urban population of Russia. The statistical error does not exceed 3.4 percent. This study shows that 26 percent of Russians define a successful person as one who has achieved their own goals, publicly known. For a leader, this success includes achieving their interest too, and only then does success mean material prosperity. Russians know that in their cultural, social, political, and economic environment, a successful person is able to achieve their goals only with the aid of social contacts, and thus the successful person is one who continuously develops their social net. Only 21 percent of respondents equated success with being prosperous (GT Market, 2013).

Filippov's ability to understand people, to motivate them to stand at the forefront of industrial development, and to set up achievable and measurable goals helped him to gain recognition as a leader in Russia's largest aluminum plant. All plant changes were implemented by him gradually, step by step. The term step here denotes new, changing targets in Filippov's new production system. Step means a radical change in personnel management, production management, finance, and marketing, with the hope to break stereotypes. The first step was a transformational leadership decision, which is the most difficult to make in view of the conservative thinking that prevails in Russian culture (Naumov and Puffer, 2000). This step, according to Filippov, could affect the jobs of 1,000 or 2,000 people. So, those 1,000 or even 2,000 people could be unhappy and disagree with the change, and the leader must have the confidence and resilience to survive severe pressure both from below (discontent of the workers, former colleagues) and from above (dissatisfaction by top management). At this time of total isolation, the leader must have special vitality and absolute confidence in the proposed change, as well as a willingness to take responsibility. The pattern of leadership-like behavior and qualities was formed in early childhood and strengthened by working and managerial experiences.

Filippov's effective communication and personal leadership style began in his childhood when his relationships with both peers and adults were distinguished by openness and common sense judgment. His mother played a major role in forming his character by constantly asking him to put and keep things in order. Paying attention to details makes him able to observe and evaluate circumstances. The young man learned to notice those traits that attracted the attention of others and allowed individuals to stand out from the crowd thanks to their bright personalities. His courage and strong desire for expressive freedom in his adolescence and young adulthood were supported by his ability to defend his own opinion, regardless of other people's disagreements, which were sometimes even supported by fighting. In his childhood and adolescence he also gained a strong sense of morality and responsibility. Remembering the regular, thorough Saturday house cleanings, he noted that even though he hated those Saturdays, he clearly understood he alone had to do the cleaning. This principle would later be applied to workers: authority could be delegated only to a person who takes responsibility.

Observation, perseverance, and goal achievement were enriched in the future by working and managerial experiences, specifically in human relations, that helped Filippov to make profound transformations through small but predictably effective steps. A distinctive feature of his leadership style was the ability to understand and evaluate a specific situation and to get fast feedback. A leader's personal characteristics determine whether he or she can understand an organizational state, and then, using their strengths, act successfully on that understanding. The leader moves from self-knowledge, self-improvement, and elaboration of personal leadership skills to understanding where, how, and when their personal style of influence can best be applied in the organizational environment. He or she also learns how personal potential can be used in assessing external factors for interacting with the community outside the organization.

Sergey Filippov began using his personal potential to build effective organizational and interpersonal communications as soon as he started working. He believes that the main resource of any enterprise is its people and not the product or technical means of production. "Our main asset is our people. Their quality determines the strength and power of the business. Therefore, the accent should be on the staff. Everything starts with people. Profit is made by people too!"

It is impossible to make key changes within an organization without motivating its employees. Any new system of control is at first supported only by those leaders who developed it. Improving the working conditions and wages of the workers was the starting point of his creating a team that supported the conversion. During informal conversations with workers, he tried to interest them in improving the quality of their working lives. Taking the next step associated with changes, he consulted with workers about the main production strengths of the plant. Higher responsibilities and improved material resources were distributed among the workers after an unnecessary supervisory level of management had been deleted. Workers were encouraged to communicate and cooperate in a new way, to assume more responsibility, and to build their own effective team management. Since low-level workers were the main production component of the organization and their salaries were directly dependent on the enterprise's production rate and profit, they were very interested in changes that could improve profits.

Distributing responsibility and power among the workers was a very important step in developing the production system; this step helped form a team. Understanding and knowledge of the system of interpersonal relations inside the working environment allowed Sergey Filippov to draw various conclusions.² Team leaders usually enjoyed the greatest authority

among the workers at hazardous production facilities. In an emergency, the team leader and members would always help. Working in a team, the team leader sees everything; they control the situation. Effective control demands from three to five people per team. One of the main methods of security is: I see my partner, my partner sees me. The team became a mechanism for implementing self-control and mutual assistance. Such a team does not need top-down control, as a rule. Power is distributed throughout the team. The team provided self-monitoring and this became the basic element of the Bratsk smelter's production system.

The biggest challenges of change management according to Filippov were new attitudes towards people. He had responsibility for high-quality products and workers' attitudes towards their jobs. The most vulnerable point in a metallurgical enterprise is safety standards. The ability to organize a safe production process is the key competence of a leader. If it is not done properly, all of the leader's accumulated authority can be automatically undermined. A tragic accident at the plant, the death of three experienced workers who ignored safety standards to increase production rates, was Sergey's most striking negative memory of the failure of governance. His response to this tragic situation was prompt and simple: first piecework pay (pay for performance rate) was abolished, then stringent standards of production were established, and strict sanitary controls were introduced.

Actually, the essence of the change at the Bratsk aluminum smelter was the improvement of attitude towards workers directly employed in the production process, and this led to the construction of a new management culture that was not based on old stereotypes. The transformation initiative came from the leader, from the top, not the bottom. When Filippov came to the Bratsk aluminum smelter there were 6,000 employees; when he left in 2012, there were only 4,000. However, during that period, the smelter's production rate increased from 150 to 250 tons per person on an international level. Wages increased from 10,000–15,000 rubles per month to 60,000–65,000 rubles per month, approximately \$2,000 at that time period's rate of exchange. So that wage was close to international levels too.

Filippov created a middle-class, skilled, and well-paid worker force, which itself did not violate safety for production, and technological standards, and also did not allow others to break them either. Since the plant had been commissioned in 1966, 1,578 people had been injured and 72 people had died. The number of accidents decreased from four to two per year after Filippov's basic transformations. In 2008, the Bratsk aluminum smelter produced more than 1 million tons, with a planned production capacity of 920,000 tons. This was a world record for one plant at that time. The planned production capacity of the plant was kept at a record level despite the 2008 world economic crisis. Every day, the plant began with presentations by employees who recommended ways to improve inefficient methods of production. For the first time, leadership respected and needed initiatives from the shop floor.

Filippov's leadership style largely corresponds to the famous model of leadership described by American Joseph S. Nye (2006). In contrast, the hard methods of management in organizations include an emphasis on the technical features of the production process and compliance with the formal rules of security techniques, an unnecessarily high reliance on administrative resources, a substitution of respect relations for authority relations based on fear, a misunderstanding of the role of culture in effecting changes inside the organization, and a lack of development of organizational communications. This was never Filippov's management style; he preferred the consultation style of production management, understood the real needs of production personnel, and created a new environment and organizational culture. Persuading, motivating, and inspiring people by his own example and results, he gradually went from the hard power style of leadership (control and centralization of management), which is widespread in Russia, to the soft power style (distribution of power and allocation of

responsibility). This changed the staff's attitude to the production process completely. For the first time, the production process began to be understood as the process of creating real wealth, and the final result was a profit fairly distributed among the active participants in its creation. Filippov noted that to get really serious results, it is first necessary to change the production culture in every working site.

The success of a leader depends on the effectiveness of their activities; each event should have maximum importance for all members of the team. Every activity requires energy, otherwise there will only be formalism and failure. A leader must constantly receive feedback so that he or she can keep employees focused on the results of the transformation. A failed leader is one whom people don't notice or quickly forget.

Building a new ethic for the worker-leader relationship is to create an atmosphere of trust and cooperation. Teams and initiatives work best if rules are shared and understood by each team member. Creating a proactive environment, in which leaders can implement effective production processes and other positive changes, is the main goal of organizational culture and ethics. The foundation for these relationships is the principle of justice (for example, the same standard of safety regulations for all employees), transparency of incentives and layoffs, and respect for the worker as the main actor in the process. "When talking with a worker, we always have to respect him, we must ask his name and patronymic (the use of both names is a sign of respect and formality in Russia). Arrogance must be punished." The ability to get the feedback needed to build relationships with employees begins with respect for those who can provide this feedback.

Filippov's management style includes the ability to set up and implement specific goals through effective communication. It also includes observing and quickly responding to complex contingencies and problems. As a result, he managed to overcome such typical shortcomings of Russian traits in organizational culture as: levels of production standards that are low by international standards, low levels of performance discipline, low levels of initiative, lack of feedback, fear of taking responsibility and misunderstanding its role, badly structured work, and frequent crisis mode in a company's operation.

In the framework of developing a training program, "the leader and organization" in business schools, Filippov advised starting from a personal, individualized approach to learning. "Teach the program leaders in your organization, those people who have a real ability for leadership," he said. It is unproductive to teach effective communication or leadership skills to a person who doesn't have this ability. An effective training program should be built by studying the personal characteristics of the leader and the problems of the relationship between the leader and the corporate environment. The skills needed to plan global changes in the company should also be studied, especially the problem of leadership and the external environment. A leader needs to have time and a place to implement positive change effectively.

Russian business leaders demonstrate traits of the national character in their behavior (Naumov and Petrovskaya, 2011). However, not all of these can be directly associated with leadership behavior. The analysis of research produced by Russian and foreign authors on the subject and its applications to Filippov confirm a number of the most typical patterns of a leader's behavior.

Notes

- 1 Sergey Filippov was Managing Director of Vyksa metallurgical plant since June 2012 (United Metallurgical Company) to June 2015. He began working at Ust-Kamenogorsk (Kazakhstan) titanium-magnesium plant. From 1978 to 1980 he served in the Soviet Army. In 1986 he graduated

from Leningrad Mining Institute. From 1986 to 1998 he consecutively worked as foreman, senior foreman, head of department, and deputy director for production at Sayanogorsk aluminum smelter. In 1998, he completed training in an anti-crisis management program (Academy of National Economy, Russian Federation Government). In 1998 he also held the post of Director of the Sayan aluminum plant, and in 2000/2001 he was Director of Novokuznetsk aluminum plant. In 2001, he was First Deputy of General Director of the Krasnoyarsk aluminum plant and also Managing Director of Orsk-Khalilov steel plant NOSTA. Then, up to 2005, he was General Director of JSC Krasnoyarsk metallurgical plant. He held the post of Managing Director of Bratsk aluminum smelter from 2005 to 2012.

- 2 Sergey Filippov began his work history as a simple worker at the Ust-Kamenogorsk titanium-magnesium plant.

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