

**THE DICHOTOMY BETWEEN ‘INNOVATIVE’ LEADERSHIP AND
‘BUREAUCRATIC’ MANAGEMENT IN THE POST-SOVIET CONTEXT: THE
CASE OF NORDIC MANUFACTURING COMPANIES IN RUSSIA**

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Summary: This research conducted at Nordic-owned Russian factories asserts that foreign managements have certain latitude to choose their leadership style, although the post-Soviet context, factory size and the scale of investment (small-scale vs. large-scale) set constraints for HR management. The sample consists of seven factories, the number of employees of which ranges from 30 to 1200. It is observed that especially in case of acquisitions or brownfield investments; the Soviet organizational ‘imprint’ plays a decisive role as regards managerial orientation towards either ‘innovative’ leadership or ‘bureaucratic’ management. In factories having Soviet background (in terms of human resources or location) and of a larger size, a Nordic-type ‘incorporation participation’ or Soviet-style ‘welfare participation’ model was more likely to be applied, but more or less bureaucratic management prevails. On the other hand, at smaller workshops, there was a peril that innovative leadership turns out to resemble Soviet-type paternalism. There was neither pure occurrence of innovative leadership nor bureaucratic management among the case studies, which leads to a conclusion that the style adopted by Nordic managements is a hybrid of both innovative and bureaucratic styles.

Keywords: Bureaucratic management, HRM, innovative leadership, Nordic firms, Russia

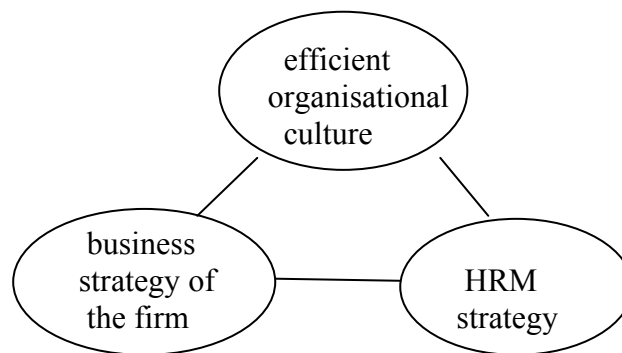
1. INTRODUCTION

The term *innovative leadership* comes from V.I. Maslov’s (2010) view of the desirable developmental direction of Russian management where there is a threat that the Russian production machinery will undergo stagnation. There is the spectre of the return to ‘bureaucratic’ Soviet production model. To achieve higher productivity, the Russian authorities focus besides on necessary technical/economic changes also on the social aspect of politics of innovation. In 2008, the Russian government approved the Conception of Social-Economic Development until 2010, where emphasis is put on the transition to “innovative socially oriented type of economic development” (Ustinkin and Samsonov, 2010). Therefore the heuristic concept of ‘innovative leadership’ refers to the desirable outcome of management in order to maintain and enhance productivity in the framework of a national system of innovation (on the concept, see Freeman 1995).

When attempting to achieve such goals of politics of innovation by means of enterprise-level management, one has to consider the relationship between business strategy and human resource management (HRM). This is what the concept of *strategic HRM* stands for. Roughly said, strategic HRM means that management of human resources is aligned to the business objectives of the firm (Boxall and Purcell, 2003, p. 47). Strategic management is also related to employee involvement and participation in decision-making in the company. According to Croucher, Gooderham and Parry (2006), “...strategic HRM aims to achieve strategically anchored employee involvement through High Involvement Management (HIM) techniques”. Among other features, direct communication practices are seen as one of the key characteristics of HIM (ibid.).

If we consider strategic HRM, we are in fact talking about a following triangle:

Figure 1: The alignment of business strategy and HRM



Source: Maslov 2010

According to Maslov (2010), contemporary Russian work organizations are based on bureaucratic, even military models of management, which prevents innovation from blossoming. Such a bureaucracy also obstructs the management the access to tacit and realistic information, traditionally only in possession of the employees, about the internal situation of the company. Maslov (ibid.) argues that Russian strategic HRM should be more oriented towards teasing out innovations especially in such strategically important sectors as biotechnology, communications, space applications and artificially intelligent systems. He also underscores the resolving of problems of innovation at all levels of the enterprise by means of employee involvement. The most feasible way to complete this task is to focus on human capital and the development of ‘participative’ management. Accordingly, in this paper, we propose an ideal-type distinction between two types of leadership-management: an ‘innovative’ leadership approach and ‘bureaucratic’ management approach to HRM. While a traditional firm seeks to do things bigger and better, an innovative firm seeks to do new and different things.

Maslov (ibid.) defines the traditional ‘technocratic’ corporate culture in terms of hierarchic, rigid subordination, the prevalence of regulated, executive behaviour, rational-economic motivation and narrow specialization of administrative bodies and functionaries. In contrast to technocracy, innovative leadership pursues for horizontal relationships, orientation to the employee, stimuli through final results and mutually defined goals. Pretty much along the same lines, Pardey (2007, p. 209) enumerates open communications, reward systems (not necessarily financial ones), individual autonomy and the role model of senior managers as mechanisms to put creative solutions to problems into action. Although Maslov (2010) has mainly had ‘intelligent’ work in mind while sketching out his innovative leadership model, the concept is here extended to HRM in all sectors, since it also coincides with Nordic leadership styles.

2. NORDIC LEADERSHIP STYLES AND PARTICIPATORY SCHEMES

The ‘Nordic cluster’ consisting of Denmark, Finland and Sweden constitutes or a distinctive entity in terms of Global Culturally Endorsed Implicit Leadership (CLT) dimensions (Dorfman, Hanges and Brodbeck, 2004, p. 690), where the effective Nordic leadership style exhibits high levels of Charismatic/Value-Based leadership, Team Oriented leadership and a considerable level of Participative leadership. By contrast, the scores of Humane-Oriented and

Self-Protective leadership are low (ibid.). There is considerable tolerance of Autonomous leadership in the Nordic societies (Chhokar, Bordbeck and House, 2007, p. 31). However, there are some differences in how Human Oriented leadership is enacted: personal sensitivity and development support are seen the main means of achieving Human Oriented leadership in Finland, whereas in Sweden, it is the egalitarian emphasis through which individual autonomy is approached and thus Human Oriented leadership achieved (ibid.).

The issues of leadership and employee participation are intertwined. In the case of organisational change, especially direct forms of participation can play a key role in ensuring acceptance of change and in creating the conditions for employees to make effective contributions to their organisations (O'Brien, 2002). Russian enterprises have undergone an enormous change from state socialism to capitalism. However, there has not been a "normal" organisational change as regards Russian work organisations: autarkic top-down methods characteristic of the Soviet era must have been replaced by more "soft" management styles encountered more often in democratic societies. Here, the Nordic firms have a key role to play – to introduce more "empowering" leadership into the Russian subsidiaries. Once a true model transfer occurs from the Nordic to Baltic countries, subsidiaries are involved in the *incorporation participation*, that is, incorporation of the trade union (or representative structures in general) in the long-term strategy of the firm in circumstances where a tight labour market is accompanied with a competitive product market (Ackers, Marchington, Wilkinson and Goodman, 1992).

For Nordic management, starting production in the post-Soviet countries poses challenges for getting rid of "management Sovieticus" (Liuhto, 1993) and the legitimation of the state-of-the-art management of the new era. It is argued that the Soviet management was corrupt and ineffective compared to that of the market economy, and the whole idea of management required renewal. The transfer from socialist enterprise management to capitalist one has been occurring gradually. In place of production focus, characterised by little interest in financial and personnel functions, in post-Soviet enterprises attention had to be paid to sales, supply and finance (see Clarke, 2004).

It is hypothesized that the Soviet model of employee participation resembles *welfare participation* (Knudsen 1995, 11), where employee participation in decision-making concerns mainly welfare issues. Such issues are company-specific welfare arrangements, canteen facilities, housing facilities, sports and other recreational activities, scholarships, and other forms of financial support different from the ordinary remuneration (ibid.). In other words, if this form of employee participation is not accompanied by any other form (in strategic, tactical or operational issues), employee involvement is rather narrow in scope. However, welfare participation corresponds pretty well to the functions of a state socialist trade union that served rather as a distributor and administrator of social insurance, social facilities and commodities for workers (see e.g. Clarke and Fairbrother, 1993, p. 94).

An analysis of Nordic-owned metalworking, food processing and construction material factories in the Baltic States (Sippola, 2010) exhibits a wide variety of approaches to coping with the complex management tasks in the post-socialist context with little reference to 'Nordic-type' consultation, co-operation and delegation of decisions with subordinates, analogous of consideration leadership behaviour. The subsidiaries having a carry over of employment practices from the Soviet time are more likely to be involved in Nordic-type 'incorporation participation' (utilising indirect participation). The lack of indirect participation at the greenfield factories is to some extent compensated by market, HRM or task participation forms. Correspondingly, the Nordic managers seemingly prioritise business objectives at the expense of employee participation, while the leadership style adopted at the

Baltic subsidiaries reflects ‘initiating structure’ type of leadership rather than consideration leadership behaviour.

3. DATA

All the case study companies are located in the western part of Russia. The fieldwork was carried out in 2011. There were two Danish, three Finnish, one Norwegian and one Swedish company in the sample. Basic information of these subsidiaries is seen in table 1.

Table 1: Basic information on the enterprises researched

	<i>Stroy-material</i>	<i>Derevo</i>	<i>Himstroy</i>	<i>Agrotehnika</i>	<i>Mashina</i>	<i>Stal</i>	<i>Provod</i>
<i>sector</i>	construction material	construction material	construction material	metal	metal	metal	metal
<i>market orientation</i>	local market	Europe	local market	local (FSU) market	local market	local market	Europe
<i>mode of entry</i>	brown-field	joint venture → acquisition	greenfield/acquisition	brown-field	brown-field	brown-field	brown-field
<i>established / acquired</i>	mid 1990s	1990	1995/1996	2005	2002	1993	1992
<i>scale of investment</i>	large	large	large	small	small (in the current premises)	small	large
<i>workers</i>	500	600	250 (unit 1) / 600 (unit 2)	40	70	70	900
<i>union members</i>	130	350	150	-	-	-	almost 400
<i>trade union or other representation</i>	trade union	trade union	trade union	-	-	elected EICF* representative	TU (chair-person, vice chair + committee)
<i>collective agreement</i>	yes	yes	no	no	no	no	yes

* European Information and Consultation Forum (the company’s own)

Himstroy consists of two different production units within the boundaries of one of the biggest cities in Russia. Unit 1 has been established as a greenfield project in 1995, and the Nordic owner acquired unit 2 (which itself had been established as a greenfield project ten years before) in 2006. *Derevo* was established in 1990 as a joint venture with a Russian partner. The Nordic owner acquired it entirely in 1995. 80 percent of its production is exported to European countries. *Stroymaterial* is a brownfield factory, established in mid 1990s on the site of a former Soviet construction materials plant producing products of similar type as *Stroymaterial* does nowadays. *Agrotehnika*’s production started at rented premises in a special economic zone in 2006, but it moved to current site in 2010. Operating in the metalworking sector, it found better qualified labour and logistics position on the current site.

Mashina's business concept relies besides on high-quality products, also a comprehensive service and supply network throughout the country. Founded in 2002, it provided a different type of vehicles than it does nowadays; in 2010, when it established new production in rented premises on a different site, it brought some of the previous labour onto the new site. Although *Stal* has operated in Russia in different premises since its establishment in 1993, some of the originally hired workers have followed it to the current site. Part of the production of standardised metal products is currently under disinvestment, part of it under re-investment. *Provod* is a brownfield factory, history of which dates back to 1992. It was further sold to current owner in 2003. The work at the factory consists of cutting (males) and composition (females) of standardized products.

4. LEADERSHIP STYLE AND EMPLOYEE PARTICIPATION AT THE FIRMS

At **Himstroy**'s unit 1, a trade union established as an independent organization had deliberately assumed an aggressive stance against the employer, and the action of the union had been destructive to the company during the 2000s. The trade union in question was not involved in attestation of jobs, and the idea was obviously to marginalize this union for the favour of another union, which held a strong position at the unit 2. The union at the unit 2 was consulted in work organization related issues (e.g. the new pay system). There was no collective agreement at Himstroy, although the management was going to start a negotiation process. Such a partnership did not, however, bring forth any ultimate benefit for the union, since it was also by-passed in work-related consultation. In 2010, Himstroy's management initiated bimonthly / quarterly consultation meetings with those production workers who do not belong to trade union. In addition to this, there was an annual information event for all employees, which was going to be arranged quarterly. One might argue, therefore, that the employee-management relations at Himstroy had developed from openly adversarial to more co-operative. The diversified HR management strategies between the two units apparently derive from different sizes (unit 1 has 250 employees while unit 2 has 600) and from the management's desire to define industrial relations on the shop floor to their own liking (the marginalization of the trade union at unit 1).

Derevo's production process was undergoing modernisation during the time of the interviews, although it still remained highly hierarchical. The work organization was traditional; there were 400 employees in the production, of which 20 were supervisors. The modernization meant that the number of employees was slightly decreasing and the work itself was intensifying. There was trade union and a collective negotiation committee in operation at Derevo, in a manner it does in the Nordic 'bargained constitutionalist' environment. The committee consisted of five members from the management and five members from the trade union. A representative of the management mentioned that they had to agree with the trade union upon some measures, such as during the crisis they had to agree on reduced working hours. There was a suggestion box for the initiatives of the workers, which is however little used. The management organised meetings with the whole workforce occasionally, and further *ad hoc* meetings with groups of workers. Such an approach to employee relations resembled Nordic-type participative management, which in the Russian context is 'innovative'. However, the work organization itself remained bureaucratic.

At **Stroymaterial**, there was besides a small trade union, also a small committee established not a long time ago that discussed welfare issues such as the functioning of the canteen. It consisted of employees, union and management representatives. The management discussed mainly work-related issues with the union. One example of such issue had been a change in working schedule in one production section. There was a collective agreement signed in the

factory for two years period at a time. Although wages were negotiated with the union, the management had the right to give individual bonuses in addition to the minimum tariffs. While consultation with union seems to be more or less commonplace, the union's real room to negotiate on important issues such as wages appeared to be restricted. A big factory as Derevo and Himstroy, Stroymaterial had a rather traditional management style in place, accompanied by some Nordic features of participative management.

Agrotehnika is a small investment of a Nordic company, operating in the metalworking sector. At the moment of the interviews, the premises underwent installations of new equipment, and full production was about to start in 2011 or 2012. Majority of the installation was carried out by the company's own employees. Due to the move from the old premises and the construction of the new ones, the number of personnel at Agrotehnika was very low, only about 30 persons. The employment figure was about to grow steadily once the composition process has been set up. The production is organized around a team, which made of one shift. As another production process will start its operation, there will be competition between the production teams (one team represents one product) in terms of performance, quality, cleanness, safety and discipline. On the other hand, large autonomy was allowed to the teams in terms of work organization related budget: the teams would be provided with some budgetary means for their own use. The organization of work followed the '5S' model, adopted from a West European sister unit. There was a mutual one to two hours meeting every week on work-related issues, where managers and employees got together. The general director devoted a lot of his time for the running of the production while simultaneously maintained a paternalist management style characteristic of such small-scale engineering shop. All in all, the leadership style was really 'innovative' against Russian and even against Nordic backdrop.

Mashina's production stages were to a high degree standardised, which left employees little room for improvisation or discretion. However, in the spirit of continuous improvement, employees' suggestions were encouraged as regards improvements in the process, work safety or ergonomics. The managing director gave a twenty minutes talk to all the staff every second week concerning the future prospects, market situation and employment situation in the factory. There was no trade union at the factory. As regards management style at Mashina, some clues can be discerned about it in the attitude toward the labour force on one hand, and in the managerial talk. The production manager emphasized that there is a difference in productivity between a Nordic production unit and Mashina, which is due to lower investment levels at the Russian factory. However, wages of the core workers were relatively good in the Russian context. Moreover, the way the managing director spoke of trust between the management and employees and the procedure of the recruitment process hint at some sort of paternalism in this factory. He insisted in the mutuality of keeping one's promises (concerning both the employer and employees) and a close scrutiny of workers to be hired. In the process of recruiting (which was performed through a labour agency in the first place) and workplace learning, the 'bad' and unmotivated workers leave and the 'good' and committed workers remain. Although there were some signs of paternalist managerial style, in the Russian environment the leadership style could be characterized as 'innovative', which was mainly due to the small-step policy of investments and the small size of the factory for the time being.

One of **Stal's** departments, which is producing a more traditional and standardised product, was currently undergoing disinvestment. Another, however, was in the process of reinvestment, and the whole factory was subject to optimisation activities for reducing complexity and prices. There was no trade union neither any other employee representation system at Stal. However, there was an elected representative from Stal for the company's

European Information and Consultation Forum (EICF). In terms of management style, it was obvious that there are some features of paternalism at Stal, although there was a strong emphasis on a Nordic-type participatory management. An interviewed manager underscored the openness of the corporate culture, where the management tries to listen to the employees and to enter into dialogue with them. Involvement and commitment of workers was mainly sought to be reached by means of continuous improvement, which implies employee participation in production-related issues. For the blue-collar workers, company goals were not promoted by individual performance-based pay schemes but instead occasional bonuses and non-monetary rewards are promoted. There was an extra allowance and medical insurance (not very extensive) for retired workers, which is ‘means-tested’ in a way that one has to have completed a ten-year blameless career at the company. Such a paternalist style – which indeed has analogies with the Soviet labour process – would prove unsustainable in case the number of workers will increase and this medium-sized engineering shop will grow into a larger factory.

Provod had recently introduced a quality control system where in each month, the department chief held personal development talks and evaluated the subordinate's performance based on a set of quality indicators. The goal of closer monitoring was to optimise the labour process, which would result in intensification of work. There was a trade union at Provod, and a collective agreement. The management director had a monthly meeting with the trade union chairperson. Also, the HR manager has daily communication with the union chair. Employee relations have changed from adversarial to more co-operative during latest years. For example, the number of the workers’ complaints to the labour inspectorate has decreased sharply, where the management and employee representatives have managed to resolve problems within the company. The trade union was more militant in the beginning stage, when it was established in 2003. According to a representative of management, the chairperson of the union sought more conflicts and not compromises with the directors. The collective agreement was one of the most comprehensive ones, including e.g. wage tariffs and grounds for bonus schemes (which is a rarity among the case study companies). One might conclude, therefore, that the management style at Provod was nearest to ‘bargained constitutionalism’. It remains to be seen, however, whether the style turns into true partnership or traditional style in the future.

5. CONCLUSION

It was found that Nordic managers have certain latitude to choose their leadership style, although factory size and the scale of investment (small-scale vs. large-scale) set constraints for Nordic HRM in Russia. It is evidenced that especially in case of acquisitions or brownfield investments, there is some hold-over from the Soviet organization of work. This is key to whether managements opt for the ‘innovative’ or ‘bureaucratic’ leadership style. In factories having Soviet background in terms of human resources or location and of a larger size (Derevo, Himstroy, Provod and Stroymaterial), a Nordic-type ‘incorporation participation’ or Soviet-style ‘welfare participation’ model was more likely to be applied, although however more or less bureaucratic management prevails. On the other hand at smaller workshops (Agrotehnika, Mashina and Stal), there was a peril that innovative leadership turns out to resemble (also Soviet-type) paternalism. There was neither an occurrence of innovative leadership nor bureaucratic management among the case studies, which leads to a conclusion that the style adopted by Nordic managements takes rather a hybrid form involving both innovative and bureaucratic styles.

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