

## Managing Change in the Holding Company as a Factor in Solving Strategic Problems of the Region

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### ABSTRACT

The relevance of the investigated problem is caused by the necessity of changes in holding company's management systems to address the strategic problems of the region. The purpose of the study is to develop a method of forming teams at the corporate level for the coordination and implementation of programs for the implementation of reforms and their subsequent impact on the institutional environment of the region. The leading approach to the study of the problem is systemic and situational approach in the framework of the theory and methodology of innovation management that allow to analyze the change management features in the company. The following results were obtained from the study: analyzed regionally significant holding companies which have a significant impact on the socio-economic indicators. Article Submissions may be useful for organizations engaged in development, as well as consultants and experts on issues of innovation and production management. with the proposed mechanism can plan and implement economic development, in which the organization will be ensured current stability, long-term sustainability, the pace of development of the relevant market situation.

### KEYWORDS

Management, market, region, business

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## Introduction

### *Literature Review*

The problem of managing change in the companies was discussed in the article of such scientists as: R. Thomas, L.D. Sargent & C. Hardy (2011), L. Crawford & A.H. Nahmias (2010), S. Senaratne & M. Sexton (2008), S. Chakravorti (2011), G. Brulin & L. Svensson (2012), F. Graetz & A.C. Smith (2010) in their article confront the conventional assumption that change is a finite, one-off phenomenon, representing the exception rather than the rule.

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In G. Mintzberg, J. Quinn and S. Ghoshal (2001) popular book “Strategic process” authors claimed that strategic management “is always science about changes”.

This characteristic becomes especially obvious during the periods of changes of main development and acquisition sources of company competitive advantages. In the XX century when changes in the environment were not so prompt, predictability of organization development was guaranteed, and long-term planning was a main source of competitive advantage formation. Producers let out goods which, in their opinion, were necessary for consumers, work and lifelong employment was guaranteed to employees, corporations owners did not change, and in general everything told about the quiet future. Similar companies achieved progress, increased the potential to develop and increase management efficiency, to protect advantages and a position on the market. If changes also happened, it was the start of new production types, new markets entrance, so, it means changes which are not radical. Now the world changed, and the formula, which was successful in the past, does not work today and causes failures.

### **Methodological framework**

Methodical and theoretical research base was made by the theory and methods of innovative management, project management, strategic management, marketing, financial management.

During the research the following methods were used: the theoretical (dialectical logic, rational knowledge, and others.); methods of innovation management, project management, strategic management, marketing and financial management.

Stages of studies:

The study was conducted in four problems phase:

- 1) Collection and processing of data on the activities of official sources consulting companies implementing projects of organizational changes;
- 2) Study of regionally significant holding companies which have a significant impact on the socio-economic indicators, the example of the Samara region
- 3) Study of existing change management concepts;
- 4) Development of the organizational-economic mechanism of formation of the teams at the corporate level in order to coordinate and implement programs for the implementation of reforms and their subsequent impact on the institutional environment of the region.

### **Results, Discussions and Conclusion**

Economic mechanism which was developed organizationally is intended to be used in those organizations which are carrying out development, and also for consultants and experts in innovative and production management issues. By means of proposed mechanism it is possible to plan and carry out economic development at which the organization will be provided with current stability, long-term stability, development rate that correspond to the market situation.



This topic was discussed in the works of the following scientists G. Mintsberg, J. Kuinn & S. Goshal (2001), A. Cohen (2007), E. Galanin & D. Tyuilye (2005), I. Adizes (2008), I.A. Toymentseva, N.P. Karpova & E.P. Fomin (2016).

The paradigm and business model changed, and on the first place there is a capability to manage changes competently and effectively. Key elements of old and new management changes paradigms are shown in Table 1 (Cohen, 2007).

**Table 1.** Old and new paradigms of changes management.

Parameter	Old paradigm	New paradigm
Nature of Changes	Gradual	Fast
Rate of Changes	Slow	Fast
Motivation to action	Risk and mistakes should be avoided It is difficult to change the organization	Act resolutely Mistakes are inevitable, they are useful as lessons
Source of Changes	Change are carried out "from top to down"	Changes are initiated on all levels of organization Initiative is encouraged
Degree of planning	High	Average
Volume of changes	Occasional	Constant

Source: table is compiled by the authors.

So, the companies which noticed changes too slowly, represent an old paradigm. There was a corporate culture in them: conservative ways and methods, which were reflected in information access, opportunities for career advance. They took changes as an inevitable evil, not a possibility to improve.

New paradigm of changes management assumes another approach. Changes are perceived as a natural element of the organization life. At the same time there can be some transformations. Failures in process of changes management are inevitable, but avoiding changes is more risky tactics, than approach, and excessive planning is more dangerous, than fast reorganization.

Transition from old to a new paradigm means management capacity growth and opportunity to cope with a large number of changes. The better the companies manage it, the more favorable their situation is.

In Russia with its federal system the speed and the efficiency of company transition from an old to the new changes management paradigm depends on not only specified enterprises future, but also on a level of regional economy development, and also all country in general.

Historically local government played a special role in the regions. In Soviet period regional authorities actively were engaged in economic activity, conducted construction, turning rural settlements into cities. It created a sufficient level of respect for regional authorities from local elite and population. However in modern conditions the power cannot fulfill all social obligations individually. With economy development, market relations, new technologies, regional business starts to have more and more essential impact not only on economic, but also on socio-political sphere of regional life. Such influence from

regional holding companies which was described in the previous passages is especially strong.

As similar enterprises have essential impact on regional economic development, efficiency of their functioning becomes an important issue for regional authorities. For this reason elite that has power has to promote changes implementation in these companies, and also coordinate their development with long-term plans of territory development.

So, in Samara region it is possible to refer the following structures to regional holding companies: JSC Rostelecom, JSC AlkoaRus, JSC HK Tatnefteprodukt, JSC Kuybyshevazot, Elektroshchit-TM Samara Group of companies, JSC Central Assembly and Design Engineering Bureau Progress. All these companies have essential impact on economic and social situation in the region.

In some regions similar companies are the only large employers, in others they are the only suppliers of these or those services. So, JSC Rostelecom has practically no competitors. So those long-term investments which are implemented in a number of areas by this company, will be paid off not earlier than in 30–35 years. JSC HCTatnefteprodukt is a monopolist or has monopoly over 70% of goods. Thus a number of branches and affiliated structures that function in the areas are unprofitable owing to high charges to support fixed assets, logistics, personnel maintenance, etc. So, if these companies were guided by economic reasons, they would stop their activity in some areas. In that case the population in these areas would be without necessary goods and services. But in a similar situation the scheme of public and private partnership starts working.

Thus, transition from an old to a new changes management paradigm, is one of important factors to solve strategic problems of the region. However to carry out this transition process is possible only if there is an exact program including all directions and sources of changes implementation.

One of main aspects influencing efficiency of changes project implementation is to define a number of people, involved in the project. As a rule, a large number of experts participates in transformation program implementation, each of which perform his functions. It is possible to allocate 4 groups of participants.

1. Top officials of the company. Top managers have a choice: they can direct transformation process or concentrate on current business, and to delegate part of the functions connected with changes to special team or a manager. It is supposed that the most right decision is to involve the head into changes on a conceptual level. It will allow showing the importance of a specified project, first, to all employees, and secondly, to resolve arising conflict situations, and also to be aware of main working areas.

2. Committee on changes management (committee on changes introduction). This name has a very conditional character. This project involves people who are ideological inspirers. They completely are responsible for changes process realization, they coordinate and direct it. The committee controls resources to solve common problems, such as budget management, PR, development of employee motivation system and developing a feeling that changes are necessary and inevitable etc. The committee provides uniform



standards and approaches to changes, consecutive implementation of all process stages, it plans and takes operational correcting measures, forms managing committee agenda, interacts with the teams which perform transformations. Functions of committee on changes introduction are defined by branch specifics, scale of planned transformations and degree of personnel readiness to them. In some organizations the committee performs only operational management of changes realization process and makes key decisions, and division heads are responsible for financial control, working with personnel, public relations and corporate culture issues. All these tasks can be the responsibility of committee competence on changes introduction.

3. Manager is responsible for changes management. The manager appointment who is responsible for changes is a key decision therefore it needs to be made as soon as possible. The only person with high qualification and significant experience can hold this position, if there is no such person, he will not cope with the tasks volume and complexity which he should solve. He has to see clearly general administrative tasks, to understand clearly, what benefits the organization will receive in general and each employee in particular from successfully realized project. As a rule, skilled directors on strategic and corporate development issues with a good track record, or executive directors who have worked in the company for some years become managers who are responsible for changes.

4. The teams which implement changes. Development and implementation of operating changes realization plans, calculation, monitoring and realization of specific objectives belong to these teams duties. Similar teams are some kind of link between top managers, committee on changes management and the ordinary company staff. How successfully changes project will be implemented in corporate culture of the company depends on overall performance of these teams. Even the most exact and competent introduction plan which was developed by changes management committee can be failed in case of bad work with ordinary employees. For this reason permanent motivating job with the experts is necessary which are included into teams on introduction from the holding managing authorities. According to some authors, when changes management project is implemented in the holding companies it is necessary to attract consultants. The method of independent experts team involvement which proved themselves in developed countries can be even more useful in emerging markets, including Russia where companies should often make decisions almost blindly. It is easier to overcome main obstacles on the way of changes by means of a team independent experts (Galanin and Tyuilye, 2005).

The best consulting companies of 2010 which are engaged in projects implementation of organizational changes are presented in Table 2 (Ranking of consulting groups, 2010) according to market research results of consulting services conducted by RA "Expert".

**Table 2.** The best consulting companies realizing organizational changes projects

№	Consulting companies	Revenue (thousand of rubles)
1	"Business Systems Development"	784 713
2	"FinEkspertiza"	240 910
3	"RSM Top-Audit"	158 240
4	IBS	142 524

5	“HLB Vneshpakkunivers”	103 353
6	“SPLAN - Holding”	97 935
7	“Alliance Consulting Investment Group”	97 141
8	MCD (PKF)	86 749
9	“IT”	86 410
10	“KSK of Groups”	70 746

Source: Ranking of consulting groups “Russian Consulting” following the results of 2010. *Rating Expert agency*. Retrieved from <http://www.raexpert.ru/ratings/consulting/2010>.

The role of a manager who is responsible for changes management is very important. Defining the only person who is a leading person to make decisions on changes according to authors, is caused by a necessity to have an arbitrator, whose word in a conflict or disputable situation is decisive. For this reason the level of qualification, intelligence of this holding employee and an invited expert plays a key role in the course of changes program implementation. In this regard the concept of RAPI manager seems to be interesting invented by professor I. Adizes(2008) and he described it in several works.

So, in his opinion, the manager who controls changes can carry out the following functions or roles at the same time (Adizes, 2008).

The role of a performer or producer (in the Russian transcription – the ranger). This function focuses on what is necessary to do now. The manager does not coordinate, does not plan, does not form a team and does not develop the abilities of the employees.

The role of an administrator. If the role of a producer provides productivity, the role of an administrator provides efficiency. The main task of a manager with the function of an administrator is the control of goals fulfillment, methodical system management which keeps in order all processes in the organization. Administration assumes conflicts denial, extremes smoothing.

The role of an entrepreneur. In the changing environment a good manager has to do much more, than make result and control goals fulfillment. He has to be also a businessman, an initiator of actions, a person who can begin changes process. The businessman analyzes how various environment forces affect an organization, assesses company strengths and weaknesses and defines a course of actions according to them which will correspond to changes that happen.

The role of an integrator. The integrator is a manager who is able to listen to others and to combine their ideas to achieve common goals fulfillment. The integrator not only provides stability of company future, but also supports trouble-free current work. Integration is carried out by controversial issues clearing, general views definition on fundamental issues, analysis of assumptions and expectations.

As a result, by the first letters of role names there is an abbreviation RAPI. An ideal manager combines all 4 roles according to I. Adizes (2008), occurs only in textbooks. In the course of practical changes management there are managers who perform these or those roles or functions to some extent. Depending on a stage of a company life cycle, conditions of external and internal environment, current company requirements, top managers have to appoint managers on changes management with clear functions which are the most suitable in this situation.



So, the number of people, taking part in the process of introduction and changes management, depends on an exact situation, activity influence degree of a holding company on social and economic regional development. Therefore heads of the enterprises can choose any of the schemes given above to implement changes project effectively.

To function more effectively regional holding companies have to coordinate their activity more accurately and balanced. So, the speed and flexibility in the process of decision-making is one of the key factors of a holding company competitiveness and success in the course of head company interaction with branches and subsidiaries. So, if the structure and a control system is too centralized, the management does not see those losses which company has because of this problem. Really, there are no losses in connection with a strict authoritative control system. However if decision-making process is analysed, the income losses will be very essential.

In a holding company the price policy is within a head company competence. Thus, neither heads of definite gas station, nor branch or subsidiary management has an opportunity to adjust a realization price when external factors are changed independently. If competitors lower the prices at the next gas station, a gas station head has to signal about it to a direct head, and he has to coordinate the price change with a parent company representative. On average, such coordination takes 3 hours in Samara and 6 hours in remote areas. It is natural that in case of price decrease by competitors, realization is significantly reduced by a holding gas station and the company bears losses in a form of an uncollected income. Realization is reduced and it depends on gas station location by 11 to 24%. In 2013 there were 18 similar situations with price change in Samara. Due to retail market entrance of a new fuel operator in 2012-2013 a high price competition was observed.

So, in 2009-2010 because of slow competitors reaction to price changes, the company lost realization volumes of 5 400 tons only in Samara, and 3 335 more tons in other regions of the Samara region.

The price factor is one of the major factors on retail oil products market. So, according to development management and marketing assessments a consumer will choose a better known brand if difference in fuel is from 10 to 50 kopeks per liter. If the difference in fuel is more than 50 kopeks per liter, brand recognition, history and company scale play a supporting role. And as in 2012-2013 during some periods of time the difference in price reached 2 rubles per liter, a considerable share of realization passed to the companies which realize a dumping strategy.

In a head company of a holding there is an employee, which main function is realization prices coordination with all branches and subsidiaries. In case of specified functions transfer to heads competence of business structures there is no necessity to have this position that will allow saving a salary fund, and also payments to off-budget funds.

Thus, a cumulative economic effect when decentralization project is implemented in 2012-2013 could make 18 400 thousand rubles.

The losses and expenses connected with inefficient organizational structure, excessive functions centralization, desire to control all operational processes which were described above, certainly, are in most regional holding companies

not only in the Samara region, but also in Russia. For this reason coordination of subjects interaction of a holding company between themselves and regional authorities is an important aspect of efficiency and productivity of holding companies activity that influences enterprises.

For those 20 years during which the system of market relations is formed in Russia, top management of similar corporations came to a conclusion that there is a necessity for radical system reorganization and company management structure. It shows that soon definition and a choice of techniques and program implementation of similar transformation will be topical issues to increase efficiency and labor productivity, growth of enterprise competitiveness and possibility for regional holding companies to step out regional borders and enter Russian and world sale markets.

However, after having defined the list of subjects which manage changes, it is important to inform ordinary employees about main project key points, and also to implant transformations in their consciousness and corporate culture. Similar issues are brought up in works of famous scientists, economists and managers, however specifics of Russian economic situation are not considered. As it was already noted above, in view of great regional holding companies influence on regions development, the mistake in changes project implementation involves not only enterprises competitiveness decrease, but also the decrease of regional system competitiveness. For this reason local authorities have to be informed about changes introduction projects, and strategic plans are agreed with territory development strategy. Imperious elite has to stimulate changes in regional holdings, help management when they develop strategic plans and their realization in life, since more effective functioning of business structures will lead to feedback growth from public and private partnership of the region.

Similar support can be carried out in the following directions:

First, it is an active participation and mechanism advance of constantly operating meeting as an interaction platform of business, power and society. Now on the regional level similar interaction is on a low level. Business, power and public institutes hold separate independent conferences, seminars where views of economic social systems development are considered, but the dialogue between these subjects is not observed. And the similar form of discussion as constantly operating council or meeting, is described in detail in chapter 2 of this article, and it will be able to remove elements of uncertainty and intensity.

Secondly, it is public, open and comprehensive coverage of significant regional problems, possible ways for their solution, and also advantage for society and business structures if these problems disappear. On the regional level there has to be a continuous discussion with independent and qualified involvement of the experts, as well as representatives of social institutes and business. All this creates an effect of population involvement into region management, solution to problems, an effect of a strong civil society.

Thirdly, regional power can organize training seminars, round tables with leading experts participation on strategic management and organizational development. The main goal of similar actions is motivation of regional holding companies to development through transformation project implementation, to transition to a new paradigm of changes management and as a result we will observe population welfare growth and regional economies.





Thus, if there is competent and effective interaction between all participants of social and economic life of the region, changes management in holding companies can become an economic development engine on the regional level. Therefore along with the traditional tools of economic growth stimulation, imperious elite also has to use changes management mechanisms as a way of strategic problem solution in the region.

### Disclosure statement

No potential conflict of interest was reported by the authors.

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