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BODØ GRADUATE SCHOOL OF BUSINESS

MASTER THESIS

**“Attitude towards the Beyond Budgeting
concept in Russia”**

by:

Martin Andersen & Kjersti Nelson Levina

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Sammendrag

Formålet med denne oppgaven var å finne ut hvilke holdninger russiske ledere har vedrørende styringsmodellen Beyond Budgeting. Dette for å finne muligheter og barrierer vedrørende å implementere Beyond Budgeting i Russland. For å finne frem til holdningene formulerte vi et forskningsspørsmål og tre underspørsmål til å hjelpe oss å finne frem til holdningene og svaret på hovedspørsmålet.

Hovedspørsmålet var *“Hva er mulighetene og barrierene, i russiske holdninger, vedrørende implementering av Beyond Budgeting i Russland?”* De tre under spørsmålene var: *“Hva er de viktigste karakteristikene ved den russiske styringsmodellen i lys av Beyond Budgeting konseptet?”*, *“Hvordan kan den fem dimensjonale kultur modellen forklare karakteristikene ved den russiske styringsmodellen?”* og til slutt *“Er det forskjeller mellom styringsmodellene i russiske selskaper og hva kan eventuelt forklare forskjellene?”*

Dette gjorde at vi fikk noen spennende resultater hvor vi fant ut at det er store likheter i kritikken av det tradisjonelle budsjettet fra Beyond Budgeting teorien og fra russiske ledere. De største likhetene fant vi vedrørende tillits problemet og bonus problemet. Hofstede modellen klarte til en viss grad å beskrive våre funn i det første spørsmålet, men trengte litt modifisering med to nye aspekter for å virkelige kunne gi en god forklaring. Avslutningsvis så fant vi ut at det er store forskjeller i styringsmodellene vi finner i Russland. Vi har alt fra store hierarkiske selskaper med sentralisert makt og kommandolinjer, til litt mindre dynamiske selskaper med en flat struktur og åpne prosesser. Dette kunne forklares i lys av faktorer som størrelse, utdanning, eierskap osv.

Prosjektet ble gjennomført som et eksplorativt case, med en kvalitativ tilnærming som resulterte i tolv intervjuer med ledere fra ti forskjellige selskaper. De var for det meste involvert i industrier rundt naturressurser, men også andre bransjer var representert for å nyansere bildet noe.

Preface

This master thesis is finalizing the Masters' Degree in Energy Management at Bodø Graduate School of Business.

The work performed in writing the thesis has been challenging, entertaining and sometimes frustrating. The process of writing the thesis gave us new knowledge, inspiration and valuable experience. The theme of the thesis is "*What are opportunities and barriers in Russian attitude, for implementing Beyond Budgeting in Russia*" – a theme with relations to the management accounting discipline.

We would like first and foremost express our gratitude to all the help, guidance and input we received from our Supervisor – Professor Anatoli Bourmistrov. Furthermore, we would like to express gratitude towards the informants who found some time in their hectic schedule to provide us with information. And we would like to express gratitude to our friends and family for their help and input. They helped us to stay motivated and gave us the time necessary to write the thesis.

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Martin Andersen

Kjersti Nelson Levina

Abstract

During the last decades, Russia has established itself as a world energy player. This has happened due to vast reserves discovered, its geographical position and exploration potential. Recently, Russia also has had a booming consumer market and international companies have established themselves in Russia. The mysterious neighbour country of Norway is getting more and more interesting for Norwegian businesses. The cooperation between Norway and Russia has developed recently and the purpose of this research is to analyse the opportunities and barriers in attitude among Russian professionals towards the Beyond Budgeting concept. Beyond Budgeting is a performance management philosophy that has been embraced by several Scandinavian companies the last decade. Norway's most important company; Statoil has embraced the Beyond Budgeting concept and partly implemented it. By making research on how a performance management concept, which is growing in popularity in Scandinavia, is perceived in Russia, we hope to contribute to a deeper understanding of management over the northern borders and to build a stronger foundation for cooperation.

We aim to analyse the attitude of Russian professionals by answering three research sub-questions; 1) *“What are the main characteristics of the Russian management model from the perspective of Beyond Budgeting literature?”* 2) *“Whether and how can Hofstede's findings regarding culture in Russia be useful in explaining the characteristics of the Russian management model?”* and 3) *“Are there and what are the variances in the characteristics of Russian management models?”* By answering these questions, we feel comfortable to discover the attitude towards the Beyond Budgeting concept of Russian professionals.

In chapter two, the theoretical chapter, we present the theoretical framework for the project. The framework builds on the Beyond Budgeting concept and the five-dimensional model by Hofstede. With this framework, we compare the critique of the traditional budget from the Beyond Budgeting model with the critique of the traditional budget received from Russian professionals. By doing so, we got a feel for the attitude as well as we uncovered some characteristics of the Russian management models. Furthermore, we used the cultural framework to describe whether the cultural framework predicted the characteristics found in question one or whether it differs. Finally, we tried to explain variations in the Russian management models by discussing the variances in light of certain explanatory factors.

The research project is an exploratory case research with a qualitative form of data collection. The method of analysis is the grounded approach. We interviewed 12 informants from ten different companies to get a lot of information to highlight the problem statement. The companies in our research are mainly natural resource companies, but we also included some other industries to get a broader view.

The most important findings we made were that the critique of the traditional budget from the Russian professionals and that of the Beyond Budgeting literature, was almost identical at some points. At some points we found deviations. The Russians also had some other variants on how to solve some of the problems that are addressed both in Russia and in the west. The most important similarities are related to the trust problem and the bonus problem. There was in relation to this also discovered one important aspect. The Russians have problems with lack of trust and also a problem caused by trust being based on interpersonal relationships that cannot be copied. In the west, the companies also have trust problem, but try to replace personal trust with formalized trust. The bonus problem was similar in the way that both Beyond Budgeting literature and the Russian professionals were promoting collective bonuses as a good option, since there were problems related to individual bonuses.

The Hofstede framework was quite right on some points and struggled to explain on other points. The reason for that is a high level of generalisation that might give a more correct picture for Russia as a whole but did not notice important details and shifts going in the city business culture. We discovered that the five-dimensional model was quite useful after we took two new aspects into consideration. This was done mainly to separate between static and dynamic companies, and to separate between Russians living in the city and Russians living on the countryside. There were massive differences between these groups, which can be the reason for us finding different traits of Russian culture than Hofstede identified.

At last, we saw that there are big variances in the management models in Russia. We found both static, hierarchical command structures, and flat dynamic, autonomous models. There are differences that can be explained by factors such as size, education and ownership. The most interesting regarding this was that ownership influenced, the educational background of employees, and hence the management model.

Table of Content

SAMMENDRAG	I
PREFACE	II
ABSTRACT	III
1 INTRODUCTION	1
1.1 TOPIC.....	1
1.2 BACKGROUND FOR THE TOPIC AND RELEVANCE OF THE RESEARCH.....	1
1.3 PURPOSE	2
1.4 MAIN PROBLEM STATEMENT	3
1.5 BOUNDARIES.....	3
1.6 STRUCTURE OF THE THESIS	3
2 THEORETICAL CONCEPTS AND PERSPECTIVES	5
2.1 CRITICS TO TRADITIONAL BUDGETING	5
2.2 SEVEN PROBLEMS OF TRADITIONAL BUDGETING.....	7
2.2.1 <i>The Trust problem</i>	7
2.2.2 <i>Cost Management</i>	8
2.2.3 <i>The Target-setting and evaluation Problem</i>	8
2.2.4 <i>The Bonus Problem</i>	9
2.2.5 <i>Rhythm Problem</i>	10
2.2.6 <i>The Quality Problem</i>	11
2.2.7 <i>The Efficiency Problem</i>	12
2.3 BEYOND BUDGETING	13
2.3.1 <i>Svenska Handelsbanken</i>	13
2.3.2 <i>Beyond Budgeting as a Scandinavian phenomenon?</i>	14
2.3.3 <i>Defining Beyond Budgeting</i>	14
2.3.4 <i>A management model</i>	15
2.3.5 <i>The Beyond Budgeting principles</i>	15
2.3.6 <i>Beyond Budgeting as a management innovation for the future</i>	17
2.4 THE FOUR-DIMENSIONAL CULTURE MODEL BY GEERT HOFSTEDE.....	18
2.4.1 <i>Definitions</i>	18
2.4.2 <i>Not included in the definition</i>	18
2.4.3 <i>Levels of defining culture</i>	19
2.5 HOFSTEDE'S VALUE DIMENSIONS.....	19
2.5.1 <i>Uncertainty avoidance (UA)</i>	20
2.5.2 <i>Power distance (PD)</i>	21
2.5.3 <i>Individualism versus collectivism (IND)</i>	24
2.5.4 <i>Masculinity versus femininity (MAS)</i>	25
2.6 REPEATING THE IBM STUDY.....	26
2.7 CRITIQUE OF THE FOUR-DIMENSIONAL MODEL	27
2.8 COMPLEMENTARY CLASSIFICATIONS OF NATIONAL CULTURES.....	28
2.9 NORWAY VERSUS RUSSIA	30
2.10 BRIEF OVERVIEW OF RUSSIAN HISTORY	32
2.11 BRIEF OVERVIEW OF NORWEGIAN HISTORY	33
2.12 RUSSIA VS. NORWAY	34
2.12.1 <i>Differences in project management in Norway and Russia</i>	36
2.12.2 <i>Statoil's management model: Ambition to action</i>	36
2.12.3 <i>Traditions and implementation</i>	38
2.12.4 <i>Ethnographic breakdown</i>	38
2.13 CULTURAL THEORY IN MANAGEMENT ACCOUNTING.....	39
2.14 SUMMARY.....	40

3	METHODOLOGY	42
3.1	PHILOSOPHY	42
3.1.1	<i>Qualitative and Quantitative methodology</i>	42
3.1.2	<i>Positivism and social constructivism</i>	43
3.1.3	<i>Four perspectives on methodology</i>	45
3.2	RESEARCH DESIGN	46
3.2.1	<i>Case design</i>	47
3.2.2	<i>Data collection</i>	48
3.2.3	<i>Interview</i>	48
3.2.4	<i>Choice of case and informants</i>	50
3.3	DATA COLLECTION	52
3.3.1	<i>Level of analysis</i>	53
3.4	PRESENTATION OF COMPANIES	53
3.4.1	<i>Cluster 1 State-owned natural resource companies</i>	53
3.4.2	<i>Cluster 2 Private-owned natural resource companies</i>	54
3.4.3	<i>Cluster 3 Other companies</i>	54
3.4.4	<i>Transcription</i>	55
3.4.5	<i>Assessing quality</i>	55
3.4.6	<i>Analysis</i>	57
3.4.7	<i>Ethical issues</i>	58
3.4.8	<i>Summary</i>	58
4	EMPIRICAL CHAPTER	59
4.1	TRUST PROBLEM	59
4.1.1	<i>General findings</i>	59
4.1.2	<i>Cluster 1 State – owned natural resource companies</i>	66
4.2	COST MANAGEMENT PROBLEM	67
4.2.1	<i>General findings</i>	68
4.2.2	<i>Cluster 1 State – owned natural resource companies</i>	71
4.3	TARGET SETTING AND EVALUATION PROBLEM	73
4.3.1	<i>General findings</i>	73
4.3.2	<i>Cluster 1 State-owned natural resource companies</i>	75
4.3.3	<i>Cluster 3 Other companies</i>	76
4.4	BONUS PROBLEM	77
4.4.1	<i>General findings</i>	77
4.4.2	<i>Cluster 1 state-owned natural resource companies</i>	79
4.4.3	<i>Cluster 3 other companies</i>	80
4.4.4	<i>Common findings cluster 1 & 3</i>	81
4.5	RHYTHM PROBLEM	82
4.5.1	<i>General findings</i>	83
4.5.2	<i>Cluster 1 State-owned natural resource companies</i>	84
4.5.3	<i>Cluster 2 & 3</i>	85
4.6	QUALITY PROBLEM	86
4.6.1	<i>General findings</i>	86
4.6.2	<i>Common findings cluster 2 & 3:</i>	87
4.6.3	<i>Cluster 1 State – owned natural resource companies</i>	89
4.6.4	<i>Specific findings cluster 2 & 3</i>	89
4.6.5	<i>Cluster 3 Other companies</i>	89
4.7	EFFICIENCY PROBLEM	90
4.7.1	<i>General findings</i>	90
5	ANALYSIS	93
5.1	BUDGETS IN RUSSIA, SAME PROBLEM BUT DIFFERENT REASONS AND SOLUTIONS	93
5.1.1	<i>Trust problem</i>	93
5.1.2	<i>Cost management problem</i>	97

- 5.1.3 *Target setting and evaluation problem* 100
- 5.1.4 *Bonus problem*..... 102
- 5.1.5 *Rhythm problem*..... 103
- 5.1.6 *Quality Problem* 104
- 5.1.7 *Efficiency problem* 106
- 5.2 HOFSTEDE’S DESCRIPTION OF RUSSIA: LOST IN GENERALIZATION..... 106
 - 5.2.1 *Uncertainty avoidance and Power distance*..... 107
 - 5.2.2 *Power distance*..... 109
 - 5.2.3 *Masculinity versus Femininity*..... 117
 - 5.2.4 *Individualism versus Collectivism*..... 120
- 5.3 ONE OR SEVERAL RUSSIAN MANAGEMENT MODELS? 121
- 6 CONCLUSION** **129**
 - 6.1 CONTRIBUTION TO RESEARCH 133
 - 6.2 FUTURE RESEARCH 133
- REFERENCES**..... **134**
 - BOOKS 134
 - ARTICLES 135
 - INTERNET 137
 - OTHER..... 139
- APPENDIX**..... **140**
 - APPENDIX 1 INTERVIEW GUIDE..... 140

Figure 1 Theory x and theory y of McGregor.....	6
Figure 2 Definition of BB overcoming problems	11
Figure 3 Beyond Budgeting principles Statoil version.....	16
Figure 6 Replication of Hofstede.....	27
Figure 7 Five dimension scores Nor-Rus	30
Figure 8 Five dimension scores for Norway and Russia.....	30
Figure 9 Management styles Russia and Norway.....	31
Figure 10 Statoil ambition to action	37
Figure 11 Ethnographic breakdown	38
Figure 12 Description of trust vs. transparency	61
Figure 13 Growth phase compared to Hofstede	111
Figure 14 Trust and control dichotomy analyzing PD and UA.....	113
Figure 15 Hofstede scores with additional concepts	132
Table 1 Statistics Nor - Rus	34
Table 2 Norway - Russia.....	35
Table 3 Different practices Nor - Rus.....	36
Table 4 Trust problem findings.....	59
Table 5 Cost management problem findings.....	67
Table 6 Target setting and evaluation problem findings	73
Table 7 Bonus problem findings.....	77
Table 8 Rhythym problem findings.....	82
Table 9 Quality problem findings	86
Table 10 Efficiency problem findings	90
Table 11 Trust problem critique comparison	93
Table 12 Cost management problem critique comparison	97
Table 13 Target setting and evaluation problem critique comparison	100
Table 14 Bonus problem critique comparison	102
Table 15 Rhythm problem critique comparison.....	104
Table 16 Quality problem critique comparison	105
Table 17 Efficiency problem critique comparison.....	106
Table 18 Explanation factors for variances in the russian management models.....	122

1 Introduction

This master thesis starts with presenting the topic of the thesis and the relevance of the research. Then the problem statement and the research question are presented. Afterwards, the boundaries are set for the thesis; then the structure of the thesis is explained.

1.1 Topic

The topic of our master thesis is “*What are opportunities and barriers, in Russian attitude, for implementing Beyond Budgeting in Russia?*” There have been conducted several research projects related to the Beyond Budgeting (BB) concept and culture. But we have not been able to detect such a deep research project towards the attitude, among professionals, towards opportunities and barriers for implementation of this concept in a Russian context.

1.2 Background for the topic and relevance of the research

It has been over twenty years since the Soviet Union collapsed and market economy was introduced in Russia. A lot have happened over these twenty years. Russia has opened up and transformed into a market economy, but still there are a lot of myths concerning management and business practices in Russia. Trade and cooperation between Russia and other countries have increased a lot over the last years and Russia with its 147 million inhabitants is an attractive market of great potential for foreign companies. Russia is a country which has a rich natural resource base, which has contributed to boost the economy and increase the market also for consumer goods and other articles. Russia has become one of the biggest single markets for Norwegian salmon and Norwegian companies in different spheres is working in Russia. Most attention is given the oil and gas industry, which is world leading in both the countries. Even though the cooperation and knowledge exchange has been going on for years, the two countries started on a new page of technological and economic cooperation after the border delimitation agreement was solved in 2010. Now potential partners for Russian companies in Norway want to increase their knowledge of Russian traditional management and contemporary changes and trends in management style in Russia. With new knowledge the companies can continuously improve the ground for cooperation.

Statoil proposed the topic for this thesis, since they had experienced some differences in management style and attitudes to performance management systems in Russia.

The two countries have both similarities and differences in their historic and cultural backgrounds and therefore these factors can create great opportunities for over-border relations if understood by each other. When understanding is in place, there is ground for fruitful cooperation.

The two countries have complying industries and great potential for increased cultural and economic sphere: Norway has advanced offshore technology, aquiculture, fishery, banking and finance which could to a higher degree be welcome in Russia. Common industries and need in excellence provide a good start for value-creating cooperation.

There have been conducted a research related to foreign establishments in Russia and business activities in Russia. However the knowledge attached to management systems in Russian companies are limited, limited is also the knowledge concerning what the differences in management system can create of challenges and opportunities between western and Russian companies. (Bourmistrov and Mineev, 2011)

We would like to attain a deeper knowledge about the attitude of Russian managers towards Beyond Budgeting philosophy seen through BB critics of traditional budgeting. This concept is partly implemented and practiced by Statoil and see if we will now evaluate these aspects under the five-dimensional culture model by Hofstede to see if the cultural assessment explains the findings.

1.3 Purpose

We would like the thesis to be of help to Norwegian companies that wish to do business in Russia. The practical purpose of this thesis would be to help Norwegian businessmen understand how differences in attitudes to management models can create both opportunities and barriers and how the cultural aspects influence the management system. In addition, for us, as future professionals, the purpose of the thesis is to attain a deeper knowledge about international business and business practices in Russia.

1.4 Main problem statement

The main problem statement is: *“What are opportunities and barriers in Russian attitude, for implementing Beyond Budgeting in Russia”*

To answer this question, we have created three sub-questions to help us answer the main question. These research questions are:

- 1) *“What are the main characteristics of the Russian management model from the perspective of Beyond Budgeting literature?”*
- 2) *“Whether and how can Hofstede’s findings regarding culture in Russia be useful in explaining the characteristics of the Russian management model?”*
- 3) *“Are there and what can explain the variances in the characteristics of Russian management models?”*

1.5 Boundaries

Due to a limited time and resources available, we have set limitations to the project. We have narrowed it down to focus on potential business partners for Norwegian companies. Therefore the main focus has been on petroleum and natural resource companies, but we have also covered some other industries as well. The companies studied for in this research are big companies and most of them are situated in Moscow. We will compare their answers to the Beyond Budgeting critics toward traditional budgeting model and to the cultural dimensions model by Hofstede.

1.6 Structure of the thesis

The thesis will be divided into six chapters including this introduction. In chapter two, we will present the theoretical framework for our research project, the Beyond Budgeting concept and critique of traditional budgeting, the four-dimensional culture model and the main differences between Norway and Russia. This is the framework we will assess our findings against later on in the thesis. In the third chapter, we will give a presentation and argue for the choice of methodology and research design. The fourth chapter will present the findings of our research. The fifth chapter will analyze the findings presented in the previous chapters in light

Master thesis in Master of science in Energy Management

of the theoretical framework presented in chapter two. The sixth and final chapter will finalize our thesis by drawing conclusions based on the analysis in the previous chapters as well as proposing future direction of research.

2 Theoretical concepts and perspectives

The main goal of this theoretical framework is to try to create a theoretical base in order to be able to answer the problem set and the research questions in a best possible way. The theory will create the base for making an analysis of the empirical part. It will be focus on seven problems with traditional management performance and cultural theory.

2.1 Critics to Traditional Budgeting

Budget functions are often seen as key to successful management. Yet, numerous studies give place for criticisms and complaints on budgeting practices. One well-documented issue is that traditional budgeting often creates a fixed performance contract that limits an organization's ability to be responsive in the contemporary constantly changing environment.

Budgets have been described as “a financial blueprint of management's expected plans of action.” As such, they serve at least six key functions:

- Setting targets
- Aligning incentives
- Developing action plans
- Allocating resources
- Coordinating across all functions
- Monitoring and controlling finances

(Player, 2009)

The literature is full of criticism towards traditional budgeting and shows why management tools like Beyond Budgeting, are gaining more territory in the business world. One of the most famous theories about human motivation in enterprises is Douglas McGregor's distinction between Theory X and Theory Y. McGregor (1960) made a simple yet powerful observation that managerial practice often expresses some very deep assumptions about the nature of human beings: two competing theories about human nature, he claimed, dominate the managerial thinking. Theory X says that the average human being is lazy and self-centered, lacks ambition, dislikes change, and prefers to be told what to do. Theory X

managerial approach therefore emphasizes control. The opposite Theory Y claims that human beings are active shapers of themselves and of their environment. They long to grow and assume responsibility and the best way to manage humans is therefore to manage them as little as possible. Give them water and let them bloom, say the Y-types. (McGregor, 1960, Stewart, 2010)

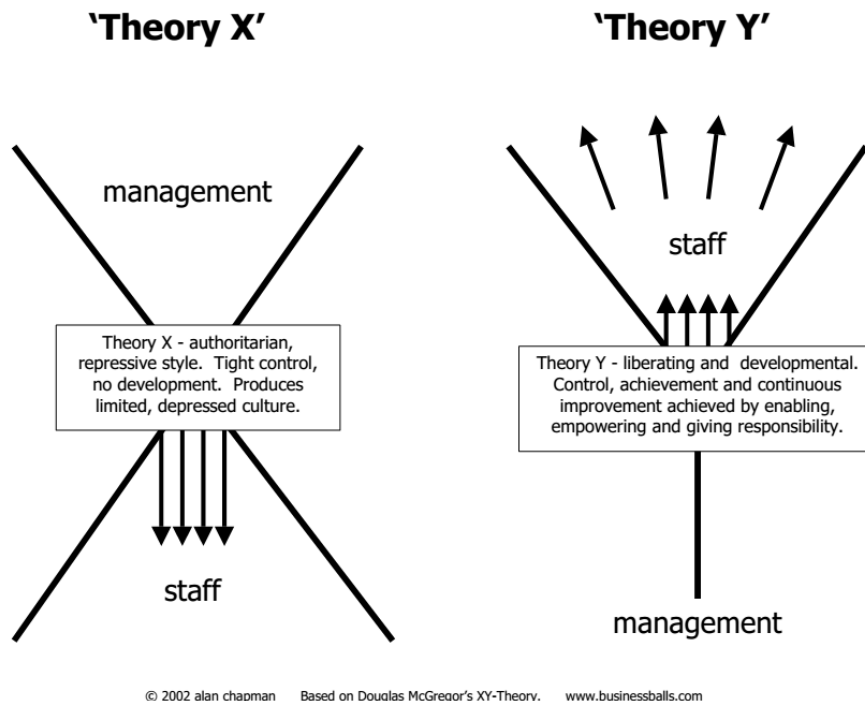


Figure 1 Theory x and theory y of McGregor (Alan Chapman's model based on McGregor's theory)

There is a lot of theoretical material that is criticizing traditional budgeting and that is why we discuss only the most central critics in the thesis. Most central for the critics are issues pointed out by Hope and Fraser (1997, 2000, 2003). The criticism is mostly about danger for “gaming”, lack of focus on non-material assets; lack of attachment to strategy and that budgeting in itself is costly and time consuming. Many researchers are criticizing the historical focus and lack of attention to future outcome (Merchant, 1985; Dearden, 1987; Kaplan and Norton, 1996).

2.2 Seven Problems of Traditional Budgeting

Bjarte Bogsnes, (2009), author of Beyond Budgeting concept, is addressing seven major problems with traditional budgeting. In this thesis, we are trying to understand the attitude of Russian professionals towards these seven problems. We chose to focus on these seven problems in the research because we believe that attitude towards them are essential for analyzing the possibilities of implementing Beyond Budgeting. So, these seven problems are:

Trust

Cost Management

Target Setting and Evaluation

Bonus

Rhythm

Quality

Efficiency (Bogsnes, 2009)

2.2.1 The Trust problem

Trust is a commonly discussed topic within modern theory of budgeting and performance management. Some academics argue that in many complex situations, trust between people has been replaced by trust in systems, such as accounting systems (Porter 1995). Hope and Fraser argue that cooperation which leads to trust-based system results in a sustainable system with competitive advantages. Companies that have a trust based system set their people free to use their intuition and knowledge to make decision closer to the customer. (Hope, Fraser, 2003). The managers' relation to trust reflects their ability to step aside of tight control, short leashes, detailed budget and sharp instructions. A person who does not value trust will be more likely to think that a less strict system will lead to anarchy and disorder. (Bogsnes, 2009). Trust is important to all the roles in a company's system. For instance, accountants are believed to have a heavy influence on managers' decision-making processes (Hirsch, Nitzl 2013). Given the fact that managers trust their accountants and that they make decisions basing on accountants' estimates, it is important to know what stands behind the accountants' estimates. We understand from this line of reasoning that trust is crucial in most aspects of management and leadership. The trust issue is important as a background when we discuss all the six other problems.

2.2.1.1 Beyond Budgeting solution to Trust Problem

The solution is to have more trust to your people. *“If we trust most of our people, that big majority must be the design platform for our models rather than a small majority.* (Bogsnes, 2009, : 10) At the same time, managers should not be naive, but give clear boundaries, and make it clear that crossing the line will have consequences. (Bogsnes, 2009) *“Organizations that have succeeded in embedding the high moral standards into their corporate culture find they have little need for top-down budgets and fixed performance contracts.* (Hope, Fraser, 2003, : xxii) *“ According to Hopes & Fraser (2003) The problem with budgets and fixed performance contracts is that they assume an absence of trust. As an opposite variant the Beyond Budgeting model encourages trust.*

2.2.2 Cost Management

The problem here is that when the managers’ main task is not to overrun or use too little of the cost budget that was decided last fiscal year, they could miss opportunities that would ensure an efficient and value creating use of resources. (Bogsnes, 2009) It is wrong to concentrate too much on cost reduction instead of value creation. (Østergren and Stensaker, 2011) Also, the entitlement effect is problematic. Managers of big budgets get the feeling that the money is theirs and that the bigger budget they have, the more important they personally are. Managers feel that when they have a budget, they need to use all of it, so that they would not get less next year. *“Nobody gets fired for spending their budget.”* (Bogsnes, 2009:16) The Beyond Budgeting model separates its rolling forecasts from performance evaluations. (Hope, Fraser, 2003)

2.2.2.1 Beyond Budgeting solution to Cost Management Problem

Beyond Budgeting theory says *“You can use basically as much as you want if you bring more back to the company.”* This means that there is a shift towards more value creation rather than cost control.

2.2.3 The Target-setting and evaluation Problem

The traditional budgets contain cost number, income number, production or market share in predefined absolute numbers. Even if a company reaches the targets, no targets are perfect

because things can happen and assumptions can change. Having as a goal to hit the targets is according to Bogsnes (2009) not good in the first place. The problems with rigid old-fashioned target-setting is that good projects could be turned down because they would lead to budget overrun, quality can be neglected in favor of finishing on cost and in time (Bogsnes, 2009). American companies and business style has been criticized for being short-term oriented, compared to its foreign competitors, due to the managers focusing on short-term profit to please the shareholders. (Anderson, 1991) Having too much focus on fixed targets could take the focus away from overall strategy of the company. (Hope, Fraser, 2003)

2.2.3.1 Beyond Budgeting suggests following solution to Target Setting & Evaluation Problem

Beyond Budgeting suggests relative measures that usually evaluate results against leading industry indicators, competitors' performance, and benchmarks of similar functions within the same company and at other companies. The measures sometimes also include comparisons with previous year performance, but the focus is on how well the business-unit did in relation to other groups.

“A lean enterprise focuses business leaders on managing the systems of product and service delivery rather than managing to meet budgeted targets.”(Fraser, Hope, Player, 2003)

2.2.4 The Bonus Problem

Many managers ask: *“What will drive my bonus if there is no budget?”* (Bogsnes, 2009, :28) The problem with bonuses is that they are often attached to bad targets. The individual bonus system due to these reasons is negative, because it makes managers negotiate down their targets to be able to get their bonuses. This is how bonuses makes targets go down. Clearly much of the influence of performance evaluation is driven by the desire of managers to please their superiors and thus gain some form of reward financial or otherwise. (Otley, 1999) The bonus system also encourages opportunistic behavior and “gaming” (Hope, Fraser, 2003).

2.2.4.1 Beyond Budgeting solution to the Bonus Problem

The Beyond Budgeting model separates its rolling forecasts from performance evaluations. It assumes that ethical organizations can still pay incentive compensation, but they do not tie it to negotiated targets. (Hope, Fraser, 2003) A better variant could be collective bonuses based on overall company performance against competition. (Bogsnes, 2009) The company could

base incentive payouts on relative performance metrics, that is: measures that evaluate results only in comparison with the performance of other business units. (Hope, Fraser, Player, 2003).

2.2.5 Rhythm Problem

Academics that promotes the BB concept and says that the business world is too dynamic to be able to fit into a typical year-to-year business planning cycle. *“It is like forcing a wild tiger into a cage.”* (Bogsnes, 2009, :41)

The situation is the following: Usually financial managers divide the yearly planning into three categories:

1. Events that take place before the summer.
2. Events that are occurring during the budget and planning process. Finance people usually don't like these events since they make it difficult for the managers to make the budget plan. They are confronted with the dilemma: To include or not to include the event.
3. Strike of lightning: Events that happens after the budget is approved. These are events financial people usually dislike because it is ruining their “perfect budget” is.
(Bogsnes, 2009)

In addition, publicly held companies usually time the forecasting process to support discussions with investment analysts. The average company takes 14 days to develop a financial forecast. (Axson, 2010) The process cycle times are prolonged due to:

- Difficulty in getting timely information
 - High level of required detail taking significant time to forecast each item
 - Data in disconnected spreadsheets, making integration a time-consuming process
- (Axson, 2010)

A concrete example demonstrating how this cycle rhythm is problematic took place back in the planning cycle for fiscal year 2009. It began with market swings and seismic changes in the funding and liquidity landscape, rendering many traditional budgets obsolete before the

fiscal year even started. In this year, seventy percent of CFOs said they could not forecast for more than a single quarter. Two out of three executives predicted that their 2009 budgets would be obsolete within the first six months of the fiscal year. Twenty-eight percent of executives reported that their budgets were effectively useless before the year even began. (PWC, 2010)

2.2.5.1 Beyond Budgeting solution to Rhythm Problem

The suggested solution to the Rhythm Problem is to implement a form of forecasting that allows managers to update budget numbers with actual results from past periods. The forecasts are used to predict what may happen in the future, often seeking to confirm whether pre-determined annual targets will be met. This is called rolling forecasts.

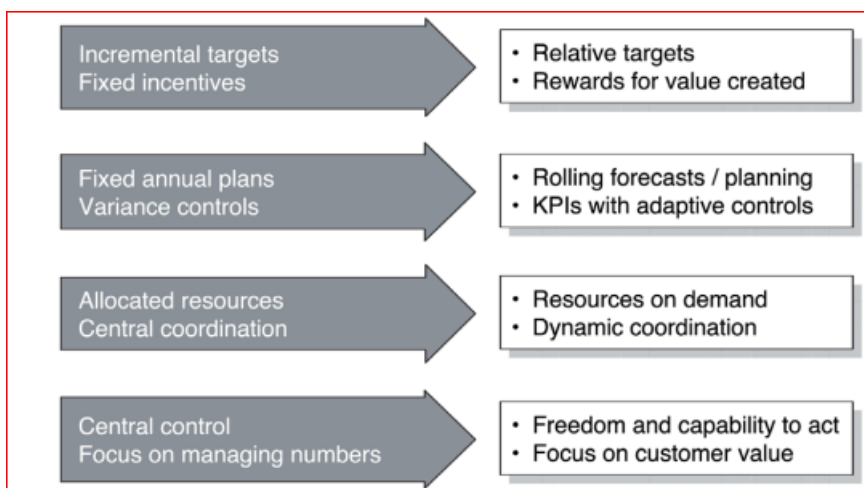


Figure 2 Definition of BB overcoming problems (bbrrt.org)

2.2.6 The Quality Problem

Companies make budgets and business plans for three quite different purposes, that according to Bogsnes (2009) need to provide:

- Good targets
- Reliable Forecasts
- An effective resource allocation

These three purposes are often in conflict.

Purpose of forecast:

- It should be the best guess on the future, the expected outcome, whether we like what we see or not.

- It should get issues on the radar as early as possible to be able to make corrective actions.

The Budget planning process does not fit for high-quality forecasts, because of a few reasons, analysis below.

Sales: If the company make good sales forecast – it gets an understanding of how the production needs to be. Cost and manning levels are also possible to estimate. When target setting is introduced to the process, the sales manager according to Bogsnes (2009), feels that he needs to protect his own interests, in terms of him being able to reach his target. Then the sales manager starts to move the numbers down, since he understands that his indicated sales forecast will become the target he needs to reach.

Cost: Some of the same mechanisms are applied for the cost. When the Production manager - is asked about his expected level of resources required for next year – the manager knows the same number will be next year's cost budget. This is why he will try to avoid putting him selves in the situation where he risks to overrun the budget. The person will try to get as big budget as possible and this is why the “Sandbagging problem” eksists. (Bogsens, 2009)

Problem A: Combining target setting and resource allocation as parallel purposes in a forecasting process we ruin the quality of both forecast and other purposes. (Bogsnes, 2009)

Problem B: Need to make ambitious targets and good reliable forecasts. It is best of all to have them in different processes, not the same. (Bogsnes, 2009)

2.2.6.1 Beyond Budgeting solution to Quality Problem

The solution consists of two steps: firstly, to separate, then to improve. This means that it is counterproductive to combine targets; the processes should be clearly separated. One should never negotiate two different numbers and end up somewhere in between. (Bogsnes, 2009)

2.2.7 The Efficiency Problem

This problem evolves when companies use too much time on budgets and budget reporting. Companies spend on average 25 000 man-days on the budgeting per billion USD in revenue. (Hacket Group). Companies spend very much time on making the plans and then reporting against them. (Bogsnes, 2009)

If you present a few rounded numbers that are easy to understand, people would not take you seriously, and would assume that they are results of guessing and approximation. The more details the more trustworthy it seems for financial managers they especially like lots of numbers with many decimals.

2.2.7.1 Beyond Budgeting solution to Efficiency Problem

The proposed solution to this problem is quite simple; remove the budgets and implement a balanced scorecard approach instead. Focus on the broad lines of deviations instead of fine calculating decimal numbers and spend time on recalculating budgets.

2.3 Beyond Budgeting

The Beyond Budgeting management model arose from the Svenska Handelsbanken AB in the 1970's. The new management model was focusing more on reporting and less on central budgeting in order to achieve a higher level of autonomy and decentralization (<http://en.wikipedia.org/wiki/Handelsbanken>). The concept has been developed further by economic scientists and this has resulted in the Beyond Budgeting concept. The Beyond Budgeting is used in many different countries all over the world, but some claim it is fitting best the Scandinavian culture. (Østergren, Stensaker, 2011) Maybe it is not a coincident that Scandinavia's biggest company, Statoil, has embraced this concept. Will discuss the Norwegian-fit in upcoming chapters.

2.3.1 Svenska Handelsbanken

The consistently high profitability of Svenska Handelsbanken is the result of its focusing on customer satisfaction instead of product volume and market segment targets. The product campaigns are not centrally organized. (Gebauer, Röösl) The bank does not measure the profit or loss of its products, but focuses instead consistently on customer-profitability. *“From this strong customer orientation, the leadership and organization is based on empowerment*

and responsibilities are distributed deeply throughout the organization. Decisions are taken as close as possible to the customer, in the branches, which means they are made quickly, competently and at low cost. Over 50% of Handelsbanken employees have their individual lending authority. Internal suppliers of services have to live up to their customers' requirements – and not follow some functional hierarchy. As a result, the organization becomes even more decentralized. (Gebauer, Röösl)

2.3.2 Beyond Budgeting as a Scandinavian phenomenon?

The Beyond Budgeting philosophy has especially received a lot of attention in the Scandinavian countries (Østergren and Stensaker, 2011; Henttu-Aho and Järvinen, 2013), due to its cultural fit with Scandinavian behavioral patterns. Involvement, transparency, flexibility and short power distance are typical for Scandinavian business culture, and this is a good base for Beyond Budgeting. However, Beyond Budgeting supporters claim that the model can also fit other cultures. A popular example is the Brazilian company Semco, which is challenging all aspects of traditional management. The company has demolished almost every control mechanism in the management vocabulary, and yet, the company is doing very good on the bottom line. (Statoil, Ambition to Action Document)

2.3.3 Defining Beyond Budgeting

The most widely used definition of Beyond Budgeting is given by Hope and Fraser: *“Beyond Budgeting is a set of guiding principles that, if followed, will enable an organization to manage its performance and decentralize its decision-making process without the need for traditional budgets. Its purpose is to enable the organization to meet the success factors of the information economy (e.g. being adaptive in unpredictable conditions)”* (Hope, Fraser 2003 p:212)

The Beyond Budgeting roundtable offers the following definition:

“Beyond Budgeting is about rethinking how we manage organizations in a post-industrial world where innovative management models represent the only sustainable competitive advantage. It is also about releasing people from the burdens of stifling bureaucracy and suffocating control systems, trusting them with information and giving them time to think,

reflect, share, learn and improve. Above all it is about learning how to change from the many leaders who have built and managed 'Beyond Budgeting' organizations." (bbtt.org)

The main idea behind this concept is to decentralize power and make the organization more flexible and more decentralized. The word "beyond" is used to describe a move from away from the traditional command and control systems to a management system that are more empowering and adaptive. (bbtt.org) and the word budgeting are not said in the sense of the purely financial plan but more as a term for the whole command and control management system.

2.3.4 A management model

The model is created not as a financial tool, but rather as a management model in terms of leadership and governance. The main focus of the model is on the performance aspect of modern organizations and how the leadership and management of these organizations can lay the foundation for improved performance and better results for the company as a single entity. (Bogsnes, 2009)

2.3.5 The Beyond Budgeting principles

Hope and Fraser (2003) sees Beyond Budgeting as a compilation of twelve principles, which are divided into two separate groups, leadership principles which deals with the fundamental leadership traits that builds the foundation for the model. The other group is called management processes and describes the processes around the budget, which are believed to increase performance compared to the more traditional budgetary management model.

The Beyond Budgeting principles

Change in leadership	Change in processes
1. Values - Govern through a few clear values, goals and boundaries, not detailed rules and budgets	7. Goals - Set relative goals for continuous improvement, don't negotiate fixed performance contracts
2. Performance - Create a high performance climate based on relative success, not on meeting fixed targets	8. Rewards - Reward shared success based on relative performance, not on meeting fixed targets
3. Transparency - Promote open information for self management, don't restrict it hierarchically	9. Planning - Make planning a continuous and inclusive process, not a top-down annual event
4. Organization - Organize as a network of lean, accountable teams, not around centralized functions	10. Coordination - Coordinate interactions dynamically, not through annual planning cycles
5. Autonomy - Give teams the freedom and capability to act, don't micro-manage them	11. Resources - Make resources available as needed, not through annual budget allocations
6. Customers - Focus everyone on improving customer outcomes, not on hierarchical relationships	12. Controls - Base controls on relative indicators and trends, not on variances against plan

Figure 3 Beyond Budgeting principles Statoil version

(Accessed from: biblogg.no)

To fully unlock the performance potential through this concept the principles needs to be seen as dependent on each other. Through their research, the authors found out that companies that had implemented the process principles achieve a state where they become adaptive organizations. But in order to keep the results the companies have received from climbing the first peak, they need to climb the second peak (leadership principles in order to become more decentralized and more similar to Handelsbanken AB. (Hope, Fraser 2003)

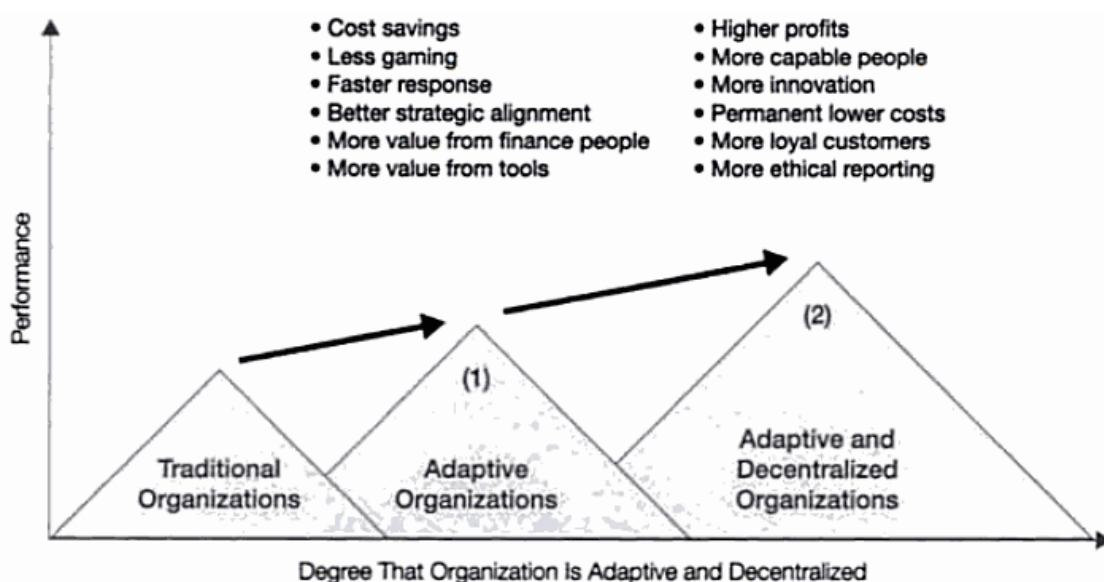


Figure 5 The peaks of BB (Hope & Fraser 2003)

2.3.6 Beyond Budgeting as a management innovation for the future

Ax and Bjørnenak (2007) argues that the Beyond Budgeting concept is not really a budgeting innovation, but rather a concept that builds on several other management innovations, such as the balanced scorecard, economic value added, value-based management and strategic management accounting.

This, through an innovation practice, that they have labeled ‘housing’, which they describe as an innovation process where the new “innovation” contains traits from already existing management models. The Beyond Budgeting concept and especially the Beyond Budgeting researchers see Beyond Budgeting as more comprehensive management model, rather than as a budgeting model. This is to see in reference to the principles of the Beyond Budgeting concept.

“By liberating their people from the fixed performance contract, most are transforming themselves into organizations fit to compete in a twenty-first-century environment where the only certainty is uncertainty and change.” (Hope, Fraser 2003 p: 15).

2.4 The four-dimensional culture model by Geert Hofstede

The definition of culture can be quite vague and difficult to define. While making this research, we have chosen to define ‘culture’ as a number of preferences stemming from a country-to-country perspective, rather than as some kind of a destiny one cannot change.

2.4.1 Definitions

Amongst a number of definitions of culture that could have suited our field of study, we have chosen to build this thesis on the definition provided by Geert Hofstede: “*Culture is the collective programming of the mind that distinguishes the members of one group or category of people from others.*” (Hofstede 2005:4). It defines culture as a mental product; we assume that culture is something that a human being learns from one’s peers and that it can be referred to as a living organism, which develops and evolves.

2.4.2 Not included in the definition

Since there are multiple definitions of culture, we are going to base this thesis on the definition in the previous section. This definition exclude some aspects of culture. Firstly, the definition excludes the cultural expressions of a society; culturally determined clothing, art, rituals and similar.

Secondly, there are attributes from persons that are not as related to the cultural programming of the mind, as it is to different personalities and personal traits. Even though we see a national culture as a product of collective programming of the mind, nations and national cultures will undoubtedly contain a lot of different personality types. So in this sense the personality and individually specifics are left out to keep focus on the collective cultural term.

The third and final factor we have chosen to exclude is political and economic systems. The reason for doing so is that political systems and economic systems are subject to quick changes while culture tends to outlive any political systems. However, given the long history and the peculiarities of the Soviet Union and its history, we have chosen to keep the door open and draw historic lines in terms of business development and how the social structures of the Soviet-era can still impact the findings we have made in the empirical chapter.

2.4.3 Levels of defining culture

Culture is defined as the collective programming of a group. Groups exist in multiple various settings and can for example be located globally, nationally, regionally, organizationally and in relations to generations and so forth.

Global culture is a term used to describe common “languages” and values in international organizations such as the Red Cross, IMF and so on. This category tends to be dominated by western companies and organizations. As an outcome this influences the set of values towards democracy, tolerance of diversity, individual rights and similar values.

National culture is the common cultural traits learnt inside a nation. These traits are learnt during ones childhood from the use of history, language, educational system, religion and similar. (Hofstede 2010). There is a probability of the existence of large sub-cultures inside national cultures that might have different traits than the national culture making the definition of one national culture more difficult.

Organizations are often seen to have an internal culture based on common values shared by the members of the organization. The organizations very often share traits with the national culture. Regarding difference between national culture and organizational culture, Hofstede (2010) argues that this is, related to when the given culture is absorbed. National culture is learnt during childhood, while organizational culture is learnt in adulthood and therefore it is not rooted as strong in the individuals as the national culture.

2.5 Hofstede’s value dimensions

Geert Hofstede is a Professor of Organizational Anthropology and a former IBM employee. He conducted interviews with IBM employees in 53 countries and thousands of employees. By statistical means he found that he could see patterns of similarities and differences in the data he collected. From this he was able to determine four dimensions of which he could categorize national cultures. Since the informants was employed in a multinational company and had different nationalities, he would ascribe the different answers to national culture and not to organizational culture hence the fact that they were all working for the same organization and therefore were only exposed to one organizational culture. Originally, he

identified four dimensions of national culture; these were uncertainty avoidance, power distance, masculinity vs. femininity and individualism vs. collectivism. Replications of the study have identified two more dimensions acknowledge by Hofstede. These two dimensions are long term versus short term orientation and indulgence versus constraints (Hofstede 2010). These replications are smaller studies and do not contain a lot of countries. Therefore we have chosen to focus on the four dimensions from the Hofstede research.

The four dimensions were originally published in *Culture's consequences: International differences in work-related values* (1980). Here the research and results was described and presented as a numerical score for each of the dimensions for 40 different countries. The scores are normalized from 0-100 and there is a relative score for each dimension.

2.5.1 Uncertainty avoidance (UA)

Uncertainty avoidance measures how different national cultures handle stress. A high UA score signalizes that the national culture and the society tends to be more avoidant of uncertainty and are often said to be emotional. They do not like change and shifts in the environment and they tend to cope with uncertainty by setting up rules and regulations and strong structures in the society; by that they try to minimize the chance of unknown and unusual circumstances to occur. These societies tend to develop and change slowly through rigid step-by-step plans.

The contrast to this description is the national cultures with a low UA score. These societies are said to have a nature comfortable to changing or changeable environments and unstructured situations. In a political sense, they are often said to be liberal and astride to have few rules and regulations, which has led to them being described as pragmatic and tolerant of changes.

However UA should not be confused with risk avoidance. UA is about the comfortableness of uncertainty and ambiguity and not risk. Risk is possible to structure and make good plans on how to cope with and also how to make procedures to minimize risk, and it is also possible to identify and know the risks and the chance of which it has to occur.

2.5.1.1 *Uncertainty avoidance in management*

Employees in high scoring UA societies have as Hofstede (2010) says been taught and been programmed from their early years to feel at ease in well-structured environments containing rules and formalized procedures. This translates to that there is an emotional need among employees from a high scoring UA society to work in an organization that is well-structured and lay focus on rules, formality and strict regulations. This emotional need can sometimes have what might be considered negative side effects. The need for rules and formal structures can lead to what can best be described as ritual, inconsistent or even borderline dysfunctional behavior. (Ibid)

Employees from societies with a low UA score however are quite the opposite, they are programmed to feel comfortable in more unstructured and free environments and have an emotional attachment to the freedom that comes from the lack of rules and regulations. It results in an attitude towards formal rules, were they will only be accepted if they can be categorized as highly necessary.

There is an attitude towards rules that separates these polarized scores as well. In high scoring UA societies the rules tend to be overlooked and the rules can be quite flexible. The number of rules in high UA societies can so high that employees find it difficult to follow them all. The opposite is the case in low scoring societies, were the few rules that in fact are approved and set in place, tends to follow more rigorously.

In large and complex organizations this can be seen in the job descriptions that are more formalized and add more descriptions to avoid uncertainty. The employees will also expect and will be comfortable to be told what to do, as well as their supervisor will have a tendency towards micromanagement since they tend to believe that if one wants a job done properly, precise instructions are a necessity. This applies in high scoring societies, while low scoring societies are more comfortable in more chaotic environments and think that autonomy are more suited to get the job done.

2.5.2 *Power distance (PD)*

Power distance index describes the distance between the members of the country and the perceived distance to those who have the power. This affects the expectations and the

acceptance of the power balance. In national cultures with a low score on the PD index one would describe the distance as short which means that the members are close to the decisions and the decision making process, and that often the leaders and those in power are perceived to have an inclusive and democratic leadership styles. People and those in power see each other as equals even though they have different formal positions. The expectation is to be close to the decision making and to have the right of being critical. In the world today we have high power distance scores in countries like China and particularly low scores in the Nordic countries.

The PD index tells us something about how we could expect the members of a given society to relate to distribution of power. High scores indicate a national culture with a high tolerance for inequality and difference in status among its members. This also gives a pin on how leaders expect their decisions to be met, with absolute acceptance in cultures with a high score and the possibility of criticism and doubt in cultures with a low score.

This can be observed in the community. You can look at how different generations speaks to each other, how the relationship between a professor and the students are or by looking at the internal relationships of a given family (Hofstede, 2010)

By looking at the scores presented by Hofstede, we can draw lines to describe the index scores. We can say that the countries with warm climates tend to have higher scores than the countries with a colder climate. The countries with a high score also tend to have a greater number of inhabitants than the low scoring countries. This may be due to the need of more tools of keeping control and overview? And one final pattern seems to be that countries with a well-distributed wealth have a lower score than the countries where wealth is less distributed amongst the members of the society.

2.5.2.1 Power distance in management

The power distance index in a country will tell us something about the relationships in this culture. In low scoring countries like Norway there is a pattern of people being equal in spite of their titles and positions. This translates into Norwegian employees being fairly comfortable in addressing their bosses and having conversations with higher-ranking officials. They even tend to be comfortable contradicting their bosses and showing disagreement.

In countries with a high PD score, the employees will be less comfortable with approaching their bosses and they will seldom disagree or contradict with their decisions directly or in public. Also, in high scoring countries where the power distance is observed as big, the employees and their supervisors see each other as less equal. This often leads to organizations in those countries to be hierarchic in their organizational charts and power is often centralized on the top of the pyramid. Communication lines will be going from one level to another, making the communication lanes long and less effective (Hofstede, 2010).

Ultimately, these organizations will prominently have employees that expect to be told what they should do and a large number of supervisors will be micromanaging. Leaders of these organizations will often be well respected and have an autocratic leadership style. In those circumstances where employees have less respect for their boss they will still comply with his orders.

In low scoring cultures one might also find hierarchical systems. However the positions here are not fixed, and subordinates may very well be bosses in the near future. People on different steps in the hierarchy still see each other as equal; the difference between them in regards to different positions and status is more a difference in positions than in the human dimension. The hierarchy tends to be a lot flatter from top to bottom than in high scoring cultures. Leaders in this culture are often more democratic and could be easily available for a consultation and for a talk to their employees, while in high scoring cultures this practice would be exceptionally rare. Given the ease of access between different hierarchical levels in low scoring cultures the need for supervisors and micro management is almost nonexistent.

There is little or no research proving that there is a difference in effectiveness between the bigger and smaller hierarchy and similarly low and high PD scores. However, there might be effectiveness differences in tasks of different nature. The low scoring cultures (organizations in low scoring countries) will perhaps be more effective on innovations and research as well as cognitive tasks. The high scoring cultures might be more effective in tasks that are more mechanical and industrial. Mechanical and industrial tasks usually require a great deal of discipline and less ideas and theoretical input from the subordinates (Ibid).

2.5.3 Individualism versus collectivism (IND)

Since there is a use of the word versus here, the two cases can be said to be the opposite of each other. This means that if one national culture is scoring low on collectivism, they at the same time scores high on individualism.

An individualistic culture tends to have focus on the individual, where members can strive for themselves and their own position. Collectivist cultures are leaning more towards members working for the group in which they belong. Here the group goes first and the individuals should think of themselves only after the situation is secured for the group.

Also in this dimension we can see patterns in how the different countries score. Countries with colder climates are more individualistic and countries in warmer climates tend to more collectivistic. USA is the most individualistic country in the world; this is not that surprising, given that the country is built on immigrants looking for a better future based on their struggle for themselves and their family. The most collectivist countries are found in Latin America. That may not be so surprising either, given the Catholic church's stronghold and strong family bonds of the region.

We can also see that these patterns are similar with the patterns of Power Distance. This is also true to a large extent, however it does not comply for all of the scored countries.

2.5.3.1 Individualism versus collectivism in management

At this level, a lot of motivation and strategy factors are coming into consideration. Members of organizations in cultures with a high individualistic score are expected to act in their own interest, to be self-oriented. The economic philosophy would identify this type of employees acting as "economic men" – a term used in the economic theory to define actors who operate according to utility maximizing pattern as consumers and profit maximizing pattern as producers (en.wikipedia.org). As a result of this, the organizations should make sure to line up their visions and strategic goals so that they coincide with the individual goals of the employees. On the other hand, collectivist cultures also employ people with individual goals, but organizations have to take into account the individuals group affiliation. The expectation is the individuals suppress their goals in favor of goals of their group (Hofstede, 2010).

This will also have major impacts for how organizations should motivate their employees. We have already mentioned the motivation and strategy in this cultural dimension. Incentives schemes are under focus in research and are one of the big questions of organizations around the world. There are a lot of interesting results and a big focus on intrinsic versus extrinsic incentives, where extrinsic or external incentives are “carrots” like cash, status and other material things. Intrinsic or internal incentives come from within the employee themselves. This can be challenging task that gives that requires intellectual work, good working environment and so forth (RSA.com).

However, in relation to this dimension the thing we will mention is that in a collectivist culture, the focus is on the group and bonuses should be paid out to groups, basing on the group’s performance. Also if someone plans to alter the organization, one should be careful on moving individuals around; in some cultures organizations need to take special care of collective groups in order to keep the performance at the same level.

Regarding the tasks, in individualist society, the tasks will always be more important than personal relationships. In the collectivist society, the personal relationships go first and may sometimes prevail over the necessity to perform a task well (Hofstede, 2010).

2.5.4 Masculinity versus femininity (MAS)

Hofstede’s fourth dimension of cultural difference relate to masculine versus feminine cultures. The traditional masculine traits here are competition, toughness, being strong, being ambitious. The traditional feminine traits are more related to caring, being modest, cooperation and sharing.

The masculine societies tend to have clear expectations related to gender roles while feminine societies tend to see this as more ambiguous. One important aspect of the study is related to goals and gender roles. Masculine goals are related to recognition, advancement, materialistic wealth and similar. while feminine goals were good relations to colleagues, cooperation, good living and working environments and similar (Ibid).

Another interesting aspect of Hofstede's study is that warm climate countries near the equator tend to be more masculine and countries with a cooler climate away from the equator tend to be more feminine (Ibid).

2.5.4.1 Masculinity versus femininity in management

Masculine and feminine cultural traits will impact the workplace. Companies in a masculine country can be expected to be driven by extrinsic motivation, though leaders with a decisive leader style, competition and ambitious employees. While companies in a feminine culture will be more likely to have more focus on cooperation, democratic leadership styles and more modest employees.

This translates to feminine national cultures have a relative advantage for teamwork with less competitive instincts and opportunistic behavior. Conflicts will more often than not be resolved with democratic means such as negotiations and consensus and rewards will be given on terms like equality (collectively). Masculine cultures on the other hand will be more focused on results and rewards based on equity (individual performance) and conflicts will most often be resolved by letting the strongest man win (Hofstede, 2010).

2.6 Repeating the IBM study

In order to validate the results of the five-dimensional model the survey has been replicated by different scientist. Hofstede himself conducted the first replication while still receiving answers from the IBM study, where he saw a lot of the same results and this outside the IBM company, so the results were there in "the world" as well. The replication with the items and the questionnaire used by Hofstede has later contributed to more countries being added to the database together with the original 40 countries.

Today there are six major replications of the study with 14 or more of the countries from the IBM study. The six replications were conducted by the researchers Hoppe, Shane, Merrit, De Mooij, Mouritzen and van Nimwegen. In four of these six studies the replication only found three of the four dimensions. The dimension missing alternated in the different replications, so there wasn't one dimension that remained unconfirmed (Hofstede, 2010).

Here is a table with an overview of the studies and the dimension replicated:

Author	Year	Sample	No. of Ctrs	DIMENSIONS REPLICATED			
				Power	Indiv	Mascu	Uncer
Hoppe	1990	Elites ¹	18	x	x	x	x
Shane	1995	Employees ²	28	x	x		x
Merritt	1998	Pilots ³	19	x	x	x	x
de Mooij	2001	Consumers ⁴	15		x	x	x
Mouritzen	2002	Municipal ⁵	14	x		x	x
van Nimwegen	2002	Bank empl ⁶	19	x	x	x	

Figure 6 Replication of Hofstede (Hofstede 2010)

In addition to the six major replication studies, a Danish researcher named Mikael Søndergaard reviewed nineteen smaller replications and found that being aggregated they statistically confirmed the dimensions. The replications have also been conducted at different times and years apart. This doesn't mean that since they confirmed the dimensions that the national culture haven't changed, but they have perhaps seen minor changes, or the different cultures have change collectively so that the relative difference between them have remained the same (Hofstede, 2010).

2.7 Critique of the four-dimensional model

Hofstede's study is one of the most widely used and cited studies on the cross-cultural subject. However, the research has been criticized on some points and we will here present some of the criticism and also some of the responses from Hofstede to address this criticism.

Relevance: many researchers are criticizing the relevance of the Hofstede survey and argue that a questionnaire is not an adequate tool for measuring and determine the differences of cultures. The criticism for relevance is that the survey used by Hofstede focused on values and that values are individual and subjective (Tayeb, 1996). However, for comparative analysis of national cultures it is adequate.

Representatively: There is a common criticism of the sample in IBM being too small and that they all come from one company and contain only middle-class employees. This is often criticized to not account for the organizational culture of IBM and also that he left out blue – collar workers, unemployed and students. (McSweeney, 2002) Hofstede responds to this criticism by saying that the sample is suitable, since it contains IBM workers in different countries and of different nationality. In response to the criticism of organizational culture, Hofstede responds that the values that he measured and that national culture is learned and programmed into our brains when we are children and therefore the organizational culture of IBM have not impacted the perception of values. (Hofstede, 2010)

Too simplistic: national cultures are a complex phenomenon and Hofstede is criticized that measuring national culture on four dimensions is not enough to spot the difference. The dimensions might also not be the dimensions that are most important in distinguishing the difference of national cultures. (McSweeney, 2002). Hofstede's response is that he agrees and that additional dimensions should be added to his original work, and this has also been done together with Michael Bond, when the fifth dimension was added: long-term versus short-term orientation. (Minkov, 2012)

Outdated: There is critics point claiming that the study is outdated and might not represent any real value today; taking into consideration strong globalization process, the changing environment and that younger people converge towards a common set of values (Mead 1994). Hofstede responds to this criticism that national cultures have been programmed for centuries and that national cultures change very slowly (Hofstede, 2010). This has also been showed by the replication studies that the relative position is still intact.

2.8 Complementary classifications of National Cultures

After Hofstede's research there have been conducted several different cross-cultural studies. We will present the four most renowned studies here.

Shalom Schwartz have conducted a cross-cultural survey where he identified seven cultural dimensions. They are conservatism, hierarchy, mastery, affective autonomy, intellectual autonomy, egalitarian commitment and harmony. Several of these dimensions can be placed

in one of Hofstede's dimension. Schwartz' samples consisted of teachers and college students in 56 countries (Hofstede, 2010) (Schwartz, 1999).

The second alternative model is the study by Trompenaars. He, like Schwartz, has identified seven dimensions. These are universalism versus particularism, individualism versus collectivism, emotional versus neutral, specificity versus diffuseness, achievement versus ascription, time orientation and relation to nature. Trompenaars conducted his study for 28 countries (Hofstede, 2010).

The Globe Project is another alternative. The researchers behind the Globe Project identified nine cultural dimensions from literature and included Hofstede's four dimensions as a part of those nine. These dimensions are power distance, uncertainty avoidance, social collectivism, in-group collectivism, gender egalitarianism, assertiveness, future orientation, performance orientation and humane orientation. The project studied these dimensions for 61 countries (Ibid).

Ronald Inglehart was the scientist behind the WVS – the World Value Study, where research was done for 43 countries, with wide arrays of items covering all from politics to sexuality. Inglehart (1997) identified two key cultural dimensions from the research called well-being versus survival and secular-rational versus traditional authority. These can be seen in relations to Hofstede's dimensions of individualism versus collectivism and power distance.

2.9 Norway versus Russia

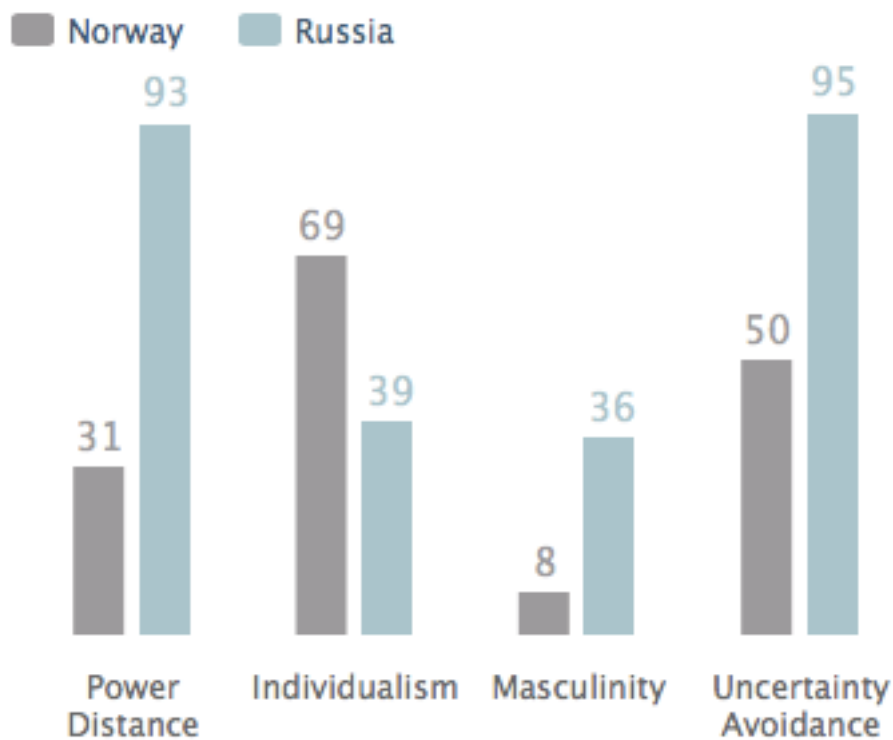


Figure 7 Five dimension scores Nor-Rus (Hofstede.com Accessed 13.04.2014)

Figure 8 Five dimension scores for Norway and Russia (Hofstede.com 28.03.14)

We can see from the chart above that there are big differences between the two countries we have chosen.

There scores for Power Distance is significantly higher in Russia than in Norway. The Russian society can then be said to have a higher acceptance towards inequality and a higher level of hierarchy. This can be observed in the Russian society as well where we see that approx. 2/3 of foreign investment goes into Moscow and that the power is centralized here, it is a bit strange that so much money and power goes to Moscow, when Russia is one of the biggest countries in the world. In Norway it is common to address your boss by first name and search for consensus in different situations. The acceptance too inequality is low and hierarchy is seen for convenience.

The scores for individualism shows that Norway is a more individual culture than Russia and given this score Russia can be expected to have more focus on the collective and protective of groups. In Russia it is important to take care and have a good tone with your family, friends

and neighbors. This is also seen in the Russian language where literal translations of when being with friends is translated with, “we with friends” whereas in Norway we say that “ I am with my friends”.

The scores for masculinity versus femininity show Russia as a more masculine than Norway. Still Russia scores relatively low on masculinity, the reason is that Norway is the second most feminine country in the world after Sweden. The masculinity traits are said to be competition and search for material goods and status. The Russian score related to masculinity does not necessarily explain the search for status and materialistic goods in the Russian society. However the strive for status are more likely to be explained by the power distance score and that these goods shows that you are on the top.

The scores for uncertainty avoidance present Russia as very avoidant of uncertainty, whereas Norway is a little less avoidant. The score can explain the wide spread myth of Russia being a very hierarchic and bureaucratic society.

The British researcher Richard D. Lewis has in his book “When cultures collide” made charts for different leadership styles across the world. And we will here present the charts for Norway and Russia and we can see that they somewhat coincide with the scores from Hofstede.

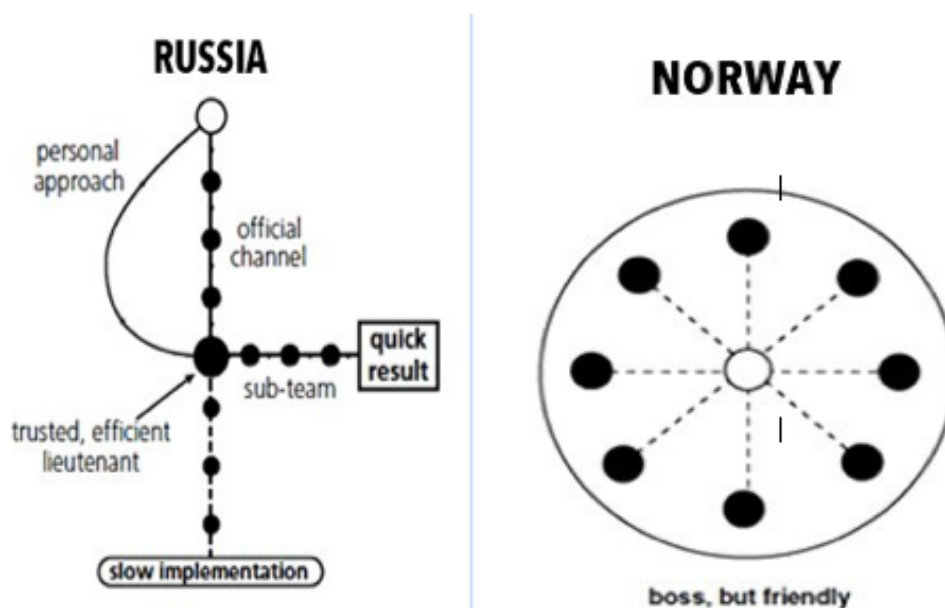


Figure 9 Management styles Russia and Norway (businessinsider.com, accessed 13.03.2014)

2.10 Brief overview of Russian history

Most of the major trends and principles of today's Russia can be traced back to previous epochs and explained by historical path that Russians have walked within last twelve centuries.

Analyzing the economic structure and behavioral characteristic, it is always important to access the geographic and political environment of the nation. Russians formed a nation out of a few Slavic and non-Slavic tribes and spend most of their history in constant wars with neighbors. The warfare was dictated mostly by geographical vulnerability of the Russian heartland – forests of the East European plate. These forests border a vast steppe region going from France to China and inhabited by nomad people. The proximity of threatening steppe left two options: to isolate from it (like China did by building the Great Wall) or to conquer it. Centuries old process of colonization of vast territories to the south, north and especially east of Slavic heartland contributed to making a shortlist of processes Russians were witnessing: expansive growth projects, autocratic centralization of power in the center and complete freedom in the outskirts, extreme result-orientation and neglecting at the expenses needed to achieve goals, flexibility and ability to incorporate different patterns and styles.

For the sake of this research, it is helpful to note the social structure and the social contract in Russia. It is a country with highly centralized power, multilayer society, and strong collectivism of the peasants (overwhelming majority). Russian peasants were never having stand-alone households with plots of land around it, rather a compact village (easier to protect) with vast commonly owned land around. Relationship of this commune with the state (aristocracy and the head of state) was very distant: often the country and its nobility lived in completely different value systems and spoke different languages.

A visible trait of Russian history is Russia's interaction with Europe. Trade relationships and competition with European centers of power are as old as Russian state itself. Peter the First epoch (beginning of XVIII century) starts a strong Europe orientation policy with lasts still. This trend is about critical assessment of European achievement and incorporating European practices into the Russian life. During that, Russians constantly observed differences between practices in their country and abroad and the discussion on whether certain practices should be adopted or neglected in favor of one's own practices has been going on for centuries.

In terms of business structure, Russia has been basing its economy mostly on natural resources (furs, lard, forest, silver, copper, gold, coal, metals, oil, gas) extracted by big state controlled enterprises. However, personal initiative was always visible in Russian merchants' history – Russian folklore always was praising courageous industrious entrepreneurs. At the same time, long period of serfdom in the Central Russia led, according to many specialists, to apathy, fatalism and disbelief in changes among big masses of population.

Soviet Union, that continued traditions of high concentration of power, on the one hand performed a gigantic industrialization campaign, created high precision industries and space program, but on the other hand introduced a planned economy that lacked competition, cost efficiency and was ignoring or even punishing private initiative.

2.11 Brief overview of Norwegian history

Norwegian history and economic development give an important framework for understanding what are the roots of society and business structure of contemporary Norway. Geographic position of Norway in the North-west corner of Scandinavian peninsular, along well protected coast line predefined such aspects of Norwegian history as orientation to the sea (which was both the source of natural resources and the transportation 'highway'), isolated populations of the coast line, scarce cultivated land (3,3% of total area) and maritime but still northern climate. Political situation of Norway with just a few neighbors mostly of the same Scandinavian group of nations made Norway, Denmark and Sweden a closely interconnected cultural and economic cluster sharing similar business pattern, culture and languages.

Despite of scarce arable lands, Norway has always been an agriculture driven nation that formed its core around land-owning farmers. The structure of land-ownership in Norway encouraged concentration of lands around family farms and secured private ownership rather than collective ownership.

At the same time, small size of the country, homogeneous population and lack of hereditary aristocracy led to making Norway a very egalitarian society with flat hierarchy structures and early parliamentarism dating back to Viking times. Parliamentarism and social democracy are

two cornerstones of Norwegian society; inclusiveness and commune orientation of state policies is very natural for Norwegians. A good example of this principles being enforced in modern times is how Norway dealt with oil and gas reserves it discovered in the 1960's: oil companies are to a large degree state owned, oil revenues are accumulated in the pension fund, and even one of recently discovered major oilfields was named after Johan Sverdrup - the father of Norwegian parliamentarism.

Norwegian business culture tends to demonstrate high level of trust (natural for a compact homogeneous country), egalitarian thinking (all potential extremes tend to be flattened), focus on environment.

The structure of Norwegian industry is state dominated, which corresponds to Scandinavian model of economics based on Scandinavian principles of high trust to state as redistributor of welfare, of transparent and accountable government and welfare state aspirations. Practically these principles result is high taxes, big middle class, high state participation in economy and high state spending.

2.12 Russia vs. Norway

Table 1 Statistics Nor - Rus (information from cia.org)

Parameters		
Population	142,470,272	5,147,792
Area	17,098,242 sq km	323,802 sq km
Cities over a million	14	0
GDP per capita	\$18,100	\$55,400
GDP Growth%	1.3%	1.6%
Inflation	6.8%	1.9%
Interest Rates	8.25%	6.25%
Lending rate	9.3%	3.4%
Unemployment	5.8%	3.6%

The differences in the socio- and economical profile, competition and geography of the two countries explain some of the reasons why Russia and Norway have been breeding different mindsets and business cultures. The relatively stable conditions of Norway need to be compared with the constantly changing conditions that Russian firms and employees are operating in (Bourmistrov & Mineev, 2011). Crisis management is vital for business success

of firms, but also of ordinary people in Russia. As it is said – Russia is very predictable— something unexpected is sure to happen every day. In Russia crises usually occurs due to changes in the external or internal environment and, although initially causing problems, crises can lead to opportunities. Firms must be ready to act quickly at such times. (Fey, Shekshnia :12). In Norway the companies has more political and economic stability, less risk but also less opportunities in many senses since many markets already are developed. Katsioloudes & Isichenko (2007) claims that business management in Russia has another approach compared to that of western companies and that the underlying business philosophy is different. Boourmistrov & Mineev (2001) is claiming that even if Russia is becoming more internationally oriented and has been opening up for Western influence considering leadership tools and company praxis, there are many indications that show that leadership practices are changing slowly and that the leadership practices are sometimes representing a mixture of old Soviet models and Western models.

John Child, a leading British management academic has argued that even if the organizations internationally are changing, people’s behavior remains culturally different. He argues that national culture is not the only key for the difference in behavior, but that environmental and political concerns also play a great role. Child (2003) gives an interesting example of culture and management when he explains how Eastern and Western German management practice and performance, created a massive challenge after re-unification in 1990. Considering environmental surroundings, one will find differences in how people view different aspects of life in Russia and in Norway, which in its turn is important for management practices, understanding and attitude.

Table 2 Norway - Russia Skretting, INTSOK, 2011

Norway	Russia
Central terms:	Central terms
- Consensus	- Loyalty, hierarchy, structure.
Power distance - low	Power distance - high
- Low level of dependence	- High level of dependence.
- Inequality minimized	- Inequality accepted.
- Hierarchy for convenience.	- Hierarchy needed.

<ul style="list-style-type: none"> - Superiors available - Equal rights - Evolutionary change 	<ul style="list-style-type: none"> - Superiors unavailable. - Privileges for the wealthy. - Revolutionary change.
<p>Masculinity - low</p> <ul style="list-style-type: none"> - Quality of life. - Strive for consensus. - Work to live - Short and slow is beautiful - Sympathy for the unfortunate. - Don't show wealth. 	<p>Masculinity - high</p> <ul style="list-style-type: none"> - Performance is ambition. - Tendency to polarize. - Live to work - Tall and fast is beautiful. - Admiration of others success. - Show off wealth.

2.12.1 Differences in project management in Norway and Russia

Different business cultures evolves when companies has a different starting point. Bourmistrov and Mineev have looked into project management practices in supplier firms of the petroleum sector in Russia and Norway and they came up with conclusions that there are several differences in approaches.

Table 3 Different practices in Nor way and Russia (Bourmistrov & Mineev 2010)

	NORWAY	RUSSIA
Gathering of information	Market connection	Expert connection
Decision models	Open and based on experience	«The black box»
Management systems	Holistic/integrated approach	Technical focus

2.12.2 Statoil's management model: Ambition to action

Statoil is a Norwegian oil company and it is the biggest company in Scandinavia. The company has the last years gone through a modernization of management systems. In 1997 Statoil went for a comprehensive SAP implementation, which included that the company moved from budget management to Balanced Scorecard. In this period Statoil

started to consider renovating their budgeting process. Step by step, Statoil went from the implementation of the first Balance Scorecards to the model the company has today; Ambition to Action based on the Beyond Budgeting philosophy. Ambition to Action is Statoils version of the Balanced Scorecard. The model is considering Strategy, business management, individual goals, evaluation and rewards. The model is also to a great extent built on trust and autonomy.

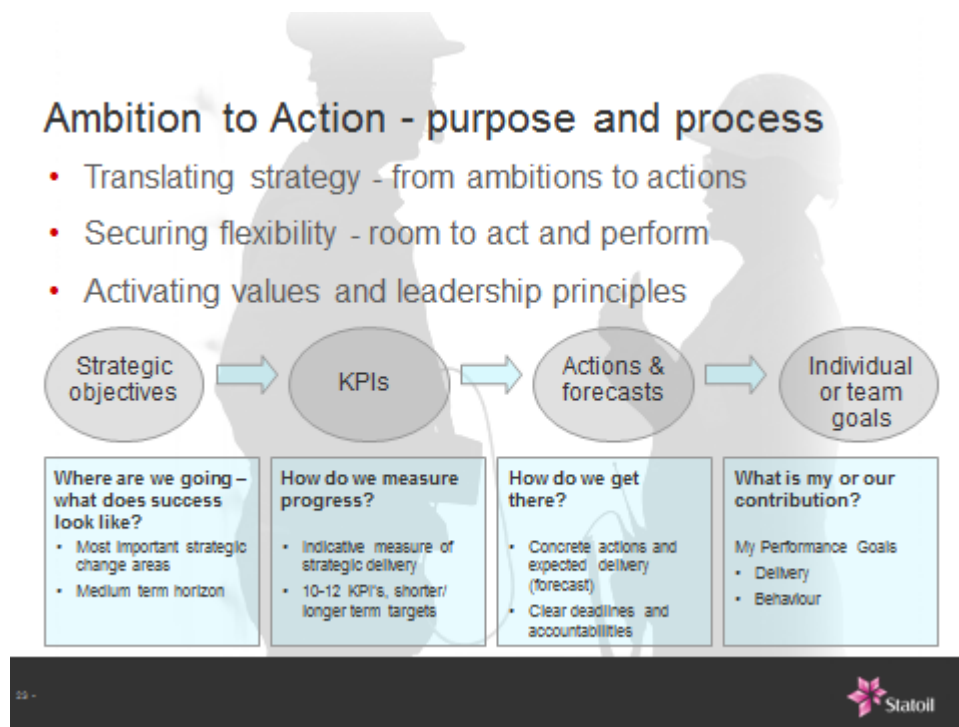


Figure 10 Statoil's ambition to action (Statoil.com)

2.12.3 Traditions and implementation

Different traditions lead to different performance systems and management models: Russian Management model has a base in Russian traditions and behavioral pattern.

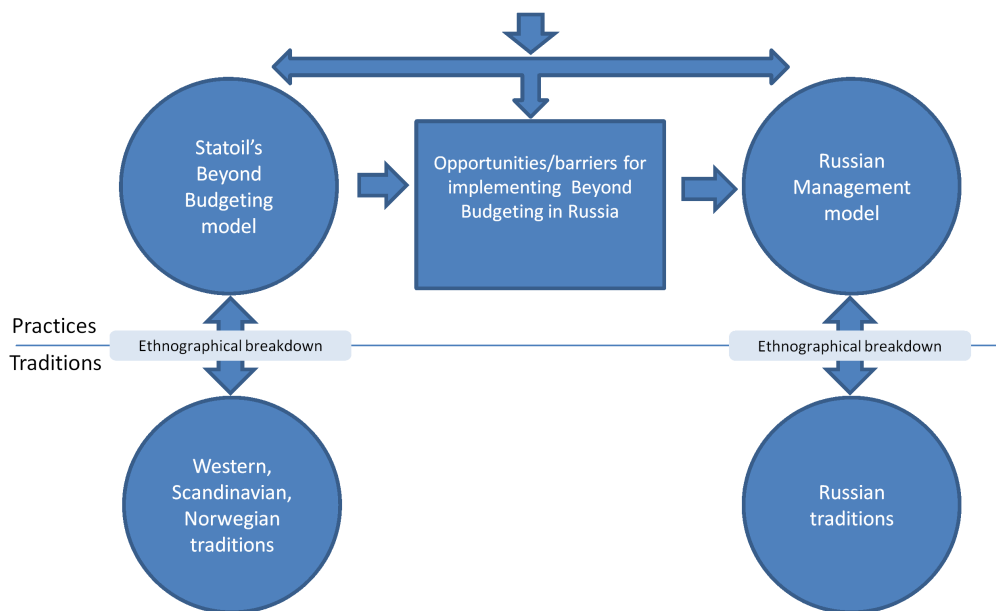


Figure 11 Ethnographic breakdown

2.12.4 Ethnographic breakdown

Western, Scandinavian and Norwegian Traditions are somehow forming how management model is done in Norway. Statoil can be one example of a management model built on Norwegian traditions and behavioral pattern. When a Norwegian is looking at the Russian management practices and how things are done in Russia, it is not always making sense to her as a foreigner. The same when a Russian looks at the management practices in Norway. One example can be that in Russian state companies there is a tradition of producing reports. For a Norwegian the production of reports is not making any sense if no-one is going to use the reports. For a Russian it might make sense if the company has the tradition of making statistics and that the reports are made for statistical purposes for research. (Bourmistrov,

2014) When a foreigner sees a practice, like the one mentioned, in another country or culture, the foreigner experiences an ethnographic breakdown. This process of discovery often occurs when an anthropologist is doing a study on a society and experiences an ethnographic breakdown, a “disjunction between worlds” (Agar, 1996). On one side the ethnographer’s world and on the other side the host culture’s world. That is, the ethnographer does not have a framework for making sense of what her or she is observing, as his or hers assumptions of coherence has been violated (Whitehead, 2005). This ethnographical breakdown is also happening with ordinary employees and therefore it can sometimes be challenging to work with people from different backgrounds and countries.

2.13 Cultural theory in management accounting

There has in the later years become more focus on discussing cultural influence on the choice and development of management accounting systems. The impacts of culture have been researched and there are some links that are likely to explain why there are differences in management accounting systems across national borders and national cultures. (Gray 1988) have proposed four hypotheses as to demonstrate how culture impacts management accounting systems. He has taken basis in Hofstede’s four value dimensions and have seen links with practices that demonstrates that based on the scores for each of the dimension it impacts a certain area of the management system.

In the first hypotheses he says that “the higher a country ranks in individualism and lower in power distance and uncertainty avoidance is more likely to have more tendencies towards professionalism in their system.” By professionalism he means that the system allows people to make decisions themselves (autonomy) instead of “statutory control” and control mechanisms.

In the second hypotheses he propose that “The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of uniformity.” With this he means that the uniformity is a result of rules, structure and group mentality. In this regard national cultures with collectivist traits and high power distance the more likely are rules, hierarchy and uniformity.

The third hypothesis is “The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of conservatism.” Here conservatism refers to a state where traditions and scholar systems remain highly intact. This in turn makes the management accounting system more stable in terms of keeping the well-functioning practices of already proven systems. This creates systems that give a focus on traditional measurement of profits and similar. This is in contrast to Beyond Budgeting theory where focus on customer profitability is more in focus than pure profit and cost analysis.

The fourth and final hypothesis is “The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of secrecy.” This is argued by the author that this might be to keep the positions and power distance intact and doing so by keeping the level of information different. And to address the uncertainty avoidance relation it is to retain information in order to minimize conflict, competition and preserve security (Gray 1988).

If these statements hold true we would expect to see a difference in management accounting systems in Russia and Norway where we would, based on the scores in the cultural dimensions and the hypotheses see that Russian companies have a tendency to have more secrecy/ lack of transparency, control structures and rules, more hierarchy and more traditional measurements and targets in pure accounting.

2.14 Summary

In this chapter we have gone through and presented the theoretical framework this thesis is built upon.

Beyond Budgeting is a performance management model developed from the critique of the traditional budget management system. The chapter presents seven problems from the literature and from the practitioner’s viewpoint summarized into seven specific problems. The Beyond Budgeting concept are built up by twelve principles divided into the subcategories management principles and process principles. These are considered the two peaks of Beyond Budgeting. The principles are meant to alter the management styles and the processes of

traditional companies, to become more adaptive and decentralized. One needs to climb the two peaks of Beyond Budgeting to achieve a “state” of Beyond Budgeting.

Culture in this thesis has been defined to be “*(Culture) is the collective programming of the mind that distinguishes the members of one group or category of people from others.*” The Hofstede framework is the most widespread and used framework for measuring and comparing cultures. We have in this chapter presented the four dimensions we build the thesis on and how they are expected to impact the workplace. The four dimensions presented is: power distance which describes the acceptance of inequality. Uncertainty avoidance, describes the reluctance to unknown situations. Masculinity versus femininity, describes the expectancy of genders and the traits of masculine or feminine values. And individualism versus collectivism, which describes the focus and orientation towards one self or towards the group in which one feel affiliation.

The replications of Hofstede’s framework have in general been quite successful and the critics have been answered. The critique is mainly about the methodology being too simplistic and a homogenous sample. We have also presented alternative frameworks for cultural comparison however, they are seen to be more complementary than competitors to the Hofstede framework.

3 Methodology

Easterby-Smith et al (2012) describes the term research methodology as “*The way research techniques and methodology are grouped together to provide a coherent picture*” This means that a methodology chapter should describe the steps in research to explain which tools and techniques the researcher have used and why. We have used one main source to gather data, which is information from interviews with informants.

The purpose of this chapter is to explain the step-by-step process and the tools used to conduct this research project. The methodology will be described and then we will argue for why we have chosen this specific design. We will present research design, why we chose the design we did and how this is relevant in order to gather data that can enlighten the problem statement as good as possible. Then we will present how we were searching for informants and the selection criteria’s for the informants. We will also touch upon the reasoning behind the sample size, the collection of data and how we will present the findings in the next chapter. We will conclude this chapter by discussing the topics of validity, reliability and some ethical problems.

3.1 Philosophy

3.1.1 Qualitative and Quantitative methodology

In research methodology there are two main directions, qualitative and quantitative methodology. The main difference between them is the characteristics of the data one gathers and analyzes. The main assumption behind each direction is different and dependent on the purpose of one’s research. Most importantly a direction is chosen based on the research question one can identify. (Easterby-Smith et al 2012).

The quantitative methodology is characterized by what is often informally referred to as hard data. Here the data produced is presented through numbers and other quantifiable variables. This often requires that the researcher have an idea about which variables to measure. This methodology often presumes certain common assumptions of causality or defined truths about the subject of study. This means that quantitative methodology is used to test hypotheses and/or claims about reality. This is typically explained by measuring one variable that is

assumed to impact another variable. Thus surveys are one of the main quantitative techniques commonly used in management research.

Qualitative methodology on the other hand, is characterized by more “soft data” e.g. words, annual reports and similar. This gives more room for interpretation by the researcher. This methodology is often used when one doesn't have preconceived assumptions about causality. Hence, in this form of research, the researcher pays more attention to finding out what is important and if there actually are any causality to be discovered. The researcher tries to get a more holistic view, understand events and then research the phenomena in order to build a hypothesis. The techniques associated with the qualitative methodology include interviews and observations.

This implies that if a phenomenon has recently been brought out as a potential field of study and there is no existing research on the matter, then one should choose a qualitative approach to understand the phenomena and build possible hypotheses. These hypotheses can then in later research be studied to see if these hypotheses are true or not. (Johannesen et al 2005, Easterby-Smith et al 2012) To be able to link these directions to scientific theory we need to see them in light of scientific paradigms. We will discuss two of them here, positivism and social constructivism.

3.1.2 Positivism and social constructivism

The positivist paradigm is historically linked to natural sciences and the assumptions that there is one single truth that is objective and true for all. The main task of the researcher is then to test hypotheses and try to find out whether the assumptions (hypotheses) give an accurate view of the phenomena or if it is to be rejected. This is linked to the quantitative methods and techniques such as, experiments, observations and comparisons. These data is then normally analyzed with mathematical and statistical means. (Easterby-Smith et al. 2012)

The social constructivist paradigm is more linked to social sciences and the assumptions that there are several truths or no truth at all. Truth as a term is a construction, built in the human mind. Sense-impressions are interpreted by humans in relation to the reality they are a part of themselves. Our perception of reality is shaped by our experiences, our education and

knowledge. To compare to positivist paradigm, the action alone is not the main focus, we try to understand the motivation and background for that action.

On the one hand, the positivist direction is characterized by a search for facts and a bigger picture by the collecting and gathering of large quantities of data from many respondents. The interpretive direction on the other hand, tries to search for deeper knowledge from fewer respondents to uncover meanings and create an understanding of a phenomenon through a holistic picture. These are the extremes of the paradigms in research. Easterby-Smith et al (2012) state that a research design will almost never be a purely positivist or a purely social constructivist. Hence research will often be dominated by characteristics of one paradigm with elements from the other. The directions can be seen as competitors but also as complementary of each other. One can for instance use both quantitative and qualitative to research a phenomenon based on one strategy. There are strengths and weaknesses of both paradigms. Therefore a methodology called triangulation has emerged in order to combine elements of both directions to give a more trustworthy image of reality. This can help us to both see the causality of what happens and the motivation and background to uncover why it happens.

In relations to the interpretive methodology it is evident that the role of the researcher is important. The background, history, personality and education of the researcher will contribute to his or hers interpretation and understanding of the phenomenon. However, it might not only impact the interpretation in itself, but also cover the definition of the research question and the step-by-step methodology. In this case it is important that the researcher describes this in the research report to give an indication of what philosophical background that have influenced the research.

It is also important to present your informant and her or his background because this might color their analysis. Even their history and background will impact their view and interpretation of reality.

In our research, we want to increase the knowledge and understanding of difficulties in cooperation with Russian companies. We will attempt to understand their attitude towards the Beyond Budgeting concept. With this in mind we will argue that the interpretive/qualitative approach is best suited for our research. We want to expand the knowledge on an area were

there few studies have previously been conducted. We are not after uncovering causality by predefined variables. We want to approach this study of attitude with an open approach to seek what lies behind the Russian view of the traditional budget and the new performance management model Beyond Budgeting. We see that there can be many different “truths” and links. Therefore we assume that the informants might have different experience of the phenomenon based on their background. Furthermore, we as researchers will also interpret the information based on our experience and knowledge.

3.1.3 Four perspectives on methodology

In social sciences it is important how you collect and interpret data about reality. Easterby-Smith et al. (2012) divides reality into four different perspectives, ontology, epistemology, axiology and methodology. Ontology is related to how we see reality and how the reality really is. Or if there is *one* reality, right? Epistemology is related to how one gathers information about this reality. Axiology is related to the core values of the researcher and how this is acknowledged. And methodology is more related to the methods and techniques used to attain new knowledge.

Given that we have determined interpretive qualitative methodology to be best suited to our research question, the ontology of our research are based on the philosophy behind interpretive methodology.

Regarding epistemology, we collect information by interviews and see this as a way to collect the views of our informants related to the research question. We asked follow up questions to the informants if something was unclear to us. However, we believe that by listening, analyzing and acknowledging the information given by the informants, we attain increased understanding and knowledge related to the topic at hand.

Concerning axiology, we have tried our best to listen to the informants and not ask leading questions. Still, our follow up questions might be impacted by the values we have as researchers. But, we as business students, and the informants as business managers, can have certain common values, understanding and recognition between ourselves.

Considering of methodology, we use case design. This theory we will present below in this chapter.

3.2 Research design

Research designs are divided into three main directions, explorative, descriptive and causal.

The explorative research designs are used when one wants to find out more about a phenomenon there is currently little information about. Explorative designs are good to get a better understanding of a problem. Qualitative methods are the norm through techniques such as literature reviews and interviews.

Descriptive designs are used to describe a problem or phenomena by questions like what, how and why this design is often used to describe relations between variables and causality by quantifiable measures. Here it is required that one has a precise research question and a pre-understanding of possible variables and dimensions to measure. This design is known for having strict steps and concrete methods for data collection, for instance surveys and questionnaires.

Causal designs are used when one tries to describe causality, as stated by the name. The research is conducted by quantitative methods to describe changes in one variable in relations to another variable.

Our research is about attitude towards Beyond Budgeting in Russia. We will try to find out the attitude and whether or not the Russians have the same critics towards the traditional budget as the BB literature. This problem has previously not seen a lot of research. Bourmistrov and Mineev (2011) have researched management across cultures and challenges with project management in Russia. However the topic of Russian attitude towards Beyond Budgeting has not been the object of research. There can be different factors that influence their attitude such as industry specifics, company specifics or other factors that we need to discover. We do not know in advance which factors have an impact or what the attitude will be. It is therefore important that we address the issue with an open mind and let the informants tell us about their problems with the traditional budget management system and let us analyze the data to discover the important attitude. The aim of the research is to increase

our knowledge and understanding of Russian attitude towards the Beyond Budgeting model. This implies that we needed to use an explorative research design.

In accordance with the already determined interpretive approach and explorative design, we can choose from several different methods. We have chosen a relatively narrow phenomenon in Russian attitude towards BB and to develop an understanding of this by interviews. Our choice of method should be in accordance with these criteria.

Yin (2009) sets three criteria that influence the choice of data collection; research question, control over environment and degree of history versus present time.

We usually place research questions that try to answer, what, who, which, why and how, in a case design. Case design is suited when the phenomena can't be measured in a laboratory and the environment cannot be altered. We try to detect the attitude of Russian companies towards BB as of today and therefore a case design is a good fit.

3.2.1 Case design

A case design seems to suit our research well. A case design is used to go into the depths of one or few cases. A case will be chosen when one wishes to study one phenomenon, usually narrowed down to one company or one location. Another trait of the case design is the flexibility and the option to use more than one method. (Easterby-Smith et al 2012).

There are two main characteristics of the case design, the first being the narrow focus on one phenomenon. The other characteristic is that it fits to answer research questions of the how, why, what kind (Johannesen et al 2005). Our aim to attain a better understanding of Russian attitude towards the BB model seems to fit the case design.

When you study a case, it can be naturally to first ask basic questions about the topic and then based on answers come up with new and better questions based on assumptions that has been created based on the first answers. We did so by conducting some preliminary interviews that shaped some initial assumptions. These assumptions we could bring with us into the main interviews. If we had chosen a survey and a quantitative approach, the questions would be set before the data collection process were started, and hence lacked the flexibility of a

qualitative case design. Case designs should be a little flexible in order to alter questions to discover more about the phenomena and create a better holistic understanding.

The recommendation from the literature is that the analysis in a case design should be founded on theoretical concepts and understandings from the literature review. We have in our research based our questions on the seven problems with the traditional budget described by Bogsnes (2009).

The method described above can be considered similar to by Strauss and Glazer's *grounded theory*. According to this theory, one is to create new theory from data throughout the research. This means that one should analyze and collect data simultaneously in order to be more flexible and see new directions the research could take. Although grounded theory is considered flexible and creative, it does have clear rules. We have based our research on the problems of Bogsnes (2009) and as such have not followed one of the criteria in grounded theory related to having no literature review. This criterion is set in order to mitigate presumptions that would be negative for the open mindset needed to see new theory from data. However this could be a good design for studies similar to our research project.

3.2.2 Data collection

There are four main ways of collecting qualitative data interview, observation, focus groups and documents. We have chosen to use interviews as method of collecting data. We have come to that interviews are most suited to our research since we wanted to get deep more knowledge about attitude of Russian professionals.

3.2.3 Interview

The research interview is seen as a structured talk between the researcher and the informant. The interview aims to uncover research questions similar to descriptions of events and actions. The interviewers pose interpretive questions to uncover the thoughts and interpretations of the informant related to an event or action, or using theoretical questions to discover attitude or the purpose of an event or action.

The interviewee's response to the questions is what is identified as data. Interviews are usually recorded either by tape recorder, video or similar. In addition to the recording, it is important that notes are taken during the interview. The notes are taken to elaborate on the answers and to take notes of body language and associations. This is seen as the first step of data analysis. The researcher can be using the interview tool to attain information regarding definitions, constructions and so on by the informant the research topic. Since it often is about subjective thoughts and constructs it is important to set a pleasant environment and create a positive and safe tone between the interviewer and the informant.

The interviews are well suited to uncover meanings and thoughts, but to achieve this it is important to be well prepared and have created an interview guide and decided the order of questions. The interview guide will help the researcher in keeping track of questions and lead the conversation. However, it is important to note that it is a tool to structure the conversation, but one still need to keep a little flexibility during the conversation. The guide will also help the researcher to gather all the relevant data towards the phenomena and not forget important questions.

The advantages of the interview in a research setting is that it provides a good setting for communication and openness between the informant and the researcher and a good overview of who is participating in the research. Since it is direct communication between the researcher and the informant, the data collected will be close to the everyday life and thoughts of the informant.

The disadvantages with the interview method are that it is time consuming and might also be costly. It takes time to prepare the interview; it takes time to conduct the interview. Moreover, the transcription and the after work are time-consuming. Because the interview creates a conversation between the researcher and the informant the conversation will take different directions impacted by the informant. This can create a situation where several interviews will be different from each other and therefore can be tricky to compare the results.

There are different types of interviews. There are structured, semi-structured and unstructured interviews. The structured interviews are interviews were the questions are set in advance and the same questions are asked to every informant. The semi-structured interviews have some predefined questions and topics but leaves room to create an open conversation related to the

topics. With an unstructured interview guide, the researcher has no predefined questions or topics.

We have chosen to use interviews as the method of data collection. We believe that the experience and knowledge of the informants concerning management and management systems and their attitude towards BB are best suited to be told by the informants themselves in a free and flexible manner. We use semi-structured interviews that gives us the ability to ask questions about pre-decided topics and create a conversation although still be free to ask follow up questions and new questions during the interview to get a better understanding.

3.2.4 Choice of case and informants

We see the research of Russian attitude towards the Beyond Budgeting concept as a separate case, as we would see any national attitude towards the concept as a different case. The research was initiated by Statoil and we chose to Russian attitude towards BB concept as a case since they wanted to know more about the attitude of Russian managers towards Beyond Budgeting.

3.2.4.1 Informants

Johansen et al (2011) describes that when one choses to research something, one is interested in coming close to the person in the group. I want to find out more about this. It is important to gain access to informants. The choice of group to recruit informants from is an important question, since the choice of informants can have significant impact on the discoveries that are made. The choice of informants should be more focused on suitability than represent ability (ibid). Having this in mind, we choose informants that had the knowledge and the competency to contribute to answering the problem statement and research question the researcher have defined. .

Convenience sampling, purpose sampling and quota sampling are the three broad branches of sampling. We have chosen a purpose sampling were we set some criteria and chose informants according to this.

Our criteria were Russian managers in Russian companies under 40 years of age. The age criterion is important since we believe there is a generation change in Russian business mindset. “ *There is a very big difference in the business mindset from those over 55 and those under 40*” (Dag Ivar Brekke, Innovation Norway Moscow). Furthermore they had to be managers in big companies, meaning companies with several levels and more than 100 employees. Another criteria was that the informants were at middle or higher management level. We chose these criteria in order to locate informants with the right knowledge for our research. As well as they would have experience in working with topics found in our research. Since the thesis was initiated by Statoil we chose to focus on informants from the raw material industries. However, we still included informants from other industries as well in order to get a more representative sample of the contemporary Russian business world. We will now briefly present the informants we used in our research.

We conducted eleven interviews with informants representing ten companies. Three of the informants have worked in two of the companies in our research. They were clear on which company they were talking about during the interviews, and on that premise we chose to include them in the list as informants for both the companies they represented. Several of the informants wanted to be censored to avoid possible problems for contributing to our thesis. We have therefore chosen to censor all the informants by giving them roman numerals.

- In cluster 1 we had four informants. (I, II, III and IV)
- In cluster 2 we had four informants. (V, VI, VII, VIII,)
- In cluster 3 we had four informants. (IX, X and XI and XII)

The informants were interviewed with a semi-structured interview guide, where the important aspect was to discover their attitude towards the Beyond Budgeting concept and the principles presented in the first chapter. The purpose has been to discover attitude and describe these in light of theory to get a better understanding of the problem statement. We have not been too focused on making our results generalizable, but rather on analyzing attitude in companies that are potential partners for Norwegian companies.

3.2.4.2 Recruitment of informants

The size of the sample and number of informants are always an important question to the researcher. A common sampling size contains ten to twelve informants (Johannesen et al 2011). After the strategic sampling of respondents we ended up with twelve respondents. We had a couple more companies we wanted respondents from, but that was not possible. One interview was even stopped in the middle due to company rules. We feel that we have a good number of informants covering different industries, in different management positions. Still all are middle managers and above. Out of the 12 informants three are female.

All the respondents, except one, live and work in Moscow. One works in a Russian company and is currently situated in the US. The interviews were to the best of our efforts conducted face-to-face, but due to the difference in geographic location, the majority of the interviews were conducted with one researcher face-to-face in Moscow, while the other researcher took part in the interview by video chat. The interviews were conducted in cafes or in the work place of informants. However we experienced that the most of the best interviews were done in less official surroundings where the informants were out of the work atmosphere. One interview was conducted solely by video chat. The interviews were recorded and notes were taken during the interviews.

3.3 Data collection

The gathering of information is to a certain degree directed by the choice of method.

The interviews are structured as follows:

- Short presentation of the informant.
- Questions related to the problems identified in the BB theory.
- Additional responses.

The interviews were conducted, following the interview guide (appendix 1). The questions we asked were guiding questions to make people comfortable talking about the topic even if they were not that familiar with the Beyond Budgeting concept. We tried to avoid leading questions, e.g. questions formulated to give the answer you want to hear (Easterby-Smith et al. 2012) the questions were mainly open-ended and thus made it possible to capture the informant's thoughts about the topic. The informants were sent the interview guide in advance so that they could get a feel of the questions and the nature of the interview. The informants were by this practice made aware of the questions and were able to prepare for the interview.

The interview guide were follow to the best of our ability, however during some interviews the respondents answered several questions in one answer. This made it necessary to analyze the entire interview and divide information by coding. During some interviews we also ran focused more on some questions since informants had interesting views or stories to tell. This led to less time to discuss other questions. We all the time kept track of time and content gathered in the interview and made sure we covered all the most important topics. We have chosen to focus our analysis on the problems.

3.3.1 Level of analysis

We have interviewed managers from a number of Russian companies and to analyze our findings we have chosen to divide the companies into clusters. The clusters are divided as follows:

- Cluster 1 State-owned natural resource companies.
- Cluster 2 Private-owned natural resource companies.
- Cluster 3 Other companies

We have chosen to set the level of analysis to cluster level, to try and see if there are any differences in attitude in the different clusters of companies.

3.4 Presentation of companies

We will here briefly present the companies our informants' works for and how they are divided into clusters.

3.4.1 Cluster 1 State-owned natural resource companies

Gazprom is one of the biggest companies in the world and the biggest gas extractor. It was established in 1989 when the soviet ministry of gas industry turned itself into a corporation. Even though it is an open stock company and is partly privatized, the Russian state is the majority owner of the company. The company has approx. 400 000 employees and the headquarter are located in Moscow. (Gazprom.com)

Rosneft is one the largest publicly traded oil companies. Rosneft became one the biggest oil extractors after purchasing assets from the former oil company Yukos at state run auctions and the acquisition of TNK-BP. Even though the company is publicly traded the Russian state is the majority shareholder with close to 70 % ownership. The company have approx. 100 000 employees. Headquarter is located in Moscow across the river from kremlin. (rosneft.com)

3.4.2 Cluster 2 Private-owned natural resource companies

Bashneft is one the biggest private owned oil producers in Russia and operates 140 oil and gas fields in Russia. The company was founded back in 1946 and has headquarters in Ufa the capital of the Bashkortostan republic, as well as big offices in Moscow. The company is owned by the investment and holding company Sistema. (bashneft.ru)

Severstal is the largest steel production company in Russia. The company has approx. 70 000 employees and have headquarters in the town of Cherepovets. The company also has steel mills in USA. The company was founded by a decree from Boris Jeltsin in 1993, the company were created from the Cherepovets steel mill dating back to 1955. (severstal.com)

TNK-BP was one of the biggest oil producers in Russia before they was acquired by Rosneft in 2013. The headquarters are situated in Moscow and had approx. 50 000 employees. Rosneft owns 95 % of the company, while the remaining 5 % is publicly traded. (Wikipedia.org)

Belomorskiy Karier is Gravel Company owned by Rusforest AB. With approx. 100 employees. (rusforest.com)

3.4.3 Cluster 3 Other companies

Prime Print is a conglomerate that owns and operates several printing plants in Russia. The company Prime Print is fully owned by the Norwegian company Amedia. The company's Russian headquarters are situated in Moscow and the company employs approx. 100 people. (Amedia.no)

Capman group is a private equity company investing in high potential businesses in the Nordic countries and Russia. It owns and develops a wide range of companies in different sectors and has 3 billion Euros of capital under management. (capman.com)

Alfagroup is one of Russia's largest investment companies in Russia. Founded in 1989 by Mikhail Fridman. The company's headquarter is situated in Moscow and the company had at the end of 2013 approx. 60 billion dollars of assets. The portfolio includes companies like Vimplecom, X5 retail group and Alfa-Bank. (alfagrup.org)

A leading international consultancy company is a company with offices in Moscow dealing with consultancy services in relations to management to companies and governments alike. (Informant)

3.4.4 Transcription

The interviews were recorded leaving us free to listen to the interviews again and again afterwards. This eased the transcription process. The interviews were then written down and the notes were added as supplementary information where we saw it fit. In many of the interviews we took good notes, and the recording in these cases, was used to supplement the notes.

3.4.5 Assessing quality

When conducting research it is important to assess the quality of one's work. The main method for doing this from the quantitative research is to discuss the project's validity and reliability. Though this is in line with the quantitative methodology it is also relevant for qualitative research. LeCompte and Goetz (1982) recommend that they are also used for qualitative research. Reliability says something about the repeatability or consistencies of the data and that the method produces the same answers again and again. Validity describes the legitimacy in relations to the research question. Hence reliability and validity are means to assess the quality of the research project. The researcher needs to make sure that the data is collected in a reliable fashion and that the information is useful to answer the research question (Riley et al 2009). There are arguments for more fitting ways of assessing the quality of qualitative

research by using the terms: credibility, transferability, dependability and conformability (Lincoln & Guba 1985)

3.4.5.1 Validity

Validity is used to assess whether the method actually gives answers to the research question or if it answers something else (Easterby-Smith et al 2012). Hereby is it important that the interview questions are not able to be misunderstood. Our interpretation of the data might also weaken the validity. If the methodology actually answers the research questions we do have validity and since we have gathered very much data, which is uncovering attitude which can be interpreted as opportunities or barriers for implementing BB management model in Russian companies, we believe we have a high validity research

Johannesen et al (2011) argues that it is important when answering the question of validity concerning qualitative methods that the findings made by the researcher depict the aim of the research and the reality. This implies that an important aspect is that the data is true. Which means that the informants speak the truth and give us their opinion and interpretation and avoid fabricating the data.

Triangulation of methods can be used to increase the validity of the data. One can send the data back to the informants to get a confirmation from the source. In our research we had ongoing communication with our informants and sent emails if anything was unclear. We used the terms found in the theory during our interviews decreasing the chance of deviation from the research aim. The informants and us also had a similar educational background in business studies and therefore the concepts should correspond. As for generality we are conducting a case research with a small sample leaving generalizing our findings difficult. However we believe that others that experiencing difficulty with western management models in Russia can use our findings Given this, we assume that our research holds a high degree of validity.

3.4.5.2 Reliability

The reliability measures the degree of repeatability of the research. When we designed the interview guide we had this in mind and avoided using leading questions. The interviews were transcribed and this increased the probability of parts of the information being analyzed

correctly. One drawback of transcriptions is that there is a possibility of misinterpretation of the data; this needs to be taken into consideration.

We can observe from the interviews and the follow up questions, as well as confirmation from informants regarding the data (in addition to the degree of similarity with the respondents from the same company), that the reliability of the data collected, and which this thesis is built upon are of a reasonable degree of reliability.

3.4.6 Analysis

We analyzed the data by using grounded approach. Grounded analysis is well suited to analyze interviews with the aim of letting the data speak for itself and create a holistic view of the problem (Easterby-Smith et al 2012). Easterby-Smith et al argue that this approach to conducting analysis needs to be faithful to the views of the respondents and that it also contains a cultural dimension.

The grounded analysis approach consists of seven steps:

1. Familiarization, one should read the transcripts and get familiar with it.
2. Reflection, evaluate and critique the data and try to make sense of it by comparing it to existing theory.
3. Conceptualization, start to code on concepts talked about from the informants.
4. Cataloguing concepts, this is the next step in the coding process where one uses the concepts from the previous point.
5. Re-coding, is the next step as one tries to make sense of the data one can find out that one have made mistakes or that one simply need to check your labels to your original data.
6. Linking, patterns of emerging codes should be getting clearer and theoretical labels should be created.
7. Re-evaluation, in the light of comments from others one should check the labels and make sure you haven't over emphasized one factor and omitted others.

Since we do not primary aim at developing new theory but rather want to expand our knowledge about Russian attitude towards the bb concept, we will skip the last to steps.

To conduct our analysis we used Nvivo to work with the transcripts and do the actual coding. The results from Nvivo were then exported and used to present the findings in the empirical chapter.

3.4.7 Ethical issues

According to Easterby-Smith et al. (2012) there have been a focus on ethical issues in research for quite some time and the main focus is to protect the interest of the participants. As examples one should not ask intimate questions, ensure consent and protect the dignity of the informants. It is also highly unethical to deceive the informants about the aim of the research.

We have conducted our research according to the ethical principles presented by Easterby-Smith et al and have made sure not to breach the ethical boundaries of our informants during the interviews. Furthermore we present the findings in a honest manner not trying to mislead or report findings that are not real.

Some of the informants wanted to censor the interview to avoid problems for participating in our research. We chose to censor all the interviews to meet this request.

3.4.8 Summary

We have conducted a research project in an explorative manner resulting in a qualitative research design by the case study model.

In this chapter we have described the methodology this thesis is built upon. We have discussed and presented arguments to justify why we have chosen the method we did. And we have also touch upon ethical issues and assessed the quality of the study.

4 Empirical chapter

Empiric part is the presentation of the data and our findings. We will here present our findings and support them with quotes from our informants. The informants will be referred to by using roman numerals as presented in the methodology chapter. The findings will be presented problem-by-problem.

4.1 Trust problem

Table 4 Trust problem findings

General Findings	Finding
	Mutual personal trust is important
	Lack of soft mechanisms
	A young business culture
	Control focus
	Dilemma: Trust vs. Control dilemma
	Hierarchical and centralized structures
	HR Trouble
	“You need to try to trust”
	Create Ownership to business
Cluster 1	Strict, tough management style
	Lack of trust to consultants
	Political stabilizers and tools

4.1.1 General findings

4.1.1.1 Mutual trust is important

Many of the companies from all the clusters pointed out that mutual personal trust among owners, management and employees is very important in Russian business culture.

“Russians have more reliance on interpersonal interaction, on trust and less on processes. In western companies one tries to rely more on processes than on people. So, I would say that western companies are more process and procedures based; at least they try to seem like that. Russian companies are more people- and relationship based, says Informant V”

Our informants are saying that many companies are trust based, in Russia, but that some kinds of trust can lead to problems. Many companies in Russia are family or relationship based. Since such types of companies have trust based structures that are rarely formalized, they cannot be copied. This makes it difficult to replace employees. *“On one side it is positive with trust based- or family based cultures, because you save time on bureaucracy. At the same time many of these companies cannot develop further and bring fresh blood. They lack formal procedures so they need to have trust to the employees, but the problem is that the managers and owners cannot trust new employees,”* said Informant XI.

Many companies in Russia prefer to have family cultures and company cultures where people work together many years without formalized job descriptions. A problem in such companies is that the employees in such companies gets used to some work style and do not want or find it difficult to change.

Another aspect of the trust issue which is discussed by the informants is the trust vs. transparency issue. The informants are problematizing the trust aspect and making an emphasis on the fact that interpersonal trust is important, but are at the same time asking whether trust is challenging the transparency criteria in a company. Traded companies needs to be transparent, accountable and predictable, and the informants are asking whether a personality or a trust based company can be accountable and predictable. *“Having a trust or a personality based system, means that the market can get problems with predicting what a company will do, how it will do it and why, since personality based companies can mean a not have transparent structure. “*, said respondent V. *If the company is based on personal relations, it can be less transparent,* said respondent IV.

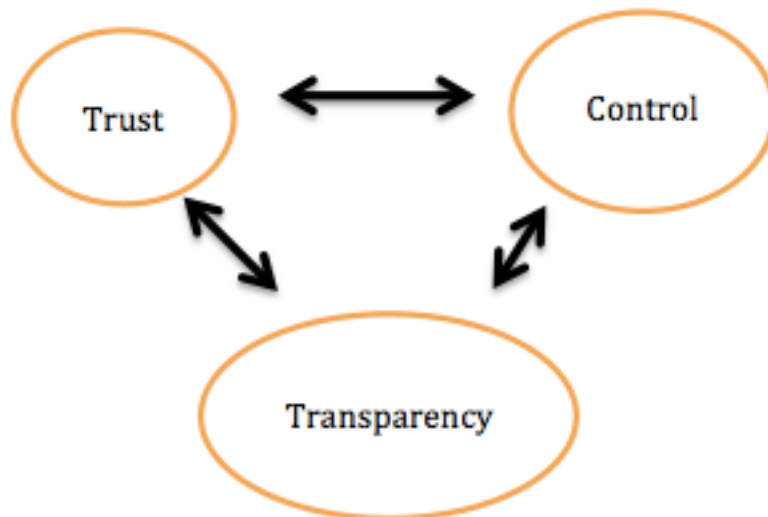


Figure 12 Description of trust vs. transparency

Some of the informants believe the size of the company matters when it comes to the trust vs. control dichotomy. *“They organization should not be huge, basically you should personally know all the managers and understand how you can trust them or not. If you talk about for example a 100,000 people you will not personally know everybody, and then you need to have more hard mechanisms,”* said Informant . It is impossible to make personal relations to the whole company when there is so many employees.

In Russia, the trust issue depends on personal relations. Managers, owners and employees does not trust each other by default, but needs to have some personal link. *“Of course, personal relations is very linked with trust, it is always like this. In the end you will realize that your job as a work member is to build strong management teams and second control mechanisms, which will allow you to maintain a level of trust, which by the way it is quite an important thing,”* said Informant IX. In many companies the top management is relationship based while further down the hierarchy more mechanistic structures rules. The further down the hierarchy you are coming the tighter control mechanisms you will find in many cases. The relationship of the board, the CEO and the top manager team is more personalized. In the top management it is often not the same mechanistic approach to KPI’s and other assessment tools. The top managers however, control other employees much tighter and employees lower

down in the hierarchy, does not only face stricter rules, but they also have a more mechanistic approach to what they do, especially in big companies.

4.1.1.2 Lack of soft power/mechanisms

In Russia it is a lack of soft control mechanisms, such as corporate ethics and strong reputations, due to short track record of market economy. This means that soft mechanisms of belonging to a certain group and behaving after the rules of this group is not yet developed in Russia. *“As a CEO in Europe you would not do certain things, just because you would not want your reputation to be ruined or risk stopping to be accepted by the close club where you belong, says Informant IX. In Russia corporate ethics or strong reputations and the necessity to belong to certain social groups with a certain set of values, is absent. “Soft power mechanisms to control the employees and managers in Russia, like reputation, pride of being a manager, are unfortunately almost nonexistent in Russia”, says Informant IV. Informant XI agrees: “ In countries like Belgium and Germany you have highly professional managers that can be trusted and are cautious about their responsibility and profession. In Russia have a lack of this,” he said.*

4.1.1.3 A young business culture

The informants are also making a point out of the fact that business culture in Russia is very young and that in comparison the business culture in Europe has evolved much slower and during many decades. *“The difference between Russia and the west is not the cultural aspect, it’s rather the duration of existence of business culture in Russia, which is fairly short, and because it is short, you need to use tighter mechanical control mechanisms. It needs to be mechanical or robust mechanisms, because there are no soft mechanisms, said Informant IX. Another informant says: “We all have to remember that the contemporary business culture in Russia is very, very young. The contemporary culture that we have today, that is probably 15 years old the most. As a comparison the western business cultures are decades and decades old”, said Informant V. The managers also make it clear that the business culture Russia is having now is not a product of evolution, but a projection of western culture, mixed with Russian traditions and interpretations. This means that Russians have looked to the west and tried to do the same and adopt practices for their own businesses. From the west they have learned how to do strategy, how to do management, how to do contemporary budgeting. The*

important aspect is that these practices are not dead “sizes” they involve people and processes, culture and beliefs. *“I look at western businesses and how they do business and I do the same thing. But it’s not something I have evolved myself inside my company so that is the difference. The culture is externally borrowed, as opposed to internally evolved.”*, says Informant V.

4.1.1.4 Control focus

Most of the Russian managers, we interviewed, assume that their companies tilts more towards a control structure than a trust based structure, even though the respondents says that mutual trust is valued in Russian companies. *“Most Russian companies are more control focused, than trust*, said Informant XII. Informant VI was adding: *“I always say that in every process that involves people we lack trust”*. *“This company is all about control*, said Informant IV. *“Until now we have a closer to control-type of company*, said Informant I.

Dilemma: The companies are facing a dilemma. We see that they want more trust, but because of short experience in business culture and lack of soft mechanisms – which is central to trust, the companies needs to use more controls, which reduce trust further & probably reinforce old barriers and culture.

4.1.1.5 Hierarchical and centralized

The state owned companies in cluster 1 is particularly control-focused, hierarchical and centralized. Employees in this cluster have the feeling that *“Top Managers are trying to control everything.”*, as Informant said. *“In our company it is definitely a control structure and it is better to use control*, said Informant I.

However it some understands for this lack of trust and strong eager to control. *“The top managers do have reasons to control because there are examples of when decisions are taken on a lower management levels that are either incorrectly done or sometimes involves criminal activities,”* the informant added.

In the Cluster 1 companies the control mechanisms is seen as quite rigid and managers that have worked in western petroleum majors say that the control mechanisms in the Russian state-companies are tighter. *“I have worked abroad earlier, and I for sure there is tighter controls here when it comes to planning and budgeting. I believe the rigidity in this company is not where we are now, in 2014,”* said Informant II. Different tools are used to control the employees: *“Some of the more paranoid managers introduce video control. Some of them even control and monitor computers,”* said XI.

However they believe that to a certain extent it needs to be this way and several managers asks themselves: *“Even if it is many rules, I think it is natural for petroleum sector to have rules and year-to-year plans,”* said informant II. *“I am pretty conservative, but I don’t know any other way than having budgets,”* said Informant III. *“It needs to be some kind of control, especially in huge projects in the petroleum sector,”* said Informant VII. *“Clearly it is the top management who is having most power and who is taking major decisions,”* said Informant VI.

4.1.1.6 HR Trouble

HR is also linked to the trust issue. In Russia it is difficult to recruit enough competent managers and employees. *“There is a lack of competent managers in Russia and the lack of business education is a cultural and overall ground problem of Russian business. 80-90 percent of Russian business men, does not have any business educational background,”* said Informant XII. More informants agreed that it is hard to find the right people: *“Youngsters choose their lifelong profession when they are 16-17 year old when they start university and many end up in professions they do not like. People need to be interested in what they are doing. Only in this case you can trust them,”* said Informant VI. Informant XI added: *“It is a challenge to find good managers, since the most energetic and educated people often prefer to start their own business to be entrepreneurs in the growing market,”* said XI. Due to fluctuating market, big distances and different procedures when hiring people it can be difficult to know whom one actually is hiring. *“It is very difficult to check managers’ and employees’ credentials and track record. Because of turbulence in the market people always have ups and downs in their career. It is difficult to say if it is this particular guy to blame or if it is because of the market. Also Russia is a big country. If you do something wrong in one region, you can go somewhere else,”* said Informant XI.

4.1.1.7 “You need try to trust”

Several informants pointed out that the need for trust is big and that one needs to trust the colleagues on all the levels. *“To become a more effective company and to be sustainable, we need to trust our colleagues to do the job,”* said Informant VI. She added: *“A company who wants to have more trust and autonomy, can start with giving more autonomy to one part at the company at the time. When people are empowered to take decisions, they will start to feel more secure and start to know what is happening. This will make them do things and be active and responsible. We would spend much less time if people are trusted, it would not be any gaming, because people will not see the need for it, together we would come up with optimized budgets,”* she said. Another informant joined her on the topic: *“You need to trust people to do their job and you need always share information and involve them,”* she said. A third informant is also making an emphasis on the need for trust in a company: *“It is important to trust, and to control only to a certain point. You need to instruct people so that they come to you, not with a problem, but with a suggestion for a solution,”* she said.

4.1.1.8 Create ownership to business

Russian managers are according to cluster 3 informants, motivated by ownership and incentives in the business they are working. Several of the informants said that managers needed to be motivated by a feeling of ownership in the business. Ownership could mean materialistic ownership such as stock options, co/ownership or intellectual ownership such as feeling of being part of interesting business processes. *“If you really want to motivate the professional guy to work and earn money, you need to make him a shareholder more or less. So he feels the ownership of what he do, either through stock options, bonuses linked to profit or a mix of that. Otherwise it will not work, because the guy might start thinking about his own business,”* said Informant XI. He also pointed out the importance of mutual trust between manager and owners, and said it this: *“Your integrity might be questioned if you talk about millions of dollars, decisions on hundreds of millions of dollars and you pay your managers very low. Everybody is very tempted to do parallel business or start your own business. You need to make sure the interest of management is coinciding with the interest of the owners, and that is not easy”*. The same manager added that: *“We always try to offer not only direct motivation through money and salary but also indirect motivation,”* Informant XI.

He gets support from Informant IV: *“It would be helpful to create ownership to business to make managers work more effectively in Russia by, for instance stock options, , especially for top managers, although it is less helpful for middle management in diversified conglomerates, where your influence on the outcome for the company is limited by your small business unit. Company structures often don’t allow issuing ownership plans for business units,”* he said. A third manager agrees: *“If managers partly are owners of the business, they spend more energy and add more to the company”*, said Informant XII.

4.1.2 Cluster 1 State – owned natural resource companies

4.1.2.1 Strict, though management style

The informants in cluster 1 says their companies has a strict, though management style which is hierarchical and centralized. *“It could work perfectly well to have more flexible rules. “It takes us more effort to understand the rules and how we need to work in this environment than the time you use on what you want to create”* – said Informant II.

Informant IV supported that cluster 1 companies are centralized: *“Centralization is not an evil thing I would say - it is how you organize the centralization. You can be centralized like Exxon and still be champion of the industry and everyone is looking at you with admiration and so on, and you could be centralized like this company and make problems for yourself,”* he said. Another manager from Cluster 1 put the centralization issue as follows: *“In Soviet times it was the ministry of oil and gas, and until now it is a lot of vertically integrated approaches. That’s why big difference in decision making between decision makers and ordinary employees. Politically and historically, the company has been run as a top-down control structure and here it is better to use control. Potentially the company could be more open, but it is not only a commercial company”*, said Informant I.

4.1.2.2 Lack of trust to consultants

In cluster 1 there is a lack of trust to consultants and especially foreigners.

Informant I said: *“The company is a part of the state and in the states interests. We are not hiring many foreigners due to safety reasons. We are also not using Skype after it was bought by Microsoft. Before it was safe, now it is not safe.”* The informant also told that some of the

safety measures are stemming from skepticism to foreign expert after questionable advices from foreigners in the nineties. The company has big value for the country, as a part of the state and the states politics and assets. The company has also major social security function. Informant IV said: *“This company is not very open to foreign expert advice.”*

4.1.2.3 Political stabilizers and tools

The companies in cluster 1 is seen as a tool for protecting the interior and exterior political interests of the country. *“Sometimes the company is used as a very special tool on pressing on some politicians and also for putting pressure on other countries,”* said Informant I. He also said: *“We have a lot of social responsibility. It is a part of our activity, like gasification of the regions, different infrastructural objects and projects.* In another company, Informant III said: *We have a lot of responsibility as one of the biggest petroleum companies in the world. We are building plants as big as countries and especially in these times [meaning Ukraine situation] we need to protect the company’s interests and information.*

4.2 Cost management problem

Table 5 Cost management problem findings

General Findings	Finding
	Formal way and informal way
	Flexibility linked to personal relations
	Blocks cost-accounts
	Budget varies with predictions
	Budget as insurance for cash management
Cluster 1	Formally hierarchical and bureaucratic approach
Cluster 2&3	Russia is cash oriented
	The faster growing units, the more dynamic

4.2.1 General findings

4.2.1.1 *The informal way and the formal way*

In Russian companies there is an official way and a sub-official way to adjust the budgets. A top manager in Informant I described the procedures as follows: *«If you want to change your budget for the year this is a special procedure on how to persuade your leaders. It is a special procedure on how to defend the changes of your budget. The changes you mean you need to catch certain opportunities. This procedure is relevant even if you spend more or less. Normally it is more, if you have a certain amount in the budget, but want to spend more. If you have certain cost structure related to every department, like 10 million rubles. If you spend less, it is high probability that your budget will be less next year. To get the same next year, people therefore try to spend more to the end of the year. That is why at this moment when you have triggers to spend less, you need to talk to leaders about how you possible can spend less without getting less next time.»* The manager also says it's up to every employee to come up with a good enough idea for changing the budget. And he points out that it is an official way and an unofficial way to change the budget. *“If the opportunity is very great, useful and helpful, we can increase the budget. If you want to do something very fast and efficient, you could potentially contact the CEO, then you can solve your problem in a short period of time, maybe in a month or two.”* The official way is according to him taking 6 months or more. Informant I is adding: *“We don't have criteria's for contacting the CEO, or not. It is your estimation, or the estimation of your supervisor. You can persuade your supervisor and make him trust that you need more money for your project and then your supervisor could take it further.”* Informant XII supports the fact that unofficial ways are common: *“Yes, informal approach is common in many companies,”* he said. Informant IV said: *“I have many experiences in solving a problem the sub official way. In fact the more bureaucratic the company is, the more often such informal procedures are used to compensate, and that creates more chaos,”* he said.

4.2.1.2 *Flexibility is linked to personal relations*

The flexible aspect of changing the budget is supported by Informant V who also adds that flexibility can be linked to interpersonal relations: *“Companies that tend to be more heavily*

regulated internally, will also by application try to regulate these budget deviations, this is clear. Having said that - things will inevitably depends on the person, on any particular manager or any particular structure, unit and on the track record of the delivery. People with a better track record of delivery will be trusted more”, he said. Informant I is saying: “It depends on your position and personal relationships in the company, how easy it is to get budget changes trough” Informant XII states: “The trust to the certain manager can be decisive when it comes to increased resource allocation. Informant II has worked in his company for five years, and supports the argument: «I can create personal areas where I can act more freely now, that I have worked here several years and have many years of experience in my field, even if it is very strict overall,” he says.

4.2.1.3 Block to prevent overspending

One way to avoid overspendings in Russian companies is to block bank accounts so it is physically not possible to overspend: *“In some companies one could not overspend, the money transfer might not let transactions go through,”* says Informant XII. He gets support from Informant IV who knows the practice: *“My experience is that companies are blocking bank accounts so it is not possible for employees or managers to overspend budgets.” There are also other ways to prevent overspendings. Some companies have a step by step preventive way to solve the problem with overspending. ”* If, for instance someone are to initiate a cost like for instance if the maintenance department have a project and the company has employees responsible for purchasing, the person who initiates the cost, enters an order to the purchaser. The purchaser then (if it isn't a regular cost or purchase) makes a tender and chooses the cheapest one. And then the bill goes through several checkpoints. The person who initiated the cost, have to sign the bill and say what it was for so that people in later checkpoints knows what the cost is about. If it is in the production division it goes to the production manager, and then to a financial controller who will then place the bill in a cost management program and see how much is left in the budget for these kinds of costs. And then to the financial director to sign and then to the CEO to sign. *“It is and efficient system, because it helps. One wishes to make the employees aware that there is a budget to be followed and sometimes it can happen that the financial director says that we don't have the funds for this and asks if this cost can wait for some time? And then it will be solved sometimes with a discussion. It is very easy and I can't say it is very bureaucratic,”* said

Informant X. Informant XII supports that step-by-step procedures are used: “*Many companies have several check-points of costs initiated from different levels,*” he said

4.2.1.4 Budget varies with level of predictions

The third main general finding is that budget varies with level of predictions. Some of the biggest companies can change the budgets 2-4 times during the year if important events occur. Other companies even have experience of starting their year without budget. “*I remember 2008 and 2009 right after crisis, TNK BP actually started the year without business plan, because they had to rework everything because the price of oil tumbled so low and just kept going down and they had to revise,*” Informant IV said. Another manager supports the fact that budgets can be flexible, even for the super majors: “*The cost budget system can be changed quarterly or to times per year. It will only be sufficient changes if we have some dramatic changes in economics, politics or if we for instance are constructing new infrastructure. For example now with the situation in Crimea,*” said Informant I. Some companies are making forecasts even more often: “*Every month is forecasted for expenditures for spare parts, for salaries and so on*”, said Informant VIII. Informant III adds that budgets can be flexible: “*You could spend even more if it was an emergency. But if you spend above you had to approve. Then you needed to get approval from business unit manager, not higher. The system was not relaxed, but very flexible.*” Some companies do not even have budgets, but continuously updated forecasts: “*Call it a budget or call it a scenario for twelve months or several years. Month by month you need to monitor. It does not work if your targets should be fixed and you should do nothing with them for a year. Usually we recalculate every month or quarter,*” said Informant XI. A company that has investment projects has experience the need for flexibility. “*The projects have quite versatile nature and it is difficult to have robust and precise cost budget, you don’t know upfront. So (RB) budget has to be corrected from time to time,*” said Informant IX. For the operational part of his company he is saying: “*Sometimes we have to need to recast our budgets because we might be wrong with our assumptions and calculations. We see that after the first and second quarters, and then we actually adjust the budget,*” he said. Several companies are having recalculations as a natural part of the budgeting or the forecasting. It is mostly approved if it is good for the company: “*If it is a project that gives us a new customer we say yes. It is as simple as that. Positive results get approved, independent of the size. If it is negative deviations such as the loss of a big client, this is nothing you can ask for. This happens, you need to inform an*

try to compensate by other means, said Informant X. She is adding: "You need to adapt the budget to the current market situation. We are continuously estimating and making of prognoses on short term, but we cannot predict what will happen."

4.2.1.5 Budget as insurance for cash management

According to our informants budget works like an insurance for cash management in Russia. The budgeting can be used as a way to show the bank that you are having a trustworthy company with a trustworthy plan. *"The banks are not eager to give you free lines. Like free credit lines. So you need to be very careful with credit planning. This is maybe some of the difference from Norway or more developed markets where companies already reached a certain evolution. The companies here cannot be sure that they will be given cash from services like credit lines, bonds or some types of facilities, as in developed markets, said Informant XI.*

4.2.2 Cluster 1 State – owned natural resource companies

4.2.2.1 Hierarchical and bureaucratic approach

Several informants from cluster 1 said that their companies had formally a hierarchical and bureaucratic approach. *"I would say the company has a strict cost control. The investment capital procedures are very obvious and any capital above has to be improved centrally. If you run out of budgets, you need to go higher up. Sometimes even to the board of directors to get additional cost approved, even to get minor, very small and marginal cost approved. In fact even sending person to business trip has to be approved by CEO, at least a few years ago. You file a letter to president, then he approved it, or not,"* said Informant IV.

He is adding: *"In this company there is only one investment committee, even if the projects are as small as decisions about one gas station, the question had to be escalated to the management board. You had to gather all this Very Important People, actually I think to pay all those people for five minutes of time to gather in a room cost more than the entire gas station,"* he said. Another Informant is supporting that there is a strict situation in cluster 1: *"When you plan for a year you have budget on the department and when it is planned you need to be strict with it. For me it's easier specific example, if the engineers have a field and*

plan an intervention, you need to have flexibility in an oil company, can be main changes within a season, it hurts when you don't flexibility," said Informant IV.

Informants: *"Potentially the company could be more open, but it is not only a commercial company, a major part of it belongs to the state. Of course we have some room for creativity and we are trying to be more flexible, but in some critical cases there is narrow room and very limited number of scenarios on how to do things."*

Common findings in cluster 2 and 3

4.2.2.2 Russia is cash oriented (not business case focused)

As already mentioned above, one manager is putting emphasis on cash: *"The companies can be sure that they will be given cash from services like credit lines even bonds or some types of facilities that compensates for bad planning,"* said Informant XI.

He is also saying: *"We need to know what cash we need, not only now, but in twelve months sand six months"* Informant IX is saying: *"Not sure if I'm getting the difference between cash and business case focus. Cash is king everywhere, and the purpose of a business case is to generate cash."*

4.2.2.3 Growing companies – flatter and more flexible

We found that investment projects , the smaller companies (100-600 people) and fast growing companies has a more egalitarian, a flatter and a more dynamic structure., including flexible budgets. *"The nature of the investment projects are so that it needs to be flexibility in planning and budgeting"*, said Informant IX. A company in crisis which is trying to catch market shares and stay floating: *"We don't have a budget right now, it is just a paper with no practical implementation, we assess monthly what we need to spend,* said Informant VIII. *"We monitor monthly, sometimes we even forgot what our forecasts where, since the company took of, but we always look back and check what was the initial plan,* says Informant XI.

4.3 Target setting and evaluation problem

Table 6 Target setting and evaluation problem findings

General Findings	Finding
	KPI target systems
	Historic number target setting
	Fixed targets
	Promotes relative target setting
Cluster 1	Top-Bottom-top (Top-bottom)
Cluster 2	No cluster specific findings
Cluster 3	Delays in target setting

4.3.1 General findings

4.3.1.1 KPI target systems

There are three findings to point out that is general to all the companies in regard to the target setting and evaluation problem. The first finding is that all the companies tell us that they have a KPI system for target setting and evaluation. They base their target setting mainly on key performance indicators. There are several different systems in the companies we have talked to during the research. Some operates with different KPI's for each employee and some operate with a few KPI's for the entire company. However the common denominator is that there are key performance indicators in all the companies. According to Informant XII *"It depends on company development, in some companies it is a very soft agreement between manager and his boss, sometimes companies has quite developed KPI systems. They might have hired consultants to develop comprehensive KPI systems,"* he says. He adds: *"Russian companies implement modern management technologies, you could find some quite developed and like equivalent to top best practice systems,"* he said.

4.3.1.2 Historic number target setting

The next finding is that there is a wide spread practice of target setting based on historic numbers or at least that the target setting is not stock market oriented or based on relative performance. Our informants have almost without exemptions said that they set targets based on the records of previous years and their forecast for the previous years. They have indicated

to us that they set targets to be better than the previous years and have a lot of orientation towards their own business and their own performance and not have that much focus on other companies performance. Informant I: *“I would not recommend having relative goals, and comparing with competitors and trends, taken account political economic and political surroundings. Maybe this is a good goal for nearest future, but not right now. We don’t have this system.”* He is supported by XII: *” To set relative goals you need good information and market performance, maybe Russian companies do not use this, because info is not available, sometimes not measured good enough to rely on target setting, hard to say. I think I never saw relative targets in Russia. I would say lack of reliable information, not every industry has good industry researches,”* he said.

But there are also positive attitude towards relative targets:” We see that Russian professionals don’t trust info from outside their company on the inland market. A big majority of the companies in our research do not practice benchmarking and relative targets. They have an interesting explanation to why it is so. And that is that the lack of trust in Russia, also include the trust to those outside the company. There is a lack of trust to numbers given by third parties and from other companies. Another additional problem with relative targets is that some companies cannot find comparable peers. *“Companies have different terms, and also owners in different companies have different goals. We have as a goal to give the best possible service to our customers. A goal of the state companies, in the same branch, can be to minimize the profit and minimize the taxes. Then again it is not the same goals,* said Informant X.

4.3.1.3 Fixed targets – a safer choice

The findings mentioned are also important for the next general finding regarding target setting in Russian companies. Given the lack of trust and that no one has a practice of relative targets lead to targets in Russian companies being fixed in numeral values. However some of the companies in this research have shown an interest in relative target setting and even promotes relative target setting over the current practice of fixed targets.

4.3.1.4 Promotes relative targets

“The performance should be promoted towards the competitors, in our case it is towards four competitors. In the end of the day, it does not matter on the budget or not, it matters whether you beat the competitors, said Informant VI. She added: “It should only be collective bonuses and not measured towards set targets, because it doesn’t make sense. Targets can only be relative to competitors and peers, to the market performance and so on. You can give people incentives for responsibility and in this case you really have to empower people to influence. You cannot keep employees responsible without letting them being able to influence the steps taken by the company. So this can make employees take a more active part in what the company does and stop incentivizing them only for the individual goals” Another informant agrees, and adds: *“To base the assessment of the company on relative indicators, the company should agree on maximum allowable plan and deviations measured by several benchmarks. The plan needs to be revised regularly depending on how often you can measure KPIs and how big great deviation, said Informant XI. He also added: The companies should have relative benchmarks and not absolute Figures.*

4.3.2 Cluster 1 State-owned natural resource companies

4.3.2.1 Top-bottom-top target setting

There is one interesting finding in this cluster and that is that all the companies in this cluster have target setting systems that are mostly top-down and individualistic targets. Top management has most negotiation power. However the companies have a target setting process which is initiated from the top management, then the middle managers suggest their targets and then the targets are approved or adjusted by top management. Then the targets are cascaded down in the hierarchy, giving each employee somehow, but little option to negotiate their own targets. Informant I says: *“I’m not currently part of process of making targets, but we have special teams, we have teams that integrate plan for company, then you get targets, it’s quite formalized.”* and informant IX in cluster 2, which have previously worked in one of the companies in cluster 1 says: *“The company has a target setting straight from top to bottom, or top-bottom-top.”* Informant I adds: *“We have two Figures, 12 per cent IRR. Product and transport are 15 per cent in upstream. These Figures are fixed and fixed in our strategy.”*

In the other clusters where the companies also have individual or at least partly individual targets, the tendency is that the targets are proposed by the employee, then evaluated and adjusted by top level management, and then cascaded back to the employee, we however see that these processes can be quite similar, but that the employees in these clusters somehow have more negotiation power. They have more a bottom –top – bottom system.

4.3.3 Cluster 3 Other companies

4.3.3.1 Delays in target setting

Informants in this cluster reveal to us that there is a trade-off, when the targets are set based on historic numbers and forecasts. This is due to the fact that the companies need time to recalculate, re-adjust and approve the books of the previous year, and to get the forecast and targets approve. These processes are happening towards the end of the fiscal year and may not be finished before we are well into the next fiscal year. The impact of these time consuming processes is that the targets are not communicated down to each employee in time for the new year. This results in employees starting to work on their activities before they know their targets for the year. The employees therefore operate, unclear of what they are measured against and therefore where they should put in their best effort. Informant IX says:

“Generally there is three year strategy, that gives overall guidance for targets, then budget for the year, that details down those strategic spread sheets, then system of cascading down special KPIs to special people and special divisions within the organisation. It’s actually quite longsome process, sometimes it takes more time than you would expect. He adds that the company sometimes does not have the targets finished in time: “Unfortunately we might not have enough final targets communicated to the people before start of the year. Quite often targets are given only first quarter, which is not good because you start working before you exactly know what you have to achieve. This is trade of that you have to take. The company then gets a dilemma: “You cannot really budget before knowing results of the year with certain degree of robustness, plus, you cannot start too early. Since the organization is huge and complex, the process of cascading it down takes a lot of time,” says Informant IX.

4.4 Bonus problem

Table 7 Bonus problem findings

General Findings	Finding
	Motivation
	Collective factors in bonus systems
	Negotiation skills
Cluster 1	Lack of transparency
Cluster 2	No particular findings
Cluster 3	Bonus if targets are not met
	Mostly collective systems
Common findings Cluster 1 & 3	Bonus as a competitive advantage

4.4.1 General findings

4.4.1.1 Motivation

Based on our interviews we make the statement that bonuses are a major part of motivation in Russian corporations. Bonuses are important in Russia and there are several findings to support this. The majority of our informant says that bonuses heavily influence motivation.

Informant VIII said: *“Bonuses are directly and strongly influencing motivation, motivation in Russia is heavily dependent on bonus”*. This is supported by informant XI, stating: *“My guess is that money is more motivating with in Russia than in Norway. He also said: You pay your managers because you want to keep them.”* And Informant VII: *“Bonuses mean a lot”*.

The reason for bonuses being an important motivational factor according to many of informants is that: *“About payments that the companies makes; even if you did get a strangely big bonus, there is nothing unknown about that, there is just that a person chose to give you a bonus for this and that, and the sizes can vary”*, said Informant V. Informant VI says: *“In Russia the bonuses percentage vice to annual salary is massively bigger. Another of our Informants adds: “Bonuses can be very significant compared to the base salary. It can be 10 times bigger depending on the result of the project,”* said Informant IX.

A lot of the informants we talked to works and lives in Moscow. Moscow is the second most expensive city in the world in regards to living and housing costs in 2013 (mercer.com) and this alone will contribute to a massive money focus for inhabitants of the city. The bonuses are important in this regard. Just in order to make life comfortable for yourself in the big city. A lot of the employees in Russian companies strides after cash in order to afford an apartment in the city in order to spend less time travelling back and forth to work and thereby get more comfort.

Cash is a big source of motivation in Russia. There are several reasons for this one being as mentioned above the cost level in everyday life. Another is that one of the ways to be regarded as successful and to achieve status is to have cash and luxury items. All over the world status is motivating and Russia is no different in this aspect. Cash is king in Russia. Informant XI said: *“In Russia, for more ambitious people who go to a job to really progress in some way, they don’t really or their balance between working time and personal time is of course very much different from Norway. They spend practically all their time and effort at work and you also have to add some additional time spent in traffic jams. So if they do not receive result, measured in monetary terms and nonmonetary terms, most moneywise then you are not considered successful. He adds a comparison to Norway: “In Norway you can be considered successful in society even if your annual income is not in the top docile but still you have some other achievements like your lifestyle or visiting your neighbours and so on.”*

4.4.1.2 Collective factors in bonus systems

For the companies in our research 80 % of the companies have a collective factor in their bonus systems. One company in cluster 3 have bonus system with a 100% collective bonus. There are two companies with a purely individual bonus system and that is one company in cluster 1 and one company in cluster 2. Both companies are big natural resource companies. The rest of the companies have a divided bonus system with individual factors, team factors and company factors. There are different structures of the bonus system, for instance the company in cluster 1 with a divided system uses 50 % individual and 50 % company factors in how to achieve the bonus payment. In one of the companies in cluster 2 there is a system with 30 % corporate, 50 % business unit and 20 % individual. Our informants say that they have these divided systems to make the employees more focused on performing for the company rather than performing for themselves. However a problem in Russian companies

that our informants points out is that, a lot of the employees in big corporations are not in a position or empowered to influence the overall company achievement. And this is why there is a individual part of the bonus systems. According to an informant in cluster 2 “they cannot keep the employees responsible without being able to affect the steps taken by the company.”

The collective factors of the bonus systems in Russian corporations come from problems with opportunistic behaviour and manipulation of numbers. Informant VIII said: “*Krugovaya poruka - general focus and general goals. Team based bonuses is the best, because if you have individual - people behave opportunistic, not team-oriented.*” The collective idea is supported by Informant XI: “*We try to divide personal bonus linked to personal KPIs, that person receive anyway and an independent certain part of bonuses based on group performance. This is to make key performance managers, eager to work as teams and to create success for the company. To make them really understand that it will not help that each particular guy perform well and do their own task if company as a whole does not succeed.*” Informant IX states that individual bonuses is not optimal and gives opportunistic behaviour: “*As soon you set KPIs people start manipulating numbers to insure KPIs are fulfilled and people make decisions that are not in the best interest of the companies the KPI’s and make decisions that are not in best interest of company. Again it is human nature: your interest comes first. This is why collective bonuses can be a good idea*”

As a result of this the main skill for employees in the companies with individual goals is the skill of negotiation. Informant I: “*Of course it depends on personal way of planning personal KPIs, if you are good at this and get a good result then you get bonus.*” And this is also supported with an extreme example of negotiation of targets: “*It can be abused if you just concentrate on formal KPI achievement, then KPIs can be too formal, if no system to control KPIs , you can you can make your KPIs be to get two green and two yellow papers that doesn’t mean anything, and you still get bonus because you achieved your KPI targets. I could see ethical problems sometimes and it can be a drawback,*” said Informant II.

4.4.2 Cluster 1 state-owned natural resource companies

4.4.2.1 Lack of transparency

We have found that both of the companies in this cluster say that there is a lack of transparency in regards to the bonus systems of these companies. One of the companies have a purely individual bonus system tells us about a lack of transparency. *“We are not discussing it, it is not polite”* says the Informant I. For the other company in this cluster the informant is a manager with the role that evaluates and decides if the targets are approved as targets and if the targets are met or not. He says that he doesn't know if people get bonuses and how much they get. He also thinks this is ok, *“I think it's fine, we do not know exactly how much bonuses there are, this is closed for HR people to know. Knowing this might have a negative effect,* said Informant II.

The lack of transparency includes lack transparency for calculations for receiving a bonus according Informant XI: *“Because if you are promised a bonus and you don't know how it's calculated and you don't know if you will get it people then doesn't expect it to be paid. It doesn't matter for them. They think they will not get it,”* he stated.

4.4.3 Cluster 3 other companies

4.4.3.1 Bonus without reaching targets

There are several findings related to this group on the bonus problem. The first one is bonus payment without reaching targets. Second it is the most collective bonus systems are found in this cluster and companies in this cluster sees bonus systems as a competitive advantage.

Half of the companies in this cluster say that they pay out bonus to their employees even though the targets are not met. Informant I *“Final bonuses depends on personal, if not bonuses will be less than 100 per cent, if you achieve the goal, bonuses is hundred per cent”* Informant XI is saying *“We think it's ok if they slightly underperformed”* and the other company in cluster 3 who says that they pay out bonus even if targets are not met, says *“With the rules we have now, the employees should not be given the annual bonus if the targets are not met. But in the current market situation we have to be more flexible and give out a bonus however it is smaller than full bonus,”* said Informant X.

Several informants have made claims towards the bonus system in Russian corporations have negative effects particularly in a response to payments on individual level with negotiated targets or with bonus payments made without having met the targets. The claims are that the bonus system today is demotivating, since the bonus is more regarded as a sure thing and a thirteenth monthly salary. This in turns creates demotivating tendencies when the bonus is not paid out, rather than being a motivational factor when reached. “*Default bonus*” is not increasing performance since: “ Then the bonus payment is not reflecting *whether the person actually does the work well, It is not like; OK you have worked good, it is more like - ok, you have worked,*” said Informant IV.

4.4.3.2 Mostly collective systems

The second interesting finding in this cluster is the most purely collective bonus systems. One of the companies in this cluster have 100 % collective bonus system with no other components than company performance. The other company in this cluster with a more purely collective bonus systems gives collective bonuses with a individual part, but to mitigate the manipulation of numbers and opportunistic behaviour they give each employee five KPI targets and says that there will be a weighted evaluation of targets to receive the bonus at the end of the year. However they will not tell the employee the weights in advance. “*Your bonus is 100 per cent, you have 5 KPIs. They are optimising cost, increase revenues; manage working capital and so on. But you don’t have any weights distributed: you do not say 20 per cent revenues, and 80 per cent is that. NO, not like this. You only have in total 5 KPIs and you have to work on that,* said Informant IX. He added: “*Finally we will sit down and discuss how much you have achieved. This approach requires a bit more effort from managers because you have to spend time talking to people, you know.*” this is different from several of the companies in cluster 2 where they also have weighted components, but the employees know the distribution of weights in advance.

4.4.4 Common findings cluster 1 & 3

4.4.4.1 Bonus as a competitive advantage

The final really interesting find in cluster 3 is that half of the companies in this cluster supported by one of the companies in cluster 1 sees their company’s bonus system as a

competitive advantage. The bonus can work as a competitive advantage since there is according to several of our informants that there is a serious lack of business education and good managers in Russia. According to our informants the top managers of big Russian companies are not business educated and have more of a military and political background.” *So good CEOs is a scarce resource”*, said Informant IX. He adds: *” First of all CEO is a profession. In Russia there is not many super professionals in that area. Just because we don’t have CEO that history of CEOs, getting appointed, working, being retired. We also do not have an establish mentorship culture ...it is a very complex profession difficult to teach that profession, you rather can give advice. We do not have that many people who can give advices, this makes the bonus system a tool to keep the good CEO’s to stay in the company and be an advantage for your company alongside talents ” To keep your talents you need to pay them, but not to overpay all the time”*. This is also mentioned in regards to specialists: *“If you really want to motivate the professional guy to work and earn money, you need to make him a shareholder more or less. So he or she feels the ownership of what they do, either through stock options, bonuses linked to profit or a mix of that. Otherwise it will not work, because the guy might start thinking about his own business,”* said Informant XI. So the bonus system can also make individuals feel ownership and start working for the good of the company. Informant II said: *” Sometimes people stay in company to get the bonus and then they stay again for another round, another year. Some specialists are in high demand and bonuses can be the factor that keeps them in company, it’s a plus after all.”*

4.5 Rhythm problem

The rhythm problem is relating to the business world becoming more dynamic and hence it no longer fit the typical year-to-year planning cycle.

Table 8 Rhythm problem findings

General Findings	Finding
	Calendar year budgets
	Seasonality accounted for
	Budgets can be changed
	Short planning horizon
Cluster 1	Paradox: too time consuming to change

	budgets
Cluster 2 & 3	No purpose of planning

4.5.1 General findings

4.5.1.1 Calendar year budgets

The first and most apparent finding related to his problem are that the Russian companies in our research drive their budgeting processes on a year to year basis. The process is often started in the autumn and goes through the different steps in order to have the budget approved and ready for the new fiscal year. *“The usual budget procedure is started in summer and we have to prove it on board of directors in December,”* said Informant I. And he is supported by several informants: *“In the beginning of the new fiscal year and she would give us the roadmap or the timeline which specified all the key data when something was supposed to happen. And then we would know how the budget planning was. And it worked quite well,”* said Informant V. Informant XII said: *“Are these companies absolute, in Russia financial year is like calendar year, not the best way to do it, not best way to do it, still usually like can be delays because some business units cannot come up with, I would say its overall quite fixed.”*

4.5.1.2 Seasonality

Seasonality is a common occurrence in many industries. Some of the companies participating in this research talks about seasonal tendencies in their operations – or absence of seasonality. This is accounted for in the traditional yearly budgets. *“If you have a running business you generate cash flow and has certain seasonality, you cannot do too much with that. Try to compensate somehow, then you need to allocate your cost and based on different plan”,* said Informant XI. *“These circles are proved by the company and tested for many years, it is quite stable, and I supposed it works quite well,”* said Informant I. Informant II added: *“These alterations in activity are placed in the budget so we are not very seasonal.”*

4.5.1.3 Budgets can be changed

Many professionals see the budget as a rigid and stable construction; in Russia it is one of the cornerstones of business management. There are complaints regarding the inflexible nature of the budget. However our informants say that the situation is not that rigid, the budgets can in fact be changed. *“If we make a budget, it is not annual but monthly. We make quarterly at least but preferably monthly - try to include seasonality month by month, compared to last year and the year before to see some patterns, and to allocate resources and investments based on this monthly”*, said Informant XII. *“The budget could be changed a couple of times, ” said Informant I.*

4.5.1.4 Short planning horizon

The informants have said to us that the reason for the massive focus on the budgets can be related to the horizon of planning in Russia. Even though a lot of the companies have ten year plans, five year plans and similar. these are often vague and not of much good use, due to the dynamic and eve changing business environment in Russia.

Here is an example of a short planning horizon, which also shows a tendency of rolling forecast in Russia: *“I think it is a there reason for that and all the turbulence you might have experienced especially oil and gas, your assets might be your assets next year or in five year or your president can be in jail or bankrupted, what’s the purpose of planning,... then also all macroeconomic instability - you cannot really make accurate forecasts about exchange rates, cost of capital, inflation, and similar. That is why it has implication of the planning process and also the capital investments, not so interested in invest in long term projects. The focus is more on the quick projects,” said Informant IV.* Informant VIII said: *“We are reconsidering the situation month by month and changing the forecasts in Excel sheets.”* Informant IV added: *«First of all Russian horizon of planning is very short; it can be reflected on the emphasis companies built on the yearly plans”*,

4.5.2 Cluster 1 State-owned natural resource companies

4.5.2.1 Paradox: too time consuming to change budgets

The cluster specific finding in this cluster is that there is a paradox among these companies. On one hand it is possible to change the budget as we have presented above. However the necessary steps one has to take in order to succeed in changing the budget can sometimes be so time consuming that it ends up with employees not bothering to go through the system and change the budget to be able to grasp the opportunity in front of them. However there are as we described earlier short cuts. One can speed up the process if one has access to the informal communication lanes that drive the processes in Russian companies.

“If the opportunity is very great and useful and helpful, we can increase the budget, Gazprom is specific company and you can use the official way to try to change the budget and you can follow the regalement, this will take about 6 months, but if you want to do something very fast and efficient, you could potentially contact the CEO, then you can solve your problem in a short period of time, this can take a month or two, “ said Informant I.

Also another colleague from the cluster supported the time-problem of changing budgets:

“Budgets planned in autumn, money given after New Year. Anything nonstandard and out of this scheme is very difficult to get through. If you see that you need to do something that was not planned in the budget it takes you too much time and effort to get it approved,” said II.

4.5.3 Cluster 2 & 3

4.5.3.1 No purpose of planning

The informants in this cluster have a common view on the uselessness of planning. They argue that due to the macroeconomic instability of Russia, the dynamic and changing environments of the business world. But at the same time there are also arguments for why it should be conducted:

“Russia is so dynamic and so unpredictable that you can argue that its waste of time to do this planning. If your predictability level is so low you can argue that budgets are worthless since you never know what will happen anyway. I will partly agree on that but still I think it’s important to make budgets not only for predictability, but to really understand the drivers, cost drivers, various drivers of company, to make scenario. The budget then needs to be accepted by management and shareholders and confirmed by management,” said Informant IV. Another informant from cluster 3 added: “ Our companies always developing increase

production or new ads or retails, need to be able to run an exercise. Try to project and forecast - based on current and then add more, ” said Informant IX.

4.6 Quality problem

Table 9 Quality problem findings

General Findings	Finding
	Skepticism to relative benchmarks
	Skeptic, but comparing with peers
	Collegial decision making and resource allocation
	Resource allocation and target setting as strategic inclusive process
Cluster 1	Cluster 1 Company, creating its own model to forecast
Cluster 2	Lack of well-organized and tested systems for forecasting and target setting
Cluster 3	An estimate, not a budget

4.6.1 General findings

4.6.1.1 Skepticism to relative benchmarks

In a big majority of the companies there is a reluctant attitude against setting relative targets, although some have a positive attitude towards relative targets. However there are a lot of excuses and explanations to why setting relative targets are difficult in Russian companies. The two most dominant explanations is the political and economic environment of the Russian business world. *“To set relative targets you need trustworthy information about competitors, indexes and benchmarks. I think companies here are reluctant because they do not trust the information,* said XII. The Russian economy has high growth in some sectors and has fluctuations due to the current political sanctions. Informant I said: *“I would not recommend to have relative goals, and comparing with competitors and trends, taken account political economic and political surroundings.”* Informant X added that companies could have different criteria: *“To set these relative goals you need to know competitors very well and have sufficient information, very good information on your competitors. Also there are unlike terms, some pay VAT, some does not pay VAT and so on, some works white, some works grey, some pay salary officially and some pay in envelopes, so it is difficult to compare.”* Companies can be reluctant to share information and this was pointed out by

Informant I: *"Sometimes people don't like to disclose info to third party even in the company."* Informant II added: *"If you are judging world wide performance, relative goals compared with peers could maybe be an idea, but if it's a Russian company and company for working in Russia you can't compare to other regions, since all regions are very different and have different conditions."* And Informant VIII finally stated that: *"I often saw in Russia closeness of information and confidentiality - info about competitors is so closed that is difficult to process. The problem we saw in an earlier company I worked was that important details are missing. For example old equipment needs loss of CAPEX and new equipment high production. So my recommendation would be to see if there is enough information and if it is comparable. In Russia it is difficult,"* she said.

4.6.1.2 Skeptic, but comparing with peers

Informant I is not found of relative targets: *"I would not recommend to have relative goals, and comparing with competitors and trends, taken account political economic and political surroundings. Maybe this is a good goal for nearest future, but not right now we don't have this system"* However the company is, internationally measuring themselves after benchmarks, competitors and indexes: *"Relative indicators and trends, comparing with counterparts and partners, we do it now but of course main base is the plan in our budget. We also look at market indicators and trends and of core competitors and companions and so on. For instance; Wintershall, Statoil and so on, we have JV partners and Joint projects and know them through this aspect also."* Informant XI is recommending a solution for relative targets: *"KPIs and benchmarks can be relative rather than absolute Figures. For example, the target can be «top quartile performance among other Private Equity funds» rather than «earn IRR of XX%»"*

4.6.2 Common findings cluster 2 & 3:

4.6.2.1 Collegial decision making and resource allocation

In cluster 2 and 3 many informants said that their company had collegial decision making and discussions on resource allocation. Informant IV: *"Collegial decision making and resource allocation is often used, in the understanding of decision-making by committees rather than*

by single individuals. Most investment decisions in oil and gas are made by committees of various levels.” Informant VI agrees: “Higher level management, because they have the overview of the economy, can say that we don’t do this project, we do another instead. Then you need to allocate the funds and to go through the board. And then the board decides where to allocate. It is possible, it has been done before. You have to be very clear on why you propose this and why to choose the other project instead of the first that was decided.” To involve different levels of the company is also a way to motivate the managers to work together with owners towards common goal. Informant XI, said: “We try to balance through laziness of management and desire to have low targets and shareholders ambitions for big targets. We usually discuss this in several rounds.”

Centralized decisions are not seen as the best solution. *Informant X said: “It is not a good idea to sit centrally and try to micromanage in the regional companies, because those who work locally knows local environment best. That is why it is important to have good people that can take the right decisions. Then you will get the best team. You will have good people who know local conditions and they will make the good and right decisions. I think you will not get a better result if you try to micromanage from central position and over supervise and control what is happening locally – I think this is not a good idea”* Involving by including employees is a popular idea. Informant XI added: *“To make your employees to be self-managed and to make planning a continuous inclusive process one should provide everybody access to common database or file storage and preferably shared calendars. One should also encourage speaking up and having regular team meetings involving as many employees are possible to discuss admin issues.”* Informant IX said to just enforce top management targets is not a good idea: *“You cannot just push through the top down vision, because people do not buy in and they will not accept. They will just accept the fact that they are not getting the bonus if it is too hard top-down - and then they will stop working. So it is about getting them to buy in and you can do that by communicating, and explaining how they can achieve their targets, and also by being reasonable in terms of allowing them some safety margin, some push and by supporting them.”* Informant IX confirms that different levels are involved, even if the top managers make most decisions: *“Here the top management agreed on 10 goals divided by 4 subdivisions, and then each employee is making their plan personal plan within these goals. Our opinion is considered but decision taken by owner alone,” she said.*

She is adding: *“We are not a very big company and it takes us 2 hours to quarrel and reach agreement. Usual conflicts we see are between production and others. Some say decrease fuel for example, and others say no- we need that. Then it is solved,” she said.*

4.6.3 Cluster 1 State – owned natural resource companies

4.6.3.1 Cluster 1 Company, creating its own model to forecast – opportunity

A company in cluster 1 is making their own forecast model: *“We use different info from Bloomberg, Thompson Reuters and others that we base our targets on. No we are on the way of setting up our own model for forecasting”*

4.6.4 Specific findings cluster 2 & 3

4.6.4.1 Lack of well-organized and tested systems for forecasting and target setting

It is a lack of structure and systems around forecasting and target setting in many companies. Informant VIII: *“We have no methodology for target setting and resource allocation. With stable production everything is easy - production volume is set, volumes are known and the forecasting based on financial plan and budgeting,” she said.* Informant XII is supporting this and says: *“Mostly the resource allocation process is not really organized, what is more important in the company, the CEO and negotiation skills on top managers that try to split budget between them.”* Informant XII is claims that: *“It depends on company development, some company look at the market and estimate what they could do on this markets and with this trends, then they have target for profit and cost, some more internal related and more ambitions. Sometimes the target can be 30 percent more sales and they do not care about competitors.* Informant XII also adds: *“Overall there is a lack of strategies in companies, so the process of resource allocation and target setting is very creative and different in different companies”* In many developed companies the processes is more planned, in middle size business, more unpredictable process I would say”

4.6.5 Cluster 3 Other companies

4.6.5.1 An estimate, not a budget - opportunity

One finding is that some of the companies that use the expression forecast as a synonym for budget. Informant XI said the following: *“We don’t call it forecast or budget but estimate,»* he said. Informant XII supports that some companies have only forecasts: *“Yes, fast developing companies often operates with forecasts and not rigid budgets,* he said.

4.7 Efficiency problem

The efficiency problem in this research is discussing how much time which is used in the budgeting process. Or more precisely the amount of time and effort used to first calculate the whole budget, then re-calculate, re-adjust and after the year processing of the budgets used during the fiscal year.

Table 10 Efficiency problem findings

General Findings	Finding
	Most informants think their company use too much time on calculations and recalculations.
	Smaller, growing and developing companies use less time and recalculate more often

4.7.1 General findings

4.7.1.1 Too much time on calculations and recalculations.

Most informants think the recalculations are too time consuming in their companies. Informant IV says: *“Yes, it is a lot of time is spending for recalculations! I don’t know how much – but too much time. To get a more dynamic system one should remove some useless paperwork to just have the critical steps, to being flexible reacting to the environment, but - I’m not sure if it actually helps or hinders this. If you are flexible you also need to spend time recalculating, so I am not sure if you save time”* Informant IX said: *“The budgeting and target setting process is actually quite longsome process, sometimes it takes more time than you would expect .”* He also said: *“In the beginning of each year you have a dilemma - you can’t really budget before knowing results of the year with certain degree of robustness plus you cannot start too early and then since the organization is huge and complex the process of cascading it down takes a lot of time, so you actually go lower than you would want to, before*

you actually know what you want to achieve.“ Informant IX also adds: *“We use quite substantial amount of time. The budgeting process takes usually 2, 5 months and that is quite heavy load on the whole organization. It is not only the financial departments that are doing this. It is the whole business who has to think calculates, and so on. Sometimes we have to need to recast our budgets because we might be wrong with our assumptions and calculations. We see that after the first and second quarters, and we do actually adjust the budget, this additional two months efforts in the middle of the year, because it is such of heavy model and lots of people involved.”* He also said: *“I believe it is a lot of efforts and if we could have avoided this it could have saved some resources to do something else. But so far the trade of is there and you accept that you waste a lot of resources because you cannot survive without that.”* Informant X said: *“We approve budgets on an annual basis and then we receive the real numbers for the year and evaluate the budget quarterly on ownership level. Quarterly I asked the companies to deliver their forecast for the rest of the year; usually we evaluate it internally in the mother company and make forecasts ourselves. Informant X added: “The forecasting process is a part of the budgeting process that needs to be done. Today this is done manually in excel, one could done this more efficient in a software. This have we not done, the spreadsheets we have is more or less automatic. You just type in the price increase in percent and it calculates expected income, cost, result and everything is linked. On the other hand, when one use the spreadsheets manually one look more loosely on the numbers and get a better feel for them.”* Informant IX said: *“This used is basically a trade of. Either you spend all the time on budgeting or recalculating in your budget and your deviation will not be so big or you will not do this and then you always need to explain the deviation,”* he said.

4.7.1.2 Smaller companies use less time to recalculate

Informant VIII is working in a company with 100 employees. She says: *“The Company is using maximum 2 days of 1 man work to go over and recalculate the budgets – if we have a budget, because all charts are set. In beginning of month at a meeting it is discussed then we use 2 hours for recalculations. It just takes new data entry in excel charts to do recalculations because everything is automatized completely through spreadsheets.”* Informant XII said: *“I think in the smaller size segments, the companies’ backwards analysis are done the next period of the budgeting process and based on this they see what they do next year, just a s a*

base for next year budget. Then some analysis of what has happened this or the other year. I think mostly they consider past as past," he said.

5 Analysis

5.1 Budgets in Russia, same problem but different reasons and solutions

In the theoretical chapter we proposed the question:

“What are the main characteristics of the Russian management model from the perspective of Beyond Budgeting literature?”

Here in the analytical part we will combine the theory and the empirical findings to try to answer this question.

5.1.1 Trust problem

The managers who lacks trust will try to micromanage his or her employees and believe that a less strict system will lead to anarchy. Companies that have a trust based system set their people free to use their intuition and knowledge to make decision close to the customer. (Hope, Fraser, 2013, :xxii). Beyond Budgeting theory argues that it is better to trust your employees more.

Table 11 Trust problem critique comparison

Beyond Budgeting Model		Management in a Russian Context	
Problems	Solution	Problems	Solution
Micro-management	Autonomy and Trust	Lack of trust	Business education
		Lack of competent managers	Efficient HR
		Lack of soft mechanisms	Trainings, values, overall strategy
		HR Problem	Improving process, checking credentials
		Lack of motivation	Motivational tools
		Tight control mechanisms	Develop trust structures

5.1.1.1 Lack of trust

Lack of trust is a problem in Russian companies, as in the west, but at the same time mutual personal trust is one of the most important values and issues for Russian professionals. All the

problems regarding trust are related to many of the problems Russian companies are facing. All the most important trust-problems and all the solutions pointed out will be discussed in the following passages. All the problems and all the solutions are interlinked and the findings on the trust issue are important for all clusters.

The Russians value trust. Professionally interpersonal trust can decide whether you will be able to develop a project that you initiate, get more responsibility and if you will grow inside the company. The trust in Russian companies can make the companies much more dynamic and effective in some situations, than what we experience in the typical western business model. At the same time the reliance on interpersonal trust can become a problem in some companies, because the trust built over time through relations cannot be copy-pasted and transferred to new employees.

5.1.1.2 Lack of competent managers

One of the main reasons for the lack of good professional managers is among other things a lack of business education and business mindset. Many people become professional managers because they have been very good engineers or mathematicians and advanced to manager-status. The problem is that these managers do not necessarily have the knowledge of business strategies and how to develop a successful business.

To solve this problem the Russian managers points out that it needs to be more focus on business education for managers and young people starting their career. Also a general development of business mindset for Russian managers should be in focus. This will give the managers and professionals the possibilities to build sustainable businesses based on effective trust structures.

5.1.1.3 Lack of soft mechanisms

Many Russian companies have problems with hiring the best fitting professional due to lack of good managers. Also short endurance of business culture leads to a lack of soft structures in to the professional behavior patterns. Being a manager in a developed economy, such as England, means that you belong to a certain crowd. If you behave unethically in English business you will be frozen out of your circle and loose face. These soft control mechanisms

are not yet developed in Russia, but have started to emerge among the younger crowd of well educated professionals.

To solve this problem Russian professionals suggest focusing on business education, active sharing of information, involvement of employees, overall strategies and values for the companies, and on trainings for the employees. To be able to create a sustainable system the Russian managers are putting emphasis on the severe importance of having good mentors and good leaders who is actually living the values. They suggest making some people “Champions.” “Champions” should be people who is working and living the company values. The champions needs to be visible people in the company and the company can actively promote these people and make other people want to achieve the same attention based on living the values. To create values in a company the managers suggest making some kind of cultural audit to define what kind of values actually exist in the company. The values need to come from the company itself, be specific and relevant.

5.1.1.4 HR Problem

Another problem of HR is that it is a problem to check credentials. Russia is a big country and the market is unstable, so it is difficult to check the background of a person that has worked in another part of the country. It is also difficult to know what stands behind upsides and downsides in a person’s career, if it is the person or the surroundings to blame for downturns.

This issue can be solved by getting better HR routines before a person enters a company and by checking the credentials better.

5.1.1.5 Lack of motivation

Another issue explaining the lack of trust is the motivation. Russians are very ambitious and it is difficult to get enough top qualified managers to be motivated to work for someone else for an ordinary salary. Ambitious professional managers want rather to start their own business and not serve as someone else’s manager.

Another reason for lack of motivation is that employees chose the wrong career when they entered university when they are 16-17 years old and are working with something they dislike.

The Russian solution to these issues is first of all to reward good managers with different motivational tools, such as stock options and co-ownership. When the manager becomes more directly involved, he or she gets more interested in staying in the company and in creating sustainable value. Another variant is to give high enough salary to make the person focus on intrinsic values and to make the job interesting. At the same time it is important not to pay too much and to motivate the manager with intrinsic values such as being part of interesting processes.

To solve the problem with uninterested employees is also linked to HR. HR functions in the company needs to ensure they get the right people on the right place, hire people that likes what they are doing and possibly give additional trainings and education to motivate.

5.1.1.6 Tight control mechanisms

Tight control mechanisms are a result of lack of trust and lack of soft mechanisms. The tight control mechanism in many companies leads to micromanagement and little autonomy.

Dilemma: The companies are facing a dilemma. They want more trust, but because of short experience in business culture and lack of soft mechanisms – which is central to trust, the companies needs to use more controls, which reduce trust further & probably reinforce old barriers and culture. This becomes a negative circle.

To get out of the negative circle, the Russian managers are suggesting as mentioned: Better business education, development of business mindset, developing and improving HR procedures, motivate with co-ownership to make managers interested in creating overall company value. Create values - and champions to live the values. All Russian informants suggest developing structures that makes it possible to trust the employees more.

5.1.2 Cost management problem

The Beyond Budgeting critics says it is too much focus not to overrun the budget, that was decided last year, and that the informants could miss opportunities that would ensure an efficient and value creating use of resources. Beyond Budgeting suggests no cost roof or cost floor, but more autonomy and responsibility to managers on how to invest the money so they get more back. (Hope, Fraser, 2003)

Table 12 Cost management problem critique comparison

Beyond Budgeting Model		Management in a Russian Context	
Problems	Solution	Problems	Solution
To much focus on overspending	No cost roof/ floor, more autonomy	Overspending	Block accounts
		Missing investment opportunities	Levels of investment approvals
		Lack of flexibility	Changing budgets
			The informal way

5.1.2.1 Overspending

The overspending problem in usual problem in budgeting since the budgets is negotiated down on company level. Once in a while the managers see the need for using more. To prevent the problem of overspending, Russian companies have started to block bank accounts, so it is physically not possible to get the transactions through if it is not enough.

5.1.2.2 Missing investment opportunities

Missing investment opportunities is seen as a major problem due to rigid budgets. This is a problem because the company can miss important value creating opportunities in the dynamic markets. Russian managers, especially those represented in cluster 2 and 3, have solved this with having several levels of investment committees and investment approvals. In many companies these issues are solved the unofficial way. (See next sub-chapter)

Smaller and fast developing companies have more flat structures and in these companies' discussions, investment decisions and initiatives are taken ad-hoc when they occur. The topic of how to deal with investment decisions is further described in the next paragraphs.

5.1.2.3 Lack of flexibility

Lack of flexibility is seen as a problem with traditional budgeting models in Russia, since it creates boundaries for projects, leads to missed investment opportunities and stops potential value creating projects and activities. The flexibility is a problem because it removes good opportunities to create value for the company. As a solution, many Russian managers want to have more flexibility by for instance changing budgets more often or rely on forecasts instead of budgets. This is what many companies do. In all the three clusters, we found companies that are either changing or creating new budgets or forecasts based on new assumptions, and new events in their environment.

To solve the problem with rigid budgets, Russian managers use the informal way to get a more flexible investment budget. The informal way is an informal decision making process, which is used and accepted, in many Russian companies. This management phenomenon is found in all the three clusters of companies. This style of management has developed because of the rapid change of the economic structure in Russia. From the Russian and Soviet traditions has grown a market economy with many new industries and companies. Many companies, especially those close to state, have kept some of the Soviet and Russian traditional budgeting and reporting style, but as many other things in Russia, the official system is lacking a bit behind the real life and actual development. In this case, the traditional systems are lacking behind the business development. Due to this, among other things, result oriented Russian managers has developed many different ways and variants on how to make the cost management systems more effective. Some of the big state owned companies has both official and more unofficial structures on how to solve urgent tasks and potential cost and investment decisions or to propose a new project. Both the informal and the formal procedure are accepted in the companies, but the unofficial way is seen as the preferable first choice. The unofficial procedure is described as a fast and effective way to initiate new value creating projects and to make decisions. Every employee can potentially contact the top management or decision makers, even the CEO, if a decision on an important value creating project needs to be taken, proposed or discussed urgently. However it is most common to

negotiate with and convince your supervisor about taking the decision further to the decision makers. This type of decision making in Russian companies is often somehow dependent on the track record of the initiative taker for the proposal. If the initiative taker has a good track record of delivering good results, the initiative will be easier going through. The track-record-approval of Russian managers is linked to the inefficiency of HR procedures in Russia, which makes it more difficult to trust new employees by default before they have proven to deliver. In such way, the personal relations with colleagues and managers on different levels is also important if an employee wants to initiate a change in the budget and a new value adding project. The downside of these unofficial procedures is that they in some situations can lead to confusion.

There are also official ways to change the budget during the year. Some of the biggest state companies, in cluster 1, adjust or change the budget two to four times during the year if there is occurring an unforeseen situation, if the political or economic situation is changing or if they for instance need to build new infrastructure.

A private oil company in cluster 2 even had experience in starting the year without a budget when the market for oil price has been very volatile.

Another variant for changing the cost budget we have found in cluster 3. The model says that for every cost project outside the initial plan, the employee who takes the initiative to the cost, needs to report it and ask for permission a few steps up the hierarchy, through a system. The initiative taker should first enter an order to the purchasing responsible. The purchaser makes a tender and chooses the best variant. Then the bill goes through several checkpoints. The person who initiated the cost signs the bill and then it goes to the manager of the division, then to financial controller and then, if needed, to CEO to get it approved.

Fast developing companies, in cluster 3, has very dynamic budget structures and many companies monitor and recalculate the budget month by month. The budget is in these cases simplified to not spend too much time on recalculations. Some companies has a forecast in the place of the budget. These companies operate and maneuver after the forecast because they find it too rigid to operate with a budget. This works because the company can catch opportunities when they occur and at the same time always keep a track on where the company is heading, without having to slow down due to rigid budgets.

5.1.3 Target setting and evaluation problem

The traditional budgets cost number, income number, production or market share is predefined absolute numbers. Having as a goal to hit the targets is not good in the first place. With old rigid target setting it is too much focus on keeping time and costs down overrun that quality can be forgotten. Beyond Budgeting suggests relative measures against leading industry indicators, benchmarks and competitors' performance.

Table 13 Target setting and evaluation problem critique comparison

Beyond Budgeting Model		Management in a Russian Context	
Problems	Solution	Problems	Solution
Aim at a target is unfortunate	Relative measures against benchmarks	Unreliable information	No solution (Historic + ambition)
		Individual targets	Empower employees to influence company performance

5.1.3.1 Unreliable information

Unreliable information is one problem with target setting, based on competitors, in Russia. If a company would like to find out how the competitors are doing, it is very difficult to find enough information about the company. If it is an international company working over borders, such as the major natural resource companies, it is not a problem to find information about international competitors. Finding info about inland peers is more problematic. There is distrust in measuring against competitors since it is difficult to measure competitors and since companies believe that all companies are in a different situation.

The Russians have no solution to this problem. The companies are ignoring the outer world and use historical data and add an (ambitious) percentage to set the target. To measure oneself against own historical achievement is the most accepted way to set targets.

5.1.3.2 Individual targets

Individual targets are becoming bad targets when negotiated down by managers. Russian managers suggest empowering employees to influence company performance and to base the bonus on this.

5.1.4 Bonus problem

The bonuses in traditional management models are usually linked to “bad” targets that are negotiated down by employees. These kinds of bonuses are a result of employees wanting to please their supervisors in order to receive an extra payment. (Fraser, Hope, Player, 2003). Beyond Budgeting suggests that the bonuses are collective and attached to relative performance metrics.

Table 14 Bonus problem critique comparison

Beyond Budgeting Model		Management in a Russian Context	
Problems	Solution	Problems	Solution
Bonus attached to bad targets	Collective bonuses on overall performance	Individual bonuses	Collective bonuses
Targets negotiated down		Opportunistic behavior	Intrinsic values
		Extrinsic values	High enough salary
		Demotivating	Direct ownership

5.1.4.1 Individual Bonuses

Russian managers see individual Bonuses as a problem also. Russian managers however are very focused on bonuses as a tool for motivation.

Their solution is also to implement collective bonus systems linked to overall performance, but not necessarily relative performance. Several managers in cluster 1 and 2 argue however that there needs to be an individual part in the bonus system since not all employees are able to make an impact on the overall performance of the company.

5.1.4.2 Opportunistic behavior

Opportunistic behavior is seen as one of the problems linked to the individual bonus systems. The negotiation is an arena for opportunistic behavior and competition among employees to promote themselves and their performance rather than overall company performance.

The solution proposed by the managers is to introduce collective bonuses and direct participation in the companies.

5.1.4.3 Extrinsic values

Extrinsic values are a result of the individual bonus systems. The focus becomes more on earning cash and external motivational forces are what drive you so the lack of bonus payments will also be demotivating.

The solution proposed is to focus more on collective bonuses that will create room for trying to turn the motivational forces over on more intrinsic values such as challenging tasks and a good work environment.

5.1.4.4 Demotivating

Demotivating can be a result of the individual bonus system. The targets-setting and negotiation phase has led the bonus to become almost a payment received by default and are considered to be a thirteenth monthly salary. When the bonus is not received in such an instance, the lack of bonus payment will work more as a demotivating factor than the actual bonus works as a motivational factor.

Solutions proposed are collective bonuses, to give managers direct ownership; intrinsic values and making sure people get high enough salary.

5.1.5 Rhythm problem

The critics to traditional rhythm of the fiscal year through Beyond Budgeting theory is that the business world is too dynamic to fit a calendar year. The Beyond Budgeting solution to this is to have rolling forecasts.

Table 15 Rhythm problem critique comparison

Beyond Budgeting Model		Management in a Russian Context	
Problems	Solution	Problems	Solution
Business world too dynamic to fit a calendar year	Rolling forecasts	Hard to change budgets.	Informal channels

5.1.5.1 Hard to change budgets

Hard to change budgets, is one of the problems that Russian managers are stating. Some companies stick strictly to the year-by-year plan, but most companies have some updates during the year.

Russians are focused on the outcome and are currently solving the problem, with rigid-year-by-year budgets by making changes in the budget during the year.

This can be done in officially in the companies or it can be an initiated change by some of the managers in the company that sees a new option. (As discussed in 5.1.2.3)

In the more hierarchical companies, the approach to solve the budget issue, is, as mentioned, usually done either by the top management due to severe changes in environment or by employees through the unofficial way. By managers working in this companies the unofficial way is described as a pretty effective way. However, as stated earlier, some managers are criticizing this practice for being too chaotic.

In more dynamic companies it is practices for reviewing or recalculating with updated forecasts or budgets a few times per year. In the most dynamic companies in growth phase reviewing the forecast can be done every month.

5.1.6 Quality Problem

Beyond Budgeting critics to traditional budgeting say it is difficult to make good targets, reliable forecasts and effective resource allocation in the same process. The Beyond Budgeting solution to this problem says that the processes need to be separated and improved. Targets should also be relative and not fixed negotiated contracts. (Bogsnes, 2009, Hope, Fraser, 2003)

Table 16 Quality problem critique comparison

Beyond Budgeting Model		Management in a Russian Context	
Problems	Solution	Problems	Solution
Three purposes of the budgets are often in conflict	Separate them into different processes	Lack of methodology for resource allocation	Collegial decision making
		Forecasting based on historical accounts	Market focus

5.1.6.1 Lack of effective methodology

Lack of effective methodology for resource allocation is the first problem pointed out by Russian professionals in several companies.

The solution that many managers are suggesting or have implemented is an effective collegial decision making on many levels. Collegial decision-making is used in some natural resource companies, especially in cluster 2, and also in some companies in cluster 3. Several companies have regional offices that have autonomy since they have local knowledge. The companies mostly try to keep a focus on the opportunities and priorities good opportunities. This solutions are proposed by all the clusters, but cluster 2 and 3 are more dynamic and cluster 1 is more bound of old traditions.

5.1.6.2 Historical target setting

Historical target setting and forecasting based on last year's results is by several managers seen as negative, especially in growing companies. Budgeting based on historical accounts is common. Russians does not trust the third party information.

To make the budget more fitting the current situation, many of the Russian companies are looking more at market opportunities and are focusing more on the market, than the historically based targets.

5.1.6.3 Rigid budgets

Rigid budgets is seen as a problem since it makes in difficult to go through with potential projects .

The solution proposed to the problem is to implement rotating forecasts and dynamic structure based on current situation and to educate managers on how resource allocation can be done differently.

5.1.7 Efficiency problem

Companies spend very much time on making the plans and then reporting against the plans (Bogsnes, 2009). BB theory suggests removing budgets and implementing variances of Balance Scorecard.

Table 17 Efficiency problem critique comparison

Beyond Budgeting Model		Management in a Russian Context	
Problems	Solution	Problems	Solution
Budgets demands too much time	Remove budgets, use BSC	Too much time spent on recalculations	Remove useless paperwork

5.1.7.1 Too much time is spent on recalculations

Too much time is spent on recalculations according to Russian managers. Many still thinks the traditional way with some adjustment is the way it needs to be done and does not know any other variants.

The solutions to make the company more effective, suggested from the managers, are to remove the unneeded paperwork. If it is needed they suggest distancing from the plan and making adjustments on the way as environment changes. In most companies variants of these solutions are already a part of the real life processes.

5.2 Hofstede’s description of Russia: lost in generalization

“Whether and how can Hofstede’s findings regarding culture in Russia be useful in explaining the characteristics of the Russian management model?”

We have discovered some characteristics and attitude among Russian managers regarding the Beyond Budgeting concept in the previous chapters. Now we will discuss if and how the Hofstede scores and associated description of cultural characteristics are applicable to the findings. The findings will be presented first two dimensions together because we believe them to be strongly interlinked. Then three dimensions will be discussed separately. The discussion will mentioned and emphasize the clusters we have divided the companies into earlier in the thesis, however the discussion will not be structured to describe each cultural dimension cluster-by-cluster, since we do not have every cluster presented on each cultural dimension.

5.2.1 Uncertainty avoidance and Power distance

Looking at the level of uncertainty avoidance demonstrated by informants, at the practical application of what is considered as uncertainty situations and looking at the mechanism used for uncertainty decrease and avoidance give powerful insight of what are the underlying mechanisms of Russian business culture and that of its players.

Hofstede's theory places Russia within highest points of the uncertainty avoidance scale, with 95 points out of 100. This placement gives viable introduction to the interpreting of the findings made during this research but lacks depth in solving a very challenging task; which behavioral patterns of informants account for uncertainty avoidance, which situations should be considered with certainty vs. uncertainty scale and especially what should be classified as potential uncertainty triggering contexts and situations. Given these suggestions, we would like to claim that Hofstede's theory, though demonstrating correct approximation of Russian business culture uncertainty avoidance patters, need more details and deeper classification.

Analyzing the Hofstede's theory, we also have made an observation that the two dimensions, namely Uncertainty avoidance and Distance to power should be, for the methodological and better clarification reason, considered in proximity, since many informants' findings suggest that these two dimensions stand close, can be interconnected or at least can be classified as belonging both to Uncertainty avoidance and Distance to power dimensions.

5.2.1.1 Relative benchmarks

Among other findings, the interviews disclose informants' unwillingness to rely on relative benchmarks. These findings are interesting to analyze knowing that Hofstede's theory places Russians in the Uncertainty avoidance highest part of scale. It may at first seem a contradiction that companies reject the idea of relative benchmarks and comparing themselves with peers on the one hand and claim they would like to decrease currently existing uncertainty of the business environment on the other hand.

However, if we look at the detailed wording of the informants' answers, we can notice that the reasons they provide against introducing relative benchmarks are mostly based on ideas of exclusiveness and specialty.

According to the informants, the fact that country, industry, situation, season are exclusive, special, and different in their nature leads to the conclusion that relative benchmarks are useless. Assuming that informants' claim about specialty and exclusiveness is correct, it can be suggested that Hofstede's theory need more details regarding the above mentioned contradiction of 'yes, we want more certainty, but we do not want relative targets that give more certainty'.

The additional details we would like to suggest for Hofstede's dimension of uncertainty avoidance is the following: placement of Russians high on uncertainty avoidance is correct, but evolves in analysis of the findings not on the level of choosing or rejecting relative benchmarks (uncertainty avoidance tool) but on a higher level.

Looking at the level of uncertainty avoidance demonstrated by informants, at the practical application of what is considered as uncertainty situations and looking at the mechanism used for uncertainty decrease and avoidance give powerful insight of what are the underlying mechanisms of Russian business culture and that of its players.

Informants reject the uncertainty-decreasing tool by claiming that they are a special case or a special company in a special situation. According to our observations, the informants conscientiously sacrifice operational short-term certainty for strategic long-term certainty..

The summary of the position expressed in one phrase would mold into “yes, we want more certainty, but relative targets, that give more certainty, are useless because we (country, industry, our goals) are special and impossible-to-compare company and we want to feel ok now, avoiding the uncertainty of possible future stress coming from the fact that we are possible worse than competitors”.

Another factor is that the informants confirmed that they do not trust the information coming from outside world (competitors, third party agents). They claim that this information is not trustworthy and can be misleading. This observation relates closely to trust issue; lack of trust and transparency of information makes informants locked in their companies and possibly lack the clearer and bigger picture that could be fragmented and stressful, but brings more adequate description of the landscape and offers relative benchmarks to consider.

5.2.2 Power distance

The Hofstede theory gives Russia 93 out of 100 scoring on the power distance scale. According to Hofstede, it generally means (in opposition to short PD of, for example, Nordic countries) visible demonstrated inequality between different members of society and to those who have power.

5.2.2.1 Trust problem – hierarchic organizations

Practical consequences of this findings, according to Hofstede, in business life mean that hierarchy is multilayered and tend to demonstrate autocratic aspirations, fewer people (compared with a short PD country like Norway) are involved into decision making process, tolerance to inequality is high, criticism of superiors as a taboo (especially in public) and direct addressing the superiors is stressful for the employees who see themselves as not equal to superiors.

This theory serves as a viable instrument to analyses and explains some of the findings made in this research, where we could not help noticing that some of the findings are left unexplained or even contradicting to the Hofstede analysis. Detailed analysis of those cases where theory fails to fully explained the findings lead to reclassification of these cases from

pure exceptions from Hofstede theoretical framework to a set of findings that can serve for reconsidering Hofstede theory.

Analyzing the findings we came to conclusion that Hofstede's theory better matches those situations, periods, companies and industries that are less dynamic and more conservative. Since, it has become a generally recognized fact that Russia and its economy together with business culture are going through a highly volatile period of transformation, questioned by neither the direct participant nor observers, we have come to a conclusion that an extra parameter should be introduced to the Hofstede theory so that it could explain the finding that otherwise, without the extra parameter, fell in the category of unexplained exceptions.

5.2.2.2 Dynamic vs. Static aspect

This new aspect is Dynamic vs. Static status of organizations. Hofstede theory, in our opinion covers correctly most of the situations that are static and those organizations that are closer to super-enterprises and state ministries in their nature. Dynamic companies, situations and business process demonstrate such a visible discrepancy with Hofstede that we have come to a conclusion that theory need reconsideration in those parts when we witness tectonic shifts. Clusters and situations demonstrating building a winning team stage or rise to market dominance challenges Hofstede theory in its most decisive parts: informants greatly emphasize the importance of inclusive resource allocation process, high intolerance to top-down practices, transparency, non-hierarchical practices and short distance of communication. Usually these organizations are on the growth stage or in aggressive market dominance growth. Having this goal, organizations switch to the most energy efficient and optimal way of self-organizing their interpersonal relationships that coincide with all the attributes of Hofstede's short power distance. In other words, a company in dynamic mode becomes lean and moves to the short PD part of scale.

Informants from this cluster openly say that it is impossible to apply practices that would be qualified as long DP under Hofstede theory and basically imply that employees 'will not buy it'. Employees' status in this cluster is just as high as that of superiors. High professionalism, result-oriented approach that are valuable by companies going through dynamic stages is supported by high labor mobility of the personnel that has low acceptance to hierarchical and unequal long PD framework.

This cluster of organizations presents a visible contrast with organizations that enjoy a stable or government protected position: they grow extra layers of hierarchy, invest into restrictive policies and look like a best example of Hofstede’s long distance to power with inequality and lack of personal communication between superiors and employees. Professionalism here is rated less than loyalty and predictability, result-oriented approach is valued less than predictability. All that leads to high acceptance of long power distance framework. Also, a tectonic shift that Russian business landscape had since 1990’s led to a big variety of companies, business styles that coexist in the same territory within the same period of time. Hofstede theory works for companies in their maturity stage of development.

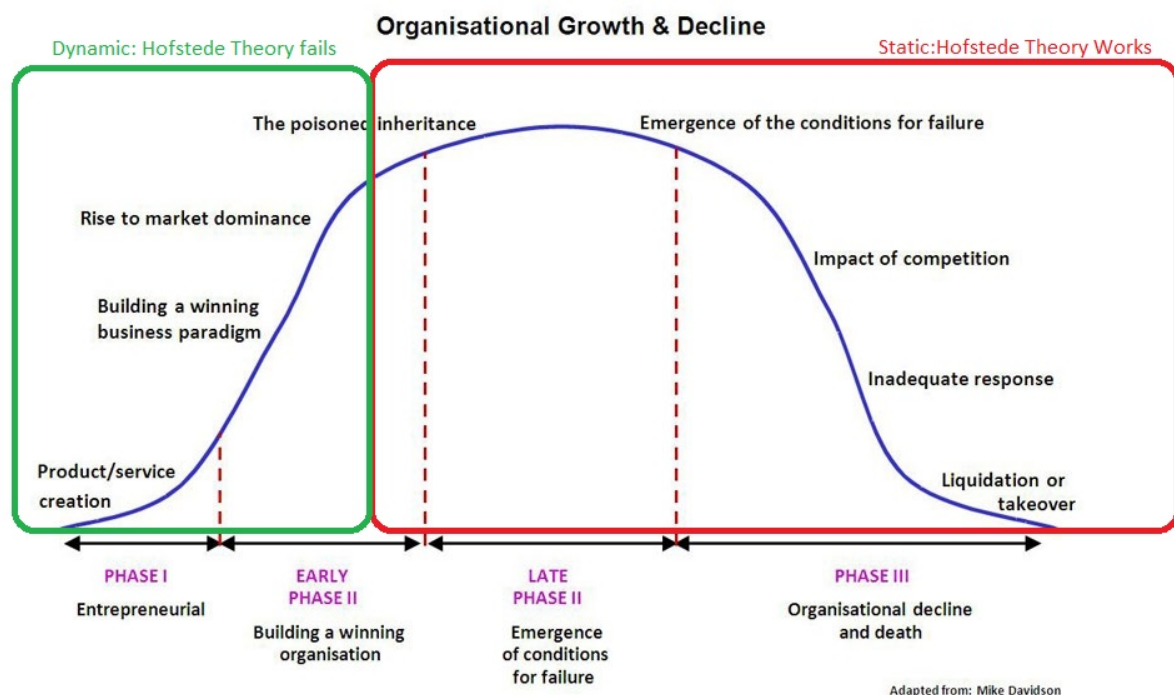


Figure 13 Growth phase compared to Hofstede

<http://www.mannaz.com/en/insights/whats-new-in-innovation/>

5.2.2.3 Trust problem – Control structures

Hofstede’s theory of power distance and uncertainty avoidance help to consider the control and mutual trust issues that refer to Beyond Budgeting theory in its Trust Problem part.

Hofstede theory suggests that Russians, who score high on power distance and uncertainty avoidance, would tend to implement strict control structures and would rate personal trust high.

The findings of our research reveal that personal trust and level of control structures in organizations are highly interlinked. Virtually all the participants, analyzing the decision-making processes and the underlying principles were describing trust and control as the key tools for picturing the nature of relationship and attitude to business practices.

It is interesting to mention that regarding this issue, power distance part of Hofstede's theory acts in close link with Uncertainty Avoidance dimension of the same theory. The interlinked parts act in following relationships: uncertainty avoidance aspirations in the settings of Russian business push players towards careful consideration of what is trustworthy and what is not, which consequently results in practice into implementation of more stricter or less strict control mechanisms.

Trust and control pair is an interesting tool for analyzing the level to which Russian companies are ready to accept the Beyond Budgeting principles and for analyzing what are the reasoning for this decision because trust vs. control often triggers choice of behavior in dimensions of power distance and Uncertainty avoidance. If trust is high and less control needed then distance to power becomes shorter. If trust is low, control becomes stricter and leads to higher uncertainty avoidance.

The findings reveal that the turbulent fast changing environment and the short history of new economic history of Russia greatly influence the trust and control dichotomy: the informants prove Hofstede's theory to be right when they say that control structures are common and mostly considered as positive and generally accepted. Hofstede relates this approach to hierarchical trends in organizations and to centralization of power tendency, which signify long distance to power.

As was pointed earlier, hierarchies that according to Hofstede result from long distance to power are observed mostly in stable organizations that passed the stage of growth and expansion. These companies demonstrate strict control structures. However, companies going through rapid growth stage, mostly found in cluster 2 and 3, that do not have hierarchies or

have a flat one, still demonstrate high reliance on several types of control mechanisms. Control structures are not in clear cause-effect relationships with hierarchies and longer distance to power. They rather act in dichotomy with trust that reflects Hofstede's uncertainty avoidance parameter.

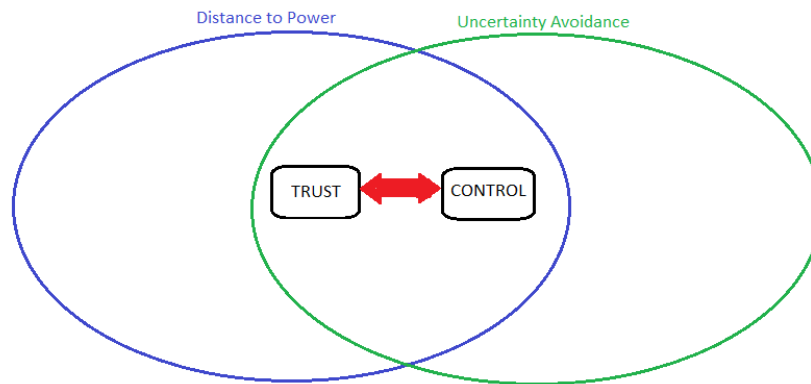


Figure 14 Trust and control dichotomy analyzing PD and UA

If trust is low, more control mechanisms are introduced that serve as a mechanism for creating higher uncertainty avoidance. At the same time, trust vs. control affect power distance dimension; if top management do not trust middle management, control mechanisms are expanded and longer distance to power is observed. In opposite examples, if there is lots of trust, formal control mechanisms are just auxiliary and company demonstrates high acceptance of uncertainty. And if trust between top management and middle management prevails, less control is enforced and power distance is shorter.

The mechanism of titling towards control rather than trust works in the following way in the Russian companies: general turbulent environment does not provide professional track record long enough to secure employer's expectation about qualification of employees. Fragmented labor market with different business style companies leave employers unsecure whether employee's achievements are valid. In addition, lack of knowledge synchronized with the mentioned factors, adds uncertainty on how quickly the employee will be on the same page.

In these setting, personal trust acts like the fast remedy to uncertainty problem on everyday level, but brings more uncertainty of higher level. Even if personal trust brings more certainty ‘right here and right now’, organization as a whole suffers from bigger potential uncertainty, because personal trust mechanisms are nontransparent, non-scalable and very informal. So, on strategic level these factors are obstacles to more certainty, because trust of interpersonal nature cannot be formalized and copied in the organization.

Meanwhile, in full correspondence with Hofstede’s theory, the further it is down the hierarchy (or, in cases with flat hierarchy, the further it is from the decision making center) the more control mechanisms are enforced as a commonly accepted way of dealing with uncertainty of those who are out of the trust cycle.

Interestingly, that the same principle can act negatively within the trust cycle, when control procedures and mechanisms can be neglected due to trust relationship. This observation seems to be very interesting, because it proves the dichotomy nature of trust and control pair: top management feel it uncomfortable to impose control mechanism on their own level because that would contradict the trust approach. The unspoken practice here could be expressed in narration ‘why you need to control me? Don’t you trust me?’

On top level, trust prevails control, because control mechanism is often viewed as suppressive and meant for top-down interaction, something that less professional people need (control, micromanagement), while the circle of top management assumes trust to be the natural base for interaction.

To sum this up, uncertainty avoidance triggers in the Russian companies the trust vs. control dichotomy, which is practically implemented as trust for those who act on the same layer and control for those who work a level lower.

5.2.2.4 Trust problem – Autocratic management style

Autocratic management style, which according to Hofstede evolves in Long Distance to Power countries like Russia, has direct correlation with Trust problem, described by Beyond Budgeting theory.

In this aspect, Russian companies demonstrate more autocratic style of management in well-established even stagnating companies that passed rapid growth and expansion stage. A well-described example is petroleum companies in cluster 1 where CEO could have outstanding concentration of power up to approving regular employees' business trip expenses schemes. Companies going through active growth stage, found in cluster 2 and 3, reject the autocratic practices and act more like a lean group of coworkers in a flatter hierarchy taking quick decisions and seeking general involvement and consensus. Interesting to note, that these anti-autocratic tendencies are well recognized by companies and are result of conscientious choice of participants. One of the informants quite directly said that any autocratic approach would lead to rejection and would be counterproductive.

The reason for such an anti-autocratic approach is high result-orientation of these companies that need all the best from all their employees in order to achieve their challenging goals. Also, using the concept of overlapping dimensions of power distance and Uncertainty Avoidance, it should be noted that above described cases of shorter distance to power and more trust rather than control emphasis serves, in full correspondence with Hofstede's theory as uncertainty avoidance tool.

Companies that pursue an ambitious agenda (rapid growth stage and acquisitions) accept uncertainty and are fine with dealing with it by having less hierarchy and becoming leaner. Meanwhile, those companies that are on a stable development stage do not accept uncertainty so lightly and demonstrate higher hierarchies.

5.2.2.5 Cost management problem – Formal vs. Informal

The issue of Formal vs. Informal approach is crucially important in estimating the cost management problem described by Beyond Budgeting.

Hofstede's theory would suggest that Russian companies should demonstrate highly formal approach since Russia is placed by Hofstede on 93 out of 100 points on power distance scale that describes relationships between organizational level as formal and hierarchical.

The findings of this research paper support Hofstede's theory for stable companies. Rapid growth or expansion stage companies tend to demonstrate less formal direct communication style and approaches.

Interesting observation is that even in well-established companies with highly formal structures and communication style, informal way of doing things is used for special projects or rapid initiatives when all the decision making understand that formal way of doing the same operation will decrease the chances for good result and will increase the costs of achieving the result.

In other words, formal structure is a shelter for business-as-usual everyday status quo, while a quick shift to informal approach is done whenever main stakeholders agree that result in a particular situation is more important than the compliance with the formal rules.

5.2.2.6 Target setting and evaluation problem – KPI target systems

Target setting and evaluation problem, identified by Beyond Budgeting theory gives an interesting food for thought while analyzing the findings of this research regarding Hofstede's theory in its power distance aspects. Again, Hofstede's Avoiding of uncertainty dimension should be considered together with power distance.

Distance to power part of Hofstede's theory here confirms the findings: according to the findings of the research, target setting is predominantly top-down procedure. The only deviation is in the way this top-down procedure is performed – autocratically or with some imitation of consensus gaining or negotiations. But in almost all the cases target setting is a top-down process when targets are cascaded down the hierarchy. This approach demonstrates long distance to power when target setting is nonnegotiable message delivered by superiors to employees.

In those situations when some negotiation and inclusive process were described, long distance to power principles still prevail in many companies. Even if employees are given a chance to contribute to target setting procedure, this participation tends to be rigid and not entirely free for suggestions in several companies. Quite often it is rather a frame within which employees can communicate their target setting ideas, but this frame is first of all limited in time, the

frame is followed by unspoken pressure of expectations from superior about what the target setting should be and after a short target-setting session is over, the actual decisions, in many cases, is taken on the top level. On the level where the actual target setting starts; employees' suggestions can be taken into consideration, but the top level is also free to more or less ignore the suggestions or maybe just consider them as a hint on how difficult it would be to have all the employees on the same page regarding the targets.

This especially fit companies in Cluster 1 and to a certain extent Cluster 2 that mostly prefer top-down target setting and where employees in several of these companies are participating pro forma; target setting is formalized, finally decided on the top and cascaded down. In full correspondence with Hofstede's theory, this is viewed by both top management and employees as a generally accepted standard process, where employees should be thankful that they were just asked about their opinion (even if was very pro forma way of asking) and where the target setting is the propogative of the decision maker and their natural right that is a taboo to argue against.

5.2.3 Masculinity versus Femininity

As Hofstede suggest in his theory, Russia scores 36 out of 100 points on Masculinity vs. Femininity scale. This is interpreted as the Russian culture being more leaning towards femininity which means that Russia is supposed to demonstrate strong leaning toward teamwork, a less competitive instincts and less opportunistic behavior and considering reward on the basis of equality as a more fair practice.

Hofstede's theory suggests that there should be collective bonuses in Russia since the femininity traits creates a foundation for rewarding on the basis of equality and that competition and opportunistic behavior should be less of a cultural trait in Russia. And in addition to this conflicts should be resolved by negotiation and search for consensus.

In regards to motivation this dimensions talks a lot about motivation in the workplace. Hofstede divides motivation and states that feminine cultures tends to be motivated by intrinsic values such as good working conditions, being friends with colleagues, challenging task and so forth. While masculine cultures tends to be more motivated by materialistic things, cash, status symbols and similar.

Masculinity vs. Femininity dimension of Hofstede's theory is interlinked with the principles of compensation and business systems that were exposed in our research. In order to provide a better analyses base, we would like to critically assess Hofstede's theory, point out why some of the findings could be contradictory to Hofstede and suggest some supplementary aspects that can enrich analysis and interpretation of the results.

5.2.3.1 City vs. Village: me vs. we

An additional aspect we would like to introduce is based on the fact that Russia is not homogeneous regarding the speed of accepting changes and of adjusting to them. If compared with a train, Russia's first car is in the 21st century and competed with the world leaders on their turf while the last car is living in the end of 19th century. This well explained why Hofstede's dimensions should be additionally re-considered; otherwise the findings may contradict the reality.

One of this contradictions detected is Hofstede's high femininity score given to Russia, while the informants' words contradicts principles of being less competitive and less opportunistic and having equality-based bonuses and considering non-cash benefits of the working place. We suggest that discrepancy is explained by the growing gap between 'traditional' Russian lifestyle of village areas and that of cities. This suggestion we base on the findings done by a few Russian sociologists that made a vast research on bonus and motivation expectations of Central Russia village dwellers.

The research was ordered by major Russian agricultural companies who planned expansion of their facilities in the Central Russia regions and needed common ground for cooperation with local population. The research well summarized in Expert (http://expert.ru/expert/2002/38/38ex-efco_35931/) demonstrated dramatic differences of values of city managers and village farmers.

The differences could be summarized in the following pattern: village shows Hofstede's scale of femininity and collectivism, city shows a big tilt towards masculinity and individualism.

5.2.3.2 Ego & win vs. Team & consensus

Our findings contradict expectations of Hofstede on quite many points made. Firstly, our informants claim that the collective bonuses and teamwork are not quite natural but rather an enforced principles that serve to mitigate the excessive heterogeneity of team members' qualifications and aspirations. It is more a necessity than a cultural trait. If the teams would not have collective bonus and teamwork implemented, they would probably choose different behavior.

Secondly, the informants strongly emphasize that motivation is strongly linked to cash bonuses, which completely contradicts Hofstede's expectation of motivation build on intrinsic values. Informants put cash much higher than intrinsic bonuses. But this might as well be because intrinsic values are difficult to use in a micromanagement environment.

Thirdly, according to our informants conflicts in many Russian corporations are resolved by an autocratic decision of a boss. This is in accordance with masculine cultures with a high power distance score. Russia has a high power distance index score, but is scored to be feminine culture. This is not in accordance with conflicts being resolved by the autocratic leader. This can also be more a result of the Russian management model, but one would think they developed a management model in accordance in line with traits in their national culture in the first place.

The discrepancies however can be explained if we recognize the importance of additional aspect: most of the informants represent the most advanced part of the Russian society in terms of practical realization of their talents and career chance. While the agricultural companies' research showed deep dependency of respondents on collective opinion, their almost neglecting of cash bonus system and their consensus-orientation, the informants from the city business world contradict to the Hofstede's findings and demonstrate strong desire to individually perform, get cash bonus that they transform into fulfillment of their lifestyle (better car, abroad trips, cottage) and solve disputes in one-way decision rather than flock in a team, to value non-money benefits and to be consensus seeking.

The discrepancy shows fundamental existential and behavioral differences in the population of Russia in its city vs. village aspect. The reason for the differences we observe can be

explained by a jump in social and labor mobility of 1990's and 2000's that brought the most energetic and ambitious people from all the country to cities and consequently to companies where they formed a hybrid sub-culture based on Western principles and that part of Russian culture spectrum that valued opportunistic behaviors, personal responsibility and highly mercantilist aspirations.

5.2.4 Individualism versus Collectivism

Russia scores 39 out of a 100 on Hofstede's individualism scale. This is interpreted as the Russian culture being more collective than individual. The traits of collectivist culture assume that employees are less expected to work in their self-interest and are expected to take group interest into account. Collective bonuses based on common goal achievement are popular in collectivist cultures.

This pattern is greatly supported by the research done in agricultural areas where Moscow company's managers were trying to identify to which extent individualism oriented business solutions can be applied; research showed surprising (for Muscovites) reluctance to work in one's own interests. The respondent directly said that they did not want to earn more, that they need no better houses and are fine with lack of basic necessary things.

However when managers started to treat these groups in a mass, groups showed high level of self-organization and active work with rewards divided equally (proportionality) in the group. This provided striking contrast with the behavior patterns demonstrated by the informants of this research.

The informants from cluster 1 have argued for why they practice top-down target setting. The top down target setting needs to be viewed in relation to the fixed targets and the target set based on historic numbers, however the target setting and bonus systems are said to favor those employees with a good competence in negotiations. This is because employees get their proposed targets and try to the best of their ability to negotiate those targets down in order to achieve their targets and receive the bonus. This is what any person would do, this is still an act in relations to our own self-interest contradicting Hofstede.

The companies in cluster 2 and 3, those have a more negotiated style of target setting claims that they have had to implementing collective bonus systems for two main reasons. The first reason is to implement collective bonuses in order to be able to mitigate problems and challenges related to opportunistic behavior and internal rivalry. Opportunism is defined as exploiting circumstances in one's self interest

(<http://www.businessdictionary.com/definition/opportunism.html>). This have been claimed to be a widespread problem in the companies we have included in our research and in regards to Hofstede this seems to be a contradiction. Internal rivalry needs to be seen in relations to the masculinity index, however the internal competition stems from the need to show oneself as a capable individual with good performance in order to advance in the ranks. And due to the power distance employees want to advance in order to achieve the status that follows a position of being above the rest.

The second reason for implementing collective bonus systems are of a more business manner. The aim of making ones company perform at the best of its abilities demand that employees need to pull in the same direction and promote activities that serve the best interest of the company as a whole. In relations to this the collective bonus systems promotes teamwork and common interests in a way that is more sufficient for boosting overall performance.

5.3 One or several Russian management models?

"Are there and what are the variances in the characteristics of Russian management models?"

In the theoretical chapter we proposed the question of variances in Russian management models, and through the empirical work of the thesis we have seen that there are differences in the different clusters of companies and that there are differences even in the clusters. We will now try to discuss these variances, introduce some parameters that are helpful for analyzing the differences and explain some of the factors that might have impacted these parameters in the management models. We will discuss the findings divided by the clusters and the factors we will discuss are presented in table 18.

Table 18 Explanation factors for variances in the Russian management models

Variations in Russian management models
Explanation factors:
Industry
Ownership
Size
History
Education

5.3.1.1 Industry

We see industry as a potential explanation factor to why there are differences in management systems in the different clusters. In the first cluster we have only oil and gas industry represented. In cluster we have oil and gas in addition to the mining industry and the gravel industry. And in cluster 3 we have all sorts of industries, investment, retail, printing and so forth. The industries have different factors to consider. For instance the oil and gas are companies with a massive size, long projects and international focus. The mining industry also has large companies but not necessarily the same size as the oil and gas industry. The gravel company is small compared to the other industries in the first two clusters. The printing company is also quite small in comparison. The industries also have different levels of stability. For instance the oil and gas are relatively dynamic, it is dependent on the international prices of oil, big investments and similar. while for instance the printing industry is more stabilized and have smaller investments, it is less dynamic in comparison to the oil and gas industry.

The oil and gas as well as the mining industry also have big national interest since it is working with national resources, while the retail industry don't have the same national interest. For these reasons the industry a company operates within can impact the management model.

5.3.1.2 *Ownership*

We see that companies in the three clusters have different ownership structures. This is important for understanding the nature and the overall goals of the companies. The state dominated petroleum majors in cluster 1 have their management style partly shaped from their role as former Soviet super enterprises and ministries. This bureaucratic management style, and 70 years of Soviet Union lack of profit focus, leads to lesser cost-efficiency and lesser accountability and higher power distance. In these companies it is also an overall skepticism to new performance systems and to advices coming from outside the trusted circle. The skepticism is especially noticeable towards foreign specialists and the companies prefer not to hire foreigners. This can be explained by the fact that these companies are the main artery of the Russian economy and any sabotage could be severe for the economy. The CEOs in this cluster have long-lasting and close ties to the president and other government officials. Several top managers of these companies have rose to power thanks to their close and loyal personal relationships to higher government officials in Russia. Managers continue to build on the legacy of soviet companies and management traditions. We see tendencies of adaption of western management practices, however management systems evolves slowly, hence the strong position of the soviet management tools can be observed today. Still there is a lot of non-transparent decision making (Bourmistrov & Mineev 2010) and a dominant top-down culture.

5.3.1.2.1 *Profit focus*

In cluster 2 and three, private capital is dominating. All the companies in cluster 2, and one of the companies in cluster 3 has businessmen, or super rich businessmen, also known as oligarchs, as dominating shareholders. These owners have a high demand for return on investment, efficiency and profit. In the current Russian business environment this has led to strict control, but at the same time more dynamics and flexibility in target setting, cost management and resource allocation. Managers in these companies feel trusted and able to influence their super-magnate bosses and they report that there are ways for employees to influence higher level decisions. The main negotiation power however is on the top level. Several of these companies also have more than one recalculating procedure during the year to adjust to the environment or sudden events.

5.3.1.2.2 Nor-Rus style

In cluster 3 there is a group of companies owned by a Norwegian company. It was very interesting to see how well the Norwegian management model with flat egalitarian structure was working in Russia. When we got to know this company, we thought that it, at least partly, had the answers on our main question: How to implement Beyond Budgeting in Russia? To look into the leadership- and management models of this company was like looking into an interesting mix of the “good old Soviet” idea of working for the common good, mixed with contemporary Russian professionalism and Scandinavian leadership style with open information flow, involvement, local autonomy and collegial decision making. However this company is not in a growing phase, but focusing on keeping the customers, this gives the budgeting procedures somehow a rigid structure of year-to year planning, since no big events will suddenly happen and the market is developed. The customer focus is very high in this company and the company works very close to the customers. One of their main values/goals is to provide the best possible service. This company also had collective decision making which could be initiated from all levels, on several types of decisions, including investment decisions. The company also had autonomous, decentralized decision making in the different sub-companies that the company was consisting of. The company reported that they have a less centralized system than their mother company in Norway. But that this partly was due to the organizational nature of the company group.

5.3.1.2.3 Dynamic Growth

Another interesting company was an investor company, who is minority shareholder of about 40 middle size companies. The investor is buying up shares in different companies, improving their management systems, increasing the value of the companies and selling their stocks of after value creation. The companies in this portfolio are very dynamic. Many also had collective decision-making, collective bonuses and quite flat structures to be more efficient. The approach of this investor has almost gone beyond, Beyond Budgeting in some areas. The companies in their portfolio for instance had very dynamic, month-to-month or quarter-to-quarter estimates (not budgets). They also have introduced stock options for top managers, to work for shared bonuses based on overall performance. Collective decision making and open information flow is characteristics of these companies.

5.3.1.3 Size – does it matter?

Cluster 1 companies are among the biggest companies in the world and have over 100 000 employees. Organizational structure of this magnitude inevitable falls in to a category of a ‘state within a state’ – a term Russians use for characterizing huge state-owned companies. In addition the idea is that the command lines needs to be somewhat top-down in order to operate on a stable and predictable manner. One company in cluster 3 is a conglomerate with thousands upon thousands of employees. This company has rigid budgeting systems, but they however is market oriented and can be adjusted during the year due to changes in the market or new investment opportunities. In this company, most of the negotiation power is on the top. In top management you also find highest level of trust and trusted responsibility. Managers in this company does not believe that employees “on the floor” need to take the same responsibility as those on the top and therefore it naturally with a hierarchy in such a big and diverse company.

5.3.1.3.1 Size is not an excuse

Two companies in cluster 2, that are both natural resource companies, have 70 000 and 50 000 employees respectively, however one is challenging the idea of that “a bigger company needs more hierarchy“. Comparing these two companies, one can see a great difference in the level of hierarchy and decision making structure. Even if most of the power is on the top in both companies, one of them has several decision making committees that used to, when the company was still operating, take investment decisions on several billions of dollars. The more flexible one, of these two companies, was a joint venture between a Russian and British company and had a management mix of the culture from Russian entrepreneurs in the nineties and British petroleum business. Looking at the other company on the same size, this company is purely Russian and one of the most dynamic in its branch in Russia. However, the last company has a much stronger top-down structure. Target setting is solely done from the top; there are little negotiations and more rigid budget structure. This company is trying to involve all the employees though, with making them send in their ideas for improvement. The difference in these companies is also somehow due to the professional level of the employees.

5.3.1.3.2 Smaller – is flatter

In the companies ranging from 100-700 people we see a much flatter, more inclusive structure. Here collegial decision-making is common and more discussions and negotiations between owners, managers and employees are happening on daily basis. Employees on all level in these companies are able to discuss with the management and be involved in the development of the company.

5.3.1.4 An unpredictable past – The last 50 years of Russian business

As, one informant said; Russia is the only country with an unpredictable past, and for sure the last 20 years at least have been unpredictable. The history of Russia and of the Soviet Union are briefly presented in the theoretical chapter of Russia. The long-lived Russian history of strong leaders with great power and different levels of people in culture have impact the PD index score discussed previously. Another important historic factor is the focus on planning and plan-economy in the Soviet era. The lack of profit-focus in the soviet union has also made its impact on the state owned super majors today.

Another important historical aspect is the events that have led to Russia being seen as a transitional economy. This transitional status adds additional level of complexity since many companies within Russia go through transitional stage in different pace. The end of the soviet era began with the economic reforms of Mikhail Gorbachov, were he tried to reform the economic system to a more open and competitive system more similar to the capitalistic markets. The transition to a liberal and open market led to a complete new economic order or disorder of the country when the union collapsed and the previous system of state planning disappeared overnight. This has impacted the management models found in Russia. The lack of rules concerning the new market environments contributed to a “wild-west” environment that the Russian authorities have tried to stabilize in the wake of the era and that the businessmen in Russia from the nineties till now are coping with in different ways. Important state assets such as natural resources represented by cluster 1 became private owned and sold on “state auctions” in the beginning of the nineties. The state started to acquire back the resources from year 2000 by being heavily involved in acquisition deals. These historical events and the results of these event can be used to explain why many of the company cultures have developed the way they have, with strict controls, lack of trust and centralized power on the top and around the owners.

Most of the companies in cluster 2 and three was established from the turbulent nineties till today and is a result of strong leaders that took their way through the fast moving and unpredictable surroundings and mechanisms of Russian business in this era. Therefore one can find in these companies, strong respect for leaders which has an impact on the management style. However the fast moving history of these companies has also made an important impact on the style of management. The companies are not necessarily locked in year-to-year budget routines. One company started the year without a budget after crisis in 2008/2009, an enormous conglomerate reports that they sometimes are not done with the budget before year starts and that they quite often recalculate due to changes in the market. The management model is mixture of newly established traditions from the entrepreneurial businessmen in the 1990's, borrowed systems from the west, and inherited knowledge of Russian management accounting and leadership dated back to the soviet era. One investor representing many middle size companies in a growth phase is experiencing that the companies are taking so surprising turns, that they are not even trying to have rigid budgets. These companies have been born from the nineties till now and have come to a point where their development slowed down due to habits that showed to not be result oriented. These companies are often family driven companies and has a lot of trust to the employees, but problems with hiring new employees since the processes are not formalized, but purely trust based and cannot be copied. This company style is typical for Russia in the last two decades. Since the state lost its trust and status as a provider, the family ties and ties between trusted partners and friends grew stronger. People wanted to build their own structures to protect themselves and their own interests. This is also some of the reasons why personal trust is important in Russia. The investor company is assisting with improving the management style of such companies, who has come to a point where they cannot improve efficiency because they cannot fire their friends or family members, who can happen to not be the best fitting seller or manager. The companies now again are experiencing rapid growth seeing new markets, with the help of consulting from their investor. The rapid growth and professional co-leadership gives highly modern structures that go beyond the Beyond Budgeting philosophy in many aspects. The developing nature, grabbing of new markets and a fluctuating environment gives less room for long term planning, because assumptions need to be switched "every night". In these companies forecasts are used as guidelines and a way to check how the company is developing, rather than rigid structures that cannot be changed.

The companies are using forecasts and do not pay much attention to these forecasts on a daily basis, but monitoring in a simplified way to make sure the company is going in the right direction.

5.3.1.5 Education

The education of the managers is also thinkable as an explanation to why we see differences in management models in Russia. For instance the cluster 1 companies are on top level managed by individuals with a political background and prefer to employ Russians. Several of our informants are explaining that part of their problem to address their critique of the traditional management model is that there is a lack of business education in Russia, this can impact the management model. The companies in cluster 2 and 3 on the other hand have more employees with an international background, both Russians that have undergone business studies abroad and internationals being employed in these companies.

Russians with international business degrees and international employees will influence and set questions to existing practices and will impact the management models. Another aspect of the educational explanation factor is that the major companies on average have more money and thereby attract the best heads to work with them, leaving smaller companies in a more difficult situation unable to attain good managers. As several of the informants said, good managers are a scarce resource in Russia. But this might also have led to a higher population of younger managers in high positions. These young managers have to a greater extent than in the previous clusters a business degree, either from a domestic university or from universities abroad. Another aspect is that these companies also are less skeptical to employ expats. This have contributed to these companies adopting more traits of western practices and have developed the soviet model to converge more towards international management models. This will impact the management model, even though the traits from the management model discussed in cluster 1 are very present and alive also in these companies.

6 Conclusion

We have in this thesis discussed three research questions and studied attitude towards the Beyond Budgeting concept among Russian managers. We have also assessed the Russian management model through the BB critics to traditional budgeting. To be able to assess the management systems and the attitude in all the nuances in a whole country and in so many big and diverse organizations is close to impossible for two students. Anyway we think that we have managed to gather interesting information about attitude and management systems in Russia and we believe that our work can be useful for people doing business in Russia. We also hope that we have been able to provide views that give knowledge about the Russian contemporary business culture, through the theoretical framework that we have used. We will now try to answer the three research questions that we have under our problem statement:

1. "What are the main characteristics of the Russian management model from the perspective of Beyond Budgeting literature?"

The characteristics of the Russian management model from the perspective of the Beyond Budgeting philosophy have several coinciding points. Many of the problems addressed in the BB literature were pointed out by the Russian professionals as well. Most corresponding findings between Beyond Budgeting theory and the Russian management model were found in relation to the Trust problem and the Bonus problem. The Russian management model also has practices that are positive for implementing the Beyond Budgeting concept regarding Cost Management, Rhythm and Efficiency. Looking at Trust, there is a problem with lack of trust in Russian companies (Azuan 2013). At the same time suggested solutions on how to solve this problem is for instance empowering the employees to be autonomous and to be able to make decisions on their own. These are attitudes corresponding with the BB concept. Bonus is very important in Russia. Many companies already have different types of collective bonuses and see this as the most effective way to motivate managers. This is in line with BB theory. Regarding Cost Management and Rhythm many very interesting themes coincided with the Beyond Budgeting literature. The yearly cycle is also criticized in Russia and the Russian companies, even the biggest and least dynamic ones have found ways to cope with unfitting year-to-year rhythm. The companies make recalculations during the year if there are important changes in the surroundings, which imply that they need to reconsider the situation.

The more dynamic the companies are, the less the fiscal yearly circle hinders them. Some companies even does not have budgets, but have replaced the budgets with estimates for guidance. The big companies however have not solved out the problems with using time on recalculating and reassessing the situation. For companies in growth phase and specially the smaller companies the time consumed is insignificant and the recalculation is solved in different ways. Some companies solves it just by changing a few key indicators in excel sheets. However, some of the problems are troublesome considering from the point of view of the Beyond Budgeting literature; the way target setting is done and the possibility to implement relative benchmarks was the issue that differ the most. The Russian companies that are operating in the inland market mostly reject the idea of using relative targets, since they have a problem with using relative benchmarks. The managers do not trust the information available or say that they have problems finding reliable information about their competitors (Zinkevich 2007). They also do not trust third party agents providing industry benchmarks and indexes. All over we see that there are many of the same problems, in Russia as addressed in the BB literature, considering traditional budgeting, and also many of the same solutions. In addition the Russian companies have come up with different variants of solutions to the problems. In some aspects the Russian companies have already implemented parts of the BB ideology, but in other aspects they have chosen other solutions, or are not in line with the BB ideology.

There is done quite a lot of research on management systems in Russia, on HR practices and on budgeting. A lot of research is done on lack of transparency and the soviet dictatorship – style and hierarchy in management (Clarke, 2007), such as keeping secrecy in decision-making (Harrison, 2013). Also a lot of research is done on the on current challenges of the trust problem in the Russian society (Auzan, 2013) and on dynamic games and their implication in management (Zinkevich, 2007). On Russian peoples relationships to bonuses (Puffer & Shekshnia, 2005), there has been a visible amount of research. We have found that the topics in this thesis have been touched upon. However, we have not found a research that is showing the width of attitudes among the new generation of businessmen- and women as shown in this paper. We also believe there are very few researches made that shows the new and contemporary management styles that are evolving in Russia in the light of BB philosophy. We find that there are little research done on Russian Managers attitude towards the whole Beyond Budgeting concepts and its critics to traditional budgeting and performance management systems.

2. *“Whether and how can Hofstede’s findings regarding culture in Russia be useful in explaining the characteristics of the Russian management model?”*

Hofstede’s theory gives a well-balanced theoretical framework for analyzing cultural aspects of Russia. However, we have found some discrepancies between practical observation and Hofstede theory. These discrepancies can be explained if extra aspects are introduced into the Hofstede theory. These extra aspects are needed in order to understand Russian business culture and business practices that are not uniform.

Hofstede’s dimension of power distance and Uncertainty Avoidance would benefit a lot by introducing a Static vs. Dynamic aspect. Without this aspect Hofstede fails to diagnose why some companies demonstrate short distance to power and are uncertainty tolerant. With this aspect introduced, theoretical framework gains trustworthiness: Static companies fulfill Hofstede’s expectations, dynamic companies contradict them.

Also, Trust-Control dichotomy seems to be a viable addition to the Hofstede’s theory. Trust vs. Control pair acts as a valve that triggers either longer Distance to Power or higher uncertainty Avoidance or shorter Distance to Power and lower Uncertainty Avoidance. This pair is valuable because it serves a tool for understanding why some companies tend to differ on power distance and Uncertainty Avoidance scale.

Masculinity dimension does not correspond to the answers of informants and demonstrate high score while Hofstede’s theory expects low (36 points) score. This discrepancy can be explained if we introduce city vs. village aspect. This aspect introduction is supported by research done in Russia’s village areas that demonstrated results coinciding with Hofstede’s expectations. But all the respondents gave opposite answers because they represent mostly highly competitive city business culture.

To sum it up, the level of applicability of Hofstede’s dimensional results depends on extra aspects we would like to introduce. Without these aspects Hofstede’s dimensions may lack depth or seem misleading when applied to modern Russian business culture.

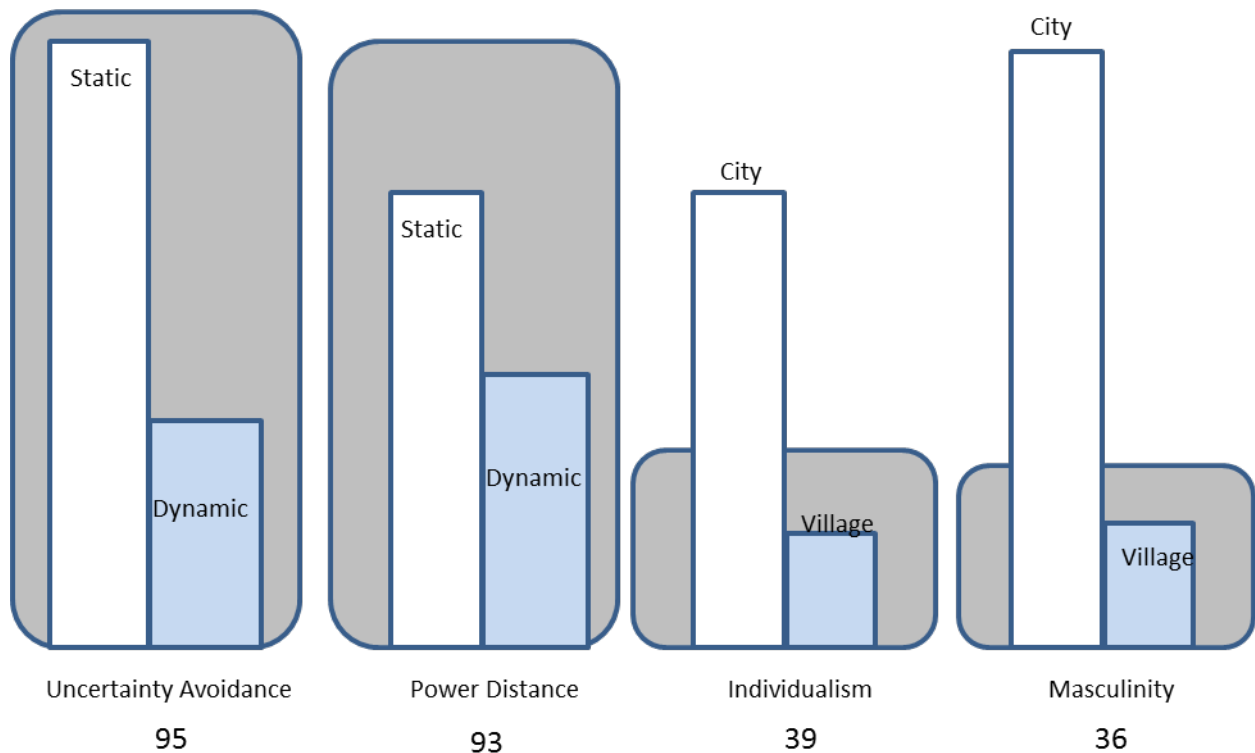


Figure 15 Hofstede scores with additional concepts

The combined use of Hofstede’s theory with its new reconsideration and additional aspects for analyzing applicability of Beyond Budgeting concept in Russia in the depth and with the varied informants we have done in this thesis seems to be quite an innovative approach. We have not been able to detect this exact approach in other research papers. We believe that especially valuable and innovatory aspect of the research is that it provides deeper analysis of business practices especially in those cases where they do not correspond with too generalized findings of Hofstede’s theory. Assuming, that interest towards building business in Russia is growing, we claim that this research paper will give a useful practical insight for all those who want to understand Russia on a deeper and more focused level.

3. “Are there and what are the variances in the characteristics of Russian management models?”

Having analyzed different aspects of Russian companies we see that there are several different characteristic variances of the Russian management model. These variances are due to the factors we have discussed. We clearly see that industry, ownership, size, history and

educational background of the employees are critical to how the management model is constructed and how it is developing. This assessments needs to be taken into account when looking at the Russian management model and trying to understand it. We have provided in this thesis empirical findings and analytics about several types of companies to show the width of Russian management styles and systems. This we have done to provide stakeholders of businesses operating in Russia a broad knowledge of management models in Russia, how and why they are different and to create a base of knowledge on how to implement Beyond Budgeting.

6.1 Contribution to research

The research has showed that Russian companies have experience in dealing with a dynamic environment on a different level than companies in developed countries. We have found that Russian companies have developed different types of flexible solution to cope with the ever-changing environment and that their ways of coping and suggestions to solutions in several cases are in line with the Beyond Budgeting concept. What also became clear during the research was that the assessment of Russian culture through Hofstede's dimensions cannot be applied on the whole Russia which is a multilayer society, and that other aspect also needs to be taken into consideration. Additionally we discovered that there is a new and upcoming generation of young businessmen who is looking at business in a new, open and progressive manner in Russia.

6.2 Future research

Culture is not static, but ever changing and fluid and should be understood thereafter. Future research could reassess Hofstede dimensions in Russia and try to understand the nuances in the different layers of people in the new Russia. To make further assessment on the Russian management model and on Beyond Budgeting concept in Russian companies it can be a good idea to make research through questionnaires to assess attitude and practices. It can be interesting to make research on different levels in the same company or in many different companies, in a more quantitative way. Also it would be interesting to do systematic research on companies in different regions.

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Appendix

Appendix 1 interview guide

Introduction questions:

What is your background?

How long have you worked for the company?

Questions on the budgeting system:

1. Is your company tilting towards Trust or Control between the top leadership and the employees?
2. How strict tool is cost budget system? (The amount employees allowed to spend) What happens if people spend less or more than allocated in the budget? What happens if employees see a great opportunity but this opportunity is not in their budget?
3. What approaches do you use for target setting and evaluation? (KPIs, SMART?)
4. How is bonus system working in your company?
5. Which processes attached to seasons? What processes in your company is organized around calendar?
6. What mechanisms do you use to: Set targets, Set forecasts, Set resource allocation?
7. How much time does your company use today to do fulfill budgets from last year, recalculation to make sure one meets the budget, Figure why you miss calculated targets and so on?

Further discussion with the informants.

Your recommendations:

Change in leadership

1. How would you recommend your and other companies in Russia to go towards a more Customer outcome orientation (vs. hierarchy)?
2. How would you recommend your company to go towards a company consisting of Lean Responsible teams?
3. How would you recommend to enable all your employees to act and think like a leader (vs. merely following the plan)?
4. How would you recommend enabling your teams to act freely and be more capable to act themselves (without micromanagement)?
5. How would you recommend making your company governed by few clear values, goals and boundaries (vs. detailed rules and budget)?

6. How would you recommend making your employees to be self-managed through open information flow (vs. hierarchical restrictions)?

Change in processes

7. How would you recommend to set relative goals for continuous improvement (vs. negotiate fixed performance contracts)?
8. How would you recommend starting reward shared success based on relative performance (vs. meeting fixed targets)?
9. How would you recommend making planning a continuous inclusive process (vs. top-down annual event)?
10. How would you recommend basing your control on relative indicators and trends (vs. variances against the plan)?
11. How would you recommend to make resources available as needed (vs. through annual budget allocations)?
12. How would you recommend coordinating interactions dynamically (vs. annual planning cycles)?