Reward Systems in Russia

A study from a Swedish perspective

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Abstract

As globalization spreads throughout the world, new markets are becoming increasingly important. This is especially true for companies in countries that are highly dependent on exports. For this reason, Russia is an increasingly important market for Swedish companies. Knowledge about how reward systems are used is important to be successful in new markets. This thesis looks at the kinds of experiences Swedish organizations, already present in Russia, have of rewards there. The purpose is to explore if rewards are used and, if so, what kinds of rewards that are common. The use of rewards is analyzed from current theories about reward systems, as well as theories about cultural differences between countries. The results and analysis show that rewards are used in Russia, to some extent. The rewards that are used are mostly of short-term character and a large part of the pay for sales personnel is based on commission. Symbols of status are also important and can be a good reward.
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1 Introduction

In this chapter background information concerning the chosen subject is given. Further the purpose of the thesis is described and which delimitations that has been made. The chapter concludes with an overview of the structure of the thesis.

1.1 Background

Management control systems can be described as the system used by management to control the activities of an organization. An important objective of a management control systems is to motivate organizational members to attain the organizations goals (Anthony & Govindarajan, 2003). One of the tools used for this motivation is Reward Systems. Reward systems, if correctly developed, can be an excellent control method (Svensson & Wilhelmson, 1988).

As more and more companies do business in foreign markets it gets increasingly important to know what motivates its foreign employees. For this reason reward system become increasingly important. The motivational factors in one country might not be the same as in another. Robbins (2000) mentions this and cautions about generalizing too much between cultures. People do not look at performance appraisal the same way in the whole world as they to in for example the United States.

1.2 Problem discussion

Russia is one of the fastest growing economies of today. Foreign investments in the country are growing in a fast rate. In 2002 the foreign investment grew with 38.7 %. Both the exports and the imports between Russia and Sweden have also steadily increased during the last years (Swedish Trade Council, 2004). Sweden’s closeness to Russia, Russia’s size and Sweden’s dependency of its exports can make Russia an important market for Swedish companies in the future.

During the Soviet era using reward systems was not as uncommon as one might think. Puffer & associates (1996) describes some of the history of rewards in Russia. They describe a situation where incentives were misused and as a contributing factor to the failure in reaching economic objectives. Russia therefore has its own historical experience of rewards. Considering the potential of the Russian market an interesting subject is what factors that currently motivate Russians. Kressler (2003) writes about the globalization and even Americanization of reward system throughout the world. Since western companies has done business in Russia for more than 10 years now it is reasonable to think that this also has had an influence on rewards in Russia.

Considering Russia’s potential to Swedish companies it would be interesting to know what factors currently motivates Russians people in work today. This thesis will focus on this problem and study which experience the Swedish people, which are working in Russia today, have of rewards and reward system in Russia.
1.3 Purpose

The purpose of this C-level thesis is to explore how rewards and reward system are used in Russia. To from a Swedish perspective investigate what motivates people in Russia and what kinds of rewards that are used there.

1.4 Demarcations

As this thesis is written in Sweden it has been the choice to focus on Swedish people and Swedish companies and on their views and experience of rewards in Russia. So, in this thesis, when reward systems in Russia are put into an international perspective they are done so from a Swedish viewpoint. The thesis focuses on a management perspective on rewards even if some information will be gathered from employees.

1.5 Structure

The structure of the thesis is as follows:

Chapter 2 provides information and justification of the methodical approaches of this thesis.

Chapter 3 gives theories both about reward system as well as cultural issues that might implicate the choice of certain reward factors.

Chapter 4 presents the interviews that have worked as a basis for the discussion in this thesis.

Chapter 5 analyzes the data found in the interviews and put them into perspective considering the theory presented in chapter 3.

Chapter 6 summarizes and concludes on reward systems in Russia today as well as considers possible directions for further studies.
2 Methodology

This chapter discusses the methodological choices made. It begins with describing the choice of subject and continues by presenting the research approach and strategy. How the literature survey was used to gather theoretical knowledge and how the respondents to the interviews were found is then presented. The chapter ends with a discussion of some of the methodological problems of the thesis.

2.1 Choice of Subject

Saunder, Lewis and Turnhill (2003) writes that even before you start your research you need to have at least some idea of what you want to do. The background of the choice of subject is as follows. During previous studies in management control system an interest for reward systems was obtained. As I also have an interest in Russia and an opportunity occurred to write the thesis in conjunction with a simultaneous course, which focused on business in Russia, the choice was made to combine the two interests. The other course had planed a visit to Russia during the time of this thesis and it seemed like a good idea to write the thesis in connection to this. From this background the subject area was formed.

2.2 Research Approach

A question is if the research approach is inductive or deductive. In a deductive approach the theory is developed first and then is researched designed to test this theory. In an inductive approach the data is collected first and then a theory is developed as a result of the data analysis (Saunder, Lewis and Turnhill, 2003). Since this thesis uses existing theory about rewards and Russian culture to analyze how rewards are used in Russia it uses a deductive approach.

It is also common to differentiate between two methodological research approaches from which kind of information that is searched. The choice is to use a qualitative or a quantitative method. Qualitative methods are not very formalized. The qualitative method has more of an understanding approach. The central is not to try the information for a broad validity. Quantitative methods are on the other hand more formalized, and the researcher in general has more control. The quantitative method looks at information that might be extra interesting from the chosen subject (Holme & Solvang, 1996). It is common to classify data from quantitative research as “hard data” and data from qualitative methods as “soft data”. It is also not uncommon for data to be somewhere in between qualitative and quantitative (Eriksson &Widersheim-Paul, 1997).

This thesis is mostly qualitative to its nature since its purpose is to get a deeper understanding about which rewards that are used in Russia and how they are used to motivate the people.

2.3 Research Strategy

A research strategy is a general plan on how you will go about answering the research questions. There exist of course many different strategies for research. Some examples
Methodology

are experiment, survey, case study, grounded theory, ethnography, action research, cross-sectional studies and exploratory studies (Saunders et al., 2003).

There are of course other classifications of research methods. Yin (2003) classifies the strategies into survey, archival analysis, histology and case studies. Each of these strategies can be used for three purposes exploratory, descriptive or explanatory. Using this classification an exploratory case study is what comes closest to the research conducted in this thesis.

The research used in this thesis is mostly of exploratory character. Exploratory research is usually conducted during the initial stage of the research process. The purpose of the exploratory research process is a progressive narrowing down of the scope of the research topic. By analyzing any existing studies on the subject, by talking with knowledgeable individuals and by informally investigate the situation the researcher can progressively sharpen the concepts (Zikmund, 2000).

2.4 Literature Survey

To increase the knowledge about reward systems and what cultural backgrounds that might lie behind them a literature survey was made. Literature was searched both on reward systems, cultural differences between countries and finally on Russia and Russian management. The literature search process started at the library at Luleå University of Technology. Searches were made primarily in the local library catalog Lucia and in the national library system Libris, some searches was also made in the database Business Source Elite. Examples of some of the search terms used are rewards, reward systems, incentives, belöningssystem, Russia and Russian management.

Literature was also found by looking at the references used on the books and thesis’s written about reward systems as well as management in Russia. Since many books at the local library were already lent out books had to be ordered from other parts of Sweden.

The data collected in the literature was secondary data. This because they were collected earlier by someone else for another purpose. Data that is collected for this particular research is called primary data (Eriksson, Widersheim-Paul, 1997). The interviews made especially for this thesis can be classified as primary data.

2.5 Choice of interview respondents

The interviews have been made with Swedish and Finnish people that have been working many years in Russia or in one case a Russian that has experience from Sweden. The choice to focus on Swedish people and their experience was firstly with respect to having a common reference point to compare with when talking about the more cultural aspects of rewards. Important was also the language to overcome potential language barriers that can come with interviews in another country.

Since this project was done in cooperation with the course Business development in Russia given by Barents Business School together with Luleå University of technology, Helena Håkans at Barents Business School took care of all the arrangements with inter-
views before the study trip. A list of interesting companies in St Petersburg as well as a letter introducing my research was sent to her for assistance in setting up the interviews. She used this as well as some other contacts to help me find appropriate persons to interview. The interview with Bizpak was made from recommendations from one of the other participants in this course.

Before the study trip an interview guide was formed for the interview, see appendix 1. This guide was formed from the theory of reward systems and aimed at finding out any differences on the views on rewards in Russia compared to in Sweden.

2.6 Methodological Problems

One of the major problems of the thesis was finding people to interview in Russia. Although extensive work was made trying to contact companies in St Petersburg there was a problem setting up meetings. The people that responded often were out of town during the time of the visit. Despite this, five interviews and meetings with a broad spectrum of organizations were performed. A reason for the difficulty of arranging interviews can have to do with that reward system can be classified as a somewhat sensitive subject to talk about. Another reason might be that reward systems might not be well developed in Russia or that they are not discussed very often.

Since the research area is quite broad and the method was of an explorative character it was also quite hard to choose among the literature. The subject area required knowledge in reward systems, Russian management and international differences in culture. Considering that some of the above areas are quite extensive, it took time finding literature that fitted the chosen subject area.

Since many of the interviews were done in-group with other participants present it was complicated to do a complete interview without interruptions. This sometimes also led to other people asking questions or coming with ideas during the meetings, this however fits quite well with the strategy of an explorative study and can be considered to have been beneficial to the thesis. At many of the interviews the interview guide therefore had to be left and questions put forward when they were appropriate. The interview questions were however always related to the chosen subject.

2.6.1 Validity

Validity can be defined as a measuring instruments ability to measure what it is suppose to measure. It is possible to differentiate between inner validity and outer validity. Inner validity deals with agreement between concepts and the operational definitions of them. Outer validity deals with agreement between measurements done with a definition compared to the reality (Eriksson, Widersheim-Paul, 1997).

The questions in the interview guide were based on the theory and it is the researcher’s belief that they had a good validity. That the interview guide on the other hand was not followed during all of the interviews decreases the validity. At the same time this made it possible to go deeper into some of the areas and follow up with suitable questions. One thing that can be considered to increase the validity in this study is the fact that different people from different organizations have been asked about the same subject area. On the other hand the number of companies and organizations were quite small (five), by using more companies it might have been possible to increase to validity.
It was also the choice in this thesis to get a Swedish view on how rewards are used in Russia. This might also be a validity problem since it is Swedish people giving their view on how rewards are used in Russia.

2.6.2 Reliability
Reliability implies that a measuring instrument should be able to give reliable and stable results. If it is reliable other researchers should be able to come to the same result if they use the same method (Eriksson, Widersheim-Paul, 1997).

The plan on forehand was to record all interviews. But one person rejected to be recorded and in some interviews it was not appropriate to record for other circumstances. So it was only one interview that was recorded. Instead detailed notes were kept during all the meetings and interviews. The questions were put forward in a simple and clear language. If difficult terms were used they were explained and if the respondent answered with something not understandable, they were asked to clarify.
3 Theory

This chapter will begin by a discussion about what reward systems are and how they are connected to the control system. It will then continue with some theory about cultural differences that can affect reward systems. Then follows a section describing the management under the Soviet regime. The chapter ends with some current trends today and some information about reward systems in Sweden and Russia.

3.1 Reward systems

This thesis concerns reward systems. It is not easy to give a concise definition of a reward system. The dimensions and use of reward system is however well captured by this citation from Kressler (2003):

“Whatever the individual and cultural variation, reward, along with the strategies and systems related to it, forms a significant part of a business’s personnel policy. It can appeal to both the material and immaterial values of employees. Entrepreneurs and managers perceive in reward strategies a unique challenge and opportunity to make the most of what employees can contribute and be offered in return, in order to increase the potential of the net product.”

From another angle it is a possibility to look at what the purpose of a reward system is. Svensson (2001) summarized the purpose of reward systems in the following seven points:

- Stimulate to increased effectiveness
- Stimulate to improved quality
- Give increased responsibility and influence over the individuals own work situation
- Stimulate personnel movement internally and externally
- Stimulate competence development
- Stimulate new work forms
- Support flexible management- and work forms

Reward systems should be used to implement the companies overall strategy. According to Mitrani, Dalziel & Fitt (1992) organizations are making increasing, explicit use of performance management to communicate overall strategy and culture. It can for example be used to focus on quality improvement or customer service.

3.2 Different kinds of rewards

There exist several different kinds of rewards. If we go to the basic level we can make a distinction between a positive kind and a negative kind. The positive is about getting a reward; the negative is about avoiding “punishment” (Svensson, 2001). If we focus on the positive rewards we can differentiate between rewards that come from intrinsic and extrinsic motivation. Intrinsic motivation comes from positive internal feelings that are generated by doing well (Kinicki & Kreitner, 2001). Extrinsic motivations are the external motivators as pay or compliments from the boss.
There exist of course many different kinds of reward. One type of classification is showed in Table 1.

**Table 1 : Different kinds of rewards, own adaptation of (Robbins, 2000)**

<table>
<thead>
<tr>
<th>A. Intrinsic rewards</th>
<th>B. Extrinsic rewards</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Participative decision making</td>
<td>1. Direct compensation</td>
</tr>
<tr>
<td>2. More Responsibility</td>
<td>a. Basic salary or wage</td>
</tr>
<tr>
<td>3. Opportunities for personal growth</td>
<td>b. Overtime and holiday premiums</td>
</tr>
<tr>
<td>4. Greater job freedoms and discretion</td>
<td>c. Performance bonuses</td>
</tr>
<tr>
<td>5. More interesting work</td>
<td>d. Profit Sharing</td>
</tr>
<tr>
<td>6. Diversity of activities</td>
<td>e. Stock options</td>
</tr>
<tr>
<td></td>
<td>2. Indirect Compensation</td>
</tr>
<tr>
<td></td>
<td>a. Protection programs</td>
</tr>
<tr>
<td></td>
<td>b. Pay for time not worked</td>
</tr>
<tr>
<td></td>
<td>c. Services and perquisites</td>
</tr>
<tr>
<td></td>
<td>3. Nonfinancial Rewards</td>
</tr>
<tr>
<td></td>
<td>a. Preferred office furnishings</td>
</tr>
<tr>
<td></td>
<td>b. Assigned parking spaces</td>
</tr>
<tr>
<td></td>
<td>c. Impressive titles</td>
</tr>
<tr>
<td></td>
<td>d. Preferred lunch hours</td>
</tr>
<tr>
<td></td>
<td>e. Preferred work assignments</td>
</tr>
<tr>
<td></td>
<td>f. Own secretary</td>
</tr>
</tbody>
</table>

Other classifications can of course also be made. One way is to distinguish between material and immaterial, between individual and collective and finally between immediate and long-term (Svensson, 2001).

**Material and immaterial**

In all industrial regions of the world, money is the component that is most directly related to reward. Salary is an important part of the reward systems although it is not often considered a reward but something self-evident. As some of the alternatives to salary car-benefits, options and gym cards can be mentioned as other material rewards (Kressler, 2002; Svensson & Wilhelmson, 1988; Svensson 2001).

The immaterial rewards can be classified into social rewards and incorporated rewards. The social rewards are mostly about getting accepted in the group, being well liked or getting responsibility. The incorporated rewards come from everyone’s basic norms and ideals (Svensson, 2001).

**Individual and collective**

Performance evaluation concepts have been almost exclusively developed with individual employees in mind (Robbins, 2000). One very clear trend in today’s workplaces is
however the move towards teams as both permanent work teams and temporary project teams (Kinicki & Kreitner, 2001). Another discussion is if individual or collective rewards are better. Collective rewards mean less competition and increased social control within the work group. But as easier it is to separate individual work the bigger the incitement is to make them individual (Persson, 1994).

**Immediate and long-term**

Payment can take place immediately – that is as soon as the period of performance evaluation expires. It can also be deferred and made to depend upon other supplementary performance criteria or upon continued employment in the business for a given period of time. Monetary rewards could as an example be simplified into three main elements namely fixed pay, variable pay and pension plan (Kressler, 2003). Of these fixed pay and variable pay can be considered short term and a pension plan be considered long term.

### 3.3 Culture and its influence on rewards

The Dutch researcher Hofstede (1991) has done extensive studies on cultural differences between nations. In doing this Hofstede uses five dimension of culture to explain the most important differences between countries. The five dimensions he is using are:

1. Power Distance
2. Individualism and collectivism
3. Masculinity and femininity
4. Uncertainty avoidance
5. Confucian dynamics

Since these dimension points at different aspect of the culture, it is reasonable to assume that differences in these also can have an impact on how a reward system should be developed in a certain culture. The dimensions as well as some aspect relevant to rewards are presented in the following subchapters.

#### 3.3.1 Power Distance

Power distance can be defined as to what degree the less powerful members of institutions and companies in a country expect or accept that power is distributed unevenly (Hofstede, 1991). Power distance shows to what degree a society handles the fact that members of its society are uneven. In countries with a small degree of power distance the employee’s dependability of their superiors is limited. Instead there is often a mutual dependency between bosses and employees. The leadership of the manager is here often not so authoritarian and the employees are in general not afraid of their superiors. In countries with a high degree of Power distance the opposite is in general true. People are afraid of their superiors and in general only follow orders. Some of the mentality differences connected to the subject are shown in Table 2 below.
Table 2: Power distance example adapted from (Hofstede, 1991)

<table>
<thead>
<tr>
<th>Small power distance</th>
<th>Large power distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralizing is popular.</td>
<td>Centralization is popular.</td>
</tr>
<tr>
<td>Small difference between the highest and</td>
<td>Big difference between the highest and</td>
</tr>
<tr>
<td>lowest salary in companies.</td>
<td>lowest salary in companies.</td>
</tr>
<tr>
<td>Privileges and symbols of status are disliked.</td>
<td>Privileges and symbols of status are both</td>
</tr>
<tr>
<td></td>
<td>expected and popular.</td>
</tr>
<tr>
<td>Powerful people try to look less powerful</td>
<td>Powerful people try to appear as impressive</td>
</tr>
<tr>
<td>than they really are.</td>
<td>as possible.</td>
</tr>
<tr>
<td>The middle class is big.</td>
<td>The middle class is small.</td>
</tr>
</tbody>
</table>

If looking more closely at the work market and the salary system. In countries with a high degree of power distance the power in the companies is often centralized. There is also a big difference between the salaries between the top and the bottom of a company. In addition the workers are generally not educated and manual labor has less status than office work. In countries with a high degree of power distance visible status symbols contributes to the power of the bosses power. For example a worker can brag about that his boss has a larger than his neighbors boss. In countries with a small degree of power distance the opposite of the above is generally true (Hofstede, 1991).

Sweden is in the original survey found to be a country with a very low degree of power distance (Hofstede, 1991). Russia has earlier been estimated as country with a high degree of power distance (Hofstede, 1993). In the other side of the scale compared to Sweden.

3.3.2 Individualism and collectivism

Individualism describes societies in which the ties between the individuals are loose. Everyone is supposed to take care of themselves and their close ones. Collectivism is the opposite of individualism and is characterized by groups that the individual from birth on are integrated into. The groups continue to protect the individual the whole life in exchange for loyalty. Below are some important differences between the two visualized in Table 3.

Table 3: Individualism and collectivism example adapted from (Hofstede, 1991)

<table>
<thead>
<tr>
<th>Collectivism</th>
<th>Individualism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grades and diplomas give access to groups</td>
<td>Grades and diplomas increase ones economical value as well as self-respect.</td>
</tr>
<tr>
<td>with higher status.</td>
<td></td>
</tr>
<tr>
<td>Decisions about employment and promotion</td>
<td>Decisions about employment and promotion build only on capacity and rules.</td>
</tr>
<tr>
<td>take into consideration what groups the</td>
<td></td>
</tr>
<tr>
<td>individual belongs to.</td>
<td></td>
</tr>
<tr>
<td>Laws and regulations are different for</td>
<td>Laws and regulations are considered to be equal for everyone.</td>
</tr>
<tr>
<td>different groups.</td>
<td></td>
</tr>
<tr>
<td>The relation is more important than the</td>
<td>The task is more important than the relation.</td>
</tr>
<tr>
<td>task.</td>
<td></td>
</tr>
<tr>
<td>Harmony and consensus in the society is the</td>
<td>Self-realization for every individual is the final goal.</td>
</tr>
<tr>
<td>goal.</td>
<td></td>
</tr>
</tbody>
</table>

In an individualistic country it is expected that employed persons act in order with their own interests, and the work is organized so this interest and the interest of the employer
coincides. In a collective culture an employer never employs just an individual, but a person that is a part of an in-group. In a society like this it is often common that the salary is shared among for example relatives (Hofstede, 1991).

In the survey Sweden was classified as having a clearer tendency to being an individualistic country (Hofstede, 1991). Russia has previously been classified as having a medium to high degree of collectivism (Hofstede, 1993).

3.3.3 Masculinity and femininity

Masculinity is defined to describe countries in which the differences between the roles of the genders are clearly differentiated. Men are supposed to be though, self-confident and with a focus on material success. Women are supposed to be tender, soft and more focused toward the qualities of live. Femininity is defined as societies in which the social gender roles intersect each other. Both men and women are supposed to be tender, soft and more focused toward the qualities of live. Some of the differences between masculine and feminine societies are shown in Table 4.

Table 4 : Masculinity and femininity example adapted from (Hofstede, 1991)

<table>
<thead>
<tr>
<th>Feminine</th>
<th>Masculine</th>
</tr>
</thead>
<tbody>
<tr>
<td>People and relations are important.</td>
<td>Money and things are important.</td>
</tr>
<tr>
<td>Directors use their intuition and search for</td>
<td>Directors are expected to be decisive and a</td>
</tr>
<tr>
<td>consensus.</td>
<td>self-assure.</td>
</tr>
<tr>
<td>You work to survive.</td>
<td>You live to work.</td>
</tr>
<tr>
<td>The welfare society is the norm.</td>
<td>The achievement base society is the norm.</td>
</tr>
<tr>
<td>Small and slow is beautiful.</td>
<td>Big and fast is beautiful.</td>
</tr>
</tbody>
</table>

In masculine countries conflicts in the work place is considered best solved with a good battle of the form “Let the best man win!”. If possible the management tries not to have anything to do with labor unions. In feminine countries it is common to solve conflicts in the work place with compromises and negotiations. In masculine countries children are learned to be self—asserted, ambitious and competitive. Companies in these societies focus on results and reward them appropriative, to each and everyone in accordance with their performance. In and feminine country the kids are raised to be unpretentious and loyal. The companies in these societies are more likely to reward on a basis of equality, the each and everyone in accordance to the needs. In masculine countries men are expected to have aspiration to make career. In feminine countries both men and women are sometimes ambitious, sometimes not. And there is no significant gender relation difference in the need to make career (Hofstede, 1991).

When considering this dimension there is also important to understand that there is no correlation between the number of women working, and the degree of femininity on the masculinity/femininity index. There is however a correlation between the femininity scale and the number of women that have high technology or academic jobs (Hofstede, 1991).

In the original classification Sweden is classified as the most feminine country of the 50 countries in the survey (Hofstede, 1991). Russia has earlier been classified as scoring low on the masculinity index, although not clearly it has a tendency towards the feminine pole (Hofstede, 1993).
3.3.4 Uncertainty avoidance

Uncertainty avoidance is defined as in to what extent the members of a culture feels threatened by unsure or unknown situations. This feeling can be expressed with a demand for predictability or a demand for written or as well as unwritten rules. It is important to know that uncertainty avoidance is not the same as risk avoidance. Risk is focused on a specific event and is often calculated with a probability. Uncertainty is a more diffuse feeling and cannot be calculated with a probability. In Table 5 below are some characterizations of cultures described by this dimension.

<table>
<thead>
<tr>
<th>Weak uncertainty avoidance</th>
<th>Strong Uncertainty Avoidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty is a normal ingredient of live and you take every day as it comes.</td>
<td>The uncertainty always present in life is perceived as a threat that has to be defeated.</td>
</tr>
<tr>
<td>The people are motivated by demands of achievements, appreciation and belonging.</td>
<td>The people are motivated by demands of security, appreciation and belonging.</td>
</tr>
<tr>
<td>Tolerance of unsure situations and unknown risk.</td>
<td>Well known risks are accepted; Fear of unsure situations and unknown risks.</td>
</tr>
<tr>
<td>The citizens are positive towards the institutions.</td>
<td>The citizens are negative towards the institution.</td>
</tr>
<tr>
<td>Positive attitudes to young people.</td>
<td>Negative attitudes to young people.</td>
</tr>
</tbody>
</table>

In countries with high uncertainty avoidance feelings of safety and security is likely to be strong. In addition there is likely to be many written and unwritten rules in the workplace. In countries with a small degree of uncertainty avoidance it seems to be an emotional fear for formal laws. Rules are only established when there is absolutely necessary. People in these societies are often proved that they can solve problems without formal laws (Hofstede, 1991).

In countries with strong uncertainty avoidance there are usually more and also more precise laws than in countries with a small degree of uncertainty avoidance. It is also important to understand that uncertainty avoidance does not refer to difference in power but rather in competence or authority between those in power and those are not in power (Hofstede, 1991).

Sweden is scoring very low in uncertainty avoidance, of 50 countries Sweden was classified as the 4th lowest (Hofstede, 1991). Russia has been considered being a high uncertainty avoidance country (Hofstede, 1993).

3.3.5 Confucian dynamics

What this dimension really is about is a long-term versus a short-term focus in life. The long-term pole in this dimension is characterized by endurance, to order personal relations according to status, thrifty and to have feelings of shame. The short term pole in this dimension is characterized by personal stability, to protect ones “face”, respect for traditions, and reciprocity when it comes to greetings, benefits and gifts. Below are some relevant differences illustrated in Table 6.
Table 6: Confucian dynamics example adapted from (Hofstede, 1991)

<table>
<thead>
<tr>
<th>Short-term approach</th>
<th>Long-term approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast results are expected.</td>
<td>Endurance in business for long-term results.</td>
</tr>
<tr>
<td>Small savings, little money for investments.</td>
<td>Big saving, good availability of money for investments</td>
</tr>
<tr>
<td>Social pressure to have it as well as the average citizen, even if it implies buying over the budget.</td>
<td>Thrifty when it comes to resources.</td>
</tr>
<tr>
<td>Respect for traditions.</td>
<td>Modern adaptation to traditions.</td>
</tr>
<tr>
<td>Respect for social obligations regardless of the costs.</td>
<td>Respect for social obligations within reasonable limes.</td>
</tr>
</tbody>
</table>

In this dimension that is not as extensively researched as the other but as shown in the table above it has influences on characteristics that can be of importance for economic development within a country. A shift from a short term to a long-term approach seems to be desirable to survive in a world with increasing population and limited resources (Hofstede, 1991).

In a survey of 23 countries Sweden was ranked in place twelve on a long-term index (Hofstede, 1991). Sweden can therefore not be said to have a clear tendency to neither long term nor short-term approach. Russia has been classified low on this dimension and can be characterized as having a short-term orientation (Hofstede, 1993)

### 3.4 History’s influence on management in Russia

Russia’s communist-controlled, centrally-planned economy had existed for nearly 70 years before the perestroika in 1985 and the ending of the Soviet Union in 1991 (Puffer, McCarty, Naumov, 2000). It is of course reasonable to believe that this period of Russia’s past has had some influence of the management practices and what motivational factors which are used in Russia today. The management system used under the Soviet era is described as Management Sovieticus (Liuhto, 1993). Management Sovieticus was a product of planned economy and this was in focus rather than national culture in the management system. The characteristic of the management style will be summarized under 10 categories below (Liuhto, 1993):

1. **Political-nepotistic recruitment**
   This concept means that the managers were centrally chosen on the basis of their political maturity. In turn the managers themselves used nepotism in order to have his subordinates remain loyal to him. One of the negative impacts of political and nepotistic recruitment was that the most qualified individuals were often ignored.

2. **Administrative PR-management**
   The plans were to be implemented by any means. One of the illegal measures was this that used administrative manipulation, falsifying and the unofficial net of relations to reach the plans. This work took a lot of the manager’s time and opportunities for the development of the organization.
3. **Bureaucratic-authoritarian manager dictatorship**
Bureaucracy within the eastern organization was very common and created a hierarchical structure. The personnel had very little influence of the operation. The lack of opportunities to influence was one reason that to organizational apathy. This lead to that many employees only followed order and that the organization was characterized by poor innovation.

4. **Wasting and hoarding factors of production**
A typical feature of planned economy was the wasting of factors of production. This could be seen for example in the long time operations took in the east compared to in the west. The reason behind this lies not only in bad technology or practices but also in ineffective measuring unit – gross production. This factor also lead to and oversized personnel, which in turn created a phenomenon of unnecessary wasting of time with no useful work to offer.

5. **Undervaluing of the product’s usefulness and quality**
Eastern companies often tried to create the best way of operation for itself from the government’s direction; this was usually at expense of usefulness or quality of the final product. In these economies the evaluation of a products usefulness was not made by the market by rather by the organs of planned economy. This often led to that the products did not correspond to the demands and wishes of the consumers.

6. **Massive feudalistic corporations**
The companies tended to grow big and also pick up social obligations as their duties. This big company size decreased the employee’s opportunities for any influence on the management of the company. This factor also lead to that it was basically every company for itself.

7. **Organizational misuse**
The misuse of the organization was common among both management and employees. As an example stealing from the government was not usually considered criminally. It is hard to estimate the impact and scale of the misuse, but it is obvious that the government lost vast amount of money in ineffective activity and misuse. In addition the commonness of this misuse lead to it becoming an accepted part of business culture.

8. **Withholding of information**
Information was an important element of power. By withholding information it was possible to strengthen the manager’s position. This was common both in the external and internal management. In a planned economy the smallest bit of information was important if it was not in the hands of others. Because of the power-play a lot of the information was concentrated on the managers who tried to use it for their own best needs.

9. **Ignoring of innovation**
Product development seldom happened since the company was not usually given any kind of acknowledgement. New products only risked its production targets. The product design and production planning was instead left to the research institutes, which effectively produced designs for the desk drawers.
10. Lack of strategic management
The companies themselves did not handle the strategic management. The lack was due to that higher officials handled the strategic dimension, mainly ministers. The strategic planning in eastern companies was more of a maintaining the net-relations and power-play than making plans for the company’s future.

3.5 Reward systems today

As globalization spread through the world it is reasonable to assume that the use of reward system spreads with it. As in many other areas it can be asserted that the globalization of reward strategies represent in the main an Americanization. A characteristic of this North American system is a high proportion of short and long-term incentives. The long-term part primarily consists of shares (Kressler, 2003).

3.5.1 Reward systems in Russia

Puffer et al. (1996) offers some guidelines to assist western managers in developing compensation plans for Russian nationals. To be effective reward systems need to take into account both the Russian culture as well as cooperate objectives. The compensation system also has to take into account aspect of Russian culture, such as collectivism and group solidarity which achieve cooperate objectives. It is also advised to reduce the influence of other cultural dimensions such as high uncertainty avoidance and risk aversion that could undermine objective.

Puffer et al. (1996) also presents six concrete advices:

- **Select Russian employees who are achievement-oriented and willing to take risks.** The motivation behind this is that the younger generation where the collectivism feelings are not so high must be attracted to the company. The aim should be for western managers to target the younger generation, with little experience from old soviet work ethics and the more individual, achievement focused Russians that were present in some the positions in former Soviet. In other word find employees whose work ethic more closely match western work ethics.
- **Tie individual bonuses to initiative and personal accountability.** Russians are accustomed to receiving rewards for organizational or group performance. It might therefore be necessary to show the employees how they will be rewarded for their individual efforts in meting performance objectives. Many Russians would benefit from learning that the negative association to individualistic behaviour in their society might not apply in the western company.
- **Organize social events and other group activities.** Firms should take advantage of the high degree of collectivism and provide opportunities to develop close relationships among employees and their families. Russians enjoy spending time with their co-workers also in the free time. It is possible to adapt many of the social activities common in the Russian organizations.
- **Provide small-group incentives.** Giving the same reward to the group in form of for example a vacation or a valuable consumer good might be good to increase productivity. In one particular circumstance this could be extra effective. That is to provide rewards to multinational groups or teams; this will help in
loosening the tensions between Russians and foreign workers even if they have different compensation plans.

- **Provide a mix of short-, medium, and long-term incentives.** Russians respond well to short term rewards. The mistrust towards long term rewards need to be broken down so Russians people become motivated to achieve long term cooperate objectives as well. It should clearly be explained how long term rewards are linked to organizational performance. Medium-term incentives on results that are achieved for results within one to two years can also be useful.

- **Tailor the compensation package to individual preferences.** During the soviet years of communist Russian life was highly standardized and only a few choices was present for consumers. Now when more choices are present firms should provide a variety of incentive packages from which their employees can select, including a mix of base salary, incentives, and a variety of fringe benefits including goods and services.
4 Empirical Data Presentation

In this chapter the empirical survey done for this thesis will be presented. Below is a summary of the interviews where the opinions of the respondents are given.

4.1 Background

The empirical data was collected in cooperation with a course in Business Development towards Russia given by Barents Business School. Barents Business School is a project that performs education that promotes Business cooperation between Sweden and Russia.

Several persons and interviews were conducted during a visit to St. Petersburg, Russia. Since many of the visits were performed in a group environment there was limited opportunity to conduct a complete interview related to this subject. On all of the interviews and meetings described below Reward systems and Russians attitude to those were discussed to a varying extent.

4.2 Swedish Trade Council

May 11th 2004

The first interview was conducted with Anders Samuelsson at the Swedish Trade Council. The Swedish Trade Council is an organization that helps Swedish companies to expand into different areas of the world. The office in St. Petersburg helps Swedish companies to enter the Russian market. Anders Samuelsson has worked for the trade council in Russia for about two and a half years. He started with a presentation on what the trade council is about and how it is working in Russia. Russia is described by him as a very exciting market, especially now with the expansion of the EU (European Union). According to him is it important to show the positive sides of Russia and not only the negative that the press usually shows. He describes the Russian market as something very big; it has 13 cities with more than 1 million inhabitants. The inhabitants are described as well educated, and the education per salary rate as being high. From some universities very high educated people are available.

It is also described that the people has very little trust in the financial institutions. This is especially true since the crisis in 1998. In general the Russians do not keep a bank account. Of the available income 85-90% is consumed. One problem in Russia is according to him that the Labor laws are very week. It is very easy to get rid of your employees. It is the export council’s opinion that Swedish companies often start up with Swedish managers to change to Russian managers when the business starts working. Trust is described as something very important in the business relations in Russia.

The employees are described as cheap in salaries and replaceable. There is no lack of qualified employees. There is little talk about pension plans and other long term rewards in Russia. Social relations are according to him considered most important. It is also very common to get part of the salary on the side. On a choice between long term and short term the choice is definitely short term. The focus is on one to two years. Mr. Samuelsson was unsure about rewards in general but he thought that maybe managers in higher positions could have rewards also in Russian companies. On a choice between individual or group rewards he said that the Russian mentality was individual.
4.3 Finnish Tourist Board
May 11th 2004
This short interview with Satu-Johanna Oskanen at the Finish Tourist Board was mainly aimed at finding out her experience at working in Russia. The Finish Tourist board has the goal of promoting Finland as a Tourist nation on the Russian market. Satu-Johanna has 8.5 years of experience working in Russia. She said that there was a big difference between Russian companies and foreign companies doing business in Russia. According to her the foreign companies often bring their own home culture with them to Russia. The Russian companies were described by her as having low wages and a big part of the wage based on commission. Monetary rewards it the main motivational factor in Russia. The management style in Russia was also described by her as more authoritarian than she was used to. She thought it would be possible to classify companies and how they use reward system into global world companies, foreign companies, and Russian companies.

4.4 Mannheimer Swartling
May 12th 2004
The longest interview was with Sven Lexner at Manheimer Swartling. Manheimer Swartling is the only Swedish owned law firm in Russia. He started by talking about Russian law and some general Russian issues. There is for example a new Labor code in Russia that was introduced in 2002. The law system is in general very good in Russia today; it is the judicial system that has not kept up with the development. Contracts are in Russia generally followed if a trust has been established between the parties. The problem with the mafia is according to him highly exaggerated. Russia’s biggest problem is instead corruption and bureaucracy. The Russians, Mr. Lexner said, is in general more suspicious than the Swedes. They have for example not their name on the post box and it is not uncommon that you ask someone to identify him or herself. There is also very high skepticism towards authority among the people. Good contacts within the organization are often required to be able to deal swiftly with them. This also leads to that information often can be a tradable commodity. It takes more time to open a company in Russia, compared to in Sweden, and the paper work is in general quite extensive.

When Swedish companies start up in Russia the general manager is often sent with the company to Russia. During the time it takes to get a work permit for the Swedish manager a temporary Russian general manager is used. The foreign person often works a few years in Russia to get the business going and then turns it over to a Russian manager.

Personally Mr. Lexner has most experience with reward systems of foreign companies coming to Russia to do business. Not so much experience from pure Russian companies. He thinks that bonus for sales person is common also in the Russian companies. He describes the Russians as more interested in money than for example Swedish people are. Many people have more than one job, some people as much as three. This is also something that is allowed by the Russian law, and nothing that the employers can stop. He also verifies that the Russians definitely think on the short term, they want the money as quick as possible. With a choice of less money now or more money further on, the choice is often less money now. He is also of the opinion that the rewards often are individual. Russia has gone from being a collective society to being highly individualistic. In his profession he has little contact with trade unions today. They are much weaker now than they used to be.
Mr. Lexner continues by describing how the foreign companies bring the reward systems and culture from their home countries. Sometimes maybe there will be little of a mix. In the Swedish companies, that he has most experience with, he can see a tendency to bring some softer and more social values. They take social responsibility that you are not obligated to do in Russia. But all things of the foreign policies are of course not possible to combine into a Russian system. The Swedish parental insurance is for example not possible to have implemented in Russia. The rules in general are very employer friendly.

He also describes the employer tax as being regressive, and this has the consequence that foreign employees in proportion are cheaper to employ in Russia. But at the same time the social responsibility of the state is not as extensive in Sweden. Most foreign companies therefore provide special social insurance for their employees. The Russians in the foreign companies also often get this social insurance. According to him the Russian health care is not very good. He then describes the foreign companies as popular among the Russians. Foreign companies therefore often employ the best Russians. According to him it is not only the pay that draws Russians to foreign companies. Nice and modern building might also be something that is important. What kind of room you sit in can be an important factor for Russians when you consider a reward system. An own room can therefore be a very good reward. This is something that is not so common in Russian companies. He also describes typical status symbols as being more important to Russians when comparing to Swedes. A change in title can also be a good reward for a Russian.

Mr. Lexner then describes the new labor code as similar to the Swedish “lagen om anställninsskydd”. It regulates that an employee agreement should exist and be written down. There is now a minimum protection for the employees by this new law. The leaving notice is by the new law is two weeks for the employee and two months for the employer. If the employer fires somebody he should have full salary for the two months left in the company and an extra two or three months salary when he leaves. In Russia however it is much easier to fire someone. So it is according to him more employer friendly in Russia than in Sweden. It is therefore easier to employ someone you are not 100 % sure of in Russia than in Sweden.

He continues by saying that everything goes quicker in Russia. He exemplifies with IKEA that can make large investments that will not generate revenue for about 10 years. This would be very hard for a Russian company. They want money from day one. He thinks this comes from the uncertainty they have lived under.

Mr. Lexner also thinks that the rewards and cultures of the foreign companies can be one of the reasons that it is easy for them to find qualified employees in Russia. Gifts are also something that is very important, there is definitely more gifts in Russia compared to Sweden. The monetary value of the gifts in his company has also started to increase. When talking about differences between the law firm’s offices in Stockholm and St. Petersburg he says that the firm car is one thing. They do not have a company car in Stockholm, they use Taxis. In St. Petersburg they have a driver with a Russian car. This is something that he gets a lot of complaints about from his employees; they want a driver with a foreign car. Russian people look a lot at what kind of car the company is represented by. Other than for this the reward system looks the same in Stockholm and St Petersburg.
The salary is less for administration personnel in St. Petersburg. But for senior lawyers the salary is the same in both cities. He says that a secretary at his firm makes about 500 euros, and that this can be compared to an engineer at a Russian company that makes maybe 300 euros. This makes it very common for foreign companies to have highly qualified Russians working as secretaries. He also describes that the Russian lawyers often like the company he is working for because they work with “legal” customers. He thinks that if there is a choice the Russian often chooses the legal way if it is possible. It is common for some Russian companies to be involved in illegal business.

4.5 Swedish Branch

May 12th 2004

An interview was also made with Ulf Grönlund at Swedish Branch. Swedish Branch is a company that sells office equipment throughout Russia. The company sells to most parts of Russia. It has 40 employees and among them 15-17 are sellers. The sellers are stationed in St. Petersburg but travel out in the country on selling business. The sellers work with a bonus system that works with a percent of the net revenue. Some part of the bonus is also paid to the office-employed. The bonus is calculated on every month sale. About 50% of the salary is fixed and the rest is based on commission. A part of the commission also goes to the non selling staff off the office. The employees also receive other benefits as free lunch, social insurance and normal vacation. They also receive 3 rubel/km\(^1\) for using their own car, or free train or air ticket if they travel longer.

When asked for factors that motivate Russian employees he says that titles are very important. Status symbols like cars, especially western cars are also highly ranked. Mr. Grönlund says that everyone that can afford it has a foreign car. Another important factor for Russians is the opportunity to advance fast. This can also be a problem for some companies; Oriflame has according to him started with foreign sellers again because they do not strive to advance as fast as the Russian sellers. He is of the opinion that it is easier for Russian companies to find qualified employees. When asked if there exist some kind of pension plans he says that it is only in its starting stages in Russia today. The pension system is a difficult system according to him. The trust in the banks and other financial institution is low since the crisis in 1998.

Mr. Grönlund also describes the salary development as very high in the bigger cities. In St. Petersburg a factory workers wage increased on average with 37 % last year. He is also of the opinion that there will be a lack of employees in about 5 years. This due to Russia’s coming demographical problems.

4.6 Bizpak

May 13th 2004

An interview was conducted with Victoria Sergeeva who works as a sales and marketing director at Bizpak. The company is owned by the Swedish postal system and works with business shipping within Russia. They have about 400 employees throughout Russia. The company has 9 branches throughout Russia but can send packages to all-

\(^{1}\) One rubel is equal to \$0.03, 2004-05-20.
most the whole of Russia. They offer time guarantees on all their shipping and send
doors to door. They consider themselves to be most competitive on packages in the range
from 100-200 kg.

The marketing and sales division in St Petersburg works with selling to new customers
and keeping existent customers. The sellers working with finding new companies to sell
to are divided to concentrate on different type of industries and are called “sellers”. The
sellers working with keeping the existent customers are called “keepers”. The bonus
program used is decide for the whole of the company at the headquarter in Moscow.
The Moscow head office also decides on a plan how much each seller should sell for
and how much the department as a whole should sell for. If the sellers sell for more than
the plan they receive a monetary bonus. For example if they sell for 5 % more than the
plan they receive 30 % of their salary extra in bonus. If they sell for 10 % they get 45%
in bonus and so on. As a maximum 70 % of the salary can be based on commission. The
commission is calculated on a quarterly basis. The work process for a seller is to search
and call companies from the office. If a deal is close the negotiations are made on place
of the ordering company.

There was also an opportunity to interview two of the sellers working at the company.
They described a situation were they had to work hard to find new customers and keep
existing ones. They also described the benefits the company offered. To the sellers they
offered a social insurance, a free cell phone and pay for using their own cars. When
asked of how important the bonus was one of the sellers answered “I think about the
bonus every day!” The same seller also said that he had about 70% of his salary was
from bonus. The turnover of staff in the company was low. The staff usually worked for
at least a couple of years.

4.7 Summary

To shortly summarize the interviews it was clear that Russia was considered a market
where a lot happens at the moment. The Russians are described as being cheap in salary
and as responding will to short term rewards. The salary development is also described
as being high in the more rural areas. Status symbols are described as being very
important by many of the responders. Long-term rewards are described as not being
used often and there seem to be little trust in the financial institutions.
5 Analysis

In this chapter the empirical data collected during the interviews is analyzed. The analysis is based on the theory presented in the theory section and the information from the interviews is compared to this as well as to each other.

The interviews in this thesis were all made with people at Swedish companies and organization except in one case when a person from a Finish organization was interviewed. Both Samuelsson (Swedish Trade Council) and Lexner (Mannheimer Swartling) say that it is common for the Swedish companies to start up in Russia with a Swedish manager. This can have some implication on the rewards used in these companies. Lexner says that the Reward system used in these companies often becomes something of a mix. Oskanen (Finnish Tourist Board) is of the opinion that it is possible to group the companies and how they use rewards into global world companies, foreign companies, and Russian companies. Bringing a company reward system to a new culture might also imply problems. Lexner says that all of the factors used in Sweden are not possible to use in Russia. When talking about this he does not talk about that they do not motivate the Russian employees. Rather that it is not possible to use all components of these programs within the Russian system.

In general the impression from the interviews were that people in Russia knows about reward systems, their importance is clear and can be seen by this citations from one of the sellers at Bizpak: “I think about the bonus every day!”.

Looking at the purposes for reward systems presented in the theory chapter it is noteworthy that they have a tendency towards development and creativity of the personnel, for example encouraging personnel movement and stimulate new form (Svensson, 2001). A problem related to this is the weaker labor laws that they have in Russia compared to in Sweden. This problem was discussed both by Lexner and Samuelsson. According to Lexner it is easier to employ someone that you are not completely sure about in Russia than in Sweden. This factor might influence that Russian organizations do not want to invest as much in their personnel as companies in Sweden. On the other hand Sergeeva (Bizpak) talks about them having a low turnover off staff, so for them this issue would not be as much of a problem.

5.1 Cultural dimensions and their influence on rewards

In this first subchapter the different attitudes to rewards in Russia are put in to perspective using Hofstade’s (1991) five dimensions of culture. This is done to put a light on the cultural factors that might influence the rewards used. An analysis like this also makes the different types of rewards more clearly identifiable.

5.1.1 Power distance

Russia has previously been classified as having a high power distance. If we consider the empirical data from this viewpoint we can see several supporting attitudes of this. One of the ways a large power distance influences the reward systems in a company is the difference in salary between the employees (Hofstede, 1991). Lexner says that in his company it is a bigger difference in salary in Russia than in Sweden.
Another influence this can have on the reward system is to what extent status symbols are popular (Hofstede, 1991). Lexner talks about that the status symbols are increasingly important in Russia. He describes a situation were gifts and presents within the company is increasingly used and status symbols like a big office can be very important. The importance of status symbols is also verified by Grönlund (Swedish Branch) that says that western cars are an important status symbol.

5.1.2 Individual and collectivism

In the theory Russia was characterized as having a medium to high degree of collectivism (Hofstede, 1993). When this dimension is related to rewards and the empirical research done conflicting results are found. Sumuelsson says that the Russian mentality is individual. Lexner also talks about Russia as having made a move from being a collective society to now being highly individualistic. This also shows in the use of individual rewards in Russia today.

On the other hand some factors still point to Russia as having influences of a collective society. In these cultures an employer never employs just a person (Hofstede, 1991) Bizpak still uses sales at the department level as one of the grounds for bonus. In Swedish Branch the administrative staff gets part of the commission from the sellers’ revenue. Social relations and contacts also seem to be an important factor to be successive. Employing a person with good contacts might be more important than employing someone with good theoretical knowledge.

5.1.3 Masculinity and femininity

Lexner describes that some people have many jobs and are working a lot. This is something common in feminine cultures. On the other hand the general attitude in the interview points toward that money and things are important, this is something pointing toward a masculine society (Hofstede, 1991).

The attitude described by Grönlund that people in Russia has to advance very fast is also something pointing toward masculine values. A masculine society is a society where achievement is the norm.

It is interesting to note that these points about the Russian culture do not seem to agree with earlier classifications. Russia has earlier been classified against the more feminine pole (Hofstede, 1993).

5.1.4 Uncertainty avoidance

Security in life and in the workplace is from this dimension one of the strong motivational factors (Hofstede, 1991). This dimension can therefore not verify the high demand for achievement described by Grönlund, this is something that characterizes a culture with weak uncertainty avoidance. Not something for a culture with high uncertainty avoidance as Russia (Hofstede, 1993).
A characteristic of strong uncertainty avoidance is that the citizens are negative towards institutions (Hofstede, 1991). This is something that is verified from the interviews. According to Samuelsson there is very little trust in the financial institutions. The little trust in institutions might have an influence on the kinds of rewards possible to give out.

Another characteristic of a country with a high degree of uncertainty avoidance is strong and more precise laws (Hofstede, 1991). This is something that Lexner verifies when he describes the laws as being good in Russia.

5.1.5 Confucian dynamics

Samuelsson and Lexner verify the opinion that the Russian people’s mentality is definitely short term. This according to Hofstede (1991) implies small savings, which can be connected to the little trust in the financial institutions described above.

A short-term approach also means that fast results are expected (Hofstede, 1991). This is something Lexner verifies when he talks about that a long term investment as IKEA is doing would not be done by a Russian company. Bonuses are also calculated on monthly basis in Swedish Branch and on a quarterly basis in Bizpak.

So the reward used verifies the classification of Russia on this scale. Russia has earlier been classified as having just a short-term orientation (Hofstede, 1993).

5.2 History’s influence on the rewards

During the previous chapter it was written about how the management system worked during the Soviet era. How this might have influenced the rewards in Russia is motivated below. Since Russia now has more than 10 years of capitalist experience most of the management procedures used during the Soviet era cannot be traced from the interviews.

A problem this era might have on the rewards is the lack of strategic management used under the Soviet times. In soviet times the companies did not handle the strategic management themselves (Liuhto, 1993). There is also little talk in the interviews of any long terms rewards that might be used for strategic management. Samuelsson talks about this in his interview as well as Grönlund. Long term rewards like pension plans are hardly used at all in Russia today.

Another issue that has an impact on the reward systems is that centrally planning still seems to exist. Bizpak gets their figures on how much sellers are supposed to sell in a plan from Moscow. This is something which does not fit well with some of the purposes of a reward system presented by Svensson (2001), as for example stimulate new forms of work and to give increased responsibility.

The bureaucratic system is something which still seems to exist in Russia. This was something that was common during the soviet years and created a hierarchical structure (Liuhto, 1993). Lexner verifies this when he says that Russia’s biggest problem today is bureaucracy and corruption. He also talks about the importance of having connection within the governmental institutions. Considering this it might be a good idea to employ personnel with good connections.
There was not any evidence found in the interviews that wasting factors of production, nepotistic recruitment and undervaluing of products usefulness might still be present in the Russian management.

## 5.3 Rewards found

Which types of rewards located in Russia is here analyzed from the classification of different kinds of rewards given in the pervious chapter. Intrinsic rewards were not found to any great extent in the interviews. This was the reward that came from positive inner feelings of doing something good (Kinicki & Kreitner, 2001). Lexner talks a little about this when he talks about that the Russian people want to work for a legal company if they can. Modern buildings are described by him as something that drives Russians to foreign companies is also in one sense an intrinsic reward.

Of the extrinsic rewards direct compensation seem to be the biggest part. Extrinsic rewards were rewards that came from external motivation as pay or a compliment from the boss (Kinicki & Kreitner, 2001). Oskanen says that monetary rewards are the main motivational factor in Russia. Lexner describes it as the Russian people are more interested in money than Swedish people. Performance bonuses also seem to be used in several of the selling companies. Both Swedish Branch and Bizpak use bonus programs where a high portion of the salary is based on commission. In Swedish branch about 50% and in Bizpak sometimes even a bigger part. Lexner thinks sales programs like these are common also in purely Russian companies. Oskanen also verifies that working on commission is common in Russian companies.

Indirect compensation also seems to be used to some extent. Lexner describes a situation were Swedish companies brings some of there softer and social values and tend to take social reasonability. The two companies Bizpak and Swedish Branch both offer social insurance to their employees. Swedish Branch also offers other kinds of indirect compensation like free lunches. The same was the case in Bizpak that also offered other indirect compensations like free cell phone.

Nonfinancial rewards are also used in Russia. This is verified by Lexner who says that an own room or a new title can be a very good reward for a Russian employee. Grönlund also verifies that titles are very important. Having a western car is also something which is mentioned as a big status symbol in several of the interviews.

## 5.4 Analysis of the proposal

Here the proposals made from Puffer et al. (1996) will be assessed from the empirical data. The purpose of this is to see if there is support in the interviews for the suggestions made there for designing reward systems in Russia.

**Select Russian employees who are achievement-oriented and willing to take risks.**
A problem with this might be the issues described by Grönlund of people wanting to advance to fast. The interviews did not indicate that there was any lack of achievement-oriented workers. Instead Samuelsson says that there is no problem finding talented
people in Russia. Lexner describes that especially foreign companies are very attractive to the Russians.

**Tie individual bonuses to initiative and personal accountability.**
This behaviour does not seem like a problem from the interviews. Performance based sale-systems seems to be something used both by Swedish Branch and Bizpak. The attitude was also that there was no problem finding good employees. As written before Samuelsson said that this was easier for foreign companies. Grönlund on the other hand said that Russian companies had an easier time finding motivated employees.

**Organize social events and other group activities.**
As Lexner says the collective society is not as strong as it used to be in Russia. Several of the other interviews present Russia as now being a highly individual society. On the other hand Samuelsson talks of how important social relations are to the society as a whole. This proposal can maybe be a good idea to increase the group feelings and find the important connections needed to deal with the government.

**Provide small-group incentives.**
As Lexner says the collective society is not as strong as it used to be in Russia. If this was demanded in Russia could not be verified by the interviews.

**Provide a mix of short-, medium, and long-term incentives.**
On this point there was unanimous agreement among the interviews. Russians has a tendency towards short-term incentives. Since the purpose of this suggestion is to improve the long-term focus of the employees it seems like a good idea. Tearing down the mistrust toward long-term incentives seems as a good idea. Using more medium-term rewards might also be used keeping valuable employees within the company. Grönlund describes that there in the near future will be hard to find employees (due to coming demographical problems), and then this will become increasingly important.

**Tailor the compensation package to individual preferences.**
No tenancy towards this was seen in any of the interviews performed. Individual rewards are now used in the Russian society and a particular focus on this is no longer necessary.
6 Conclusion

In this chapter conclusions are drawn and summarized from the analysis. Then follows some proposals for further studies in the subject. The chapter ends with a final discussion of the subject area.

6.1 Summary of Conclusion

The purpose of this thesis has been to get a Swedish perspective to how reward systems are used in Russia. It is important to again stress this purpose, because the study shows the view that some Swedish organizations have of the reward practices in Russia. This might not at all lead to the same result if purely Russian organizations were analyzed, or even if companies with their base in another foreign country were analyzed.

The general opinion seems to be that reward systems are used in Russia, especially to motivate sales people to sell better. The general opinions also seem to be that a system like this is also used in purely Russian companies. The attitude seems to be that a larger part of the salary is based on commission in Russia compared to in Sweden.

Monetary rewards are most common although there seem to be increasingly important with symbols of power. These can be both of high value as a good western car or a big office. But also other symbols of power, like a good title, seem to be a big motivational factor for a Russian. Background theory of Russian culture showed that Russia was a highly collective society. The interviews in this thesis however showed that individual rewards are more common in Russia compared to in Sweden. A reason behind this can be that the Russian mentality might have changed very rapidly, and that the classification of Russia as a collective country no longer is true.

The focus in Russia is definitely on the short term and most of the people seem to want to have their bonus on a monthly or quarterly basis. The long-term bonuses are not used very often. One of the reasons for this is that there seem to be little belief in the financial institutions. This focus on the short term can be a problem because it is often useful to focus the people on the long-term objectives of the company. This because the company strategy can often be set to generate results several years into the future.

It seems common to offer some kind of social insurance package for the people employed in the organizations. At least for companies with a western connection this seems to be used quite extensively. One of the reasons for this might be that it makes it more attractive to work for the foreign companies.

The thesis has also looked at the factors which might lie behind the use of rewards in Russia. Russia’s past with centrally planning still seem to have some leftovers in the bureaucracy which is present in the country. For this reason it is important to employ and reward people with good connection within the governmental organizations.
6.2 Proposals for further studies

The choice in this thesis was to focus on reward systems on a broad basis and do an explorative study on how they are used. One of the ideas for further study would be to do a case study on how an international reward system is being adapted to fit the Russian market. A study like this would surely find some of the major differences which exist in Russia and how a company can come by these problems.

During the work of this thesis it was also clear that it would be interesting to do a more extensive survey of how rewards are used in Russia. It would be interesting to study how rewards are used in purely Russian companies and see if there are any differences to how rewards are used in international companies present in Russia.

A third idea would be to do a deeper case study on a Russian company to see which the underlying thoughts behind rewards and motivational factors are.

6.3 Final thoughts

Knowing which the motivational factors are and how the reward systems look can be one of the key concepts to success on the Russian market. This thesis has shown that short-term monetary rewards are the most common motivational factor used today. But Russia is in a transitional period and the conditions are changing quickly, some of the theories in this thesis for example did not match with the reality, so what is the case today might not be the case tomorrow.
References


**Articles**


**Electronic Source**

Appendix 1: Guide for the Interviews

This is a guideline for interviews used in the thesis. The guide is focused towards companies operating in Russia and their experience of reward systems.

**General**

Name
Position
Company
Nr. of Employees.

Business in other countries?

**Reward system in the company**

Shortly describe your reward system? What does it look like?

Do you use other motivation factors than monetary rewards?

What kind of reward factors do you use?
Economical (bonus on result, gifts, options)
Social (Travel, health care)

On what grounds are the rewards earned?

Is there a difference between the reward systems for the Russians working in your company compared to the foreign people?

How are the bonuses earned, on the individual level or in group?

Why do you have a reward system? What is the goal or purpose of your reward system?

Is there any difference between the systems used in Russia compared to the system used internationally?

What behaviour do you want do encourage/discourage with you reward system?

How often do you give out rewards?

Do you think there is a good match between your strategy and the reward system you use?

If you try to put your shoes in the employee’s position, do you think they consider the reward system to be fair?

Do you think the employees are motivated to work for the company’s general strategy and goals?

When you recruit, do you recruit internally?

Do you have a high turnover of staff? What do you think the reason for this is?
Opinions about Russia and rewards

Do you think Russians have a different mentally towards rewards than fore example Swedes? What differences come to mind?

Do you think you have to take this into consideration when you develop a reward system in Russia?

Are immaterial rewards common (Appraisal, new title…)?

In Russian companies, what do you think is the major differences are in Reward systems when you compare to Swedish companies?

How do you look at reward systems in general in Russia? Are they common?

If you would classify the Russians mentality what would be the choice in the following questions concerning rewards:
  Short term vs. Long term?
  Individual rewards or in group?
  Material rewards or Immaterial (an immaterial reward can be appraisal, new title etc.)?

Is it hard to find talented employees in Russia?

Do you think Russians consider international companies more attractive to work for?

Are presents or other gifts important in Russia?

Do you think status symbols (cars, big offices…) are important in Russia? If so do you think it’s more important in Russia than in Sweden?

How are the salaries in Russia? Is there a bigger difference between levels than for example in Sweden?

Do Russians have to advance fast? What is your opinion on this when you compare to Swedish people?

Any other comment about rewards in Russia?

Thanks for taking the time to answer the questions!