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**Article**

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## **Stakeholder networks of foreign investors in Russia: An empirical study among German firms\***

*Dirk Holtbrügge, Jonas F. Puck\*\**

*One important success factor of foreign firms in Russia is the establishment of efficient networks with non-market stakeholders. Stakeholder networks may help foreign firms to obtain relevant information, accelerate administrative decision-making and reduce political risks. The objective of this study is to analyze the stakeholder networks between German investors in Russia and their socio-political interest groups. The study is based on in-depth interviews with the representatives of 3 German firms and 16 socio-political interest groups in autumn 2006. The results of a within-case and a cross-case analysis reveal that the development of stakeholder relations is important for the success of foreign companies in Russia. These may differ in size, intensity, density and centrality, depending on the industry and the particular socio-political issues these companies are confronted with.*

*Ein wichtiger Erfolgsfaktor ausländischer Unternehmungen in Russland ist die Etablierung effizienter Netzwerke mit nicht-marktlichen Interessengruppen. Stakeholder-Netzwerke unterstützen diese bei der Informationssuche, beschleunigen Entscheidungsprozesse und reduzieren politische Risiken. Das Ziel dieser Studie ist die Analyse von Stakeholder-Netzwerken in Russland. Die Studie basiert auf Interviews mit Repräsentanten von drei deutschen Unternehmungen und 16 sozio-politischen Interessengruppen im Herbst 2006. Die Ergebnisse unterstreichen, dass sich die Etablierung von Stakeholder-Netzwerken positiv auf den Erfolg in Russland auswirkt. Die Größe, Intensität, Dichte und Zentralität von Stakeholder-Netzwerken hängt von der Branche und den sozio-politischen Anliegen ab, mit denen Unternehmungen konfrontiert sind.*

*Keywords: Stakeholders, FDI, networks, Russia*

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## **1. Problem, objectives and structure of the study**

Foreign companies in Russia are exposed to high risks. The political system, for a long time unstable, the transformation of the socialist into a market-oriented economic system, and an independent legal system still in development make reliable long-term planning difficult and represent constantly new challenges for investors (Mau et al. 2002; Mironov 1999; Sekerin et al. 2003; Varnavskij 2004). Therefore many companies still shrink back from investments or content themselves with low-risk “wait-and-see” activities.

Those companies, however, already doing business in Russia see their activities in this country often as very successful. E.g., the Association of German Companies in the Russian Federation reported in the whole on positive experiences of German companies and underlines the large growth potential of the country (VDW 2005a). One important success factor in this context is that in Russia it is not sufficient to establish efficient contacts with market partners such as clients, suppliers, and banks. A successful commitment presupposes rather efficient transnational networks with non-market stakeholders. By establishing and maintaining efficient stakeholder networks the high risks of an investment can be reduced and sustainable competitive advantage in Russia can be realized (Holtbrügge/Puck 2006). The establishment of transnational stakeholder networks, however, is also in the fundamental interest of the Russian government, since it stabilizes the economic and political development of the country and reduces the danger of extremist tendencies.

One example for the relevance of close relations to important non-market stakeholders in Russia is the failed investment of the German tire company Continental. After the Moscow City Council had finally refused its approval to establish a production site in the city of Moscow after three years of negotiations, the company decided to quit its cooperation with the Moscow Tire Plant in 2004. According to Continental’s CEO, this withdrawal from the attractive Russian market cost the company nearly € 30 mn. At the same time, Michelin, Continental’s main European competitor, was allowed to establish a similar factory in a suburb of Moscow. Apparently, one reason for this success is Michelin’s close relations with the local authorities (Moscow News 17.11.2004).

Despite the growing importance of non-market stakeholders for foreign investors in Russia, there exist only a few studies analyzing explicitly these relations. Most research is concentrated on internal company aspects as well as on the relations to market stakeholders such as clients, suppliers, competitors and shareholders.

A more recent case is TNK-BP, a joint venture between BP and AAR, a group of four Russian billionaires, and Russia’s second-largest foreign investment to date. Russian authorities have launched several investigations and legal

injunctions against the oil major. For example, work visa renewals to BP staff were denied in 2008. As a consequence, Robert Dudley, the BP-backed chief executive of the joint venture, along with its chief financial officer and a number of other executives had to leave Russia. Their departure left operational control of the company in the hands of their Russian partners which were accused by BP of “corporate raiding”. Moreover, BP feared that the Russian shareholders are laying the ground for a sale to a state-owned company such as Gazprom or Rosneft (Financial Times 30.06.2008).

These and other examples demonstrate the weak legal system and the lack of regulation that most foreign investors in Russia are confronted with. After liberalizing the economy and democratizing the political system in the 1990s, the last ten years are characterized by an increasing role of the state and remarkable state interventions. Virtually all foreign firms face official and unofficial hurdles, including bureaucratic inconsistency, corruption, and outright restrictions in strategic sectors like energy, automobiles and communication. Corruption weakens the rule of law and increases the fragility of property rights and the arbitrariness of law enforcement. As a consequence, Russia only ranks 146th among 179 countries worldwide in the Economic Freedom Index (<http://www.heritage.org/index/Ranking.aspx>).

The objective of this paper is to analyze the stakeholder networks between German investors in Russia and their socio-political interest groups and to investigate whether close relationships to social-political stakeholders may reduce investment risks in Russia. The study is based on in-depth interviews with the representatives of 3 German firms and 16 socio-political interest groups in autumn 2006. On the basis of a within-case and a cross-case analysis several conclusions for the efficient management of stakeholder networks in Russia are deduced.

## **2. Theoretical framework**

Stakeholder theory suggests that the success of a firm does not depend primarily on the efficient coordination and control of its operations, but on the establishment and maintenance of a cooperative dialogue with all relevant internal and external interest groups that may influence its activities in a positive or negative way (Freeman 1991; Clarkson 1995; Mitchell et al. 1997; Frooman 1999). Stakeholders are individuals or groups that have material, political, affiliated, informational, symbolic or spiritual interests in a company and that are able to advocate these interests through formal, economic, or political power (Gioia 1999). According to stakeholder theory, the success of a firm depends on the support of all stakeholders that a company depends on to realize its goals (Kostova/Zaheer 1999:64).

Of particular relevance in this context are the socio-political stakeholders that do not have market-relevant relations with the company, but which could influence it in other ways (Boddeyn 2003). These may comprise e.g. approval and certification procedures, the positive or negative mobilization of the public opinion, or the influencing of the legal framework. Depending on their origin and their legal status, four different groups of stakeholders can be distinguished (Table 1).

*Table 1. Typology of socio-political stakeholders*

<b>Origin Legal Status</b>	<b>National</b>	<b>International</b>
<b>Public</b>	Governmental (e.g., central and regional government, local administration)	Supranational Organizations (e.g., EU, IMF, WTO)
<b>Private</b>	Non-Governmental Organizations (e.g., trade unions, associations, media)	International Non-Governmental Organizations (e.g., Greenpeace, Amnesty International)

The stakeholder literature distinguishes between four different research perspectives (Donaldson/Preston 1995). In a descriptive or empirical sense, stakeholder theory describes a corporation as a constellation of cooperative and competitive interests possessing intrinsic value (Ogden/Watson 1999). From an instrumental perspective, the connections between the practice of stakeholder management and the achievement of various performance goals are examined (Jones 1995). The normative perspective attempts to interpret a corporation on the basis of some underlying moral or philosophical principle. In contrast to the instrumental perspective, the underlying question is not concerned with effectiveness versus ineffectiveness, but with right versus wrong (Werhane 1994; Phillips 2003). Finally, the managerial perspective does not simply describe existing situations or predict cause-effect relationships, but analyzes structures and activities to influence stakeholders in a desired way (Marens/Wicks 1999).

While most contributions to stakeholder theory are normative (Marcus 1993; Steinmann/Scherer 1998; Hendry 2001), this paper follows a descriptive and management-oriented approach. The main objective is to identify socio-political stakeholders, which influence the operations of German firms in Russia. Moreover, we are interested in stakeholder networks that firms develop to reduce their investment risks in Russia.

Present stakeholder research is dominated by a centralistic star model where the company in the centre regards the stakeholders placed in the periphery as means to maximize its own objectives. More and more it becomes clear, however, that this centralistic concept is not appropriate to illustrate adequately the stakeholder relations in reality. For example, the possibilities of companies to exert influence

are systematically overestimated. Furthermore this dyadic perspective does not take into account the interactions of the stakeholders among each others (Rowley 1997; Vanderkerckhove/Dentchev 2005). Therefore it is often proposed to conceptualize the relations between companies and stakeholders as a network and to understand the companies as part of a network of interdependent stakeholders (Welcomer 2002). According to Weyer (2000:11), a network “is understood as an independent form of coordination of interactions (...) the core of which is the trustful cooperation of autonomous, but interdependent (mutually dependent from each other) actors that cooperate during a limited period of time respecting the interests of the relevant partner, because this enables them to realize their particular objectives more efficiently than by acting non-coordinatedly.” „(In this perspective) the us/them and internal/external distinctions fade into a sense of communal solidarity in which one seeks the corporate identity as manifest within an entire network of stakeholders and a broader social context (...). The corporation is constituted by the network of relationships which it is involved in with the employees, customers, suppliers, communities, businesses and other groups who interact with and give meaning and definition to the company” (Wicks et al. 1994:482).

When interpreting companies as actors integrated into a network of interdependent relations where the own decisions and actions are influenced by several other stakeholders and vice versa, the traditional conception of stakeholder management will become obsolete. Calton and Kurland (1996:155) instead refer to a “stakeholder enabling (where the) privileged management monologue is substituted by a multilateral stakeholder dialogue.” This concept is based on the idea that the objectives of a company integrated into a network of interdependent relations cannot be fixed autonomously and cannot be reached by managers as agents of the shareholders against other stakeholders, but have to be negotiated in a collective coordination process and have to be realized interactively (Wheatley 1992). „Within (the) theory of stakeholder enabling, the managerial agent is no longer the unilateral author, seeking to objectify stakeholders as means for realizing (i.a., the author’s) purposes. Rather, agents and stakeholders become co-authors, voicing and acting out their intertextual ‘script’ that defines each other's responsibilities and expectations within an ongoing, multilateral, interdependent relationship” (Calton/Kurland 1996:175).

The relation of a company to its stakeholders may thus be described as a network with different relations not only between the company and its stakeholders, but also between the stakeholders among each other (Neville/Menguc 2006). In this view, companies do not interact with every stakeholder exclusively, but with a bundle of networked stakeholders. Thus, the company is not only considered as the centre of a network system, but also as medium by means of which other actors of the network communicate. In this context it can be distinguished between direct and indirect stakeholders

(Vandekerckhove/Dentchev 2005). Direct stakeholders are those interest groups that interact directly with the company. Indirect stakeholders, on the other hand, are in relation with the direct stakeholders and not with the company itself. The company can therefore contact them via other stakeholders, only.

### **3. Methodology**

#### **3.1. Sample**

In order to find out how far the establishment of appropriate stakeholder networks can contribute to reduce the perceived investment risks in Russia, an empirical study was conducted among German firms. The sample selection was oriented on a list of the Association of German Companies (VDW) in Moscow that comprised about 600 German companies doing business in Russia in 2006. First of all, this list was reduced to producing firms whose headquarters is in Germany. This selection is based on the assumption that producing companies are exposed to greater risks due to higher capital investment than companies in the sector of trade and services.

From the remaining subsidiaries only those companies with headquarters in Moscow, St. Petersburg or Kaliningrad were selected. Since by far most foreign investors are based in these three cities, this selection criterion reflects the location choice of foreign companies. On the assumption that a reliable evaluation of the risks as well as of the importance of different stakeholders is only possible after a certain time of activity, finally only those companies were taken into consideration that have already been active on the Russian market for more than five years. Based on these considerations and according to the “principle of maximal contrastation” (Lamnek 2005: 191) three German firms in Russia, namely Knauf, VEKA and Fresenius, were selected for intensive case studies.

The selection of the interview partners was oriented on their hierarchical position in the company. As a rule, the general manager respectively chairman of the board of directors or the highest ranking German expatriate was contacted. If possible, further German and Russian staff members were included. Altogether seven interviews with representatives of the three companies took place. The contact data of the interview partners were gathered from the internet homepage of the company or from the VDW. Two to three weeks before the interview in Russia a personal letter was sent by fax or email to the desired interview partner explaining the objective of the study. The exact interview date was agreed upon later by phone.

Besides the representatives of the 3 companies, 16 representatives of government institutions, associations, trade unions, media, universities, NGOs and further interest groups were interviewed which were named in the

interviews by the companies' representatives. Thus, the study is characterized by a mirror-image research design by means of which not only the relations of companies to their stakeholders, but also those of stakeholders to companies can be analyzed. Furthermore, this method is aimed to analyze the relations between the stakeholders among themselves – as defined by the underlying network concept.

### **3.2. Data collection and processing**

In view of the above mentioned objectives the data were collected during a research trip of the authors in Moscow, St. Petersburg and Kaliningrad in August and September 2006. The data collection was realized by means of personal interviews based on a problem-centred interview guide. Personal interviews were preferred for the following reasons (Daniels/Cannice 2004): First and most importantly, the study deals with sensitive topics such as social interests, conflicts, lobbying, and bribery. It can be expected that respondents will talk about these topics only in a trustful atmosphere, which normally requires face-to-face interaction. Second, potential misunderstandings can be more easily recognized and rectified in personal interviews. Because of the multitude of different terms, approaches and perspectives in the relevant literature this aspect proved to be very important. Additionally, in personal interviews unexpected answers can be scrutinized and particular aspects can be studied further. Furthermore, we were able to get some insight into the conditions under which the respondents work. This enhances the validity of the interpretation of our findings. Finally, the qualitative method of data collection allowed for a data set without missing variables.

An interviews guide with open questions was prepared which is divided into different topics and based on the results of prior research in this field (Bermann/Wicks 1999; Holtbrügge/Berg 2001/2002; Holtbrügge et al. 2007) as well as on the general recommendations for interview guides (Daniels/Cannice 2004). The interview guide was tested in several pilot interviews in September 2005 in Moscow and St. Petersburg and then modified in order to improve the unambiguousness and comprehensibility of the questions.

The interview guide was prepared in German as well as in Russian in order to be able to communicate with the respondents in their mother tongue. The translation attached greater importance to the equivalence of the concepts than to individual terms (Marschan-Piekkari 2004).

After data collection the interviews were transcribed in full and processed with the software program NVivo. As protocol technique the transcription in normal writing was applied (Mayring 1990:65). Since the focus of the interviews was laid on contents and subjects, dialectal phrases were adjusted and mistakes in grammar and style were corrected. Important information in addition to the protocol was recorded as commented transcriptions.



Besides the personal interviews, secondary data such as information drawn from the company homepage, business reports, member indices and periodical articles were analyzed. Thus the time needed for the interviews could be reduced, since these only had to concentrate on the subjects not yet published. In addition, the validity of the interviews could be increased and the respondents could be questioned about concrete facts derived from the analyzed documents (Jansen 1999:63).

### **3.3. Data analysis**

For the analysis of the collected data two methods were used. First, a quotation analysis was applied. This is aimed to describe the stakeholder relations of the analyzed companies in the most authentic way, i.e. from the point of view of the respondents and not yet spoiled by the subjective perspective of the researcher. The main focus therefore is the description of the specific and unique characteristics of a phenomenon (Kvale 1996:267).

In order to find and describe – in view of the objectives of this study – also multidimensional connections between the stakeholders, subsequently a network analysis was performed. For this the transcribed interviews and the secondary data at first were coded, i.e. the interview passages were assigned to the different stakeholders mentioned explicitly or implicitly in the text. Then the relations between the stakeholders were recorded, particularly looking out for key words such as “because”, “for”, “therefore”, “leads” or “results” (axial coding). In order to guarantee a high reliability of coding, this was at first carried out by the two authors independently from each other and then compared with one another (Palmquist et al. 1997:174; Shapiro 1997:231). Since the stakeholders mentioned in the text passages could be identified rather easily, the inter-rater reliability, i.e. the number of statements marked consistently with the same coding by both authors, was around 90%. Finally the established relations were illustrated graphically and analyzed with the software program UCINET (<http://www.analytictech.com/ucinet.htm>). The size of the arrows ranging from 1 to 5 represents the intensity of the relations to the respective stakeholder measured as the standardized number of relationship-namings by the respondents.

With reference to Eisenhardt (1999), both a within-case and a cross-case analysis was conducted. The within-case analysis is primarily based on qualitative data and aimed to understand the specific aspects of each case. For this, citation analysis and graphical network analysis are used.

For a cross-case analysis in addition to graphical presentation a quantitative network analysis was realized. In order to measure the assumed network architecture, we applied the characteristics developed by Tichy, Tushman and Fombrun (1979) and Wassermann and Faust (1994) that allow for the

description of formal relationships between particular units. The following network dimensions were calculated.

**Size:** The size of a network is measured by the number of actors within a network.

**Intensity:** The intensity is measured by the average strength of direct relations from one knot to another as indicated by the respondents on 5-point-Likert-type scales. The answers from the respondents were combined and averaged for each relation. The inter-rater reliability as measured by Fleiss' kappa indicates a substantial agreement among the reviewers (.721).

**Density:** The density reflects the degree of direct relationships between the stakeholders. It is calculated as quotient of the number of actually existing relationships between the knots and all possible relationships in the network. Density takes on values between 0 (empty) and 1 (complete network).

**Network centrality:** The network centrality is a measure for the structural characteristic of a network. According to Freeman (1979), network centrality indicates to what extent the network is geared to one or more actors. The measurement is in each case standardised on the network factor 'n'. Network centrality can adopt a value of 0 (no central performer) to 1 (network is centred on one specific unit).

#### **4. Stakeholder networks of German firms in Russia: Three case studies**

In the following, the stakeholder networks of Knauf, VEKA and Fresenius Medical Care are presented and analyzed. These three companies are chosen as case studies, because they rank among the most important German investors with a long history in Russia. Furthermore, between the stakeholder networks of these companies exist considerable differences so that their comparative analysis allows for interesting conclusions.

##### **4.1. The stakeholder network of Knauf**

A very successful example of a producing German firm in Russia is Knauf, a building material manufacturer. The company headquartered in Iphofen in Bavaria produces gypsum construction pallets, gypsum plaster as well as damping and insulation material for interior construction work at more than 130 locations in more than 35 countries worldwide. Knauf was founded in 1932 as family-owned enterprise. At present the Knauf group has approx. 18,500 employees worldwide and an annual turnover of nearly € bn. 4.

Already in 1992 Knauf has been aware of Russia's large need for modernization and new buildings and in 1993 the company made its first steps to start business activities there (Berger 2004:12; Knauf 2004:54). Up to now the company

invested nearly € bn. 1 in the country and emerged as the most important German investor in the Russian building material industry. Knauf owns 10 production plants and 9 marketing companies in different regions of Russia (Knauf 2007). In the entire Commonwealth of Independent States (CIS) more than 5,000 people are employed.

“It is true, that in the beginning some bureaucratic hurdles had to be taken and in some cases Knauf was also forced to enforce its claims and rights by legal action”, remembers the general manager Nikolaus Knauf (2004:54). “That this was successful demonstrates on the one hand that perseverance pays off and on the other hand that in the supposed lawless country of Russia even a foreign investor is able to enforce its rights” (Knauf 2004:54). Another respondent adds: “Principally we always tried and continue trying (...) to solve every problem observing the law (...). We have already conducted several lawsuits in Russia. That is always a very complicated and also a very expensive affair.”

At present Knauf is confronted above all with product counterfeiting, a problem widespread in Russia. The dry mixtures produced by Knauf are copied very often by other companies. But the Russian courts do not have much experience in the field of trademark and intellectual property rights protection. Moreover, the existing laws are often considered to be insufficient.

Therefore Knauf uses different ways to exert influence on Russian legislation. For instance, applications at the Duma are filed via officially registered associations in order to promote certain law amendments. The Association of German Companies as well as the Association of European Businesses (AEB 2007), for example, have very good connections to the administration. That is why Knauf cooperates closely with both organizations (VDW 2005b:45).

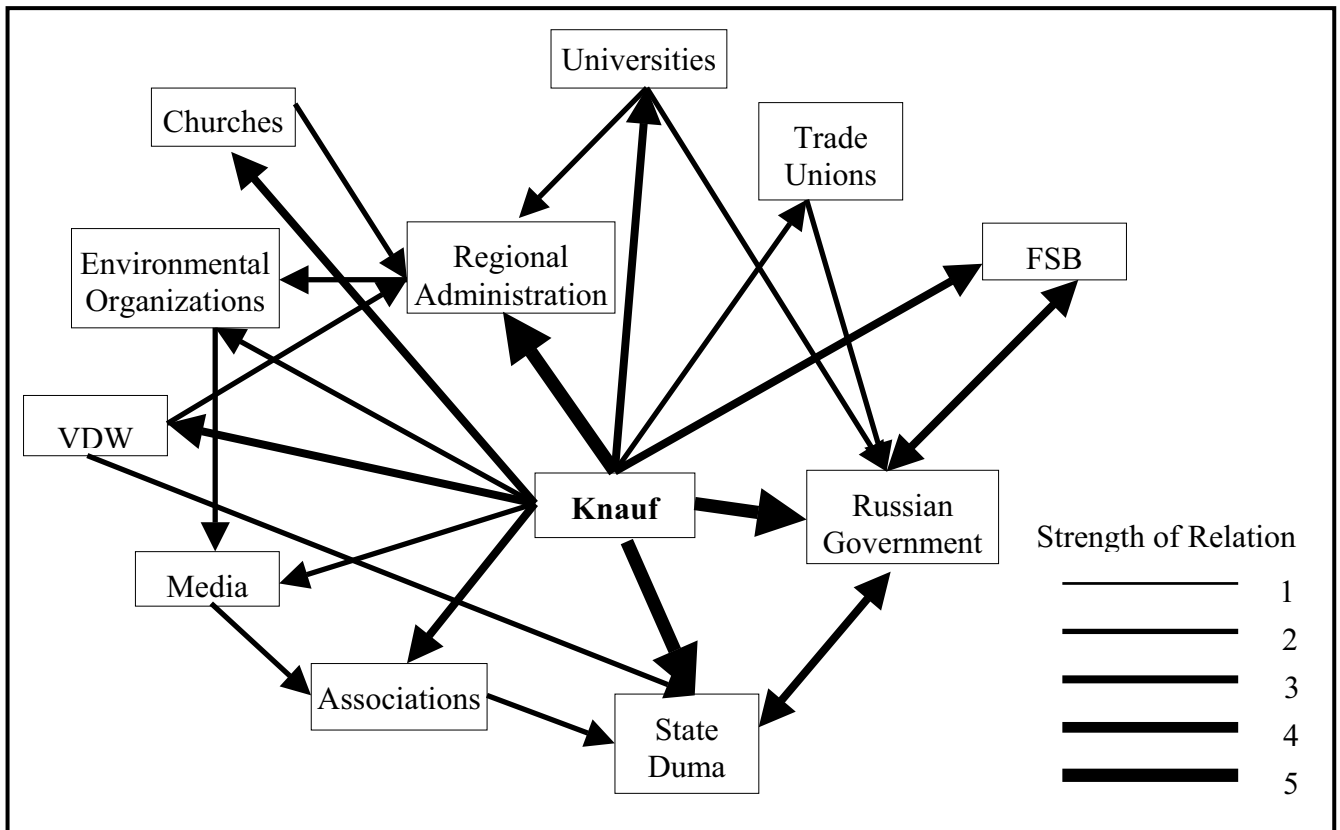
Furthermore, the company cooperates with Russian associations such as the International Association for Business Cooperation (MADS). “The cooperation with MADS aims to encourage the Duma to introduce more law amendments”, one respondent said. Close connections also exist to the Russian Chamber of Commerce and Industry (TPP). These, however, are rather used for public relations in the Russian media than for lobbying activities.

Besides these indirect relations, Knauf also has direct access to the Duma via personal contacts to some members of parliament. E.g., the company organized two round tables in order to modify the trademark protection legislation (ADVIS 2007). At this opportunity, further direct contacts to the presidential administration, the government as well as to large Russian companies were established.

The governors as the regional representatives of the government also play an important role for the company owning 10 factories in different Russian regions. Knauf’s relation to the governors is described by one respondent as follows: “In many regions they want to exert more influence on our factories, but we have

very good connections to the respective governors and a good cooperation, and in the meantime the governors of the different regions where our factories are located know how far we go and where are our limits. Today the governors' interest is rather limited on the amount of taxes we pay. They always want more taxes, therefore they are glad when we tell them, yes, we want to invest here so and so much millions (...). We need the governors for the solution of certain regional problems (...). Therefore we are interested in a good relationship." Knauf's relations to the governors are personal and cultivated regularly: "We know them all and they know us. We meet the governors of all regions at least once a year (...). In some cases we also have invited them to come to Germany."

Figure 1. The stakeholder network of Knauf



Another of Knauf's socio-political interest groups is the Federal Security Service (FSB) guaranteeing the economic security of the company as well as the personal security of the staff. The good cooperation with the FSB is characterized by "a very close relationship in all regions (...). Otherwise we could not work so safely. It is true that the FSB guarantees a certain degree of security." There is also a cooperation with the FSB in the field of product counterfeiting. "We receive much information when a counterfeit product appears on the market and what we can do about it."

Like most other German companies in Russia Knauf has close contacts to the German embassy: "There are many informative meetings organized by and with the embassy. The embassy helped us in the nineties with the solution of several

problems, but no longer in the last eight years. Nowadays the German embassy has quiet different tasks, especially in the range of politics. If you have a problem, e.g. regarding the immigration law or a visa, the embassy is a great help, of course. If a governor needs a flight to Germany in the short-term, he will call and tell us that he needs a visa. Those things happen, and then you have to help the governor.” The heads of the local administrations are the ones to decide finally whether a company is considered as factor of economic growth and employment safeguard and is treated as such or whether it is only regarded as tax payer for the local household (Kunze 2005:124).

Knauf has also close relations to the Russian trade unions. In all their subsidiaries the company encourages workers collectives and trade union representatives. “This normally works very well. We have never had problems with the trade unions, because we offer much more social benefits to our employees than many other local firms (...). We spend alone € mn. 2 for collective agreements, (...) continued pay for sick employees, further education as well as interest-free credits for employees who live in bad housing conditions.”

Knauf is also involved in the social and cultural environment of its subsidiaries. According to one respondent, “every factory and every general manager has a special fund at his disposal to support every year certain projects in his region.” Examples for sponsoring activities are the construction or renovation of churches, nurseries, hospitals, and orphanages on one side, and the establishment of training and education centers on the other side, where every year 4,000 architects, civil engineers and foremen are educated. On the initiative of Knauf, the St. Petersburg State University for Architecture and Civil Engineering, the oldest Russian civil engineering academy, included the course “Dry Mortarless Construction” in its curriculum (Knauf 2004:55). It is this long-term view and attitude that, according to Knauf, contributes very much to the acceptance of the company in the Russian building industry.

With this social commitment Knauf intends to demonstrate its corporate social responsibility and to communicate it to the public (Hamm 2003:69). A respondent states: “Of course, that has also a little end in itself. We do not do this because we are such good souls, no. Everything that has to do with money has a certain purpose. Our aim is to preserve and to improve the corporate identity we have (...). You can earn very much money with the corporate identity and philosophy.” This means that Knauf’s numerous social projects do not only contribute to its good corporate identity in Russia, but they also help to establish contacts to important interest groups. E.g., the renovation or construction of churches brings the company in touch with religious communities that have considerable influence in the Russian economy (Bremer 2001). Similarly, contacts to Russian universities and technical colleges offering engineering courses do not only aim at introducing Knauf to engineering

specialists (Hamm 2003: 68). In fact, these relations are also helpful for Knauf's lobbying activities, since renowned Russian universities often have access to government circles. E.g., Knauf is a member of the Board of Trustees of the Moscow State University of Civil Engineering, thus having been able to establish personal contacts with the mayor of Moscow Jurij Luzhkov (MGSU 2007).

Knauf's gypsum quarries needed for the extraction of raw materials cause an impairment of nature provoking the reaction of environmental organizations that started a discussion in the press whether one of Knauf's gypsum extraction projects would endanger one of the world's largest salt lakes, the lake of Baskuntchak (MPR 2006). A respondent from an environmental organization stated in this context: "The number of Greens is constantly increasing in Russia, too, they write about some projects in the newspaper so that these are discussed in public. But in the end they cannot stop the course of events (...). Knauf is well-known not only for extracting gypsum, but also for recultivating nature." According to a manager of Knauf, media reports about the lake of Baskuntchak do not cause sincere problems, since the company acts according to the law and does not only destroy but also rebuild nature. Besides, the conflict was fomented not so much by environmental organizations, but rather by the Russian company Bassol, one of the largest salt producers in the country. Bassol extracts salt from the lake and fears that Knauf's gypsum quarries nearby would alter the water composition (Dimitriev 2006). One of the respondents explained in this context: "But both the governor of Astrachan as the relevant authorities know what is going on and therefore that does not worry us too much." In his opinion all technical surveys of international research institutes have proved up to now that the gypsum extraction in this area does not represent any danger to the lake. Based on these expertises, Knauf was granted the permission by the environmental protection agency of Astrachan for further activities in this region.

According to one respondent, the few negative reports on Knauf in connection with the lake of Baskuntchak were an exception. "We are getting much more positive than negative press (...). The decisive people in the Ministry and also in the regions (...) know very well that it is actually Knauf's merit that there exists a functioning gypsum industry in Russia (...). We realize that the media support us a lot." This is mainly attributed to the fact that Knauf cooperates closely and systematically with the media. "We cooperate with all media, television, and newspapers, we make very much publicity (...). We are very open and have very good relations to the media." This applies both for regional and national media.

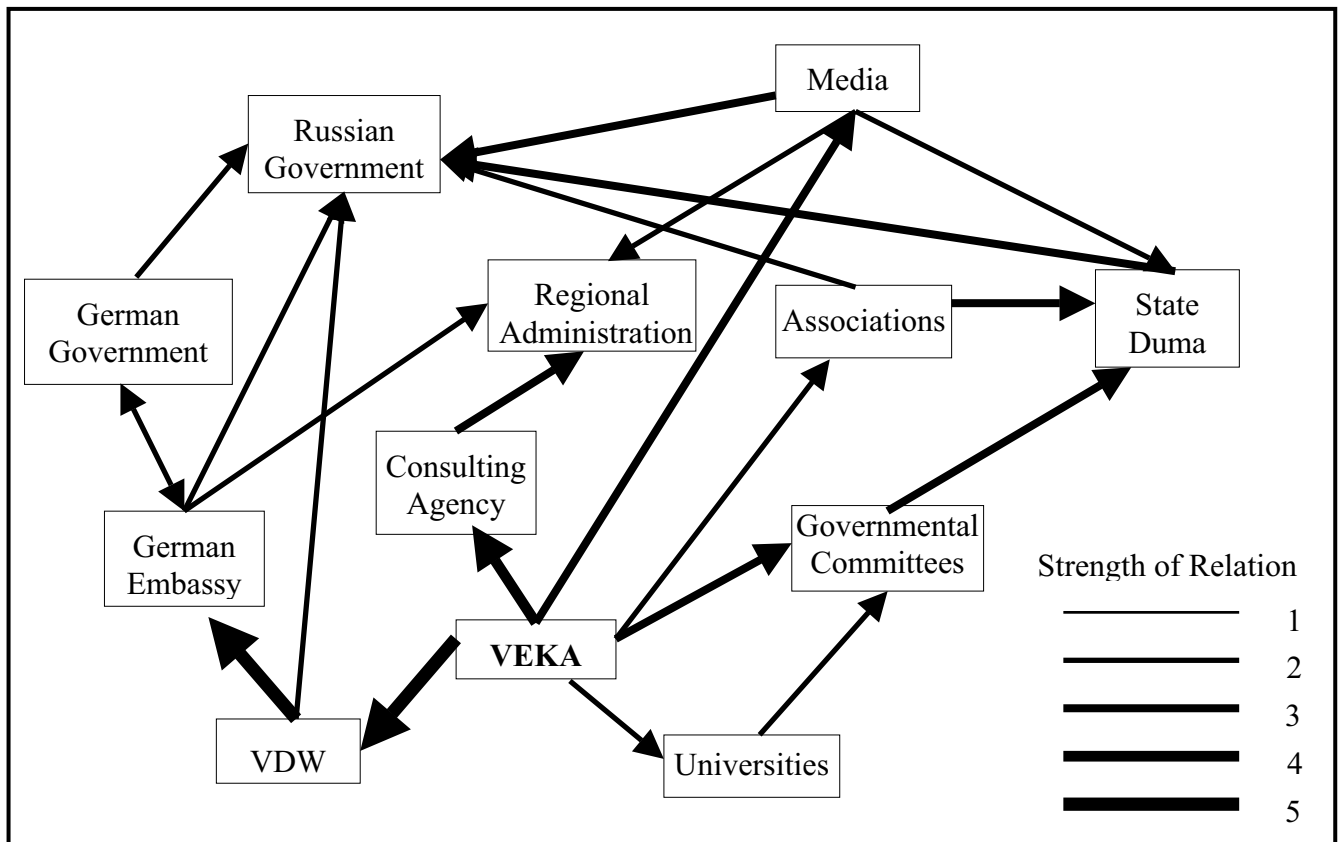
As a whole it can be concluded that the establishment of a dense network with several stakeholders helps Knauf to reduce its investment risks in Russia considerably. This is underlined by the following statement: "It worked out well that we invested in such insecure times as 1993. Today we are the leading

building material producer in Russia and have a good reputation and a good lobby, what was not the case at the beginning of the nineties when we started. Of course, we still have problems today, but not of such a kind as in the nineties. That was very dramatic at that time. Many times we wanted to give up doing business in Russia, but we stayed the course. And today we are glad about it.”

#### 4.2. The stakeholder network of VEKA

VEKA with its headquarters in Westphalian Sendenhorst near Muenster is a worldwide leading system developer and manufacturer of plastic profiles for windows, doors, and shutters as well as plastic panels (VEKA 2007a). Founded in 1969, the company the company has presently 27 subsidiaries on four continents. In the business year 2006 VEKA had a turnover of about € mn. 700 with 2,800 employees. Since 1995 there exists a representative office in Russia. Three years later the wholly-owned subsidiary VEKA Rus Ltd. was founded in Moscow. In 1999, VEKA was the first foreign profile manufacturer to open a production plant in Moscow. In 2004, the company started up a second plant in Novosibirsk. At present, VEKA Rus has 180 employees. Figure 2 shows the company’s stakeholder network in Russia.

Figure 2. The stakeholder network of VEKA



The administration in Novosibirsk on its part is also interested in a partnership with VEKA, because the company’s investments in this region account for

Siberia taking a leading position in window production (Lichatshev 2004). On February 9, 2007 the governor of Novosibirsk and the chairman of the regional board of deputies handed over an honorary certificate to the employees of VEKA in acknowledgement of the company's special merits for the socio-economic development of the region (VEKA 2007b).

VEKA's close relation to the administration is reflected by the following statement of one respondent: "As to our relations to the authorities we probably are a rare exception, but we cooperate very closely with the administration (...) and observe positive mutual neutrality, i.e. they do not disturb us and we do not trouble them. We are the second largest tax payer in the region, a fact that is also good for the authorities (...). We are on good terms with the authorities." An example for this is given by the PR-manager of VEKA referring to the solution of the power supply problems: "For us power supply is very important and there were some shortages where the administration really helped us to get higher quota for the power supply."

Apart from the authorities great importance is also attached to close contacts to the Russian media. The PR-manager of the company used to work as free-lance journalist having already good media relations. Besides important industry media the company works together with the newspapers "Vedomosti" and "Kommersant" as well as with the television broadcaster NTV. Here, VEKA finances the weather forecast and "Kwartirnij vopros" [Housing Problems], one of the most famous programmes on building and renovation (VEKA 2006b). Besides general communication and public relations, the importance of these media contacts consists mainly in influencing indirectly the decision processes of the governmental and regional administration, since many regulations and standards in this industry are just being introduced.

This is also the purpose of VEKA's intense participation in governmental committees. In this context, a respondent states: "At the moment there are good opportunities for lobbying. In Russia a completely new legislation is being developed in the field of technical regulations and standards following suit the European example. This means that the government only determines the framework for the technical data and that the details are to be developed by the market players itself. Therefore, each industry appointed a committee which we joined, too. In this way we can influence many things, e.g. the development of new laws that have effects on our industry."

For lobbying the relations to universities such as the Moscow Engineering Physics Institute and the Moscow Institute of Architecture play an important role, too. These institutes have a wide influence on governmental authorities and their decisions. Therefore VEKA regularly invites industry experts to participate in round table talks. Moreover, a first text book on plastic windows in Russia entitled "Project planning of window systems for residential buildings" was published together with Russian scientists and engineering specialists. This



textbook is provided by VEKA free of charge to all Russian universities (VEKA 2003).

For similar reasons VEKA sponsors socio-economic projects such as the round table dealing with the subject “National priorities and social projects – Partnership between government and management” that took place on the initiative of the Russian Union of Manufacturers and Entrepreneurs in September 2006. Participants were representatives of the presidential administration and the government, deputies of the State Duma, governors of the Russian regions, heads of different industrial associations as well as of social organizations. Supporting these and other initiatives brings VEKA into direct contact to many important interest groups and improves the corporate identity in public.

Finally, VEKA also takes advantage of its relations to the Federal Government in order to achieve its business goals in Russia. E.g., the CEO of VEKA, Hubert Hecker, participated in the German-Russian government consultations in Tomsk (Siberia) in April 2006 where he met among others Federal Chancellor Merkel and President Putin (DGN 2006).

#### **4.3. The stakeholder network of Fresenius Medical Care**

Fresenius Medical Care with its headquarters in Bad Homburg is one of the three divisions of the Fresenius group and a worldwide leading supplier of products and services for patients with chronic renal failure. The company was founded in 1912, its roots, however, go back to 1462 when the pharmacy Hirsch was founded in Frankfurt on the Main. In 2005, Fresenius Medical Care reached a total turnover of about € bn. 6.4. The company employs more than 56,000 people in more than 100 countries (Weith 2007).

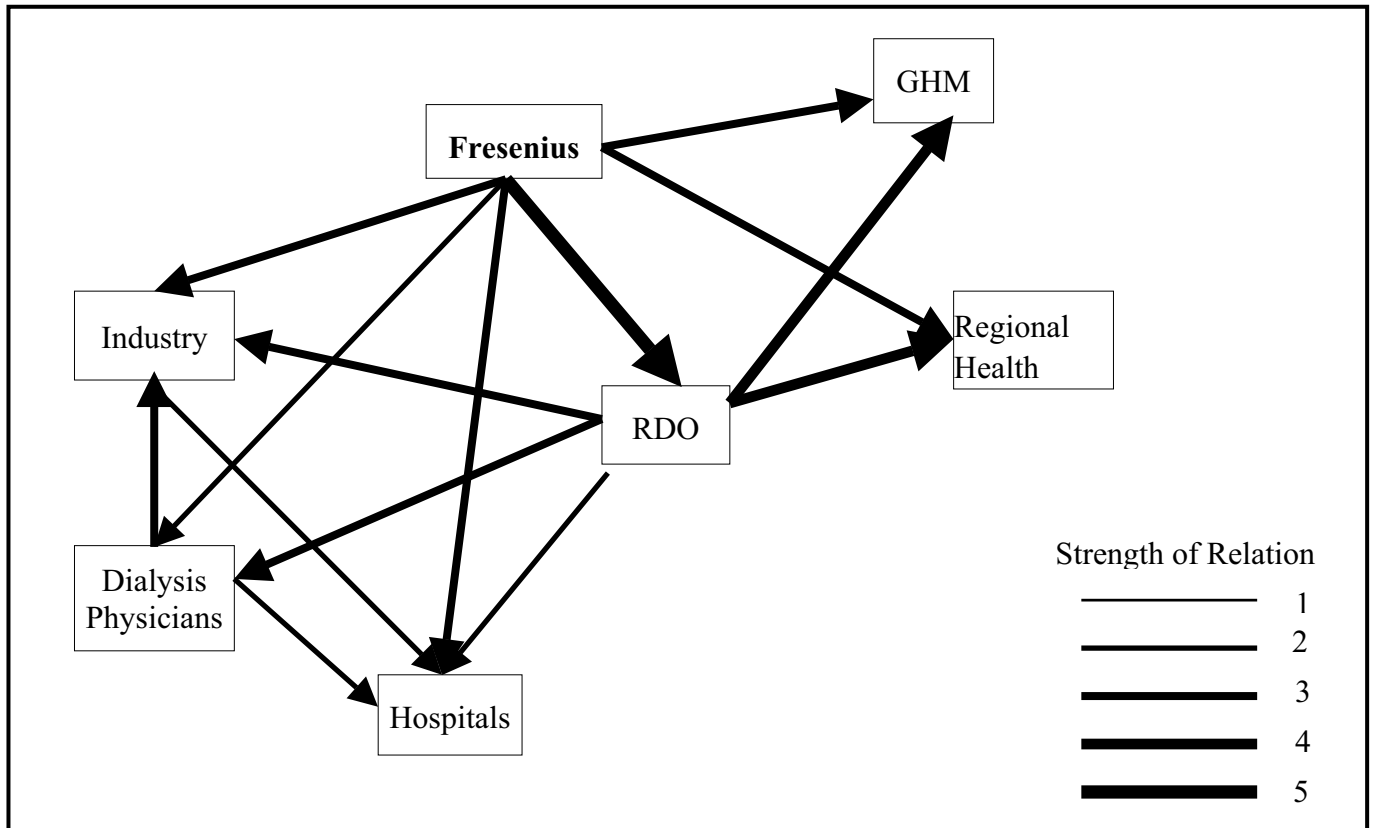
Fresenius is already active on the Russian market since more than 25 years. In 1991, the wholly-owned subsidiary Fresenius S.P. was founded in Moscow. The headquarters in Moscow and the subsidiaries in St. Petersburg, Kasan, Novosibirsk, Volgograd and Chabarovsk have about 120 employees and maintain a well developed service network (VDW 2005b:45).

The stakeholder network of Fresenius is presented in Figure 3.

Due to its high-quality standards, the majority of leading hospitals and research institutes in Russia use dialysis equipment and products made by Fresenius. Since the dialysis technology of Fresenius is very expensive, the doctors working with it normally cannot decide about its acquisition on their own. This decision is made on the basis of tenders for which Fresenius makes an offer competing with other companies. Tenders may be requested e.g. by representatives of the Ministry of Health, by representatives of the administration of certain regions or by the manager of a hospital. These representatives do not always have medical background and often have very

little knowledge in the field of dialysis. This knowledge deficit of the decision makers is regarded by Fresenius as the greatest risk of its activities. Therefore one of its main aims is to convince the often insufficiently qualified decision makers of the quality of its technology and services. In order to reach this goal the company uses its relations to different stakeholders.

Figure 3. The stakeholder network of fresenius medical care



An example is the promotion of scientific studies and publications as in the scientific journal “Nefrologija i dializ” [Nephrology and Dialysis] published by the Russian Dialysis Society (RDO). The articles in this journal referring to products and services of Fresenius often contribute to opinion making and facilitate political lobbyism.

In addition, Fresenius is on familiar terms with the opinion leaders in the field of dialysis who are invited to all events as conferences, seminars and expositions where they have the chance to get to know the company’s products, to exchange experiences and to present the results of their research. Fresenius does not consider this kind of support of the opinion leaders as corruption, since these do not decide on the purchase of equipment themselves. Moreover, the company does not pay the travel expenses of the the participants. “It is good for us”, says a respondent, “if a doctor mentions the name of Fresenius in his article, but also if he only presents the results of his research, he helps Fresenius indirectly, the company being leading in quality and technology in this sector in Russia.”

A new focus of the company's activities is to assist the authorities in different Russian regions to establish and to extend dialysis centres or to run them by themselves (VDW 2005b: 45). In this field Fresenius cooperates very closely with RDO, according to the respondents the most important interest group in this industry. The company has supported the foundation of RDO with information and funds and sponsors nearly all its events. In return, RDO promotes Fresenius' relations to the central and regional health care institutions in the field of treatment of patients with renal failure (RDO 2003). Furthermore, RDO has contacts to all university clinics and hospitals in Russia with a department for nephrology and dialysis. Other important interest groups in this field are the Russian Nephrology Society and the Moscow Dialysis Centre.

Finally, Fresenius has established personal contacts to many physicians in clinics and hospitals. These often are RDO members and can influence important decision makers. In summary, a member of a regional health agency concludes: "Without question, personal relations are the most effective instrument of decision making in Russia."

## **5. Stakeholder networks of German firms in Russia: Cross-case analysis**

A comparison of the stakeholder networks of Knauf, VEKA and Fresenius reveals several differences. First, the size of the three stakeholder networks differs remarkably. While Knauf und VEKA interact with 11 interest groups, the network of Fresenius consists of 6 stakeholders only. This may be explained by the different risks the companies face in Russia. For Knauf and VEKA, a mixture of legal, political and economic risks is relevant, while Fresenius is particularly confronted with the economic risk of having decision makers in the regional health administration with knowledge deficits in the field of dialysis. Another reason may be that Fresenius is operating in the health sector and is therefore associated with positive emotions by most stakeholders. Knauf and VEKA, on the other hand, are confronted with a much more critical public opinion. Finally, stakeholder management at Fresenius is directed to singular decisions while the other two German firms aim at influencing the overall conditions to their favour. Therefore, close relations to a larger number of socio-political stakeholders are necessary.

Remarkable differences can also be observed between the relevant types of socio-political stakeholders. First, international stakeholders, namely the German government, are relevant for VEKA, only. Their low importance can be explained by the low integration of Russia into the international division of labor. This result is supported by a study of Holtbrügge, Berg and Puck (2007) which shows that international stakeholders are the more important, the higher is the foreign trade of a country compared to its gross domestic product. Among national stakeholders, public and private stakeholders are of similar importance

in the cases of Knauf and VEKA. For Fresenius, on the other hand, private stakeholders are more important. Although the Ministry of Health and its regional branches are most relevant for VEKA, there are few direct contacts to these stakeholders. The company rather aims at establishing close relations to private stakeholders which are expected to influence the relevant public stakeholders in an indirect way.

Another important difference between Knauf and VEKA is that for the latter only central stakeholders are relevant while Knauf has also established close relations to socio-political stakeholders in different regions of the country. This can be explained by the fact that Knauf has 10 subsidiaries in several parts of Russia, while VEKA has production units in Moscow and Novosibirsk, only.

While the graphical illustration already reveals several differences between the three stakeholder networks, these are becoming still more apparent in a statistical cross-case analysis of network profiles (see Table 2).

*Table 2. Network profiles of the analyzed companies*

<b>Network dimensions</b>	<b>Knauf</b>	<b>VEKA</b>	<b>Fresenius</b>	<b>Theoretical maximum</b>
Size	12	12	7	
Intensity	1.769	2.095	2.615	5
Density	0.341	0.328	0.878	1
Centrality	0.462	0.196	0.387	1

A comparison of network size and intensity reveals that VEKA, the company with the smallest stakeholder network (size = 7), has the strongest relations with its network partners (intensity = 2.615). One explanation of this finding may be that smaller networks need stronger relationships to be efficient. It may also be that a small number of stakeholders makes more intense relationships possible. Another explanation may be that Fresenius has a very industry-specific network that requires strong ties to a limited number of stakeholders. This is underlined by the strong role of and the intense relationship to the RDO that represents a central actor for all companies in the industry. The fact that the average relationship intensity of VEKA (2.095) is higher than that of Knauf (1.769) may be explained by the important role of intermediate stakeholders in the network of Knauf. The company uses the regional administrations, the Russian government and the State Duma as intermediates to manage other, indirect stakeholders. This requires only a limited number of strong relationships to key actors, while the relations to more peripheral stakeholders can be less intensive.

The density of the stakeholder network of Fresenius (0.878) is close to the theoretical maximum. This reflects that nearly all possible relationships between the actors in the network do exist. In contrast to the networks of Knauf (0.341) and VEKA (0.328) where several actors have relations to one or two other actors, only, the network of Fresenius is very dense, i.e. many actors are

connected with four or more other actors. Therefore, the company may refer to most stakeholders directly as well as indirectly by using other actors as mediators. This reduces the dependency on single relationships with particular stakeholders as compared to the other two companies.

Finally, VEKA has the lowest degree of centrality in its stakeholder network (0.196). One explanation for this finding may be that the company uses other stakeholders to achieve its goals. Especially the VDW and consulting agents are employed by VEKA. The network of Knauf, on the other hand, has the highest degree of centrality (0.462). The company has established strong relations to three major stakeholders but is additionally connected directly but less intense to most other stakeholders in the network. Fresenius has a medium position regarding network centrality (0.387).

## **6. Contributions, limitations and implications for future research**

Our findings lead to a number of implications for both research and practice. As a major contribution to research we found that applying network analysis is a very appropriate and profound method to analyze the structure of stakeholder relationships. As found in all three cases, firms use direct relations to particular stakeholders to influence others to whom no or only weak direct contact exists. A simple dyadic analysis neglects this possibility and can therefore not explore the true dynamics of stakeholder management. Thus, future studies should more frequently apply network analysis to explore stakeholder relationships.

With regard to practice, this study shows that the development of stakeholder networks is a critical success factor of foreign firms in Russia. All three companies in our study are faced with bureaucratic inconsistency, a weak rule of law and arbitrary law enforcement. Stakeholder networks are used to obtain relevant information, accelerate administrative decision-making and reduce political risks. Of particular importance are central, regional and local governments (national public stakeholders), followed by private stakeholders such as the VDW and other associations. Moreover, the diverse networks in our sample show that a concentration on direct relationships to these stakeholders is not the only way to develop an efficient stakeholder network in Russia. Relations to one stakeholder can also be used to reach other relevant stakeholders. A company that relies on a limited number of strong direct relations can thus be as successful as a company that has direct relations to a large number of stakeholders.

Another practical implication of this study is that efficient stakeholder networks may differ in size, intensity, density, and centrality. Therefore, companies have to analyze which form of stakeholder network fits best to their specific requirements. Generally, it can be concluded that the more diverse the

investment risks of a company are, the larger its stakeholder network and the more diverse the particular stakeholders in that network should be.

A limitation of our study is the small sample size. Future studies have to prove if our results can be transferred to other companies and stakeholder networks. Particularly, a comparative analysis of small- and medium-sized firms (SMEs) and large MNCs would be interesting. For example, it could be argued that for SMEs the risk of foreign investment is much greater than for large MNCs with a strong international experience. At the same time, their ability to manage those risks is mostly lower due to limited financial and human resources. Thus, one might expect that firms with different size are also characterized by different stakeholder networks.

Another shortcoming is that we used the strength of relationships as the key indicator of stakeholder relationships. Although very common in network analysis, this measure does not adequately reflect the various forms of relationships between different actors in a stakeholder network. Future studies should integrate this multiplexity of relations between the actors into their approach, use a more differentiated conceptualization and distinguish between different forms of stakeholder relations.

Finally, we looked at stakeholder networks at one particular moment in time. As the political, legal, economic and cultural conditions in Russia are developing very quickly, stakeholder networks will change as well (Shropshire/Hilman 2007). Therefore, an interesting alley for future research is a longitudinal analysis of the dynamics of stakeholder networks.

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