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*Knauf's main principle is "mitdenken,"
i.e., to do things having thought it through, together with all people involved,
and having considered the interests of your client...
With time, this key concept took roots in Russia too.*

(An interview with Mr. Yu. Mikhailov, General Manager of Knauf Gypsum Kolpino)

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MANAGEMENT PRACTICES IN RUSSIAN MULTINATIONAL SUBSIDIARIES: THE CASE OF KNAUF CIS⁴

Abstract

This paper analyzes the growth and evolution of Knauf CIS Group from 1992 to 2012. The study defines the features and characteristics of the firm's corporate policies including production and operations, marketing, HR management, and societal engagement. These policies have enabled Russian industrial enterprises, Knauf's subsidiaries, to achieve global standards of efficiency and quality with a high level of profitability. This study focuses on the measures that can be employed to increase production efficiency and have the potential to be replicated by other Russian companies.

JEL Classification: F23, L21, L22, L23, L60, M11, O31, O32.

Keywords: Industry, Advanced practices, Multinational corporations, Subsidiaries, Innovations

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Introduction

In mid-2012, a research project was initiated to investigate the managerial practices of Russian manufacturing subsidiaries of foreign multinational corporations (MNCs). This study defines a foreign MNC as follows:

- A corporation with production manufacturing locations in more than one country.
- A corporation with a parent company registered outside the Russian Federation.
- A corporation for which Russian subsidiaries are responsible for no more than 50% of the total production volume. This differentiates “true” foreign MNCs from Russian companies that have ownership and holding companies located in foreign jurisdictions, such as offshore territories, for a variety of reasons.

Three research objectives were formulated: to understand how Russian manufacturing enterprises achieve, and in certain cases exceed, global standards of productivity and quality; to study the ability of Russian-located western companies to organically incorporate innovation daily processes; and to identify the organizational techniques and approaches that embed MNCs into the local business environment without loss of corporate identity. This final objective is significant considering Russia’s accession to the WTO and the pressure that Russian domestic firms face to enter the global market.

We selected only those corporations that had started production in Russia between 1997 and 2002. A five-year operating period is deemed sufficient for a Russian subsidiary to achieve sustained operations and the formation of innovative “mature production” practices. Additionally, we focused our attention on processing industries. The Institute of Industrial Engineers (2013) define processing industries as “industries where the primary production processes are either continuous, or occur on a batch of materials that is indistinguishable. ... Examples of the process industries include food, beverages, chemicals, pharmaceuticals, petroleum, ceramics, base metals, coal, plastics, rubber, textiles, tobacco, wood and wood products, paper and paper products, etc.”

The methods employed for this study included interviews with managers of Russian subsidiaries of foreign MNCs, including general plant managers, line managers responsible for the product or process innovations (e.g., chief engineers), heads of the marketing unit, and quality managers. The majority of these interviews were held on the premises of the respective companies. In addition to interviews, visits to the corporate sites included tours of the main production lines and the R&D labs.⁵ In certain cases, special reports were prepared for the study that contained information concerning the main innovation projects that had been realized in the past 2 to 3 years in addition to future projects to be realized between 2013 and 2015. We also had an opportunity to view newsletters that were produced for the staff members. Lastly, we conducted an analysis of secondary data, such as articles concerning the company that had been published in the national and regional media sources, and analytical reports.

The sample included 15 companies and 16 visited factories (more than one factory was visited for certain companies). Seven companies – PepsiCo, REXAM, Mapei, ROCKWOOL, Knauf, Lactalis, and Rhodia Acetow (the name of the present Solway subsidiary until the end of 2012) – granted permission to use findings related to their companies in academic publications derived from this study [Gurkov, 2013].

⁵ During the initial visits to the foreign plants (PepsiCo in Domodedovo, Rhodia Acetow in Serpukhov) we were positively surprised by the cleanliness, organization, and order with respect to production processes. However, we were soon able to distinguish between unique and moderate production levels, and the first examples were among the best that we saw.

The combination of global, national, and local (specific to the company) firm managerial practices is well-documented in the academic literature [Geppert and Mayer, 2006]. However, the establishment of an effective balance between these three practices is a perpetual challenge faced by all MNCs, and the study of such company experiences is a significant element of strategic benchmarking. This study therefore focuses on the experience of Knauf CIS for several reasons. First, the high-level of company transparency allowed us to obtain the most complete overview of individual managerial practices in comparison to other sample firms. Second, the company's maturity, built on 20 years of established experience in Russia, facilitated the tracing of the evolution of managerial practices and the termination of other practices. Third, we were able to witness examples of unique functional practices from all of the study's research areas such as production, marketing, and HR management.⁶

Knauf's Russian experience has been documented in a number of academic articles and case studies [Panibratov, 2004; Panibratov, 2007; Holtbrügge and Puck, 2009]. However, the company remains an exciting example of MNC business strategy. Moreover, it is Knauf CIS's development following the 2008 financial crisis that demonstrates the optimal combination of global, national, and specific (corporate) practices in the achievement of the company's positive growth.

We note the following caveats. First, we did not write a full history of the company or document all of its achievements of the past 20 years. Our focus is the possible transfer of successful managerial practices to other Russian companies that operate in Russia and abroad. Second, this article was not commissioned or sponsored by the company; we preserved our academic freedom to encourage objective critical judgment. Third, this article is not a case study to provoke debate, nor is it an illustration of effective or ineffective solutions to all managerial problems. We focus instead on the practices that have proven to be effective in a particular firm and the replication and application of which may result in considerable economic and social effects for Russian companies at the industry and country level.

Company profile: The Knauf Group

The Knauf Group is a network of subsidiaries and partner companies of the parent company Knauf Gypsum KG. Designation KG (*Kommanditgesellschaft*) is the German name for a mixed partnership business entity. The KG has general partners with unlimited liability and limited partners whose liability is restricted to fixed contributions.

The Knauf Company was founded in 1932 by two brothers – Alfons Knauf and Karl Knauf – and remains a family business to this day. For many years, the company specialized in the manufacturing of gypsum products, but in the 1980s, after various M&A deals, the company began to diversify towards the manufacture of insulating materials (glass wool and stone wool), cement, metal construction, and home repair products (DIY). However, deposits of gypsum totaling 1.3 billion tons remain the company's principal resource. The Knauf Company extracts gypsum from 53 quarries and 12 mines in 23 different countries with an annual output of 5 million tons. Therefore, Knauf is one of the world's seven largest manufacturers of gypsum along with Georgia Pacific, Lafarge, the National Gypsum Company, Saint-Gobain, US Gypsum, and Yoshino Gypsum Company Limited. According to company executives, Knauf's direct competitors are Saint-Gobain and Lafarge; Lafarge recently sold part of its business to Etex [Proskurina, 2012].

The corporate governance in this mixed partnership business entity is peculiar. Until June 30, 2008, the company had been run by cousins, Baldwin and Nikolaus Knauf, who were the sons of

⁶ One example is an economic space that was allocated for staff recreational use within a single post-Soviet firm. Presently, Knauf CIS operates in Russia, the Ukraine, Kazakhstan, Uzbekistan, Belarus, Armenia, Azerbaijan, Tajikistan, Kyrgyzstan, Turkmenistan, Georgia, and Mongolia (in the order stated in the corporate documentation).

the founders and partners with unlimited liability. A combination of strategic management and full liability was in the same hands. Baldwin and Nikolaus Knauf divided the areas of responsibility geographically. Baldwin was responsible for the western company operations, and Nikolaus, for the east operations including the Commonwealth of the Independent States (CIS), a regional grouping of most former Soviet Republics. Unlike most corporations, the Knauf Group did not have a single strategic plan laid out in a written document that was regularly reviewed and adjusted. Such a formal strategic plan was substituted by strategic thinking with respect to changes in the construction materials markets for the foreseeable future. This enables the company to produce the goods that meet current requirements. Large production lines or regional divisions are called “projects.”

Nikolaus Knauf was responsible for the main ownership obligations but shared responsibility with his cousin for the less desirable owner asset duties located in the CIS.⁷

On June 30, 2008, Baldwin and Nikolaus Knauf stepped down as the managing partners and became heads of the Board of Founders (the supervisory board) with an annual rotating chairmanship. Manfred Grundke and Hans-Peter Ingenillem assumed the roles of managing partners. The principle of shared responsibility has changed from a geographic principle to a functional one. Manfred Grundke became responsible for marketing issues, production, and innovation, and Hans-Peter Ingenillem became responsible for the financial and economic activities, as well as tax and audits.⁸ Despite stepping down as managing partner, Nikolaus Knauf remains a leading figure in CIS business; he is present at inaugurations of new Knauf facilities in CIS countries and is engaged in talks with top CIS officials. Furthermore, he has received several CIS country awards for his successes in business.⁹

The aide to Nikolaus Knauf’s business activity in the CIS was the General Manager of Knauf CIS. He was responsible for a considerable portion of operational and asset management activities. For example, Dr. Gerd Lenga, General Manager of Knauf CIS from 2006 to 2012, had general power of attorney to perform all transactions that involved Knauf CIS assets with the exception of the right to eliminate the previously established legal entities.

The internationalization of Knauf began in the 1970s.¹⁰ The company seized the opportunity to capture markets, developed-country acquisitions (mainly in the U.S. and northern Europe), and

⁷ For example, in March 1999, the cousins participated in negotiations with the leadership of the Nizhny Novgorod region where a “tempting offer” was made. The local division of the Federal Tax Authority argued that 9 million DM invested by Knauf Group in 1995 to 1998 in the Avanguard plant in Dzerzhinsk was spent “not on intended goals,” and thus presented tax claims amounting to 52 million rubles, or 4 million DM according to the exchange rate at the time. The Deputy Governor suggested Knauf CIS transfer company shares of equivalent worth to the ownership of the regional administration [Avdeev, 1999]. This meeting was the culmination of a year-long conflict. Already on March 29, 1999, the Federal Arbitration Court of the Moscow District had considered the appeal of the Nizhny Novgorod region branch of the Federal Tax Authority and had ruled in favor of the company because the Tax Authority’s stance did not comply with legislation. On April 19, 1999, the Nizhny Novgorod region administration and Avanguard Knauf signed an agreement on social and economic cooperation, and on April 22, 1999, in Moscow, a presentation of the Nizhny Novgorod region was held before the German business community [Belakov, 1999].

⁸ On October 1, 2011, Edgar Binneman replaced Hans-Peter Ingenillem as managing partner, and became responsible for commercial activities. Hans-Peter Ingenillem assumed the position of General Manager of Knauf CIS as of April 1, 2012.

⁹ For example, by presidential decree 166 dated on February 23, 2006, Nikolaus Knauf was awarded the Order of Friendship “for his contribution to the development and strengthening of Russian-German friendship.” On August 26, 2008, the Ukrainian President Viktor Yushchenko awarded Nikolaus Knauf the State Order “for merits” of the 3rd degree, “for significant personal contribution to the socio-economic development, the strengthening of the authority of Ukraine in the world, charitable and social activities, as well as on the occasion of the 17th anniversary of Ukraine’s independence”. On November 10, 2010, Nikolaus Knauf was awarded the Jubilee Medal “200 Years of Ministry of Internal Affairs of Russia” [Pokidova, 2011]. According to the Ministry’s regulations, this medal is awarded “to the employees of the Interior Ministry, as well as the citizens of Russia and other states that have made a significant contribution to the security of the Russian Federation.”

¹⁰ The first foreign facility of Knauf was a plant in Weissenbach, Austria.

later, in eastern Europe, Asia, and northern Africa.¹¹ Considerable attention was given to the insulation materials markets, plastic products, and packaging materials,¹² and in the eastern European countries and the CIS, to gypsum-based dry construction blends. In 2008, the Knauf Group owned 150 plants in 40 countries.

The internationalization of the company was driven by both objective and subjective motives. Objectively, internationalization allowed the company to exploit its considerable technological potential, including its constantly growing portfolio of patents. The active inclusion in the company management of the second- and third-generation Knauf family could be seen as a subjective driver of the internationalization.¹³ In 2009, Alexander Knauf found himself responsible for the company's operations in the UK, Ireland, and the Scandinavian countries; Lothar Knauf was responsible for the Benelux countries, Spain, France, Algeria, Morocco, Tunisia, and South America. From the company headquarters in Wolfgantzen (France), Ties Knauf focused on the production and marketing of packaging materials. From Vienna, Beatrix Peter-Knauf led the company operations in Austria, Switzerland, and eastern and south-eastern Europe. The Ankara (Turkey) branch was led by Isabel Knauf [Anonymous, 2009a] and housed the regional headquarters responsible for markets in the Middle East, China, northern Africa, Italy, and Greece. In 2012, total group sales totaled EUR 6.5 billion, a 16% increase from 2008. The total number of production sites reached 220 units.

Company profile: The Knauf CIS Group

Knauf established business relations with the Soviet Union at the start of his company's shift toward internationalization. By the end of the 1970s, a representation office for Knauf Engineering had opened in Moscow and was responsible for the import of gypsum production equipment. In 1992, a decision was made to expand to other former Soviet republics to supply high-quality products at a reasonable price, which was a new concept to these markets. The strategy was to establish a solid presence in a potentially large European market ahead of the direct competitors, such as French Lafarge, St. Gobain, and British BPB.

The inherent features of Knauf's main product – complex systems of “dry construction” (gypsum boards, metal structures, and dry gypsum-based compounds) – limit the locations that are suitable for a manufacturing plant. The plants must be in the proximity of raw material sources (gypsum) and require sufficient square footage for production activities and the storage of raw materials and finished products. Further, the locations must provide reliable transport

¹¹ The company's presence in East Asian markets, with the exception of Indonesia, is still limited. There are only three plants in China, and the company does not possess (nor is it planning to possess) Indian plants.

¹² The first acquisition of a fiberglass manufacturing business occurred in the U.S. in 1978. These facilities became Knauf Insulation GmbH. Knauf Insulation GmbH currently has 30 production sites worldwide. In 2011, global sales of the company totaled 1.2 billion euros. From 2009 to 2010, Knauf Insulation introduced innovative ECOSE-technology for the production of natural insulation without phenol-formaldehyde resins. Knauf Insulation has two plants in Russia – one in Stupino (Moscow region) that was built in 2007, and one in Tyumen (originally JSC Tisma, transformed to Knauf Insulation Tyumen in 2011 with almost 1.5 million rubles spent on plant modernization). Although Knauf Insulation has its own managing director for Russia and the CIS countries and a separate office in Moscow, overall business development is closely coordinated with other activities of Knauf in the CIS. For example, the report of the Director for Business Development of Knauf Insulation was included in the “Knauf Days” forum program, held in Moscow on April 3 and 4, 2013.

¹³ With respect to the involvement of the next generation of the company founders and descendants in the operational management of the family business, the company is experiencing the most significant stage of development that reflects the pride of the older generation of owners. Giorgio Squinzi is the President and son of the founder of the Italian family firm MAPEI (founded in 1937 and specializing in high-tech professional building materials; in 2012 it had 67 subsidiaries and 58 factories in 26 countries and a turnover of 2.1 billion Euros). He said, “In the second half of the 1990s, our Group experienced another historic milestone when my children started working in the company, thereby sharing the corporate values and paying tribute to family traditions” [Squinzi, 2012].

connections that are capable of handling large volumes of raw materials and final products, and have adequate and reliable electricity and gas supplies. A reliable supply of building paper is also required for the production of gypsum boards. Additionally, the “effective leverage” of the supply of gypsum boards should not exceed several hundred kilometers. The output is voluminous but light, and its long-haul transportation is costly.¹⁴

These factors forced Knauf Group to examine the former production assets that operated in the Soviet economy. Through joint ventures and privatization deals, the Knauf Group was able to acquire shares in the Combinat of Insulation and Plaster Products in Krasnogorsk (Moscow Region), Kuban Gypsum in Psebay (Krasnodar region), Pobeda plant in the Leningrad region, St. Petersburg Cardboard and Printing Plant, Gypsum plant in Novomoskovsk (Tula region), and Avangard plant in Dzerzhinsk (Nizhny Novgorod region). After Russia, the company expanded into the Ukraine (beginning in 1994), and since the early 2000s, the company has further expanded into Kazakhstan and central Asia.

Once the company had established control of direct and sustainable production facilities,¹⁵ the Knauf Group initiated a comprehensive modernization program. The investments in Knauf’s CIS head company alone, Knauf Gypsum in Krasnogorsk, totaled over 200 million euros between 1993 and 2012.¹⁶ In reality, an entirely new enterprise had been created over the last 20 years. The key historical milestones of Knauf Gypsum Krasnogorsk are as follows [Knauf, 2013]:

- In 1994, the production of polystyrene plates began using a cement-fibrolite production line.
- In July 1995, Italian equipment started producing metal constructions for mounting modular partitions, suspended ceilings made of gypsum board, and other gypsum-based products. In 1997, a production line for metal structures was enhanced with steel-cutting equipment. In January 2002, a second production line for metal structures was installed. In 2012, the second production line was upgraded and a module for automatic packaging was added.
- In 1997, the production of dry building compounds was launched at the Akmigran factory. The equipment was supplied by German manufacturers.
- In 2000, the production volume of dry compounds exceeded the projected capacity. As a result, automated equipment was purchased and put into operation in May 2001. From November 2002 to December 2003, a new factory for the production of dry cement-based compounds was built with a capacity to produce 200 thousand tons. In 2005, the reconstruction of the dry gypsum compounds began and was completed in February 2006. The installation of the second production line increased production capacity by 2.8 times without any physical expansion of the factory area.
- In 2012, the company added new products to its portfolio: Knauf Binder dry building compound and Knauf Flisen Plus glue.
- From 1997 to 1998, an overhaul and upgrade of individual machines and plants for the gypsum board production line were completed without significant production process interruption. The upgrades resulted in an increase in the board spinning speed of up to 40 m/min (planned speed 18 m/min).

¹⁴ This does not include gypsum and cement dry compounds; the efficiency of the supply of cement is still valid at a distance of more than a thousand kilometers.

¹⁵ Intense business dealings concerning a plant in the Krasnodar region had been occurring between 1997 and 1998 when a hostile takeover was attempted. While it was a long dynamic development, ultimately, the legal rights of Knauf were upheld. An artistic depiction of the situation can be found in the book of Igor Svinarenko (1999).

¹⁶ A more precise figure cannot be provided because of confidentiality reasons.

- In April 1998, a warehouse for gypsum binder was completed and a new unit for gypsum production was added in November. Another reconstruction project was conducted in 2006 that increased production speed by 2.1 times. The company had solved the problem of gypsum binder shortages and had improved prospects for the overhaul of the gypsum board production.
- From the Fall of 2002 to 2003, the reconstruction of rail infrastructure increased the rail tracks by 2.6 km and a warehouse area of 5,000 square meters was added. This facilitated the development of a new customs terminal.
- In September 2008, large-scale reconstruction of the gypsum board production line was completed; the building was expanded, a conveyor belt was installed, and a warehouse of gypsum stone was expanded. Production capacity increased by 2.5 times.
- In 2009, a new production line for spackling pastes was inaugurated. In 2010, new products were launched – “Knauf Rotband Grund” and “Knauf Rotband Pasta” pasty plaster.
- In 2010, the reconstruction of the heat system from a centrally supplied system to an autonomous system was initiated. An autonomous boiler for an administrative block was built in 2010. An autonomous boiler room for auxiliary buildings was delivered in 2011.
- From 2010 to 2012, a new gas distribution facility was built within the central gas supply system and transferred to the Moscow region’s government.

This history demonstrates continuous improvement to certain parts of the production process and a holistic approach to the development of the entire plant. The result is a balance of individual production facilities that ensures the comprehensive development of infrastructure, such as transport, power, and storage capacity. Other companies acquired by Knauf in the 1990s have developed in a similar fashion.

Between 2000 and 2006, the development of new plants began, allowing for an increase in total production volume and greater geographical market coverage. Plant development was primarily conducted in Kolpino (Leningrad region) and represented the most rapid construction of a Knauf plant ever.¹⁷ Knauf proceeded to exploit the market potential in St. Petersburg and acquired a plant in Kungur (Perm region) that brought Knauf products to the Urals region. In 2006, Knauf was the indisputable leader of the Russian gypsum board market and had expanded into the following related industries:

- dry gypsum-based compounds (including an increase in production capacity of existing facilities and the building of a new plant in Baskunchak in 2003),
- insulation materials (a new factory in Stupino built by Knauf Insulation in 2007),
- drywall (the purchase of a share in a Leningrad region-based plant in 2008 from Ilim Pipe and thus almost full consolidation of ownership by Knauf).

The 2008 economic crisis significantly affected the company’s production volume. In 2009, Knauf’s CIS sales dropped by approximately 30% [Medvedovskaya, 2010], and development plans, including overhaul and reconstruction were disrupted.¹⁸ The focus shifted to the rationalization of logistics systems (a reduction in the length of raw material shipments and finished products because of production concentration in the most efficient locations and the

¹⁷ According Mr. Yu. Mikhailov, “in February 2005, we began to excavate; in July 2006, we produced first products and soon surpassed the designed production volume by 50%.”

¹⁸ The suspension of investment plans in the Ukraine was announced by Knauf in July 2008 because of the effects of high inflation and weak demand prospects.

rebalancing of the production program) in addition to improving production energy efficiency. However, Knauf CIS was able to fulfill the terms and conditions of the Agreement for Cooperation in the development of the Novomoskovsky industrial cluster. In July 2009, the company launched operations at a unique complex for the extraction of gypsum stone [Anonymous, 2009b]. This move drastically altered the supply of raw materials supply for all of central Russia's gypsum enterprises and contributed to a significant reduction in production costs. Other factors that contributed to the stabilization of the company's economic situation from 2010 to 2012 were:

- a general improvement in the economic health of the construction industry,
- the accelerated launch of new innovative products,
- a general shift from a range of products for new construction to products for renovation (e.g., reduced-sized gypsum boards, putty, and glue),
- active marketing measures and campaigns (e.g., the development of a company-wide brand, changes in product lines names, packaging, and promotions),
- attention to the CIS countries; in 2010 to 2012, new production was launched in the Ukraine, Uzbekistan (Bukhara region), Azerbaijan (Geranbay), and Georgia (Tbilisi), and a new plant was opened in Russia's Irkutsk region (Novonukutsky).

Despite these successes, a return to the 2006 level of market dominance has proven impossible. Domestic firms (e.g., Volma) have strengthened their presence in the gypsum products markets. The Russian domestic and foreign subsidiaries (e.g., ROCKWOOL and Henkel Bautechnik) are active in the thermal insulation and dry compounds market.

However, in 2012, Knauf CIS achieved sales of 1 billion euros [Kraulis, 2013], having fully restored production volumes for its main product groups. Knauf CIS is responsible for sales in former Soviet Union countries, except the Baltic States, Moldova, and Mongolia. This area contains 24 enterprises, including 13 in Russia, 4 in the Ukraine, 3 in Kazakhstan, 2 in Uzbekistan, and 1 in Azerbaijan and Georgia. Total investment in the CIS enterprises amounted to more than 1 billion euros between 1993 and 2012. In early 2013, a new major investment project for Knauf CIS was announced: the modernization of the St. Petersburg Cardboard and Printing Plant production complex, worth \$300 million [Anonymous, 2013].

The history of Knauf CIS can be divided into four stages:

- 1993 to 1999. Entry into Russia and Ukraine,¹⁹ mastery of the methods and approaches required to protect acquired assets, and the modernization of acquired plants.
- 2000 to 2006. Massive investment in Russia and the initiation of operations in central Asia and the Caucasus; technological and organizational preparatory work that later allowed Knauf's CIS-based enterprises to achieve high performance and quality ratings for the whole Group; dominance of the Russian gypsum products market, and deployment of a layered system of dry building in CIS countries.
- Mid-2006 to early 2012. The implementation of the principle "to produce from local materials, with local staff and for the local market (by German standards)"; full incorporation of Knauf CIS into Russia's political and business elite;²⁰ Knauf

¹⁹ In 1996, two Moldovan plants were successfully acquired, followed by their subsequent modernization and reorientation towards the export of products to Ukraine and Russia; however, Moldova is not formally included in Knauf CIS's responsibility zone.

²⁰ General Manager of Knauf CIS Dr. Gerd Lenga was the only foreigner to be invited to a 2011 meeting with Vladimir Putin on the development of the construction industry until 2020 [Astakhova, 2011]. The result of that meeting was the adoption of the "Strategy of development of building materials and industrial construction for the

CIS unit's achievement of first place in the general corporate technological and financial benchmarking of Knauf Group; and the "soft integration" of the production and sales conglomerate companies into a single company bound by a common spirit²¹ and uniform business principles.

- Mid-2012 to the present. Knauf CIS is currently undergoing changes in its senior management.²² From a substantive perspective, this stage is characterized by a significant increase in centralization while reducing the size of managerial staff and terminating certain projects that are unsustainable in the long term.

The study now presents an analysis of the notable managerial practices from various fields.

The managerial practices of Knauf CIS

The business activity of a dynamic company such as Knauf CIS typically includes two indispensable elements:

- The construction and transfer of new productive capacities.
- The ability to access sustained modes of operation and development of production processes.

The construction and transfer of new equipment

Knauf CIS is proud of its rapid construction capabilities and its launch of individual production lines and entire manufacturing plants. These achievements require a combination of approaches. First, the construction and installation of new facilities is undertaken in parallel with the development of project operations, which are ready to launch by the official opening of the facility. This process requires the operational work to be conducted according to a draft design. This is possible when the manufacturer of the equipment offers timely, reliable solutions²³ and onsite supervision that can ensure technical issues are resolved at the construction site. An example of this is a new production line that produces building compounds at a plant in Novomoskovsk. German firms were selected by the corporate-wide division of Knauf Engineering to supply equipment and supervise the construction on-site. The local staff and representatives of Knauf Engineering supervised, coordinated, and controlled the construction on a daily basis and provided direct solutions to emergent problems [Malchenko, 2012]. This approach was replicated with even greater success for the construction of a new manufacturing plant in Novonukutsky in the Irkutsk region.

period up to 2020" (approved by the Ministry of Regional Development of the Russian Federation on May 30, 2011, No. 262) [Government of the Russian Federation, 2011].

²¹ The unique internal informational openness of Knauf CIS was demonstrated by the launch of Knauf Vesti (Knauf News) in early 2008. Knauf Vesti is a quarterly magazine, registered with the Russian Ministry of the Press, with a circulation of 3 million copies. This publication was prepared specifically for Knauf CIS because such an outlet had never existed in the company. The magazine regularly reported on the current operations of Knauf CIS (production, marketing, training, social responsibility, corporate events, and changes in the personal lives of employees), the key organizational issues that the company faced, and descriptions of new appointments in Knauf CIS and the entire business group. As a family company and a limited partnership, Knauf CIS is not required to disclose any information concerning its activities. Knauf Vesti was discontinued in late 2012.

²² Hans-Peter Ingenillem, former managing partner and beneficiary of Knauf group, took over for Dr. Gerd Lenga who moved to the position of Deputy General Manager of Knauf CIS Strategic Development. A new position, Manager of Knauf CIS was introduced with the appointment of Janis Kraulis, who previously occupied the position of Head of Knauf group companies in the Baltic countries and the Balkan region. The marketing manager was also replaced. Manfred Grundke, managing partner and beneficiary of Knauf Group, remains a part-time managing partner of Knauf CIS.

²³ In addition to shouldering the responsibility for achieving the designed production levels.

The process of selecting equipment suppliers is becoming more localized. The modernization of a second production line in the Krasnogorsk plant was conducted in 2012 with the addition of an automatic packaging module. Prior to the addition, a contract for the manufacturing and supply of a new production line was signed with a foreign company. According to this contract, and prior to shipping the line to the plant, it was tested in the presence of the technical director of Knauf Gypsum, Mr. Malyavkin, and the engineer of the Knauf Profile plant, Mr. Petrov [Labutin, 2012].

Second, effective automation of production processes requires a small number of highly qualified, trained specialists. The equipment suppliers provide training to these specialists, which speeds up the launch of the new equipment and production.

Third, to accelerate the launch of new productive capacities the company employs temporary brigades of people who adjust and test the equipment. These brigades are formed from other plant staff and operate throughout the territory of the former Soviet Union. For example, employees of the plant in Psebay (Krasnodar region) aided the establishment of production in Azerbaijan; engineers and workers from the Ukraine assisted in the launch of a plant in Georgia,²⁴ and a team from the Novomoskovsk plant supported the launch of a plant in Uzbekistan. Local staff is employed; for example, experts from Uzbekistan successfully designed and built a factory in Bukhara that launched in 2011.

Fourth, the company promotes training and internships for potential users of new equipment at other Knauf plants, and the newly trained staff can later offer similar training and skills to staff from other plants. For example, the Kungur plant staff developed an internship program in Krasnogorsk, allowing the staff of Knauf Gypsum Baikal to subsequently follow this established training program.²⁵

The sustained modes of operation and further enhancement of production processes

The majority of Russian and foreign companies consider a new operation to be successful when the production line achieves its designed production capacity, at the desired level of quality, and at the forecasted ratio of raw products utilization. However, Knauf's Russian plants demonstrate a different scenario. The achievement of the planned level of productivity is considered only the first step to further development. The General Manager of Knauf Gypsum Kolpino, Mr. Mikhailov stated, "what can equipment manufacturers know about equipment exploitation?" He

²⁴ This is a practice of most foreign subsidiaries in Russia and involves the full-time transfer of an employee from an "old" (previously launched) plant into newly launched facilities. A contributing factor is the centrifugal nature of the development of foreign production from Russia's center to its outskirts. An employee can sell a house in Moscow, buy a house or flat in the Chelyabinsk region, and substantially improve their living conditions.

²⁵ All of the following techniques were standard practices of any large industrial enterprise in the 1970s to 1980s during the active modernization of Soviet industry and the installation of foreign equipment:

- The technical department of the central industrial board determined the desired technical parameters of new equipment.
- A specialized foreign trade association would find a foreign supplier, manage administrative matters, and payment. The contract usually included the supply of equipment, equipment installation, and the training of Soviet engineers and staff. Full payment under the terms of the contract was submitted once the plant was at full capacity.
- The employees of the plant where new equipment was installed would influence the final decision concerning the choice of the supplier. Usually, under pressure from the Central Committee of the Communist Party, the employees would request new equipment from the United States or Germany and the central industrial board, and the companies would buy the equipment from "politically-friendly" companies in France and Italy or from the countries of the "people's democracy." After signing the contract, staff underwent traineeships at plants with similar equipment that were located abroad or already operational in USSR.
- Chief engineers tried to form temporary "launch brigades" that were composed of engineers and skilled workers of various established plants.
- A common practice was the transfer of individual experts from central Russia to Siberia, the Far East, and the former Soviet republics.

has a valid reason to say so. From 2006 to 2011, Knauf Gypsum Kolpino increased the speed of a production line of gypsum boards from 60 meters per minute to 85 meters per minute and annual production capacity exceeded 43 million square meters, despite a designed capacity of only 30 million square meters. The range of Knauf gypsum boards was enlarged (new steel moisture-proof and fire-resistant boards were added) and the weight of a single gypsum board decreased from 9.6kg to 8.4 kg without a compromise in quality [Stepikin, 2011].²⁶

Of course, the main burden of enhancing production (changes in operation modes and reducing the level of defects and percentage of waste) is shouldered by the centralized technical units of Knauf CIS, the factory managers, and executives (general managers, chief technical officers, and line managers); however, in recent years, the improvement of production processes became a concern for all staff members. In the Spring of 2011, “regulation on innovative activities and activities to create a useful service models” was enforced in the Krasnogorsk plant. This regulation motivates staff members to improve creativity and describes the relations that exist between the author(s) of technical, organizational, and managerial innovative solutions and the company, Knauf Gypsum.

The activity is headed by the plant technical director, and the direct execution of operations that are related to the innovative activity and technical documentation is managed by a “special representative for innovation proposals” who is a member of the technical department. “In all business units, twelve “innovator’s corners” were organized that contain informational materials, application forms for innovative proposals, and boxes into which these forms can be deposited. Within a short a period of time, each proposal is reviewed for significance and feasibility by experts that are appointed by the technical director. Remuneration for an accepted proposal is set in the range of 2,000 to 1 million rubles [Kotova, 2011]. Kirsanova, who was General Manager of Knauf Gypsum Krasnogorsk for 16 years, commented that the revival of the Soviet system and the opportunity for staff to contribute innovative proposals was met with enthusiasm and delight. Within two years, approximately 90 innovation proposals had been implemented. Certain production unit managers excelled in proposing new solutions; however, the number of proposals has started to decline. All of the most obvious improvements have been implemented and the opportunities for enhancements are decreasing and becoming more difficult to identify.”²⁷

An effective system of personal communications between factory general managers and the building of mutual understanding between staff members who are responsible for manufacturing, sales, and marketing is a significant element in the improvement of production processes. Effective communication ensures the swift dissemination of effective practices and approaches. Between 2005 to 2012, bi-annual , three-day conferences were held and attended by all Knauf CIS plant general managers and heads of regional distribution centers. The leadership of Knauf CIS delivered speeches with an analysis of past results and new business objectives. The factory general managers shared their experiences in achieving the objectives and brainstormed solutions to new challenges. These conferences were periodically attended by senior executives and staff members from the headquarters of Knauf Group²⁸. This conference tradition ended in 2012; however, there are seminars for managers with respect to specific topics. For example, at the end of 2008, a seminar on the specifics of low-rise construction was held in Yekaterinburg.

²⁶ The existence of significant overruns of design parameters was a source of pride among chief engineers, and remuneration for inventions was a significant source of income for the technical staff of advanced Soviet plants.

²⁷ Similar incentive schemes for innovative solutions (albeit with a lower-level of remuneration at the higher end of the salary spectrum) have been introduced at Russian and Ukrainian plants of other German companies. The schemes reproduce the Soviet experience in the late 1950s to 1970s regarding substantial support for innovation. The upper limit level of remuneration (8 to 12 monthly salaries) in “capitalist firms” are below the upper level remuneration that is set for socialist production by the Decree of the Central Committee of the Communist Party and the USSR Council of Ministers (20,000 Soviet rubles, or 60 to 80 monthly salaries of plant department heads).

²⁸ Dr. G. Leng recalls that the “first conferences were quite passive silent. After 2 to 3 years, there was a constant quarrel – production mangers against marketing managers. By the fourth year, everyone had learnt to talk without bad language, to seek compromises.”

The safety of employees and limiting the possibility of accidents is another significant element in the improvement of production processes. The company possesses its own Knauf Safety Standard and a system of risk assessment. The purpose of the standard is to improve the performance of plants with respect to health and safety and to provide superior working conditions. The standard complies with the international standards of the health and safety management OHSAS 18001-2007. In addition to the standard itself, “The Knauf Safety Guide” was translated into Russian and adapted for use at the Knauf CIS plants.

Many Russia-based Knauf enterprises actively joined the program. The new enterprises that adopt the standard rely on the experiences of the pioneers in its application. The pioneers are Knauf Gypsum Novomoskovsk, Knauf Gypsum Dzerzhinsk, and the St. Petersburg plant, and to date they are the only Russian enterprises of Knauf CIS possessing health and safety management systems that are certified according to the international standard OHSAS 18001-2007. The adoption of the Knauf standard enhances the role of the safety committees, entitles staff to participate in discussions on health and safety, and encourages the use of a system of immediate warnings concerning potential health and safety.

Risk management is a necessary component of any effective health and safety management system. A risk assessment was conducted for the first time in 2012 at Knauf Gypsum Novomoskovsk in the course of the implementation of the Safety Standard. Risk assessments enable line managers to identify potential dangers in the production process where an employee’s safety could be at risk. The line manager walks through each step of the production process with a staff member and together they will develop a risk register. The line manager is able to assess the adequacy of the risk management system and identify the organizational and technological changes that are required.²⁹

Finally, the quality management system is an integral part of the entire production system. This system includes a variety of elements, including detailed instructions and regulations, a system of standards for virtually every operation, the maximum automation of complex processes, the inspection of incoming raw materials, the selective acceptance testing of final products, and internal and external product certification. There is a single unified system for the assessment of productivity and quality at Knauf that is similar to the majority of major international industrial corporations. In 2010, at a meeting of general managers from all Knauf plants that was held in Austria, the Russia-based Knauf Gypsum Baskunchak was awarded first place among all Knauf factories for the quality of its stuccoing gypsum [Anonymous, 2010]. In 2011, Gypsum Kungur rose to the top 5 of the 150 Group plants for plasterboard quality [FMVidej, 2013], and Gypsum Donbass for the quality of its gypsum-based dry blends. In 2012, the enterprises of Knauf CIS as a whole were awarded first place in the corporate-wide technological benchmarking of the Knauf Group. The divisions in Russia, Kazakhstan, and Uzbekistan were awarded first, second, and third place, respectively, in the corporate-wide financial benchmarking of Knauf Group.

The production practices at Knauf CIS plants embody the regular processes of dynamic development of a major industrial system. The development combines the standard patterns of activities of multinational corporations (the standardization of work practices, the international benchmarking of productivity and quality, and health and safety policies) and the original “retro-innovations” (i.e., the restoration of Soviet practices). The fact that many of the modern practices resemble traditionally Soviet practices is not a coincidence. Periods of high growth within the Soviet industry (1958 to 1963, 1966 to 1977, and the period of the “Kosygin Reforms”) witnessed a number of effective techniques that could not be fully exploited in the Soviet command economy. These techniques represent innovative and entrepreneurial staff member

²⁹ The plants of Knauf CIS lag behind the advanced Russian subsidiaries of Western MNCs, for example, Solvay’s subsidiary Sertiv. A similar standard was introduced 15 years ago, and for 12 years (5 million man-hours) the enterprises have had no cases of industrial accidents. The absence of accidents and injuries is a key precondition for yearly bonuses to all staff members (Gurkov 2013).

activity that improves production processes and fast-tracks construction and operation initialization by considering the design parameters of equipment as a temporary indicator of productivity levels.

The management of human resources

Although the perfect mass production process is fully automated, efficient manufacturing practices, especially those that require creativity and accuracy, heavily depend on manpower. This study of Western manufacturing production in Russia revealed a value system that has emerged in the majority of the surveyed companies. The system can be characterized by decency, professionalism, credibility, rigor, responsibility, and kindness [Gurkov et al., 2013]. Knauf formulates a corporate philosophy according to the following principles [Grundke and Binnemann, 2012]:

- Integrity. The adherence to traditional values: thrift, efficient and careful use of resources, social responsibility, avoidance of conflicts, financial independence, discipline, and exemplary behavior.
- Humaneness. Tact and generosity, commitment to family values, respectful behavior, and a constructive attitude to mistakes and problems.
- Focus/future orientation. Strategic and long-term thinking and behavior, the ability to adapt to real conditions, the willingness and ability to change, initiative and the willingness to take risks, and the constant advancement and support of innovation.
- Accountability. Pragmatism and a focus on success, first-class quality, customer-oriented partnerships, cost leadership (the quickest and most efficient production at the lowest cost).
- Trust. Autonomy in decision-making, personal responsibility, sanctions for the abuse of trust, reliability, tolerance and the keeping of promises, social guarantees, and the principle of payment according to the quantity and quality of work done.
- Loyalty. A compliance with the company's rules, discipline, and mutual reliability.
- Involvement. Generosity, praise, recognition, criticism, delegation of responsibility, promotion, and the development of employees.
- Endurance. The recognition and promotion of special achievements, specific personal involvement, exposure, reliability, the ability to handle one's workload, and discipline.

As you can see, we are not too far in our understanding of the applicable principles from those formulated by the companies themselves. However, "the philosophers have only interpreted the world in various ways, but the point is to change it" [Marx, 1843/1955]. As such, we examine the culture at Knauf CIS in the following pages.

The most significant feature of change in the HR management practices in the formation and development of Knauf CIS has been its evolutionary nature. When Knauf acquired new plants, all senior managers retained their positions. CEOs typically retain their positions for a long time, and after retirement, their positions are usually occupied by their deputies (responsible either for production or finances). Certain general managers of newly acquired plants are still in place today (e.g., the general managers at Gypsum Chelyabinsk and Gypsum Baskunchak).³⁰

German experts were delegated to all newly acquired enterprises. A financial controller was involved in the planning and reporting according to the corporate-wide standards. A shift

³⁰ The current scheme had problems only once, when the general manager of Psebay plant was involved in a hostile takeover of the enterprise.

manager of a German plant was responsible for overseeing production and maintenance of new standards of quality, assisting in the repair of equipment, assessing employees, and appointing shift managers. An engineer that was responsible for investments coordinated the plants' first modernization projects. However, within a short period of time, the need for foreign experts disappeared. Consequently, Knauf CIS's new plants (in Kolpino, the Perm Territory, and the Irkutsk region) were led and manned by Russian managers from the beginning.

The evolutionary approach was observed in the practice of retaining experienced personnel at the production level. For example, at a celebration ceremony devoted to the 30th anniversary of the establishment of the Leningrad cardboard and printing plant (St. Petersburg), which was held in September 2012, it was proudly noted that 117 employees who had participated in the launch of the plant operations 30 years ago continued to work at the enterprise [Los, 2012].

The evolutionary approach is also observed in the promotion of staff. An extensive practice is internal recruitment for new vacancies. Therefore, career development is achieved by either promoting employees to new positions in the same facility or by transferring them to new facilities. For example, the head of production might be transferred to the vacant position of technical director. Another aspect of the HR evolutionary approach is the existence of a social sphere of enterprises. Unions are present at all Knauf CIS plants. Where company-owned social facilities such as a health center were present, they have remained intact. Consistent with the usual social support practices of Western companies, such as subsidized cafeterias, Knauf CIS added policies that were aimed at the professional development of staff (e.g., reimbursement for training or for obtaining a second higher education) and enhancing an employee's social status (e.g., interest-free mortgage loans).

In 2011, Knauf engaged in agricultural activities. Specifically, a farm, Knauf Agro, was established that leased 1,200 hectares of land atop large deposits of gypsum near Knauf Gypsum Kuban plant in Psebay. Additionally, a cattle-breeding complex and a dairy farm that employs European technologies were established. In the short term, Knauf Agro Kuban plans to design and build an electricity station that runs on gas and biomaterials that will supply electricity to Knauf enterprises [Assovsky, 2011].

An evolutionary approach is observed in the "Russification" of the senior management of Knauf CIS. For example, in 2010, a Russian national was appointed as Head of Sales Department for the first time. Such an evolutionary approach to HR management perfectly reflects the values and principles of the family business.

Another practice at Knauf CIS that reflects the stated principles of trust and future orientation is the attraction of graduates from technical and vocational schools that lack prior work experience—a rare practice in Russian business [Zavyalova et al., 2011; Gurkov and Settles, 2013]. The core staff at a number of newly launched plants is comprised of young people who joined the company after graduation from colleges at the age of 18 and 19. The technical director of Knauf Gypsum Kungur, Mr. Shevela, stated that "no one expected that people would learn to work here so easily and so quickly" [FMVideo, 2013]. The principal contributing factor to new staff members' educations is a system of internships and, with respect to the well-established plants, an established system of mentoring and company-owned training centers. However, the majority of enterprises in Russia's central region and St. Petersburg sense a growing tension in the labor market, particularly with respect to highly skilled workers, like mechanics and electricians. This opinion was shared by certain interviewees in our study.

With the exception of leadership continuity and the retention of top management in the newly acquired enterprises, the HR management practices at Knauf CIS are not dissimilar from those of other Russian subsidiaries of foreign corporations that we studied in our research project.³¹

The main motivational elements for the staff are:

- financial incentives (salary levels are slightly above the market average with the emphasis on base pay and not bonuses),
- job stability and a stable income,³²
- comfortable and friendly relations among staff members (low-conflict environment, objectified staff assessment system, high level of internal transparency, low-levels of psychological distance between company leadership and staff),
- clear rules of conduct, and
- the opportunity for professional and career development.

Marketing

Whereas Knauf CIS combines global standards with a regeneration of effective Soviet production processes, and the management of HR has evolved towards the typical Russian subsidiaries of foreign MNC standards, the marketing achievements of Knauf CIS are unique. We cannot assess the actual effectiveness of these practices, but we consider them worth analysis and replication.

Knauf CIS has changed the formula for marketing activities. In addition to the classic 4 Ps of marketing – price, product, place, and promotion – the company added a fifth P to represent people. The fifth P refers to the users, designers, engineers, and workers who utilize Knauf's technology and materials. Knauf CIS set an ambitious target; the regeneration of human resource potential in the construction industry. This task is being addressed with typical German precision. The system to re-create human potential within the industry consists of a number of interrelated elements.

First, Knauf CIS Academy, a private institute of construction technologies, was in existence until 2013. A total of 29 scientists with doctoral degrees conducted research with a unique information base, the most advanced equipment, and unlimited amounts of materials for experiments.

Second, there is a system of training for current engineers. Examples include training offered by the Knauf School of Design in Perm in collaboration with the local union of designers and seminars for the construction industry that are held regularly in different cities in Russia and the CIS (e.g., LenNIIProject).

Third, there is extensive training support for civil engineers. An example of this training support is the Learning Lab MGSU–Knauf that was opened in 2012. Up to 30 individuals can be trained there, and it is equipped with textbooks, building materials, and samples of current construction equipment. Another example is the Knauf Information and Advice Centre that is located in Vladivostok on the basis of the School of Engineering of the newly created Far Eastern Federal University.

³¹ The employment of people without practical experience is not unique. However, it results in a paradox: the greater technical maturity of production process incites managers to attract graduates of higher and secondary specialized educational institutions without practical experience. The premise that drives this practice is that it is better to learn good habits than to unlearn bad ones.

³² The interviewees at Krasnogorsk plant commented, “Since the launch of production in 1949, we have never had a delay in a salary payment.”

However, the most complex and integrated solutions have been applied in the field of staff training. These staff training solutions are composed of the following:

1. The experts at Knauf CIS have prepared a number of manuals and textbooks that are included in the federal set of textbooks for teaching in primary and secondary professional education establishments in the Russian Federation.
2. The development of the federal standard and the inclusion of the “Master of Dry Construction” in the list of specialties of professional education.
3. National and regional professional skills competitions for students in secondary vocational educational institutions have been conducted since 2006 (Master of Dry Processes, the construction and operation of buildings and structures, tiles master, plasterer, and assembly staff).
4. The opening of regional resource centers similar to vocational schools that unite classrooms and materials- and technology-equipped workshops in all regions of the country.
5. The operation of company-owned Knauf CIS training centers that are scattered throughout Russia and the CIS countries.

Knauf is not motivated by philanthropic ambition, but desires to promote Knauf products by educating all users. During the economic crisis of 2008 and 2009, this was the only expense unaffected by budget cuts; however, these activities are based on intuition and future-orientation rather than operational decisions.

Communication with workers, especially young people and students, resulted in significant changes in the branding of Knauf products from 2009 to 2011. All Knauf products first received an additional designation of “The German Standard.” There included changes to packaging, product names, and construction tools. In addition, accessories appeared on the market under the Knauf brand name.

The changes in packaging facilitated consumer recognition of Knauf products. The packaging of all plaster became white and cement-grey. The addition of icons on each package depicted instructions for product use and a table of the main Knauf product categories and products. The product names also changed. Product names such as FugenFuller and NivellierEstrich were hard to pronounce and difficult to memorize for the majority of Russians. Consequently, FugenFuller became Fugen, Flisenkleber became Flisen, and NivellierEstrich became Boden.

The company’s promotional activities changed as well. Knauf initiated free training in shopping malls and provided support for clients. Freely available at the corporate website are more than 20 sets of detailed reference materials, ranging from the “album of draft drawings” for certain types of works to the “Plasterer’s Guide,” which is written in simple and understandable language.

The marketing practices of Knauf CIS are therefore a means increase sales and support the launch of new products into the market; however, the marketing practices are also a critical element of the company’s “socialization,” which will be discussed in the following section.

Embeddedness in the social context

Writing this part of the article was not easy. The activities of Knauf CIS extend beyond the typical concepts associated with PR (public relations) and GR (government relations). The building and maintenance of relationships are key activities, but more significant is the transformation of Knauf CIS into an integral part of the political, economic, and social landscape in Russia and the CIS countries. This has been achieved through a number of steps. First, the company has a wide range of stakeholders. In their study concerning the social practices of Knauf CIS [Holtbrugge and Puck, 2009], list a number of Russian Knauf stakeholders:

- The Government (or Prime Minister). A supporter of foreign investment in manufacturing.
- State Duma. A legislative assembly that is responsible for improvements in legislation intended to fight counterfeit products.
- The professional associations (e.g., The Council of Russian Builders, the Association of Manufacturers of Building Materials). Organizations with whom several policies and activities are coordinated, such as technical and sales policy, standardization and voluntary certification, and the prevention of trade wars.
- The associations of German investors. Partners in the coordination of stances and the lobbying of public authorities of the CIS countries.
- The Ministry of Internal Affairs in Russia and the CIS countries. A partner in the identification and prevention of cases in which counterfeit products are produced and sold under the Knauf brand name.
- The local authorities and local companies. Partners in the implementation of joint projects that share the costs of local infrastructure development in public-private partnerships.
- The business media. Groups that highlight the company's achievements and projects with industry-wide significance. Preference is given to the most reputed journals (Construction Materials, Mining Journal) and federal information agencies.
- The unions. Organizations that anticipate and predict possible social tensions and prevent collective actions.
- The Church.³³

Second, the company retains its identity and maintains its dignity with respect to all of these relationships and attempts to avoid compromise for the sake of short-term profit. Dr. Gerd Lenga stated "We have ... experience. We managed to build our second plant in the Moscow region only at the third attempt. The administration of one of the cities gave us a lot of promises. And at the first negotiation round, some people were introduced to us in the presence of regional and city officials. I asked, 'Who are they?' I was told they were a private firm that would help us 'solve problems.' I asked what sort of problems, as long as we have none in the city. Of course, we refused to invest in this city because we were immediately offered a firm that would solve problems, created by the firm itself. The same story repeated itself in another city. In the end, we built a plant in Stupino. There the city government did not offer such things" [Zhegulev, 2010].

Third, the company's participation in the activities of the local business community and active participation in the activities of the Department of Commerce and the US-Russia Chamber of Commerce (USRCC) and exhibitions have significantly contributed to the company's embeddedness.

Fourth, the company's involvement in charity programs is typical behavior for foreign companies in Russia, but monetary contributions (rather than benevolent deeds) is the most common donation. For example, Knauf Gypsum Kungur repaired roads and bridges in the region and provided vehicles for a local school. The focus of Knauf CIS has changed such that "in recent years, attention of Knauf CIS has shifted... to children. Knauf's head office in Russia supports children's hospice in a city whose name is not disclosed, as this is not considered public" [FMVideo, 2013].

The experience of Knauf in the CIS countries demonstrates that the company challenges the state authorities and constantly demands a review of the policy framework in terms of foreign trade

³³ Every Knauf CIS plant manager has a special fund for support to local churches. Support is provided for maintenance of the most visible parts of churches.

and foreign exchange regulations (e.g., in Uzbekistan). However, it is done in such a way that the issue does not reflect negatively on either side.

Conclusion

The formation and development of managerial practices at Knauf CIS is an example of effective practice selection by a Russian company. The Knauf CIS example also demonstrates that preferential access to foreign technologies in all forms (know-how, know-why, and know-whom) can significantly benefit business success. The company's (seemingly archaic) legal structure as a limited partnership, a model where top managers possess joint and extensive liability for debt, has been a success. In an interview with *Vedomosti*, a renowned Russian newspaper, Manfred Grundke stated that "Knauf has sufficient financial resources. It belongs to the family, and we do not need to take any special measures to please the stock exchange brokers, analysts, bankers, or other structures"³⁴. We are taking measures that help the family and company to run business in the long term. We have a long-term strategy, and we do not fixate ourselves on the quarterly reviews, published in newspapers" [Proskurina, 2012].

Knauf is not afraid to incorporate local business culture into its managerial practices if they do not hinder the achievement of the "German standards." The successes associated with the company's potential effectiveness and local traditions of HR management are evident in this study. As such, this study suggests that Knauf has identified and implemented the most appropriate solutions to the majority of the problems that it has encountered. The readers have an opportunity to see for themselves what type of Russian companies are ready to take such courses of action.

Russian companies that are planning overseas expansion are advised to study Knauf's process of embedding into the Russian business environment. Trade and economic relations alone are not sufficient for a foreign company to obtain a strong position in a host country. Knauf's key feature is that it attempts to function as a Russian company with foreign ownership. This strategy is used by other foreign companies studied in our research project. This study confirms that Russian staff, led primarily by Russian managers, achieve and often exceed global levels of productivity and quality for their respective sectors. The products are sold in Russia at affordable prices and companies demonstrate high economic performance.

Considerable changes have been initiated at Knauf CIS since mid-2012. These changes have attempted to improve short-term economic performance. Certain promising "projects" have been terminated, such as the unique publication Knauf Academy. In addition, Knauf Vesti (Knauf News) was discontinued, and company-wide conferences for managers of all plants and sales offices were stopped.³⁵ Reorganization during periods of great financial success is surprising. The extent to which these decisions prove to be effective should be assessed no earlier than 2015. However, we hope that the basic principles developed and implemented by Knauf CIS will remain unchanged, and that the existing corporate practices will serve as a role model for other Russian industrial companies in the future.

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³⁴ The limited partnership business entity is not obliged to disclose information related to sales or financial results.

³⁵ In the course of the marketing and sales reorganization that was conducted in the second half of 2012, regional distribution centers lost rights and became divisions of Knauf Gips Krasnogorsk.

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