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Research of the Russian Companies' Potential and the Success Factors

Yu.V. Lyandau[1], I.A. Kalinina[2], A.P. Garnov[3], Y.Yu. Garnova[4]

Abstract:

The article presents the results of the key factors of the chemical and petrochemical companies' success which are in the "Expert-400" rating. This rating includes the most successful companies with highest yields, profits and efficiency.

While researching, the grouping of companies according to their industry affiliation to the chemical and petrochemical industry was done. The number of companies affiliated to the selected industry rated as the best ones is 14 or 3% from the total number. One company of each form of ownership to reveal the main regularities and key success factors of the companies of the given industry are taken to be analyzed.

The success factors have been identified and researching prospects in the given field have been formulated for a company of each form of ownership.

Keywords: *Success factors, enterprise potential, sales revenue, sales, profit before taxation.*

[1]*Ph.D., Professor, Department of Management Theory and Business Technologies, Plekhanov Russian University of Economics, Moscow.*
[2]*Ph.D., Associate Professor, Department of Management Theory and Business Technologies, Plekhanov Russian University of Economics, Moscow, E-mail: kalinina309@yandex.ru*
[3]*Ph.D., Professor, Department of Economy of Industry, Plekhanov Russian University of Economics, Moscow.*
[4]*Ph.D., Associate Professor, Department of Management Theory and Business Technologies, Plekhanov Russian University of Economics, Moscow.*

1. Introduction

Enterprise work under global changes makes it necessary to assess their potential. It is necessary to answer this question mainly to assess the enterprise development strategy efficiency. The research objects are the Russian chemical and petrochemical enterprises, because this industry is one of the most important industries and its production is used in all industries and can be found in any sphere of the daily life. The specific feature of the researching objects is enterprises activity in the Russian market which under global economic crisis is vulnerable to economic, social, judicial and legislative risks. In particular, chemical and petrochemical industry uses the big volumes of oil and gas and consequently is sensitive to world oil and gas price fluctuations. Besides during 2004 there was a significant drop in energy resources prices and since March 2014 the USA and the EU introduced some penalties in relation to a number of the Russian companies.

In 2005 and in the first half of 2016 the economic situation in Russia was more stable, however, the mentioned above events made the access of the Russian business to the international capital markets resulted in slow economic growth and other negative economic consequences.

In the last decades different types of organizations in the whole world made numerous efforts to provide the sustainability in the management systems. These efforts partly were able to control the sustainability as they were directed to satisfy specific needs of the organizations of different types mainly to follow the rules. That is why to neglect the integrated consideration of the sustainability issues in the management systems. This research is an attempt to fill this gap and to emphasize the imperative peculiarities of sustainability management from the organizational point of view.

That is why the main task is to assess a company development potential which is changing due to economic situation changes as well as to reveal the success factors determining the future results of their performance and financial situation of the chemical and petrochemical enterprises

The question of assessment of the interconnection of the organization potential and their success factors is disputable. A number of authors, for example, Diaz-Maurin (2016) emphasizes that a systematic research of the company potential in terms of sustainability assessment is important to overcome future external limits.

Norton *et al.* (2016) note that company assessment according to success factors is an important information source enabling to take “grounded” decisions on planning and measures, with general elements of the successful potential growth comprise a focused strategy. Maslennikov *et al.* (2017) take similar position.

Sebestyen (2017) argues that success factors and failure reasons are absolutely different. To study the experience better is necessary to study the best organizations as well as factors enabling to foresee these organizations' success. Heider (2011), notes the success factor assessment allows the managers to plan necessary changes.

The necessity to study success models scientifically to formulate practical recommendations for their description and distribution as an advanced experience is presented in the article of Radujković and Sjekavica (2017). The researchers present different success models. For example, Saadat and Saadat (2016) consider success factors as a basis for the strategic planning which is a competitive advantage in any organization regardless the industry it works. According to them competitive advantages are to be considered as an object to be studied in the corporate educational programs.

Lindner and Wald (2011) confirm the necessity to widen knowledge and improve the employees' skills in a form of flexible dynamic educational organization together with the study of competitive advantages, which encourages the development and growth of the organization. Besides, on the basis of the interdisciplinary sampling with 414 companies' participation the authors applied the method of partial least squared to verify the cultural, organizational, structural and technological factors' impact on the organization management efficiency.

However the literature analysis does not allow to single out strictly the success factors. For example, according to Alhuraish *et al.* (2017), they determine the success factors of the successful organizations as thrifty production, employees involvement and cultural changes. The authors believe that these constituents allow the organizations to take more mature and grounded management decisions.

The success factors assessment also allows to investigate how vulnerable the organization is. Aleksić *et al.* (2014) prove the necessity to use the mathematical modeling method to avoid any uncertainties. All these prove Nawaz *et al.'* (2017) conclusions that organization vulnerability model assessment is always verified with a graphic example.

2. Methodology

The research hypothesis is that there is a possibility to assess an enterprise potential together with success factors, which are manifested in measurement of revenue increase (sales) and profit growth after taxation. Each of the named parameters has their own field of application: sales volume increase characterizes the possibility for the organization to function effectively in the external environment, and profits are necessary to self-finance expanded reproduction by rational resource management that ensures the internal possibility to develop a company. The comparison of revenue increase (sales) and profit growth after taxation with their signs reflects two sides of the application of the organization potential – internal (profit growth) and

external (sales growth) aspects. In practice profit change can have positive ("+" sign) and negative ("-" sign) values. If profit in the current period is increasing in comparison with the previous one, the change will have positive ("+" sign), if profit in the current period has dropped the change will have negative ("-" sign). The same refers to the sales volume change.

The situation in the enterprise is better if profit increase is bigger than sales volume increase. It means that without profit increase as an internal source of organization resources formation it is impossible to increase sales volume (with other things being equal, of course). Consequently, in each of four cases while comparing revenue increase and profit increase after taxation it is possible to distinguish two areas:

- profit increase is higher than sales volume increase – the area with higher level of the use of potential;
- profit increase is lower than sales volume increase – the area with lower level of the use of potential.

Such approach to enterprise assessment is universal and allows to compare potentials of enterprises of different industries and sizes.

3. Results

3.1 The analysis of potential of the chemical and petrochemical companies, included in the "Expert-400" rating

The chemical and petrochemical companies, included in the "Expert-400" rating are chosen to be studied, 14 companies were selected, 11 of which are the companies with private form of ownership, 2 companies are foreign and one company is a joint venture company (Table 1).

Table 1. *Performance of companies, reflecting their potential*

place in the rating	Company	revenue change, mln. Rub.	Profit changes before tax, mln. Rub.	Profit changes after tax, mln. Rub.	Type of ownership
1	"PhosAgro" group	66608,0	61652,0	50083,0	private
2	"Uralkali" group	52660,0	51053,0	43427,0	private
3	"EuroChem" group	44637,9	56749,7	49045,1	private
4	NKNK group	18761,0	22952,0	18113,0	private
5	"Akron"group	31424,0	12087,0	9802,0	private
6	Kazanorgsontez	14131,0	15648,0	12494,0	private
7	Togliattiazot	14829,7	8541,4	6658,7	private

8	"Henkel Russia"	7418,0	1105,3	893,7	Foreign
9	KuibyshevAzot	8530,0	5685,0	3698,0	private
10	Nokian Tyres	3381,6	887,7	1024,4	Foreign
11	Minudobrenia	12369,1	7417,0	5968,9	private
12	Kemerovo open joint-stock company "AZOT"	8579,7	15846,0	13041,7	private
13	Bashkir Soda Company	6138,0	4480,0	3434,1	Joint stock company
14	"Titan" group	638,0	-1389,0	-1059,0	private

These companies take 14 first places in the rating that is 3% of total number of companies (Table 2). This approach is based on the fact that it is necessary to study the success factors that can only be identified as the best practices.

The research is based on the fact that enterprise potential can be assessed with comparing the revenue and profit changes. Each of the indicators characterizes different aspects of company activity: revenue change (has sign «+» or «-») shows the situation with sales and characterizes product demand, and profit change after taxation (also sign «+» or «-») shows the company internal efficiency. Knowing the combination of two parameters it is possible to characterize company potential – its market and internal components.

Table 2. *Grouping of the surveyed enterprises by forms of ownership*

Total number of companies	Private ownership	foreign ownership	Joint stock company
14	11	2	1

Besides it is possible to visualize the change of indicators the revenue change and profit change, placing the enterprises in one of four quadrants. In this case, quadrants have the following sense of comparing indicators:

Quadrant 1 – revenue is growing, profit is growing that reflects sales potential and availability of the enterprise internal efficiency;
Quadrant 2 – revenue is growing, profit is reducing, there is sales potential, but the enterprise internal efficiency is decreasing;
Quadrant 3 – revenue is decreasing, profit is reducing – there is no sales potential and enterprise internal efficiency decreasing;
Quadrant 4 – revenue is decreasing, profit is growing – sales potential is decreasing, and enterprise internal efficiency is growing.

Let us present graphically revenue changes and profit changes of the enterprises, grouping them according to their ownership form (Figures 1-3). According to the

analysis despite the economic difficulties, the chemical and petrochemical enterprises showed positive growth in revenue and profit after tax in 2016 in comparison with 2015 where foreign companies and joint stock ventures showed the best results. To conduct more detailed researches 3 companies are selected, namely: "Uralkali" Group – private property, Company Group "Henkel Russia" – foreign, Bashkir Soda Company – joint venture. The selected companies are placed in the first quadrant; it means these enterprises have the positive profit after tax and the positive revenue. Let us analyze the three selected enterprises and detect the success factors, which allow them to be ranked among the largest Russian companies according to "Expert-400".

3.2 Public joint-stock company "Uralkali" success factors (private enterprise)

Public joint-stock company "Uralkali" and its subsidiaries produce mineral fertilizers, selling them both in domestic and foreign markets. Potassium salts are the main part of the assortment. The enterprise is the largest potassium salts producer in the Russian Federation. In this connection practically all production capacity and long-term assets are in Russia. On June 30, 2016 and on December 31, 2015 the Group did not have any ultimate controlling party.

The first success factor – the enterprise has a license to extract potassium salts, magnesium and sodium from Perm Krai deposits up to 2021-2028, that guarantees a long-term strategy. The enterprise strategic objective is to ensure food security through the potash fertilizers stable supplies to all key markets. The flexibility in the use of the production capacity, developed logistic system and global sales network allow "Uralkali" Group to be a reliable partner in any situation.

The second success factor – in 2015 negative market conjuncture resulted in 9% sales drop to 11.2 mln tones. Net revenue reduced by 5% to 2.6 bln US dollars. However the high level of the enterprise capacity utilization, effective business model and ruble devaluation resulted in the reduction of the cash cost of sales by 30% and provided EBITDA margin growth to 72%. As a result the enterprise average capitalization grew from 474 166.6 million rubles to 543 162.9 million rubles or 14.6%.

The third success factor – sustainable development principle for seven key strategy directions:

1. Strong leader position in the potash industry;
2. Satisfaction of the constantly growing global demand on foodstuffs at the expense of the production expansion;
3. Maintenance of the optimal capital structure;
4. Effectiveness maximization to maintain the competitive cost price;
5. Caring for people and local communities;
6. Ecological safety provision;

7. Use of the best corporate management practices.

Figure 1. *Private sector companies financial performance*

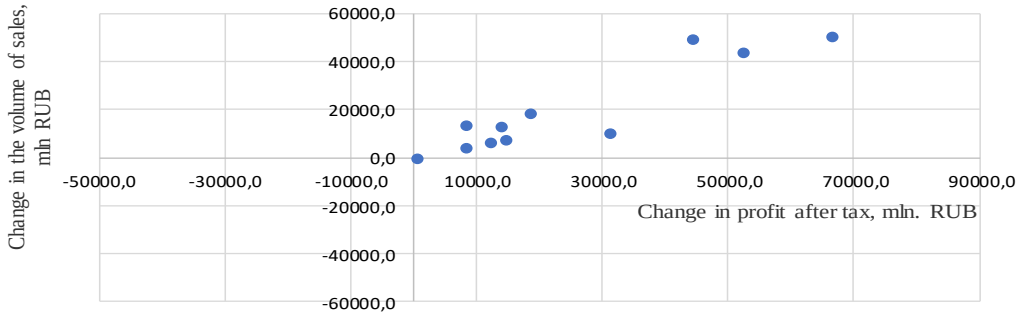


Figure 2. *Foreign companies' financial performance*

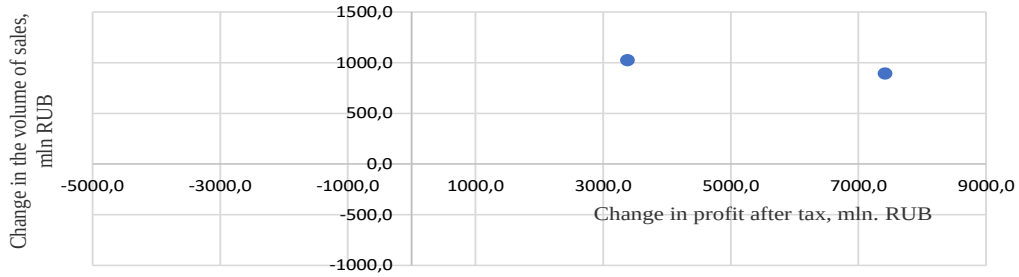
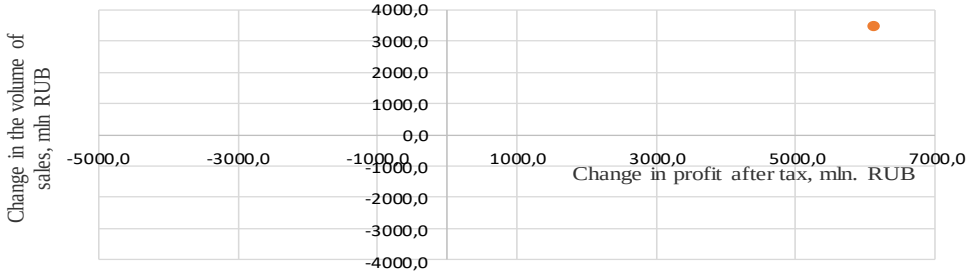


Figure 3. *Financial performance of the joint venture*



The fourth success factor – investments to acquire the fixed assets for the total sum of 33 997 million rubles, secured by the net revenue in the future. In early 2015 “Uralkali” Group adopted a 6 year production capacity development program. The program realization will allow to have the company production capacity increased to 14.4 mln tons by 2020.

General conclusion is that the enterprise is oriented to keep the leading positions at the global potash market due to the full-scale program to develop the existing and to create new production capacity and effective work of vertically integrated operating chain – from potash ores mining to the potassium supply to consumers.

3.3 Success Factors of Joint Stock Company "Bashkir Soda Company" (foreign ownership)

Joint Stock Company "Bashkir Soda Company" (JS “BSC”) was established in May, 2003 by merger of JSC "Soda" and JSC “Kaustik”. JS “BSC” takes the first place in Russia in the production of calcined and baking soda, the second in the production polyvinyl chloride (PVC) and caustic soda, and is one of the leaders in the production of cable plastic compounds.

The first success factor – introduction of the measures to intensify the polymerization process, which promoted PVC production growth by 2.7% and totaled to 249 thousand tons. The enterprise produced 1.6 mln tons of soda ash, the growth in comparison with 2015 is 6.3%. Good results were achieved in liquid caustic soda production. Its production volume was about 204 thousand tons, which exceeds the figures of the previous year by 8.5%.

The second success factor – growing demand for baking soda from foreign partners' part. That is why the enterprise increases production volumes: in 2016 more than 137 thousand tons of purified sodium bicarbonate were produced, the growth totaled to about 5% in comparison with 2015. The BSC high quality and competitive price let the enterprise take the leading position in the Russian chemical industry in production of a number of products.

The third success factor – company management take responsibility for the successful operation and continuous improvement of management systems. The quality management systems and environmental management that meet the requirements of international standards ISO 90001: 2008, ISO 14001: 2004 are introduced certified and function successfully at the enterprise. Annual auditing confirms of the enterprise the compliance with the international standards requirements. The high level of development and functioning of company management systems is always highly appreciated by the external experts.

The company has the stable second position in the “Expert 400” rating for two years. In 2015 and 2016 the company took the 295th position in this rating with both

sustainable revenue growth and net profit. It means that there are certain mechanisms in the company which allow to provide the sustainable growth despite the fact that the company has been functioning on the market only three years. The company's success is determined by the following factors:

- continuous production modernization;
- social responsibility to the community and its employees;
- new standards introduction;
- new management system development.

3.4 Success Factors of Group of Companies "Henkel Russia" (Joint Venture)

Henkel Company operates in the whole world and possesses balanced and diversified portfolio. The company takes the leading positions in industrial and consumer sectors due to innovations, brands and technologies in three business directions:

- Henkel Adhesive Technologies division is a recognizable leader at the adhesive technologies market in all industry segments in the whole world;
- Beauty Care Laundry and Home Care divisions possess leading positions at many markets and in many categories all over the world.

Loctite, Schwarzkopf, Persil are company's key brands. Henkel Company has been working at the Russian market since 1990, when the first joint stock company "Sovhenk" was established in the city of Engels. This company has already been successfully developing for 25 years. Currently the company has 9 plants and 13 offices in different regions of Russia: Tosno, Engels, Perm, Kolomna, Chelyabinsk, Ulyanovsk, Noginsk, Nevinnomyssk and Novosibirsk. In 2013 Henkel Company acquired the cosmetic production plant in Noginsk. In 2015 the "Henkel Bautechnik" building mixtures production plant was launched in Novosibirsk region. Henkel Company is recognized one of the most respectable companies in its industry with the sixth place in the World´s Most Admired Companies rating Fortune version. To make this rating 4000 CEOs and analysts from 29 countries were surveyed.

Henkel is among the ten best brands (Best Brands Award) in three nominations: "The Best Corporate Brand", "The Best Product Brand" and "The Best Growing Brand" in 2015. Henkel is included in the global sustainable development index Dow Jones 2016 (DJSI World). Only 10% from 2500 largest companies in the world are in DJSI World.

The first success factor of Group of Companies "Henkel Russia" is growth promotion at the mature and developing markets as a key strategic priority.

The second success factor is target initiatives aimed at maximum involvement of clients and consumers, further strengthening of its leading brands and technologies, development and introduction of unique innovations and services as well as search for new growth sources. To realize the company growth support program Henkel increases its investments from approximately 2 bln Euros in the period from 2013 till 2016 to 3 bln Euros in the period from 2017 till 2020. The second success factor is a quick transition to digital channels aimed at strong relations among clients and consumers, all process optimization and general transformation of the company. By 2020 Henkel will have realized a number of initiatives aimed at digital business development, the introduction of the Fourth Industrial Revolution achievements and company reorganization.

The third success factor – the unstable and dynamic commercial environment increases company efficiency, which is employees' involvement and expanding of their powers, the fastest possible withdrawal of new products to the market as well as application of rational and simplified processes.

The fourth success factor – to provide profit growth Henkel uses new approaches to optimize resources distribution, focuses on revenue management and efficient company structures and continues to expand its global supply net. All these initiatives are aimed at effectiveness growth and allow Henkel to invest in company development up to 2020 and for a later period.

4. Discussion

At present there is no methodology of economic situation change impact on the future performance results and company financial standing. The presented in the article methodology of the potential assessment allows to put together company success factors with revenue changes and profit after tax. It is important for the company management not only to know its potential, but to be able to manage the potential as well. The task is to forecast the future potential and show how the firm can overcome unfavorable factors of its development. To manage the enterprise potential it is possible to develop the model, describing the level of the potential use depending on different factors.

Actually influencing on the factors, having impact on the sales volume or profit changes we influence on the level of these indicators and respectively on organization economic potential use.

Thus, having identified the assumed level of the potential use it is possible to consider different business solutions based on the fact that level of the potential use is to be in the positive values of sales volume growth and profit after tax. In case of discontinuity of actions or if the level of the potential use has deteriorated while solving the problem it is possible to change the aim, strategy quick enough or offer other tasks.

The researched enterprises consider a big resource base (public joint-stock company "Uralkali"; private enterprise), productive portfolio (Joint Stock Company "Bashkir Soda Company"; foreign company) or innovative technologies (Group of Companies "Henkel Russia"; Joint Venture) as the success factors.

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