

Critical Evaluation of the International Business Environment of a BRICS Member: A Case Study of the Russian Automotive Industry in Relation to Competitiveness in the Domestic and International Market Arena and the Contemporary Environmental Issue of Human Resources Management

Sadeeq Garba Abubakar

Department of Business Administration and Management,
The Federal Polytechnic Bauchi,
Bauchi State, Nigeria
sadeeqgarbatee@yahoo.com

Muhammad Zaharadeen Abubakar & Abdullahi Abdulrahman

University Library,
Abubakar Tafawa Balewa University,
Yelwa Campus, Bauchi,
Bauchi State, Nigeria
zaharadeen1985@gmail.com, abdulzee1985@gmail.com

Abstract

This study looks at BRICS' vision, mission statement, its origin, organisational structure, and the overall economic role and challenges facing the BRICS. The country under review in this study is Russia. Russia, one of the BRICS countries, its automotive industry and AvtoVAZ are identified as the focus country, industry and organisation in this study respectively. PESTLE technique was used to critically examine the external business environment of Russia while the Porter's Five Forces was utilized to assess the competitive factors impacting the automobile industry in Russia. An analysis of the internal business environment (SWOT) of a Russian automotive organisation (AvtoVAZ) was carried out. Findings indicated that Russia has undergone substantial change during the past two decades as the country has transitioned from the centrally planned Soviet system to a more market-oriented economy. Russian managers entered the decade of the 1990s ill-prepared to manage their companies in the country's chaotic transition to a market economy. Part of the recommendation is that Russian companies and components suppliers need to become more efficient in the overall production processes and systems. On sustainability, there is the need for the organisations in the automotive industry to take a more holistic and integrated approach to human resources management and environmental concerns. Managers would need to reassess their role, specifically their responsibility in persuading their organisations to adopt practices that supports a sustainable approach. The new knowledge workers who every organisation need to recruit and retain are the driving force behind an organisation and are those capable of producing designs and development to deliver products to the markets which are less environmentally harmful; marketing management to raise consumer awareness of environmental factors and to achieve business success through the provision of environmentally safe products.

Key Words: Russia, Automotive Industry, PESTLE, SWOT, Sustainability, Human Resources.

1.0 Introduction

The BRIC acronym originally referred to the informal grouping of Brazil, China, India and Russia. According to O'Boyle (2014), Goldman Sachs economist Jim O'Neill first coined the name in 2001 and predicted that the four countries' share of global GDP would increase significantly over the first decade of the century and would outpace growth of some of the world's largest economies.

The mission of BRIC is to create a different and diverse international monetary system with less dependence on the US dollar as a global trading currency. South Africa was formally invited to join the group in 2010. BRIC formally became BRICS at their third summit in Hainan, China in April 2011.

On structure, BRICS has a rotating presidency, a Business Council and a Development Bank. O'Boyle (2014) stated further that BRICS has set up a joint foreign exchange reserves pool (Contingent Reserve Arrangement) similar to International Monetary Fund (IMF), which establishes an initial reserve of \$100 billion and acts as an emergency option for BRICS countries with balance of payments problems (BRICS JSP, 2013).

According to Tandon and Bandyopadhyay (2013) the challenge for BRICS countries has always been the articulation of a common vision, with the member nations being at different stages of political and socio-economic development.

2.0 Theoretical Background

The Contemporary Environmental Issue in Focus

One of the issues to be focussed on in this study is sustainability and the management of human resources and this is an effort to contribute to "The Sustainability Debate".

According to the World Bank (2013) over the past two decades, economic growth has lifted more than 660 million people out of poverty and has raised the income levels of millions more, but too often it has come at the expense of the environment and poor communities. This is happening because through a variety of market, policy, and institutional failures, Earth's natural capital has been used in ways that are economically inefficient and wasteful, without sufficient reckoning of the true costs of resource depletion (World Bank 2013). It is further revealed that the burning of fossil fuels supported rapid growth for decades but set up dangerous consequences, with climate change today threatening to roll back decades of development progress. At the same time, growth patterns have left hundreds of millions of people behind: 1.2 billion still lack access to electricity, 870 million are malnourished, and 780 million are still without access to clean, safe drinking water (World Bank 2013).

Sustainable development recognizes that growth must be both inclusive and environmentally sound (World Bank 2013). According to Porter and Linde (1995, p. 20) ".....properly designed environmental standards can trigger innovations that lower the total cost of a product or improve its value. Such innovations allow companies to use a range of inputs more productively, from raw materials to energy to labour thus offsetting the costs of improving environmental impact and ending the stalemate".

However, the achievement of changes in operations and environment management would be impossible to achieve without appropriate human resources policies to develop the necessary technical skills within the organization through education, training and re-training (Wilkinson, Hill and Gollan 2001). Olaniyan and Okemakinde (2008) stated that education is an economic 'good' because it is not easily obtainable and thus needs to be apportioned. Economists regard education as both consumer and capital good because it offers utility to a customer and also serves as an input into the production of other goods and services. As a capital good, education can be used to develop the human resources necessary for economic and social transformation.

Country under review: Russia

Russia is located at the North Asia bordering the Arctic Ocean, extending from Europe to the North Pacific Ocean with a total area of 17,098,242 sq. km.

Russia: Population

According to the World Bank (2014), the total population in Russia was last recorded at 143.35 million people in 2013. Figure 1 below shows the figures from 2004 to 2013, including the 2014 figure of 143.7 (estimated).

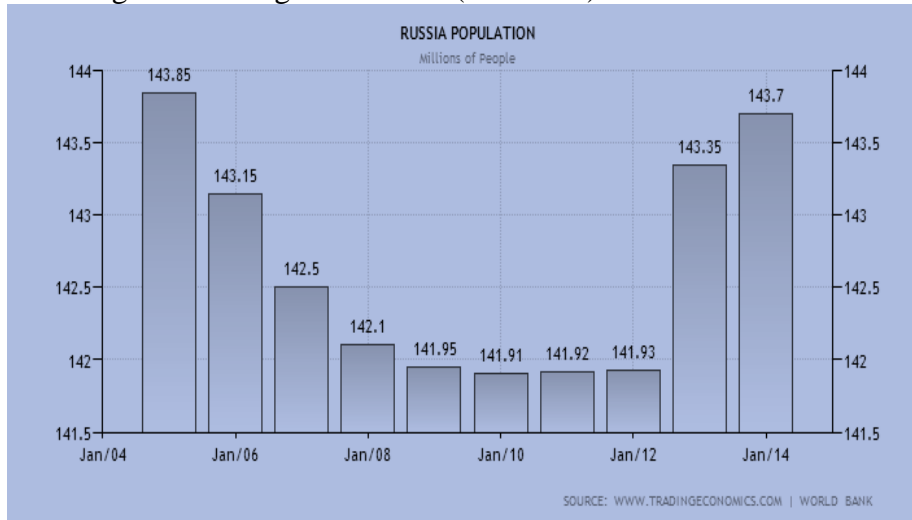


Figure 1: Russian Population
Source: Trading Economics/World Bank, 2014

The Russian population has been on a decreasing trend since the 1990s, and the country's aging population is beginning to increase (Data monitor 2011).

According to Orlova as reported by Reuters (2013) "not only will labour force shrink by 3 percent between 2013 and 2016, but the share of skilled employees in the workforce has halved over the past decade". Furthermore, the impact of the demographic disparity by way of declining population is creating a large pool of pensioners and a far less young working age people. It is therefore being foreseen that Russia had to content with an immigrant workforce in the future with all the attendant consequences.

Russia: Political structure

Russia or Russian federation is a Federal semi-presidential constitutional republic, with a President, a Prime Minister and a Parliament. According to Nichol (2014), the president, with the legislature's approval, appoints a prime minister, who heads the government. In addition the president and prime minister appoint government ministers and other officials.

Russia: Economy

The World Bank (2014) reported that the Russian economy is near stagnation, with continued lowered domestic demand leading to growth of 0.8 % in the first half of 2014, similar to 0.9 % in 2013. It was operating on the threshold of recession in the first half of 2014 with quarterly seasonally adjusted growth for the first two quarters close to zero. Consumer and business sentiments were already weak in 2013 due to lingering structural problems and contributed to the wait-and-see attitudes of households and companies and leading to a slowdown of the Russian economy.

Russia-GDP

The Gross Domestic Product (GDP) in Russia was worth 2096.78 billion US dollars in 2013. The GDP value of Russia represents 3.38% of the world economy. Figure 2 below shows the GDP figures from 2004 to 2014. The GDP measures the total economy of a nation and it is important because it measures the size and direction of economic activity (growth, stagnation or contraction), expansions and recessions are based on changes in GDP.



Figure 2: Russia GDP
Source: Trading Economics/World Bank, 2014

The GDP composition by sector as depicted in figure 3 shows that the services sector contributes 62% to the GDP in Russia, followed by industrial sector with 33.8%, and the agricultural sector with 4.2% (Datamonitor 2011).

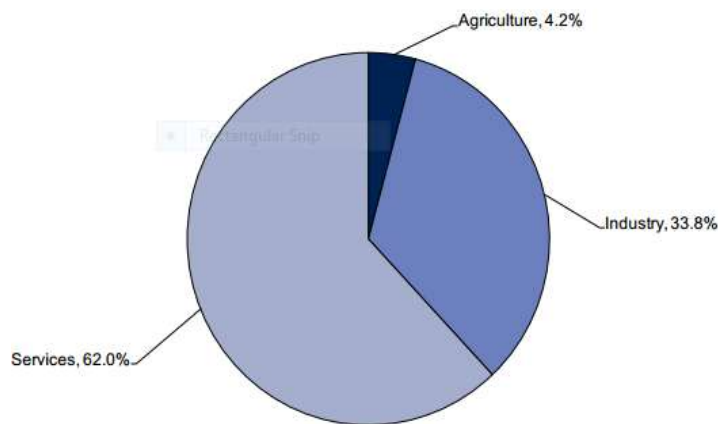


Figure 3: GDP composition by sector
Source: DATAMONITOR 2011.

Russia-GDP per capita PPP

The Gross Domestic Product per capita in Russia was last recorded at \$23564.21 in 2013. When adjusted by purchasing power parity (PPP) it is equivalent to 133 per cent of the world's average.



Figure 4: Russia GDP per capita PPP
Source: Trading Economics/World Bank, 2014

As shown in figure 3 above, GDP per capita PPP gives the gross domestic product (GDP) or value of all goods and services produced within a nation in a given year. It is used by economist when looking at per-capita welfare and when comparing living conditions or use of resources across countries.

Russia- GDP per capita

According to the World Bank 2014, the Gross Domestic Product per capita in Russia was last recorded at 6923.45 US dollars in 2013. The GDP per Capita in Russia is equivalent to 55 percentage of the world's average. The GDP per capita is obtained by dividing the country's gross domestic product, adjusted by inflation, by the total inflation.

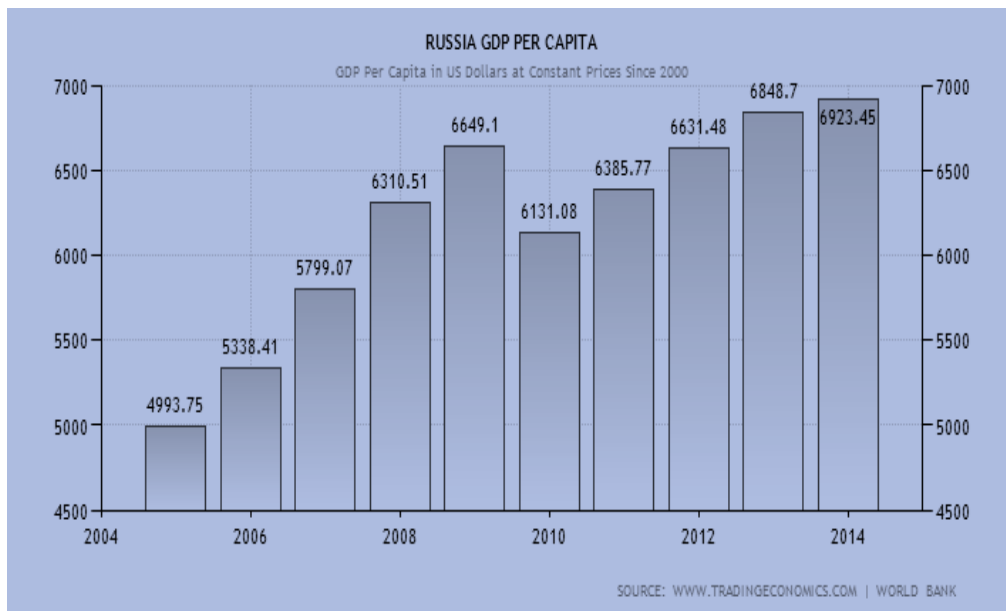


Figure5: Russia GDP per capita
Source: Trading Economics/World Bank, 2014

Russia: GDP Growth Rate

According to the World Bank (2014), the Gross Domestic Product (GDP) in Russia expanded 0.25 % in the third quarter of 2014 over the previous quarter.



Figure 6: Russia GDP Growth Rate
Source: Trading Economics/Russia FSSS, 2014

Russia-GDP Annual Growth Rate

According to the World Bank (2014) the Gross Domestic Product (GDP) in Russia expanded 0.7% in the third quarter of 2014 over the same quarter of the previous year. Continuing with the trend, the economy slowed for the third consecutive quarter, as sanctions imposed to the country hit foreign investment and exports. A year earlier, the GDP expanded 1.3 %. However, since the beginning of the year, the ruble depreciated more than 40% against the USD. As a result, exports decreased to the lowest value in September 2014 and the inflation rate hit a three-year high 8.3% in October 2014 (World Bank 2014).



Figure 7: Russia GDP Annual Growth Rate
Source: Trading Economics/FSSS, 2014

3.0 Methodology

Case study as a research strategy

Eisenhardt sees “*case study as a research strategy and argues that case study attempts to capture the dynamics operating in a single setting*” (cited by Mathew 2008, p.114). Furthermore, the clear benefits derived from adopting the case study approach in a study is that it could offer a total view of the phenomenon and by so doing it explains the relationship between parts of the whole instead of giving bits of information about the components of a relationship. Also Yin (2003) argues that case study, which falls within the qualitative tradition, is capable of explaining the ‘how’ and ‘why’ relationship. Nevertheless, some critics of the case study method believe that the study of a small number of cases can offer no grounds for establishing reliability or generality of findings. Others feel that the intense exposure to study of the case biases the findings. Some dismiss case study research as useful only as an exploratory tool.

Secondary Data (Deskwork)

Ghuri and Gronhaug (2005) defined secondary data as that collected by a researcher from already existent sources, with the aim of developing a project or research. There are multiple sources of these types of data which include: journal articles, books, online resources amongst others. To provide an in-depth understanding on the context of this research, a review of already existent data was undertaken, which also provided a rationale for carrying out the research.

In this study, the use of secondary data through sources of information such as Academic and professional databases (Emerald, JStor, Science Direct, Google scholar amongst others) for Books, Journals, and Articles. Newspapers and industry based periodicals/publications such as Data monitor, Trading Economics/FSSS, reports from World Bank and other key bodies involved in global financial analysis.

The research strategy adopted for this study is the Archival research that uses data from administrative records and documents as the main sources of data for analysis.

4.0 Presentation and Analysis of Data

Ashrafian and Richet (2000) states that the Russian automotive industry still suffers from the legacy of the Soviet period. At that time the industry evolved in isolation from processes in the global automotive industry and in the conditions of a planned and distributive economy. Therefore each enterprise occupied a niche of its own without competing with other domestic car producers. The industry was tightly protected from imports. The range of models produced was extremely narrow. Production of components was concentrated at large automotive complexes and was intended to satisfy Russian internal needs.

External Environment Analysis of Russian Automotive Industry: PESTLE

Conducting an external environmental analysis is seen as a business necessity that will form the basis for a strategic development for businesses by acknowledging and reviewing the list of environmental influences that are outside of their control. Consequently, external environment analysis as an aspect of strategic analysis (Cadle, Paul and Turner 2010), and is described as “the process of scanning and evaluating an organisation’s various external environment sectors to determine positive trends that could impact organisational performance” (Coulter 2005 p. 66).

Cadle, Paul and Turner (2010) describes PESTLE analysis as a frame work for investigating and analysing the external environment within which an organisation operates through the identification and consideration of six key areas – also referred to as its acronyms: political, economic, socio-cultural, technological, environmental (or ecological) and legal (figure 8).

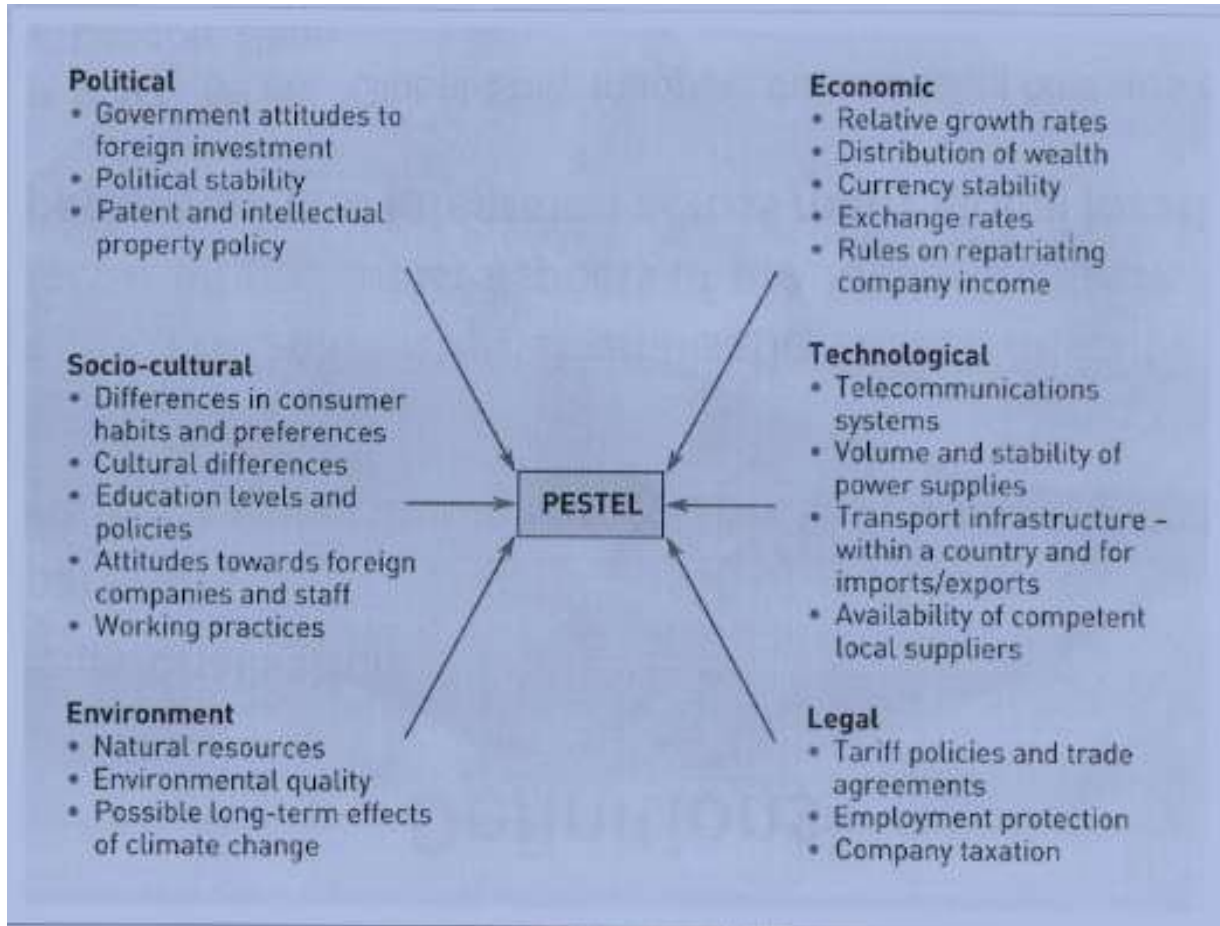


Figure 8: PESTLE

Source: Boddy, 2013

PESTLE TABLE

	Issues	Impact on Industry	Consequences on industry/firm	Source of data(evidence base)
Political issues in the external environment	(1) Increased threat of internal terrorism as the current sanction regime weakens the Russian state.	It will increase fear, uneasiness and tension in the workforce. It will result to poor performance at work because of the unstable state of mind of workers.	Poor performance, loss and increase spending on security.	BBC (2014)
	(2)Government structural inefficiencies.	Discourage/deterred investment by investors.	Absence/lack of development and growth.	World Economic Forum (2014)
Economic	(1) Increased	Consumers	Decline in sales	Datamonitor

issues in the external environment	interest rates due to scarcity of funds in domestic financial markets.	weaken debts servicing ability and limits in spending.		(2014)
	(2) Capital flight due to the sanction regime	Decline in financial backing from European investors.	Slowdown in production/job cuts.	Business Monitor International (2014)
	(3) Increased prices on automotive imports and components.	Higher cost of production leading to higher prices for cars.	Decline in car sales.	Business Monitor International
Socio-cultural issues in the external environment	(1) Ageing population.	Poor productivity	Shortage of productive and agile manpower.	Datamonitor (2014)
	(2) Gap in income distribution.	Poor motivation of workers.	Poor productivity and lack of industry growth.	Datamonitor (2014)
Technology issues in the external environment	(1) Poor supply logistics/high Risks.	Poor management of supply chains leads to lean production level.	Poor market coverage/sales.	Business Monitor International (2014)
	(2) Poor research and development activities.	Lack of efficient production processes.	Poor product quality and least competitive advantage for the firm.	EAC (2013)
Legal issues in the external environment.	(1) Government Incentives (policies).	Attracts good investment.	Improved industrial activities.	Frost and Sullivan (2008)
	(2) WTO accession	Attracts leading automotive brands.	New opportunities for growth.	GIA (2014)
Environmental	Poor	Poor “greening	High growing	Datamonitor

issues in the external environment.	environmental management	activities”	interest in fuel efficient and least carbon-emitting products could hamper future company sale.	(2011)
--	--------------------------	-------------	---	--------

Political

This environment is very complex because it consists of sensitive issues such as political stability, government attitudes to foreign investment.

According to BMI (2014), the on-going crisis in Ukraine has led to the imposition of economic sanctions on Russia by the Western nations. The unstable political situation in Russia and the very charged external relations atmosphere between Russia and other countries as a result of sanction had gone a long way to affect its business environment, negatively. For instance, The United States trading records with Russia in 2013 was \$11.2 Billion for exports and \$27.0 Billion for imports, which shows a trade balance of -\$15.8 Billion to the United States in favour of Russia.

Economic

According to Reuters (2014) the sanctions on Russia had an impact and stated further that “first, Russian economic performance has weakened in recent years, with growth slowing from 4.3% in 2011 to 1.3% in 2013, and is set to weakened further in 2014, partly as a result of the higher rates and higher risk premium driven by the security crisis”. According to BMI (2014) light vehicle sales in the second quarter of 2014 declined by 7.6% year-on-year to 1,229,836 units. It shows a 23% decline in new vehicle sales to 180,767 units. Leading car manufacturer AvtoVaz registered a 25% decrease in sales of its Lada cars, to 28,014 vehicles, over the month of July, 2014.

According to BMI (2014) AvtoVAZ reported a decline in revenue over the year amounting to 175 million rubble. In 2013, sales of Lada brand declined 15%, to 456,309 units. Total sales across all brands fell by 7.8% to 821,404 units. During this period, total light vehicles sales in Russia declined 5.5%, to 2,777,447 units. Furthermore in January 2014, AvtoVAZ announced that it is to cut 7500 jobs, 11% of its workforce, in an attempt to revive its business and restore profitability amid declining sales volume and operating weakness in its domestic market. In June, the company increased the number of job losses over 2014 to 15,000.

Socio-Cultural

According to Frost and Sullivan (2008) customer demand for non-Russian brands is growing at a rate which exceeds market projections. It is becoming clearer that customers choose brands taking into consideration the “total cost equation”. It is no longer a low purchase price that is important for the customer but the residual value, running and repair costs, plus quality and value that now decide which brand to choose. On the other hand, the general demographic situation is characterised by fast aging population, great gap in income distribution across the regions of Russian federation, and small middle class in the total population structure, with the majority in the low income class (Datamonitor 2014).

Technological

Managing supply chains in Russia is considerably more challenging than in other emerging markets, and consequently “many potential risks, such as difficulties at customs and tax

regulations, different truck sizes, long run routes, poor road infrastructure and port congestion combined with just-in-time requirements demand sophisticated transportation strategies” (EAC 2013 p. 14).

Legal

One of the trade agreements signed by Russia is the World Trade Organisation (WTO) accession in 2012. According to GIA (2014), the Russian automotive industry was impacted by Russia’s WTO accession by the fact that foreign companies are put under pressure to localise their production. And with zero imports tariffs for automotive parts and other attractive localisation requirements in pre-WTO Russia, most of the world’s leading automotive brand established industrial assembly status in Russia. This resulted to an increase in percentage of the share of localised foreign cars to 65% of total production in 2012 from 15% in 2005 (GIA 2014).

According to Frost and Sullivan (2008), Decree No.166 creates attractive economic incentives to set up automotive business in Russia. Relevant tax reforms were introduced with the aim of improving investment attractiveness for foreign partners and provide warranties of stability of existing legislature.

Environmental

According to Datamonitor (2011), environmental pollution has had a substantial negative impact on Russia’s economy. It is leading to health-related hazards, decreased labour productivity, reduced tourism and investment, and decreased yield of natural resources. Russia has been affected by such issues because of the Soviet-era industrial, energy, and agricultural policies. The policies disregarded environmental protection and, as a result, many Russian sectors are deemed environmentally dangerous.

Russia is the fourth largest emitter of carbon dioxide in the world based on share of global CO₂ emission with (4.8%) behind China (23.43%), the United States (14.69%) and India (5.7%), (The Statistics Portal 2014). Although an environmental management system exists in Russia, a lack of necessary resources to tackle environmental problems is preventing the country from effectively implementing protective measures (Marketline 2012).

Competitive Analysis of the Russian Automotive Industry: Porter’s Five Forces.

The main thrust of the Porter’s five forces is to create awareness that can help an organisation understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack (Porter 2008). Figure 9 below depict the various threats posed an organisation in the competitive environment.

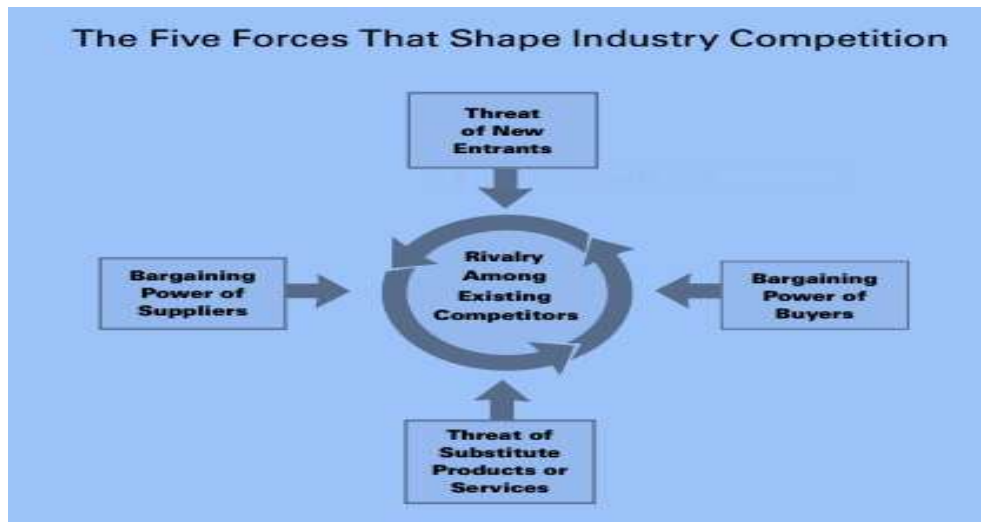


Figure 9: Porters Five Forces
Source: Harvard Business Review 2008

The various threats posed to organizations in the industry are discussed below and also in appendix (I) using parameters provided in template for doing industry analysis (Autio 2005), and using secondary data (Antonov, Okuneva, Hani and Kovalenko 2013).

Rivalry among existing competitors

Rivalry among existing competitors takes many familiar forms, including price discounting, new product introduction, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. The degree to which rivalry drives down an industry's profit potential depends, first, on the intensity with which companies compete and, second, on the basis on which they compete (Porter 2008). According to Ernst & Young (2012) there were top eleven (11) players with the highest placed company (AvtoVAZ- Lada) with only 18% as the market leader, followed by Chevrolet (7%) and Renault, KIA, Hyundai, Volkswagen (6%) each. Using the Herfindahl-Hirschman Index (HHI), the market concentration is below 1000 ($HHI < 1000$), and therefore it shows the market is competitive and the internal rivalry among existing competitors is high. It is evidentially available from the analysis above and in appendix I that the competition among the companies for growing market segments is increasing and consequently the threat of internal rivalry is high.

Threat of new entrants

New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. This is particularly when new entrants are diversifying from other markets; they can leverage existing capabilities and cash flows to shake up competition (Porter 2008). Furthermore, the threat of entry puts a cap on the profit potential of an industry. When the threat is high, incumbents must hold down their prices or boost investment to deter new competitors.

Of particular of these factors deterring new entrants is the economies of scale. And according to Hill and Jones (2007) economies of scale refers to the spreading the costs of production over the number of units produced. The cost of a product per unit declines as the absolute volume per period increases. Therefore, this deters entry by forcing the entrants to come in at large scale and risk strong reaction from existing automotive companies or come in at a small scale and accept a cost disadvantage. Both are undesirable options.

It could be seen from the analysis above and in appendix I that the entry barriers are high due to the obstacles posed to new entrants. Therefore the threat of new entrants is low.

Threats of Substitutes

A substitute performs the same or a similar function as an industry's product by a different means (Porter 2008). Moreover, substitutes are always present, but they are easy to overlook because they may appear to be different from the industry's products. For instance, it is a substitute to do without, to purchase a used rather than a new one, or to do it yourself, all depending on the product or service.

It could be seen from the analysis above and in appendix I that due to the current economic situation the demand for used cars as substitutes to new cars is high. Therefore the threat of substitutes is moderate.

Bargaining powers of suppliers

Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labour, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices (Porter 2008). In the case of the Russian automotive industry, the major foreign components suppliers deal with the local manufacturers while the logistics companies deal with fully built imported vehicles. There is the lack of local components suppliers. Under these circumstances, the suppliers possess a strong bargaining power until such a time when original equipment manufacturers would be operating their components production facilities locally.

It is evidentially shown in the analysis above and in appendix I that suppliers represent an influential part of the value chain and manufacturers' are dependent on the suppliers' conditions. The bargaining power of suppliers is therefore high.

Bargaining power of buyers

Powerful customers can capture more value by forcing down prices, demanding better quality or more service(thereby driving up costs), and generally playing industry participants off against one another, all at the expense of industry profitability. Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure price reductions (Porter 2008).

The power of buyers, particularly dealership networks, will become even less due to the fast growth in the number of these networks. Secondly, the power of individual customers will grow cumulatively due to the growth in incomes and buying abilities (Ernst &Young 2013). The bargaining power of suppliers is therefore moderate to high as could be seen in the analysis above and in appendix I.

The Global issue in Focus: Sustainability and the management of human resources

The contemporary business environmental issue focussed on in this report is sustainability and the management of human resources. Sustainability development is defined by the World Commission on Environment and Development (as cited by Wilkinson, Hill and Gollan 2001) as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". According to Sutton(as cited by Wilkinson, Hill and Gollan 2001), for the concept of sustainability to be of value, it must be incline to the maintenance, renewal and to restore something of specific nature, which also in essence incorporate ethical dimension of equity and balance of trade-off between current economic pressure and the future needs of the environment. For the purpose of elaboration, figure 10

below depicts the factors and influences that surround human resource sustainability in an integrated approach.



Figure 10: Factors and influences in human resource sustainability – an integrated approach. Source: Gollan (2000, p.60)

With reference to figure 10 above, Wilkinson, Hill and Gollan (2001) states that the integrated approach suggests that for human resource sustainability to be achieved, the human resources policies and practices need to be integrated for sustained business performance and positive employee outcomes of equity, development and wellbeing.

The role of Governments and Companies in environmental sustainability

Governments and corporate organisations play a major role in environmental sustainability by the provision of environmental standards and regulatory framework to conserve productive inputs and quality of life, in an economic environment where such action is regarded as cost enhancing and detrimental to industrial competitiveness (Wilkinson, Hill and Gollan 2001).

The issue here is therefore to explore the importance of industrial and commercial activity to sustainability. There are some challenges according to (Wilkinson, Hill and Gollan 2001) notably the commercial pressures from increasing environmental imperatives that include government regulation on environmental controls and standards, growing customer pressure for action concerning renewable forms of energy, and an awareness of the need to be a responsible citizen in the society. The key issue here is for managements' to empower there managers on how to confront the challenge of aligning the interests and needs of their business with those of their most important resource (people) to achieve and maintain productivity and competitive advantage.

Internal Environmental Analysis of Organisation - AvtoVAZ

AvtoVAZ was established in June 2001 when the general framework agreement was signed by representatives of General Motors, Avtovaz and European Bank for Reconstruction and Development (Avtovaz 2013). In addition the total shareholders capital contribution was \$238.2 million with the following breakdown of holdings-General motors \$99.1 million/41.61%; Avtovaz \$99.1/41.61%; European Bank for Reconstruction and Development \$40 million/16.78% in cash, and loan facility for \$100 million. Figure 11 shows the plant layout of the AvtoVAZ Company.



Renault- Nissan AvtoVAZ plant in Togliatti, Russia

Figure 11: The AvtoVAZ Plant Source: AvtoVAZ Home page

SWOT Analysis: Introduction

According to Dyson (2004) SWOT analysis aims to identify the strengths and weaknesses of an organisation and the opportunities and threats in the environment. Having identified these factors strategies are developed which may build on the strengths, eliminate the weaknesses, exploit the opportunities or counter the threats. The strengths and weaknesses are identified by an internal appraisal of the organisation and the opportunities and threats by an external appraisal.

Table 1: Below shows the elements in each of the quadrants of the SWOT table as identified with the organisation (AvtoVAZ).

SWOT Table – AvtoVAZ

Strengths	<p>Russia’s largest car manufacturer.</p> <p>Lada brand produced by the company remains the best-Selling brand in Russia, despite recent sharp falls in total sales.</p> <p>Renault-Nissan Alliance owned a majority shares of the company and that gives it a strong backing for the group to move forward</p> <p>Protected by government policy</p>
Weaknesses	<p>Losing ground to foreign car manufacturers.</p>

	<p>Limited own-brand portfolio. Company reported a loss and falling sales figures in 2013.</p>
Opportunities	<p>Upgrading of technology due to the increased investment from Renault-Nissan partnership. Planned engine plant to be built by the company would boost presence in the automotive component sector. New Chairman (the CEO of Renault-Nissan) has ambitious plans for the company. New CEO for AvtoVAZ is well regarded within the Russian automotive industry.</p>
Threats	<p>Russia is facing Western sanctions and international isolation due to its involvement in Ukraine, which had impacted on both the economy and vehicle sales.</p> <p>Even discounting the ongoing crisis in Ukraine, the economic outlook for Russia remains weak, which is impacting on demand for new vehicles over 2014 and will impact in 2015.</p> <p>More affluent consumers are turning to foreign brands, which could be threatening the company's best-selling product (Lada) leading market position. More foreign manufacturers are already operating local production.</p> <p>Tight credit conditions is making financing for car loans difficult in 2014 as less and less Russians could fulfill the conditions and is affecting company sales.</p>

Table 10: SWOT Table for AvtoVAZ
Source: Russia Autos Report Q4 2014.

The Organisation's role in sustainability initiative

AvtoVAZ has a policy in the field of environment in line with the sustainability initiative (AvtoVAZ 2014). The policy states the following:-

- To carry out activity according to applicable legal requirements and requirements of GM-AvtoVAZ Environmental Management System, corporate requirements of General Motors and other requirements related to its environmental aspects;
- Constantly improve Environmental Management System
- To use natural resources rationally;
- To demand from all personnel of the company to perform works according to working rules and norms of protection of the environment.
- To train the personnel with the purpose of increasing their ecological consciousness and understanding of the personal responsibility attached to the environmental conditions;
- To plan, supervise and improve ecological parameters of their activity with the purpose of decreasing the influence to the environment.

The policy is well spelt out but the main issue is getting the right managers to implement the policies has been the problem. That is the more reason why organisations should address the issue of sustainability from the human resources perspective.

Russia has undergone substantial change during the past two decades as the country has transitioned from the centrally planned Soviet system to a more market-oriented economy (Puffer and McCarthy 2011). Russian managers entered the decade of the 1990s ill-prepared to manage their companies in the country's chaotic transition to a market economy, according to May, Puffer and McCarthy (2005).

Human Capital: Conception and Complexity

The concept of human capital is concerned with the added value people provide for organizations. It has been well said by Chatzkel (2004) that "it is human capital that is the differentiator for organizations and the actual basis for competitive advantage". Human capital theory, as stated by Ehrenberg and Smith (cited in Baron and Armstrong 2007), conceptualizes workers as embodying a set of skills which can be "rented out" to employers. The knowledge and skills a worker has – which come from education and training, including the training that experience brings – generate a certain stock of productive capital. Human capital is an important element of the intangible assets of an organization. The other intangible assets include copyright, customer relations, brands and company image. All these, but especially the know-how, imagination and creativity of employees, are as critical to business success as 'hard' assets. The significance of human assets explains why it is important to measure their value as a means of assessing how well they are used and of indicating what needs to be done to manage them even more effectively.

5.0 Conclusion and Recommendations

To be and remain competitive, the Russian automotive companies and components suppliers need to become more efficient in the overall production processes and systems, in marketing/sales strategies, in Total Quality Management (TQM), and in all aspects of modernisation of infrastructure to achieve quality standards that could match the domestic and international automotive markets.

On sustainability, there is the need for the organisations in the automotive industry to take a more holistic and integrated approach to human resources management and environmental concerns. Managers would need to reassess their role, specifically their responsibility in persuading their organisations to adopt practices that supports a sustainable approach.

The new knowledge workers who every organisation need to recruit and retain are the driving force behind an organisation and are those capable of producing designs and development to deliver products to the markets which are less environmentally harmful; marketing management to raise consumer awareness of environmental factors and to achieve business success through the provision of environmentally safe products; human resources management which embrace the development of long term skills and operations management which looks beyond the usual parameters of costs, linking resource efficiency to environmentally sustainable processes and procedures.

Reference

AN OVERVIEW OF THE RUSSIAN AND CIS AUTOMOTIVE INDUSTRY (2013):

[online] Ernst & Young. Available from:

[http://www.ey.com/Publication/vwLUAssets/Automotive-survey-2013/\\$FILE/Automotive-survey-2013-RUS.pdf](http://www.ey.com/Publication/vwLUAssets/Automotive-survey-2013/$FILE/Automotive-survey-2013-RUS.pdf).

ANNUAL REPORT., 2011 (2012). [online]. AvtoVAZ. Available from:

http://www.lada.ru/images/annuals/annual_2011.pdf.

- ANTONOV, D., OKUNEVA, I., HANI, L. and KOVALENKO, V., 2013. New passengers cars in Russia: Porter's five forces analysis. Saint-Peterburg State University, Saint Peterburg, Russia.
- ASHRAFIAN, V. and RICHET, X., 2001. Industrial cooperation in the russian car industry. *Russian Economic Trend* 10(3&4), p. 30.
- AUTIO, E., 2005. Template for doing industry analysis.
- AVTOVAZ., 2014.[online]. Available from:
http://gmavtovazru/en/company/publikacii/dzheffri_glover_general_nyi_direktor.
[Accessed 14th November 2015].
- AZRAEL, J., CRANE, K. and PETERSON, D. J., 2004. Working paper- political and economic outlook for Russia and future of the automotive industry.
- BARON, A. and ARMSTRONG, M., 2007. Achieving value added through people. Kogan Page Limited, London, United Kingdom.
- BCG., 2013. [online]. Transforming Russia's auto industry: from recovery to competitiveness. The Bosting consulting Group. Available from:
<http://www.bcg.de/documents/file140259.pdf>. [Accessed 23rd December 2015].
- BODDY, D., 2013. Management: an introduction. 6th ed. England: Pearson Education Limited, Harlow.
- BUSINESS, M, I., 2014. Russia autos report Q4 2014
- CADLE, J., PAUL, D. and TURNER, P., 2010. Business analysis techniques: 72 essential tools for success. British Informatics Society Limited, Swindon, UK.
- CIA 2014. [online]. Available from: cia.gov/library/publication/the-world-factbook/geos/rs.html. [Accessed 26th November 2015]
- COULTER, M., 2005. Strategic management in action. 3rd ed. New Jersey: Pearson Prentice Hall.
- CROTTY, J. and RODGERS, P., 2012. Sustainable development in the russian federation: the limits of greening within industrial firms. *Corporate Social Responsibility Environmental Management*, 19, pp. 178-190.
- DATAMONITOR., 2011. Country analysis report: Russia in-depth PESTLE insights.
- DATAMONITOR., 2013. Automotive manufacturing in Russia. Marketline Industry Profile, 0153-2808, p. 26.
- DYSON, R. G., 2004. Strategic development and SWOT analysis at the university of warwick. *European Journal of Operation Research* 152(3), pp. 631-640.
- ERNST & YOUNG., 2013. An overview of the Russian and CIS automotive industry. Ernst & Young Global Limited, UK.
- EAC., 2013. Market opportunity for the European automotive industry in Russia: a study of current developments in the Russian automotive industry. EAC International Consulting.
- GHAURI, P. and GRONHAUG, K., 2005. Research methods in business studies: A practical guide. 3rd ed. New York, Financial Times Prentice Hall.
- GIA., 2014. [online]. Russia's WTO accession. Available from: www.globalintelligence.com. [Accessed 22nd November, 2015].
- HILL, C. and JONES, R.G., (2007). Strategic management theory: an integrated approach. 7th ed. New York: Houghton Mifflin Company.
- MANAGEMENT, S. G., 2014. SWOT analysis- definition, advantages and limitations [online]. Available from managementstudyguide.com/swot.analysis.htm. [Accessed 28th December 2015].
- MAY, R. C., PUFFER, S. and McCARTHY, D., 2005. Transferring management knowledge to Russia: A culturally based approach. *Academy of Management Executive*, 19(2), pp. 24-35.

- MITIN, S. G., 2000. The current state and development of the automobile industry in Russia. *Welding International*, 16(2), pp. 162-164.
- MORRISON, M., 2013. *Strategic diagnostic tools: theory and practice*. Create Independent Publishing.
- O'BOYLE, B., 2014. [online]. Explainer: what are the BRICS? Available from: <http://www.as.coa/articles/explainer-what-are-brics>. [Accessed 9th November, 2015].
- Olaniyan, D. A. and Okemakinde, T., 2008. Human capital theory: implications for educational development. *European Journal of Scientific Research*. Euro Journals Publishing. 24 (2008), pp. 157-162.
- OECD., 2014. [online]. Country statistical profile: Russian federation 2014. Available from: <http://www.oecd-library.org/economics/country-statistics-profile-russia-federation-20752288-table-rus>.
- PORTER, M., 2008. The five forces that shape strategy. *Harvard Business Review*. January 2008, pp. 2-18
- PORTER, M. E. AND HEPPELMANN, J. E., (2014). How smart, connected products are transforming competition. *Harvard Business Review*. Harvard Business School Publishing Corporation. 92(11), pp. 64-88.
- PORTER, M. and LINDE, V. D., 1995. "Green and competition-ending the stalemate", *Harvard Business Review*, Harvard Business School Publishing Corporation. September-October, pp. 120-134.
- PUFFER, M.S. and McCARTHY, D. J., 2011. Two decades of Russian business and management research: an institutional theory perspective. *Academy of Management Executive*, 25(2), pp. 21-36.
- REUTERS., 2013. [online]. Markets information service. Available from: Reuters.com/globalinvesting/2013/13/russias-people-problem/. [Accessed 20th December, 2014].
- STATISTICSPORTAL., 2014 [online]. Available from: <http://www.statista.com/statistics/271748/the-largest-emitters-of-co2-in-the-world/>. [Accessed 25th December 2015].
- TĂNĂSESCU, D., DUMITRU, F. and DINCĂ, G., 2012. The role of the international organisms in the globalisation process. *Globalisation-approach to diversity*.
- TANDON, R. and BANDYOPADHYAY., 2013. Civil society- BRICS engagement: opportunities and challenges. *Forum for Democratic Global Governance and Society for Participatory Research in Russia*.
- TRADINGECONOMICS., 2014. [online]. Russia economic indicators. Available from: www.tradingeconomics.com/russia/indicators. [Accessed 25th November 2015].
- UKEssays., 2013. Pestle Analysis for an automobile company. [online]. Available from: <http://www.ukessays.com/essays/management/pestle-analysis-for-an-automobile-company.php?cref=1> [Accessed 22 November 2015].
- WILKINSON, A., HILL, M. and GOLLAN, P., 2001. "The sustainability debate", *Journal of Operations & Production Management*, 21(12), pp. 1492-1502.
- WILSON., D. and PURUSHOTHAMAN, R., 2003. *Dreaming with BRICS: The path to 2050*. Goldman Sachs, Global Economics, Paper No.99.
- WORLD BANK., 2014. [online]. Available from: <http://data.worldbank.org/sites/default/files/wdi-2014-book.pdf>. [Accessed 23rd November 2015].
- WORLD BANK., 2014. [online]. Available from: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.zg/countries/RG-PLCZ?display=graph>. [Accessed 13th November, 2014].