

## **Increase in Competitiveness of the Regional Industrial Enterprises: Review and Prospects (Volgograd Region as an Example)**

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**Abstract:** In the fierce competition, that proceeds against globalization processes, Russian industrial enterprises are faced with the problems that become a priority: the problem of new market entry, the problem of fixing strategic positions in the existing sales markets, the problem of finding tools are adequate to the economic realities to create the significant competitive advantages. This article analyzes the state of the industrial enterprises of one of the largest regions of Russia in its potential – the Volgograd region.

**Key words:** Industrial sector • Steel industry • Processing industries • Financial state • Chemical branch • Bankruptcy • Conservation

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### **INTRODUCTION**

The notion of competitiveness is often associated with the notion of functioning efficiency in relation to the enterprises. Thus, the experts from the University of Washington have suggested that the enterprise is competitive if it produces goods and services of high quality, or at a lower price than its internal or external competitors.

In our opinion the fundamental principle to construct a competitive system is the principle of sustainability [1]. Its essence is in setting the appropriate parameters of sustainability and the ways of system's response to impacts, in determining the effectiveness and the speed of reaction to problems and crises and in developing the recommendations to increase (improve) the stability of system.

Because the modern industrial development has rather a crisis nature due to a number of financial, economic and social reasons, it would be interesting to analyze the competitiveness of industrial

enterprises of different economic sectors from the viewpoint of their sustainability in internal and external markets of a separately taken region – the Volgograd region.

### **RESULTS**

Modern Volgograd and the Volgograd region is a multisectoral industrial centre dominated by the heavy industry. Implementation of the industrial complex development in Volgograd city is based on work with socially significant enterprises of the city to stimulate the growth of the competitive products output, to increase tax payments to budgets of all levels and solve social issues.

The enterprises of all industries are on the territory of Volgograd city, such as: minerals extraction, energy and processing industries.

As of 01.01.2013 year, 2678 industrial enterprises were registered in the unified state register of legal entities, about 112 of them were large- and medium-sized.

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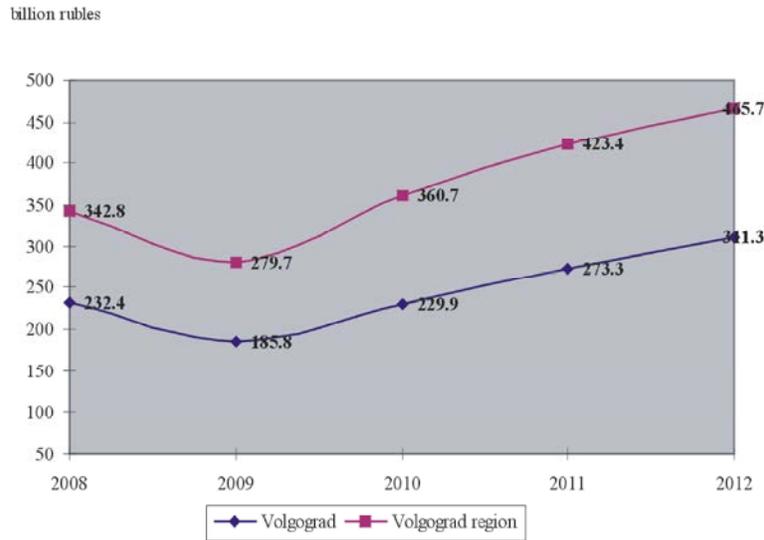


Fig. 1: The volume of works in processing industry, except for small entrepreneurship.

Table 1: Volumes of industrial production by types of activities

	Processing industries (billion rubles)		Minerals extraction (billion rubles)		Production and distribution of electricity, gas and water (billion rubles)	
	2011	2012	2011	2012	2011	2012
Volgograd	273,3	311,3	36,2	40,0	26,4	27,8
Volgograd region	423,4	465,7	38,7	44,9	53,3	53,0

In 2012 year the volume of shipped goods of industrial production in Volgograd city and the Volgograd region amounted to 40 billion rubles and 44,9 billion rubles respectively by the type of activity “minerals extraction”, to 311,3 billion rubles and 465,7 billion rubles respectively by the type of activity “processing industries”, to 27,8 billion rubles and 53,0 billion rubles respectively by the type of activity “production and distribution of electricity, gas and water” (except for small entrepreneurship) [2] (Table 1).

The rate of growth of employment decreased in the processing industries. In 2012, the enterprises of the processing industries hired 28,4 thousand persons, that is by 2,3 thousands less than in 2011. However, a number of retired workers amounted to 32,9 thousands, that is by 2,3% less than in 2011. The enterprises engaging in minerals extraction decreased a number of hired and retired persons also by 4,6% and 19,0% accordingly. The enterprises engaging in production of electricity, gas and water increased, on the contrary, a number of hired persons by 1,3% in 2012 and decreased a number of retired persons from 7,6 thousands up to 6,5 thousands [3].

From 2008 to 2012 the financial conditions of enterprises (excluding small businesses, banks, state and municipal institutions) were not stable. In 2008, the favourable growth trend of balanced results of enterprises’ financing activities was interrupted by the financial crisis. In 2010, the situation had changed a little and there was a growth of financial results 1,6 times more. During the last two years financial results decreased by 11% in 2011 and by 6% - in 2012 [4] (Figure 2).

In 2012, the specific weight of unprofitable enterprises accounted for 31,7% in Volgograd region and 32,5% - in Volgograd city, their share increased in 19 districts of the city and region as against 2008 [5] (Table 2).

The amount of profitable enterprises of Volgograd city and Volgograd region decreased sharply from 63,9 billion rubles in 2008 to 39,9 billion rubles in 2009. From 2010 to 2012 the amount of profit had increased, but it didn’t exceed the rates of 2008 [6] (Table 3).

In January-July of 2013 an advancement of the industrial production in Volgograd region was sufficiently low as against other regions of the Southern Federal District [7] (Table 4).

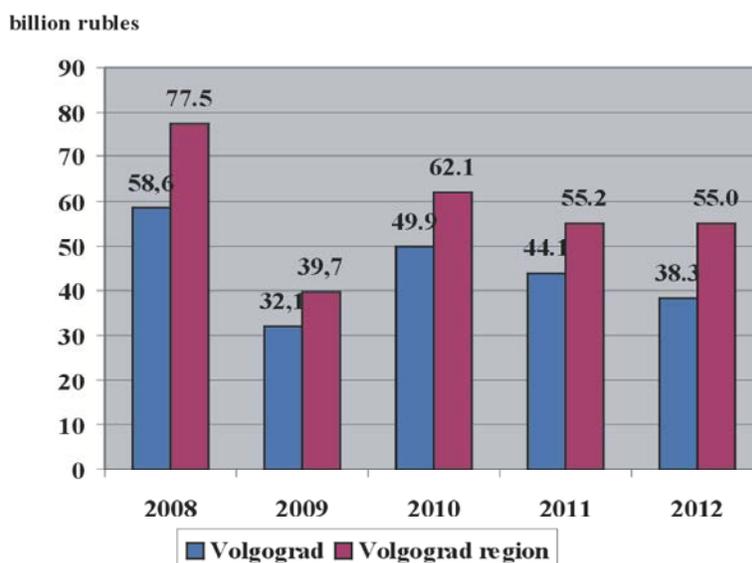


Fig. 2: Balanced results of enterprises' financing activities (profit minus loss)

Table 2: The specific weight of unprofitable enterprises and amount of their losses

	2008		2009		2010		2011		2012	
	to total amount (in%)	amount of loss (billionrubles)	to total amount (in%)	amount of loss (billionrubles)	to total amount (in%)	amount of loss (billionrubles)	to total amount (in%)	amount of loss (billionrubles)	to total amount (in%)	amount of loss (billionrubles)
Volgograd	32,0	5,3	35,8	7,8	31,0	6,1	33,6	6,3	32,5	12,3
Volgograd region	30,3	8,2	34,9	12,4	32,4	10,3	31,4	10,4	31,7	17,5

Table 3: The specific weight of profitable enterprises and amount of their profits

	2008		2009		2010		2011		2012	
	to total amount (in%)	amount of profit (billion rubles)	to total amount (in%)	amount of profit (billion rubles)	to total amount (in%)	amount of profit (billion rubles)	to total amount (in%)	amount of profit (billion rubles)	to total amount (in%)	amount of profit (billion rubles)
Volgograd	68,0	63,9	64,2	39,9	69,0	56,1	66,4	50,4	67,5	50,7
Volgograd region	69,7	85,8	65,1	52,2	67,6	72,4	68,6	65,7	68,3	69,5

Table 4: Comparative data of the industrial production in the Southern Federal District

Name of index	Volgograd region	Astrakhan region	Rostov region	Krasnodar territory	Republic of Adygei	Republic of Kalmykia
Turnover of enterprises, billion rubles	719,1	207,7	1176,7	1720,0	64,3	11,3
To january-july of 2012 (in%)	106,0	133,7	109,1	106,7	120,6	114,6
Index of industrial production, to january-july of 2012 (in%)	101,8	135,5	105,7	102,4	102,7	128,9
Index of production by kinds of economic activities, to january-july of 2012 (in%)						
Minerals extraction	97,9	160,7	97,9	97,8	226,2	125,0
Processing industry	101,7	105,3	106,3	101,7	97,2	136,3
Production and distribution of electricity, gas and water	106,9	101,5	104,9	109,3	80,7	107,3

These low indicators appeared just in time when some major city-forming enterprises were given hope of improvement of the industry growth in 2012.

One of the leading industrial enterprises of the metallurgical branch "VMC "Red October" close corporation has received the certificate of conformity to standards from the largest certificate authority in the world, such as 'Germanischer Lloyd' (GL, Germany)

N<sup>o</sup> WZ2551HH, which provides an opportunity to expand the product markets.

Also the corporation was granted a certificate of manufacturer recognition by Russian Maritime Register of Navigation (RMRN, Saint-Petersburg). It was included in the federal goal-oriented program of the military-industrial complex, due to which the enterprise could be invested in retrofit installation.

The Volgograd aluminium plant has planned to increase the alloy output through the contracts with one of the largest manufacturer of wheel disks in Russia such as “Azov-Tek” (Azov, Rostov region). Co Ltd “SYAL” as a branch of “VgAP-SYAL” had realized the investment project, in conformity with which the program was implemented to decrease environmental risks and to transit heat-energy consumers from steam to overheated water. Moreover, the equipment erection of the new foundry complex started, which would allow the enterprise to remain profitable [8].

The concern “Tractor plants” has signed a license agreement with the German company “Beinlich” for a broad range assembly of the cylinder and wide-cut sprinkling machines. The project implementation and the assembling management will reduce the value of the imported equipment by 10% in Russia [9].

In May 2012, one of the leading enterprises of the machinery and equipment industry, such as the Public Corporation “Volgogradneftemash”, received the international certificate of conformity ISO 13709:2009 (E) for oil centrifugal pumps K-type and units on their basis, that indicates the output goods satisfy the requirements of the international specification of quality and gives the equipment manufacturer an opportunity to have competitive advantages over the others.

The PC “Volgogradneftemash” secured the “Breakthrough of the year” nomination, as the best company according to the development rates, the new technics mastering, but it was also recognized as the best manufacturer of equipment for oil petroleum refineries in the “Reactor” nomination [10].

The “Empix” company started new woodworking manufacture on the basis of the former “Krasnoarmeysk-sawmill” in Volgograd-city. The enterprise includes three main departments for wood-processing: furniture, debarking, wood-work. The total capacity is 20.000 cubic meters of wood-processing per year [11].

The large enterprises are in the chemical industry such as the Volgograd Public Corporation “Khimprom”, the Public Corporation “Kaustik”, Volgograd branch-office of the limited company “Omsktechcarbon”, the Public Corporation “Volgograd oxygen plant”, where the concept of the diversified industrial chemical park creation became a line of development, that had assumed the petrochemical complex appeared on the territory of the public corporation “Kaustik”. The project to expand the production of innovative construction materials –

magnesium sheets and fire-proof magnesium materials – was chosen as the regional pilot program for development of innovative territorial cluster.

The Volgograd Public Corporation “Khimprom” was implementing the program for financial recovery and solvency restoration towards its creditors in 2012. The project of chlorohydrocarbon processing with perchloroethylene-emission was started to bring the waste products down through the sludge-processing and to attract additional profits with minimal costs [12].

In 2012 the Public Corporation “LUKOIL-Volgogradoilprocessing” implemented three investment projects to renew the coke industry, to hydrofine the diesel-oil (II line) and install the boiler-utilizer. The total value of the projects was 16,2 billion rubles [13].

Also the public corporation JV “Volgodeminoil” implemented successfully the investment projects to develop the Avilovskiy field, the Dobriy field, the Pamyatno-Sasovskiy field, the Pribortoviy field, Nemirovskiy field, the Vysotskiy field, the Oktyabrskiy field, the Matveevskiy field, the Amurskiy field. The enterprise was supported by the state through tax benefits and reduced tax rates [14].

So, according to the data of the web-site ‘www.volgadmin.ru’, a share of the machine-industry has decreased 5 times less over the last ten years and it ranks just 3,6% among the processing industries by this time [15].

In 2012, the criminal case was instituted because of the metallurgical plant “Red October”’s failure in Volgograd. Since 2009 year, the plant has stopped payments for services of suppliers at first, later the enterprise failed to pay on the banks’ loans. Since February 2012 the Close Corporation “VMP “Red October”” stopped also to transfer taxes to the budget according to the data of the Federal Tax Service Authority in Volgograd region. In July 2013 the TV-channel “Public television of Russia” reported also that the metallurgical plant ‘Red October’ owed the Pension Fund about 700 million rubles. In the regional PF workers’ opinions, the enterprise had not done any assignments over the last two years and its employees could not pretend to early payments – so called ‘hot standing’ – because of it. The Pension Fund intended to recover debts juridically [16].

In September 2013 the second building of the Volgograd aluminium plant (VGAP) was taken out of service. The third and the fourth buildings of the second

line of electrolysis had been disconnected earlier. So, the conservation process of the enterprise is putting into effect by the "RUSAL".

The main reason for the enterprise conservation is its unprofitability because of a huge share of power inputs, particularly, their amount is about 40% at the "VGAP". The key moment to reduce the net cost of aluminium is the cheap electricity [17].

"RUSAL" was even ready to buy the Volga hydropower station to negotiate the direct contracts with it trying to save Russian unefficient aluminium plants. As he did already for another problem enterprise, such as Bogoslovskiy plant, he had purchased the Bogoslovskiy heat station from the "KPS-Holding" to achieve the low tariffs. Also, the aluminium plant held negotiations for purchasing the small Ondonsk hydroelectric power plant from the "Gazprom-Energy Holding" in Karelia [18].

Over 2012 year the output of the chemical industry has decreased by 0,3% against 2011 year and amounted to 17679,3 billion rubles. In the industry there was the decrease in output of paint-and-lacquer coatings and paints by 9,0%, detergents – by 7,9%, calcium carbide – by 5,0%, primary plastic materials – by 4,0%, sodium hydroxide (caustic soda) – by 0,8% [19].

Also in 2012 VPC "Khimprom" was adjudged bankrupt by the arbitrage of the Vogograd region.

The output of enterprises engaging in distribution of electricity, gas and water (PC "Volgogradenergo", PC "Volgogradblelectro", PC "The South generating company – TGC-8", PC "Lukoil-Volgogradenergo" and others) decreased also by 10,6%, heat energy – by 4,0% over 2012 year against 2011 [20].

## CONCLUSION

Everything indicates that the authorities of Volgograd and Volgograd region must afterwards support both the profitable enterprises to realize the investment projects and the unprofitable ones to provide them with the interest-free loans and put them into break-even functioning. Economic growth support by investing effective, competitive, environmentally safe industries is capable not only of providing the industry growth, but also creating the new work places and above all, keeping the former ones – it is of no small importance. In the long term the sustainability of the industrial enterprises under competitiveness can be achieved only through activating the existing resource potential of the industrial complex,

it is possible on conditions that the government would support strategically significant enterprises of the region. The government support and regulation would be directed primarily to create the favourable institutional conditions for activization of the investment processes at all levels, it makes possible to start up the innovative development mechanism, which ensures the competitive positions.

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