

Efficiency evaluation of actions taken by regional subsidiaries of the holding company

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Abstract—The article is devoted to the analysis of holding subsidiaries in Omsk region. Now there is a need for developing regional techniques of efficiency evaluation when separating independent subsidiaries from holding companies. The research purpose consists in generalizing the existing indicators for efficiency evaluation of regional holding subsidiaries activity. The subject of the research is evaluation system of indicators reflecting the sustainable development of regional subsidiaries. The object of the study is the holding subsidiary PAO “Omskshina” of AO “Cordiant”. The used methods are analysis and synthesis, empirical and statistical techniques. The article gives the essence of the term “holding”. The author analyses different definitions of the term “holding subsidiary” given by foreign and domestic authors. The article states that the merger of companies into holding associations results in the synergy effect. Benefits and shortcomings of creating subsidiaries in holding associations are revealed in the article. The key purposes of creating holding subsidiaries are reflected in the present paper. In the research large leaders are listed, that is subsidiaries that perform their activity in the region. The author considers the two main techniques of activity efficiency evaluation in regional subsidiaries. The scientific novelty of the research consists in developing the stage-by-stage scheme of efficiency evaluation of activity in regional holdings subsidiaries of taking into account current trends of business. The offered process of efficiency evaluation depends on some specifics of activity in subsidiary companies. The process of efficiency evaluation of activity in holding subsidiaries, including the system of indicators, gives the chance to make assessment of the actual size of cost, production and financial performance in the subsidiary companies.

Keywords—regional subsidiary companies; holdings; synergy effect; sustainable development; efficiency, evaluation

I. INTRODUCTION

Rapid development of economic entities leads to creating of the competition in various spheres of regional business. As a result the owners of business need to create new models of business development to compete. One of methods is creating of such financial, economic, organizational, and managerial structures as holdings. Pankratova L.A. in her research notes that the holding is understood as the set of parent company and subsidiary company controlled by the former [1].

The synergy effect of companies merger into holding is connected with the fact that the positive result from creating the holding company can be achieved only by taking into account all competitive advantages of the companies entering structure of holding association. The key purpose of creating holding associations consists in receiving maximizing market value at the smallest costs.

Considering an organizational structure of holding, it is integrated it is possible to allocate the following components:

- (1) holding company;
- (2) representations and branches;
- (3) affiliated organizations;
- (4) dependent organizations
- (5) other economic entities.

Creating business within a holding model allows owners to get the following advantages, namely, to improve financial and economic activity indicators, as well as to increase profitability of sales, to maximize profit, to optimize tax planning in the activity and to increase efficiency of investment processes in the company.

Nyukhayev D. V. notes that important feature of the holding company activity is creating an optimum ratio of the centralized management and legal independence of the subsidiary companies [2].

In scientific literature foreign and domestic authors allocate various approaches to understanding the essence of the term "subsidiary companies"(watch Table 1).

Proceeding from the introduced definitions, it is possible to draw a conclusion that most of the authors consider that it is necessary to understand that the company controlled by parent company is a subsidiary company.

TABLE I. DEFINITIONS OF SUBSIDIARY COMPANIES

Author	Essence of the term
Darrell D. Dorrell [3]	is one that is run and owned by another company which is called the parent.
Joe Ben Hoyle [4]	is a company that is completely or partly owned by another corporation that owns more than half of the subsidiary's stock, and which normally acts as a holding corporation which tit least partly or a parent corporation, wholly controls the activities and policies of the daughter corporation.
Michael J. Novogradac [5]	refers to a corporation which is controlled, directly or indirectly, by another corporation. The usual condition for control is ownership of a majority (over 50%) of the outstanding voting stock.
Gorbunov A.R. [6]	is the instrument of achievement of both tactical, and strategic objectives of the company.
Kostina R.V. [7]	is the company which is under control by other company.
Handakova O. P.[8]	is juridical personality created by other enterprise or the founder with transfer of a share of the property fund to it.

Psareva N.U. considers that according to the Russian legislation subsidiary companies can have the form of joint-stock companies or limited liability companies [9].

In scientific literature such authors as Dobrovinskaya A.V., Lysunets M. V., Mareev I. S. mark out that subsidiary companies are created on purpose of:

- (1) allocations of the most effective production activities of holding in specialized subsidiary companies which allows to increase competitiveness of the whole holding;
- (2) optimization management for parent company;
- (3) reduction of financial and tax losses by means of the transfer prices and transactions;
- (4) distribution of the most risk transactions on subsidiary companies in which responsibility is limited and is not affected by property of parent company. [10, 11, 12]

Semenikhin V. V. allocates the following benefits of creating subsidiary companies:

- control over activity of subsidiary companies by means of management of the controlling shareholding which are owned by parent company;
- absence of the need of implementing a subsidiary financing by a parent company, as the subsidiary activity is not the main condition in developing production;
- possibility of additional attraction of financing from foreign investors for creating of the authorized capital of holding subsidiary [13].

Vanesyan O. in the research regards a possibility of disintegrating a production system of an enterprise as one of the shortcomings of a subsidiary company [14]. For the purpose of prevention of such effect it is necessary to establish control of the assets flow and funds of subsidiary companies. For these purposes it is necessary to pay special attention to preparation of constituent documents and to resolve properly an issue of distributing powers of governing bodies.

II. METHODS

In the course of the research of activity efficiency in subsidiary companies the following methods of research were used: analysis and synthesis, method of expert evaluations.

In the paper the large subsidiary companies of federal holdings existing in the Omsk region are introduced. According to the activity of subsidiaries which are counted on the example of PAO "Omskshina" some are offered.

III. RESULTS

In the Omsk region there are subsidiary companies of industrial holdings, such as: AO "Gazpromneft- Omsk Refinery", Separate division of PAO "Gazpromneft" in Omsk "Baranov Omsk motorostroitelnoe obединenie" ("The Omsk engine-building consolidation of P.I. Baranov"), PO "Polet"("Flight") – filial AO "gosudarstvenny kosmichesky nauchno-proizvodstvenny center im. M. V. Hrunicheva"(M. V. Hrunicheva state chemical production centre", OOO "Omskvinprom", AO "SAN INBEV", AO "Group of

Companies "Titan", OOO "Omsky zavod tekhnicheskogo ugleroda" "Omsk plant of technical carbon" , PAO "Omskshina" AO "Territorial Generating Company №11"), Separate division of Omskenergo – branch of PAO "MRSK Sibiri".

The turnover regional leaders, according to the results of 2017, made of 928 million rubles or 108.4 % to the level of the same period of the last year.

At the present stage of social and economic development of the region the efficiency of functioning holding subsidiary companies of is shown in their sustainable effective development which finally will have an impact on sustainable development of holding associations in general.

We will consider the existing techniques of activity efficiency evaluation in subsidiary companies.

Gerasimets N. N. suggests the technique to make efficiency evaluation of activity in subsidiary companies on the basis of the following indicators: finance, marketing and management [15].

According to the specified technique the efficiency of the above-named indicators includes:

- in the field of finance two components: assessment of financial and economic activity of subsidiary company and assessment of its relations with the budget;
- in the field of marketing assessment of subsidiary company position in the market and its assessment by consumers.
- in the field of management assessment of the effective management of personnel through management efficiency of subsidiary company in general.

The other technique was offered by Bank B. R. [16]. According to the specified technique the main evaluation stages of subsidiary company efficiency are:

(1) collection and the analysis of initial information for the studied period;

(2) choice of the system of indicators which will be used for the purpose of implementing a rating assessment of finance, profitability and business activity of subsidiary company, and calculation of a target indicator of rating assessment;

(3) classification (ranging) of subsidiary company according to some rating. Initial indicators for rating assessment are united in four groups.

The 1st group contains indicators of efficiency evaluation of business activities, including indicators of profitability of subsidiary company activity. Indicators of efficiency evaluation of subsidiary company management enter into the 2nd group. The 3rd group consist of assessment indicators of business activity in subsidiary company. The 4th group includes assessment indicators of liquidity and financial stability of subsidiary company.

The carried-out analysis showed that there are various approaches to the activity efficiency in subsidiary companies. In the Fig 1 the author presents the scheme of

implementing efficiency evaluation of activity in regional subsidiary companies.

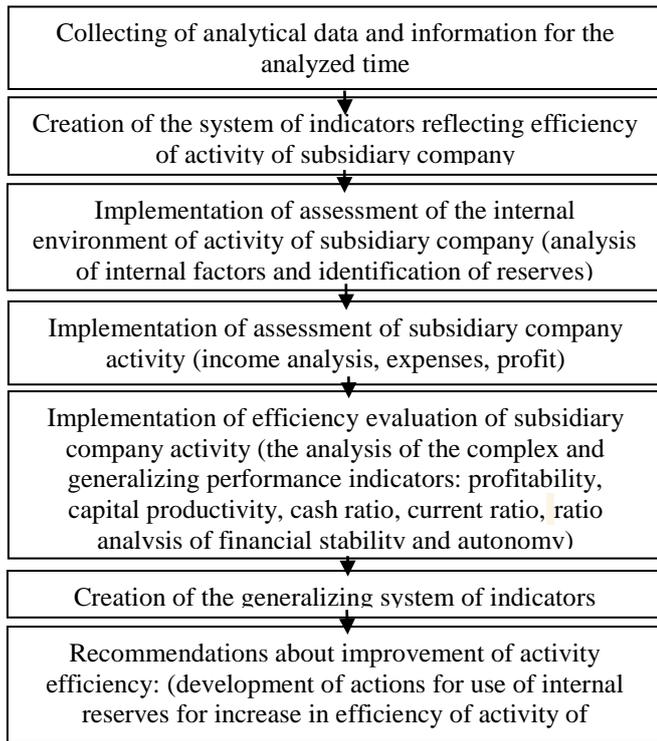


Fig. 1. Process of efficiency evaluation of activity in holding subsidiary companies

Let's conduct the analysis of activity of affiliated company PAO «Omskshina» of holding AO «Kordiant» according to the basic characteristics (see Table 2).

TABLE II. SWOT-ANALYSIS OF PAO «OMSKSHINA»

Strengths	Weaknesses
has modern technological strengths and available raw materials, large manufacturing company of modern size types	remoteness of the plant from the European part of the Russian Federation
Opportunities	Threats
increasing sales of highly profitable branded products, improving the performance and operational characteristics of tyres	competition of foreign tyre manufacturers, the risk of rising interest rates

The company constantly improves the quality of products, carries out measures to optimize and improve the production, technological processes of activity. Currently, the priority of PAO «Omskshina» activity is the implementation of measures to increase labor productivity and overall business efficiency. Table 3 presents the assessment of the performance of PAO «Omskshina» for 2016-2017.

TABLE III. ASSESSMENT OF THE PERFORMANCE OF PAO «OMSKSHINA»

Name of indicators	2016	2017	Absolute change
Revenue	9984599000	11310454000	1325855000
Net profit (loss)	31238000	65468000	34230000
Profit before tax	49868000	83971000	34103000
Profitability of activity	0.5 %	0.7 %	0.2 p.p.
Pure profitability	0.3 %	0.6 %	0.3 p.p.
Capital productivity	8	8.8	0.8
Cash ratio	1 %	0 %	-1 p.p.
Ratio analysis	101 %	113 %	12 p.p.
Financial stability	23 %	66 %	43 p.p.
Autonomy coefficient	22 %	63 %	41 p.p.

(it is calculated on the information system Face: Expert)

In 2017 the proceeds from the sales of PAO «Omskshina» in comparison with 2016 increased by 13.3 %. The general financial result (net profit) for 2017 increased by 2.1 times in comparison with the same period of the last year or in absolute expression by 34 million rubles. Pure profitability of activity increased by 0.3 items and made 0.6 % at the end of the analyzed period. PAO «Omskshina» efficiently uses fixed assets, so the capital productivity for the analyzed period increased by 0.8 rubles, i.e. in 2017 8.8 rubles of revenue falls on the unit of fixed assets of PAO «Omskshina». The analysis of financial stability of the enterprise belongs to the number of the indexes reflecting the activity stability of the enterprise. At the end of the analyzed period the value of the index was 66 % which exceeds a standard value. It is possible to make a conclusion that the subsidiary will remain solvent in the long term.

Thus, the PAO «Omskshina» subsidiary successfully develops in producing commercial tyres which allows AO «Kordiant» holding to perform further optimization of arranging production capacities, to concentrate on perspective segments of the tyre market and to increase profitability of conducting holding business.

IV. CONCLUSION

The effectiveness of subsidiary activity can't be estimated only by the analysis of financial performance. Exercise of the complex, comprehensive and deep analysis of functioning of subsidiaries will allow to define the strengths and weaknesses of subsidiary activity for determining the further development strategy of holding in general. In the course of functioning of any holding the analysis of its subsidiaries is the main part of upgrading the work quality in holding associations.

The use of the offered process will allow the holding companies to analyze quickly the state of the subsidiary companies, to make timely management decisions concerning the optimum forming and using resources for ensuring financial stability. This process will also render the assistance to increase the performance efficiency in subsidiary companies.

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