

Challenges and solutions for HRM in international organization
(based on materials of PrJSC “Philip Morris Ukraine”)



Master thesis

To Earning a Master of Science

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Abstract

This thesis is devoted to the topic of challenges and solutions for human resources management (HRM) in international organizations. The aim is to investigate methodological approaches to assessment of HRM challenges and solutions, and to apply them on practice, to develop ways of improvement of HRM of a particular enterprise. The practical research question investigated is “Is the Ongoing Professional Development – Strategic HRM (OPD-SHRM) model a better solution for HRM system of PrJSC “Philip Morris Ukraine”?”

To achieve the aim of this work and to answer the research question, we have studied theoretical approaches to explaining and assessing HRM in section 1, analyzed HRM system of an international enterprise in section 2, and then synthesized theory and practice to find intersection points in section 3.

Research findings indicate that the main challenge of HRM is to balance between individual and organizational interests. Implementation of OPD-SHRM is one of the solutions. Switching focus from satisfaction towards success will bring both tangible and intangible benefits for individuals and organization. In case of PrJSC “Philip Morris Ukraine”, the maximum forecasted increase is 330% in net profit, 350% in labor productivity, and 26% in Employee Development and Engagement Index.

Key words: human resources management, challenges, solutions, international organization, effectiveness, OPD-SHRM

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List of Abbreviations

BAT.....	British American Tobacco
bio.....	billion
CAGR.....	Compound Annual Growth Rate
CBI.....	Competency Based Interview
CCE.....	Cash and Cash Equivalents
EBIT.....	Earnings Before Interest and Taxes
EOS.....	Employee Opinion Survey
EU.....	European Union
FG.....	Finished Goods
GCC.....	Gulf Cooperation Council
HR.....	Human Resources
HRM.....	Human Resources Management
IMP.....	Imperial Tobacco
IT.....	Information Technologies
JTI.....	Japan Tobacco International
KPI.....	Key Performance Indicator
LLC.....	Limited Liability Company
MAP.....	Managing and Appraising Performance
mln.....	million
OPD-SHRM.....	Ongoing Professional Development - Strategic Human Resources Management
P&L.....	Profit and Loss
PMI.....	Philip Morris International
PMSD.....	Philip Morris Sales and Distribution
PMU.....	Philip Morris Ukraine
PPE.....	Property, Plant and Equipment
PrJSC.....	Private Joint-Stock Company
ROA.....	Return on Assets
ROE.....	Return on Equity
SKU.....	Stock Keeping Unit
th.....	thousand
UAE.....	United Arab Emirates

Introduction

With the development of social production and the transition to post-industrial principles of its functioning, the fundamental importance of human resources in the development of civilization becomes increasingly evident. Public development is inextricably linked with the dynamic updating of the system of managerial relations, which, among other things, manifests itself in increasing the role of a set of measures aimed at improving the human resources management system.

Execution of foreign economic activity by an enterprise and production of goods that would be competitive in foreign markets depend not only on technical equipment of an enterprise, availability of modern technologies, clear system of product quality control, market environment research and consistent implementation of promotion strategies, but also on qualification of employees of an enterprise and effective human resources management (Кириченко, 2015, p.67).

HRM plays one of the leading roles in the management system of an enterprise, since achievement of the main goal directly depends on the labor productivity of employees. At the heart of any commercial organization there is a group of people who carry out certain activities for the sole purpose: to make profit. That is why it is necessary to direct and motivate people so that they make the greatest possible contribution to achieve that main goal of an organization. A manager always tries to persuade employees to work more productively and to maintain their interest in the results of work. The provision of an enterprise with labor resources, their rational use, and high level of labor productivity contribute to an increase of production volumes, efficient use of equipment and machinery, reduction of production costs and increasing profits.

The *relevance* of the chosen topic lies in the fact that modern conditions are characterized by an increase in the role of personnel in enterprises, because it is the productive work of human resources that guarantees the prosperity and high profitability of any organization. This is due to the following factors: changes in the content of labor, caused by the use of new technology; transformation of control function, increase of significance of self-control and self-discipline; macroeconomic factors (aggravation of competition in the market, orientation of enterprises to meet consumers' demand, increasing attention to the quality of goods); change in the forms of work organization at enterprises; improvement of educational and cultural levels of employees; change of priorities in the system of personnel values (Балабанова &

Сардак, 2016, р.5). The mechanism of HRM has particular importance for international enterprises.

The ***theoretical significance***: this work will be a generalized basis of theoretical and practical solutions to the challenges of human resources management, and will form the basis for more in-depth studies.

The ***practical significance***: organizations can analyse their current HRM system with its challenges and existing solutions, compare them to the ones described in this work, choose the best solutions and apply them to improve the effectiveness of human resources management and overall organization. This work also contains practical tips for improvement of HRM of PrJSC “Philip Morris Ukraine”.

The ***object*** of this work is human resources management in international organizations.

The ***subject*** of this work is challenges and solutions for HRM in international organizations.

The ***purpose*** of this work is to consider the theoretical basis of human resources management of an enterprise, to define the possible challenges of HRM, to consider the methodical approaches to the assessment of these challenges and their solutions, as well as to investigate the use of theoretical principles of human resources management in practice, on an example of a particular enterprise. The final purpose is to develop ways of improvement of HRM of PrJSC “Philip Morris Ukraine”.

Research methods: generalization of theoretical materials, comparison of theory with practice, conducting analogies between theoretical assumptions and manifestations in practice, formalizing influence of factors through formulas, synthesis of theory and practice to find intersection points.

To achieve the purpose of this work, the following tasks were solved:

- theoretical approaches to explaining human resources management are disclosed;
- the mechanism of HRM is analyzed;
- approaches to assessing human resources management are described;
- financial and economic activity of an international enterprise operating in Ukraine are analyzed;
- human resources management system of an enterprise is analyzed;
- directions of improvement of HRM the given enterprise are revealed.

Master thesis was written using the materials of PrJSC “Philip Morris Ukraine” (PMU), where I have passed my pre-diploma internship. PMU is an affiliate of Philip Morris

International (PMI) - an American corporation, which is one of the biggest tobacco companies in the world. It has been present on Ukrainian market since 1994. It has a head office in Kiev, and a factory in Kharkiv. PMU also manages the affiliates of PMI in Armenia, Georgia and Moldova. In 2017 the company has produced 32,96 bio cigarettes and collected revenues of 10,7 UAH bio.

Using the obtained work experience and theoretical information about the peculiarities of human resources management system of PrJSC “Philip Morris Ukraine”, we have analysed company’s HRM system and its elements, as well as developed ways of improvement of HRM for the company.

Section 1. Theoretical Basis of Human Resources Management in International Organization

1.1. The essence of human resources management in international organization

In the transition to a market economy, enterprises have to operate in a competitive environment, find and expand their "niche" in the market of goods and services, master new type of economic behavior, and constantly prove their competitiveness. In this regard, every day requires an increase in the contribution of each employee in achieving the goals of an enterprise, and one of the main tasks of each economic entity is search for effective ways of managing human resources, that is, ways to ensure the activation of the human factor (Колот, 2017, p.3).

For the most complete development of the topic of this work, first of all, it is necessary to clearly identify what the labor resources, hired workers, personnel and staff of an enterprise are. Labor resources are part of the able-bodied population, which according to their age, physical, and educational characteristics corresponds to one or another sphere of activity. Hired workers are employees who work for a certain salary, stipulated by an employment contract. Under the staff we understand the regular (permanent) skilled workers who have undergone previous refresher training, have work skills, work experience, specialist knowledge in the chosen field of activity and are in labor relations with the management of firms. Personnel are the entire manpower of an institution, organization, enterprise, all permanent and temporary workers, representatives of skilled and unskilled labor (Петюх, 2015, pp. 24-25).

In the process of production, the optimal combination of such factors as the means of production, materials and labor is carried out. These factors also include such variable factor as management, the main tasks of which are planning, organization and control. Considering the factors of production, along with technical and economic problems, it is necessary to take into account social and human interests. Man, as a carrier of the productive factor of labor, is different from other factors of production, primarily because it is not a passive subject, but has its own thoughts, goals, initiative, and is guided by certain needs. Within a classical approach to management, a man is a factor in production. However, according to many scholars, such an approach to management does not meet the needs of the current world. Instead, there is a new approach to human management, according to which, human resource policy becomes an active strategy.

This strategy integrates into the overall policy of human resource management. A new, non-classical vision of management makes it possible to consider a person as a factor in implementation of organizational policies, source of income, cultural, transformative, and creative power. The human work in an organization must be used in a way to ensure the optimal use of human resources, the potential of organizational behavior of employees.

Managers need to take into account two aspects of organizational behavior as a management problem:

- Socio-psychological - spheres, methods and means by which the manager can influence the organizational behavior of the subordinate;
- Organizational and technical - measures that must be taken within an organization to orient the organizational behavior of employees to achieve production goals (Храмов & Бовтрук, 2015, p.17).

The processes of human management were carried out in all civilizations and in different societies. HRM is a specific function of management activity, the main object of which are people belonging to certain social groups, labor collectives. Executives and specialists who perform management functions in relation to their subordinates serve as subjects of HRM.

Hence, human resources management is a deliberate activity of an organization's management team to develop concepts, strategies of personnel policy and methods of human resources management. It is a systemic, systematically organized influence through a system of interconnected economic and social organizational measures aimed at creating conditions for the normal development and use of labor force potential at an enterprise level. Planning, forming, redistribution and rational use of human resources is the core content of human resources management (Крушельницька, 2005, p.8).

Human resources management should be consistent with the concept of enterprise development, protect the interests of employees and ensure compliance with labor legislation in the formation, consolidation (stabilization) and use of personnel. In modern conditions, the basis of the concept of human resources management is the growing role of an employee identity, knowledge of his/her motivational settings, and ability to form them and guide them in accordance with the tasks that an organization faces.

The basic tasks of human resources management include:

- provision of an enterprise with required quantity and quality of personnel for the current and future periods;
- creation of equal opportunities of labor efficiency and rational occupation of employees, stable and uniform workload during the working period;
- satisfaction of reasonable staffing needs;
- ensuring compliance of the labor potential of an employee and his/her psycho-physiological characteristics to the requirements of the workplace;
- maximum performance of various operations in the workplace.

The typical tasks of HRM, as well as the methods to be used for each task, are discussed in more detail in Table 1.1.

Table 1.1

Tasks of human resources management

Task of HRM	What needs to be defined	Research methods
Formation of structures and staff	<ol style="list-style-type: none"> 1. Psychologically substantiated standards of controllability and optimal size of production teams 2. Professional qualification requirements for employees 3. Socio-psychological models of production teams 	Analysis of content of work, compliance with professional requirements of the workplace. Modeling, expert evaluations.
Recruitment	<ol style="list-style-type: none"> 1. Level of development of general and special abilities of a person 2. Individual psychological features of a person, his/her orientation 	Observation, conversation, documents analysis, tests of interests, intellectual tests, tests of special abilities, experiment
Personnel development	<ol style="list-style-type: none"> 1. Level of professional knowledge, skills, desires of an employee 2. The most effective forms of vocational training 3. Effective means of influence on those who are studying 	Surveys, expert evaluations, conversation, business cases, situational tasks, experiment, training
Personnel assessment and placement	<ol style="list-style-type: none"> 1. Fit between an employee and his/her workplace 2. Opportunities for further cooperation 3. Results of labor activity 4. Place of an employee in the collective 	Surveys (questionnaires, interviews), group assessment of personality, expert evaluation, observation
Rational use of personnel	<ol style="list-style-type: none"> 1. Reasons for discipline violation 2. Socio-psychological climate in the team 3. Efficiency of personnel work 	Documents analysis, tests, questionnaires, survey method, analysis of disciplinary power, conversation, analysis of team work results, leadership style

Source: own representation based on Загірняк, 2015, p.383

Human resources management system in an enterprise consists of many subsystems, each of which performs appropriate functions.

The subsystem of general and linear management manages the organization as a whole, as well as individual functions and production units. Functions of this subsystem are performed by the head of an organization, his/her deputies, heads of functional and production units, and their deputies.

The subsystem of personnel planning and marketing performs the following functions: development of personnel policy and personnel management strategy, human resources analysis, labor market analysis, personnel planning, planning and forecasting of staffing needs, etc.

The subsystem of personnel management and accounting organizes personnel hiring processes and activities, assesses selection and recruitment of staff, accounts hirings, transfers, promotions and dismissals of the personnel, takes care of professional orientation and organization of rational use of personnel, etc.

The subsystem of labor relations management conducts analysis and regulation of group and personal relationships, analysis and regulation of relations of management, management of industrial conflicts and stress, etc.

The subsystem of ensuring normal working conditions fulfills the following functions: compliance with the requirements of psychophysiology and ergonomics of labor, compliance with the requirements of technical aesthetics, occupational safety and environmental protection.

The subsystem of personnel development management carries out: training, retraining and advanced training, entry into the office and adaptation of new workers, evaluation of candidates for a vacant position, periodic assessment of personnel, etc.

The subsystem of personnel behavior motivation management performs the following functions: management of motivation of labor behavior, normalization and rating of labor process, development of remuneration systems, development of forms of employee participation in profits and capital, etc.

The subsystem of social development management carries out: organization of public nutrition, management of housing and communal services, development of culture and physical education, provision of health and rest, provision with children's institutions, management of social conflicts and stress.

The subsystem of managerial organizational structure development performs such functions as analysis of the formed management organizational structure, design and formation of a new management organizational structure, development of schedules.

The subsystem of legal support of the system of human resources management carries out: settlement of legal issues of labor relations, coordination of administrative and other documents on human resources management, settlement of legal issues of economic activity, consultations on legal issues.

The subsystem of information support of the human resources management system performs the following functions: keeping records and statistics of personnel, information and technical support of the HRM system, provision of personnel with scientific and technical information, etc. (Новицкий, 1991, p.134).

Schematically, the structure of human resources management is depicted in figure 1.1.

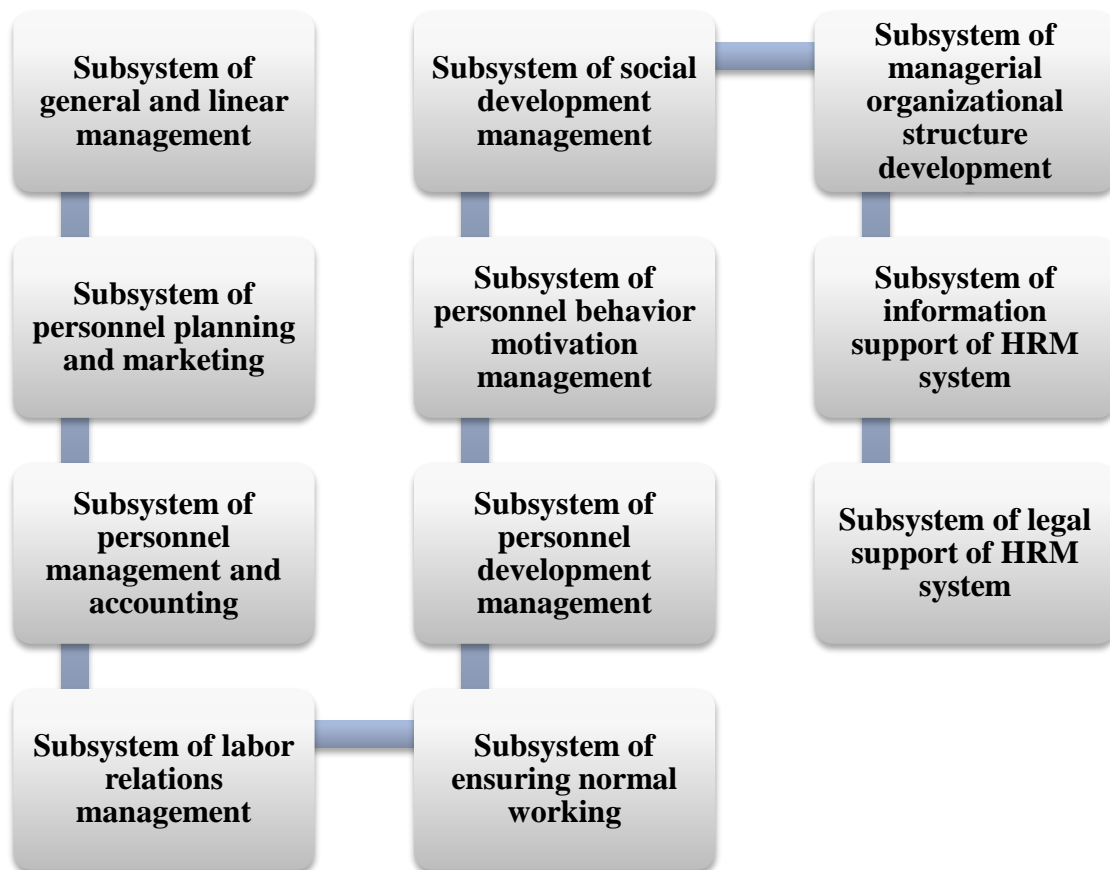


Fig. 1.1. System of human resources management (Source: own representation based on Новицкий, 1991, p.134)

To conclude, human resources management is responsible for the most important production factor – labor. The core activities of human resources management is planning, forming, redistribution and rational use of human resources. HRM consists

of many subsystems, each of which performs appropriate functions. Such variety allows for complex approach to ensure all aspects of labor are covered.

1.2. Mechanism of human resources management in international organization

At the heart of the mechanism of HRM of an international enterprise is its personnel policy, because it is used to implement the functions of each of the subsystems of HRM under consideration. Personnel policy is a set of principles, methods, and forms of organizational mechanism for the formation, reproduction, development and use of personnel, creation of optimal working conditions, work motivation and stimulation. Personnel policy defines the general line and the principle guidelines for human resources management for a long-term perspective (Крушельницька, 2005, p.38).

The main objectives of personnel policy are:

- timely provision of personnel of required quality and in sufficient quantity;
- provision of conditions for implementation of the rights and obligations of citizens envisaged by labor legislation;
- rational use of labor potential;
- formation and maintenance of effective work of labor collectives (Петюх, 2015, p.33).

Personnel policy includes the following elements:

- employment policy, which covers provision of highly skilled personnel, creation of attractive working conditions, ensuring of their safety, and creation of career opportunities in order to increase the level of work satisfaction;
- training policy, which involves formation of an appropriate training base, opportunities for advanced training and realization of aspirations for professional growth;
- compensation policy, which covers provision of wages that are relatively high compared to other employers, and that would correspond to the experience, abilities and attitudes of an employee to his duties, his labor contribution;
- welfare policy based on providing a wide range of social benefits, creating conditions that are attractive to employees and mutually beneficial for them and for an enterprise firm;

- labor relations policy, which provides for establishment of certain procedures to prevent emergence of labor conflict, establishment of a better style of management, relations with trade unions, etc. (Храмов & Бовтрук, 2001, p.76).

Personnel policy, firstly, forms the requirements for the labor force at the hiring stage. Such requirements include the necessary level of education, special training, work experience, personal qualities, professional skills, etc. Secondly, personnel policy affects an attitude towards "investment" into labor force, targeted influence on personnel development, as well as stabilization of the team and the nature of the training of new employees, retraining and refresher training. Personnel policy, in general sense, should be based on such principles as justice, consistency, equality, absence of discrimination on the basis of age, gender, religion, compliance with labor legislation. Each organization independently defines its personnel policy, but there are a number of factors that, in any case, have a direct impact on its formation. The above factors can be divided into two groups: external and internal.

External factors include national labor law, relationship with the trade union, state of economic conditions, state and prospects of development of the labor market.

Internal factors are structure, goals and strategy of an organization; territorial placement; production technologies; organizational culture; quantitative and qualitative composition of current personnel and its possible changes in perspective; financial capabilities of organizations that determine the permissible level of personnel costs; current payment level (Крушельницька, 2005, p.40).

Personnel policy is closely linked to the system and subsystems of HRM, and, therefore, performs similar tasks and functions. The main elements of personnel policy include:

- 1) Choice of management style, which determines the choice of other tools
- 2) Social policy and wage policy (labor motivation)
- 3) Policy in the field of education, advanced training and appointment
- 4) Creation of proper working conditions
- 5) Provision of personnel (Храмов & Бовтрук, 2015, p.21)

Thus, the mechanism of human resources management of a company is based on implementation of personnel policy, which, in turn, is implemented through a set of methods of impact on personnel. Methods are a way to influence the team or individual employee to achieve the goal and to coordinate his/her activities in the production process. In the theory and practice of management there are three groups of methods:

administrative, economic and socio-psychological. The proper application of those methods is one of the main challenges of HRM.

Administrative methods are based on authority, discipline and punishment, known in history as a "whip method". They rely on administrative subordination of an object to a subject, on the basis of the existing management hierarchy. Administrative methods are guided by such motives of behavior as a need for labor discipline, sense of duty, person's desire to work in a particular organization, culture of work. They are quite diverse and operate through the following mechanisms:

- legal norms and acts - state laws, decrees, regulations, standards, instructions, approved by state authorities and mandatory for compliance;
- instructions, organizational schemes, standardization;
- orders used in the process of operational management.

The main functions of administrative methods are to provide a stable legal environment for organization's activities, protect the specific environment, and guarantee rights and freedoms.

Economic methods are based on the use of economic incentives and are known as the "carrot method". They are used for material stimulation of the collective and individual workers.

Socio-psychological methods are based on the use of moral incentives for work and affect personnel with a help of psychological mechanisms in order to translate administrative tasks into a conscious responsibility, the inner need of a person (Крушельницька, 2005, p.19).

At the heart of human resources management mechanism there is an effective labor motivation, because it helps to increase the labor productivity, increase the volume of produced and sold products, thereby positively affecting profitability of an enterprise. The abovementioned methods of HRM are implemented with a use of various tools of motivation.

All tools for labor motivation can be divided into material and non-material incentives, compensations and mixed incentives. All of them form a system of personnel incentives. Labor motivation cannot be effective without satisfying material needs, focusing on the material interest of employees. Increase in the value of labor and status motives does not mean an absolute decrease in the role of material motives and incentives. They continue to be an important catalyst that can significantly increase work activity and contribute to the achievement of personal and organizational goals

(Колот, 2017, p.50). The main material incentive, of course, is salary. It is conventionally divided into two parts: base and extra. A base wage/salary is the remuneration for the work performed in accordance with the established norms of labor (norms of time, production, service, duties). It is set in the form of tariff rates and piece rates for workers and employees. An extra wage/salary is the remuneration for work exceeding the established norms, labor advancements and ingenuity and special working conditions. It includes fringe benefits, allowances, warranties and compensatory payments, bonuses (Прокопенко, 1998, p.327).

Depending on the factors taken into account as the basis for salary calculation, all its numerous varieties (systems) are divided into two main forms: hourly and piece rate. A piece rate form of salary is a payment, which is established depending on the quantity of products manufactured, work performed or services rendered in a certain quality and which are carried out in accordance with the norms and rates established in accordance with the level of work performed. At the same time for each unit of production there is an established amount of payment - a piece rate. In the piece rate form of salary, the level of labor is the product produced by the worker (or the amount of work performed), and the amount of earnings is directly proportional to its quantity and quality, based on the established piece rates.

The piece rate salary is effective in cases where scientifically sound labor rate setting is used, which enables an establishment of technically sound production norms or time standards; a correct tariffing of works is carried out in accordance with the requirements of tariff-qualifying directories; there are well-stocked production records; there is control over the quality of work performed; a rational organization of labor is provided, which helps to eliminate the loss of working time for organizational and technical reasons. The piece rate form of salary is represented in the following systems: direct piece rates; piece plus-bonus rates; progressive piece rates; indirect piece rates; accord.

In the case of a direct piece rate system, the worker receives a payment for each unit of the product, equal to the piece rate, regardless of whether the norm of output has been fulfilled or over fulfilled. Piece plus-bonus system of remuneration stimulates achievement of quantitative and qualitative indicators in the labor process. The progressive piece rate salary system implies a progressive increase in rates depending on the achievement of production norms and is used in works that affect the results of the workshop or an entire enterprise, as well as in cases where it is necessary to increase the output without introduction of additional equipment and without increasing the

number of workers. Indirect piece rate salary system is used for auxiliary workers or support workers employed by the main workers. Their earnings depend on the results of work of the workers they serve. The accord salary system oversees an establishment of a piece rate for the entire complex of works, based on the current norms of production and piece rates. Often, the accord system is used in industries with a long production cycle (shipbuilding, heavy machinery); as well as for the payment of workers in the event that they perform their work in a short time (repair of large aggregates, performance of loading and unloading and construction works) (Федоренко, Діденко, Руженський, & Іткін, 2008, p.256).

Except for piece rate payment method, there is also an hourly payment method, that is, the payment for a certain length of work (hour, day, month). The application of hourly salary requires:

- accurate accounting and control over the actual time worked;
- proper assignment of tariff ranks to employees according to their qualifications and taking into account the qualification level of the work performed;
- development and proper application of reasonable production norms, tasks norms, service and quantity norms.

At modern enterprises, labor of workers with hourly pay should be standardized and assessed on the basis of indicators that take into account the results of their work. Such indicators can include:

- production tasks that determine an amount of work per shift, week or month for each hourly worker;
- planned production norms or tasks for a brigade, a shop;
- labor standards that can be established as a degree of compliance with technological parameters, regimes, norms of consumption of raw materials, materials and other productive resources, terms of execution of certain types of work, etc.

In a simple hourly system, amount of earnings is determined depending on the tariff rate of the worker and the amount of time worked out by him. By way of paying, hourly payment can be hourly, daily, monthly. A more effective system is hourly plus-bonus system. Under this system, earnings for the worker are calculated not only for the time spent, but also for the achievement of certain quantitative and qualitative indicators. Quantitative indicators may include time spent, execution of planned tasks. Qualitative indicators include increase in the quality of the product, saving of raw materials, fuel,

tools, compliance with technological regimes, etc. Many enterprises use the hourly plus-bonus system with normalized tasks. Workers are rewarded for fulfilling their normalized tasks. In the case of using this system, each worker has a specific variable or monthly task (in units, hours or money) and the results are taken into account when calculating bonuses for this period. The introduction of this system is accompanied by an increase in the standardization of labor, introduction of technically sound quantitative norms and standards (Завіновська, 2016, p.76).

In conditions of expansion of economic independence of enterprises and transition to market relations, the ineffectiveness of salary organization on the basis of a rigid tariff system becomes evident. Under inflation, imperfect tax mechanisms complicate the work of enterprises and firms in such a way that they do not always have an opportunity to pay salaries guaranteed by the tariff system to all employees. Therefore, this led to the development and implementation of non-tariff and flexible salary systems, remuneration systems for qualifications and personal merits, taking into account the financial performance of enterprises.

Flexible remuneration system is a system in which a certain part of earnings is dependent on personal merits and an overall efficiency of an enterprise. When determining an amount of pay, a company takes into account not only experience, qualifications, and professional skills, but also an importance of an employee, his/her ability to achieve certain goals for the development of an organization.

In flexible systems, tariff serves as a basis for an employee's earnings, which is supplemented by various bonuses and fringe benefits. Flexible tariff system differs from the usual systems by the fact that it is developed for the needs and taking into account a specific enterprise; the basis of its formation is, first of all, a list of those works that are carried out at this enterprise and qualify in terms of complexity and significance for this enterprise; employee's earnings are individualized and depend on the actual results of work. Expansion of economic independence is accompanied by the use of a non-tariff remuneration system.

Non-tariff remuneration system is an organization of remuneration based on the principle of partial distribution of collective's earned money among employees according to established ratios (coefficients) in salaries for work of different quality (depending on qualification, position, profession of employees, etc.). In this case, guaranteed tariff rates, as well as most types of bonuses, fringe benefits and allowances are not used. The level of payment for each employee depends on the salary fund of an

enterprise. Thus, each employee receives his share depending on the final result of an organization and its position in the market, which contributes to increasing interest in the affairs of an organization. Non-tariff remuneration systems are flexible, easy for understanding by all employees, and ensure their interest in the results of work. They are widely used at joint-stock, small and private enterprises in various modifications and models (Буряк, Карпінський, & Григор'єва, 2004, p.196).

The main non-material means of maintaining high labor activity are creation of favorable working conditions, normal psychological climate, promotion of workers, possibility of career growth and rapid advancement, awarding, conducting training and advanced training courses, etc. In the general sense, it is necessary to create conditions favorable for employees to express themselves, to take the initiative and to develop interest in work. In modern conditions, non-material incentives and compensation are gaining in importance, and therefore, for an ideal system of job incentives, it is necessary to balance the use of all four tools of motivation: material and non-material incentives, mixed forms of incentives and compensatory payments.

In general, whatever means, tools and methods are chosen, functioning of human resources management mechanism should meet the following requirements: complexity, that is, taking into account the interconnection of all functions and departments; flexibility, which is expressed in readiness for rapid changes; self-improvement; continuous monitoring of key indicators with further adjustment of measures aimed at achieving goals; information using modern approaches and technologies; effective development; continuity of the mechanism (Шитікова, 2015, p.57).

1.3. Methodological approaches to the evaluation of human resources management effectiveness

When considering approach to assessing the HRM and what should be assessed in order to see how it deals with existing challenges, it is necessary to assess HRM effectiveness. Effectiveness of an integrated system of human resources management of an enterprise should be considered as part of the effectiveness of an enterprise as a whole. However, there is currently no single approach to assessing this effectiveness. The difficulty lies in the fact that the process of work of employees is closely linked to the production process, its final results, and to the social development of an enterprise. Accordingly, the methodology of evaluation is based on the choice of criteria of effectiveness of

organizational, economic and social subsystems of the complex system. Goals of these subsystems can server as such criteria (Козак, 2000, p.3).

The task of assessing the effectiveness of human resources management of an enterprise is to determine:

- 1) economic effectiveness (characterizes achievement of the goals of an enterprise through better use of labor potential);

Criteria for assessing the economic effectiveness of HRM of an enterprise should reflect the effectiveness and result of human labor.

- 2) social effectiveness (characterizes meeting expectations and satisfaction of needs and interests of employees of an enterprise);

Social effectiveness of human resources management of an enterprise is largely determined by an organization and motivation of labor, the state of socio-psychological climate in the collective, that is depends more on the forms and methods of working with each employee.

- 3) organizational effectiveness (evaluates an integrity and organizational design of an enterprise) (Балабанова & Сардак, 2016, p.487).

Assessment of the effectiveness of human resources management is carried out by analyzing the coefficients that characterize stability of personnel and firm's staffing, structure of personnel, analysis of the wage fund and its profitability, ratio of production and financial costs of the human resources system, labor productivity, qualitative and quantitative personnel assessment, level of personnel satisfaction with working conditions and other factors. Choice of methodology for HRM research depends on the type of organization conducting the analysis, specific research objectives and available resources.

One of the basic methods of assessment is the analysis of qualifications of the personnel, their level of education, as well as age structure. These indicators can be used to observe the general tendency of the personnel system development and to analyze the qualitative characteristics of the personnel.

The next group of factors relates to the provision of human resources. It includes the turnover of personnel, the consistency of personnel, the rate of turnover based on dismissal and hiring, the ratio of total personnel turnover.

Personnel turnover is an aggregate of employees' dismissals, both unsolicited and for absenteeism and other violations of labor discipline, in relation to their average number.

Turnover worsens many performance indicators. First of all, it is a lost profit due to the

slow integration of new-hires and the reduction of labor productivity. There are difficulties with motivation of the personnel. The turnover of the personnel worsens the climate in the collective, which prevents the creation of a team. The state of the process of personnel turnover in an enterprise is characterized by the coefficient of personnel turnover (C_T) (formula 1.1):

$$C_T = \frac{N_{UNSOL.DISM.} + N_{DISC.VIOL.DISM.}}{N_{AVR}} \times 100\% \quad (1.1)$$

where N_{AVR} - average number of employees;

$N_{UNSOL.DISM.}$ - number of employees who left the company based on unsolicited dismissal;

$N_{DISC.VIOL.DISM.}$ - number of employees dismissed for violations of labor discipline (Балабанова & Сардак, 2016, p.234).

If C_T is 3-5% - turnover of personnel in an enterprise is low and symbolizes the natural renewal of personnel;

$5\% \leq C_T \leq 10\%$ - turnover of personnel in an enterprise is average;

$C_T > 10\%$ - turnover of personnel in an enterprise is high.

The ratio of hiring turnover is defined as the ratio of the number of all hired employees to the average number of employees (formula 1.2):

$$C_{HT} = \frac{N_H}{N_{AVR}} \times 100\% \quad (1.2)$$

where N_H - number of hired employees during the reporting period;

N_{AVR} - average number of employees.

The dismissal turnover is characterized by the number of employees who dismissed (or were dismissed) from an enterprise for the given period for various reasons. The coefficient of dismissal turnover is defined as the ratio of the number of all employees dismissed for a certain period to an average number of employees (formula 1.3):

$$C_{DT} = \frac{N_D}{N_{AVR}} \times 100\% \quad (1.3)$$

where N_D - number of dismissed employees during the reporting period;

N_{AVR} - average number of employees (Іванілов, 2009, p.351).

The coefficient of total turnover (C_{TT}) is calculated by the ratio of the number of hired and dismissed employees to the average number of employees or determined as the sum of the coefficients of hiring turnover and dismissal turnover for the period (formula 1.4):

$$C_{TT} = C_{HT} + C_{DT} \quad (1.4)$$

where C_{HT} – coefficient of hiring turnover;

C_{DT} – coefficient of dismissal turnover.

There is also a set of ratios used to assess talent acquisition:

- Turnover coefficient of new employees (formula 1.5):

$$C_{TNE} = \frac{N_{DNE}}{N_{TNE}} \quad (1.5)$$

where N_{DNE} – number of new employees (working at the company for less than 2 years), who dismissed during the reporting period;

N_{TNE} – total number of new employees (working at the company for less than 2 years).

- Coefficient of attraction of diversified profiles (formula 1.6):

$$C_{ADP} = \frac{N_{DP}}{N_{AVR}} \quad (1.6)$$

where N_{DP} – number of employees, who belong to particular group according to gender or age criteria;

N_{AVR} – average number of employees.

Another important area to assess is talent development:

- Coefficient of international assignments (formula 1.7):

$$C_{IA} = \frac{N_{DP}}{N_{AVR}} \quad (1.7)$$

where N_{IA} – number of employees, who got an international assignment during the reporting period;

N_{AVR} – average number of employees.

- Coefficient of retaining of key talents (formula 1.8):

$$C_{RKT} = \frac{N_{DKT}}{N_{TKT}} \quad (1.8)$$

where N_{DKT} – number of key talents that left the company during the reporting period;
 N_{TKT} – total number of key talents in the company.

- Coefficient of promotions (formula 1.9):

$$C_P = \frac{N_P}{N_{AVG}} \quad (1.9)$$

where N_P – number of employees, who received promotion during the reporting period;
 N_{AVG} – average number of employees.

For the analysis of the economic effectiveness of the existing personnel policy, companies use the ratio of profitability of the use of labor resources (P_L), which is calculated as the ratio of profit to the average number of employees of the enterprise (formula 1.10):

$$P_L = \frac{P_{NI}}{N_{AVR}} \quad (1.10)$$

where P_{NI} – net income;

N_{AVR} - average number of employees.

This indicator characterizes the amount of profit provided for the company by one average employee. It is expressed in UAH per employee (Дядечко, 2007, p.211).

Indicators for assessing the economic effectiveness of human resources management of an enterprise:

- 1) Ratio of the costs necessary to provide the company with skilled personnel, and the results derived from their activities.
- 2) Ratio of the budget of the unit of an enterprise to the number of personnel of this unit.
- 3) Cost assessment of the differences in the effectiveness of labor (determined as a difference in results of the work of the best and average employees performing the same job).

These indicators target employees for achievement of planned tasks, rational use of working time, improvement of labor and executive discipline and, mainly, aimed at improving the organization of work.

In addition, in a market economy, the following economic indicators are important:

- profit;
- labor productivity;
- sales volume;
- profitability;
- ratio of the growth rates of labor productivity to the growth rates of average salaries;
- wages and salary fund;
- management costs (Балабанова & Сардак, 2016, p.237).

For a complete analysis of effectiveness at enterprises with a large number of employees, companies use indicators of the achievement of the plan by the number and composition of employees. To do this, you need to analyze the overall provision of an enterprise with labor force, namely:

- 1) determine achievement of plan by number by groups and categories of employees;
- 2) determine the specific weight of industrial and production personnel and non-industrial personnel to the total number. At the same time, the higher level of provision with industrial and production personnel is a positive factor, because they produce products, and non-industrial staff only helps with its release to the market;
- 3) determine an absolute and relative excess or shortage of labor in groups and categories of workers.

An absolute deviation is the difference between actual and planned number for each category of industrial and production personnel. An enterprise plans its size based on a certain volume of output. Change in the volume of output leads to a change in the number of employees. Therefore, it is necessary to calculate a relative deviation as well. Relative deviation must be adjusted by the percentage of achievement of the production volume plan. Relative deviation is calculated only in the category of workers, because only they take part in the production. The calculations oversee the difference between actual number of workers and adjusted planned number. The absolute deviation accurately reflects achievement of the plan by number in case, when the plan for the

production is executed for 100%. If the plan is not executed or over fulfilled, then it is necessary to determine the relative deviation (“ЕКОНОМІЧНИЙ АНАЛІЗ”, 2015).

There are also other performance indicators to analyze effectiveness, which are primarily related to an organizational effectiveness of human resources management:

- 1) Ratio of the number of management apparatus and other categories of employees.
- 2) Reliability of the personnel (determined by the magnitude of possible failures in the work of all units of an enterprise due to late information provision, errors in calculations, violations of labor discipline).
- 3) Uniformity of loading of personnel (characterizes a specific weight of losses due to overload of workers).
- 4) Level of labor discipline (reflects the ratio of the number of cases of violations of labor and executive discipline to the total number of employees of an enterprise). It allows us to make conclusions about organizational order in the enterprise and its organizational culture.
- 5) Staffing.

It is assessed:

- quantitatively - by comparing the actual number of personnel with the required amount (calculated based on the labor intensity of operations) or with the planned number provided by the staff list;
- qualitatively - according to corresponding of professional qualification level, education, practical experience of personnel to the requirements of occupied jobs (positions) (Балабанова & Сардак, 2016, p.239).

It is important to understand that there is no one proper way to assess the effectiveness of HRM of an enterprise, because each company is unique and its challenges are also unique. Therefore, while choosing the indicators for assessment, it is necessary to ensure that they cover the individual characteristics of an enterprise and its personnel, and allow assessing the system under study in a sufficient manner.

Section 2. Analysis of Human Resources Management of PrJSC “Philip Morris Ukraine”

2.1. Characteristic of financial and economic activity of PrJSC “Philip Morris Ukraine”

Philip Morris International (PMI) is an American corporation, which is one of the biggest tobacco companies in the world. Currently Philip Morris International employs approximately 80 000 employee. The company has affiliates in 71 countries and 48 factories in 32 of these countries. Products of the company are sold on the markets of more than 180 countries.

On the market of Ukraine, Philip Morris International is represented by two legal entities: PrJSC “Philip Morris Ukraine” (PMU) and LLC “Philip Morris Sales and Distribution” (PMSD). PrJSC “Philip Morris Ukraine” is responsible for production and all administrative functions. The head office is in Kiev, and the factory is in Kharkov. PMU also manages the affiliates of PMI in Armenia, Georgia and Moldova, creating a so called “cluster” (“Philip Morris International”, 2017).

PMU produces cigarettes both for the Ukrainian market and for export, as well as imports cigarettes and necessary materials for their production. Therefore, it is engaged in foreign economic activity. Based on licensing conditions, the main areas of activity of the enterprise are:

- manufacturing of tobacco products;
- wholesale of tobacco products;
- import of tobacco products;
- export of tobacco products;
- advice on business and management.

Let’s analyse the dynamics of the main indicators of financial and economic activity of PMU for 2013-2017, based on the balances and statements of financial results (Appendix A). They are presented in table 2.1.

Table 2.1

Main indicators of financial and economic activity of PMU in 2013-2017, UAH th

Indicator	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Deviation, +/-					Growth rate, %					CAGR, %
						2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Total assets	3 058 001	4 136 888	5 147 164	7 923 414	9 941 709	1 078 887	1 010 276	2 776 250	2 018 295	6 883 708	35,28	24,42	53,94	25,47	225,10	34,28
Property, plant and equipment	1 068 688	991 197	960 540	1 013 504	1 220 379	-77 491	-30 657	52 964	206 875	151 691	-7,25	-3,09	5,51	20,41	14,19	3,37
Inventories	508 532	1 058 950	939 781	1 286 855	1 269 558	550 418	-119 169	347 074	-17 297	761 026	108,24	-11,25	36,93	-1,34	149,65	25,70
Total accounts receivable	1 341 130	1 866 824	2 966 459	4 693 277	6 771 537	525 694	1 099 635	1 726 818	2 078 260	5 430 407	39,20	58,90	58,21	44,28	404,91	49,90
Cash and cash equivalents	20 541	22 513	19 515	6 858	38 444	1 972	-2 998	-12 657	31 586	17 903	9,60	-13,32	-64,86	460,57	87,16	16,96
Retained earnings (accumulated deficit)	1 301 519	746 326	751 766	-330 977	296 329	-555 193	5 440	-1 082 743	627 306	-1 005 190	-42,66	0,73	-144,03	189,53	-77,23	-30,92
Equity	1 348 777	793 564	798 994	-283 758	343 538	-555 213	5 430	-1 082 752	627 296	-1 005 239	-41,16	0,68	-135,51	221,07	-74,53	-28,96
Registered (share) capital	2 647	2 647	2 647	2 647	2 647	0	0	0	0	0	0,00	0,00	0,00	0,00	0,00	0,00
Long-term liabilities	21 809	76 251	47 263	15 642	15 973	54 442	-28 988	-31 621	331	-5 836	249,63	-38,02	-66,90	2,12	-26,76	-7,49
Current liabilities	1 687 415	3 267 073	4 300 907	8 191 530	9 582 198	1 579 658	1 033 834	3 890 623	1 390 668	7 894 783	93,61	31,64	90,46	16,98	467,86	54,37

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A)

We can observe a steady growth of total assets of the company (compound annual growth rate of 34,28%). This growth was mainly driven by an increase in total accounts receivable (CARG = 49,90%), namely intercompany settlements. It can be explained by active exports of PMU to other affiliates, thus in 2014 PMU started exporting to Japan, which over the years became its main export destination. Every year it was expanding its export geography, the last countries added to the list in 2017 were Saudi Arabia and Albania. Besides accounts receivable, there was also slight increase in PPE (CAGR = 3,37%), which mainly happened in 2017 due to capacity expansion for new export markets and new products (new brand “Phillip Morris” replaced “President” in the beginning of 2017). Inventories amount also grew by 149,65% percent, mainly through accumulation of production stock. The amount of cash and cash equivalents has also increased over 2013-2017 by 87,16%. However, this increase happened in 2017, while in 2016 CCE amount dropped by 64,86% in comparison to 2015. Such change was caused by price wars, taking place on Ukrainian tobacco market in 2016.

Long-term liabilities of PMU decreased by 26,76% over 2013-2017, with significant increase in 2014 by 249,63% in 2014 and then decrease by 38,02% and 66,90% in 2015 and 2016 correspondingly. This change was mainly driven by acquired deferred tax liabilities and long-term provisions in 2014, and their payment out in 2016. It is a very positive tendency, since the company decreases the amount of money owned in long-term perspective. At the same time, current liabilities of the company increased by 467,86% over the same period of 2013-2017, with two main increases in 2014 (93,61%) and in 2016 (by 90,46%). For both years, current liabilities almost doubled mostly due to increase in accounts payable on intercompany settlements. PMU imports raw materials and finished goods from other affiliates. Such sharp increase of accounts

payable was caused by the fact that those years PMU imported more semi-finished products and raw materials.

There has been no change in share capital, while total equity of the company decreased by 74,53% over 2013-2017. In addition to that, in 2016 it was negative (-283 758 UAH th). Such drop in equity was fully driven by changes in retained earnings of the company, which, in turn, were affected by net profit (loss) of the company. In 2016 the company lost 1 082 743 UAH th due to price war that started in 2015 and reached its peak in 2016. This price war forced all players of Ukrainian tobacco market to decrease their prices and sometimes even sell below the cost of goods sold. However, in 2017 the company recovered and managed to earn 627 306 UAH th, leading to 296 329 UAH th of accumulated retained earnings. If we analyse the dynamics of net profit in 2013-2017, presented in table 2.2, we can see that despite overall it decreased by 51,80%, while net sales increased by 88,38%, after crisis in 2016, net income grew by 157,94%, while new sales growth was only 22,6%. It shows that the company managed to optimize its costs and expenses (e.g. it decreased its selling and distribution expenses by approximately 1/3) to drive up its profits.

Table 2.2

Net revenue and net profit (loss) of PMU in 2013-2017, UAH th

Indicator	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %
						2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Net revenue from sales	5 675 111	6 824 507	8 891 769	8 719 818	10 690 885	1 149 396	2 067 262	-171 951	1 971 067	5 015 774	20,25	30,29	-1,93	22,60	88,38	17,15
Net profit (loss)	1 301 500	746 304	5 440	-1 082 743	627 306	-555 196	-740 864	-1 088 183	1 710 049	-674 194	-42,66	-99,27	-20 003,36	157,94	-51,80	-16,68

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A)

Heavy effect of pricing on net sales of the company can be observed also when analyzing shipment volumes of the company, which are shown in table 2.3. We can see that when in 2016, during price war, shipments grew by 14,73%, net sales decrease by 1,93%. And then in 2017, when the situation with prices stabilized, shipments decreased by 12,11%, and net sales grew by 22,60%. Therefore, we can conclude that the sales of the company are price-driven, not volume-driven.

Table 2.3

Ukrainian cigarette market size and PMU share in 2013-2017

Indicator	Units	2013	2014	2015	2016	2017	Growth rate, %					CAGR, %
							2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2017 - 2013
Total Cigarette Market	bln cigarettes	75,10	69,70	70,60	73,10	67,10	-7,19	1,29	3,54	-8,21	-10,65	-2,78
PMU Shipments	mln cigarettes	25 500	23 273	19 195	22 022	19 356	-8,73	-17,52	14,73	-12,11	-24,09	-6,66
PMI Cigarette Market Share												
Marlboro	%	5,50	4,90	3,80	3,10	3,00	-10,91	-22,45	-18,42	-0,32	-45,45	-14,06
Parliament	%	3,30	3,10	2,90	2,90	3,20	-6,06	-6,45	0,00	1,03	-3,03	-0,77
Bond Street	%	8,96	8,90	8,30	10,00	8,40	-0,61	-6,74	20,48	-1,60	-6,20	-1,59
Philip Morris	%	-	-	-	-	3,10	x	x	x	x	x	x
Others	%	15,75	15,80	15,00	13,20	9,60	0,35	-5,06	-12,00	-2,73	-39,03	-11,63
Total	%	33,50	32,70	30,00	29,20	27,30	-2,39	-8,26	-2,67	-0,65	-18,51	-4,99

Source: own representation based on “Philip Morris International”, 2017

If we analyse cigarette market and PMU performance on it (see table 2.3), we can see that the market dropped by 7,19% in 2014, then grew by 1,29% and 3,54% in 2015 and 2016 correspondingly, and then dropped again by 8,2% in 2017. A decrease in 2014 was mainly influenced by the impact of price increases and business disruption due to the political instability in the east of the country. An increase in 2016 was mainly driven by a lower prevalence of illicit trade, because due to price war, cigarette prices were so low that illicit trade was not cost-efficient. When the prices went up in 2017, the prevalence of illicit trade increased, and these two factors caused total cigarette market decrease. At the same time we can see that PMU has lost 6.2% of its market share over 2013-2017. In 2014 share of all brands decreased, slightly offset by growth from low-price President in “Others”. In 2015 share decrease happened primarily due to Marlboro, reflecting the impact of widened price gaps, and mid-price Chesterfield and super-low President in “Others”, mainly resulting from competitive price pressure in the low price segment, partly offset by Bond Street and L&M in “Others”. The decrease in 2017 was mainly due to Bond Street, reflecting competitive pressure from lower-priced alternatives, partly offset by Parliament and Philip Morris, following the successful portfolio consolidation of a local, low-price brand in “Others”.

We have calculated and analysed several profitability indicators: gross profit margin, operating profit margin, net profit margin, return on assets (ROA) and return of equity (ROE). We have also compared PMU results with those of its three main competitors: British American Tobacco (BAT), Imperial Tobacco (IMP) and Japan Tobacco International (JTI). The results are summarized in table 2.4.

Table 2.4

Main profitability indicators of PMU, BAT, IMP and JTI in 2013-2017

Indicator	PMU					JTI					BAT					IMP				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Gross profit margin	58,29%	47,47%	25,35%	3,90%	26,82%	43,57%	41,09%	11,46%	7,79%	12,24%	42,36%	36,15%	15,39%	-17,60%	15,29%	18,78%	21,23%	18,27%	13,96%	20,85%
Operating profit margin	31,39%	19,01%	3,96%	-9,16%	9,82%	27,40%	23,73%	-0,60%	-4,72%	1,44%	13,84%	12,48%	-6,95%	-33,45%	9,72%	11,60%	-2,82%	-1,76%	-0,82%	4,58%
Net profit margin	22,93%	10,94%	0,06%	-12,42%	5,87%	18,85%	17,97%	-1,17%	-4,12%	1,45%	6,71%	-15,04%	-31,27%	-44,91%	1,75%	5,26%	-48,48%	-37,96%	-21,22%	-3,68%
Return on Assets	42,56%	18,04%	0,11%	-13,67%	6,31%	22,72%	23,42%	-4,59%	-12,55%	4,45%	7,57%	-18,23%	-32,61%	-28,20%	0,98%	2,52%	-25,97%	-19,92%	-9,04%	-1,63%
Return on Equity	96,49%	94,04%	0,68%	381,57%	182,60%	30,00%	27,55%	-23,57%	-490,09%	43,87%	25,38%	-270,04%	125,46%	-619,06%	1,93%	5,40%	-172,84%	203,98%	55,24%	11,20%

Source: own representation of "Philip Morris International", 2017; "АТ "Джей Ти"", 2017; "ПрАТ "А/Т ТЮТЮНОВА"", 2017; "ПрАТ "ІМПЕРІАЛ"", 2017

Gross profit margin was calculated by dividing gross profit by net sales. It shows how cost effective a company is at creating a product and how much money is left for operating expenses (Вяткин, 2015, p.52). From table 2.4 and figure B.1 in Appendix B we can see that PMU's gross profit margin decreased twice over 2013-2017, from amazing indicator of 58,29% in 2013 to 26,82% in 2017, with a sharp decrease in 2016. The overall decrease was caused by change in country's political and economic stability. However, if we compare its performance to the performance of its competitors, we can conclude that the company is much more efficient, not taking into account year 2016, when all market players were involved in a price war. As of 2017, the company has approximately a quarter of its sales left to finance its operating expenses, which is a significant amount.

Operating profit margin was calculated by dividing operating profit by net sales. It shows how good the company is in managing its expenses (Вяткин, 2015, p.52). From table 2.4 and figure B.2 in Appendix B we can see that PMU's operating profit margin fell from 31,39% in 2013 to 9,82% in 2017, with a low value of 3,96% in 2015 and negative value of -9,16% in 2016. We can say that operating profit margin follows the same trends as gross profit margin, due to same reasons. The fact that in 2017 operating profit margin increased almost twice, indicates that the company becomes more effective, even despite the downturn it faced in 2013-2016. Moreover, PMU's indicators are higher than those of its competitors. Another interesting observation is that PMU was the only company out of 4, which had positive operating profit margin in 2015. It means that the company performs better than the industry.

Net profit margin was calculated by dividing net profit by net sales. It represents how much profit each dollar of sales generates (Вяткин, 2015, p.52). From table 2.4 and figure B.3 in Appendix B we can see that all 4 companies incurred losses in 2014-2016, however, in 2014 PMU was one out of two companies with positive net profit margin (10,94%) and in 2015 PMU was the only one, despite it was close to 0%. In 2017, when the companies recovered from price war, 3 out of 4 managed to generate positive

returns and PMU demonstrated the best result (5,87%). An interesting observation is that BAT, having almost equal operating profit margin with PMU in 2017 (9,72% vs. 9,82%), has a significantly lower net profit margin (1,75% vs. 5,87%). It means that PMU is more effective in its debt management and has smaller amounts of interest and taxes to pay.

Return on Assets (ROA) was calculated by dividing net profit by total assets. ROA is an indicator of how efficient a company's management is at using its assets to generate earnings (Базілінська, 2009, p.203). The picture with ROA (see Fig. B.4 in Appendix B) is very similar to the one with net profit margin, since Total Assets demonstrated similar dynamics to that of Net Sales. PMU has successfully recovered in 2017 with ROA of 6,31%, which is higher than of its competitors. It shows that management is working on improvement of the effective use of assets.

Return on Equity (ROE) was calculated by dividing net profit by total equity. It is the amount of net income returned as a percentage of shareholders equity (Базілінська, 2009, p.202). Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. In table 2.4 and figure B.5 in Appendix B positive ROE in 2015 for BAT and IMP, in 2016 for PMU and IMP, and in 2017 for IMP can be misleading, because in reality both net profit and total equity in these cases were negative, which actually states about a very bad situation and loss of money for the companies. Taking that into account we can conclude that in 2015 only PMU had positive ROE, which stated about profitability of the company (although it was very low - 0,68%). In 2016 all the companies incurred losses. And in 2017, 3 out of 4 companies became profitable again, however, PMU did it much better. It reached ROE of 182,60%, which means the company was very effective that year in using its investors' money. In addition to that, PMU's ROE in 2017 is twice higher than in 2013. Therefore, despite an overall decrease in revenues and profitability, the company managed to increase its effectiveness for investors. However, we have to take into account that in 2016 equity was negative, which affected ROE in 2017.

Overall we can state that PMU is a profitable company for its investors. It knows how to recover fast and efficiently from market disturbances and it performs better than its main competitors on tobacco market.

The financial state of an enterprise is determined by a set of indicators that reflect the availability, allocation and use of enterprise resources, its real and potential financial

opportunities. It directly affects the efficiency of entrepreneurial activity of economic entities. Satisfactory financial state is stable liquidity, solvency and financial stability of an enterprise, its provision with working capital and efficient use of enterprise resources. Liquidity ratios characterize an ability of an enterprise to repay its current debts (Іванілов, 2009, p.43).

To analyse liquidity of PMU we have calculated cash ration, quick ratio, current ratio as well as net working capital to total assets ratio. The results are presented in table 2.5.

Table 2.5

Liquidity ratios of PMU in 2013-2017

Indicator	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Deviation, +/-					Growth rate, %					CAGR, %
						2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Cash ratio	0,012	0,007	0,005	0,001	0,004	-0,005	-0,002	-0,004	0,003	-0,008	-43,392	-34,153	-81,549	379,216	-67,042	-24,231
Quick ratio	0,810	0,579	0,695	0,574	0,712	-0,231	0,116	-0,121	0,137	-0,098	-28,551	20,096	-17,358	23,886	-12,149	-3,186
Current ratio	1,111	0,903	0,914	0,732	0,844	-0,209	0,011	-0,182	0,113	-0,267	-18,761	1,184	-19,928	15,393	-24,049	-6,646

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A)

Cash ratio (rate of cash reserves) is determined by the ratio of cash and cash equivalents to the total amount of short-term debt of an enterprise. Its level shows how much of the short-term liabilities can be redeemed at the expense of available cash. The higher is its value, the higher is the guarantee of repayment of debts (Кірейцев, 2002, p.32).

This indicator shows that PMU can repay less than 1% of its short-term liabilities with cash available, and it decreases over time (CARG = -24,23%). It means that in case the company is asked to repay all of its short-term debt immediately, it will not be able to do so without having to sell other assets. Therefore, we can conclude that company's liquidity is low, which might be a warning sign for its investors. However, it also means that the company does not keep idle cash and invests into further development.

Quick ratio is the ratio of the total amount of current assets less inventories and deferred expenses, to the amount of short-term liabilities. An acceptable value of an indicator is considered to be between 0,6 and 1 (Кірейцев, 2002, p.33). In our case, this ratio stays, mainly, within this interval (0.71 in 2017), therefore, quick liquidity is quite satisfactory, although it slightly decreased by 12,15% over 2013-2017.

Current liquidity ratio is the ratio of the total amount of current assets less deferred expenses to the total amount of short-term liabilities. It measures the cushion of working capital maintained to allow for the unevenness in the flow of funds through the working capital accounts. Excess of current assets over short-term liabilities provides a reserve margin to compensate for losses incurred by the company in placing and eliminating all current assets, except for cash. The larger is the value of this reserve, the greater is the

credibility of the creditors that the debt will be repaid ("Економічний аналіз", 2015). The norm for this ratio is a value that equals to or is above 1. We can see that PMU's current ratio is below 1 and it dropped from 1,11 in 2013 to 0,84 in 2017. So, the company does not have a very good margin of safety and it becomes weaker over time.

Solvency of an enterprise is a sign of financial stability, the essence of which is the provision of current assets by long-term sources of financing. There are two types of solvency: current solvency, at a certain point in time, and promising solvency, expected in the short, medium and long term.

Analysis of long-term solvency of an enterprise is carried out by calculation of the following indicators: equity multiplier ratio, debt-equity ratio, long-term debt ratio, times interest earned ratio, working capital to current assets ratio, working capital to equity ratio ("Економічний аналіз", 2015).

The results are presented in table 2.6.

Table 2.6

Long-term solvency ratios of PMU in 2013-2017

Indicator	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Deviation, +/-					Growth rate, %					CAGR, %
						2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Equity multiplier ratio	2,267	5,213	6,442	-27,923	28,939	2,946	1,229	-34,365	56,862	26,672	129,929	23,576	-533,451	-203,639	1 176,406	89,015
Debt-equity ratio	1,267	4,213	5,442	-28,923	27,939	2,946	1,229	-34,365	56,862	26,672	232,459	29,171	-631,474	-196,598	2 104,727	116,690
Long-term debt ratio	0,007	0,018	0,009	0,002	0,011	-0,009	-0,007	0,000	-0,006	158,448	-50,183	-78,501	-18,615	-77,472	-31,106	
Times interest earned ratio	1,000	1,000	0,998	-2,423	-5,048	0,000	-0,002	-3,421	7,471	4,048	0,000	-0,189	-342,765	-308,327	404,793	49,892
Working capital to current assets ratio	0,106	-0,103	-0,094	-0,366	-0,184	-0,210	0,009	-0,272	0,182	-0,290	-197,180	-8,978	288,577	-49,829	-272,445	N/A
Working capital to equity	0,149	-0,386	-0,463	7,734	-4,326	-0,535	-0,077	8,197	-12,060	-4,475	-358,959	20,021	-1 769,309	-155,943	-3 002,515	N/A

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A)

Equity multiplier measures the amount of a firm's assets that are financed by its stockholders' equity. The share of equity in the total amount of financial resources should be not less than 50%, that is, equity multiplier should be equal to or lower than 2 (Незамайкин, 2015, p.62). In 2013 equity multiplier was 2,27 and by 2017 it grew with a compound annual growth rate of 89,02% up to 28,94. Such tendency is caused by sharp decrease in equity due to losses that the company incurred in 2016. As a result, the company has low autonomy and most of its assets are currently financed through debt.

Debt-to-equity ratio is calculated as the ratio of borrowed and own funds and characterizes the dependence of an enterprise on the borrowed funds. The ratio should be less than 1 (Незамайкин, 2015, p.64). For PMU the indicator is significantly greater than 1 and in 2017 it amounted to 27,94, meaning that for each dollar of equity there are 27,94 dollars of borrowed funds. At the same time in 2013 it was only 1,27 dollars.

So after that events of 2014 the company started to rely heavily on debt and it might be at risk of servicing its debt, taking into account its unstable profitability.

Long-term debt ratio computes the proportion of a company's long-term debt compared to its available capital (Барышникова, 2015, p.175). In 2013 it was 0,007, which is a very low indicator, and it decrease even further to 0,002 in 2017. Such change was caused by decreasing long-term debt along with rowing assets. Taking into account previous indicators we can conclude that most of company's assets are financed though short-term debt. And in terms of long-term debt the company becomes less dependent on it to grow its business.

Times interest earned ratio represents the margin of protection for the creditors (how many times a company can cover its interest charges on a pre-tax basis) (Ефимова, 2013, p.276). In 2013 this indicator was equal to 1, which meant the company could fully cover its interest expenses using funds provided by operations that year. In 2016 the situation worsened, since EBIT was negative, thus the ratio was negative as well, meaning PMU could not fund any of its interest expenses through its operations. However, then in 2017 the situation improved fast, with times interest earned ratio of 5,05, meaning that year the company could cover its interest expenses 5 times with its net operations income. Therefore, we can see that the company is unstable and it may cause concerns of the investors. However, taking into account that 2015-2016 were years of disturbances on tobacco market and that in 2017 the company recovered fast, the severity of risk is off-set by these facts.

Working capital to current assets ratio indicates the ability of a company to finance its current assets with its working capital. It can be computed by dividing the company's working capital by its current assets (Барышникова, 2015, p.177). It should be not lower than 0,1. Before 2014, the indicator was 0,11, which demonstrated a healthy situation. However, since 2014 this indicator had a negative value, which means lack of working capital and the gap between current assets and current liabilities increases, since the ratio becomes even less. Therefore, the company cannot operate without access to short-term financing sources and it does not have any long-term funds to finance its working capital.

Working capital to equity ratio shows which portion of equity is used to finance current operations, thus invested in working capital, and which is capitalized (Кірейцев, 2002, p.37). It should be not lower than 0,1. Same as with working capital to current assets ratio, after 2013 it is negative (positive value for 2016 is misleading because both,

working capital and equity, were negative that year). It means that equity capital and long-term borrowed funds are intended to finance non-current assets, therefore, financing of current assets requires access to short-term debt. This leads to a reduction in financial stability.

Financial stability of a company is highly affected by its business activity. The business activity of an enterprise is manifested through its assets utilization, or turnover (Білоус & Панченко, 2016, p.43).

Analysis of business activity of a company is carried out by calculation of the following indicators: total assets turnover ratio, accounts payable turnover ratio, accounts receivable turnover ratio, inventory turnover ratio, fixed asset turnover ratio, equity turnover ratio (Білоус & Панченко, 2016, p.44).

The results are presented in table 2.7.

Table 2.7

Business activity ratios of PMU in 2013-2017

Indicator	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Deviation, +/-					Growth rate, %					CAGR, %
						2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Total assets turnover ratio	2,09	1,90	1,92	1,33	1,20	-0,20	0,02	-0,58	-0,14	-0,90	-9,34	0,97	-30,34	-10,30	-42,80	-13,04
Accounts payable turnover ratio	7,43	6,19	4,34	2,62	2,29	-1,24	-1,85	-1,72	-0,33	-5,14	-16,67	-29,90	-39,70	-12,58	-69,21	-25,51
Accounts receivable turnover ratio	5,43	4,25	3,68	2,28	1,86	-1,18	-0,58	-1,40	-0,41	-3,57	-21,66	-13,52	-38,12	-18,09	-65,66	-23,45
Inventory turnover ratio	4,65	4,57	6,64	7,53	6,12	-0,07	2,07	0,88	-1,41	1,47	-1,61	45,21	13,32	-18,68	31,66	7,12
Fixed asset turnover ratio	5,76	6,63	9,11	8,83	9,57	0,87	2,49	-0,28	0,74	3,81	15,09	37,51	-3,04	8,34	66,25	13,55
Equity turnover ratio	4,55	6,37	11,17	33,85	357,67	1,82	4,80	22,68	323,83	353,12	39,90	75,27	203,12	956,71	7 754,23	197,70

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A)

Total assets turnover ratio is calculated as the ratio of net sales to average total assets of an enterprise. It characterizes the efficiency of using all available resources, regardless of the sources of their attraction (Шимко, 2016, p.475). In 2013 PMU generates \$2,09 of sales per \$1 of assets, which suggests about effectiveness of the company. Over the 4 year, it declined by 13,04% and in 2017 amounted to 1,2. It was caused by the fact the company's assets grew 4 times faster than its net sales. Therefore, company's efficiency decreased, however, it is still on the satisfactory level.

Accounts payable turnover ratio is calculated as the ratio of the net sales to the average value of accounts payable and shows the speed of turnover of payables for the period analyzed, expansion or reduction of commercial credit provided to the company (Мец, 2015, p.48). It shows the rate at which the company pays off its suppliers. We can see that this indicator decreased by 69,21% over 2013-2017 from 7,43 to 2,29. It means the PMU is taking more time to pay to its suppliers. From one hand, it may suggest about the problems with liquidity of the company, which is true taking into account its liquidity ratios. From another side, taking into account that most of PMU's accounts

payable are on intercompany settlements, it is most like that the company has negotiated different payment terms.

Accounts receivable turnover ratio is calculated as the ratio of net sales to the average annual amount of receivables and shows the rate of turnover of receivables of an enterprise for the analyzed period, expansion or reduction of commercial loans provided by the enterprise (Мец, 2015, p.49). It is used to quantify a firm's effectiveness in extending credit as well as collecting debts. We can see that the indicator decreased by 65,66% from 2013 (5,43) to 2017 (1,86). Such indicators may suggest that the company has not very good collecting policies and/or bad customers. However, if we take into account the fact that most of PMU's accounts receivable are on intercompany settlements, we may assume that such receivables turnover is caused by negotiated terms between the affiliates.

Inventory turnover ratio is calculated as the ratio of the cost of goods sold to the average annual value of inventories and characterizes the rate of sales of inventory of the enterprise ("ЕКОНОМІЧНИЙ АНАЛІЗ", 2015). It measures how many times a company sold its total average inventory dollar amount during the year. There was an increase over 2013-2017 (from 4,65 to 6,12) with a peak in 2016 of 7,53, due to less inventories that year because of price wars. Taking into account that this company operates in tobacco industry, such numbers state about strong sales, and the situation is improving.

Fixed asset turnover ratio is calculated as the ratio of net sales to the average annual cost of fixed assets. It shows the effectiveness of using fixed assets of an enterprise to generate sales (ШКОЛЬНИК, 2016, p.168). With slight off-set in 2016, PMU demonstrates improving ability to support its sales by its fixed-assets. Thus, the compound annual growth rate over 2013-2017 was 13,55%, amounting to fixed asset turnover ratio of 9,57 in 2017. It means that per each dollar spend on fixed assets the company generates \$9,57 of sales.

Equity turnover ratio is calculated as the ratio of net sales to the average annual equity of the company. It shows the effectiveness of using equity to generate sales (ШКОЛЬНИК, 2016, p.170). Since in 2016 company's equity was negative, average annual equity of PMU in 2016 and 2017 was very small. As a result, we can observe high equity turnover ratio value in 2016 (33,85) and huge value in 2017 (357,67). In general it means that even despite accumulated losses, the company is able to effectively generate sales.

Philip Morris Ukraine is an international company, which is engaged in foreign economic activity. The company exports both finished goods (FG) and semi-finished products to Phillip Morris International (PMI) affiliates. PMU's commodity structure of export in 2013-2017 is presented in figure 2.1 and table 2.8.

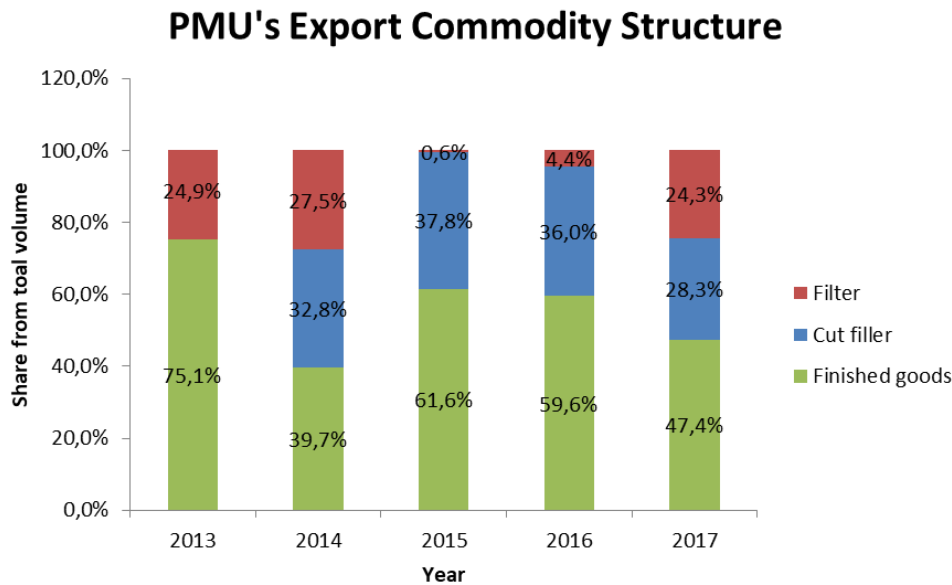


Fig. 2.1. PMU's export commodity structure in 2013-2017 (Source: own representation based on internal company data)

Table 2.8

PMU's export commodity structure in 2013-2017, UAH mln

Name of good/product	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %	
						2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2017 - 2013	
Finished goods	742,59	933,03	2 270,89	2 030,95	2 921,74	190,44	1 337,86	-239,95	890,80	2 179,16	25,65	143,39	-10,57	43,86	293,46	40,84	
Cut filler	0,00	770,56	1 392,90	1 226,21	1 743,18	770,56	622,34	-166,69	516,97	1 743,18	N/A	80,76	-11,97	42,16	N/A	N/A	
Filters	245,59	646,10	21,43	151,04	1 500,00	400,52	-624,67	129,61	1 348,96	1 254,41	163,08	-96,68	604,82	893,11	510,78	57,21	
Total	988,18	2 349,70	3 685,23	3 408,20	6 164,93	1 361,52	1 335,53	-277,03	2 756,73	5 176,75	137,78	56,84	-7,52	80,89	523,87	58,04	

Source: own representation based on internal company data

Finished goods prevail, however, their share in total value of exports decreased from 75,1% in 2013 to 47,4% in 2017. Share of cut filler has also decreased from 32,8% in 2014 (when it first went for export) to 28,3% in 2017. Cut filler is exported only to Egypt. Despite its share in PMU's exports decreased, there has been an increase in absolute values (from 770,56 UAH mln in 2014 to 1 743,18 UAH mln in 2017). Such changes are directly affected by the state of tobacco market in Egypt. If demand in Egypt grows, amount of cut filler exported by Ukraine grows as well.

Meanwhile, the share of filters for export stayed almost the same in percentage (24,9% in 2013 and 24,3% in 2017) but increased in absolute values (245,59 UAH mln in 2013 and 1 500,00 UAH mln in 2017). In addition to that, if we analyse the dynamics, we can see that in 2015 the volumes went down almost to 0 (0,6% - 21,43 UAH mln) and then

grew again up to 1 500,00 UAH mln in 2014, which is a very significant increase. Such tendency was caused by several factors. A decrease in 2015 happened due to political and economic instability in 2014. After that, in 2016-2017 PMU has purchased and installed additional filter-making machines in order to be able to satisfy all needs of local market in terms of various filter types, which led to creation of excessive capacity. In addition to that, one of PMI's biggest filter-making factories in Europe was repurposed. As a result, PMI needed to find new filter-making centers. So PMU's filter export volumes increased again. Filters are exported to Germany, Russia, Serbia, Poland, Turkey, Switzerland, and Lithuania. Export volumes are relatively evenly distributed among these countries.

The company currently exports finished goods to Albania, Armenia, Georgia, Moldova, Japan, Hong Kong, GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE). Until 2017 PMU also exported to Kazakhstan. Exports to Hong Kong and GCC started in 2018. PMU's finished goods export geographic structure is presented in figure 2.2.

PMU's FG Export Geographic Structure

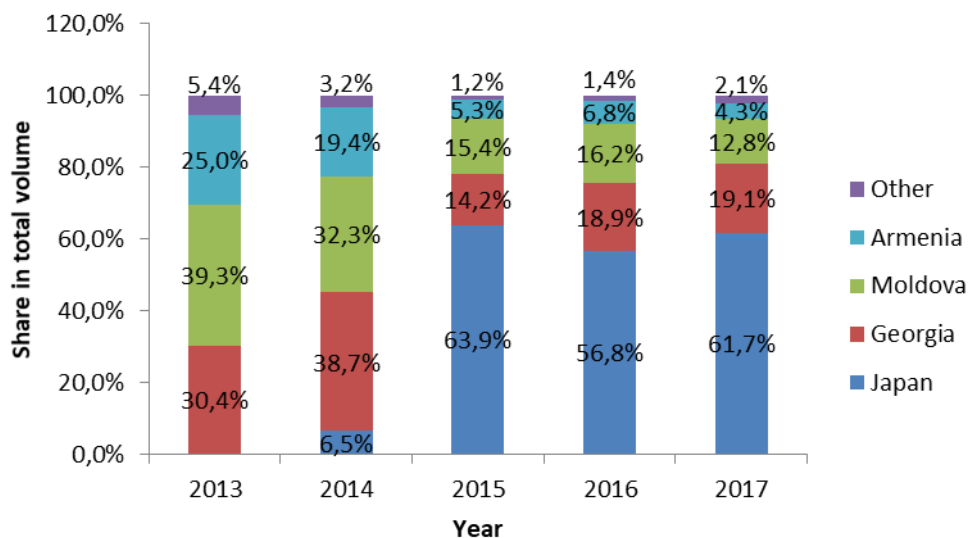


Fig. 2.2. PMU's finished goods export geographic structure in 2013-2017 (Source: own representation based on internal company data)

PMU fully supplies needs of its cluster affiliates: Armenia, Moldova and Georgia. All markets demonstrated decrease: Georgia from 30,4% in 2013 to 19,1% in 2017; Armenia from 25,0% in 2013 to 4,3% in 2017; Moldova from 39,3% in 2013 to 12,% in 2017. Such decrease in weight of these countries in PMU's export geographic structure was caused by appearance of new export market in 2014 – Japan.

As of 2017, Japan is the main export market for PMU. In 2017 its share in total PMU export comprised 61,7%. It grew from 6,5% in 2014 (exports started in the second half of the year), with a peak of 63,9% in 2015. Such slight decrease in weight in 2017 in comparison to 2015 mainly happened due to growth of export to other markets from 1,2% in 2015 to 2,1% in 2017.

The volumes of exports of FG to different countries are shown in table 2.9. The volumes of export to Armenia, Georgia and Moldova depend on the trends of tobacco industry in these countries. As we can see, export to Georgia and Moldova grew over 2013-2017. The biggest growth was demonstrated by Georgia, with compound annual growth rate of 25,51%. Export to Moldova grew much slower with CAGR of 6,34%. Armenian export decreased with compound annual growth rate of -9,54%.

Table 2.9

PMU's finished goods export geographic structure in 2013-2017, UAH mln

Name of good/product	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %
						2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Armenia	185,65	180,59	120,94	137,23	124,33	-5,06	-59,65	16,29	-12,90	-61,32	-2,73	-33,03	13,47	-9,40	-33,03	-9,54
Georgia	225,43	361,17	322,49	384,23	559,48	135,74	-38,68	61,74	175,25	334,05	60,22	-10,71	19,14	45,61	148,19	25,51
Moldova	291,73	300,98	349,37	329,34	372,99	9,25	48,39	-20,03	43,65	81,26	3,17	16,08	-5,73	13,25	27,85	6,34
Japan	0,00	60,20	1 451,22	1 152,70	1 802,78	60,20	1 391,03	-298,52	650,08	1 802,78	N/A	2 310,85	-20,57	56,40	N/A	N/A
Other	39,78	30,10	26,87	27,45	62,16	-9,68	-3,22	0,57	34,72	22,38	-24,34	-10,71	2,12	126,50	56,27	11,81
Total	742,59	933,03	2 270,89	2 030,95	2 921,74	190,44	1 337,86	-239,95	890,80	2 179,16	25,65	143,39	-10,57	43,86	293,46	40,84

Source: own representation based on internal company data

Exports to Japan have also increased over 2014-2017 from 60,20 UAH mln in 2014 to 1 802,78 UAH mln in 2017, with a 20,57% decline in 2016, after which exports grew by 56,40%.

Other exports grew with a compound annual growth rate of 11,81%. Main increase happened in 2017 – 126,50%, after a decrease in 2015 due to the events of 2014. Such growth of other exports and total exports (CAGR = 40,84%) is caused by several factors. First of all, Ukrainian tobacco market is decreasing, which means PMU produces less for local needs and it frees up factory capacity. Secondly, there have been several legislation changes in Europe regarding tobacco industry, which made it impossible to continue producing export cigarettes in EU for some markets. For example, in Albania cigarettes are sold in packs that contain 10 cigarettes. Until recently, EU legislation restricted selling 10 cigarette packs within EU, however, it did not restrict producing them. Currently, it is forbidden to even produce such packs (Brivio, 2016). As a result, PMI had to look for new affiliates to product such packs, and Philip Morris Ukraine became one of them.

Taking into account that Ukrainian tobacco market is prognosed to decrease further, PMU is going to increase its exports, and can even become an "export-hub" in Eastern Europe region.

PMU imports FG, various semi-finished products and raw materials from PMI affiliates and external suppliers. PMU's commodity structure of import in 2013-2017 is presented in figure 2.3 and table 2.10.

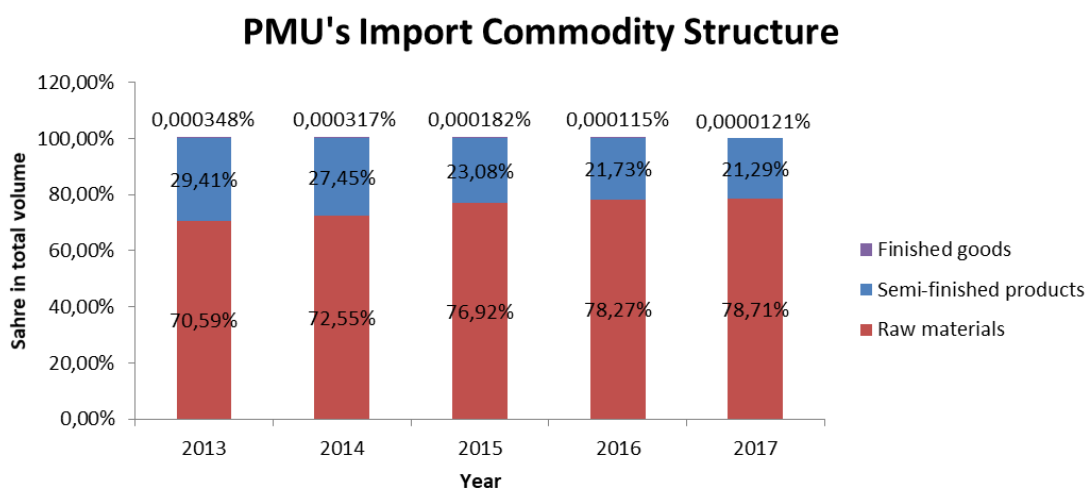


Fig. 2.3. PMU's import commodity structure in 2013-2017 (Source: own representation based on internal company data)

Table 2.10

PMU's import commodity structure in 2013-2017, UAH th

Name of good/product	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %	
						2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013		
Finished goods		4,2	5,8	6,30	4,36	0,48	1,60	0,50	-1,94	-3,88	-3,72	38,10	8,57	-30,77	-88,89	-88,47	-41,72
Semi-finished products	355 041,45	501 886,70	796 554,96	820 451,61	853 269,67	146 845,25	294 668,26	23 896,65	32 818,06	498 228,22	41,36	58,71	3,00	4,00	140,33	24,51	
Raw materials	852 099,48	1 326 414,85	2 655 183,20	2 955 218,90	3 154 909,92	474 315,37	1 328 768,35	300 035,70	199 691,02	2 302 810,44	55,66	100,18	11,30	6,76	270,25	38,72	
Total	1 207 145,13	1 828 307,35	3 451 744,46	3 775 674,87	4 008 180,08	621 162,22	1 623 437,11	323 930,41	232 505,21	2 801 034,95	51,46	88,79	9,38	6,16	232,04	34,99	

Source: own representation based on internal company data

The biggest share in product import structure of PMU belongs to Raw materials and it increased from 70,59% in 2013 to 78,71% in 2017. Their value in absolute terms has grown as well with CAGR of 38,72% from 0,85 UAH bio to 3,1 UAH bio. Raw materials are mainly tobacco leaf. Since PMU produces only international brands, it imports all of the tobacco leaf used. Therefore, such growth in raw materials exports is caused by growing production volumes (from 27,1 bio cigarettes in 2013 to 32,96 bio cigarettes in 2017).

The share of semi-finished products has decreased from 29,41% in 2013 to 21,29% in 2017. However, in absolute values their imports grew with compound annual growth rate of 24,51% up to 0,8 UAH bio in 2017. Semi-finished products are mainly filters, tobacco paper and flavored capsules. Volumes of their imports also depend on

production volume. However, unlike raw materials, not all of semi-finished products are fully imported. Filters and tobacco paper are also produced locally. Therefore, since PMU has expanded its local filter production capacities, growth of imports of semi-finished products was slower than of raw materials. At the same time, reduction in imports of filters was partially offset by an increase in imports of flavored capsules, since flavored segment is growing and there is not production of flavored capsules in Ukraine.

The share of FG in imports of PMU is below 1% and it decreased by 88,47% over 2013-2017. It is caused by the fact that PMU is able to cover the needs of local market via local production by almost 100%. The only SKU imported in 2017 was Parliament Carat. With shrinking of tobacco market, its import volumes decreased correspondingly. In addition to that, PMU has recently installed necessary equipment to produce this SKU locally. Therefore, it is expected that soon PMU will not import any FG at all.

Main performance indicators of foreign economic activity are effect and effectiveness. Effect is a difference between the profit received and the cost of foreign economic activity expressed in monetary terms. Efficiency is a ratio of the result obtained to the cost of the implementation of this type of activity (Кірейцев, 2002, p.56). Since the result of foreign economic activity is currency earnings and profit, we will use profit and profitability indicators of foreign economic activity of PMU to characterize its performance. Results are presented in table 2.11.

Table 2.11

Profit and profitability indicators of foreign economic activity of PMU in 2013-2017

Name of good/product	Units	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %
							2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Profit from FG export	UAH th	432 872,65	442 910,12	575 606,67	79 193,38	783 616,14	10 037,47	132 696,55	-496 413,28	704 422,76	350 743,49	2,32	29,96	-86,24	889,50	81,03	15,99
Profit from FG import	UAH th	2,40	2,69	1,13	0,09	0,06	0,30	-1,57	-1,04	-0,03	-2,34	12,38	-58,18	-92,34	-31,53	-97,54	-60,38
Profit from FG export and import	UAH th	432 875,05	442 912,81	575 607,79	79 193,47	783 616,20	10 037,76	132 694,98	-496 414,32	704 422,73	350 741,15	2,32	29,96	-86,24	889,50	81,03	15,99
Profitability of FG export	times	2,40	1,90	1,34	1,04	1,37	-0,49	-0,56	-0,30	0,33	-1,03	-20,60	-29,63	-22,32	31,32	-43,01	-13,11
Profitability of FG import	times	2,33	1,87	1,22	1,02	1,14	-0,46	-0,65	-0,20	0,12	-1,19	-19,82	-34,75	-16,23	11,62	-51,08	-16,37
Profitability of FG export and import	times	2,40	1,90	1,34	1,04	1,37	-0,49	-0,56	-0,30	0,33	-1,03	-20,60	-29,63	-22,32	31,32	-43,01	-13,11

Source: own representation based on internal company data

Profit from export of finished goods demonstrated sharp decrease in 2016 because as export volumes decrease that year, cost of goods sold increased. This happened due to relative instability on global tobacco market and higher commodity costs that year. However, in 2017, the company managed to drive up its export profits to 738 616,14 UAH th and to exceed results of 2013 almost twice. At the same time, profits from import have been declining over 2013-2017, with compound annual growth rate of -60,38%. In 2017 import profits were only 0,06 UAH th. It was caused by the fact the

PMU decreased its import volumes. Therefore, the main contributor to the profits from foreign economic activity with finished goods was export.

Profitability indicator shows how much profit was obtained by an enterprise for 1 UAH of incurred expenses (Heбapa, 2011, p.99). In case of PMU, we can see that in 2013 the company made 2,40 UAH per each 1 UAH spent on FG exports, and in 2017 this value decreased to 1,37 UAH. Therefore, the company is demonstrating overall decrease in profitability of its export operations. Same tendency can be observed with import. Its profitability decreased over 2013-2017 from 2,33 UAH per 1 UAH spent to 1,14 UAH. It means that the company makes proper decision in decreasing its import volumes, since they become less profitable. At the same time, it needs to analyse how it can increase the profitability of its export, although it is still satisfactory.

Abovementioned indicators show that effectiveness of foreign economic activity of PMU is quite good and it has tendency to improve. Nevertheless, it is necessary to work on improvement with higher growth rate by increasing sales and decreasing costs. One of the ways to achieve that is to replace imported semi-finished products with locally produced ones. However, this should be done very carefully to keep the quality.

2.2. Analysis of human resources planning system of PrJSC “Philip Morris Ukraine”

Organizational structure of the company is quite branched out, taking into account that the Ukrainian affiliate also manages PMI affiliates in Armenia, Georgia and Moldova. It means that managers of different level of one department can be located in different countries and have subordinates in several affiliates at the same time. No doubt that such structure makes both managers’ work and its assessment more complicated. However, a general structure is similar in all departments. Let’s have a look at the simplified typical hierarchical structure of Philip Morris on the examples of IT department.

Hierarchical structure of IT department has 4 levels (Appendix C):

- 1) Analyst
- 2) Team leader
- 3) Function manager
- 4) Department director

In total, in 2017 the Ukrainian affiliate employed 807 employees, 160 of which were managers of different level:

- 18 team leaders
- 70 supervisors
- 65 managers
- 7 directors

In general, we can make a conclusion that starting from the second level of the hierarchy, employees become managers and gradually move from managements of other people to management of the whole function. Additional levels in the structure are created due to managers that "manage managers".

Human resources planning, as one of the important functions of human resources management, includes determination of staffing needs in terms of quantity, quality, time and physical location, to achieve goals of an organization. Human resources planning is based on the organization's development strategy, its personnel policies. Function of human resources planning is becoming increasingly important in ensuring organization's strategy, since accurate accounting of future needs makes it possible to clearly navigate through the development of training plans and work with personnel reserve.

Human resources planning includes the following stages:

1. identification of staffing needs;
2. personnel search;
3. planning of engagement (participation) of personnel;
4. planning of personnel development;
5. planning of personnel dismissal (Петюх, 2017, p.73).

The initial stage of staff planning is the identification of quantitative and qualitative needs of personnel, which is affected by the economic condition of an enterprise. It is necessary to take into account labor market conditions, in order to ensure effective satisfaction of needs of an organization in skilled workers, which is a prerequisite for the realization of its goals. It is advisable to conduct market research in order to determine current and future needs of personnel, taking into account its quantity, quality, and development of production to prepare new jobs and requirements for employees; and to attract personnel whose personal qualities correspond to the requirements set by the organization (Беляцкий, 2006, p.41).

Planning of staffing needs in the company is done on three levels: strategic (3 years perspective), tactical (review of strategic plans per year), and operational (every month). While planning, HR department takes into accounts plans of the company for expansion, introduction of new functions, products, and prospective of current

employees. The qualitative need for personnel is determined by categories, professions, specialization, level of qualification, and individual requirements, established for every position (Балабанова & Сардак, 2016, p.47). New job openings usually happen due to two reasons: reorganizations and staff turnover. Reorganizations happen in such dynamic big functions and Sales and Marketing. In smaller functions vacancies appear because of staff turnover. The reason for that is the nature of the business of the company, since it is very specific and has a limited variety of activities to be performed. A detailed analysis of the staff structure can reveal a tendency in change of the number of employees from year to year. For this purpose, it is advisable to carry out a qualitative and quantitative assessment of the staff of PMU.

Level of the qualitative state of the personnel determines the level of efficiency of activity of the entire company because their personal qualities affect not only the quality of service of the customers, but also the quality of management decisions and the results of their implementation. Labor potential of the company is characterized by a system of indicators: qualification composition of personnel, their turnover and stability, rate of personnel variability. Let's consider such general and specific indicators of the quantitative composition of the personnel of Philip Morris Ukraine.

First, we will analyze the changes that took place in the number of employees during 2013-2017. The analysis is presented in Table 2.12.

Table 2.12

Analysis of dynamics and structure of personnel of PMU in 2013-2017

Indicator	2013		2014		2015		2016		2017		Deviation, +/-					Growth rate, %					CAGR, %
	Q-ty, people	Specific weight, %	Q-ty, people	Specific weight, %	Q-ty, people	Specific weight, %	Q-ty, people	Specific weight, %	Q-ty, people	Specific weight, %	2014-2013	2015-2014	2016-2015	2017-2016	2017-2013	2014-2013	2015-2014	2016-2015	2017-2016	2017-2013	
1. Management	259	17,87	256	18,56	195	17,94	160	19,30	160	19,83	-3	-61	-35	0	-99	-1,16	-23,83	-17,95	0,00	-38,22	-11,34
2. Main personnel, total	981	67,70	925	67,08	742	68,26	558	67,31	538	66,67	-56	-183	-184	-20	-443	-5,71	-19,78	-24,80	-3,58	-45,16	-13,94
incl. production dept.	479	33,06	465	33,72	368	33,85	289	34,86	280	34,70	-14	-97	-79	-9	-199	-2,92	-20,86	-21,47	-3,11	-41,54	-12,56
incl. distribution dept.	269	18,56	250	18,13	210	19,32	137	16,53	130	16,11	-19	-40	-73	-7	-139	-7,06	-16,00	-34,76	-5,11	-51,67	-16,62
incl. procurement dept.	74	5,11	65	4,71	50	4,60	41	4,95	39	4,83	-9	-15	-9	-2	-35	-12,16	-23,08	-18,00	-4,88	-47,30	-14,80
incl. finance dept.	68	4,69	64	4,64	49	4,51	35	4,22	34	4,21	-4	-15	-14	-1	-34	-5,88	-23,44	-28,57	-2,86	-50,00	-15,91
incl. HR dept.	44	3,04	39	2,83	30	2,76	26	3,14	26	3,22	-5	-9	-4	0	-18	-11,36	-23,08	-13,33	0,00	-40,91	-12,32
incl. IT dept.	36	2,48	32	2,32	25	2,30	20	2,41	20	2,48	-4	-7	-5	0	-16	-11,11	-21,88	-20,00	0,00	-44,44	-13,67
incl. legal dept.	11	0,76	10	0,73	10	0,92	10	1,21	9	1,12	-1	0	0	-1	-2	-9,09	0,00	0,00	-10,00	-18,18	-4,89
3. Auxiliary personnel	209	14,42	198	14,36	150	13,80	111	13,39	109	13,51	-11	-48	-39	-2	-100	-5,26	-24,24	-26,00	-1,80	-47,85	-15,02
Total	1 449	100,00	1 379	100,00	1 087	100,00	829	100,00	807	100,00	-70	-292	-258	-22	-642	-4,83	-21,17	-23,74	-2,65	-44,31	-13,61

Source: own representation based on internal company data

From the table we can see that there is a decrease in the number of personnel of all types: management, main and auxiliary employees. Such changes are connected to the restructuring of the company in order to optimize its personnel and costs structure. This way PMU is trying to get rid of redundant positions, due to redundant processes and tasks.

The highest specific weight belongs to the employees of production department (34,7% in 2017). It is logical, since these people work on factory and are responsible for production of goods for sale. A significant role belongs also to employees of distribution departments (16,11% in 2017) and management personnel (19,83% in 2017).

The educational, gender and qualification distribution of the company's employees is given in Table 2.13 (as of 2017).

Educational level of company's employees is rather high: 76% of employees studied in educational institutions of 3rd-4th levels of accreditation. Employees with general level of education are mostly cleaners and security guards.

Gender distribution in the company is uneven. Men comprise almost 63% of the whole personnel. The target of the company is to increase the number of women in the company up to 40% from the total personnel.

Table 2.13

Educational, gender and qualification distribution of employees of PMU in 2017

Indicator	Total, people	From the total number, people		From the total number, %		
		Men	Women	Total	Men	Women
Average number of employees, total	807	506	301	100	62,70	37,30
Number of employees who graduated from higher education institutions						
3rd-4th levels of accreditation	612	399	213	75,84	49,44	26,39
1st-2nd levels of accreditation	182	102	80	22,55	12,64	9,91
General education	13	5	8	1,61	0,62	0,99
Number of employees aged:						
20-25 years old	145	93	52	17,97	11,52	6,44
26-30 years old	210	132	78	26,02	16,36	9,67
31-35 years old	186	115	71	23,05	14,25	8,80
36-40 years old	129	86	43	15,99	10,66	5,33
41-45 years old	73	44	29	9,05	5,45	3,59
46-50 years old	32	18	14	3,97	2,23	1,73
51-55 years old	24	15	9	2,97	1,86	1,12
56-60 years old	8	3	5	0,99	0,37	0,62

Source: own representation based on internal company data

The age structure of the personnel is characterized by high specific weight of young personnel (up to 30 years old) – 43,99%. More than 80% of employees are younger than 40 years old. It means that the company is focusing on the acquisition of young talents, as well as tried to keep its overall company personnel age structure young.

In terms of recruitment process, there are a defined number of steps followed in the company. When there is a job opening, first of all, critical positions are defined. By critical positions we mean those, if they stay vacant, it will harm the company. First, there is an internal consideration for employees. Is there anyone, who can be a successor? Successors are evaluated based on three criteria: willingness, readiness and availability. In case there is no successor or the position is generic, an internal announcement is made and simultaneously job advertisement is made outside the company. For these purposes the company uses various job websites, as well as uses help of recruitment agencies. There is also a referral program, where current employees can refer somebody for the vacancy. If that person gets the job, that employee gets remuneration. This way PMU motivates its employees to participate in the recruitment process.

The application process is also defined and is different for entry level positions and senior management positions. For entry level positions a person goes through phone interview, tests (SHL, target detect test, etc.), scanner, situational analysis that measures 4-5 competencies), CBI (competency based interview, which is usually a structured panel interview).

For Senior Management positions the applications pass: full fledged interview, business case, additional interviews, interview with managing director.

Philip Morris Ukraine pays a lot of attention to employees' training and development. The company uses three types of training. The first one is auditorium (in class) trainings, which are done by in-house trainers (representatives of different departments). There are two dimensions of those trainings: manage self, which focuses on what the company is about; manage others, which tells what kind of managers are expected to be. The second type is online training. PMU has a huge platform iLearn with lots of information. The third type is external trainings, which are focused mainly on hard skills. However, the company believes that only 10% of all knowledge comes through classroom training. The largest amount of development (70%) happens on-the job. The rest 20% come from working with others on cross-functional projects (Голубков, 2016).

For talent management the company has a special process - Managing & Appraising Performance (MAP). It is a global, annual process designed to support employees and their managers in assessing individual contributions to the organization and development of their individual abilities. This process oversees planning of two types of

objectives: work objectives and development objectives. For each objective a certain benchmark is set (for example, percentage of solved user requests, amount spent on a new trade program, percentage of new employees, etc.) Planning is done by an employee together with the direct manager at the beginning of the year. At the end of the year, the manager evaluates the subordinate by comparing the objectives and their benchmarks with the actual results achieved. Managers also take into account the circumstances in which the employee had to work (whether there was a headwind or a tailwind) and compare employee's performance relative to others. The final score is given on a scale from 1 to 5. It affects the promotion of an employee, salary increase and bonuses.

Work objectives include 4 categories: business, strategic, organizational, and effectiveness. Organizational objectives category is related to organizational and social effectiveness of the manager and is used to assess areas of talent acquisition and talent development.

Development objectives are designed to improve personal and professional skills. The list of possible objectives is very diverse, from knowledge of foreign languages to time-management. There is also such notion as 7 key behaviors, which are considered to be the most critical characteristics for an employee to become successful in the company. They include leading, collaboration, communication, learning, agility, entrepreneurship and impact. Each employee has to choose at least one of these behaviors for development. At the end of the year, the results of employee's development are assessed based on the factual activities he/she was involved in.

Another approach used in the company for talent training and development is mentoring. Each newcomer has a "buddy", who helps him/her to integrate into the company as smoothly as it is possible. Besides newcomers, there are also formalized and non-formalized mentoring programs for regular employees. It is done for knowledge and experience sharing and is useful both for the mentor and for the mentee. To understand what the employees think and feel about working in the company, Philip Morris has a tool, called Employee Opinion Survey (EOS). It is an anonymous survey, conducted among all employees every year in order to receive their feedback related to various aspects of working in the company. EOS is focused on three main areas: dedication, strategic alignment and agility.

The survey has 63 standardized questions in 17 dimensions (e.g. authority, communication, safety, team work, quality, development, etc.) Each question is

assessed on the 5-level Likert scale: Strongly disagree, Disagree, Neither agree nor disagree, Agree, Strongly agree.

An index is formed to assess each the areas and dimensions key elements. Dedication Index consists of answers to such questions as:

- I would recommend the company as a great place to work;
- I am proud to work for the company;
- If I have my own way, I will be working for the company 12 months from now.

Strategic Alignment Index consists of answers to such questions as:

- I have confidence in the company's business strategy;
- I clearly understand how my job supports the company's objectives.

Agility Index consists of answers to such questions as:

- At the company, our process are developed to be flexible;
- The people in my team adapt easily to new ways of doing things.

Besides indices, there are also various dimensions assessed. An interesting one is Managerial Effectiveness, which consists of answers to 4 questions:

- 1) My direct supervisor is a role model for company values;
- 2) My direct supervisor encourages feedback on his/her leadership effectiveness;
- 3) My direct supervisor communicates openly and honestly;
- 4) My direct supervisor effectively communicates our departments' objectives.

Calculation of the index is conducted in the following way:

- 1) Percentage of employees, who answered "Strongly agree" or "Agree" from the total number of employees, who took part in the survey (for each question).
- 2) Average score on the five-point scale based on the percentage obtained (for each question).
- 3) Average number of employees, who answered "Strongly agree" or "Agree", based on the percentage of each particular question, which is part of the index.
- 4) Index as an average score based on the average scores of each particular question, which is part of the index.

Such calculations are made on different levels of consolidation, from individual teams (15 people minimum) to aggregated result of all affiliates of the company. After that, the obtained results are analyzed for each question and an overall index based on the comparison:

- with the results of previous years (dynamics);
- with results of other teams/departments/functions/countries.

Managerial Effectiveness dimension is the one directly related to human resources management, therefore, let's have a look at the results for this dimension on the example of IT Department of the company in 2013-2017 (Table 2.14).

Table 2.14

Managerial Effectiveness Index at PMI, PMU and PMP in 2013-2017

Teams	2013		2014		2015		2016		2017		Average score Growth rate, %					Average score CAGR, %
	Average score	Percentage «Agree»	Average score	Percentage «Agree»	Average score	Percentage «Agree»	Average score	Percentage «Agree»	Average score	Percentage «Agree»	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2017 - 2013
IT Department - PMI	3.44	68%	3.47	69%	3.45	69%	3.51	70%	3.65	73%	0.78	-0.48	1.64	4.09	6.10	1.49
Corporate function - PMI	3.37	67%	3.40	68%	3.40	68%	3.50	70%	3.60	72%	0.89	0.00	2.94	2.86	6.82	1.66
Commercial function - PMI	3.45	69%	3.50	71%	3.45	69%	3.40	68%	3.70	74%	1.45	-1.43	-1.45	8.82	7.25	1.76
Customer service function - PMI	3.50	69%	3.50	69%	3.60	72%	3.62	73%	3.75	75%	0.00	2.86	0.56	3.59	7.14	1.74
IT Department – PM Ukraine	3.66	73%	3.65	73%	3.70	74%	3.70	74%	3.75	75%	-0.27	1.37	0.00	1.35	2.46	0.61
Corporate function - PMU	3.60	72%	3.60	72%	3.75	75%	3.80	76%	3.90	78%	0.00	4.17	1.33	2.63	8.33	2.02
Commercial function - PMU	3.80	77%	3.75	75%	3.75	75%	3.65	72%	3.55	71%	-1.32	0.00	-2.67	-2.74	-6.58	-1.69
Customer service function - PMU	3.58	70%	3.60	71%	3.65	73%	3.65	73%	3.80	76%	0.56	1.39	0.00	4.11	6.15	1.50
IT Department – PM Poland	3.78	76%	3.87	77%	3.90	78%	3.93	79%	3.95	79%	2.20	0.86	0.85	0.42	4.41	1.08
Corporate function - PMP	3.95	79%	3.90	78%	3.95	79%	3.90	78%	4.00	80%	-1.27	1.28	-1.27	2.56	1.27	0.31
Commercial function - PMP	3.70	74%	3.85	77%	4.00	80%	4.00	80%	4.05	81%	4.05	3.90	0.00	1.25	9.46	2.29
Customer service function - PMP	3.70	75%	3.85	77%	3.85	77%	3.90	78%	3.90	78%	4.05	0.00	1.30	0.00	5.41	1.32

Source: own representation based on internal company data

We can see that Managerial Effectiveness Index demonstrated growth on PMI level, as well as separately for PM Ukraine and PM Poland over 2013-2017. However, an increase for Ukraine was the lowest (2,46%) in comparison to Poland (4,41%) and PMI (6,10%).

Another important dimension is Employee Development and Engagement Index. It demonstrates how satisfied the employees are working for the company, in terms of development and their role in the company. It consists of answers to 6 questions:

- 1) If I continue to perform well, I will get ahead in this company
- 2) I believe I am paid fairly
- 3) I receive useful coaching and feedback that helps me improve my performance
- 4) I think there is a clear link between job performance and pay at my company
- 5) Management provides recognition for performance when I perform above and beyond my job responsibilities
- 6) I understand how my performance is measured and evaluated

Results of Employee Development and Engagement Index in 2013-2017 are shown in table 2.15. We can see that the average score decreased over the five years by 9,5% from 4,02 to 3,64. It means that level of employees' satisfaction with their development and role in the company decreased. However, if we analyse the years in between, average score in 2017 is the highest one after 2013, which can suggest about a positive tendency.

Table 2.15

Employee Development and Engagement Index at PMU in 2013-2017

Indicator	2013		2014		2015		2016		2017		Growth rate, %					CAGR, %
	Average score	Percentage «Agree»	Average score	Percentage «Agree»	Average score	Percentage «Agree»	Average score	Percentage «Agree»	Average score	Percentage «Agree»	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Number of answers	1121		1035		801		580		554		-7,67	-22,61	-27,59	-4,48	-50,58	-16,16
Employee Development and Engagement Index	4,02	84%	3,30	69%	3,21	67%	2,97	62%	3,64	76%	-17,86	-2,90	-7,46	22,58	-9,52	-2,47

Source: own representation based on internal company data

Therefore, EOS tool is used to have an up-to-date picture of what and how the employees feel in the company and what areas of improvement there are.

Besides training and development, to motivate and stimulate employees to stay in the company and improve their performance, there is, of course, a compensation and benefits system. It represents the economic method of human resources management, which is mainly based on the material incentives for labor: salary.

In order to check if economic methods of HRM play a key role for the employees of PMU, in 2017 the company has conducted a survey, focused on personal job motivation of employees. Each respondent had to choose one option, which is the most important for him/her, from the given list. The results are presented on figure 2.4.



Fig. 2.4. Results of job motivation survey of employees of PMU in 2017 (Source: own representation based on internal company data)

As we can see, material part plays an important role, however, not the key one. Material motivation factors in total comprise 32,6%, while non-material – 67,4%. For almost a quarter of all employees the most important motivation for work is getting satisfaction from the job. At the same time, around 20% of employees are motivated by ensuring a financially stable future. Only 5,2% want to make for living. Therefore, we can say that there is a healthy correlation between material and non-material motivational factors in the company. The fact that non-material motivation is stronger means that company's employees are very loyal.

Let's analyze the compensation and benefits system of PMU.

When establishing compensation and benefits programs, PMU reviews the practices of selected companies in the relevant market. These are typically high performing companies which compete for company's employees or business. PMU recognizes and rewards individuals for their individual performance and contribution to the business and uses a common job evaluation system throughout the company. Therefore, Philip Morris Ukraine uses flexible payment method.

Flexible remuneration system is a system in which a certain part of earnings is dependent on personal merits and an overall efficiency of an enterprise. When determining an amount of pay, a company takes into account not only experience, qualifications, and professional skills, but also an importance of an employee, his/her ability to achieve certain goals for the development of an organization.

In flexible systems, tariff serves as a basis for an employee's earnings, which is supplemented by various bonuses and fringe benefits (Буряк, Карпінський, Григор'єва, 2004, p.196). Therefore, the salary of PMU employees consists of the fixed part (based on their personal hourly rate) and the variable part – bonuses.

The fixed part of the salary depends on the "grade" of an employee. Grades are levels used to group jobs of similar value according to PMI's Job Evaluation Methodology. The company uses 28 levels, starting from Grade 1. For each grade there is a salary range, within which an employee with this grade can have his/her salary.

The variable bonus part of the salary is based on the PMI Recognition Awards. These awards are presented to employees based on their outstanding performance. There are different levels of awards and each award corresponds to some financial remuneration.

Besides the compensation, PMU also offers various benefits to its employees. The core benefits include medical and life insurance for the employee and his/her family. PMU is the only company in Ukraine that offers unique critical advantage medical insurance program, insuring from serious life-threatening diseases. The additional benefits include sport allowances, meal allowances, vacation allowances etc.

Therefore, we can conclude that the company is taking care of its employees and ensures it provides diverse types of motivation, both material and non-material, to satisfy different profiles of employees.

2.3. Assessment of human resources management effectiveness of PrJSC "Philip Morris Ukraine"

Analysis of the quantitative and qualitative composition of the staff has already been performed by me earlier, therefore, we will now focus on indicators of the efficiency of the use of labor resources.

The analysis of effectiveness of HRM system of Philip Morris will begin with an analysis of the main indicators of the work of the personnel.

Table 2.16 contains analysis of the number of employees and the wage fund for 2013-2017.

Table 2.16

Analysis of dynamics of the number of employees and wage fund of PMU in 2013-2017

Indicator	Units	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %
							2014-2013	2015-2014	2016-2015	2017-2016	2017-2013	2014-2013	2015-2014	2016-2015	2017-2016	2017-2013	
Average number of employees	people	1 449	1 379	1 087	829	807	-70	-292	-258	-22	-642	-4,83	-21,17	-23,74	-2,65	-44,31	-13,61
Wage fund	UAH th	321 986	301 817	320 013	231 564	257 298	-20 169	18 196	-88 449	25 734	-64 688	-6,26	6,03	-27,64	11,11	-20,09	-5,45
incl. base salary fund	UAH th	251 149	237 228	252 810	185 251	205 312	-13 921	15 582	-67 559	20 061	-45 837	-5,54	6,57	-26,72	10,83	-18,25	-4,91
incl. extra salary fund	UAH th	70 837	64 589	67 203	46 313	51 986	-6 248	2 614	-20 890	5 673	-18 851	-8,82	4,05	-31,08	12,25	-26,61	-7,44

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A)

As we can see from the table, changes in the average number of employees and the wage fund were disproportionate. Due to decrease by 70 employees in 2014 the wage fund also decreased, which happened both in the base salary fund and in extra salary fund. However, with further decrease in the number of employees in 2015, we can observe an increase in the wage fund by 6,03%. Then again with decrease of number of employees in 2016 the wage fund decreased as well, and with continuing decrease of the number of employees in 2017 the wage fund grew by 11,11%. In both cases (2015 and 2017) the increase happened due to growth in base salary and extra salary. In 2015 the base salary fund grew more than extra salary fund (6,57% vs. 4,05%). In 2017, extra salary fund grew slightly more (11,24%) than the base salary fund (10,83%). It means that the company decided to focus on its existing employees and to make an increase in their salary, probably through re-distribution of the salaries of the dismissed employees. An overall picture for the 5 years shows that together with headcount decrease there was a decrease in the wage fund, which happened mostly through decrease in extra salary with CARG of -7,44% and also some decrease in base salary (CAGR = -4,91%).

It is easy to see that base salary payment prevails in the structure of the wage fund of Philip Morris Ukraine (around 80% on average), while the share of extra incentives is low (around 20% on average). Consequently, the management of the company pays too little attention to bonus payments, other incentive and compensation payments, which are not part of the main earnings of the company's employees.

In order to determine the effectiveness of human resources management mechanism, among other things, we can use indicators of stability of personnel tenure: hiring turnover rate, dismissal turnover rate, personnel turnover rate, coefficient of total turnover (Гетьман & Шаповал, 2010, p.136).

To calculate these rates we need to know how many people were hired and dismissed in 2013-2017. Calculation results are summarized in table 2.17.

Table 2.17

Number of hired and dismissed employees of PMU in 2013-2017, people

Indicator	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %
						2014-2013	2015-2014	2016-2015	2017-2016	2017-2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Number of hired employees	50	15	17	10	6	-35	2	-7	-4	-44	-70,00	13,33	-41,18	-40,00	-88,00	-41,14
Number of dismissed employees	24	85	309	268	28	61	224	-41	-240	4	254,17	263,53	-13,27	-89,55	16,67	3,93
incl. unsolicited dismissal	8	15	14	10	9	7	-1	-4	-1	1	87,50	-6,67	-28,57	-10,00	12,50	2,99
incl. dismissal for violation of labor discipline	1	4	5	2	1	3	1	-3	-1	0	300,00	25,00	-60,00	-50,00	0,00	0,00
incl. other dismissal (reduction, restructuring etc.)	15	51	290	256	18	36	239	-34	-238	3	240,00	468,63	-11,72	-92,97	20,00	4,66

Source: own representation based on internal company data

One of the basic methods of assessment is the analysis of qualifications of the personnel, their level of education, as well as age structure. These indicators can be used to observe the general tendency of the personnel system development and to analyze the qualitative characteristics of the personnel.

In our case, in 2013-2017 personnel turnover rates were:

$$C_{T(2013)} = \frac{8+1}{1\ 449} \times 100\% = 0,62\% \quad (2.1)$$

$$C_{T(2014)} = \frac{15+4}{1\ 379} \times 100\% = 1,38\% \quad (2.2)$$

$$C_{T(2015)} = \frac{14+5}{1\ 087} \times 100\% = 1,75\% \quad (2.3)$$

$$C_{T(2016)} = \frac{10+2}{829} \times 100\% = 1,45\% \quad (2.4)$$

$$C_{T(2017)} = \frac{9+1}{807} \times 100\% = 1,24\% \quad (2.5)$$

According to formulas 2.1 – 2.5 the turnover rate was below 2%, which is the natural renewal of personnel.

The next indicator analyzed by us was hiring turnover rate:

$$C_{HT(2013)} = \frac{50}{1\,449} \times 100\% = 3,45\% \quad (2.6)$$

$$C_{HT(2014)} = \frac{15}{1\,379} \times 100\% = 1,09\% \quad (2.7)$$

$$C_{HT(2015)} = \frac{17}{1\,087} \times 100\% = 1,56\% \quad (2.8)$$

$$C_{HT(2016)} = \frac{10}{829} \times 100\% = 1,21\% \quad (2.9)$$

$$C_{HT(2017)} = \frac{6}{807} \times 100\% = 0,74\% \quad (2.10)$$

The dismissal turnover rate was:

$$C_{DT(2013)} = \frac{24}{1\,449} \times 100\% = 1,65\% \quad (2.11)$$

$$C_{DT(2014)} = \frac{85}{1\,379} \times 100\% = 6,16\% \quad (2.12)$$

$$C_{DT(2015)} = \frac{309}{1\,087} \times 100\% = 28,43\% \quad (2.13)$$

$$C_{DT(2016)} = \frac{268}{829} \times 100\% = 32,33\% \quad (2.14)$$

$$C_{DT(2017)} = \frac{28}{807} \times 100\% = 3,47\% \quad (2.15)$$

As we can see in formulas 2.6 – 2.15 the dismissal turnover rate is much higher than the hiring turnover rate. In 2016 the dismissal rate was 32,33%, which is quite high. It means that more than 1/3 of the personnel left the company. Such tendency is not positive, however, taking into account that it was connected to restructuring in the company, therefore, it was planned, there is no need to worry much about it. Moreover, in 2017 the indicator became rather low (3,47%), which supports the conclusion that the state of personnel in the company is healthy, and abnormal changes in 2015 and 2016 were a planned step. At the same time, the low hiring ratio shows that currently the company is not in need of new personnel and does not plan to expand it.

The coefficient of total turnover was:

$$C_{TT(2013)} = 3,45\% + 1,65\% = 5,10\% \quad (2.16)$$

$$C_{TT(2014)} = 1,09\% + 6,16\% = 7,25\% \quad (2.17)$$

$$C_{TT(2015)} = 1,56\% + 28,43\% = 29,99\% \quad (2.18)$$

$$C_{TT(2016)} = 1,21\% + 32,33\% = 33,54\% \quad (2.19)$$

$$C_{TT(2017)} = 0,74\% + 3,47\% = 4,21\% \quad (2.20)$$

According to formulas 2.16 – 2.20, the coefficients in 2015 and 2016 demonstrate a rather high level of total turnover of personnel, due to high quantity of dismissed employees those years. However, before 2015 it was much lower and in 2017 it went down again to 4,21%, which is an acceptable level.

To assess the economic effectiveness of personnel work, we have used the ratio of profitability of the use of labor resources (P_L), which is calculated as the ratio of profit to the average number of employees of the enterprise (Лігоненко & Височин, 2010). Data about net income and average number of employees was taken from financial statements for 2013-2017 (see Appendix A).

$$P_{L(2013)} = \frac{1\,301\,500 \text{ UAH th}}{1\,449 \text{ employees}} = 898,21 \text{ UAH th per employee} \quad (2.21)$$

$$P_{L(2014)} = \frac{746\,304 \text{ UAH th}}{1\,379 \text{ employees}} = 541,19 \text{ UAH th per employee} \quad (2.22)$$

$$P_{L(2015)} = \frac{5\,440 \text{ UAH th}}{1\,087 \text{ employees}} = 5,00 \text{ UAH th per employee} \quad (2.23)$$

$$P_{L(2016)} = \frac{-1\,082\,734 \text{ UAH th}}{829 \text{ employees}} = -1\,306,07 \text{ UAH th per employee} \quad (2.24)$$

$$P_{L(2017)} = \frac{627\,306 \text{ UAH th}}{807 \text{ employees}} = 777,33 \text{ UAH th per employee} \quad (2.25)$$

Labor profitability calculations are summarized in table 2.18.

Table 2.18

Labor profitability of PMU in 2013-2017

Indicator	Units	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %
							2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Net profit (loss)	UAH th	1 301 500,00	746 304,00	5 440,00	-1 082 734,00	627 306,00	-555 196,00	-740 864,00	-1 088 174,00	1 710 040,00	-674 194,00	-42,66	-99,27	-20 003,20	-157,94	-51,80	-16,68
Average number of employees	people	1 449	1 379	1 087	829	807	-70	-292	-258	-22	-642	-4,83	-21,17	-23,74	-2,65	-44,31	-13,61
Labor profitability	UAH th per employee	898,21	541,19	5,00	-1 306,07	777,33	-357,01	-536,19	-1 311,08	2 083,40	-120,87	-39,75	-99,08	-26 197,44	-159,52	-13,46	-3,55

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A)

As we can see, the profitability of the company throughout five years was very volatile. Thus, in 2013 an average employee of the company generated 898,21 UAH th in profit. Then in 2016 the company incurred huge losses of 1 306,07 UAH th per employee. And in 2017 the company again became profitable, and increased its profitability per person by 159,52%, while the average number of employees that year decreased only by 2,65% in comparison to 2016. At the same time, if compared to 2013, profitability per person decreased by 13,45%, while the average number of employees decreased by 44,31%. Therefore, it is hard to make conclusions about efficiency and effectiveness of usage of human resources in the company, because its performance is not stable. However, according to the results of the last year – the company is very effective.

Section 3. Ways of Improvements of Human Resources Management of PrJSC “Philip Morris Ukraine”

3.1. Necessity of improvement of human resources management of PrJSC “Philip Morris Ukraine”

Having analysed the HRM system of PMU we can see that the company uses a lot of various tools and approaches to overcome the challenges it faces while working with human personnel and to make it bring benefits both to the employees and the company. However, there is always space for improvement.

Company’s HRM approach is based on the psychological assumption that when people are provided with the freedom to plan their actions and choose by themselves their way of achieving the goal, they are more independent and motivated. Because people have been provided with freedom to plan and carry out their actions on their own, they are more satisfied and enjoy a work-life balance and tend to be more motivated and thus more productive. More productive people in the organization are more likely to achieve their goals and thus attain a higher rate of success in the market (Little, 2013). Thus, the basis assumption is that satisfied people yield success and main HR’s effort goes into building satisfaction of its employees. We can see it by the efforts the company does to provide various benefits, drive up motivation, etc. However, the main aim of HR is not to achieve satisfied workforce. It is to achieve the best results for organization. Therefore, if the approach is changed towards company’s goals, it might bring more benefits for the company. We suggest it would be beneficial for PMU to adopt Ongoing Professional Development Strategic Human Resources Management (OPD-SHRM) theory practices in its HRM. To assess the validity of this suggestion, we will have to answer the research question: Is the OPD-SHRM model a better solution for HRM system of PrJSC “Philip Morris Ukraine”?

OPD-SHRM is an improved science of HR practices which redefines the link between people and organizations and that best matches and deals with the people’s behavior in an organization, developed by Graham Little, a scientist from New Zealand. According to his theory, satisfaction follows success, it does not lead to success.

The psychological assumptions underlying OPD theory are as follows:

- If a person is clear about what they need to do to be successful, he/she can do it more efficiently;

- The person’s performance then depends on him/her choosing to be self-disciplined and to do what is required with his/her full commitment and appropriate intensity.

The OPD-SHRM process is to have the people themselves choose to be successful. The OPD-SHRM process comprises the following activities:

- Agreement for success: Ask the people if they want to be successful and get their agreement for that.
- Psychological insight: They will drive themselves for success as they themselves have chosen so.
- Clear conveying of ideal actions: They should have a clear understanding of ideal actions in the role assigned to them: ideal actions that they are expected to deliver for their own success.
- Signoff on ideal actions: Getting their signoff for ideal actions will focus their minds on ideal actions and leave them with the least possibility to have their minds stray about any other action.
- Personal choice and commitment: Full delivery of ideal actions from them will mean their greater chance of success because they have agreed on to be successful.

The fundamental principle of OPD-SHRM is that for each goal, specific clear actions must be executed in order to achieve the goals. In OPD-SHRM terminology such specific clear actions are called “ideal actions” and defined as those actions which when executed, offer the greatest chance of greatest success (OPD International Limited, 2014b).

The second fundamental principle is that strategy is a complex goal and that all organisation roles need to be defined by goals derived from strategy—measured in key performance indicators (KPIs). The organisation team structure is designed to map the strategy onto the target market, hence roles with similar focus are grouped into teams, teams into divisions, divisions into operating units, etc. It follows that in every role, defined by the KPIs derived from strategy, there must be ideal actions (Little, 2013).

It now follows that for the whole organisation there is a set of ideal actions underlying the strategy. This set of ideal actions grouped from each role is called the behavioural structure. It follows that the more effective the organisation at identifying the guiding delivery of the behavioural structure, the more effective the roll-out of strategy (Little, 2013).

A person if left unattended for a prolonged time may get distracted from his/her focus in ideal actions. This is where the role of a Team Leader comes in. A Team Leader will consistently remind the team of the agreement they have signed to be successful by exhibiting the ideal actions they have agreed to. The Team Leader’s main objective is to ensure that the ideal actions are not forgotten by the team members by means of one on one interaction, periodical reviews and by rewarding, coaching or by remonstrating with them as and when appropriate. Whichever way the Team Leader feels appropriate is right in the current scenario.

One of the tasks of the HR Key Performance Indicator would be to monitor the extent to which the team leader has been capable of implementing the process derived from the OPD model. This way, HR will enact the OPD model in the team. The model can be simplified as shown in figure 3.1.

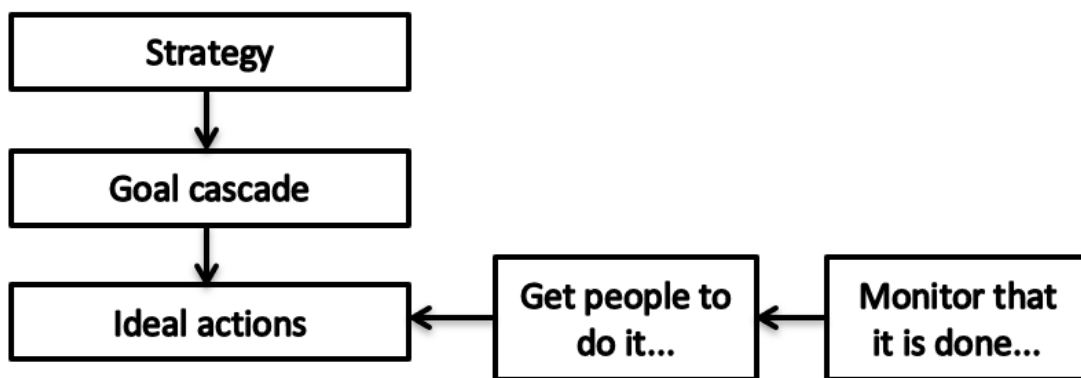


Fig. 3.1. Simplified OPD model (Source: Nel and Little (2010, p. 50))

Most importantly, as OPD-SHRM imparts in the person a perspective of working for his/her own professional success, it thus becomes an eminent step for the Team Leader to celebrate the person's success in a grand enough way to glorify his/her success, so the person can have the ultimate satisfaction of having finally achieved his/her professional goal that he/she had previously agreed. Rewarding is a crucial practice to be exercised in this phase of celebration (Nel & Little, 2010).

The OPD-SHRM Elements ensures:

- Focus (Are people clear on goals/KPIs?)
- Accuracy: (Are people clear on the ideal actions to achieve those KPIs?)
- Commitment (Are people inclined to do it?)
- Team leader support (Do people feel their team leader is providing the support and guidance for them to achieve their KPIs?)

- Business processes (Do people think the business processes assist them to do a good job (Du Plessis et al., 2012)?)

Links between the details of the role structure of OPD model to define psychological targets are presented in figure 3.2.

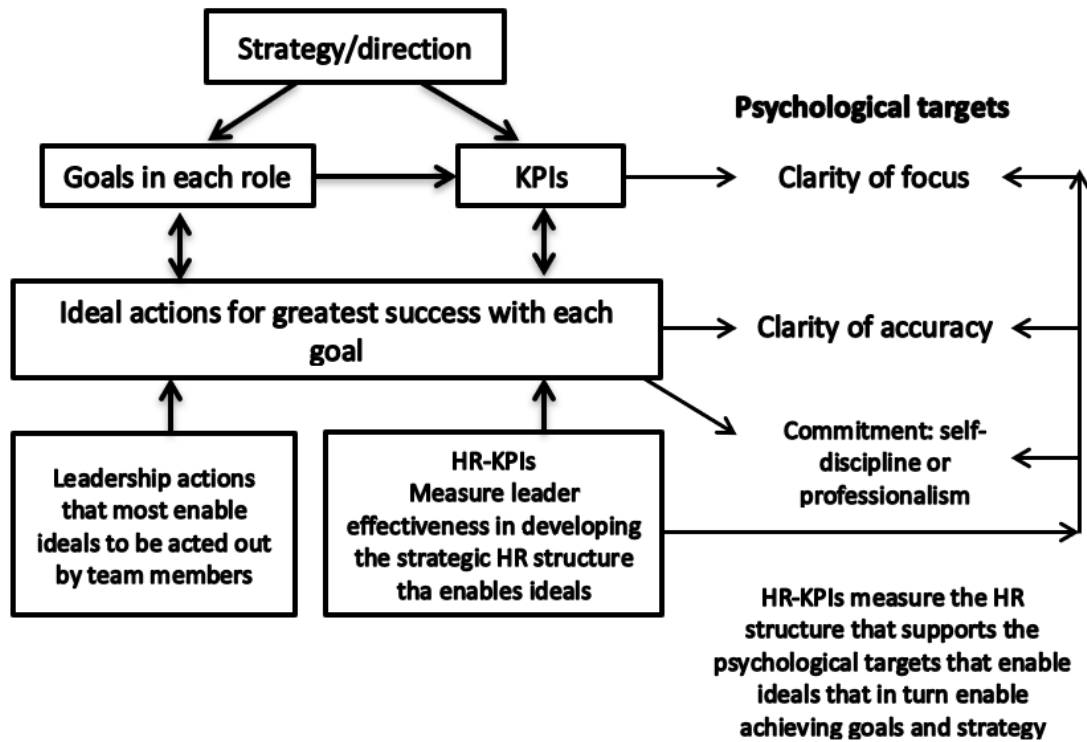


Fig. 3.2. Linking the details of the role structure to define psychological targets (Source: Nel and Little (2010, p.49))

To sum up, OPD theory is based on a scientific and unconventional binding between employees' behavior and organizational goals. OPD theory enables the team leader to identify the ideal actions based on KPIs or goals, which are clear, concise and of the nature that accomplishing them ensures a maximum chance of success. The team leader ensures that the ideal actions are clearly understood by the team. The employees agree on performing ideal actions with full commitment based on prior agreement to commitment for success. As the employees are committed and determined on what they must do, they seek to be more precise in the delivery of ideal actions. As a result, of precision in delivery, when employees are eventually successful, they feel satisfied. The employees are motivated by achieving their goal with the execution of the ideal actions derived from the KPIs or goals with their self-discipline and perseverance (Little, 2013).

3.2. Link between current HRM success and OPD-SHRM

From the previous chapter we have learned that the company measures Employee Development and Engagement Index. It demonstrates employees' opinion about their job satisfaction level, motivation at work, their efficiency, productivity, their performance, rating by their manager, and professional development. Thus, on a very high level it shows the effectiveness of current HRM system. We would like to examine whether OPD-SHRM could have been more beneficial and effective to the organization in reaching its objectives. In order to do that, we will perform the following steps:

- 1) Study correlation and relationship between Employee Development and Engagement Index and OPD-SHRM elements in the company
- 2) Calculate the impact on Employee Development and Engagement Index from an increase in OPD-SHRM elements

Data analysis: During data analysis, we have used statistical methods of simple and multiple regression, Pearson correlation coefficient and coefficient of determination.

“Correlation coefficient is a number that summarizes the nature of relationship between two variables” (Hatcher, 2003, p.290). The larger the correlation coefficient number is (absolute value), the stronger the relationship would be. Two variables with higher correlation coefficient mean that the two variables are related and it though does not determine any causality between the variables (Weinberg & Abramowitz, 2002).

The coefficient of determination is the ratio of explained variation in y to the total variation in y, and is computed as $r^2 = \text{Explained variation} / \text{Total variation}$.

Simple regression analysis assumes that one variable can be expressed, at least approximately, as a linear function of another variable. Multiple regression correlation technique is an extended form of simple linear regression statistical method. It is used to evaluate the value of one or more variables from the values of another set of 2 or more variables. The variable that is to be predicted is also called dependent. The variables that are used to predict the values for dependent variables are called independent (Lund Research Ltd, 2013).

- 1) *Study correlation and relationship between Employee Development and Engagement Index and OPD-SHRM elements in the company*

To study correlation and relationship between Employee Development and Engagement Index and OPD-SHRM elements in the company, we conducted surveys among employees, asking two types of questions:

- Type 1: Employee Development and Engagement Index questions;

- Type 2: Questions which revolve around key characteristics of OPD theory identified by Little (2013), Nel and Little (2010, 2014) regarding key aspects of the OPD model and cultural issues that the OPD model addresses.

The survey questionnaire used in this research is included in Appendix D for reference purposes.

Type 1 questions are questions to ascertain how successful the existing HRM was in achieving its objectives. Type 2 questions were to assess the extent of OPD-SHRM already present in the existing HRM. This type of question sought to determine the characterizing attributes of OPD-SHRM already present and being exercised in the existing HRM of the organization. The purpose was to find the correlation between the extent of the presence of OPD-SHRM and the extent of HRM objectives being met in terms of employees' performance, their satisfaction level and general HRM objectives.

Upon finding the correlation, we would like to see what would be the impact on company's income, if OPD-SHRM techniques would be developed and strengthened.

Sampling: In order to ensure obtained Employee Development and Engagement Index results from my survey match those, from Employee Opinion Survey 2017, while choosing the sample, we used stratified sampling technique. First of all, we split all organization into groups by departments, salary grades, and age groups, to match those used during EOS. Then, we have selected a random sample from each group, in proportion to respondents from each group during EOS.

We have decided that if obtained Employee Development and Engagement Index would be within +/- 2% from the corresponding one from EOS 2017, we could use the results of my survey to use linear regression model based on Employee Development and Engagement Index from EOS for income prediction.

Survey: The survey was distributed by means of company's internal Share Point survey forms. Since it is an internal source, we could ensure necessary level of privacy. As the survey was intended for a limited audience, it was distributed only via web-links sent in emails to the participants.

There were 55 responses obtained for the survey (10% from the number of respondents to EOS 2017). It consisted of 11 questions: 6 Type 1 questions and 5 Type 2 questions. Results for each question split by type are presented below on figures 3.3 – 3.14. Survey results are presented in Appendix E.

Type 1 (Questions 1-6)

Type 1 questions measure the effectiveness of HRM in the organization in terms of job satisfaction and other different parameters.

According to figure 3.3, more than a half of respondents (59%) agree that if they continue to perform well, they will get ahead in the company. 23,2% have neutral position and 17,8% disagree. It means that almost a half of respondents do not believe or are not sure that their performance is linked to career promotion. It is a big portion and the company should work on either demonstration of performance value for the company (if it is so), or on making performance valued. In current situation, those employees that are career oriented might be demotivated and thus demonstrate worse results than they could.

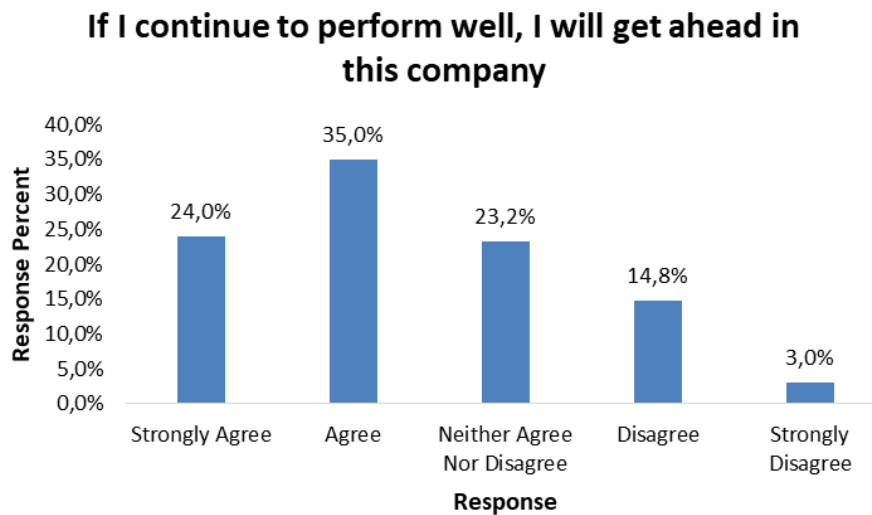


Fig. 3.3. Distribution of responses to Question 1 “If I continue to perform well, I will get ahead in this company” (Source: own representation of responses to survey in Appendix E)

According to figure 3.4, 70% of respondents believe they are paid fairly. It is a good indicator, showing that company’s remuneration system is effective. However, there are still 30% of employees that feel they are underpaid or have doubts about this matter. It is necessary to analyse the situation and compensate it, for example, through some bonuses.

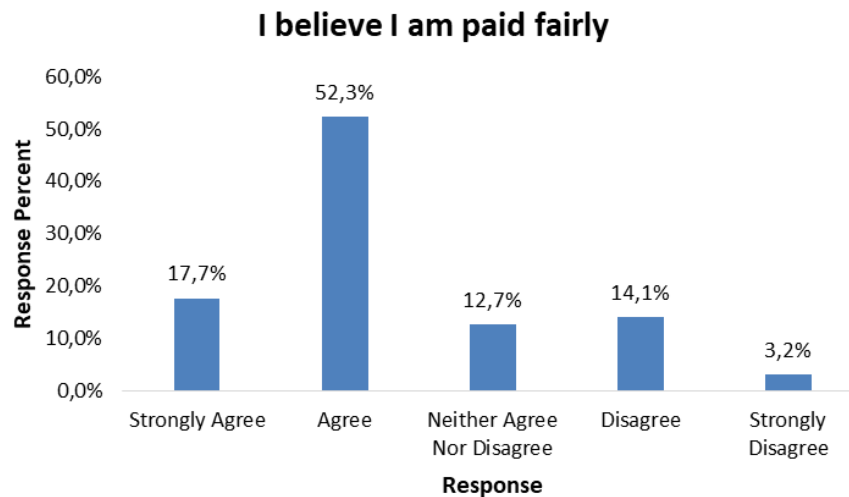


Fig. 3.4. Distribution of responses to Question 2 “I believe I am paid fairly” (Source: own representation of responses to survey in Appendix E)

According to figure 3.5, 68% of respondents agree that they receive necessary coaching and feedback from their managers. Around 20% are neutral and around 12% disagree. Taking into account the proportion of managers to employees, 68% of satisfied employees is a good measure. Therefore, company’s managers are doing a good job, although, there is still space for improvement.

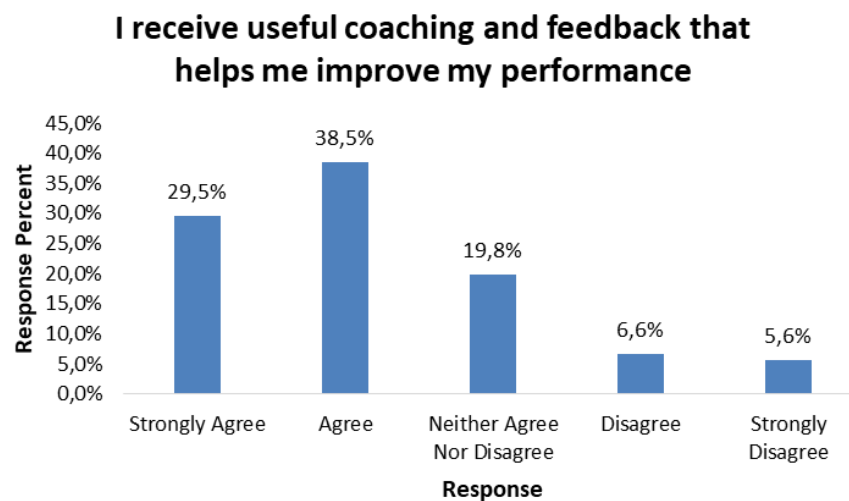


Fig. 3.5. Distribution of responses to Question 3 “I receive useful coaching and feedback that helps me improve my performance” (Source: own representation of responses to survey in Appendix E)

According to figure 3.6, 59% of respondents believe that there is a clear link between job performance and pay at the company. It repeats the dynamics of respondents’ position about link between performance and promotion, and support the conclusion

that the company has to work on demonstration of performance value for organization over all other factors.

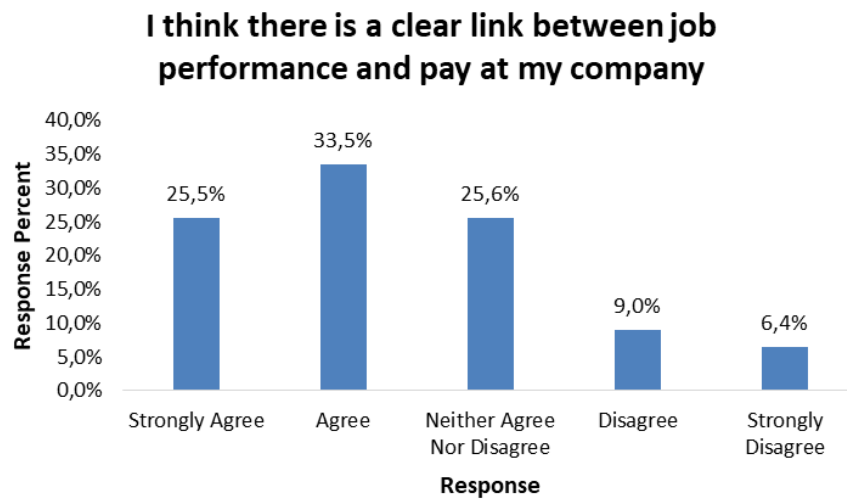


Fig. 3.6. Distribution of responses to Question 4 “I think there is a clear link between job performance and pay at my company” (Source: own representation of responses to survey in Appendix E)

In figure 3.7 we see that 62% of respondents agree that they are recognized when they perform above and beyond their job responsibilities. Such proactive behavior is what drives an organization forward, therefore, it is very important to support it. 62% is not bad, however, it means that the rest 38% are not motivated to “go an extra mile” and thus the company is losing possible opportunities.

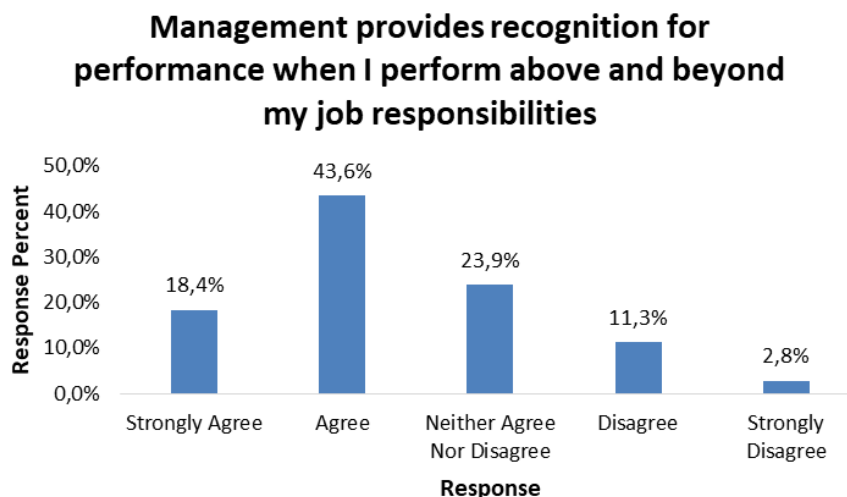


Fig. 3.7. Distribution of responses to Question 5 “Management provides recognition for performance when I perform above and beyond my job responsibilities” (Source: own representation of responses to survey in Appendix E)

According to figure 3.8, almost $\frac{3}{4}$ of all respondents (73%) understand how their performance is measured and evaluated. 22,4% have neutral position about this question and only 4,6% disagree. Therefore, the current level is quite satisfactory.

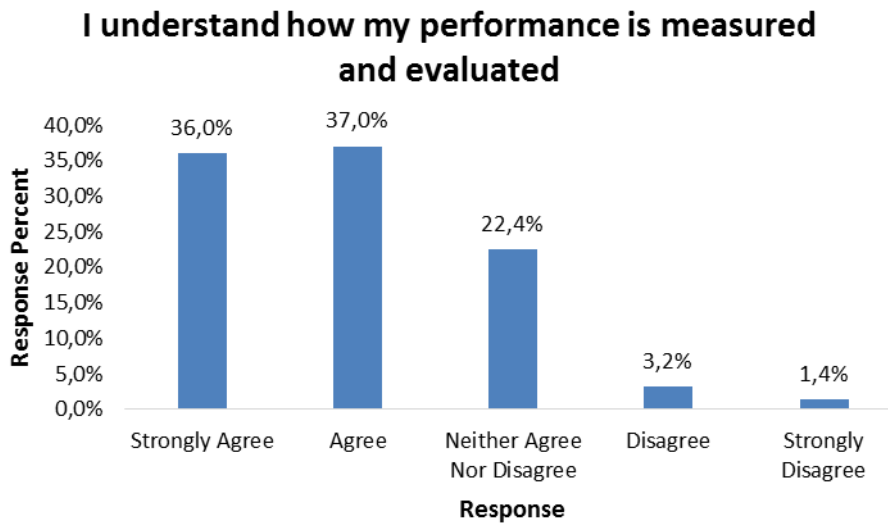


Fig. 3.8. Distribution of responses to Question 6 “I understand how my performance is measured and evaluated” (Source: own representation of responses to survey in Appendix E)

From the response to these questions, we have calculated Employee Development and Engagement Index (as an average score). The obtained results are presented in figure 3.9. For further calculations and analysis we will use this index.

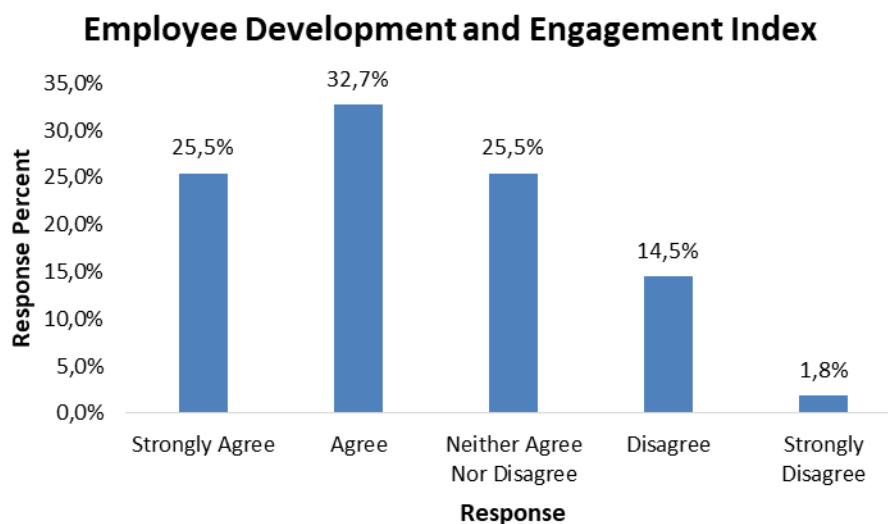


Fig. 3.9. Distribution of responses to Employee Development and Engagement Index (Source: own representation of responses to survey in Appendix E)

Employee Development and Engagement Index average score obtained from the survey is 3,7061. Index value in 2017 according to EOS was 3,64. The obtained result is 1,82% higher than EOS result, which is within the acceptable range of +/- 2%. Therefore, we can use the results of survey to use linear regression model based on Employee Development and Engagement Index from EOS for income prediction.

Type 2 (Questions 7-11)

Type 2 questions measured the extent of the presence of OPD-SHRM elements. OPD-SHRM has an emphasis on more frequent manager-employee interactions, help and support from the manager, more employees’ engagement, inclination towards success and emphasis on actions over results. These questions measured the degree to which these elements of OPD-SHRM were present.

According to figure 3.10, 47,3% of respondents say that they know about key performance activities that will lead to their success. 34,5% are not sure about that and 18,2% do not know about them. It means that around a half of respondents might be focusing on less important activities, thus decreasing their own success and overall success of an organization.

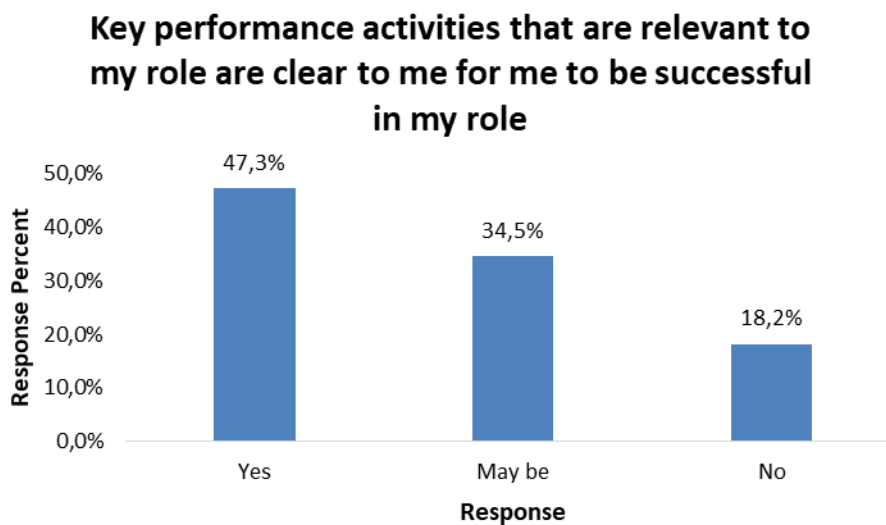


Fig. 3.10. Distribution of responses to Question 7 “Key performance activities that are relevant to my role are clear to me for me to be successful in my role” (Source: own representation of responses to survey in Appendix E)

In figure 3.11 we see that 78,1% of respondents sometimes or even often ‘on the spot’ social rewarding from their managers. Only 5,5% claim they never receive it. Thus, in general, the level is quite satisfactory.



Fig. 3.11. Distribution of responses to Question 8 “How often does your manager give you ‘on the spot’ social rewarding?” (Source: own representation of responses to survey in Appendix E)

According to figure 3.12, around a half of respondents (52,7%) say that their manager’s expectations from them are realistic. 16,4% state they are not realistic at all and 12,7% they are mostly not realistic. It is worth attention, since it means that around a quarter of employees feel their managers usually expect too much of them, which means no matter how hard they are trying – they are not able to reach success. Managers have to align their expectations with employees to stay on the same ground.



Fig. 3.12. Distribution of responses to Question 9 “How realistic are the expectations of your manager from you?” (Source: own representation of responses to survey in Appendix E)

In figure 3.13 we see that repeating the distribution of answers for the question about key activities, only half of the respondents (49,1%) know how to be successful in their

current role. It means that the other half has low chances of reaching success, since they are not sure or do not know how. This should become one of the main focus points of the company.

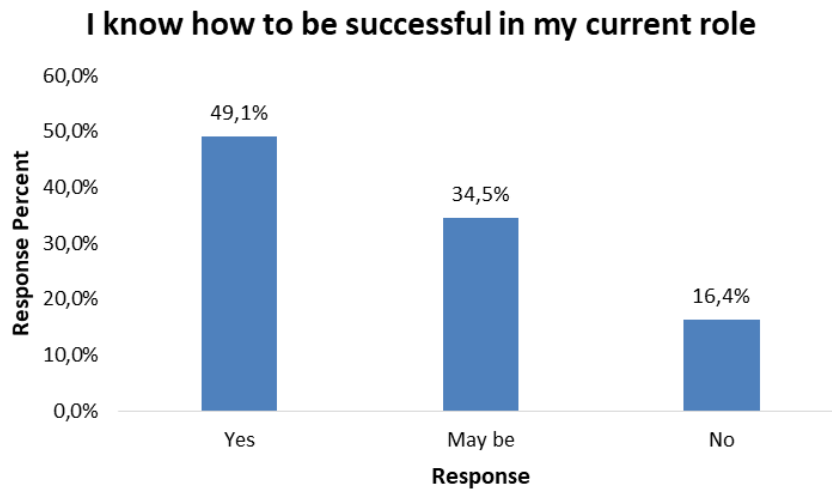


Fig. 3.13. Distribution of responses to Question 10 “I know how to be successful in my current role” (Source: own representation of responses to survey in Appendix E)

According to figure 3.14, 63,7% of respondents say their managers do one on one meetings with them either weekly or fortnightly. It is a good level. However, it is advisable to pay attention to 7,3%, who have their one on one meetings more rare than monthly. Such rare communication might hurt employees’ performance and thus, company’s results.



Fig. 3.14. Distribution of responses to Question 11 “How often does your supervisor do one on one meeting with you?” (Source: own representation of responses to survey in Appendix E)

To start data analysis, we assessed the impact of OPD-SHRM on the effectiveness of company’s HRM, where Employee Development and Engagement Index is a dependent variable and Type 2 questions are independent variables. We have calculated Person correlation coefficient and coefficient of determination using Excel.

Since answer values are not numeric, for statistical interpretation, they are coded as numerical (e.g. “Yes” = 3, “May be” = 2, “No” = 1). A higher numerical number means more efficient HRM and higher extent of OPD for Employee Development and Engagement Index and Type 2 questions (variables) respectively. For reference, the whole list of variables’ values and numerical equivalents used for statistical analysis in Excel is listed in a table in Appendix F.

As we can see from the table 3.1, all of the variables are positively correlated. Light grey cells represent medium correlation and determination, dark grey cells – high correlation and determination. The strongest correlation with Employee Development and Engagement Index is from the frequency of “on the spot” social rewarding from manager. This same factor also explains the highest rate (58.16%) of variation in the index.

Table 3.1

Pearson correlation coefficient matrix of Type 2 questions’ answers with Employee Development and Engagement Index

Coefficient	X1	X2	X3	X4	X5
	Key performance activities that are relevant to my role are clear to me for me to be successful in my role	How often does your manager give you ‘on the spot’ social rewarding?	How realistic are the expectations of your manager from you?	I know how to be successful in my current role	How often does your supervisor do one on one meeting with you?
Correlation Coefficient	0,3742	0,7626	0,5867	0,6829	0,3670
Coefficient of Determination	0,1400	0,5816	0,3442	0,4664	0,1347

Source: own representation of responses to survey in Appendix E

Every X variable is correlated to Y variable to some extent. The next step made was to derive the linear equation for the line of regression of Y with respect to each variable Xi and then will derive a single linear equation in terms of all Xi variables.

The linear equation of line of regression for Xi is presented in formula 3.1.

$$Y = m1Xi+c1 \tag{3.1}$$

where Y – dependent variable;

m1 – slope;

Xi – independent variable;

c1 – Y-intercept.

We have calculated linear equations for determining Employee Development and Engagement Index (Y) in terms of answers to each Type 2 question (Xi variable). The constants m1 (Xi variable B value) and c1 (intercept B value) have been determined using the Excel. Data is summarized in table 3.2

Table 3.2

Regression linear equations for determining Employee Development and Engagement Index (Y) in terms of answers to Type 2 questions (Xi variables)

Xi (Dependent Variable)		Regression Statistics				Regression Coefficients			Regression Linear equation of Y in terms of Xi
		R	R Square	Adjusted R Square	Std. Error of the Estimate	Indicator	B	Std. Error	
X1	Key performance activities that are relevant to my role are clear to me for me to be successful in my role	0,3742	0,1400	0,1238	0,9447	Intercept	2,0749	0,5697	Y = (0,4956)X1 + 2,0749
						Xi variable	0,4956	0,1687	
X2	How often does your manager give you 'on the spot' social rewarding?	0,7626	0,5816	0,5737	0,6590	Intercept	0,9942	0,3282	Y = (0,8572)X2 + 0,9942
						Xi variable	0,8572	0,0999	
X3	How realistic are the expectations of your manager from you?	0,5867	0,3442	0,3318	0,8250	Intercept	2,1274	0,3193	Y = (0,5138)X3 + 2,1274
						Xi variable	0,5138	0,0974	
X4	I know how to be successful in my current role	0,6829	0,4664	0,4563	0,7441	Intercept	0,6350	0,4622	Y = (0,923)X4 + 0,635
						Xi variable	0,9230	0,1356	
X5	How often does your supervisor do one on one meeting with you?	0,3670	0,1347	0,1184	0,9476	Intercept	2,6031	0,4047	Y = (0,3745)X5 + 2,6031
						Xi variable	0,3745	0,1304	

Source: own representation of responses to survey in Appendix E

In addition to linear regression equations, we have calculated the standard error of estimate. The “Standard error of estimate” is also an indicator of correlation between the dependent and independent variable. The more they are correlated, the more accurately the independent variable can be determined in terms of dependent variable; thereby the “Standard error of estimate” will be lesser (Chaudhary, 2009).

For example, in case with X1, the standard error of estimate of 0,9447 means the difference between the predicted value of Y and the actual value of Y is less than or equal to 0,9447.

By looking at the table 3.2, it can be found that the “Standard error of estimate” is lowest when Y is represented in terms of X2. This means that X2 is the best predictor of Y among all other independent variables, Xi.

Before selecting equation 3.2 as the final one to calculate a value for Y, we have first to determine linear equation for the line of regression between the independent variable, Y and all dependent variables, Xi taken together. This is also known as the multiple regression equation.

$$Y = (0,8572)X2 + 0,9942 \tag{3.2}$$

A Multiple Linear Regression Equation represents the dependent variable in terms of all the predictors (independent variables). In this case, we will find an equation for Y in

terms of all X_i and will check whether the standard error of estimate in this case is even less than the case when the equation is in terms of Y and X_2 . A less standard error of estimate will indicate that Y is better predicted with all dependent variables, X_i taken together (Chaudhary, 2009).

Now, to find how all variables X_i collectively related to Y , a multiple regression analysis between Y and all independent variables, X_i has been run using Excel. Data is summarized in tables 3.3 and 3.4.

Table 3.3

Multiple regression statistics (Y, X_i)

R	R Square	Adjusted R Square	Std. Error of the Estimate
0,8483	0,7196	0,6910	0,5610

Source: own representation of responses to survey in Appendix E

Table 3.4

Multiple regression coefficients (Y, X_i)

Indicator		B	Std. Error
	Intercept	-0,7231	0,4607
X1	Key performance activities that are relevant to my role are clear to me for me to be successful in my role	0,2797	0,1032
X2	How often does your manager give you ‘on the spot’ social rewarding?	0,5351	0,1213
X3	How realistic are the expectations of your manager from you?	0,0417	0,0924
X4	I know how to be successful in my current role	0,4398	0,1332
X5	How often does your supervisor do one on one meeting with you?	0,0762	0,0828

Source: own representation of responses to survey in Appendix E

From the Regression Coefficients table, the linear equation of Y variable can be determined as in equation 3.3.

$$Y = (0,2797)X_1 + (0,5351)X_2 + (0,0417)X_3 + (0,4398)X_4 + (0,0762)X_5 - 0,7231 \quad (3.3)$$

With the above equation, the value of Y can be determined from a given value of X_i with a Standard error of estimate of 0,561. The Standard error of estimate is even less than what it was in the linear equation between Y and X_2 .

The above linear equation comprises all independent variables to determine the dependent variable Y with the least standard error of estimate and hence is the best determinant equation for predicting the value for Y variable.

2) Calculate the impact on Employee Development and Engagement Index from an increase in OPD-SHRM elements

Equation 3.3 has been deduced to find out the value for dependent variable Y. Variables X1...X5 are Type 2 questions, which determine the extent of OPD elements in PMU.

Before going further, we had to verify multiple regression approach. We verify multiple regression equation for Y in terms of all Xi to find out if the equation can correctly predict the value of Y from a given set of values of Xi. We substitute the values of Xi obtained from the survey and compute Y to verify whether it matches with the Y obtained from survey. If it matches, it proves the validity of the multiple regression equation we have derived thereby validating the multiple regression approach used in this research. The mean values of Xi obtained from the survey are presented in table 3.5.

Table 3.5

Frequency distribution (Y, Xi)

	Y	X1	X2	X3	X4	X5
	Employee Development and Engagement Index	Key performance activities that are relevant to my role are clear to me for me to be successful in my role	How often does your manager give you ‘on the spot’ social rewarding?	How realistic are the expectations of your manager from you?	I know how to be successful in my current role	How often does your supervisor do one on one meeting with you?
N	55	55	55	55	55	55
Mean	3,7061	3,2909	3,1636	3,0727	3,3273	2,9455
Median	4	3	3	4	3	3
Mode	4	4	4	4	4	4
Std. Deviation	1,0092	0,7619	0,8978	1,1524	0,7467	0,9892
Range	3,5	2	3	3	2	3
Minimum	1,5	2	1	1	2	1
Maximum	5	4	4	4	4	4

Source: own representation of responses to survey in Appendix E

We have substituted Xi variables with their means in the multiple regression equation. The result is presented in equation 3.4.

$$Y = (0,2797) \times 3,29 + (0,5351) \times 3,16 + (0,0417) \times 3,07 + (0,4398) \times 3,33 + (0,0762) \times 2,95 - 0,7231 = 3,7061 \quad (3.4)$$

Using the formula, we have obtained the same value, as the mean value of Employee Development and Engagement Index from the survey (3,7061). Therefore, our multiple regression equation is valid and we can use it to measure the impact of increase in extent of OPD-SHRM.

To measure the impact of OPD-SHRM on HRM effectiveness, the value of each X_i variable is increased to its maximum. And, the value of Y is predicted with this increased value of X_i . The maximum value for each variable can be found in Appendix F, which lists the numerical equivalent of each choice of the survey questions. With the help of multiple regression equations for Y in terms of X_i , we predict the value of Y to know how an increase in OPD characteristics within HRM impacts on Employee Development and Engagement Index. Calculations are presented in equation 3.5.

$$Y = (0,2797) \times 4 + (0,5351) \times 4 + (0,0417) \times 4 + (0,4398) \times 4 + (0,0762) \times 4 - 0,7231 = 4,7668 \quad (3.5)$$

So, with all X_i increased to its maximum value, an increase in the value of Y can be seen. The value of Y soared from 3,7061 to 4,7668. This implies that Employee Development and Engagement Index increases with an increase in the extent of OPD-SHRM elements.

This is now measured in percentages:

Current Y (Employee Development and Engagement Index) is calculated in equation 3.6.

$$Y = ((3,7061 - 1) \times 100) / (5-1) = 67,65\% \quad (3.6)$$

Increased Employee Development and Engagement Index calculation is presented in equation 3.7.

$$Y = ((4,7668 - 1) \times 100) / (5-1) = 94,17\% \quad (3.7)$$

Clearly, there is an increase of about 26% in Engagement and Development Index with the increase in the extent of OPD-SHRM elements.

3.3. Forecasted changes in activity of PrJSC “Philip Morris Ukraine” on the basis of proposed measures (Implementing OPD-SHRM in PMU)

We have come into conclusion that implementation of OPD-SHRM in PMU will make it possible to increase Employee Development and Engagement Index from 3,7061 up to 4,7668. To assess the feasibility of its implementation, we carried out a forecast estimate of net income of the company.

It was determined that if the strategy of the enterprise is unchanged in the next 3 years, one can expect a decrease in company’s income and, in fact, even losses, despite an increase in net revenue. If the trends remain unchanged by 2020, company’s losses might reach 3 208,89 UAH mln, which is even greater than the losses incurred in 2016 (1 082,74 UAH mln) (table 3.6). Such forecasted results definitely call for strategy change.

First of all, we forecast the net income figures without introduction of our proposals. We used the extrapolation method, which allows transferring the averaged trends of the previous periods to the future.

Table 3.6

PMU financial results’ forecast for 2018-2020 under unchanged strategy, UAH mln

Indicator	2017	CAGR, % 2017 - 2013	Forecast			Deviation, +/-		
			2018	2019	2020	2018 - 2017	2019 - 2018	2020 - 2019
Net revenue from sales of products (goods, works, services)	10 690,89	17,15	12 524,88	14 673,49	17 190,68	1 833,99	2 148,61	2 517,20
Other operating income	400,14	61,11	644,65	1 038,58	1 673,23	244,51	393,93	634,65
Other income	108,03	54,07	166,44	256,43	395,09	58,41	89,99	138,65
Total income	11 199,05	-	13 335,97	15 968,50	19 258,99	2 136,92	2 632,53	3 290,50
Cost of sales (goods, works, services)	-7 823,57	34,84	-10 548,96	-14 223,74	-19 178,65	-2 725,38	-3 674,78	-4 954,91
Other operating expenses	-2 217,51	8,74	-2 411,28	-2 621,98	-2 851,09	-193,77	-210,70	-229,11
Other expenses	-402,40	41,60	-569,81	-806,86	-1 142,53	-167,41	-237,05	-335,67
Total expenses	-10 443,49	-	-13 530,04	-17 652,58	-23 172,27	-3 086,56	-4 122,53	-5 519,69
Financial results before taxation	755,56	-	-194,08	-1 684,08	-3 913,28	-949,64	-1 490,00	-2 229,19
Profit tax	-128,26	-	34,93	303,13	704,39	163,19	268,20	401,25
Net profit	627,31	-	-159,15	-1 380,95	-3 208,89	-786,45	-1 221,80	-1 827,94

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A)

We calculated compound annual growth rates of all P&L items, besides profit tax and net income. With the use of the rates obtained, the forecast indicators for the years 2018 - 2020 were calculated. Profit tax was calculated at the level of 18% from financial results before taxation. In addition to that, in case financial results before taxation was positive, we deducted profit tax, and when it was negative, we added profit tax. Net

income value was obtained as the sum of all P&L items. As the baseline year, we used data of 2017 obtained at the enterprise.

Forecasting is of utmost importance for the enterprises changing the strategy of business activity. The role of forecasting can't be ignored in estimating the financial requirements for further innovations. Financial estimates can be calculated in the light of probable sales and cost thereof.

Forecasting provides the information which helps in the achievement of effective control. The managers become aware of their weaknesses during forecasting and through implementing better effective control they can overcome these weaknesses.

The next step is to study the correlation and relationship between Employee Development and Engagement Index and company's net profit (loss), to see if we can use the change in index value to forecast net profit (loss). Indicators' values for 2013-2017 are presented in table 3.7.

Table 3.7

Employee Development and Engagement Index and net profit (loss) of PMU in 2013-2017

Indicator	Units	2013	2014	2015	2016	2017	Deviation, +/-					Growth rate, %					CAGR, %
							2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	2014 - 2013	2015 - 2014	2016 - 2015	2017 - 2016	2017 - 2013	
Employee Development and Engagement Index	points	4,02	3,30	3,21	2,97	3,64	-0,72	-0,10	-0,24	0,67	-0,38	-17,86	-2,90	-7,46	22,58	-9,52	-2,47
Net profit (loss)	UAH mln	1 301,50	746,30	5,44	-1 082,74	627,31	-555,20	-740,86	-1 088,18	1 710,05	-674,19	-42,66	-99,27	-20 003,36	-157,94	-51,80	-16,68

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A) and internal company data

Scatter plot in figure 3.15 represents the relationship between Employee Development and Engagement Index (independent variable) and net profit (loss) (dependent variable).

The scatter plot shows that the correlation between these two variables is positive.

The correlation coefficient of our data set is $r = 0,8777$. This value shows that the correlation between variables is positive (since the value is greater than zero) and that the correlation between these two variables is strong (since the value is close to 0,9). It means that income values strongly depend on Employee Development and Engagement Index values.

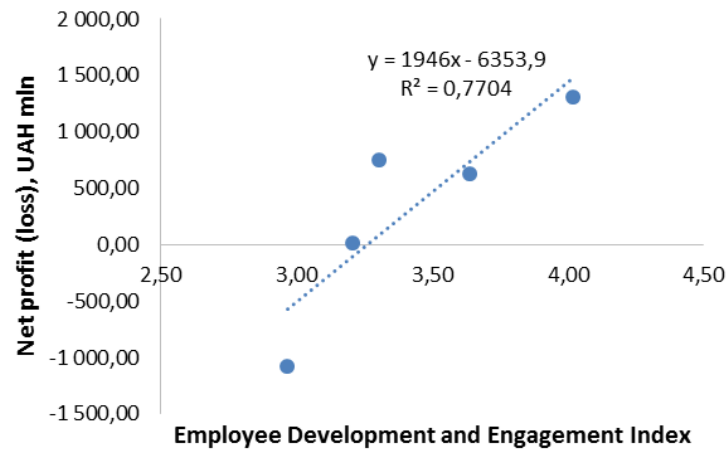


Fig. 3.15. Scatter plot and regression line of Employee Development and Engagement Index and net profit (loss) of PMU for 2013-2017 (Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A) and internal company data)

The coefficient of determination is $r^2 = 0,7704$. It means that about 77% of the variation in income can be explained by the relationship between income and Employee Development and Engagement Index. Other 23% is unexplained and is due to sampling error or other factors.

The correlation coefficient (r) and coefficient of determination (r^2) were calculated using Excel.

Taking into account such high correlation coefficient and coefficient of determination, we can use Employee Development and Engagement Index to predict company’s income. This can be done using regression equation. The regression equation for our samples is presented in equation 3.8 and in figure 3.15. We calculated it using Excel.

$$y = (1\ 946)x - 6\ 353,9 \quad (3.8)$$

The slope of the equation tells us how much we can expect y to change as x increases. In our equation the slope is 1 946. It means that as Employee Development and Engagement Index increases by 1, the value of income increases by 1 946 UAH mln.

The y-intercept of the regression line is the place where the regression line crosses the y-axis (where $x = 0$). In our equation the y-intercept is -6 353,9, meaning that when Employee Development and Engagement Index is 0, company’s losses are 6 353,9 UAH mln.

In order to identify the potential income increase from improved OPD-SHRM in the company, we will plot increased Employee Development and Engagement Index into regression equation for this Index and income.

Since it is not possible to boost all OPD-SHRM elements in one year, we assume that increase in Employee Development and Engagement Index will be gradually distributed over 3 years. The maximum possible index to obtain is 4,7668, which is 1,0607 points greater than index in 2017, obtained from the survey (3,7061). We assume that during the first year, index will increase by 20% from that difference, during the second year it will increase by 30%, and the rest 40% will be gained during the third year.

Thus, in 2018 the forecasted Employee Development and Engagement Index would be 3,9182. When we plot it into our equation (3.9), we receive the forecasted value of net income of 1 271,1277 UAH mln.

$$y = (1\ 946) \times 3,9182 - 6\ 353,9 = 1\ 271,1277 \text{ UAH mln} \quad (3.9)$$

Following the same approach, we plot values for 2019 and 2020. The obtained results are summarized in table 3.8.

Table 3.8

PMU financial results’ forecast for 2018 – 2020 under OPD-SHRM implementation, UAH mln

Indicator	Units	2017	Forecast			Deviation, +/-			Growth rate, %				CAGR, %
			2018	2019	2020	2018 - 2017	2019 - 2018	2020 - 2019	2018 - 2017	2019 - 2018	2020 - 2019	2020 - 2017	2020 - 2017
Employee Development and Engagement Index	points	3,71	3,92	4,24	4,66	0,21	0,32	0,42	5,72	8,12	10,01	25,76	7,94
Net profit (loss)	UAH mln	627,31	1 271,13	1 890,38	2 716,04	643,82	619,25	825,66	102,63	48,72	43,68	332,97	62,99
Average number of employees	people	807	799	791	783	-8	-8	-8	-1,00	-1,00	-1,00	-2,97	-1,00
Labor profitability	UAH mln per employee	0,78	1,59	2,39	3,47	0,81	0,80	1,08	104,68	50,22	45,13	346,22	64,63

Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A) and internal company data

So, with an increase of Employee Development and Engagement Index by almost 26% due to OPD-SHRM, company’s income will increase up to 2 716,04 UAH mln, which is almost 4,5 times greater than company’s income in 2017 (627,31 UAH mln).

We can compare net profit (loss) forecast without implementation of OPD-SHRM (current strategy) and after implementation of OPD-SHRM (new strategy) by looking at figure 3.16. It is obvious, that strategy change will be beneficial for the company.

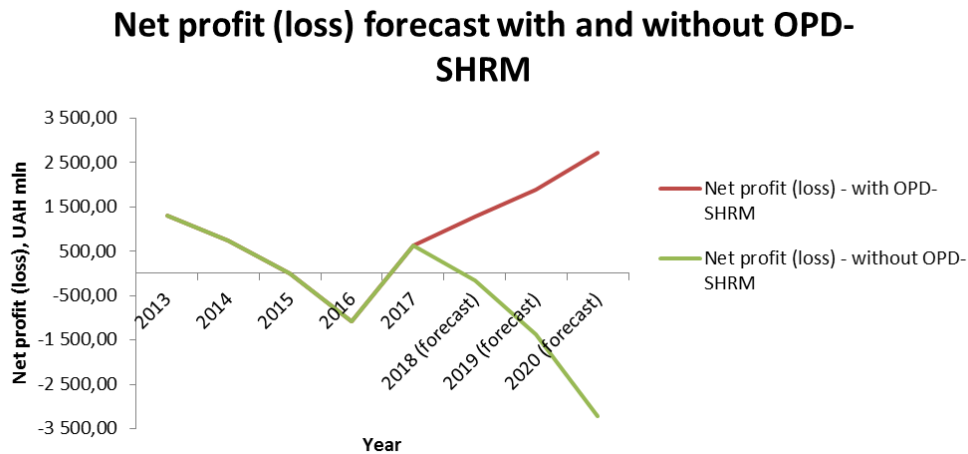


Fig. 3.16. Net profit (loss) forecast with and without OPD-SHRM (Source: own representation based on balances and statements of financial results of PMU for 2013-2017 (Appendix A) and internal company data)

Since company’s income will increase, it also means that labor profitability will increase as well. Let’s assume that the average number of employees will continue to decrease each year by 1%. The compound annual growth rate of the average number of employees over 2013-2017 was -13,61%, however, the main changes happened in 2015 and 2016, due to disturbances in the country. In 2017 the decrease rate was already -2,65%, therefore, we suppose that further decrease will be even less and choose -1% rate for our forecast.

At 1% decrease of average number of employees every year, by 2020 labor profitability will increase by 346,22% and reach 3,47 UAH mln per employee. In case the decrease rate of the average number of employees will be higher, labor profitability will increase even more.

As we see, we got a positive answer to our research question “Is the OPD-SHRM model a better solution for HRM system of PrJSC “Philip Morris Ukraine”?”. Based on the obtained results we can claim that OPD-SHRM implementation at PMU can bring significant financial and non-material benefits for the company. In terms of intangible benefits, a powerful benefit of using this model in an organization is for HR personnel. HR has a KPI to quantify managers' efficiency in the execution of OPD processes within his/her team. The execution of OPD process is more the responsibility of the manager rather than HR personnel. However, the HR personnel have to ensure that supervisors and managers have the expertise to implement strategic HR processes. HR personnel observe that the procedures are being applied correctly. If the OPD-SHRM processes and procedures are not being implemented then the HR should present a

report to the divisional managers to steer them to take remedial action in order to reinforce the ongoing success of employees. HR’s essential role thus remains to supervise and direct ways of improving human performance that strategically drives the organization toward better results (Nel & Little, 2010).

In OPD-SHRM, the managers’ responsibility is reduced to just management. They need to just ensure that the link between staff behavior and organizational goals and outputs are accurate. The manager can concentrate on his/her other activities like preparing and sending reports to divisions and superiors. Whenever a new strategy to plan is introduced, such as a new marketing campaign, the manager is simply required to review and identify changes in the staff’s behavior necessary to make the new plan or tactic a success. The OPD model provides the managers with the understanding of how to identify the required behavior change. The OPD model takes all the guess work out of how to get the best results from the team. The OPD model works best wherever people are a strategic factor in deciding the success (OPD International Limited, 2014a). Within OPD-SHRM, identification of performance lapses and its controls is relatively easy. The basic principle is to monitor the business by monthly results and from that identify which ideal actions need improvement and then coach people in the better delivery of those ideal actions.

The team leader will keep a check of performance lapses and take measures to control it by four different ways.

Performance Management: The team leader will manage the team performance on a daily basis. The team leader will ensure that ideal actions are distinct and clearly written on paper. The ideal actions are clear in the mind of the staff as the best and only way to ensure the greatest success.

Performance Review: The second activity of the team leader is Performance Review. The team leader will meet with the staff every few weeks and review their success. The team leader will discuss the ideal actions, what the staff finds difficulty in delivering and ideal actions, and what the staff feels went well which enabled the success. As required the team leader will either coach the staff to improve on the delivery of that ideal action or may review the ideal actions. The objective is to maintain the ideal action at the forefront of the minds of the staff.

Management by Wandering Around: The Manager walks around in the team and watches people delivering ideal actions and ensures they are doing it correctly. If required, the manager provides assistance and mentoring to correct them. He/she

watches ideal actions acted upon and if anything appears wrong with an ideal action, takes note so it can be revised.

Fun at Work: Last but not least, it is important to incorporate fun in the job. People must enjoy what they are doing and have fun doing it.

Implementation of OPD theory begins with working from the minds of individuals. If the mind of the individual is committed and guided, success will follow.

To implement OPD-SHRM at PMU, the company will have to perform the following steps:

1. Identify the KPIs drawn from strategy that if each one achieved the strategy achieved.
2. Identify the ideal actions derived from the KPIs.
3. Identify the ideal actions needed to integrate the activities in each role into the team and the company (the business processes).
4. Ask each person choose work life success.
5. Ask each person if they agree that success in the job is delivery of ideal actions to standard.
6. Have each person choose delivery of ideal actions to standard as their drive for work life success.
7. Guide each person to adopt the ideal actions as their game plan of what they do at work.
8. Encourage team leaders to support each person by keeping game plan top of mind and by ensuring they are having fun while doing that which they need do to be personally successful at work (Little, 2017).

Benefits from implementation:

- Increased profits
- People engagement is significantly improved.
- Because individual success increases, satisfaction automatically follows.
- Fun at work is ensured by the team manager.
- A culture of professionalism and focus on performance is built.
- People become self-responsible with their commitment for being successful.
- Performance management becomes simpler and it improves talent identification.

OPD theory success mainly depends upon the team leaders/managers. A team leader is required to identify factors and execute models which influence the people most and help him/her achieve greatest team performance (Nel & Little, 2010).

Conclusions and Proposals

Human resources management can be characterized as a set of actions aimed at achieving the most effective use of employees to achieve enterprise goals and personal goals. In the general sense, effectiveness of operation of the mechanism of human resources management of any enterprise affects its performance, and, consequently, profitability. That is why each organization should create its unique human resources management system that simultaneously meets the basic requirements of the concept of human resources management and is best suited to all the characteristics of both the firm itself and its employees, and would ensure the most efficient use of available resources, the most productive production or provision of services and, ultimately, would contribute to the profitability of an enterprise.

At the current stage of society reforms in Ukraine, problem of effective use of human resources has gained importance since solution of the problems, facing our society, depends on a person and his/her internal motives. New forms of economic activity and property provide great opportunities for formation and practical use of various forms of personnel policy in order to increase personnel productivity. However, the mechanism of personnel management is still underdeveloped. The challenges faced by HRM include its every aspect: staffing planning, recruitment and selection, personnel training and development, personnel motivation, compensation and benefits system, etc. Proper solution of these challenges through establishment of right policies, practices and processes, will help to increase the effectiveness of personnel and the overall company.

To identify the current challenges and to find proper solutions it is necessary to analyse both, internal and external best practices. The best indicator for “weak spots” and success of changes made is the assessment of effectiveness of HRM. HRM effectiveness is a characteristic of quality and usefulness of human resources management at an enterprise, its ability to provide a triple effect in the form of economic benefits for an enterprise, improved organization of production (commerce) and labor, and social benefits for employees.

There are hundreds of approaches to effectiveness assessing, so it is important to understand that there is no one proper way, because each company is unique and its challenges are also unique. Therefore, while choosing the indicators for assessment, it is necessary to ensure that they cover the individual characteristics of an enterprise and its personnel, and allow assessing the system under study in a sufficient manner. Usage of

combination of different approaches increases the level of reliability of the results received.

In this paper, I have discussed the theoretical foundations of HRM and their practical application in international companies on the example of PrJSC “Philip Morris Ukraine”, as well as suggested ways to improve the existing personnel system in the enterprise system.

PMU demonstrates great results in optimization of its personnel and costs structure. Educational level of company’s employees is rather high: 76% of employees studied in educational institutions of 3rd-4th levels of accreditation. The age structure of the personnel is characterized by high specific weight of young personnel (up to 30 years old) – 43,99%. It enables the company to be innovative and progressive. Gender distribution in the company is uneven. Women comprise 37% of the whole personnel. However, it is close to company’s target of 40%.

The company has a very effective recruitment process, training and development tools and approaches, and remuneration system. It is supported by the fact that personnel turnover rate in 2013-2017 was below 2%, which is the natural renewal of personnel, meaning that people are willing to stay in the company. At the same time, salary payment prevails in the structure of the wage fund of Philip Morris Ukraine, while the share of extra incentives in 2017 dropped sharply. Consequently, the management of the company pays too little attention to bonus payments, other incentive and compensation payments, which are not part of the main earnings of the company’s employees.

While an employee’s salary and bonuses are important, it doesn’t necessarily guarantee happiness, loyalty or engagement. Non-material aspect of motivation plays an important role in the hierarchy of priorities of modern employees. Effective non-financial incentives for employees touch the emotions to make the employee feel appreciated and valued. Therefore, it is crucial to pay attention to moral incentives, including those, related to employees’ self-realization. The company does great job in this sphere, however, I would give more opportunities to participate in the process of company management. One of them could be participation in cross-functional projects, which allows for development of communication and management skills, learning about other departments and influencing their work with employee’s ideas and insights. Another powerful tool is responsibility increase via empowerment. Empowered employees often have higher job satisfaction because they know that their manager values and trusts them. To motivate an employee it is also important to give him/her challenging tasks.

People do not show preference for routine jobs. They are always ready to accept challenging assignments. Challenge can be brought through mentoring, job redesigning – job enlargement and job enrichment.

Besides all above mentioned factors, overall company's performance also plays an important role in human resources state. General effectiveness of the company is quite high. It is a leader on Ukrainian tobacco market. It demonstrated extraordinary ability to recover fast from market disturbances (price war) and did it faster than its main competitors. It was due to effective costs and expenses optimization done by management. At the same time, this situation demonstrated that company's revenues are very sensitive to price and illicit trade volumes. Therefore, it has to pay close attention to its own pricing policies, tobacco market regulations in terms of excise and minimum/maximum prices allowed, and governmental instruments against illicit trade.

The company adjusts its portfolio dynamically to meet the needs and tendencies of the market. Thus, for example, it replaced its brand President with Philip Morris, which allowed improving company's performance in low-value segment. It shows that the company is developing fast and adapting to new market requirements.

Company's revenue grew over the investigated periods and is expected to grow further. To drive it, PMU is increasing its export volumes and has a tendency to become an "export-hub" for PMI in Eastern Europe region. At the same time, company's imports grow with much slower pace, because PMU tries to become less dependent on imported semi-finished products and finished goods. It means the company is becoming more and more autonomous in terms of production, which, in addition to that, becomes more cost effective, due to lower local prices.

However, there are also some weak spots in company's effectiveness management. The company demonstrates low liquidity, which can become a problem in case of unexpected need to pay-off short-term debts. In addition to that, the company has low financing autonomy and most of its assets are currently financed through debt. Equity capital and long-term borrowed funds are intended to finance non-current assets, therefore, financing of current assets requires access to short-term debt. This leads to a reduction in financial stability. In addition to that, company's management of accounts receivable and accounts payable is not very effective, which is tightly connected to its liquidity. Therefore, this could be the starting point for improvement to ensure overall financial stability increase.

Despite the above mentioned weaknesses, the most important thing is how good the company is in generating revenues. PMU demonstrated very high equity turnover ratio, which means that despite accumulated losses and liabilities, the company is able to effectively generate sales.

In terms of HRM system of the company, the basis assumption is that satisfied people yield success and main HR's effort goes into building satisfaction of its employees. The importance of this factor is supported by the fact that for almost a quarter of all employees the most important motivation for work is getting satisfaction from the job. However, it is possible that the cause-effect relationship is understood vice-versa. It is success that leads to satisfaction, not satisfaction that leads to success. Therefore, in order to make employees satisfied it is necessary to make them succeed, which will also be beneficial for the company. In order to change the strategy of HRM to this new one, we suggest adopting Ongoing Professional Development Strategic Human Resources Management (OPD-SHRM) theory practices in company's HRM.

The psychological assumptions underlying OPD theory are that if a person knows what has to be done to become successful, he/she can do it more efficiently, and that person's performance then depends on him/her choosing to be self-disciplined and committed. OPD theory enables the team leader to identify the ideal actions based on KPIs or goals, which are clear, concise and of the nature that accomplishing them ensures a maximum chance of success.

The statistical method employed in this work explored the correlation between different variables to measure OPD-SHRM elements and current HRM system effectiveness from employees' perspective. According to 55 participants of the survey, the results show that an increase in OPD-SHRM elements has a positive impact on HRM effectiveness measured via Employee Development and Engagement Index. This statistical analysis of the survey predicts a maximum increase of 26% in Employee Development and Engagement Index, which will lead up to 330% increase in company's net profit and 350% increase in company's labor productivity during the 3 years of OPD-SHRM implementation. At the same time, in case the company keeps the strategy unchanged, it is forecasted to incur losses in the upcoming years.

To implement OPD-SHRM at PMU, the company will have first to identify the KPIs, based on strategy. Then identify ideal actions to fulfill every KPI. After that it will be necessary to ensure all employees are committed to reach success and to perform ideal actions for that. Then managers will have to guide each person to adopt the ideal actions

as their game plan of what they do at work. It will also be necessary to support each person by keeping game plan top of mind and by ensuring they enjoy the process of reaching success.

In case the company applies the suggested improvements both to its current HRM system and company's financial management approaches, PMU will be able to increase its labor productivity, through improvement in the quality of work and employees' motivation. As a result, it will cause a positive effect on the profitability of the company and its competitiveness.

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Appendices

Appendix A

Appendix A.1

			CODES
		Date	01.01.2014
Company	Private joint stock company "Philip Morris Ukraine"	EDRPOU	00383231
Territory	Kharkiv Region, Komunist Village	KOATUU	6325158502
Business legal structure	Joint stock company	KOPFG	230
Type of economic activity	Manufacturing of tobacco products	KVED	12.00
Average number of employees:	1449		
Address, phone:	62482 Komunist Village, 1 Polyovy Vyizd, 0577867700		
Units of measure:	UAH th without decimal sign		
Prepared (mark the respective cell with "v"):			
under Ukrainian Accounting Standards		<input checked="" type="checkbox"/>	
under International Financial Reporting Standards		<input type="checkbox"/>	

Balance
(Statement of Financial Position)
as of 31.12.2013
Form #1

		DKUD code	1801001
Assets	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
I. Non-current assets			
Intangible assets	1000	13 568	11 748
initial value	1001	41 006	44 390
accumulated amortization	1002	-27 438	-32 642
Construction in progress	1005	168 551	56 380
Property, plant and equipment	1010	902 804	1 068 688
initial value	1011	1 502 871	1 719 469
depreciation	1012	-600 067	-650 781
Investment property	1015	0	0
initial value	1016	0	0
depreciation	1017	0	0
Long-term biological assets	1020	0	0
initial value	1021	0	0
accumulated amortization	1022	0	0

Long-term capital investments:			
accounted for under the equity method	1030	0	0
other financial investments	1035	0	0
Long-term receivables	1040	0	0
Deferred tax assets	1045	5 801	32 561
Goodwill	1050	0	0
Deferred acquisition costs	1060	0	0
Balance on centralized insurance reserve fund account	1065	0	0
Other non-current assets	1090	0	0
Total per section I	1095	1 090 724	1 169 377
II. Current assets			
Inventories	1100	509 750	508 532
Production stock	1101	265 860	320 399
Work in progress	1102	15 380	19 911
Finished goods	1103	175 956	118 442
Merchandise	1104	52 554	49 780
Current biological assets	1110	0	0
Reinsurance deposits	1115	0	0
Promissory notes received	1120	0	0
Accounts receivable for products, goods, works, services	1125	609 190	549 431
Accounts receivable for settlements:			
on advance payments made	1130	36 418	54 870
with budget	1135	40 157	649 723
including income tax	1136	0	153 829
on accrued income settlements	1140	0	0
on intercompany settlements	1145	60 651	85 038
Other current receivables	1155	2 306	2 068
Current financial investments	1160	0	0
Cash and cash equivalents	1165	12 102	20 541
Cash	1166	2	1
Accounts in banks	1167	0	0
Deferred expenses	1170	623	13 072
Reinsurer's share in insurance reserves	1180	0	0
including:			
long-term liabilities reserve	1181	0	0
claim reserves or due payment reserves	1182	0	0
unearned premium reserves	1183	0	0
other insurance reserves	1184	0	0
Other current assets	1190	4 007	5 185
Total per section II	1195	1 275 204	1 888 460
III. Non-current assets held for sales and disposal groups	1200	164	164
Balance	1300	2 366 092	3 058 001

Liabilities	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
I. Equity			
Registered (share) capital	1400	2 647	2 647
Contributions to unregistered share capital	1401	0	0
Revaluation surplus	1405	0	0
Additional capital	1410	43 949	43 949
Share premium	1411	0	0
Accumulated translation differences	1412	0	0
Reserve capital	1415	662	662
Retained earnings (accumulated deficit)	1420	1 096 380	1 301 519
Unpaid capital	1425	0	0
Withdrawn capital	1430	0	0
Other reserves	1435	0	0
Total per section I	1495	1 143 638	1 348 777
II. Long-term liabilities and provisions			
Deferred tax liabilities	1500	0	0
Pension liabilities	1505	0	0
Long-term bank loans	1510	0	0
Other long-term liabilities	1515	34 335	21 809
Long-term provisions	1520	9 109	0
Long-term provision for personnel expenses	1521	0	0
Special-purpose financing	1525	0	0
Charity	1526	0	0
Insurance reserves	1530	0	0
including:			
long-term liabilities reserve	1531	0	0
claim reserve or due payment reserve	1532	0	0
unearned premium reserve	1533	0	0
other insurance reserves	1534	0	0
Investment contracts	1535	0	0
Prize fund	1540	0	0
Jackpot payment reserve	1545	0	0
Total per section II	1595	43 444	21 809
III. Current liabilities and provisions			
Short-term bank loans	1600	130 000	1 137 320
Promissory notes issued	1605	0	0
Current accounts payable on:			
long-term liabilities	1610	2 614	5 346
goods, works, services	1615	140 870	154 576
settlements with the budget	1620	703 262	123 201

including income tax	1621	124705	0
insurance	1625	2 571	4 186
payroll	1630	5 010	12 004
advance payments	1635	32539	4
settlements with participants	1640	631	743
intercompany settlements	1645	134 969	205 377
insurance activities	1650	0	0
Current provisions	1660	16 703	21 498
Deferred commission income from reinsurers	1665	0	0
Deferred income	1670	0	0
Other current liabilities	1690	9 841	23 160
Total per section III	1695	1 179 010	1 687 415
IV. Liabilities related to non-current assets held for sale and disposal groups	1700	0	0
Net asset value of non-state pension fund	1800	0	0
Balance	1900	2 366 092	3 058 001

Appendix A.2

Company	Private joint stock company "Philip Morris Ukraine"	Date	CODES
			01.01.2014
			EDRPOU

Statement of Financial Results
(Statement of Comprehensive Income)
for 2013
Form #2

I. Financial Results

Item	Line code	DKUD code	1801003
		Reporting period	Same period of previous year
1	2	3	4
Net revenue from sales of products (goods, works, services)	2000	5 675 111	5 257 087
Net insurance premiums earned	2010	0	0
Written premiums, gross amount	2011	0	0
Reinsured premiums	2012	0	0
Change in reserve of unearned premiums, gross amount	2013	0	0
Change in share of reinsurers in unearned premiums reserve	2014	0	0
Cost of sales (goods, works, services)	2050	-2 366 943	-2 363 925
Net losses incurred on insurance payments	2070	0	0
Gross:			
profit	2090	3 308 168	2 893 162
loss	2095	0	0
Income (expense) from changes in long-term liability reserves	2105	0	0
Income (expenses) from changes in other insurance reserves	2110	0	0
Change in other insurance reserves, gross amount	2111	0	0
Change in share of reinsurers in other insurance reserve	2112	0	0
Other operating income	2120	59 394	86 613
Income from changes in value of assets measured at fair value	2121	0	0
Income from initial recognition of biological assets and agricultural products	2122	0	0
Income from the use of tax-free funds	2123	0	0
Administrative expenses	2130	-386 006	-331 155
Selling and distribution expenses	2150	-612 155	-596 564
Other operating expenses	2180	-587 967	-535 158

Expenses from changes in value of assets measured at fair value	2181	0	0
Expenses from initial recognition of biological assets and agricultural products	2182	0	0
Financial result from operating activities:			
profit	2190	1 781 434	1 516 898
loss	2195	0	0
Income from equity investments	2200	0	0
Other financial income	2220	0	0
Other income	2240	0	0
Income from charity	2241	0	0
Finance costs	2250	-93 259	-19 330
Loss from equity method investment	2255	0	0
Other expenses	2270	-6 831	-3 670
Profit (loss) from the influence of inflation on monetary items	2275	0	0
Financial results before tax:			
profit	2290	1 681 344	1 493 898
loss	2295	0	0
Income taxes (expense)/benefit	2300	-379 844	-397 528
Income/(loss) from discontinued operations after tax	2305	0	0
Net financial result:			
profit	2350	1 301 500	1 096 370
loss	2355	0	0

II. Comprehensive income

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Revaluation of non-current assets	2400	0	0
Revaluation of financial instruments	2405	0	0
Accumulated translation differences	2410	0	0
Share of other comprehensive income of associates and joint ventures	2415	0	0
Other comprehensive income	2445	0	0
Other comprehensive income before tax	2450	0	0
Income tax related to other comprehensive income	2455	0	0
Other comprehensive income after tax	2460	0	0
Comprehensive income (sum lines 2350, 2355 and 2460)	2465	1 301 500	1 096 370

III. Elements of operating expenses

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Cost of materials	2500	1 899 578	1 975 710
Labour costs	2505	321 986	228 255
Social security charges	2510	83 948	72 345
Depreciation	2515	117 202	108 792
Other operating expenses	2520	1 156 641	1 201 938
Total	2550	3 579 355	3 587 040

IV. Earnings per share

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Annual average number of ordinary shares	2600	2 005 018	2 005 018
Adjusted annual average number of ordinary shares	2605	2 005 018	2 005 018
Net income (loss) per ordinary share	2610	649,12	546,81
Adjusted net income (loss) per ordinary share	2615	649,12	546,81
Dividends per ordinary share	2650	546,81	559,23

Appendix A.3

			CODES
		Date	01.01.2015
Company	Private joint stock company "Philip Morris Ukraine"	EDRPOU	00383231
Territory	Kharkiv Region, Komunist Village	KOATUU	6325158502
Business legal structure	Joint stock company	KOPFG	230
Type of economic activity	Manufacturing of tobacco products	KVED	12.00
Average number of employees:	1379		
Address, phone:	62482 Komunist Village, 1 Polyovy Vyizd, 0577867700		
Units of measure:	UAH th without decimal sign		
Prepared (mark the respective cell with "v"):			
under Ukrainian Accounting Standards		<input checked="" type="checkbox"/>	
under International Financial Reporting Standards		<input type="checkbox"/>	

Balance
(Statement of Financial Position)
as of 31.12.2014
Form #1

Assets	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
DKUD code 1801001			
I. Non-current assets			
Intangible assets	1000	11 748	8 614
initial value	1001	44 390	47 673
accumulated amortization	1002	-32 642	-39 059
Construction in progress	1005	56 380	176 153
Property, plant and equipment	1010	1 068 688	991 197
initial value	1011	1 719 469	1 753 228
depreciation	1012	-650 781	-762 031
Investment property	1015	0	0
initial value	1016	0	0
depreciation	1017	0	0
Long-term biological assets	1020	0	0
initial value	1021	0	0
accumulated amortization	1022	0	0
Long-term capital investments:			
accounted for under the equity method	1030	0	0

other financial investments	1035	0	0
Long-term receivables	1040	0	0
Deferred tax assets	1045	32 561	0
Goodwill	1050	0	0
Deferred acquisition costs	1060	0	0
Balance on centralized insurance reserve fund account	1065	0	0
Other non-current assets	1090	0	0
Total per section I	1095	1 169 377	1 175 964
II. Current assets			
Inventories	1100	508 532	1 058 950
Production stock	1101	320 399	717 762
Work in progress	1102	19 911	21 584
Finished goods	1103	118 442	187 628
Merchandise	1104	49 780	131 976
Current biological assets	1110	0	0
Reinsurance deposits	1115	0	0
Promissory notes received	1120	0	0
Accounts receivable for products, goods, works, services	1125	549431	619697
Accounts receivable for settlements:			
on advance payments made	1130	54 870	46 252
with budget	1135	649 723	949 812
including income tax	1136	153 829	317 105
on accrued income settlements	1140	0	0
on intercompany settlements	1145	85 038	242 703
Other current receivables	1155	2 068	8 360
Current financial investments	1160	0	0
Cash and cash equivalents	1165	20 541	22 513
Cash	1166	1	0
Accounts in banks	1167	0	0
Deferred expenses	1170	13 072	10 964
Reinsurer's share in insurance reserves	1180	0	0
including:			
long-term liabilities reserve	1181	0	0
claim reserves or due payment reserves	1182	0	0
unearned premium reserves	1183	0	0
other insurance reserves	1184	0	0
Other current assets	1190	5 185	1 509
Total per section II	1195	1 888 460	2 960 760
III. Non-current assets held for sales and disposal groups	1200	164	164
Balance	1300	3 058 001	4 136 888

Liabilities	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
I. Equity			
Registered (share) capital	1400	2 647	2 647
Contributions to unregistered share capital	1401	0	0
Revaluation surplus	1405	0	0
Additional capital	1410	43 949	43 929
Share premium	1411	0	0
Accumulated translation differences	1412	0	0
Reserve capital	1415	662	662
Retained earnings (accumulated deficit)	1420	1 301 519	746 326
Unpaid capital	1425	0	0
Withdrawn capital	1430	0	0
Other reserves	1435	0	0
Total per section I	1495	1 348 777	793 564
II. Long-term liabilities and provisions			
Deferred tax liabilities	1500	0	37 244
Pension liabilities	1505	0	0
Long-term bank loans	1510	0	0
Other long-term liabilities	1515	21 809	17 911
Long-term provisions	1520	0	21 096
Long-term provision for personnel expenses	1521	0	0
Special-purpose financing	1525	0	0
Charity	1526	0	0
Insurance reserves	1530	0	0
including:			
long-term liabilities reserve	1531	0	0
claim reserve or due payment reserve	1532	0	0
unearned premium reserve	1533	0	0
other insurance reserves	1534	0	0
Investment contracts	1535	0	0
Prize fund	1540	0	0
Jackpot payment reserve	1545	0	0
Total per section II	1595	21 809	76 251
III. Current liabilities and provisions			
Short-term bank loans	1600	1 137 320	1 513 549
Promissory notes issued	1605	0	0
Current accounts payable on:			
long-term liabilities	1610	5346	2 820
goods, works, services	1615	154 576	258 426
settlements with the budget	1620	123 201	124 703

including income tax	1621	0	0
insurance	1625	4 186	4 266
payroll	1630	12 004	4 920
advance payments	1635	4	2
settlements with participants	1640	743	340 726
intercompany settlements	1645	205 377	963 689
insurance activities	1650	0	0
Current provisions	1660	21 498	24 982
Deferred commission income from reinsurers	1665	0	0
Deferred income	1670	0	0
Other current liabilities	1690	23 160	28 990
Total per section III	1695	1 687 415	3 267 073
IV. Liabilities related to non-current assets held for sale and disposal groups	1700	0	0
Net asset value of non-state pension fund	1800	0	0
Balance	1900	3 058 001	4 136 888

Appendix A.4

Company	Private joint stock company "Philip Morris Ukraine"	Date	CODES
			01.01.2015
			EDRPOU

Statement of Financial Results
(Statement of Comprehensive Income)
for 2014
Form #2
I. Financial Results

Item	Line code	DKUD code	1801003
		Reporting period	Same period of previous year
1	2	3	4
Net revenue from sales of products (goods, works, services)	2000	6 824 507	5 675 111
Net insurance premiums earned	2010	0	0
Written premiums, gross amount	2011	0	0
Reinsured premiums	2012	0	0
Change in reserve of unearned premiums, gross amount	2013	0	0
Change in share of reinsurers in unearned premiums reserve	2014	0	0
Cost of sales (goods, works, services)	2050	-3 584 905	-2 366 943
Net losses incurred on insurance payments	2070	0	0
Gross:			
profit	2090	3 239 602	3 308 168
loss	2095	0	0
Income (expense) from changes in long-term liability reserves	2105	0	0
Income (expenses) from changes in other insurance reserves	2110	0	0
Change in other insurance reserves, gross amount	2111	0	0
Change in share of reinsurers in other insurance reserve	2112	0	0
Other operating income	2120	132 782	59 394
Income from changes in value of assets measured at fair value	2121	0	0
Income from initial recognition of biological assets and agricultural products	2122	0	0
Income from the use of tax-free funds	2123	0	0
Administrative expenses	2130	-479 524	-386 006
Selling and distribution expenses	2150	-732 156	-612 155
Other operating expenses	2180	-863 280	-587 967

Expenses from changes in value of assets measured at fair value	2181	0	0
Expenses from initial recognition of biological assets and agricultural products	2182	0	0
Financial result from operating activities:			
profit	2190	1 297 424	1781434
loss	2195	0	0
Income from equity investments	2200	0	0
Other financial income	2220	0	0
Other income	2240	0	0
Income from charity	2241	0	0
Finance costs	2250	-199 453	-93 259
Loss from equity method investment	2255	0	0
Other expenses	2270	-18 731	-6 831
Profit (loss) from the influence of inflation on monetary items	2275	0	0
Financial results before tax:			
profit	2290	1 079 240	1681344
loss	2295	0	0
Income taxes (expense)/benefit	2300	-332 936	-379 844
Income/(loss) from discontinued operations after tax	2305	0	0
Net financial result:			
profit	2350	746 304	1301500
loss	2355	0	0

II. Comprehensive income

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Revaluation of non-current assets	2400	0	0
Revaluation of financial instruments	2405	0	0
Accumulated translation differences	2410	0	0
Share of other comprehensive income of associates and joint ventures	2415	0	0
Other comprehensive income	2445	0	0
Other comprehensive income before tax	2450	0	0
Income tax related to other comprehensive income	2455	0	0
Other comprehensive income after tax	2460	0	0
Comprehensive income (sum lines 2350, 2355 and 2460)	2465	746 304	1 301 500

III. Elements of operating expenses

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Cost of materials	2500	2 754 261	1 899 578
Labour costs	2505	301 817	321 986
Social security charges	2510	84 961	83 948
Depreciation	2515	145 638	117 202
Other operating expenses	2520	1 755 406	1 156 641
Total	2550	5 042 083	3 579 355

IV. Earnings per share

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Annual average number of ordinary shares	2600	2 005 018	2 005 018
Adjusted annual average number of ordinary shares	2605	2 005 018	2 005 018
Net income (loss) per ordinary share	2610	372,22	649,12
Adjusted net income (loss) per ordinary share	2615	372,22	649,12
Dividends per ordinary share	2650	649,12	546,81

Appendix A.5

			CODES
		Date	01.01.2016
Company	Private joint stock company "Philip Morris Ukraine"	EDRPOU	00383231
Territory	Kharkiv Region, Komunist Village	KOATUU	6325158502
Business legal structure	Joint stock company	KOPFG	230
Type of economic activity	Manufacturing of tobacco products	KVED	12.00
Average number of employees:	1087		
Address, phone:	62482 Komunist Village, 1 Polyovy Vyizd, 0577867700		
Units of measure:	UAH th without decimal sign		
Prepared (mark the respective cell with "v"):			
under Ukrainian Accounting Standards	<input checked="" type="checkbox"/>		
under International Financial Reporting Standards	<input type="checkbox"/>		

Balance
(Statement of Financial Position)
as of 31.12.2015
Form #1

Assets	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
DKUD code 1801001			
I. Non-current assets			
Intangible assets	1000	8 614	5 735
initial value	1001	47 673	48 598
accumulated amortization	1002	-39 059	-42 863
Construction in progress	1005	176 153	250 099
Property, plant and equipment	1010	991 197	960 540
initial value	1011	1 753 228	1 743 947
depreciation	1012	-762 031	-783 407
Investment property	1015	0	0
initial value	1016	0	0
depreciation	1017	0	0
Long-term biological assets	1020	0	0
initial value	1021	0	0
accumulated amortization	1022	0	0
Long-term capital investments:			
accounted for under the equity method	1030	0	0

other financial investments	1035	0	0
Long-term receivables	1040	0	0
Deferred tax assets	1045	0	0
Goodwill	1050	0	0
Deferred acquisition costs	1060	0	0
Balance on centralized insurance reserve fund account	1065	0	0
Other non-current assets	1090	0	0
Total per section I	1095	1 175 964	1 216 374
II. Current assets			
Inventories	1100	1 058 950	939 781
Production stock	1101	717 762	691 382
Work in progress	1102	21 584	34 272
Finished goods	1103	187 628	205 238
Merchandise	1104	131 976	8 889
Current biological assets	1110	0	0
Reinsurance deposits	1115	0	0
Promissory notes received	1120	0	0
Accounts receivable for products, goods, works, services	1125	619 697	0
Accounts receivable for settlements:			
on advance payments made	1130	46 252	38 680
with budget	1135	949 812	774 786
including income tax	1136	317 105	456 333
on accrued income settlements	1140	0	0
on intercompany settlements	1145	242 703	2 149 434
Other current receivables	1155	8 360	3 559
Current financial investments	1160	0	0
Cash and cash equivalents	1165	22 513	19 515
Cash	1166	0	0
Accounts in banks	1167	22 513	19 515
Deferred expenses	1170	10 964	1 555
Reinsurer's share in insurance reserves	1180	0	0
including:			
long-term liabilities reserve	1181	0	0
claim reserves or due payment reserves	1182	0	0
unearned premium reserves	1183	0	0
other insurance reserves	1184	0	0
Other current assets	1190	1 509	3 440
Total per section II	1195	2 960 760	3 930 750
III. Non-current assets held for sales and disposal groups	1200	164	40
Balance	1300	4 136 888	5 147 164

Liabilities	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
I. Equity			
Registered (share) capital	1400	2 647	2 647
Contributions to unregistered share capital	1401	0	0
Revaluation surplus	1405	0	0
Additional capital	1410	43 929	43 919
Share premium	1411	0	0
Accumulated translation differences	1412	0	0
Reserve capital	1415	662	662
Retained earnings (accumulated deficit)	1420	746 326	751 766
Unpaid capital	1425	0	0
Withdrawn capital	1430	0	0
Other reserves	1435	0	0
Total per section I	1495	793 564	798 994
II. Long-term liabilities and provisions			
Deferred tax liabilities	1500	37 244	21 959
Pension liabilities	1505	0	0
Long-term bank loans	1510	0	0
Other long-term liabilities	1515	17 911	2 754
Long-term provisions	1520	21 096	22 550
Long-term provision for personnel expenses	1521	0	0
Special-purpose financing	1525	0	0
Charity	1526	0	0
Insurance reserves	1530	0	0
including:			
long-term liabilities reserve	1531	0	0
claim reserve or due payment reserve	1532	0	0
unearned premium reserve	1533	0	0
other insurance reserves	1534	0	0
Investment contracts	1535	0	0
Prize fund	1540	0	0
Jackpot payment reserve	1545	0	0
Total per section II	1595	76 251	47 263
III. Current liabilities and provisions			
Short-term bank loans	1600	1 513 549	1 800 799
Promissory notes issued	1605	0	0
Current accounts payable on:			
long-term liabilities	1610	2 820	2 748
goods, works, services	1615	258 426	242 388

settlements with the budget	1620	124 703	159 632
including income tax	1621	0	0
insurance	1625	4 266	2 951
payroll	1630	4 920	13 634
advance payments	1635	2	0
settlements with participants	1640	340 726	340 726
intercompany settlements	1645	963 689	1 636 606
insurance activities	1650	0	0
Current provisions	1660	24 982	72 671
Deferred commission income from reinsurers	1665	0	0
Deferred income	1670	0	0
Other current liabilities	1690	28 990	28 752
Total per section III	1695	3 267 073	4 300 907
IV. Liabilities related to non-current assets held for sale and disposal groups	1700	0	0
Net asset value of non-state pension fund	1800	0	0
Balance	1900	4 136 888	5 147 164

Appendix A.6

Company	Private joint stock company "Philip Morris Ukraine"	Date	CODES
			01.01.2016
			EDRPOU

**Statement of Financial Results
(Statement of Comprehensive Income)**

for 2015

Form #2

I. Financial Results

Item	Line code	DKUD code	
		Reporting period	1801003 Same period of previous year
1	2	3	4
Net revenue from sales of products (goods, works, services)	2000	8 891 769	6 824 507
Net insurance premiums earned	2010	0	0
Written premiums, gross amount	2011	0	0
Reinsured premiums	2012	0	0
Change in reserve of unearned premiums, gross amount	2013	0	0
Change in share of reinsurers in unearned premiums reserve	2014	0	0
Cost of sales (goods, works, services)	2050	-6 637 958	-3 584 905
Net losses incurred on insurance payments	2070	0	0
Gross:			
profit	2090	2 253 811	3 239 602
loss	2095	0	0
Income (expense) from changes in long-term liability reserves	2105	0	0
Income (expenses) from changes in other insurance reserves	2110	0	0
Change in other insurance reserves, gross amount	2111	0	0
Change in share of reinsurers in other insurance reserve	2112	0	0
Other operating income	2120	796 485	132 782
Income from changes in value of assets measured at fair value	2121	0	0
Income from initial recognition of biological assets and agricultural products	2122	0	0
Income from the use of tax-free funds	2123	0	0
Administrative expenses	2130	-569 234	-479 524
Selling and distribution expenses	2150	-669 198	-732 156
Other operating expenses	2180	-1 459 460	-863 280

Expenses from changes in value of assets measured at fair value	2181	0	0
Expenses from initial recognition of biological assets and agricultural products	2182	0	0
Financial result from operating activities:			
profit	2190	352 404	1 297 424
loss	2195	0	0
Income from equity investments	2200	0	0
Other financial income	2220	0	0
Other income	2240	0	0
Income from charity	2241	0	0
Finance costs	2250	-335 123	-199 453
Loss from equity method investment	2255	0	0
Other expenses	2270	-17 913	-18 731
Profit (loss) from the influence of inflation on monetary items	2275	0	0
Financial results before tax:			
profit	2290	0	1 079 240
loss	2295	-632	0
Income taxes (expense)/benefit	2300	6 072	-332 936
Income/(loss) from discontinued operations after tax	2305	0	0
Net financial result:			
profit	2350	5 440	746 304
loss	2355	0	0

II. Comprehensive income

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Revaluation of non-current assets	2400	0	0
Revaluation of financial instruments	2405	0	0
Accumulated translation differences	2410	0	0
Share of other comprehensive income of associates and joint ventures	2415	0	0
Other comprehensive income	2445	0	0
Other comprehensive income before tax	2450	0	0
Income tax related to other comprehensive income	2455	0	0
Other comprehensive income after tax	2460	0	0
Comprehensive income (sum lines 2350, 2355 and 2460)	2465	5 440	746 304

III. Elements of operating expenses

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Cost of materials	2500	5 577 002	2 754 261
Labour costs	2505	320 013	301 817
Social security charges	2510	75 719	84 961
Depreciation	2515	148 908	145 638
Other operating expenses	2520	2520	2 241 022
Total	2550	8 362 664	5 042 083

IV. Earnings per share

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Annual average number of ordinary shares	2600	2 005 018	2 005 018
Adjusted annual average number of ordinary shares	2605	2 005 018	2 005 018
Net income (loss) per ordinary share	2610	3	372
Adjusted net income (loss) per ordinary share	2615	3	372
Dividends per ordinary share	2650	0	649

Appendix A.7

			CODES
		Date	01.01.2017
Company	Private joint stock company "Philip Morris Ukraine"	EDRPOU	00383231
Territory	Kharkiv Region, Komunist Village	KOATUU	6325158502
Business legal structure	Joint stock company	KOPFG	230
Type of economic activity	Manufacturing of tobacco products	KVED	12.00
Average number of employees:	1087		
Address, phone:	62482 Komunist Village, 1 Polyovy Vyizd, 0577867700		
Units of measure:	UAH th without decimal sign		
Prepared (mark the respective cell with "v"):			
under Ukrainian Accounting Standards		<input checked="" type="checkbox"/>	
under International Financial Reporting Standards		<input type="checkbox"/>	

Balance
(Statement of Financial Position)
as of 31.12.2016
Form #1

Assets	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
DKUD code 1801001			
I. Non-current assets			
Intangible assets	1000	5 735	19 009
initial value	1001	48 598	68 795
accumulated amortization	1002	-42 863	-49 786
Construction in progress	1005	250 099	225 404
Property, plant and equipment	1010	960 540	1 013 504
initial value	1011	1 743 947	1 904 591
depreciation	1012	-783 407	-891 087
Investment property	1015	0	0
initial value	1016	0	0
depreciation	1017	0	0
Long-term biological assets	1020	0	0
initial value	1021	0	0
accumulated amortization	1022	0	0
Long-term capital investments:			
accounted for under the equity method	1030	0	0

other financial investments	1035	0	0
Long-term receivables	1040	0	454 988
Deferred tax assets	1045	0	213 397
Goodwill	1050	0	0
Deferred acquisition costs	1060	0	0
Balance on centralized insurance reserve fund account	1065	0	0
Other non-current assets	1090	0	0
Total per section I	1095	1 216 374	1 926 302
II. Current assets			
Inventories	1100	939 781	1 286 855
Production stock	1101	691 382	1 027 921
Work in progress	1102	34 272	41 282
Finished goods	1103	205 238	202 883
Merchandise	1104	8 889	14 769
Current biological assets	1110	0	0
Reinsurance deposits	1115	0	0
Promissory notes received	1120	0	0
Accounts receivable for products, goods, works, services	1125	0	0
Accounts receivable for settlements:			
on advance payments made	1130	38 680	49 511
with budget	1135	774 786	232 747
including income tax	1136	456 333	0
on accrued income settlements	1140	0	0
on intercompany settlements	1145	2 149 434	4 408 457
Other current receivables	1155	3 559	2 562
Current financial investments	1160	0	0
Cash and cash equivalents	1165	19 515	6 858
Cash	1166	0	0
Accounts in banks	1167	19 515	6 858
Deferred expenses	1170	1 555	4 850
Reinsurer's share in insurance reserves	1180	0	0
including:			
long-term liabilities reserve	1181	0	0
claim reserves or due payment reserves	1182	0	0
unearned premium reserves	1183	0	0
other insurance reserves	1184	0	0
Other current assets	1190	3 440	5 232
Total per section II	1195	3 930 750	5 997 072
III. Non-current assets held for sales and disposal groups	1200	40	40
Balance	1300	5 147 164	7 923 414

Liabilities	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
I. Equity			
Registered (share) capital	1400	2 647	2 647
Contributions to unregistered share capital	1401	0	0
Revaluation surplus	1405	0	0
Additional capital	1410	43 919	43 910
Share premium	1411	0	0
Accumulated translation differences	1412	0	0
Reserve capital	1415	662	662
Retained earnings (accumulated deficit)	1420	751 766	-330 977
Unpaid capital	1425	0	0
Withdrawn capital	1430	0	0
Other reserves	1435	0	0
Total per section I	1495	798 994	-283 758
II. Long-term liabilities and provisions			
Deferred tax liabilities	1500	21 959	0
Pension liabilities	1505	0	0
Long-term bank loans	1510	0	0
Other long-term liabilities	1515	2 754	2 910
Long-term provisions	1520	22 550	12 732
Long-term provision for personnel expenses	1521	0	0
Special-purpose financing	1525	0	0
Charity	1526	0	0
Insurance reserves	1530	0	0
including:			
long-term liabilities reserve	1531	0	0
claim reserve or due payment reserve	1532	0	0
unearned premium reserve	1533	0	0
other insurance reserves	1534	0	0
Investment contracts	1535	0	0
Prize fund	1540	0	0
Jackpot payment reserve	1545	0	0
Total per section II	1595	47 263	15 642
III. Current liabilities and provisions			
Short-term bank loans	1600	1 800 799	1 241 560
Promissory notes issued	1605	0	0
Current accounts payable on:			
long-term liabilities	1610	2 748	511
goods, works, services	1615	242 388	606 252
settlements with the budget	1620	159 632	171 464

including income tax	1621	0	0
insurance	1625	2 951	2 158
payroll	1630	13 634	14 684
advance payments	1635	0	0
settlements with participants	1640	340 726	340 726
intercompany settlements	1645	1 636 606	3 130 562
insurance activities	1650	0	0
Current provisions	1660	0	0
Deferred commission income from reinsurers	1665	0	0
Deferred income	1670	0	0
Other current liabilities	1690	28 752	2 613 086
Total per section III	1695	4 300 907	8 191 530
IV. Liabilities related to non-current assets held for sale and disposal groups	1700	0	0
Net asset value of non-state pension fund	1800	0	0
Balance	1900	5 147 164	7 923 414

Appendix A.8

Company	Private joint stock company "Philip Morris Ukraine"	Date	CODES
			01.01.2017
			EDRPOU 00383231

**Statement of Financial Results
(Statement of Comprehensive Income)**

for 2016

Form #2

I. Financial Results

Item	Line code	DKUD code	
		Reporting period	1801003 Same period of previous year
1	2	3	4
Net revenue from sales of products (goods, works, services)	2000	8 719 818	8 891 769
Net insurance premiums earned	2010	0	0
Written premiums, gross amount	2011	0	0
Reinsured premiums	2012	0	0
Change in reserve of unearned premiums, gross amount	2013	0	0
Change in share of reinsurers in unearned premiums reserve	2014	0	0
Cost of sales (goods, works, services)	2050	-8 379 803	-6 637 958
Net losses incurred on insurance payments	2070	0	0
Gross:			
profit	2090	340 015	2 253 811
loss	2095	0	0
Income (expense) from changes in long-term liability reserves	2105	0	0
Income (expenses) from changes in other insurance reserves	2110	0	0
Change in other insurance reserves, gross amount	2111	0	0
Change in share of reinsurers in other insurance reserve	2112	0	0
Other operating income	2120	393 555	796 485
Income from changes in value of assets measured at fair value	2121	0	0
Income from initial recognition of biological assets and agricultural products	2122	0	0
Income from the use of tax-free funds	2123	0	0
Administrative expenses	2130	-449 073	-569 234
Selling and distribution expenses	2150	-251 034	-669 198
Other operating expenses	2180	-831 788	-1 459 460

Expenses from changes in value of assets measured at fair value	2181	0	0
Expenses from initial recognition of biological assets and agricultural products	2182	0	0
Financial result from operating activities:			
profit	2190	0	352 404
loss	2195	-798 325	0
Income from equity investments	2200	0	0
Other financial income	2220	0	0
Other income	2240	70 117	0
Income from charity	2241	0	0
Finance costs	2250	-385 532	-335 123
Loss from equity method investment	2255	0	0
Other expenses	2270	-205 965	-17 913
Profit (loss) from the influence of inflation on monetary items	2275	0	0
Financial results before tax:			
profit	2290	0	0
loss	2295	-1 319 705	-632
Income taxes (expense)/benefit	2300	236 962	6 072
Income/(loss) from discontinued operations after tax	2305	0	0
Net financial result:			
profit	2350	0	5 440
loss	2355	-1 082 743	0

II. Comprehensive income

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Revaluation of non-current assets	2400	0	0
Revaluation of financial instruments	2405	0	0
Accumulated translation differences	2410	0	0
Share of other comprehensive income of associates and joint ventures	2415	0	0
Other comprehensive income	2445	0	0
Other comprehensive income before tax	2450	0	0
Income tax related to other comprehensive income	2455	0	0
Other comprehensive income after tax	2460	0	0
Comprehensive income (sum lines 2350, 2355 and 2460)	2465	-1 082 743	5 440

III. Elements of operating expenses

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Cost of materials	2500	6 351 237	5 577 002
Labour costs	2505	231 564	320 013
Social security charges	2510	42 578	75 719
Depreciation	2515	152 011	148 908
Other operating expenses	2520	1 637 755	2 241 022
Total	2550	8 415 145	8 362 664

IV. Earnings per share

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Annual average number of ordinary shares	2600	2 005 018	2 005 018
Adjusted annual average number of ordinary shares	2605	2 005 018	2 005 018
Net income (loss) per ordinary share	2610	-540	3
Adjusted net income (loss) per ordinary share	2615	-540,02	2,71319
Dividends per ordinary share	2650	0	0

Appendix A.9

			CODES
		Date	01.01.2018
Company	Private joint stock company "Philip Morris Ukraine"	EDRPOU	00383231
Territory	Kharkiv Region, Komunist Village	KOATUU	6325158502
Business legal structure	Joint stock company	KOPFG	230
Type of economic activity	Manufacturing of tobacco products	KVED	12.00
Average number of employees:	1087		
Address, phone:	62482 Dokuchaievs'ke Village, 1 Polyovy Vyizd, 0577867700		
Units of measure:	UAH th without decimal sign		
Prepared (mark the respective cell with "v"):			
under Ukrainian Accounting Standards		<input checked="" type="checkbox"/>	
under International Financial Reporting Standards		<input type="checkbox"/>	

Balance
(Statement of Financial Position)
as of 31.12.2017
Form #1

Assets	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
DKUD code 1801001			
I. Non-current assets			
Intangible assets	1000	19 009	12 215
initial value	1001	68 795	69 401
accumulated amortization	1002	-49 786	-57 186
Construction in progress	1005	225 404	354 670
Property, plant and equipment	1010	1 013 504	1 220 379
initial value	1011	1 904 591	2 276 076
depreciation	1012	-891 087	-1 055 697
Investment property	1015	0	0
initial value	1016	0	0
depreciation	1017	0	0
Long-term biological assets	1020	0	0
initial value	1021	0	0
accumulated amortization	1022	0	0
Long-term capital investments:			

accounted for under the equity method	1030	0	0
other financial investments	1035	0	0
Long-term receivables	1040	454 988	173 352
Deferred tax assets	1045	213 397	85 141
Goodwill	1050	0	0
Deferred acquisition costs	1060	0	0
Balance on centralized insurance reserve fund account	1065	0	0
Other non-current assets	1090	0	0
Total per section I	1095	1 926 302	1 845 757
II. Current assets			
Inventories	1100	1 286 855	1 269 558
Production stock	1101	1 027 921	1 061 845
Work in progress	1102	41 282	60 791
Finished goods	1103	202 883	137 621
Merchandise	1104	14 769	9 301
Current biological assets	1110	0	0
Reinsurance deposits	1115	0	0
Promissory notes received	1120	0	0
Accounts receivable for products, goods, works, services	1125	0	0
Accounts receivable for settlements:			
on advance payments made	1130	49 511	56 908
with budget	1135	232 747	202 041
including income tax	1136	0	0
on accrued income settlements	1140	0	0
on intercompany settlements	1145	4 408 457	6 506 692
Other current receivables	1155	2 562	5 896
Current financial investments	1160	0	0
Cash and cash equivalents	1165	6 858	38 444
Cash	1166	0	0
Accounts in banks	1167	6 858	38 444
Deferred expenses	1170	4 850	7 456
Reinsurer's share in insurance reserves	1180	0	0
including:			
long-term liabilities reserve	1181	0	0
claim reserves or due payment reserves	1182	0	0
unearned premium reserves	1183	0	0
other insurance reserves	1184	0	0
Other current assets	1190	5 232	8 917
Total per section II	1195	5 997 072	8 095 912
III. Non-current assets held for sales and disposal groups	1200	40	40
Balance	1300	7 923 414	9 941 709

Liabilities	Line code	Opening balance for the period	Closing balance for the period
1	2	3	4
I. Equity			
Registered (share) capital	1400	2 647	2 647
Contributions to unregistered share capital	1401	0	0
Revaluation surplus	1405	0	0
Additional capital	1410	43 910	43 900
Share premium	1411	0	0
Accumulated translation differences	1412	0	0
Reserve capital	1415	662	662
Retained earnings (accumulated deficit)	1420	-330 977	296 329
Unpaid capital	1425	0	0
Withdrawn capital	1430	0	0
Other reserves	1435	0	0
Total per section I	1495	-283 758	343 538
II. Long-term liabilities and provisions			
Deferred tax liabilities	1500	0	0
Pension liabilities	1505	0	0
Long-term bank loans	1510	0	0
Other long-term liabilities	1515	2 910	1 500
Long-term provisions	1520	12 732	14 473
Long-term provision for personnel expenses	1521	0	0
Special-purpose financing	1525	0	0
Charity	1526	0	0
Insurance reserves	1530	0	0
including:			
long-term liabilities reserve	1531	0	0
claim reserve or due payment reserve	1532	0	0
unearned premium reserve	1533	0	0
other insurance reserves	1534	0	0
Investment contracts	1535	0	0
Prize fund	1540	0	0
Jackpot payment reserve	1545	0	0
Total per section II	1595	15 642	15 973
III. Current liabilities and provisions			
Short-term bank loans	1600	1 241 560	1 655 131
Promissory notes issued	1605	0	0
Current accounts payable on:			
long-term liabilities	1610	511	0
goods, works, services	1615	606 252	732 318

settlements with the budget	1620	171 464	185 493
including income tax	1621	0	0
insurance	1625	2 158	2 150
payroll	1630	14 684	8 260
advance payments	1635	0	1
settlements with participants	1640	340 726	340 726
intercompany settlements	1645	3 130 562	3 811 961
insurance activities	1650	0	0
Current provisions	1660	70 527	24 740
Deferred commission income from reinsurers	1665	0	0
Deferred income	1670	0	0
Other current liabilities	1690	2 613 086	2 821 418
Total per section III	1695	8 191 530	9 582 198
IV. Liabilities related to non-current assets held for sale and disposal groups	1700	0	0
Net asset value of non-state pension fund	1800	0	0
Balance	1900	7 923 414	9 941 709

Appendix A.10

Company	Private joint stock company "Philip Morris Ukraine"	Date	CODES
			01.01.2018
			EDRPOU 00383231

**Statement of Financial Results
(Statement of Comprehensive Income)**

for 2017

Form #2

I. Financial Results

Item	Line code	Reporting period	DKUD code
			1801003
1	2	3	4
Net revenue from sales of products (goods, works, services)	2000	10 690 885	8 719 818
Net insurance premiums earned	2010	0	0
Written premiums, gross amount	2011	0	0
Reinsured premiums	2012	0	0
Change in reserve of unearned premiums, gross amount	2013	0	0
Change in share of reinsurers in unearned premiums reserve	2014	0	0
Cost of sales (goods, works, services)	2050	-7 823 573	-8 379 803
Net losses incurred on insurance payments	2070	0	0
Gross:			
profit	2090	2 867 312	340 015
loss	2095	0	0
Income (expense) from changes in long-term liability reserves	2105	0	0
Income (expenses) from changes in other insurance reserves	2110	0	0
Change in other insurance reserves, gross amount	2111	0	0
Change in share of reinsurers in other insurance reserve	2112	0	0
Other operating income	2120	400 135	393 555
Income from changes in value of assets measured at fair value	2121	0	0
Income from initial recognition of biological assets and agricultural products	2122	0	0
Income from the use of tax-free funds	2123	0	0
Administrative expenses	2130	-527 833	-449 073
Selling and distribution expenses	2150	-266 509	-251 034
Other operating expenses	2180	-1 423 168	-831 788

Expenses from changes in value of assets measured at fair value	2181	0	0
Expenses from initial recognition of biological assets and agricultural products	2182	0	0
Financial result from operating activities:			
profit	2190	1 049 937	0
loss	2195	0	-798 325
Income from equity investments	2200	0	0
Other financial income	2220	0	0
Other income	2240	108 029	70 117
Income from charity	2241	0	0
Finance costs	2250	-186 654	-385 532
Loss from equity method investment	2255	0	0
Other expenses	2270	-215 750	-205 965
Profit (loss) from the influence of inflation on monetary items	2275	0	0
Financial results before tax:			
profit	2290	755 562	0
loss	2295	0	-1 319 705
Income taxes (expense)/benefit	2300	-128 256	236 962
Income/(loss) from discontinued operations after tax	2305	0	0
Net financial result:			
profit	2350	627 306	0
loss	2355	0	-1 082 743

II. Comprehensive income

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Revaluation of non-current assets	2400	0	0
Revaluation of financial instruments	2405	0	0
Accumulated translation differences	2410	0	0
Share of other comprehensive income of associates and joint ventures	2415	0	0
Other comprehensive income	2445	0	0
Other comprehensive income before tax	2450	0	0
Income tax related to other comprehensive income	2455	0	0
Other comprehensive income after tax	2460	0	0
Comprehensive income (sum lines 2350, 2355 and 2460)	2465	627 306	-1 082 743

III. Elements of operating expenses

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Cost of materials	2500	6 996 461	6 351 237
Labour costs	2505	257 298	231 564
Social security charges	2510	48 392	42 578
Depreciation	2515	188 583	152 011
Other operating expenses	2520	2 142 280	1 637 755
Total	2550	9 633 014	8 415 145

IV. Earnings per share

Item	Line code	Reporting period	Same period of previous year
1	2	3	4
Annual average number of ordinary shares	2600	2 005 018	2 005 018
Adjusted annual average number of ordinary shares	2605	2 005 018	2 005 018
Net income (loss) per ordinary share	2610	312,86801	-540,0166
Adjusted net income (loss) per ordinary share	2615	312,86801	-540,0166
Dividends per ordinary share	2650	0	0

Appendix B

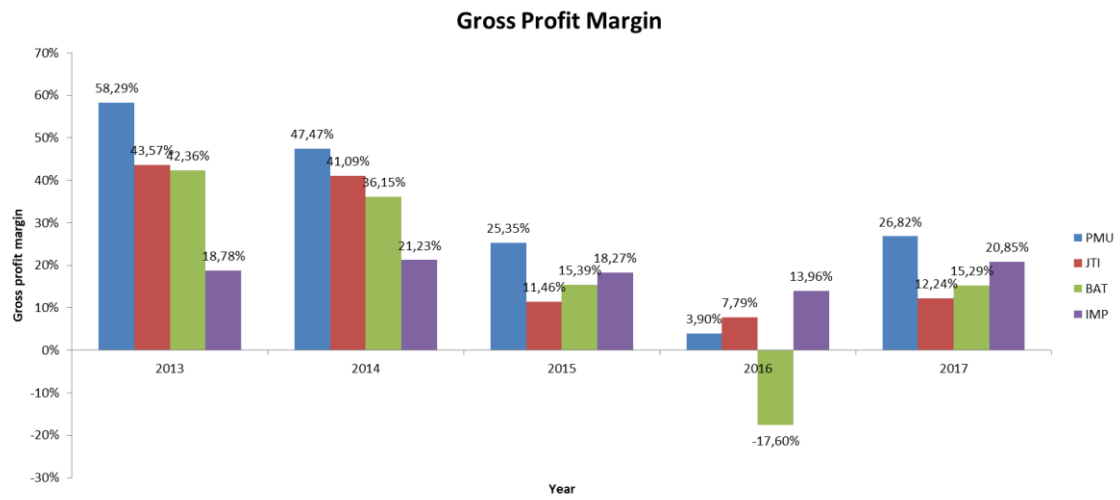


Fig. B.1. Gross profit margin of PMU, BAT, IMP and JTI in 2013-2017

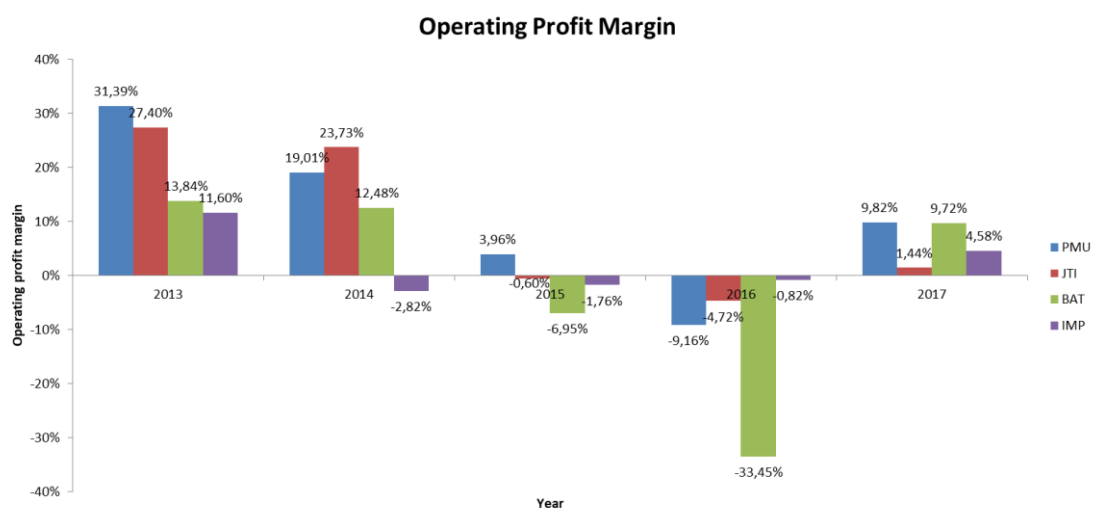


Fig. B.2. Operating profit margin of PMU, BAT, IMP and JTI in 2013-2017

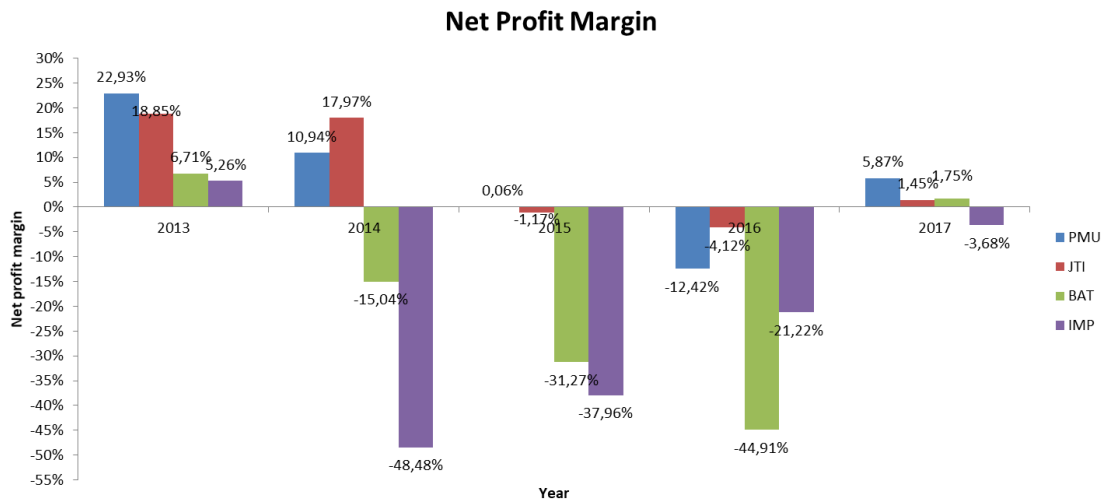


Fig. B.3. Net profit margin of PMU, BAT, IMP and JTI in 2013-2017

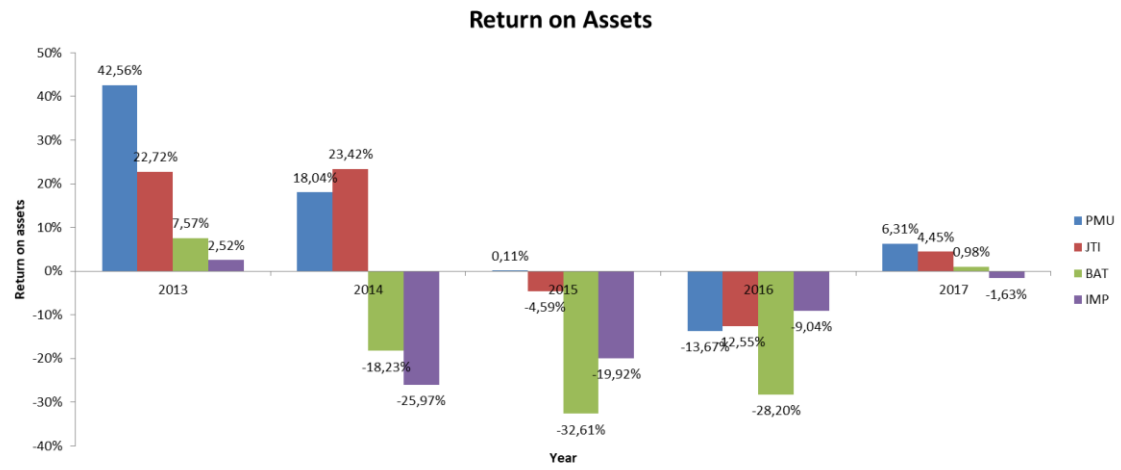


Fig. B.4. Return on assets of PMU, BAT, IMP and JTI in 2013-2017

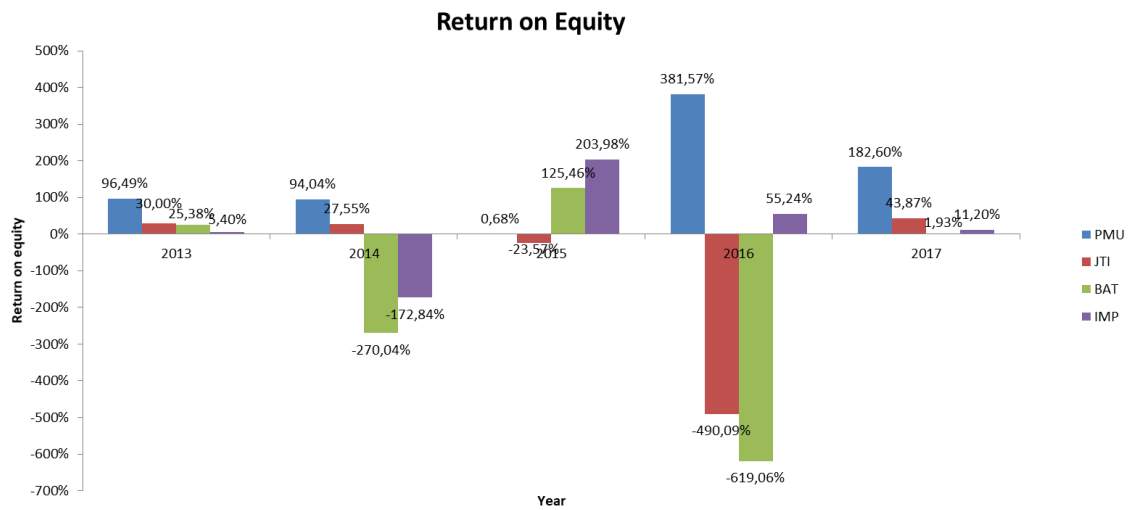
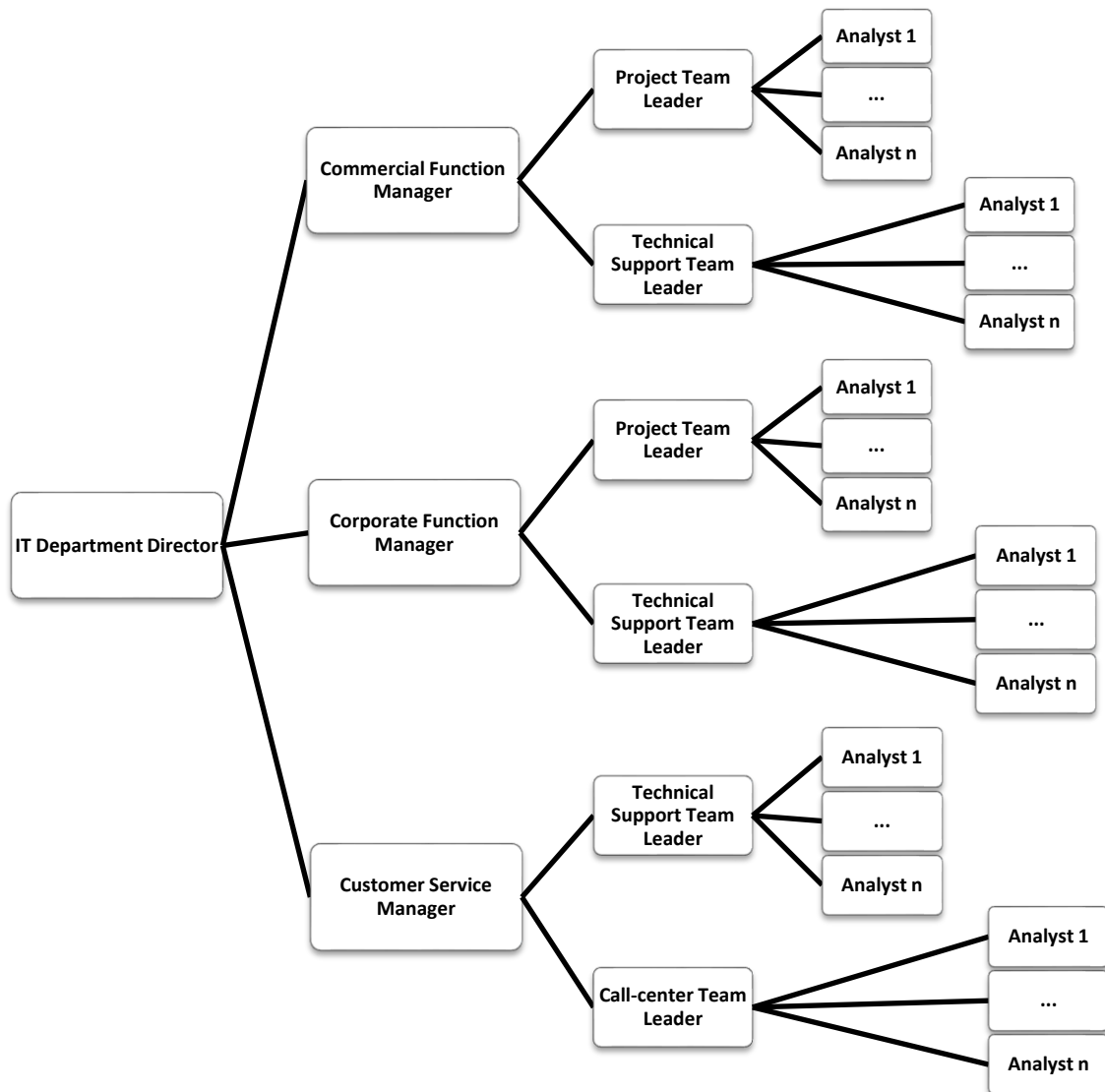


Fig. B.5. Return on equity of PMU, BAT, IMP and JTI in 2013-2017

Appendix C



Appendix D

Survey Questions

1. If I continue to perform well, I will get ahead in this company
 - a. Strongly Agree
 - b. Agree
 - c. Neither Agree Nor Disagree
 - d. Disagree
 - e. Strongly Disagree
2. I believe I am paid fairly
 - a. Strongly Agree
 - b. Agree
 - c. Neither Agree Nor Disagree
 - d. Disagree
 - e. Strongly Disagree
3. I receive useful coaching and feedback that helps me improve my performance
 - a. Strongly Agree
 - b. Agree
 - c. Neither Agree Nor Disagree
 - d. Disagree
 - e. Strongly Disagree
4. I think there is a clear link between job performance and pay at my company
 - a. Strongly Agree
 - b. Agree
 - c. Neither Agree Nor Disagree
 - d. Disagree
 - e. Strongly Disagree
5. Management provides recognition for performance when I perform above and beyond my job responsibilities
 - a. Strongly Agree
 - b. Agree
 - c. Neither Agree Nor Disagree
 - d. Disagree
 - e. Strongly Disagree
6. I understand how my performance is measured and evaluated

-
- a. Strongly Agree
 - b. Agree
 - c. Neither Agree Nor Disagree
 - d. Disagree
 - e. Strongly Disagree
7. Key performance activities that are relevant to my role are clear to me for me to be successful in my role
- a. Yes
 - b. May be
 - c. No
8. How often does your manager give you 'on the spot' social rewarding?
- a. Often
 - b. Sometimes
 - c. Seldom
 - d. Never
9. How realistic are the expectations of your manager from you?
- a. Realistic
 - b. To some extent realistic
 - c. Mostly not realistic
 - d. Not realistic at all
10. I know how to be successful in my current role
- a. Yes
 - b. May be
 - c. No
11. How often does your supervisor do one on one meeting with you?
- a. Weekly
 - b. Fortnightly
 - c. Monthly
 - d. More rare than monthly

Appendix E

Answers to survey

Respondent #	If I continue to perform well, I will get ahead in this company	I believe I am paid fairly	I receive useful coaching and feedback that helps me improve my performance	I think there is a clear link between job performance and pay at my company	Management provides recognition for performance when I perform above and beyond my job responsibilities	I understand how my performance is measured and evaluated	Key performance activities that are relevant to my role are clear to me for me to be successful in my role	How often does your manager give you 'on the spot' social rewarding?	How realistic are the expectations of your manager from you?	I know how to be successful in my current role	How often does your supervisor do one on one meeting with you?	Employee Development and Engagement Index	
1	5	5	5	5	4	5	4	4	4	4	4	4.83	
2	5	5	5	5	4	5	3	4	4	4	4	4.83	
3	5	5	5	5	4	5	3	4	4	4	3	4.83	
4	5	4	5	5	4	5	4	4	4	4	3	4.67	
5	5	5	5	5	5	5	3	4	4	4	4	5.00	
6	5	5	5	5	5	5	3	4	3	4	4	5.00	
7	5	5	5	5	5	5	3	4	3	3	4	5.00	
8	5	5	5	5	5	5	4	4	4	4	4	5.00	
9	5	5	5	5	5	5	4	4	4	4	4	5.00	
10	5	5	5	5	5	5	3	4	3	1	3	4	5.00
11	5	4	5	5	5	5	4	4	4	4	4	1	4.83
12	5	4	5	5	5	5	4	4	4	4	4	4	4.83
13	5	4	5	5	5	5	4	4	4	4	4	3	4.83
14	4	4	5	5	5	5	3	4	4	3	4	4	4.67
15	4	3	5	4	4	4	3	4	3	4	4	4	4.17
16	4	4	5	4	4	4	2	4	3	3	2	2	4.33
17	4	4	4	4	4	4	2	4	3	3	3	2	4.17
18	4	4	4	4	4	4	2	3	3	4	4	4	4.17
19	4	4	4	4	4	4	2	4	4	4	4	4	4.17
20	4	4	4	4	4	4	2	4	4	4	4	2	4.17
21	4	4	4	4	4	4	4	4	4	3	4	4	4.00
22	4	4	4	4	4	4	4	3	4	4	4	4	4.00
23	4	4	4	4	4	4	4	3	4	4	4	4	4.00
24	4	4	4	4	4	4	4	3	1	4	4	2	4.00
25	4	4	4	4	4	4	3	4	3	3	3	3	4.00
26	4	4	4	4	4	4	4	3	3	3	3	3	4.00
27	4	4	4	4	4	4	3	2	1	4	4	2	4.00
28	4	4	4	4	4	4	4	3	4	4	4	4	4.00
29	4	4	4	4	4	4	3	3	4	4	4	2	4.00
30	4	4	4	4	4	4	3	4	4	4	4	3	4.00
31	4	4	4	4	4	4	4	3	4	2	3	3	4.00
32	4	4	4	4	4	3	4	2	3	4	4	3	3.83
33	3	4	4	4	3	3	4	2	4	3	4	4	3.50
34	3	4	4	4	3	3	4	2	4	4	3	4	3.50
35	3	4	4	4	3	3	4	4	3	3	4	4	3.50
36	3	4	4	4	3	3	4	3	3	4	3	2	3.50
37	3	4	4	4	3	3	4	3	3	4	3	2	3.50
38	3	4	3	3	3	3	4	2	3	4	4	2	3.33
39	3	3	3	3	3	3	4	4	4	2	4	2	3.17
40	3	3	3	3	3	3	4	4	4	4	3	2	3.17
41	3	3	3	3	3	3	3	4	3	2	2	3	3.00
42	3	3	3	3	3	3	3	3	2	2	3	2	3.00
43	3	3	3	3	3	3	3	4	2	1	2	3	3.00
44	3	3	3	3	4	3	3	2	2	3	1	1	3.17
45	3	3	1	3	4	3	3	2	4	3	3	2	2.83
46	2	2	3	3	4	3	4	2	3	3	4	4	2.83
47	2	2	3	2	3	3	2	3	4	3	3	2	2.50
48	2	2	3	2	1	3	4	2	1	2	3	3	2.17
49	2	2	2	2	2	3	3	3	2	3	3	3	2.17
50	2	2	2	2	2	3	3	3	2	2	3	3	2.17
51	2	1	2	2	2	3	4	1	1	2	1	1	2.00
52	2	1	2	1	1	3	2	1	1	2	3	1	1.67
53	2	2	1	1	2	2	2	2	1	2	2	2	1.67
54	1	2	1	1	2	2	2	2	1	2	1	1	1.50
55	1	2	3	1	2	1	2	1	2	3	4	1	1.67

Appendix F**Numerical coding for variables values**

Answers	Numerical Equivalent
Strongly Agree	5
Agree	4
Neither Agree Nor Disagree	3
Disagree	2
Strongly Disagree	1
Yes	4
May be	3
No	2
Often	4
Sometimes	3
Seldom	2
Never	1
Realistic	4
To some extent realistic	3
Mostly not realistic	2
Not realistic at all	1
Weekly	4
Fortnightly	3
Monthly	2
More rare than monthly	1