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THE ASSESSMENT OF CONTRADICTIONS BETWEEN CORPORATE AND STATE SYSTEMS OF MANAGEMENT IN RUSSIAN OIL INDUSTRY

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Abstract: *The article analyzes the contradictions between corporate and state industrial management systems of Russian oil industry. It is attempted to find compromise models of interaction of subjects from three sectors of the economy within the implementation of strategic plans for the territorial development. The authors evaluated the main tactical and strategic contradictions and conflicts occurring in the process of coordination and implementation of large infrastructure projects, as well as the formation of key performance indicators for each enterprise, industry and management system as a whole. The article substantiates the necessity of creating a regional council for intersectoral interaction. The main function of the latter is to find a compromise between the interests of business structures, society and the state, as well as to provide an objective selection of projects that are most important for a particular territory. The article also provides a model of interaction between business and regional authorities in the process of formulating and implementing long-term strategies for the development of territories. The*

peculiarity of the presented model is that it accounts all significant changes in business structures allowing to consider possible risks and consequences of corporate decisions on the regional level.

Keywords: *corporate management, oil industry, state regulation, state development, system of management.*

INTRODUCTION

The analysis of long-term concepts and strategies for the development of Russian oil industry and its comparison with public program documents of the giant oil companies demonstrates fundamental contradictions between these entities of the economic system. Moreover, such contradictions can arise even with companies where the state itself owns more than 51% of the stake. This situation happens due to the different planning horizon for socio-economic processes; unlike indicators for evaluating the performance used for both the leaders of large corporations and public servants; different principles of exchanges' functioning as well as the work of institutional power. Moreover, there should be noted different macroeconomic conditions that foster the development of the state and society in general and private, para-public and state-owned companies in particular (2; 3; 5).

There could be distinguished several contradictions. Firstly, these are contradictions connected with different viewpoints on key macroeconomic indicators expressed by the referred entities. Thus, the representatives of the oil industry are interested in a weak national currency, since they receive the main revenue from exports, but their costs are in national currency. Consequently, weak national currency enhances the international competitiveness of Russian oil companies. The state, in its turn, is interested in maintaining macroeconomic stability and in keeping a relatively strong national currency, otherwise the real incomes of the country's population will go down. Secondly, the state is aimed, first of all, at achieving stability in a strategic perspective. Planning is carried out for a long-term period. In certain periods of recent history, the state was aimed at tactical management of oil industry due to federal budget deficit and the need to finance social budget items. However, with the introduction of new budget rule and the formation of the National Welfare Fund, government actions on the world oil and oil products market started looking more long-term and strategic. The choice of this policy might lie in interaction with OPEC countries and the last refusal to reduce oil production in order to get short-term increase in oil prices. The managers employed by the corporations strive for obtaining good financial results in the short term, since it is not only the income of the managers themselves that depends on achievements, but also the perspectives for their further work in the corporation. It is due to this reason that there appear incorrect financial reports which later lead to high-profile criminal cases (8; 6; 9).

Thirdly, corporations are more likely than the state to increase labor productivity. Moreover, this increase in productivity usually occurs due to job cuts, lack of bonuses, increase of workload and other non-market methods. For the state it is important to have social stability in a particular region, the creation of new workplaces or at least not cutting the existed ones. For this reason, such radical measures to increase statistical labor productivity are not welcomed by the state. Fourthly, the

Russian Federation is a world leader in the presence of so-called hard-to-recover oil reserves (HTR). Some time ago the issues related to HTR oil reserves caused a lot of controversy and disagreements between corporations and business representatives. Currently, there are a number of tax and administrative benefits for companies involved in the extraction of HTR oil reserves (4; 9).

Unfortunately, there still remain some contradictions. The task of the state in this sphere is to create comfortable conditions for field development and extend the period of active oil production and getting returns from it. The main task of oil companies is to increase profitability of such production but in case it is not possible to freeze the fields and switch to more profitable oil production areas. One of the most essential contradictions between business and government is the issue of business participation in social projects, public life of a region, municipality or community. Some time ago any corporate social responsibility was perceived as an imposed condition for further development. Businesses looked at it as an additional social burden. In recent years, the social responsibility of business has gradually become voluntary and started indicating modern, updated viewpoints of companies' leaders. Constant and effective interaction of business, government and civil society could minimize if not resolve all contradictions described above, find a compromise acceptable to all participants. Currently, despite the development of social networks and new forms of interaction, there is an informational vacuum regarding the design, development and implementation of large projects prepared by the state and oil industry companies. All mentioned projects often have a significant impact on people's life of the entire regions. Oil industry companies in their turn, develop strategies in the context of basic industry documents and without considering the needs of the local community. It results in imbalance between the development plans declared by the corporations and territorial development strategies. Usually important social projects and initiatives are discussed at closed door meetings in the administrative offices of regions and municipalities, where business representatives are often not invited.

METHODOLOGY

In the oil industry for the period from 2001 to 2018, To solve this problem, the researches propose the creation of regional councils on intersectoral cooperation in oil industry. This council will reconcile the needs of the local community, various environmental and human rights organizations with the interests of business structures within the laws and regulations as well as all necessary state regulatory acts. The regulatory impact of various projects or normative acts can be assessed on the basis of this intersectoral cooperation council. It would be accomplished not only by the state authorities, which is required by the law but also by expert, scientific and professional communities. The diversity of opinions will allow to consider all problems which occur throughout the implementation stage in a more detailed way and to find more effective solutions which in the long run will lead to an increase of social stability and public satisfaction with both the state and municipal government systems and business. The methodology including the creation of regional councils on intersectoral interaction is presented in Fig. 1. In the process of interaction, the members of the intersectoral interaction council go through a number of stages, including the coordination of goals, limitations, risk analysis and consequences of the impact of the project on the region, business structures and non-profit organizations:

1. Choosing the participants of the intersectoral cooperation council for a specific project;
2. Presenting the projects on the development of social infrastructure implemented by

oil producing companies;

3. Representations of the existing regulatory, economic and organizational restrictions made by the regional administration;

4. Presenting the ways of potential mutually beneficial interactions during the implementation of the project (from the local government viewpoint);

5. The discussion of possible risks and limitations involved in the implementation of this project (from the expert community viewpoint);

6. The assessment of the project impact on the development of the territory, social infrastructure, ecology and related industries (accomplished by the departments of the local government);

7. The assessment of the project impact on the development of the territory, social infrastructure, ecology and related industries by public organizations and expert community;

8. Presentation of the results of independent impact assessments at a meeting of the regional council on intersectoral interaction;

9. Transformation of performance specifications and business plan for the implementation of the project;

10. Acceptance of the agreed project after corrections and its further implementation;

11. Submission of a report on the accomplishment of the project indicating the costs of implementation by oil companies and local government; presentation of other forms of compensation packages to businesses to cover the costs of the project.

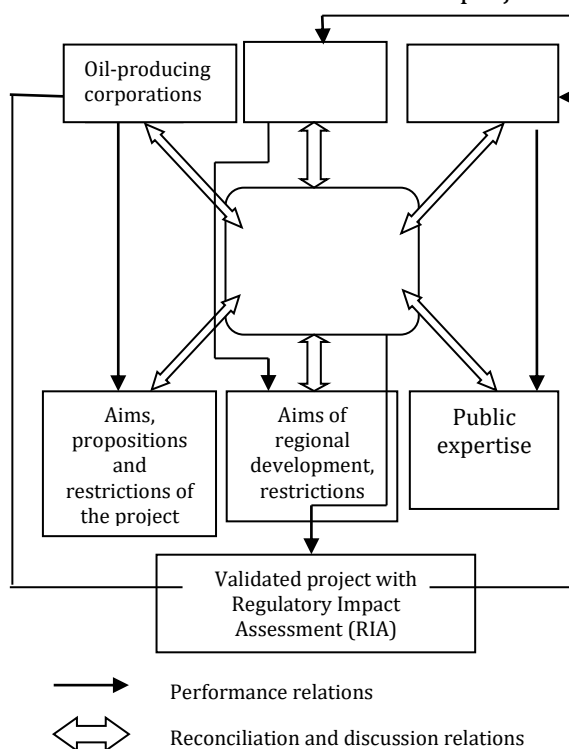


Figure 1. The methodology of creating a regional council on intersectoral interaction.

RESULTS

The interaction of all three sectors of the economy leads to the increase of the role of civil society institutions. The contradictions existed before moving from the back doors to the plain sight allowing to achieve compromise by attracting third-party experts who base their knowledge on the world best practices. Thus, the methodology of the regional council on intersectoral interaction does not only allow to obtain social

balance and more effective implementation of various projects, but also significantly increases the competence of business leaders and regional managers by way of attracting scientific and professional community. There is one more reason why the intersectoral interaction council methodology seems to be important. Oil industry companies are said to be important budget-forming structures in many regions. So, it means that the indicators of socio-economic growth of all Russian regions depend on the effectiveness of the activities of oil-producing companies. For this reason, these companies should plan their expansion, operational and strategic activities considering existing strategies for the development of territories. Currently, this does not always go this way. When the parent company is located in Moscow or St. Petersburg, but subsidiaries operate in the regions, the activities of the latter are mainly aimed at fulfilling corporate goals and objectives and achieving certain performance indicators. Fig. 2 schematically represents the environment in which a subsidiary of any oil company operates.



Strategic plan of territorial development

Figure 2. Environment of the subsidiary of the oil company

As it can be seen from the figure, the regional environment influences the functioning of any unit of federal or multinational company. There are several reasons for this. Firstly, administrative regions of the Russian Federation are in charge of a number of issues related to ecology and efficient nature management. Secondly, despite the legal affiliation of the company and the location of its head office, its economic performance greatly depends on the effectiveness of work accomplished in the oil extracting spots. The residents of the oil fields' territories usually associate environmental and other negative consequences of the production with the poor regional governance but not with the activities of the federal authorities that provided licensing. For these reasons, business and regional administrations are interested in finding an effective interaction mechanism to minimize negative consequences and form realistic plans for the development of territories. It is obvious that the development of concepts and strategies for regional development should be organized in close cooperation of similar business structures with regional administrations. Unfortunately, it is not practiced currently. The process of planning and implementing a long-term development strategy of an administrative region of the Russian Federation can be done

by the mutual actions of oil companies' subsidiaries and local administration of regions. (Fig. 3).

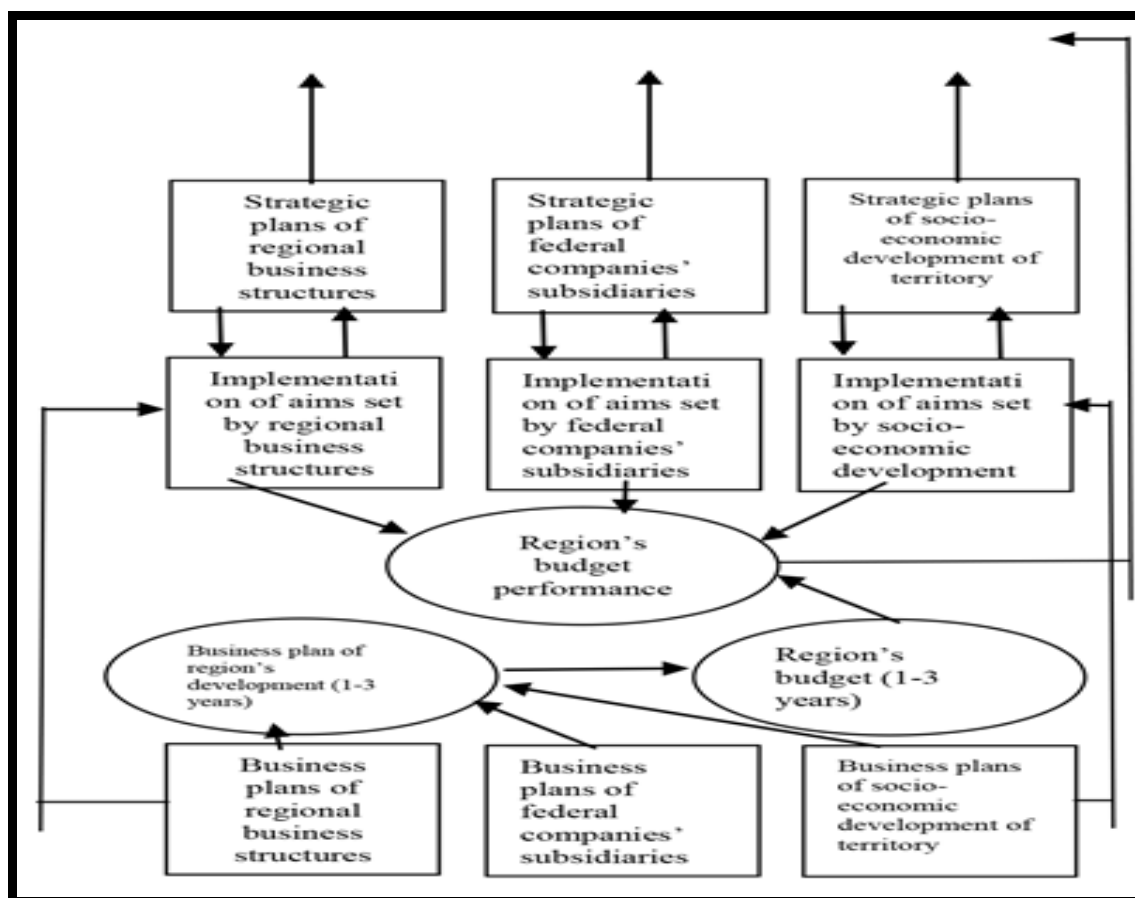


Figure 2. A model of interaction between business and regional authorities in the process of formation and implementation of long-term development strategies for territories.

The proposed model, basing on the methodology of the intersectoral cooperation council, will allow to make goals and objectives of oil companies' subsidiaries, local regional government and public structures clearer. The model considers all the procedures for coordination and implementation of corporate and regional strategies both in the short-term and long-term perspectives. So, regional administration could forecast the revenue or annual budget in the process of forming an operational plan for the territorial development in case it gets information from the business structures. Using this model, all changes, business reorganization and restructuring procedures would be already written in the plan that could allow to predict the risks and possible consequences of corporate decisions. It goes without saying that the use of this model cannot protect against sudden negative, and unpredictable events, such as military conflicts, outbreaks of diseases and so on. However, it significantly improves the quality of forecasts.

CONCLUSION

In the proposed model, short-term and long-term forecasts of business and the

region are brought to different stages in a single life cycle of the territorial development strategy. So, data provided by business structure or region concerning the budget performance allow to make further medium-term and long-term planning. Moreover, these indicators are linked, which is not observed in real life. Thus, the system of intersectoral interaction which includes all interested parties like environmental non-profit organizations, professional expert communities will minimize the negative consequences of decisions made, reduce the risks of conflicts and level out contradictions between business structures and government. The dependence of the revenues of the consolidated budget can be expressed by the regression equation, having the form.

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