



STRATEGIC MANAGEMENT OF ENTERPRISES IN OIL AND GAS COMPLEX

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Abstract Careful attention is paid to the theoretical issues and practical aspects of strategic management system operation due to the level increase of uncertainty in the process of operational and commercial activities, including for the enterprises of an energy sector, particularly for the sector such as oil and gas complex. The use of particular oil and gas production technology as well as the pricing policy determine the dependence of oil and gas complex on the world conjuncture of needs and geopolitical factors. In this regard, the strategic management of large industrial complexes which include oil and gas production, petroleum processing and petro-gas transmission companies, is of exceptional importance.

Keywords - strategic management, strategy, enterprises of an energy sector oil and gas complex,

I. STRATEGY AND STRATEGIC TARGETS OF ENTERPRISE ACTIVITIES

The development of enterprise management mechanism is a significant aspect of enterprise operation under conditions of world economy globalization, development of international integration processes, decline in manufacturing output, energy-saving technology introduction due to world economic crisis. The stability of one of the key industries such as energy industry to a great extent is achieved by means of establishing the effective system of strategic management as well as strategic changes planning in the enterprises in oil and gas complex; the system is based on the level increase of management efficiency having applied the current practices in decision making on the ground of economic and mathematical method. The strategy constitutes an implementation of an integrated approach, system approach securing balance, general guidelines and efficiency of a company business. Strategy implementation is carried out by integration of the basic long-term strategy and a set of short-term strategies aimed at achieving the current goals as well as solving unforeseen tasks and issues.

With regard to the time period of strategy implementation, the decline in efficiency by lapse of time should be considered subsequent to level increase of uncertainty [1, p. 39]. According to A. Chandler's theory the strategy means determination of long-term goals and tasks of the enterprise, determination of course of action as well as allocation of resources required for meeting goals and tasks [2]. B. Karloff narrowed down the strategy definition to perception of it as a generalizing action model required for meeting the specified goals through coordination and allocation of companies' resources [3]. In [4] the strategy is regarded as an aggregate of long-term goals and a plan of most effective resource allocation for meeting such goals. In the process of evolution of the concept "strategy" some content modifications occurred. Thus, G. Kunz, provides the following definition: "strategy is a general programme of actions identifying priorities of issues and resources for achieving the primary goal. It forms primary goals (mission) as well as main ways of achieving such goals so that the company receives unified line of operations" [5]. I. Ansoff in the project "New corporate strategy" defines the strategy as a list of rules for decision making used by the company in its operation [6]; he asserts: "Strategy is one of several sets of decision making rules with respect to company actions" [7, p. 159]. For general case, we offer the following definition of strategy. Strategy is a path of strategic goals achievement; interrelation of such goals determines individual fragments of ways of achieving the primary goal with account taken of dynamic changes of internal environment, as well as the changeability of external environment and, in certain cases, resource limitation. With regard to specialization of the concept for entrepreneurial business the following definition of the concept is offered "business strategy is a planned cumulative action of all business units; such an action is aimed at achieving common strategic enterprise goals by means of coordination of available resource provision in an unstable external environment of business activities of the enterprise".

To our opinion determination of enterprise strategy vector regardless of development scope of concept "strategy" should be based on the goals and mission of the business structure. Strategy implementation has a positive effect on the stabilization and development of business activities of the enterprise.

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II. COMPONENTS OF STRATEGY IMPLEMENTATION PROCESS IN OIL AND GAS COMPLEX

In the modern context of economic globalization, rise in world energy prices the enterprises are forced to respond to changes in external environment in order to maintain the stable market power. Such a situation is possible providing appropriate internal business structure. E. Elbing focuses on the following: "Business environment is increasingly becoming a source of problems for modern leaders. In fact, the leaders of the most important public institutions such as business institutions, educational institutions, public institutions under the influence of recent world events were forced to focus on dynamic environment and its influence on internal business structure" [8].

When considering the impact of environment on the enterprise it is important to realize that environment considerations differ in space and time coordinates but they are connected with environmental factors. The general chart of factorial analysis application in the strategy implementation process is shown in Fig. 1 hereto.

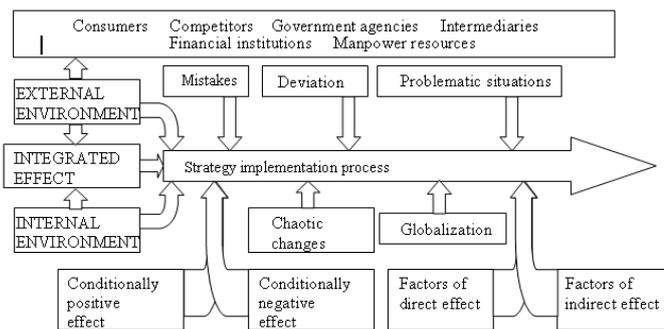


Fig. 1. Fundamental components of strategy implementation process and interrelation of them in factorial analysis utilisation

For exploring the nations potential of oil and gas complex the analysis could be carried out under the following components: 1) oil and gas deposits; 2) transit oil and gas transportation potential; 3) general characteristic of oil and gas companies; 4) petroleum processing, liquid gas production; 5) characteristic of oil and gas products consumers.

Oil and gas industry has a sizable effect on economic development of the country both by volume of budget receipts and as a major source of foreign exchange receipts. The dynamics of crude oil output is shown in Fig. 2.

The time range from 1972 till 1980 is marked by the world energy crisis mainly related to the activities of the International Petroleum Cartel. In 1972, the share of the Cartel accounted for approximately 50 % of all petroleum production in capitalist countries. The organization controlled 85 – 90 % of petroleum exports from developing countries. A principal ground for the crisis is the limitation of foreign capital operation scope. For

protection of national interests in 1960 these countries established the Organization of Petroleum Exporting Countries (OPEC) as well as the Organization of Arab Petroleum Exporting Countries (OAPEC) in 1968. In consideration of the sharp demand rise in world primary energy market during cyclical upswing of economy in 1972–1973 the Petroleum Exporting Countries leveled up petroleum prices higher by a factor of four.

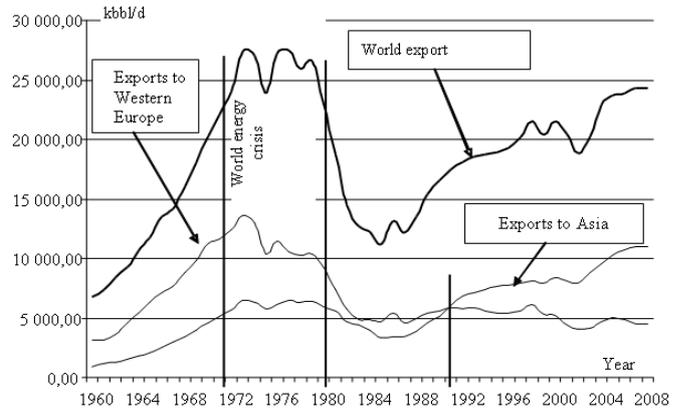


Fig. 2. Dynamics of world and regional petroleum exports volume (according to information of Organization of Petroleum-Exporting Countries [9])

Petroleum price increase in 1973–1974 caused the trade balance deficit as well as balance of payments deficit in developed nations. Therefore, the nationalization of substantial part of concessions of International Petroleum Cartel was held in the member countries of the OPEC (1972–1977). Consequently, during 1972–1974 the income of the member countries of OPEC increased by a factor of 10 and amounted to \$100 billion, and in 1977 to \$130 billion.

III. CYCLIC PROCESSES EFFECT ON ENERGY MARKET CONJUNCTURE

The world economy is developing cyclically; floating processes occur thereto expressed in a change of economic growth indices. The period of these floating processes ranges from few years to the decades. The prosperity phase, business cycle recovery phase is replaced by the economic recession phase, demand and supply decrease, and recession of business activity level. For carrying out analysis of governmental(public) regulation possibility as well as supranational regulation possibility the following cyclical phases are marked: takeoff (upturn in economic cycle), prosperous business climate (economic boom), downturn (economic recession, economic crisis, stagnation, and stagflation), poor business climate (depression).

Depending on the phase of the national economy one or another economic policy type, state government business strategy type, and international organizations type is formed. Most commonly the phase indicator is the dynamics of gross domestic product, aggregate demand



and supply, income and consumption, prices, employment of population, and other macroeconomic factors. Gross domestic product growth with the rate of not less than 8% per year will make possible solving some socio-economic problems; in particular, employment related problems. Such growth is possible under a favorable price increase for oil and gas.

All that requires development and application of appropriate public regulatory forms and instruments. Consequently, the comparative analysis of such forms and instruments is required in terms of their efficiency and acceptability for international commitments at the same time.

Public regulation enables to redistribute petroleum industry flow of funds into other sectors such as social spheres for instance, or high technology development. It is reasonable to invest public funds to projects in the developmental stage, and to the extension of novel technology that can improve the competitiveness of enterprises and national economy. Supranational regulation, on the other hand, enables to develop broad principles and recommendations on enterprises operation on the world energy market.

IV. COMPETITIVENESS IN THE ENERGY SECTOR AND INTERNATIONAL PETROLEUM BUSINESS

Let's mark out the touch points for evaluation of the degree of petroleum companies' competitiveness when conduct of international business under conditions of price fluctuation on the world petroleum market: company structure (consortium); survey of transactions carried out (oil and gas finding and production, petroleum and petrochemical products producing, sales of the products made); prospecting (oil and gas fields prospecting); production (enterprises, regions, volumes, resources); petroleum processing (facilities, marketing policy); petroleum price fluctuations on the world market; future company development (analysis of recent innovations, new feasible business directions); product range (fuel and lubricants, motor gasolines, kerosenes, heating oils, liquefied gases, butyl alcohols, plasticizers, polyethylene, etc.); distribution network (analysis of level of efforts and peculiarities of work with dealers, jobbers and distributors); foreign operations (extent of business analysis - Oil Ministry).

In the international practice, the general strategic directions in the sector of trade and commerce for oil and gas companies are usually divided into two main groups: upstream operations; downstream operations.

The classification by the way of oil business conduct on the world market fits into traditional directions of international commercial transactions: direct and indirect exports; direct and portfolio investments; operations under production sharing agreements; foundation of foreign subsidiaries and joint ventures, etc.

By the sector principle, the classification is carried out on the recommendations of American Petroleum Institute

experts, the following segments are marked out: upstream operations; marine freight of petroleum; petroleum transport via pipelines; downstream operations; oil product retail business and marketing; sale of specialized fuels; service activities for oil companies.

In accordance with the manufacturing cycle the principal methods of international business conduct by oil companies include «upstream» and «downstream» operations and are divided into the following types: exports of oil, oil-products and petrochemicals; oil prospecting and oil-field development abroad; crude-oil production in foreign oil fields; production operations abroad - oil refining in own and third-party foreign oil refinery plants; conducting retail transactions through own network of petrol filling stations abroad; participation in the construction of oil pipelines as well as terminals for offshore oil loading; investment activities abroad; attraction of credit resources for funding own investment programmes and capital investments of subsidiary companies and associated companies.

Existence of competitive environment limitations which can include stockout of infrastructure for oil exports ought to be remarked.

V. NATIONAL AND SUPRANATIONAL REGULATION OF OIL AND GAS SECTOR

The state's role in the operation of oil and gas markets, both domestically and internationally, is required for the following reasons: if any differences in the laws of different countries the situation of double taxation can arise leading to recession of competitive capacity level of enterprises, and vice versa, promoting the development of transnational enterprises on their own territory; in default of state support or poor state support for enterprises and the sector as a whole, the level of high technology development and unique production can decrease.

The foregoing leads to a loss of competitiveness of national economies on the world market. For prevention of such a situation appropriate directions of public administration strategy are developed: national and supranational administration at the regional level; public regulation of product markets, financial markets and information markets; formation and enhancing the public sector of economy; public promotion for sector (sectors) growth in preferred directions; support for innovative line of activities.

Therefore, public regulation of oil and gas markets is a constituent of public administration of nations' economy with considerable part of oil and gas receipts. Make a point that the specificity of the current stage of world economy development is the emerging role of supranational regulation, for instance, towards international organizations. And the basis for competition in oil and gas complex is mainly determined by the regulation of financial markets, exchange activities

VI. FORMATION AND IMPLEMENTATION OF STRATEGIC GOALS WITH ACCOUNT TAKEN OF CYCLIC PROCESSES, HIGH-LEVEL COMPETITION IN INTERNATIONAL PETROLEUM BUSINESS AND SUPRANATIONAL REGULATION

In view of the above said the following strategic goals shall be specified: investment volume increase; innovation-based development; increase in performance; formation of congenial investment climate for private investors; acceleration of the effective savings transformation into investments, enhancement of their efficiency; introduction of resource-saving technologies and energy efficiency enhancement; diversification of the economy aimed at reducing both absolute and relative role of natural resources sector in the gross domestic product of the country; problem solving for increase of technical and technological level of enterprises; the level increase of both interindustry integration and interregional integration; decrease of fuel and energy complex negative effects on environmental conditions.

For implementation of the strategy for development of enterprises in oil and gas complex, the purposive impact on key enterprise functional units is of great importance.

For oil and gas industry, as well as for others, execution of following tasks is indicative [10]: securing higher growth rate than at an average in the industry sector; market segment increase; improvement of product and services quality compared to competitors and as a whole; achieving a minimum level of costs; raising of the company's reputation as a reliable supplier.

To the aforementioned economic strategic goals we add organizational goals providing the production with the following components: required number of specialists; employee skill level; motivational mechanism; project management system. Organizationally the goal meaning is determined by the result, and the goals specifically can determine the way of achieving the result. Passing the way is reflected in the plan as a guidepath of the organization towards the goals. Practical implementation of the abovementioned theoretical approaches is described in the documentation in the form of descriptions, resource allocation patterns, diagrams, and intermediate tasks.

Therefore, for major companies in energy sector the concept "strategy" involves an aggregate of "ways of achieving goals" combining both internal enterprise goals and shared goals for the world oil and gas complex.

These goals are as follows: new oil- and gas-field prospecting; performance increase; steady, uninterrupted and cost effective satisfaction of domestic and external demand for gas; development of operative Unified gas supply system of the country; improving the organizational structure of the gas sector for raising the economic performances of it as well as developing the deregulated gas market; provision of regular receipts to the state budget revenues and product demand promotion of associated sectors.

Development of the company mission involves the allocation of priority goals taken as a basis for strategy formation. Strategy implementation, goals achievement, mission implementation enables to single out certain features of the strategic tools: mission as the goal is the object which both workers and the shareholders of the company can pay determinative attention to; teambuilding for achieving specific goals; building of strong image (company image, brand of the product).

The milestones are formed after development and approval of the company mission by the top management team of the company. Goals, in general, express lines of activity of the company and its subsidiaries. On the one hand, targets and goals are the desired results; on the other hand, they are the work tools. Therefore, the goals as results shall be clear in wording and definition, the company employees shall know them, and the goals as results shall have the target nature. The goals as tools are directly linked to business strategy and, as a rule, they determine resources allocation provision throughout all the way for achieving the goal.

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