Restructuring of Businesses of Oil and Gas Industry as a Tool to Increase Competitiveness of a Region

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Abstract: The author presents analysis of prerequisites of stirring up regional competition and lists criteria, terms and factors that provide competitive advantages on regional level. She defines methods to increase competitiveness of a region according Michael Porter theory. She points out the fundamental role of oil and gas industry in the development of Tyumen region economy and gives arguments to prove the dependence of competitiveness of the region from competitiveness of companies operating on its territory. Restructuring is marked as one of the important tool to increase competitiveness of separate businesses and thus competitiveness of a region as a whole. The businesses of the oil and gas industry encounter a number of problems carrying out structural transformations. These problems are listed in the article together with theoretical and methodical applicable restructuring tools. To make decisions about structural transformations of integrated oil and gas companies they are suggested to be considered as complexes of business-units. There are also recommended various indicators for restructuring companies with these objectives. Criteria of evaluation of structural transformation effectiveness are classified and adapted to special features of operation of oil and gas companies. The author proposes the order of steps of development of the concept and the program of restructuring of a company and shows expected results of realization of restructuring of oil and gas companies for a region.

Key words: Competitiveness - Region - Restructuring - Oil and gas business - The concept of restructuring

INTRODUCTION

Globalization of economic development, scientific and technical progress, computing becoming as ubiquitous service, ecological standards of living becoming more and tougher, increase of a person and a capital mobility are objective prerequisites of stirring up competition on regional level. Standard of living and potential of a region (human resources, industry and natural resources, finance, a basis for innovations, etc.) are traditionally considered as the most important criteria of region competitiveness. Standard of living and the potential of a territory are in turn deeply dependent on operational efficiency of business entities of a certain region [1].

This may be proved by theoretical approach to definition of the main concepts of territorial competition. In particular M. Porter says that strong economy of a territory is formed by advanced companies that use innovations to get competitive advantage [2]. According to the other theory regional competitiveness may be boosted by reinforcement of competitive positions of clusters concentrated in a certain territory with increasing confrontation between these clusters [3]. One may speak about a certain correlation between competitiveness of a territory and the operating efficiency of the companies operating in this territory [4]. So strengthening of competitive position of a region may be achieved by increasing the effectiveness of operation of these business entities.

Advances in development of any region as a necessary condition of provisioning competitive advantages may proceed in two main threads: highest possible concentration of resources in core industries and development of economic complex of a region (the complex of industrial components interrelated and interdependent in the scope of a certain territory).
For Tyumen region for example one on the core industry is oil and gas. Oil and gas business of the region are in most cases city-forming that makes the task of improvement of their operational results to improve competitiveness of separate territorial entities and the region as a whole even more pressing [5].

To improve effectiveness of operation of businesses and companies of any industry and in particular oil and gas companies it may be recommended now to carry out restructuring as one of the most effective mechanism that allows dramatically improving operational results of business entities. The need of structural transformations of oil and gas businesses is caused by the fact that despite some positive trends in development of a modern oil and gas industry the great number of problems of oil business entities operation remain unsolved. One of the most important factors that caused this situation is that the structure of big oil and gas companies had been formed not as the result of market forces but forcedly in the period of their going public. As a result their corporate portfolios are “overloaded” with non-core and unprofitable assets [3]. It leads to high level of spending and reduce profitability of some businesses.

There is a certain disproportion in operating of oil and gas businesses now caused by unpractical structure. Low utilization level of facilities in hydrocarbon resources processing and insufficient compensation of oil extraction prove that extraction is prevailing in the companies’ structure and it is also prevailing component of their development strategies [6]. At the same time the focus is being shifted to the necessity of changing export and resource direction of development of oil and gas companies.

Effective realization of structural transformations of business entities is hampered now. The processes of structural transformation of oil and gas companies are often occasional and fragmentary while restructuring requires the complex system of radical structural transformations. The great number of measures undertaken in the scope of restructuring programs may be considered as current activities to increase the effectiveness of oil and gas companies operation. Restructuring methods that are realized in the companies comprise mainly deployment of corporate IT and spin-offs of non-core assets [7, 8]. But there is a complex of possibilities on streamlining the corporate structure (quality management systems, ABC / ABM methodologies, etc.) that may be effectively used to increase competitiveness of companies [9].

Such a diversion between the practical realization and theoretical principles of restructuring are mainly caused by the fact that existing methodological basis of structural transformation processes management is odd and the industry specifics is not fully covered in it [10]. Besides the system of concepts for management traditionally emphasize financial aspects in solving the main concepts of restructuring while structural and technological transformation are paid insufficient attention.

Classification of definitions of restructuring should be based on the consideration that it is a complex of one-time, interconnected, dedicated structural and technological transformations aimed on improvement of effectiveness of business entity functioning. This in turn allows saying that restructuring is the main way (method) of reforming the company because reforming unlike restructuring is a gradual progressive transformation of a system by deployment of any innovations while keeping the main features intact. Reorganization is one of the mechanisms of restructuring of a company because it is applied mainly in the stage of changing organizational or technological management structure as well as closing down of a business that means that in its realization there prevail organizational and managerial aspects of transformation while restructuring has a complex nature.

To make valid decisions about structural transformations of integrated oil and gas companies it is reasonable to consider them to be complexes of business-units that may be classified basing on different indicators: system management level (holding, joint-stock company, concern and production association, structural unit); core activity (exploring, extracting, oil refining, petrochemistry, sales of oil products, etc.); geographical segment (for example, Western Siberia, European Russia, foreign territories); type of business structure units; financial state of assets; strategic nature of assets; operational control possibility; business form. These indicators may be used to make comprehensive diagnostics of corporate structure and as a result to define objectives of restructuring (and later criteria of decision making) considering separate structural units. Besides, this multi-dimensional structuring of businesses and companies allows using wide scope of methodical tools to form the concept and the program of their restructuring [8].
Fragmentation of existing approaches to forming of criteria basis of discovering the need and evaluation of efficiency of restructuring, the need to adapt it to the terms of functioning of complex oil and gas companies decrease the effectiveness of making decisions on structural transformations. Criteria for oil and gas companies may be as follows: business value indicators (forecast and changing of market value comparing current value, difference between market value and book value of the business, etc.), indicators of the balance among technological chain elements (crude reserves comparing the average value in competing companies; oil extracting compensation; coefficient of oil self-provisioning; utilization level of facilities in all stages of technological chain; coefficient of facilities provisioning; the depth of processing of hydrocarbon product) and the corporate portfolio quality (non-core and non-profitable assets share; profitability level of a separate business-units; their growth rate) [10]. This system of indicators is recommended to use to ground the need and reasonability of restructuring as well as to evaluate the effectiveness of structural transformations.

To carry out restructuring of oil and gas businesses it is also necessary to reason the order of steps including analytical work, making decisions on selecting preferable variants of restructuring as well as the measures on realization, control and evaluation of implications of structural transformations. Classification of some aspects of restructuring theory and their application to the terms of functioning of the industry entities allows the author to provide general order of procedures of development of concept and program of restructuring of oil company (Fig. 1). Suggested algorithm unlike existing methods is formed considering presented earlier specific features of structuring of vertically integrated oil and gas companies and reasonable criteria basis.

These methodical approaches and ways are the most applicable in carrying out restructuring of oil and gas businesses. But their list may be substantially extended.

So development and realization of restructuring projects for the companies of oil and gas industry using relevant theoretical and methodical basis are necessary
to increase the effectiveness of operating of industrial business entities. It leads to minimization of cost per unit for hydrocarbon product extracting by discovering and elimination of imbalances (unused facilities) in technological chain, economy of scale (synergy, information effect, etc.), increase profitability, optimizing corporate business portfolio [10].

As a result companies start to generate greater cash flow and consequently increase amount of financial assessments and budget payments including payments to regional budget. As a result regions get additional resources to fund social and economic programs of regional development with the main aim to improve living standards of the people that is as mentioned earlier is the main component of competitiveness of a region.

REFERENCES