

**ESTIMATION OF EFFICIENCY OF THE STRATEGIES DISCLOSED IN OIL COMPANIES'
INTEGRATED REPORTING BASED ON THE ECONOMIC SECURITY INDICATORS**

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Abstract. The article is devoted to the practical aspects of estimating efficiency of major Russian and American oil companies development strategies. The integrated reporting was taken as the base for the analysis. For the research calculations, we selected several financial and non-financial economic security indicators, which were disclosed in the strategies as the ground for company's sustainable development. Further, these indicators were compared in dynamics for the past 5 years and the average of variations parsed to the integrated coefficient of strategy efficiency. In conclusion, we analyzed the results for both companies and were able to identify a more efficient strategy. The goal of the article is to present integrated reporting as an efficient tool in analysis of an oil company's strategy based on economic security indicators.

Key words: strategy efficiency, oil industry, economic security, integrated reporting, ExxonMobil, Rosneft.

1. INTRODUCTION

Integrated reporting is a type of reporting, which, in addition to complete and reliable information about the company, contains information about the strategic plans of the organization in the future and the prospects for its activities.

In the modern world, the oil industry is rightly assigned the role of one of the driving forces for the growth of the world economy and the development of world energy; guarantee of significant funds to the state budget, ensure the vital activity of all sectors of national economy, as well as economic, political and social security of the society (Busco & Frigo, 2013).

Undoubtedly, a successful business strategy is the basis for functioning of any organization, but effective strategic planning in the oil industry is also necessary because of the special importance of this sector for the world community. The strategic mistakes of such companies not only cost themselves too much, but also become prerequisites for a multitude of negative processes in the society. Therefore, ensuring economic security of oil companies is a priority in their strategic development.

The purpose of our work lies in the area of comparative analysis of strategies for the major oil companies ExxonMobil and Rosneft, disclosed in their integrated reports. The subject of the study is devoted to the aspect of assessing the effectiveness of strategies based on a number of economic security indicators, selected for the industry in our previous studies (Kaspina & Molotov, 2016).

2. METHOD

In the literature, there are two opposing views on understanding the strategy. In the first case, strategy is a concrete long-term plan for achieving a certain goal. This approach is based on the fact that all the changes are predictable, the processes are deterministic and can be fully controlled and managed. In the second case, the strategy is understood as the chosen direction of activity, which should lead the organization to achieve its goals (Kaspina, 2013).

In the business community, a strategy is understood as a general concept of how the organization's goals are achieved, the problems it facing are solved, and the limited resources necessary to complete these tasks are distributed. This concept is consistent with the second type of strategy and the principles of economic security (Brown & Dillard, 2014).

A strategy of an oil company consists of determining the scope of activity (at the initial stage or in case of expansion), selecting competitive advantages, regions of presence and target audience (clients), determining

the main priorities and strategic goals of the company for realization of its main activities (figure 1). Since the mid-1960's, oil companies use the methods of so-called "scenario planning", which is explained by their desire to understand how events will evolve; what will be represented by economic, political and social conditions in determining their own goals and strategies; and planning long-term investments (Ismagilov & Khasanova, 2015).



Figure 1. The elements of an oil company development strategy

As a rule, strategies development in the oil and gas sector are oriented for a period of 10 to 15 years, due to the long-term orientation of the companies' investment projects (Kaspina & Shneydman, 2013). Ultimately, the main goal of any strategic planning is to achieve certain financial results, and as it is the strategic goals of the company that are the most indicative criteria of economic security, they are the main object of our study. Among the unconditional goals of ensuring economic security, noted in the strategies of most oil companies, we can especially note the increase in volume of oil production, resource base, capitalization, revenue and net profit.

3. RESULT

Initially, we faced a difficult task, since it is quite difficult to assess the effectiveness of the strategies of selected companies due to a number of objective factors. First of all, the companies are residents of different countries, respectively, they have significant differences in economic, political and social climate, the breadth of range of production activities and services, financial indicators, ambitious mission of the company and, as a result, in the purposes and tasks of strategic planning and provision of economic security.

We limited ourselves to a comparative analysis of parts of integrated reports on company strategy, identification of common elements of strategic planning

and evaluation of their effectiveness (regardless of the time of adoption of a strategic plan) for key indicators of economic security. Among them we have chosen indicators of stability of capitalization growth, production volume, oil production, income, net profit, and proven oil reserves. In this case, the years from 2012 to 2016 inclusive are taken as the period under study.

Established in 1999, the US company ExxonMobil is the largest private oil and gas company in the world and it is always among the leaders in terms of market capitalization. The company was formed as a result of merger of Exxon and Mobile companies. The main owners of the company are investment funds, institutional and private investors.

The interests of the company extend to almost all markets associated with oil and gas production, including exploration of reserves and production of oil and gas in 40 countries on 5 continents; processing and production of petroleum products, transportation and sales, as well as scientific developments (for the last 5 years, the company has invested more than \$ 7 billion in the development of new technologies).

Nevertheless, the global economic crisis has affected this giant, for the first quarter of 2009, the company's profit decreased 2.5 times compared with the same period in 2008. Despite this, the company remains the flagship of the global oil and gas industry. Due to wide diversification of business, the company's shares were less affected by the collapse of the oil market at the end of 2010 too.

The strategy of ExxonMobil is based on "Forecast of Energy Development until 2030", prepared by the company's specialists. The main characteristics of this document are an increase in global demand for energy by 60% from 2010, the statement that oil, gas and coal will be in demand as the main energy resources with expected rapid (about 10%) increase in the use of biofuels.

Compared to other energy forecasts, the ExxonMobil specialists' evaluations are interesting primarily because they are not an abstract guide, but are created as a component of long-term business planning within the framework of an integrated report taking into account the conditions for ensuring the economic security of the enterprise.

Based on the data from the integrated reports of recent years, ExxonMobil plans pursue the following strategic policy:

- Investing about \$ 250 billion over the next 5 years to equip drilling platforms and oil refineries.

The investment of the oil company in 2015 was 64 cents for every dollar earned. In 2010, this figure was 42 cents. Nevertheless, capital expenditures of \$ 34.1 billion committed last year could not stop the fall in oil and gas production by 3%;

- investing more than \$ 30 billion in oil and gas exploration and production projects.

ExxonMobil launched nine new projects as early as 2015. This will allow the company to produce an additional 500 thousand barrels a day. Among these projects, we can mention the agreement on joint exploration with the Turkish oil company of promising deep-sea sites in the Mediterranean.

Let us present the comparative data of the basic indicators of activity of company ExxonMobil in dynamics in the period 2012-2016. (Table 1).

Table 1: The main performance indicators of ExxonMobil for the period 2012-2016

Indicators	2012	2013	2014	2015	2016	2016/2012
Capitalization, bln \$	344,011	346,808	349,493	336,758	330,314	-3,98%
Extraction of hydrocarbons, mln barrels / day	2,580	2,621	2,660	2,740	2,671	+3,52%
Total income, bln \$	401,118	420,836	394,105	259,488	218,608	-45,5%
Net profit, bln \$	30,260	32,580	32,520	16,150	7,840	-74,09%
Proved hydrocarbon reserves, bln barrels	21,700	22,400	22,800	22,800	23,300	+7,37%
Capital expenditures and investments, bln \$	26,143	28,256	30,562	31,984	34,125	+30,53%

The ambiguous strategic policy of ExxonMobil, but coupled with high production performance, led to the fact that in 2016 the company's business activity results were still among the highest in the industry. Although revenue fell by almost half in comparison to 2012 and amounted to \$ 218.488 billion and the net profit dropped even more, the introduction of new capacities for all projects increased the production volume by an average of 91,000 barrels per day of oil equivalent; the replacement level of company's reserves has exceeded 100% of the production volume for 15 consecutive years; and the growth of explored oil and gas areas has increased by approximately 30%. Proved hydrocarbon reserves of the company also increased by 7.37% during the period under study, and daily production - by 3.52%.

Over the next five years, ExxonMobil's expects investments to reach \$ 30-40 billion annually, and by 2020 to reach a record level of \$ 40 billion. The increase in capital investments for the period from 2012 to 2016 amounted high - up to 30%.

Based on the data received from the integrated reports, in general, the development strategy of ExxonMobil can be characterized as the use of long-term prospects for increasing share capital through risk management, which fully corresponds to the concept of ensuring economic security of a large company.

ExxonMobil is building its strategy to focus on possible events, assessing the long-term outlook for the energy market, and extracts (benefits) from them (prospective events).

Next, we study the Russian company Rosneft - the largest oil organization in our country. In addition to oil and gas production, the company is engaged in processing and has one of the largest networks of gasoline stations. It is formed in 1983 on the basis of the Ministry of Oil and Gas Industry.

The strategic goal of Rosneft is to become one of the world's largest energy corporations, to become the industry leader in terms of production and financial indicators, subject to strict compliance with high standards of environmental and industrial safety, social responsibility and corporate governance. The management of Rosneft expects to achieve this goals by increasing the volume of production, processing and marketing of products in Russia and abroad; using new technologies; managing the company effectively; strengthening financial discipline and maintaining economic security at an acceptable level.

According to the “development strategy 2030” of the company, the main tasks are to raise the level of oil production to 1,600 million barrels, the volume of gas production is planned to increase to 60 billion m³ by 2020 if favorable conditions are maintained. In the short term, the growth will mainly be ensured by further development of the fields of Western Siberia and Pechora, the traditional regions of the company's operations. In the medium term, Eastern Siberia should become the key development region of the company.

Projects for the development of the Okhotsk Sea shelf represent one of the most promising sources of sustainable growth in hydrocarbon production for Rosneft in the long term. Taking into account exploration work in the framework of Sakhalin projects and the development of the Kamchatka Peninsula shelf, we can say that these projects are turning Rosneft into the main player in the Far Eastern energy market.

At the same time, Rosneft plans to expand and modernize its own network of gas stations, which will allow the company significantly increase its share in the dynamically developing Russian retail oil products market.

Table 2: The main performance indicators of Rosneft for the period 2012-2016

Indicators	2012	2013	2014	2015	2016	2016/2012
Capitalization, bln rub.	6718	7531	8736	9642	11030	+64,19%
Extraction of hydrocarbons, mln barrels / day	1,570	1,630	1,690	1,780	1,700	+8,28%
Total income, bln rub.	4218	4694	5503	5150	4988	+18,26%
Net profit, bln rub.	561	549	348	355	181	-67,73%
Proved hydrocarbon reserves, bln barrels	23,400	23,700	24,200	25,300	27,100	+15,81%
Capital expenditures and investments, bln rub.	476	553	701	813	973	+104,4%

As can be concluded from Table 2, the strategy chosen by Rosneft led to the fact that all main indicators of the company's economic security for the period from 2012 to 2016 are positive (except for the net profit, which is caused by growth of capital expenditures and investments) and demonstrate an uneven spasmodic growth. Thus, the level of daily production rose by 8.28%, while the company's capitalization by 64.2%.

In general, Rosneft's strategy can be considered successful. According to the company's integrated report, in the strategic perspective, the company's economic security is maintained at the proper level due to further growth of capitalization, production and proven hydrocarbon resources, the connections with the state government and, accordingly, the company's financial resources, as well as the world's richest oil and gas fields, developed by the company.

4. CONCLUSION

Evaluating the effectiveness of strategic planning is a complex task due to its integration. The problem is that the strategy is effective from a subjective point of view of the participant of business process and it is efficient if meets the interests of this participant showing certain expected results. Nevertheless, for the selected indicators of economic security, we have created the table 3 of their changes over the past 5 years to assess the effectiveness of strategies in the medium term with the integrated formula 1:

$$SE = \frac{\Delta C + \Delta HE + \Delta TI + \Delta NP + \Delta PHR + \Delta CEI}{6}, \quad (1)$$

where SE is the effectiveness of the strategy;

ΔC - change in capitalization, %;

ΔHE - change in hydrocarbon production volume, %;

ΔTI - change in total revenue, %;

ΔNP - change in net profit, %;

ΔPHR - change in the volume of proved reserves of hydrocarbons, %;

ΔCEI - change in capital expenditures and investments, %.

Table 3: Comparative analysis of the growth of the main economic indicators of ExxonMobil and Rosneft

Company	Change for the period from 2012 to 2016					
	Capitalization	Extraction of hydrocarbons	Total income	Net profit	Proved hydrocarbon reserves	Capital expenditures and investments
ExxonMobil	-3,98%	+3,52%	-45,5%	-74,1%	+7,37%	+30,53%
Rosneft	+64,19%	+8,28%	+18,26%	-67,7%	+15,81%	+104,4%

To date, in our opinion, based on the data analyzed in the integrated reports and the quantitative evaluation received, a more effective strategy is presented by Rosneft with the value of SE coefficient equal to

+23.87% vs. ExxonMobile's -13.69%. Long-term strategic planning of this company allowed to successfully pass the verification of the world economic crisis and not only show stable growth, but also stay in positive trends for all the main indicators of economic security, chosen as the main ones in this study for the oil industry.

5. DISCUSSION

In addition, we also formed a number of relative assumptions about the strategies disclosed in the companies' integrated reports:

- despite the differences in the goals and objectives of strategic development due to different characteristics of the companies themselves, an important element of the strategic planning in the aspects of economic security of both companies is the increase in volume of investments in development of new technologies and geological exploration as well as improvement of major economic security financial indicators;

- despite the fact that the goals and objectives envisaged by the strategies of companies in integrated reports are close ideologically and organizationally, their application can bring the greatest effect only if the concept of the strategy is constructed on the basis of a long-term plan for the development of world energy;

- the development of international cooperation and establishment of joint ventures is one of the priority activities of both oil companies;

- from the analysis of the strategy in integrated reports it follows that there is an obvious focus of the companies' policy on stimulating investments in development of alternative energy sources.

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