SOFT INTERACTION OF LARGE BUSINESSES AS A SECURITY
CONDITION OF ITS OPERATION AND DEVELOPMENT IN THE
NORTHERN REGION

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Abstract

Purpose: The aim of the research is to identify social interaction of large businesses as a security condition of its operation and development in the northern region.

Methodology: This is descriptive-analytic research whose data are obtained through library studies and analytical resources. Data analysis is based on content analysis and analytical comparison.

Result: Results showed that to improve the safety of large businesses in the Northern region continuous socially-oriented activities aimed at improving the quality of life of the population of the region of presence with the support of various social initiatives in the region of presence are required.

Applications: This research can be used for businessmen and developers.

Novelty/Originality: In this research, the model of social interaction of large businesses is presented in a comprehensive and complete manner.

Keywords: security, large business, social interaction, oil and gas companies.

INTRODUCTION

In the last few decades, the social responsibility of organizations, the new concept of the business world has become an integral part of corporate activity. So that firms can no longer only think of raising profits because they have other stakeholders, other than their owners and shareholders, whose interests should be taken into account. The measures taken to satisfy these stakeholders are related to the organization’s social responsibility. Activities in the field of social responsibility follow three goals simultaneously: moving according to community expectations, minimizing or eliminating negative environmental impacts, while preventing the company from being harmed. Oil companies, which have played a significant role in the world economy over the last two centuries, are one of the areas of interest for researchers in this area because of their high economic, political, social and environmental outcomes. Therefore, the importance of CSR for oil companies is twofold. Meanwhile, multinational oil companies are more pressured by communities and organizations to focus on their extraordinary responsibilities. Large international companies have a social responsibility and, depending on the country of activity and time, they take various measures in this area.

Over the past decade, Russian big business accumulated a lot of problems requiring immediate solutions. Their emergence was facilitated not only by geopolitical factors (the global financial crisis of 2008-2009, a sharp drop in world oil prices, economic sanctions of western countries), which affected, first of all, large national oil and gas companies. In many ways, these problems are associated with the pressure that big business experienced at the national and especially regional levels from the territories in the face of the regional business community, local authorities and the population, whose role and importance in the Russian economy increased significantly. Today, the subjects of the territories where large companies carry out their business activities require large businesses to reconsider the entire system of economic and social relations.

In our opinion, this eventually led to the fact that the traditional attributes of large business (scale effect, cost savings, prospects for monopoly profits due to low competition, the conquest of new regional markets, opportunities for expansion of production, etc.), acting as its inherent advantages, became riskier, requiring some protection and system update. Hence, at the national level for large business structures, the need to ensure the safety of their activities comes to the fore [Pathak, et al., 2017].

METHODOLOGY

This is descriptive-analytic research whose data are obtained through library studies and analytical resources. Data analysis is based on content analysis and analytical comparison.

RESULTS

In the short term, tactical goals are of paramount importance for large business entities, which is not fully related to social processes, as organizations in this case only follow the conjunctural trends of changes in the external environment, trying
not to approach the critical security threshold. At the same time, in the medium and long term, large business fills its strategic goals with social content, which makes it possible to provide the necessary level of security [Downie, 2018; George, et al. 2018]. Strategic goals force large business structures to implement five main types of social interaction in the territory where they conduct their business activities:

- Interaction between themselves manifested as competitive;
- Interaction with local business structures (most often, medium, small and micro-enterprises) in the form of creation of various associations and associations of entrepreneurs, “adoption” of economic entities of the “second-tier”, etc. in the region;
- Interaction with ethnic business structures headed by representatives of diasporas, which were formed on the territory of the region;
- Interaction with local authorities;
- Interaction with the regional society represented by the population of the region.

The availability of a resource base for the implementation of such interactions gives large business structures the opportunity to influence the social climate both locally and in the region as a whole. It is carried out both directly – through the improvement of the situation in the labor market, participation in the joint policy of “full employment” with the authorities, charity, sponsorship, patronage, etc., and indirectly – through the formation of the revenue part of the regional and municipal budgets, going to solve urgent social problems of the territory, the implementation of investment projects of non-productive nature, various forms of social partnership, etc. [Ameen, et al. 2018; Button, 2017].

Having as an imperative its ensuring security, a large business in modern conditions plays the role of a kind of “social absorber”, mitigating the impact of negative factors and processes on the life of Russian regions through socially-oriented activities. During the economic downturn, it localizes the destructive impact on the standard of living of the regional society caused by a reduction in the real volume of gross product, a decrease in business activity and wages due to the above-mentioned social compensators. In times of economic growth, large business contributes to the strengthening of the trend of formation of the “middle class” in the region, makes available a significant number of goods and services for all groups of the population, soothes the differentiation of incomes of different social strata, as evidenced by the decline in the Gini index and the decile coefficient [Figueiredo and Tiller, 2001; Golonenko, et al. 2017; Hansen, et al. 2005].

It should be noted that in the scientific literature the problem of safety of large business structures of oil and gas profile is mainly considered in the aspect of interactions occurring within them. Indicators of such interactions of the internal environment of large oil and gas companies are financial stability, profitability, use of fixed assets, personnel policy of the company, etc. [Hemphill and White, 2018; Johnstone, et al. 2017]. It is on the basis of the values of the latter an integrated assessment of the level of security of large business as an internal balance of its production and personal factors is given. As for the interactions in the external environment, they have been given less attention for a long time. This, in our opinion, is due to the fact that many oil and gas companies and their headquarters until recently were located in the areas of hydrocarbon production, relations with the local business community, authorities, and society (population) are built and stable, and the areas of industrial development are clearly divided. The role of the external environment and the social interactions taking place in it started to grow when oil and gas companies began to change their legal addresses from the periphery to megacities (Moscow, St. Petersburg, etc.). This gradually weakened the existing intra-regional relations of large business structures with the above-mentioned entities of the Northern territories, complicated and made their management more expensive, deprived the company of a number of competitive advantages and exacerbated the interaction of the latter with each other.

In the course of the described above interactions of companies in the external environment, according to the authors, the following risks may appear (Figure 1).

According to RCSPO research [Koriakina and Kulakova, 2015], managers of large companies perceive only the last two groups as critical risks, in particular, the actions of Antimonopoly authorities, undesirable legislative changes and restrictions, and of course the risk of the first group - market changes. Nevertheless, a more detailed analysis of risks by types of social interactions reveals more tactical than strategic approach of management of large companies participating in the survey.

Thus, a more rigid interaction of large business structures of oil and gas profile among themselves is expressed in the indicators of their competitiveness, which give a known idea of the level of safety of this company’s operation (Table 1). In general, the data analysis of Table 1 shows that all three companies are major representatives of the oil and gas production in the market, have a wide range of sold products, allocate significant amounts of funds for both R & D and environmental protection. However, there are clear leaders on some important indicators. Thus, PJSC “Gazprom” has the highest level in terms of EBITDA, production, proven reserves, market share in gas production. PJSC “NC “Rosneft” is the leader on volumes of processing of raw materials, expenditure on R & D, the expenditure on environmental protection, as well as on the share in oil production in the country.
Figure 1: Risks of large business functioning in the external environment by types of interactions [Koriakina and Kulakova, 2015]

Table 1: Indicators of competitive interaction of large oil and gas companies

<table>
<thead>
<tr>
<th>Indicators of competitiveness</th>
<th>PJSC “GAZPROM”</th>
<th>PJSC “LUKOIL”</th>
<th>PJSC “NC “Rosneft”</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA, billion rubles</td>
<td>1467</td>
<td>832</td>
<td>1403</td>
</tr>
<tr>
<td>The volume of production, mln. bbl. o.eq. / day</td>
<td>9.7</td>
<td>2.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Level of proven reserves, billion barrels o.eqv.</td>
<td>130</td>
<td>16</td>
<td>46.5</td>
</tr>
<tr>
<td>The volume of processing of raw materials, million tons</td>
<td>64.1</td>
<td>67.2</td>
<td>100.6</td>
</tr>
<tr>
<td>R&amp;D costs, billion rubles</td>
<td>26.3</td>
<td>5.8</td>
<td>29.9</td>
</tr>
<tr>
<td>The of environmental protection costs, billion rubles</td>
<td>70.8</td>
<td>42.4</td>
<td>102</td>
</tr>
<tr>
<td>Share in Russian oil production, %</td>
<td>11</td>
<td>15</td>
<td>41</td>
</tr>
<tr>
<td>Share in gas production in Russia, %</td>
<td>68</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Product range</td>
<td>Wide</td>
<td>Wide</td>
<td>Wide</td>
</tr>
<tr>
<td>Share of the state in the share capital structure, %</td>
<td>50,230</td>
<td>0</td>
<td>50,001</td>
</tr>
<tr>
<td>Period of the enterprise existence</td>
<td>Since 1993</td>
<td>Since 1991</td>
<td>Since 1993</td>
</tr>
</tbody>
</table>

Note. Table 1 is made by the authors themselves on the basis of the analysis of sources [Lamb, e al. 2017; Murmura and Bravi, 2018; Mwaniki & Ondiek, 2018].
At the same time, regarding the competitiveness indicators of PJSC “LUKOIL”, it should be taken into account that the company is private, while the other two have a state share in the structure of their share capital exceeding 50%. Of course, this affects the degree of aggressiveness of the external environment, making a private oil and gas company less protected.

Let us note that the strengthening of competitive interaction forced oil and gas companies to expand significantly its product range (by 15-20%). Today, according to this indicator, they can distinguish the following products:

- PJSC “Gazprom”: oil, gas, diesel fuel, automobile gasoline, fuel oil, sulfur, LPG, aviation fuel, mineral fertilizers, oils, polymers;
- PJSC “LUKOIL”: oil and gas, oils and bitumen, petrochemical products, motor fuel, gasoline with octane number from 92 to 100, diesel fuel, premium fuels ECFU, bunker fuel, aviation kerosene;
- PJSC “NC “Rosneft”: oil, gas, diesel fuel, motor gasoline, fuel oil, naphtha, kerosene, petrochemical products, aviation fuel, oils.

The authors selected indicators reflecting social well-being and standard of living of the population of the Khanty-Mansiysk Autonomous Okrug (Table 2).

**Table 2:** Dynamics of indicators of economic security of large oil and gas companies by the criterion of their interaction with the population in the Khanty-Mansiysk Autonomous Okrug

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Measure unit</th>
<th>Years</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population size</td>
<td>thsd people</td>
<td>1597, 2; 1612, 1; 1626, 8; 1646, 1; 1655, 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees</td>
<td>thsd people</td>
<td>855; 874,3; 877; 876,7; 886,8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of unemployed</td>
<td>thsd people</td>
<td>43,7; 42,1; 40,5; 41,7; 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment rate</td>
<td>%</td>
<td>95,1; 95,4; 95,6; 95,5; 96,7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>%</td>
<td>4,9; 4,6; 4,4; 4,5; 3,3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of economically active population in total population</td>
<td>%</td>
<td>56,3; 56,8; 56,4; 55,8; 55,4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of pensioners</td>
<td>%</td>
<td>23,7; 24,4; 25,1; 25,6; 26,1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of population with cash income below the subsistence minimum</td>
<td>%</td>
<td>10,7; 10,9; 12,8; 13; 12,6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of registered crimes</td>
<td>units</td>
<td>2522; 2414; 2378; 2259; 2264</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of registered crimes per 100,000 population</td>
<td>unit/100000</td>
<td>1586; 1504; 1469; 1381; 1368</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note. Table 2 is made by authors themselves on the basis of the analysis of sources [Neustroev, et al. 2016; O’Connor, et al. 2017].

Analysis of the indicators dynamics of the table 2 for 2013-2017 testifies to the deterioration of a number of parameters of social well-being of the regional society: low birth rate and the share of economically active population, the growth of the number of pensioners and the population living below the subsistence level, the high proportion of registered crimes. It is obvious that it is impossible to improve the social situation in the Khanty-Mansiysk Autonomous Okrug only through loyalty programs (charity and sponsorship), where the mediator between large oil and gas companies and the Northern population, including indigenous people (Khanty, Mansi, Selkups, Nenets, etc.), are again local authorities. This work should also be carried out through social and religious organizations and movements, charity events, political parties, ethnic communities, diasporas, etc.

An important condition for the safe functioning of large business structures is their interaction with the population of the region of presence [Onel and Fiedler, 2018]. Its number, national composition, the share of employed and unemployed, the share of the poor, pensioners and economically active part of the population, the number of registered crimes and protests – these and other indicators integrally reflect the social well-being of the regional society, which can seriously affect the functioning of oil and gas companies here. The latter should be able to build relations with the local population properly, take into account its interests in the conduct of regional policy, as much as possible to attract northerners to their side, targeted helping them.

The activities of large oil and gas organizations should contribute to the sustainable development of the region of presence – “reducing the dependence of the territory on the world energy market, increasing competitiveness in the world market of hydrocarbon products” [Popescu, 2018], which in turn will have a positive impact on the risks of its operation. One of the vectors of leveling internal and external risks of business functioning is the work in the sphere of social responsibility. Social responsibility of business includes the responsibility of the employer to the staff for its health,
development, and safety; responsibility of the manufacturer for the quality, properties and usefulness of its goods and services; responsibility of organizations in interaction with the authorities and the local community in solving socially significant problems; environmental responsibility, which is especially important for the oil and gas industry [Shirvani, et al. 2015].

Stakeholders are individuals and legal entities, government agencies, etc., that are interested in interacting with enterprises by obtaining various preferences from its operation. To demonstrate their participation in the development of areas of presence and compliance with the conditions of competitive business large corporations resort to the preparation of non-financial reports – to date, the global trend for successful organizations. In the reports, organizations accumulate information about their work in the social and environmental spheres in the context of strategic objectives [Simonov, et al. 2015]. In Figure 2 the information on the directions of social responsibility of the considered oil and gas organizations is presented.

It should be noted that PJSC “LUKOIL” and PJSC “NC “Rosneft” on the index “Responsibility and openness”, calculated by RUIE, belong to the group leaders (group A – more than 0.65) in the area of information disclosure, and PJSC “Gazprom” to the group B – excess of 0.45, which indicates a high level of transparency strategies for companies in the field of corporate social responsibility and expansion of the indicators to be placed in public records. According to the index “Vector of sustainable development,” all three companies are located in the group of leaders [Widad, et al. 2017].

![Image](image.png)

Figure 2: Social responsibility directions of oil and gas companies [Yazdekhasti, et al. 2015]

Without further work in the field of expanding social responsibility directions, it will be impossible to create a favorable climate for the safe functioning of the organization in the territory of presence due to the fact that a positive business reputation is an integral attribute of successful work.

It is obvious that it is very difficult to compare oil and gas companies in terms of social impact on the regions of their presence, as their financial capabilities are far from being equal. In our opinion, the relative indicator is more accurate, it is calculated as the ratio of the cost of social programs and projects in the areas of oil and gas production with the annual net profit of the business structure (Table 3).
Table 3: Comparative assessment of the level of security of large oil and gas companies by the criterion of their interaction with local authorities in 2017

<table>
<thead>
<tr>
<th>Indicator</th>
<th>PJSC “GAZPROM”</th>
<th>PJSC “LUKOIL”</th>
<th>PJSC “Rosneft”</th>
<th>“NC”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs of social programs and projects in the region, billion rubles</td>
<td>26,3</td>
<td>9</td>
<td>8,3</td>
<td></td>
</tr>
<tr>
<td>Net profit, billion rubles</td>
<td>100,3</td>
<td>419</td>
<td>297</td>
<td></td>
</tr>
<tr>
<td>Relative indicator, %</td>
<td>26,2</td>
<td>2,1</td>
<td>2,8</td>
<td></td>
</tr>
</tbody>
</table>

Note. Table 3 is made by authors themselves on the basis of the analysis of sources [Neustroev, et al. 2016; O’Connor, et al. 2017].

According to table 3, despite the low annual net profit relative to the other two companies, PJSC “Gazprom” is the most interested in cooperation with local authorities and in the socio-economic development of the region of its presence. The allocation of such large amounts can afford not all international companies even with greater capitalization. The interaction of large companies with medium-sized businesses is also becoming important. Over the past decade, many vacant market niches have been occupied by “second-tier” businesses that are more flexible and receptive to change, “fused” with local authorities and supported by the population of the region. It is symptomatic that even the strategy of the “second-tier” business has changed – from the strategy of survival to the strategy of “muscle building” and regional success.

Successfully operating in the entire regional space, business structures of the “second-tier” not only directly serve large companies and perform the same structural function in the real sector of the region’s economy, but also effectively compete with them, as well as work with the local population in terms of final demand. In addition, the local business community, adhering to the proven niche strategy, builds a sales system so that transport and warehouse logistics cover the largest possible territory of the region, which contributes to the displacement of large companies by business structures of the “second-tier”.

Since the 60-ies of XX century, the Northern territory of Tyumen region began to develop actively in connection with the beginning of the development of oil and gas fields, which was the impetus for the invitation of workers and specialists from different regions of the country. With the existing national structure of the residents of Tyumen region, interaction with the Diaspora business is important and effective. The formation of ethnic business in Tyumen region as a whole and its Northern territories, in particular, is associated with qualitative changes in the structure of external and internal migrants, representing non-immanent ethnic groups in the region: the Chinese, the Tajiks, the Kyrgyz, the Uzbeks, the Armenians, the Azerbaijanis, the Georgians, the Ingush, the Chechens, the Dagestanis, etc. (Fig.3).

Figure: 3 Dynamics of the share of ethnic migrants in the segments of the labor market of the studied region for the period 2012-2017

During the period under review, the proportion of migrants with education and skilled labor (by 4,71 times) grows significantly, increasing the competition. The supply of unskilled labor decreased by 1,4 times, while the supply of unskilled labor decreased by 1,1 times.

It should be said that some ethnic communities, such as diasporas (Azerbaijani, Georgian, Kazakh) or countrymen (Chuvash, Mordovian, Belarusian), settled in the region a long time ago. However, their representatives over the years of living here so absorbed the local customs, habits, and traditions (as they say, “Russified”) that their economic activities, including business, are unlikely to carry the specifics of a particular ethnic group. The process of formation of ethnic business in the region accelerated in 2014, when there was a sharp devaluation of the ruble and a total increase in prices, primarily for consumer goods and services. This led to the devaluation of the labor income of ethnic migrants, most of whom used the received rubles to buy freely convertible currency (most often the US dollars). As a result of these events,
there was the outflow of foreign labor from Tyumen region except for the one that was able to open a business here. Along with the remaining foreigners, representatives of internal migration from the North Caucasus intensified their business activities in the region.

DISCUSSION

The dominance of ethnic business structures (Azerbaijani, Armenian, Ingush, Chechen, etc.) in a number of spheres of life support in the region caused an ambiguous reaction of the territorial subjects. The regional business community, which was initially one of the initiators of ethnic migration, seeing this as a source of cheap labor, is now quite painfully reacting to the emergence of new entrepreneurs, rightly fearing increased competition in local markets and communication problems with diasporas. The local medium and small businesses are especially worried about this due to the threat of loss of labor force formed from ethnic migrants and engaged in low-skilled and unskilled labor, the replacement of the latter will not be easy to find.

The importance of ethnic business in the North of Tyumen region also increased because its representatives began to interact directly with large oil companies, offering them their services to perform various repair, support, and maintenance work on more favorable terms than local business structures. We are talking, primarily, about the objects of social infrastructure, which is often on the balance sheet of the oil and gas companies (repair and maintenance of the housing stock, the repair of roads, pavements and the arrangement of the yards in the towns and other settlements of the district, the supply of vegetables, fruits and other food, the creation and maintenance of trade networks, cleaning of territories, etc.).

In the theory of security activities of companies, including large ones, interaction within themselves, the internal business environment, its factors, and risks are well studied, which, in our opinion, cannot be said about the external business environment. The interactions taking place here are diverse and dynamic, and their factors and risks are difficult to systematize and account. As a result, the criteria and indicators of the level of security of large companies related to the external business environment, require further testing in economic practice, not only oil and gas but also other industries.

As for the oil and gas companies under consideration, the analysis of their social interactions from the standpoint of ensuring the safety of functioning and development in the Khanty-Mansiysk Autonomous Okrug allows drawing the following conclusions:

- The interaction of these oil and gas companies with each other in the region of presence can be described as oligopolistic;
- The interaction of PJSC “Gazprom”, PJSC “LUKOIL” and PJSC “Rosneft” with small and medium businesses operating in the Northern territories is of a competitive nature and differentiated by different segments of the regional market;
- The interaction of the studied oil and gas companies with the ethnic business in the region is at the initial stage and primarily concerns the objects of social infrastructure, which are on the balance of these city-forming enterprises of the Khanty-Mansiysk Autonomous Okrug;
- The interaction between large business structures with local authorities such that at PJSC “Gazprom” it is multilateral and effective, PJSC “LUKOIL” - versatile, but without state support, PJSC “Rosneft” - the traditional with elements of innovative interaction;
- Interaction with the regional society, in our view, can be estimated at PJSC “Gazprom” as the highly active, PJSC “LUKOIL” as the interaction of average activity, PJSC “Rosneft” as insufficiently active, passive, and often indirect.

CONCLUSION

According to the authors, to improve the safety of large business in the Northern region continuous socially-oriented activities aimed at improving the quality of life of the population of the region of presence with the support of various social initiatives; effective building of relations at all levels to assess the expectations of all groups of stakeholders; using the digital capabilities of the administration of the region of open voting to determine the priority social initiatives; expanding the range of environmental initiatives to maintain balance in the region of presence are required.

ACKNOWLEDGMENT

The author confirms that the data do not contain any conflict of interest.

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