“Risks in the formation of collaboration alliance of the redistribution natural rental income”

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Risks in the formation of collaboration alliance of the redistribution natural rental income

Abstract

Researched and identified risks for the formation of collaboration alliance between the state, regions and extractive enterprises in the redistribution of natural resource rents. Focused attention on the negative consequences of reconciling the interests of the participants of collaboration alliance to form a risk minimization strategy and implementation collaboration alliances mechanism.

Keywords: collaboration risks, social responsibility, rental income, natural resource rents.
JEL Classification: M1.

Introduction

The formation of any new Alliance is impossible without negative consequences for all of its participants. An interesting feature is that alliances are sometimes created specifically for risk minimization. Combining efforts, alliances can allocate the risks associated with the implementation of research and development, the redistribution of income and socioeconomic interest of all participants in the alliance. A number of researchers, analyzing and evaluating the process of formation of strategic alliances, focus on the fact that the main motive for the creation of strategic alliances is the desire to acquire new technology or provide "technological complementarity". Feature relations in the alliance are that risks cannot be split into their component parts for a particular party, all risks are treated as aggregate.

The problem of risks in the extraction industries is of particular importance because the successful activities of economic entities and financial reliability of all participants of the Alliance is ensured when the risks are controlled and visible. Therefore, the determination of risks and their identification is one of the major factors of the successful functioning of alliances.

1. Method

In this research, we applied the method of expert evaluations. The experts were represented by the representatives of various spheres of activity. Initially we identified three groups of respondents:

- Government officials (MPs).We carried deputies of local councils, employees of public institutions which are related to nature protection departments in various regions of Ukraine to the first group (Sumy, Mukachevo, Kiev, Lviv, Kharkiv, Poltava, Glukhov, Uzhhorod).
- Representatives of the extractive companies and natural resources exploiting companies. Top managers, directors, heads of departments of the enterprises on gas and oil production (Kiev, Poltava, Okhtyrka, Lviv, Kharkiv), heads and leading experts of agricultural firms and woodworking enterprises in the Sumy region treat the second group.
- Representatives of Higher educational institutions treat the third group of respondents: professors, associate professors and teachers whose scientific activity is bound to environmental management, environmental protection, questions of withdrawal and distribution of investment income from production of natural resources (Sumy, Lviv, Kiev, Kharkiv, Poltava, Vinnytsia).

We sent out 50 questionnaires with open questions, where each participant was asked to answer the questions and to express his/her attitude for each question (negative, positive). As a result, after two months (January, February, 2016) we have collected 32 of 50 questionnaires according to which we may conduct data analysis. 18 questionnaires remained unanswered, of which 6 respondents (3 – top managers, 1 – legislative representative, 1 – representative of science) answered that it was difficult to answer such questions, while there was unstable economic and political situation in the country. 9 questionnaires remained unanswered. As a result, we collected 320 answers in the framework of the proposed questionnaire.

By analyzing the received data we have compiled a table of results for each respondent. At the same time we originally divided respondents into three groups (government officials, top managers and representatives of science).

During the analysis of the questionnaires we drew up the table of risks claimed by the respondents. We believe that the perceived risks of the collaborative effect, claimed during the questioning, are an indicator of readiness of the potential participants to the implementation of a mechanism of interaction (Table 1).

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The main risks identified by the respondents in the formation of the collaborative mechanism of interaction between the parties (state, business, regions)

Table 1. The main risks in creating collaboration mechanism

	Types of risks	%, under each group of respondents
Group I	- Increase in the resource price;	66
	- Decrease in the resource price;	50
	- Increase in the amount of rent payments;	33
	- Development of shadow schemes of the rental income determining;	16
	- Depletion of resources in the region;	50
	- Increased costs of enterprises for the extraction of the natural resource unit;	66
Group II	- Increase in the resource price;	41.6
	- Decrease in the resource price;	8.3
	- Increased competition between the businesses in the internal market;	25
	- Introduction of some additional financial instruments upon extraction of the natural resources for the extractive companies;	8.3
	- Need for some changes in the legislation;	8.3
	- Increase in the level of corruption;	16.6
	- Increased costs of the company for extraction of the natural resources;	50
	- Depletion of the natural resources and deterioration of the economy in the region as a consequence;	41.6
	- Increase in taxation;	8.3
	- Imbalance of the interests of participants;	16.6
	- State control over the extractive companies and rental income;	8.3
Group III	- Possible increase in prices for the resources;	70
	- Opportunistic behaviour of the participants with the coordination of interests of the parties;	20
	- Competition will increase the social component of the agreements;	50
	- Emergence of a conflict of interests of the participants;	40
	- Lack of government support;	30
	- State control over the key sectors of the economy;	30
	- Deterioration of the living standards in the region;	10
	- Competition of the companies will adversely affect the public interests;	10
	- Depletion of resources in the region;	40
	- Increased costs for extraction of the natural resource;	50

Source: elaborated by the authors

Results of the conducted research had formed more questions than answers, since they do not correspond to the prevailing theories regarding the positive effects of collaboration. Therefore, the authors of the article, it was decided to conduct additional studies, which aimed to identify the cause of the negative collaboration effect on the interests of the state and extractive enterprises.

Analyzing the table, we have identified the main risks in creating collaboration mechanism (state – region – extractive enterprises):

- Reducing the resource price.
- A competition will increase the social component of the agreements.
- Increasing the amount of rent payments.
- Increasing the costs of companies for the production of the natural resource unit.
- Development of the shadow schemes of the rental income determining.
- Increasing the resource price.
- Opportunistic behavior of the participants upon the coordination of interests of the parties.
- State control over the key economy sectors, forming a substantial rental income.
- Depletion of the region resources.
- The legal framework shall be amended.

According to the results of the previous survey was allocated a few respondents who expressed doubts about the positive effect of collaboration interest. All of them were asked three questions:

- In your opinion, why will a collaboration of the extracting companies and the state be little effective?
- What reasons can affect the formation of a negative effect in the collaboration of interests between the state and the extracting companies?
- In your opinion, what shall be undertaken in order to get a positive result from the collaboration; and, in your opinion, what is a positive result from the collaboration between the extracting companies and the state?

Therefore, the aim of carrying out the additional questionnaire is due to the need to find out the main causes of the negative attitude of some part of the respondents to the collaboration of interests of the extracting companies and the state, to identify the expected results from the collaboration of interests of all the alliance members, and to identify the main components of an effective strategy for the formation of social responsibility mechanism through the redistribution of rental income of the extracting companies.

The results of study have helped to make the following conclusions (authors have focused the attention only on the negative factors of the collaboration, as the unconditional benefits of the collaboration effect for the extracting companies and the state had been proved in the previous research):

1) There are certain cultural differences in the understanding of the definition and nature of the concept of collaboration. On the territory of Western Europe the collaboration is more of a negative character and involves the forced co-operation. This is due primarily to the historical events that have taken place in these countries.
2) Combining of interests of the extracting companies may affect an increase in the resource price:
   - coordination of interests of the parties and development of strategies will require the additional efforts of all parties, additional time and additional resources, which in turn can reduce the effectiveness of work of the participants at their main places of work;
   - collaboration of the extracting companies at the horizontal level will require modernization of the fixed assets and acquisition of the modern equipment;
   - development of social programs through the rental income redistribution entails additional costs;
   - formation of the team, which will deal with the collaboration in the company, requires additional funding;
3) Cost recovery in the regions where the natural resources extraction has been carried out and allocation of funds for reconstruction works will require the revision of the legislative framework.
4) The collaboration can lead to an increase in competition in domestic market, and an increase in demand for products, which in turn can lead to the depletion of regions due to an excessive resource extraction.
5) The appearance of conflicts of interests of the participants in the income distribution, as well as the formation of shadow schemes of determining of the rental income is possible.
6) Some respondents are afraid that the collaboration of the extracting companies and the state can trigger a full state control over the key sectors of the economy.

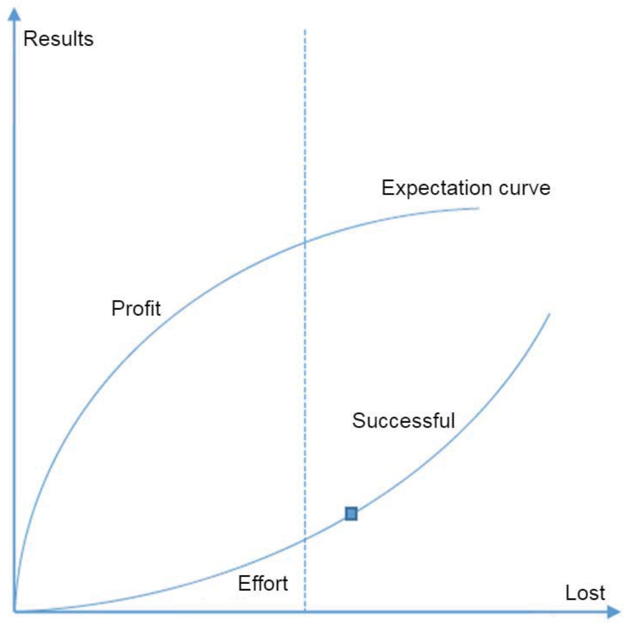

Fig. 1. Evaluation of the respondents on the expected effects in collaboration of the extractive industry.

Source: compiled by the authors

The results show that the collaboration effect is not instantaneous in extractive industry. It needs time for the modernization of extractive enterprises, the development of socio-orientated programs, the implementation of the developed measures. Therefore, as shown in the graph, the curve of the expected results and the curve of the real situation are differing greatly. It will take a certain time (dotted line), after which comes the success and the strategies of the collaboration of interest's state and extractive companies are beginning to work.

Conclusion

The work showed that in addition to the formed rental income redistribution mechanism from the natural resources extraction, it is necessary to develop a strategy that would help to implement the rental income redistribution mechanisms, taking into account the interests of the whole society. The study results showed that such a strategy might be expressed in creation of the collaboration alliances to coordinate the interests of all participants.

According to our studies, the collaboration and cooperation of interests are similar concepts with the difference in the interoperation perspective between the participants. Thus the analyzed articles of the western authors (30) showed that the collaboration was a stimulated partnership in the framework of a specific project to achieve a particular purpose. The cooperation is a voluntary association of efforts to train staff, make profit, create an innovative product, and share the risks. It shall be noted that according to the historical events of a particular region (Western or Eastern Europe), the concepts of collaboration and cooperation may be reversed. For the representatives of Eastern Europe the concept of collaboration is mostly negative association of interests, while cooperation is positive. For the representatives of Western Europe (Austria, Germany) the concept of collaboration is positive and is more acceptable for determining the general efforts combination; in such countries as France, Spain, Italy, the concept of collaboration and cooperation are similar and are used depending on the stylistics of the articles.

The analysis of the received results showed that all respondents spoke positively about a possible collaboration of interests between the state and extracting companies upon the rental income redistribution from natural resources extraction. It was also noted the need to establish the social responsibility in society as the effect of the collaboration of interests upon the public goods redistribution. Under social responsibility the respondents understand mutual responsibility between the government and business upon the rental income redistribution, the development of socially-oriented programs in the region of natural resources extraction, the optimization of economic interest in the use of natural resources between all participants of the collaboration.

The respondents note that the absolute advantages of the collaboration of interests between the state and extracting companies will be received, primarily, by society:

- fair redistribution of GDP through the fiscal and budgetary systems;
- increasing the funding for social programs and projects;
- growth of the citizens welfare;
- introduction of the compensatory instruments for the natural resources extracting regions;
- improving the infrastructure of the extracting regions;
- stabilization of prices for the resources;
- funding for the reconstruction works in the regions after extraction of the natural resources;
- creation of additional workplaces in relation to functioning of the socially oriented programs in the regions;
- development of infrastructure in the natural resources extracting regions;
- social control upon the rental income distribution from the natural resources extraction.

The respondents note an undeniable positive effect for the extracting companies upon collaboration of the interests:

- optimization of the business processes in the companies, possibility of development;
- absence of the shadow schemes of doing business;
- guaranteed receipt of some part of the rental income by the company, modernization and technological development of the extracting enterprises;
- image growth of the extracting companies through the promotion of development of the socially oriented programs in the region;
- state support;
- support of the region's population;
- creation of new workplaces;
- increasing the assets value of the extracting companies;
- creation of leading extracting companies with the highly qualified personnel;
- optimization of costs in the extracting companies through the state benefits system upon income taxation and VAT application upon the implementation of major investment projects with the use of new technologies of the natural resources extraction;
- reducing the corruption pressure from the officials;
- implementation of the state environmental programs at the companies.

The analysis of the results showed that the state would have the following benefits from the collaboration of interests upon the extracting companies rental income redistribution:

- stable business climate in the regions;
- development of the social infrastructure in the regions;
- additional budget revenues due to reduction of shadow schemes of withdrawal and distribution of the natural resource rent;

- control over the natural resources extraction in the regions;
- optimization of the amount of rent payments upon a clear positioning of the regional rent component;
- possible change of the legal framework for the rental income redistribution;
- increasing the state's credibility level;
- development and implementation of the environmental state programs;
- development of the natural resources extracting regions and the economy as a whole.

Questions for discussion:

- Is it painless collaboration of interests for all kinds of businesses and industries, or is to allocate certain activities in which collaboration is most effective?
- Are there any fundamental differences between collaboration of interests of extractive enterprises and the state and the interests of enterprises in other industries?
- What steps should be taken for the effective collaboration at all stages of implementation?

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