

**BUSINESS STRATEGY OF VIETSOVPETRO IN PERIOD OF 2017-2022****Pham Van Tai (PhD)* & Vo Thi Phuong Linh (MBA)**

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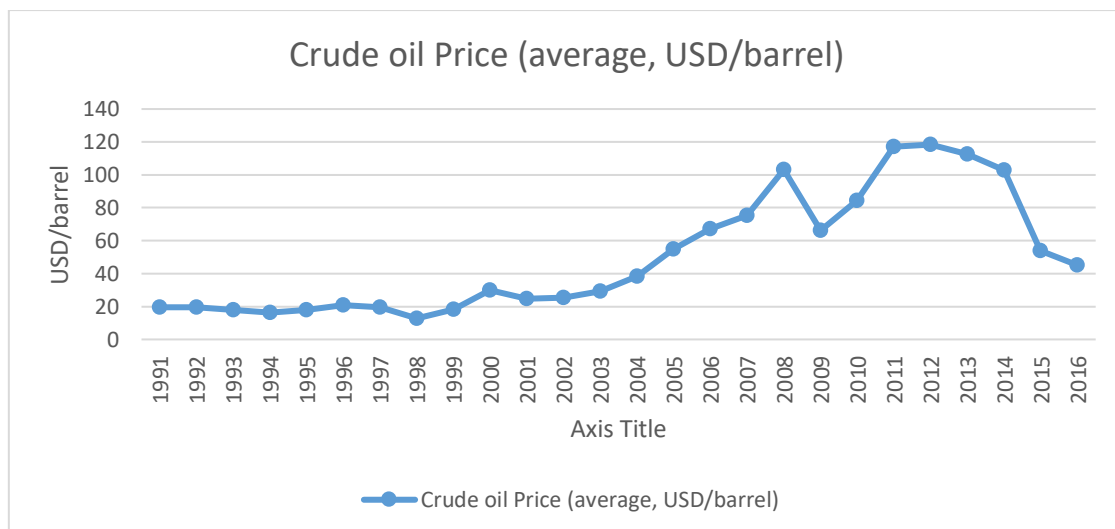
Abstract

Researching business strategies in general is not a new issue but it has become an essential and critical norm for a business to survive and prosper. In the case for Joint Venture Vietsovpetro, a company with 85% of its revenue come from the sales of crude oil, it is now being faced with the difficulties and hardships from the current situation where the price of crude oil is seriously dropping from 120USD/barrel in 2012 to 45USD/barrel in 2016, and this trend is expected to continue in the next few years.

The purpose of this research is to build business strategies for Vietsovpetro in the next 5 years to fight against the threats from oil price declining and continue to sustainably develop. The results will be given through applying significant and verified theoretical bases to analyze the key internal and external factors that contribute to the success of Vietsovpetro.

Introduction

Joint Venture Vietsovpetro (VSP) was founded on 19 June 1981 on the basis of governmental agreement between Vietnam and the Russian Federation. VSP has been in operation for over 35 years in the field of petroleum exploration and production, and is recognized as a great contributor to the economy of Vietnam due to the turnover of 75 billion USD coming mostly from the production of over 220 million tons of crude-oil. However, since the middle of 2014, the world's crude oil price has been dropping significantly, severely affecting all oil & gas companies, including VSP.



Therefore, VSP's current business strategies must be reviewed and adjusted to overcome difficulties and develop in the next 5 years. This study will review and analyze the current performance of Vietsovpetro, to determine the current internal strengths and weaknesses of the company, then identify external opportunities and threats to build business strategies accordingly.

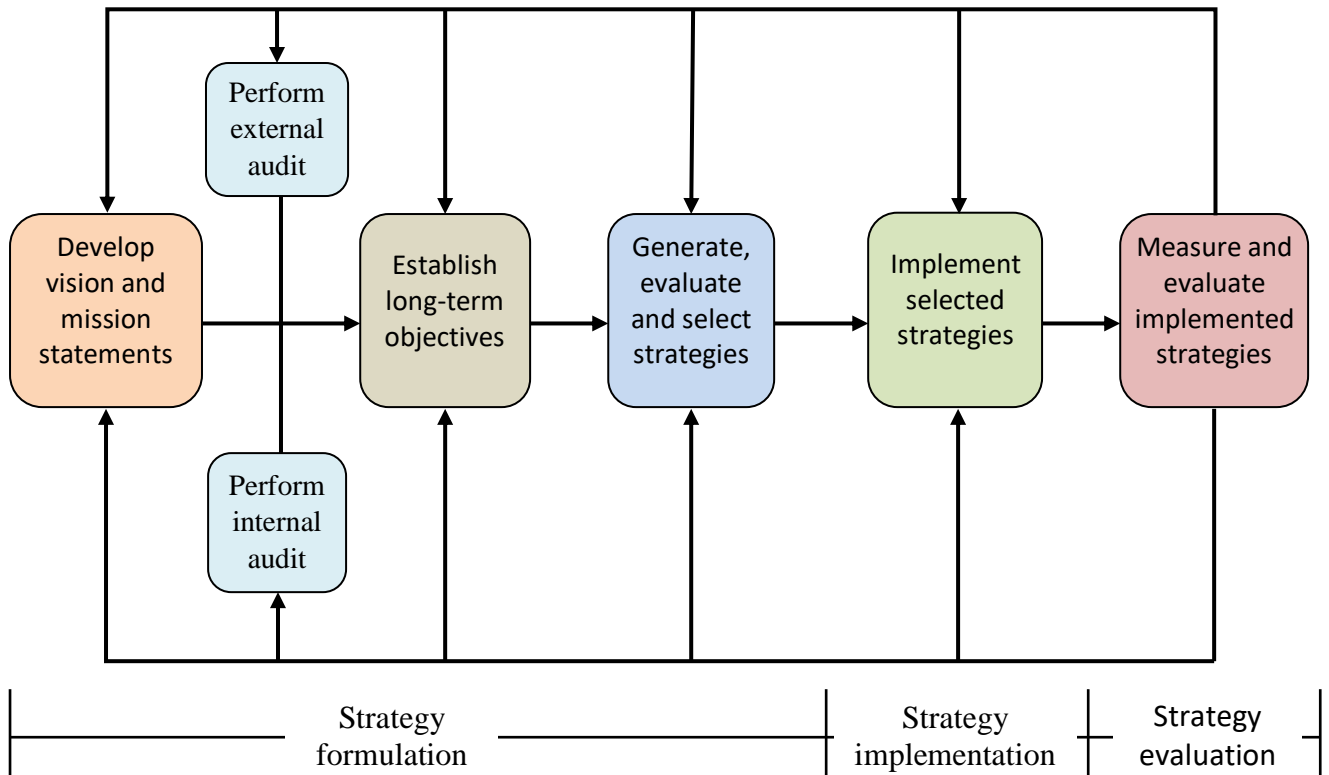


Theoretical bases and Research Model

This Research follows the strategic management framework developed by David (2011) in the book “*Strategic management: Concepts and Cases*”. Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. A comprehensive strategic management model is as follows:

Strategy formulation stage:

- Develop vision and mission statements and understand their importance;



- Perform external audit through analyzing external factors affecting VSP and identifying the opportunities and threats. Models applied: PEST, Porter’s Five-Force, External Factor Evaluation (EFE) matrix and Competitive Profile Matrix (CPM).
- Perform internal audit through analyzing internal factors contributing to the performance of the organization and determining the firm’s strengths and weaknesses. Model applied: Internal Factor Evaluation (IFE) matrix.
- Generate appropriate alternative strategies based on the external opportunities and threats and internal strengths and weaknesses using SWOT matrix;
- Evaluate the alternative strategies and select strategies to implement using Quantitative Strategic Planning Matrix (QSPM) model.

Strategy implementation stage: how to implement the formulated and selected strategies.

Strategy evaluation stage: The final step of strategic management involves evaluating the implemented strategies. The best formulated and best implemented strategies become obsolete as a firm’s external and internal environments change. It is essential, therefore, that strategists systematically review, evaluate, and control the execution of strategies.

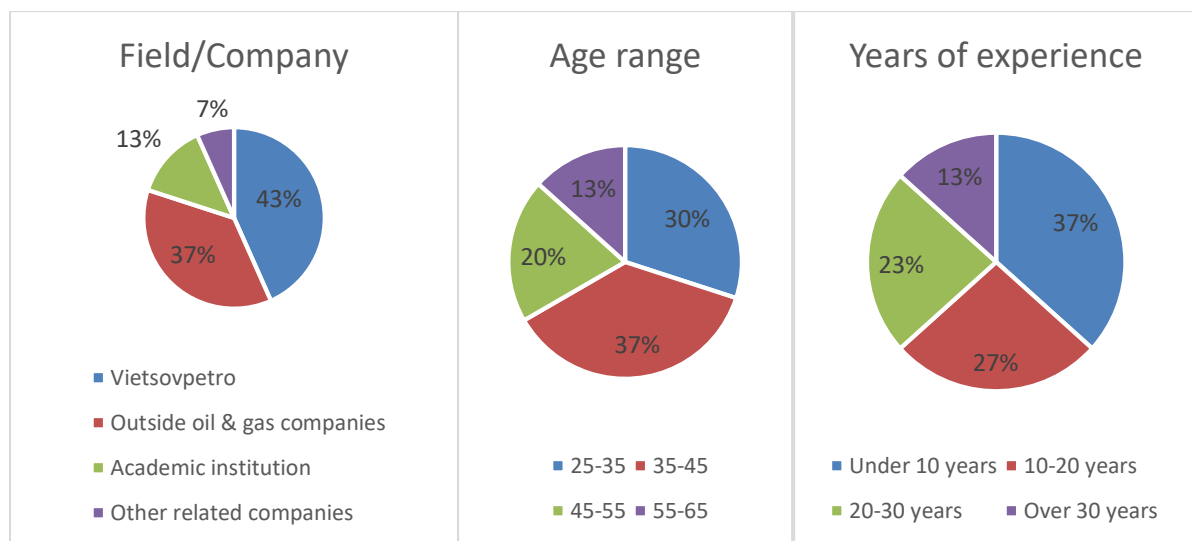


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For this Research, to collect relevant data, both quantitative and qualitative methods will be applied such as: researching existing data and information, production of primary data through surveys and in-depth interviews with appropriate sample size of key specialists and experts.

Data Analysis

To do the research, the author has conducted surveys and interviews with about 30 specialists and experts. 85% of the research sample is the specialists who are currently, or used to be, managers and employees of VSP's divisions and departments and outside specialists from other companies in the oil and gas industry; 15% of the sample are experts from academic institutions who have profound knowledge and expertise on the management process of business strategies. Some descriptive statistics of the research sample are as follows:



External Audit:

Based on the analysis on PEST and Porter's Five Forces competitive model, the external opportunities and threats are identified, combined with the data collected from surveys and interviews, the results of EFE matrix and CPM are as follows:



EFE:

No.	Key External factors	Weight	Rating	Weighted Score
OPPORTUNITES				
1	Political stability and government support	0.15	4	0.6
2	Ease and strong benefits from joining the international business world	0.1	3	0.3
3	The development of advanced information technology systems	0.13	3	0.39
4	Huge potential of resources in Vietnam	0.06	3	0.18
5	Large and skilled labor force with increasing educational level	0.08	2	0.16
6	Unique characteristics of products and services	0.03	1	0.03
THREATS				
7	The significant drop of crude oil price	0.2	4	0.8
8	Corruption in Vietnam	0.03	1	0.03
9	The decline of demand for crude oil	0.05	2	0.1
10	The decline of crude oil reserves	0.11	4	0.44
11	Pressure from outside forces	0.02	1	0.02
12	Pressure from competition	0.04	2	0.08
Total		1.00		3.13

The total weighted score of **3.13** shows that the VSP has made good efforts to build strategies that responses greatly to the external environment.

CPM:

No.	Critical success factors	Weight	VSP		PTSC		McDermott	
			Rating	Score	Rating	Score	Rating	Score
1	Market share	0.07	3	0.21	3	0.21	1	0.07
2	Science, techniques and technologies advancement	0.2	4	0.8	3	0.6	4	0.8
3	Organization structure & Management system	0.08	2	0.16	3	0.24	3	0.24
4	Prive competitiveness	0.11	2	0.22	4	0.44	4	0.44
5	Financial position	0.08	4	0.32	3	0.24	3	0.24
6	Global expansion	0.06	2	0.12	2	0.12	4	0.24
7	High quality labor force	0.12	3	0.36	3	0.36	4	0.48
8	Facilities, infrastructure and equipment	0.13	3	0.39	2	0.26	3	0.39
9	Diversification of products and services	0.09	3	0.27	2	0.18	2	0.18
10	Support from government	0.06	3	0.18	3	0.18	1	0.06
Total		1		3.03		2.83		3.14

Through analyzing the above CPM, it can be seen that both competitors are doing better than VSP in the price competitiveness, which is a very important factor to the success of competition.

Internal Audit:

Based on the strengths and weaknesses identified from analyzing key internal functions of VSP (such as Management system, Marketing, Finance/Accounting, Production/Operation, Research and Development, Human



INTERNATIONAL JOURNAL OF RESEARCH SCIENCE & MANAGEMENT

Resource and Management Information ..), as well as the data collected from surveys and interviews, the results of IFE matrix is as follows:

No.	Key Internal factors	Weight	Rating	Weighted Score
STRENGTHS				
1	Strong brand reputation and position in oil and gas industry	0.05	4	0.2
2	Ability to fully perform a complex service from the beginning to the end	0.13	4	0.52
3	Diversified products and services portfolio, some of them are special and exclusive of VSP that no other competitor can compete with	0.1	4	0.4
4	Large workforce with moderate level of skill and education and rich experiences	0.07	3	0.21
5	Strong financial resources from oil revenues and the capital support from both Vietnamese and Russian Government	0.08	3	0.24
6	Ability to mobilize capital, financial resources, people and equipment to serve its own operation and to provide services at competitive prices	0.06	3	0.18
7	Strong focus and investment in research and development	0.07	3	0.21
8	Possession of an impressive and multi-purpose infrastructure built up after 35 years of operation	0.04	3	0.12
WEAKNESSES				
9	Massive and complicated organizational structure as well as very bureaucratic procedures	0.09	1	0.09
10	Conservative and resistant to change workforce	0.06	2	0.12
11	Not reasonable organizational structure of external service provision	0.05	2	0.1
12	Too many divisions and subsidiaries, hard to consistently integrate and manage all systems	0.1	1	0.1
13	Not fully make use of existing resources such as facilities, infrastructure and human	0.06	2	0.12
14	Existing equipment become old with low efficiency	0.04	2	0.08
Total		1		2.69

Result

the total weighted score of **2.69** shows that the VSP just has an average level of internal strength.

Generation and selection of alternative strategies for VSP: using SWOT analysis



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SWOT	OPPORTUNITIES – O	THREATS - T
STRENGTHS - S	<p>SO STRATEGIES Use strengths to take advantage of opportunities</p> <ol style="list-style-type: none"> S/O-1: S1,2,3,4,6+O1,2,5,6: Strategy to develop and expand the market into new geographic areas (market development) S/O-2: S3,4,5,7 + O3,4,5: Strategy to enhance research and development to explore new oil fields (product development) S/O-3: S1,2,3,4 + O1,3,6: Strategy to seek increased market share for present products or services in present markets through greater marketing efforts (market penetration) 	<p>ST STRATEGIES Use strengths to avoid/minimize threats</p> <ol style="list-style-type: none"> S/T-1: S1,4,5 + T5,6: Strategy of horizontal integration. S/T-2: S4,5,7,8+T1,4: Strategy to develop techniques and technologies to increase the exploited output of crude oil (product development)
WEAKNESSES – W	<p>WO STRATEGIES Overcoming weaknesses by taking advantage of opportunities</p> <ol style="list-style-type: none"> W/O-1: W1,3,4 + O1,3,5: Strategy to “shrink” the organization structure (retrenchment) W/O-2: W4,5,6 + O1,2,3,6: Strategy to sell excess of resources such as the old facilities, infrastructure or equipment (divestiture) 	<p>WT STRATEGIES Minimize weaknesses and avoid threats</p> <ol style="list-style-type: none"> W/T-1: W1,2,3,6 + T1,3,4: Strategy to cut costs and expenses to the minimum (retrenchment) W/T-2: W2,3,4 + T1,3,5,6: Strategy to sell a division or a part of the organization (divestiture).

To evaluate and select strategies among the alternatives generated from SWOT analysis, the Quantitative Strategic Planning Matrix (QSPM) will be applied for each group of strategies using the data collected from the survey questionnaire with experts.

Strategy group	Alternative strategies	Total Attractiveness score (TAS)	Decision
S/O	S/O-1: develop and expand the market	4.92	Select
	S/O-2: enhance research and development	4.83	Select
	S/O-3: seek increased market share	4.1	
S/T	S/T-1: horizontal integration	4.33	
	S/T-2: develop techniques and technologies	5.07	Select
W/O	W/O-1: “shrink” the organization structure	5.42	Select
	W/O-2: sell excess of resources	5.03	
W/T	W/T-1: cut costs and expenses	5.15	Select
	W/T-2: sell a division or a part of the organization	4.61	

Conclusions and Recommendations

In conclusion, 5 most appropriate business strategies for VSP in period 2017-2022 are established as follows:

- S1. Strategy to develop and expand the market into new geographic areas (market development)
- S2. Strategy to enhance research and development to explore new oil fields (product development)
- S3. Strategy to develop techniques and technologies to increase the exploited output of crude oil (product development)
- S4. Strategy to “shrink” the organization structure (retrenchment)



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S5. Strategy to cut costs and expenses to the minimum (retrenchment).

Some solutions and recommendations to implement the above strategies are suggested.

1) *Investing and develop equipment, information and technologies:*

For product and market development strategies, VSP has to upgrade the quality of equipment and technology, invest on research and scientific and technological advances.

For retrenchment strategies, good information and financial technologies are required to evaluate and identify where the performance is ineffective, or where there are redundant capacity, so that managers can apply necessary measures to improve the situation.

2) *Improving human resource management*

In the current situation where there are less and less projects and jobs, 7000 employees of VSP are a giant number but the performance is not as effective as its potential, hence VSP's human resource need to be re-structured. Re-structuring and reducing the number of human resource is a very sensitive and difficult job. The process must be performed carefully not only to avoid violating the labor law, but also to prevent unfair and cruel treatment towards the employees who have contributed to make VSP today.

VSP has to establish a clear and transparent recruitment process to employ the most suitable candidates. Clear identification of criteria, requirement for the job description is a must. The final employment decision must be made based on the level of fit, knowledge, capabilities and skill of the candidates with the job, and restraint from personal relationships or other irrelevant factors.

VSP has to create motivating compensation systems and initiatives to gradually overcome employees' resistance to change due to the long past of subsidized system and people had gotten accustomed to getting paid regularly without making much efforts.

3) *Enhancing operating and management systems*

VSP needs to review and re-structure its operating and management systems since its current systems pose a big weakness to the company. Too many bureaucratic and administrative procedures, the time-consuming report and approval process for every decision ... have made VSP very passive and slow in responding to the needs of clients or in discovering new oil fields. VSP has to authorize and assign an appropriate level of decision making power to subsidiaries to increase the level of responsiveness to opportunities and problems.

4) *Developing Marketing*

To promote the provision of services to external clients, VSP has to make a lot of Marketing efforts through promoting VSP's competitive advantages to the world and conducting researches on the market, on potential competitors and on VSP's capabilities to meet the job's requirements. Moreover, VSP has to establish a proficient internal "system" consisting of all levels of management from the Board of Directors, through the Management Unit, to the subsidiaries.

5) Other supporting solutions such as Cost control and management, Strategic cooperation, Practice saving and waste prevention and Allocate effectively investments and financial resources.

Finally, a strategy evaluation framework of strategies must be performed in parallel with the implementation process to timely adjust to cope with the changing environments.

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