

**The Organization Development Process of
Pakistan State Oil and the Importance of a Systematic
Approach**

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Executive Summary

In a mere span of approximately 4 years, PSO has miraculously transformed from a lackluster, bureaucratic company, into role model for government/semi government organizations in Pakistan. With the objective of providing an effective and timely strategic response to the actual and potential business challenges, PSO successfully developed and implemented a comprehensive and far-reaching corporate development program through a systematic approach, which resulted in remarkable accomplishments that have been widely acknowledged and appreciated at various national and international forums.

It is the usefulness of the systematic approach that this study aims to establish besides tracing the development process at PSO. The systematic approach to OD consists of six stages; viz: anticipating a need for change, developing consultant-client relationship, the diagnosis, action plans strategies and techniques, self renewal monitoring and stabilizing and continuous improvement. Since OD at PSO is a success story, if we establish by tracing the process it adopted that it was a systematic approach with steps closely related to the steps included in our definition of the approach, the efficacy of our systematic approach would stand proved.

A close look at the environment surrounding PSO starting FY 1999-2000, reveals that the disequilibrium of negative growth in the company was brought about by factors such as global economic recession of late 90s, the 9/11 incident, sharp decline in production and consumption of crude oil, Pakistan's categorization as low priority oil and gas market, government's decision to privatize PSO, deregulation of POL trade resulting in removal of the government's umbrella from PSO, increase in dealer's margin, and the potential in the sector for

investment and development that could attract more competitors forced management to look inwards and highlighted the urgent need to become more efficient in order to gain and retain a major market share on sustained basis. This anticipation of need for change is the first step in our approach too.

Second stage in our model emphasizes a combination of external-internal consultants to guide and control the process of development in the organization in order to benefit from the plus points of both. PSO however initially relied on Mr. Tariq Kirmani's acumen to steer its corporate renewal and later added a purpose-built Corporate Planning Department in its head office to look after the organizational development on a sustained basis. Absence of a professional OD external consultant resulted in delays as the required initiatives to prepare the organization could not be taken. It also took a longer time to overcome the extraordinary resistance to change from the employees. Thus the digression, though less significant, from the systematic approach hampered the smooth progress of organizational development.

Having a change leader, the organization now set out to the diagnosis of its problems. The management knew that in order to remain competitive in the new environment, it needed to establish the reasons for loosing the market share and take steps to eradicate those in order to increase its sales. Analysis of data collected from width and breadth of the company revealed many reasons. Issues were identified about all the three important aspects: structural, technological and behavioral. It was established that the structure was overly bureaucratic, had a tall hierarchy, its departments were overstaffed, it had become a highly centralized organization, and lacked practical formalization of procedures. Technologically too it was far from satisfactory. It had no management information system, had higher inventory levels, and its out let wore an extremely boring look among others. Behavioral issue included: lack of inter-department, intra-division and inter-division communication, coordination and integration.

Based in this successful diagnosis of the problem, moving logically, management embarked upon a series of initiatives in three vital areas to improve individual, group, team and inter-group relationships and ways of working. The initiative taken were integrative, complementary and appropriate – thanks to the systematic approach followed to address the problem. For the change in structure, the interventions were: restructuring which made the organization lean and more competitive, redesigning the line of authority of various levels of management, changing the span of control and the re-arranging divisions and functions. On behavioral side team building, goal setting, total quality management and inter-group development were the main techniques used. Towards technological side, the techniques adopted were putting in place an efficient management information system, internet facility at numerous stations, overhead dispensers, beside job design, survey feedback and reengineering. It was due to the adoption of systematic approach to OD that not only the selection and application of appropriate interventions in a timely manner but also their integration became possible and paid rich dividends in shape of achievement of the desired results.

PSO proficiently managed the OD process, stabilizing after every important move. It progressed gradually allowing its members a respite to digest and internalize the initiated change simultaneously managing the routine affairs in an effective manner.

Realizing the importance of continuous improvement, PSO has put in place a corporate governance structure and a robust framework of systems and procedures in line with best international practices. CP department has been instituted as a watch dog and a facilitator of change for continuous improvement.

The case of PSO's organizational development has proved, beyond doubt, that to run a successful OD programme, it is essential to follow a systematic approach. It helps to take the people along for the benefit of the organization and people alike.

Transmittal

Respectable **Mr. Naukhez Sarwar:**

Assalam-o-Alaikum

I thank Almighty Allah for the courage and perseverance that he bestowed upon me which was instrumental in completion of this Thesis on Organization Development of Pakistan State Oil.

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I have done my utmost to produce a work which could meet your expectations of academic standards. Besides the face to face interaction and help of few of the organization's managers, an extensive search was undertaken utilizing secondary research methods in collecting necessary material on the company, specially the literature review. Web remained the overwhelming source of my input. PIDE is one library that merits a mention as a useful source of data.

I hope that this humble effort finalized under your distinguished guidance satisfactorily meets the academic requirements.

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CHAPTER ONE

Introduction

1.0.0 The Backdrop

Organization Development (OD) is considered by many multinational organizations as a discipline aimed at improving the effectiveness of the organization and its members through a **systematic change program**. Chester Barnard and Chris Argyris, notable management theorists, opine that truly effective organization is the one in which both the organization and the individuals can develop. Such an environment may be termed as “healthy organization”. This is what OD is all about: **making organizations more effective and healthier**.¹

Change is a way of life in today’s organization, but organizations are also faced with maintaining stable identity and operations in order to accomplish their primary goals. Consequently, organizations involved in managing change have found that the **way the change is handled is crucial**. There is a **need for a systematic approach**, discriminating among those features that are healthy and effective and those that are not. Erratic, haphazard, short term and unplanned changes may introduce problems that did not exist before or allow side effects of the change that may be worse than the original problem. Change inevitably involves the disruption of the steady state. Change for the sake of change is dysfunctional².

OD as a field of study and practice has not yet attained its deserved status in Pakistan though the change process is being understood and managed with increasing effectiveness by a larger number of business-people. More important is the need to undertake the change systematically instead of a haphazard effort to correct an impending problem as a short term solution. The scope of Human Resource Management (HRM) is ever widening and has included in its ambit the discipline of OD. An interesting case in point is PSO, where not only that the OD

took place in the near-correct sense of the idea but also makes an interesting study in order to substantiate the finer points learnt while studying the theory of OD.

1.1.0 The Research Question and the Scope of Study

1.1.1 The Research Question

This research is aimed at tracing the OD process undertaken by the Management of PSO in order to “**establish features of its organizational development programme and the importance and usefulness of a systematic approach** in successfully implementing a change program” aimed at improving the effectiveness of the organization and its members.

1.1.2 The Scope of Study

This paper attempts to study the environment confronting PSO at the beginning of the OD effort undertaken by the organization (i.e: 1999-2000), the features of its change program, how closely were those in consonance or otherwise with the theoretical frame work delineated in the literature, the effects of the change on the organization and its members and finally whether the approach followed by the management was systematic in content and execution or it lacked in certain aspects. Before doing that an effort has been made to present a brief yet comprehensive literature review on the subject of OD. The study focuses itself to the efforts of PSO towards OD, however, where important for the sake of clarity a comparison has been drawn with the other organizations in the industry.

1.2.0 Methodology Adopted

The methodology adopted includes both primary and secondary research techniques. Whereas questionnaires and meetings with the concerned personnel of PSO were the major sources of input for the study in primary research, the secondary research methods employed were the web, documents from different libraries and from the record of the company.

1.3.0 Limitations of the Study

An effort has been made to get to the sufficient material required for the evaluation of the research question. However, it is a possibility that there could be a room for more effort at a few places due, mainly, to the non-cooperation of the organization that at times becomes possessive about their data. Another limitation concerns itself with the time frame of the study. FY 1999-2000 to FY 2003-04 is the time spectrum which is the focus of this study, due mainly to the incidence of OD efforts in this duration by PSO in order to maintain its market share.

CHAPTER TWO

Literature Review

2.0.0 Organizational Development

Today's organizations are not static. They are constantly evolving and changing form to adapt to differing needs, demands and environments. The technological, social, and economic environment is rapidly changing, and an organization will be able to survive only if it can effectively respond to these changing demands. As we move along twenty first century, increases in productivity of 500 percent, not 10 percent will be required for corporations to compete effectively³. Thus, the manager must know how to anticipate and implement changes in organization. The term "**Organization Development (OD)**" refers to **the process of growth which improves the effectiveness of an organization by changing the way it is structured, by modifying the behavior of its employees, or by altering the technology that is used to get the work done**. According to Richard Beckhard (a leading OD practitioner), "OD" is an effort that is planned, organization-wide, managed from the top, to increase organizational health and effectiveness, through planned interventions in the organization's processes using behavioral science knowledge⁴.

All forces for change that continually act upon an organization can be classified as external and internal. External forces occur outside the organization and are usually beyond the control of the manager in the short run. Changes in a situation are the most difficult to control and anticipate. Changes in the technology or equipment can be a major reason for restructuring the organization.

Internal forces for change within an organization can usually be traced to problems in decision making, communications, and interpersonal relations. For example, decisions are not being made, are being made too late, or are poor. Communication channels may be inadequate or not conducive to rapid response.

Such internal forces are very influential on the performance of an organization, and a manager must be prepared to deal with problems in these areas as soon as they are recognized following a logical process.

2.1.0 Process of Managing Change

OD is a continuing process of long term organizational improvement consisting of a series of stages namely: Anticipating the Need for Change; Developing the Consultant-Client Relationship; The Diagnosis; Action Plans, Strategies and Techniques; Self Renewal, Monitoring and Stabilizing and Continuous Improvement Process⁵. This sequence has been outlined in detail in succeeding paragraphs giving a general procedure for facilitating whatever changes are needed within an organization.

2.1.1 Recognition of a Need for a Change

Recognition of a need for change can be brought about by many different events. An updated assessment, a budget analysis, or periodic audits may reveal problems which must be dealt with. It is important that managers identify sources of feedback so that an information system can be developed and the need for change can be identified promptly.

2.1.2 Client-Consultant Relationship

One of the top managers assumes the responsibility of the change leader – or consultant, mostly external (internal consultant – in case an outside consultant is hired) which is necessary to provide indispensable impetus to the process of change. Engaging an external consultant has both pros and cons. Master of his field though, he needs to know the organization's culture to be effective. The change leader, whether external or internal, attempts to establish a pattern of open communication, a relationship of trust, and an atmosphere of shared responsibility. Equipped with these weapons and others necessary of the sort, he knows that problem identification is the first step.

2.1.3 Diagnosis of Problems

Before appropriate action can be taken, the problem must be defined and all its aspects must be examined. To diagnose the problem:

- Identify the problem;
- Determine what must be changed to resolve it; and
- Determine what objectives are expected from the change (and how they can be measured).

2.1.4 Identification of Alternatives

There are numerous techniques that can be used to change an organization, once the nature of the problem has been determined. These may be classified according to what needs to be changed: normally, the structure, the people, or the technology are the areas where not only the change is needed but is needed to be well integrated.

- **Structural Change.** Structural changes require managerial actions to improve performance by altering job content and scope, by the grouping of jobs and departments, by changing the span of control, or by providing extra staff. When a structure is changed, various processes will be altered accordingly: communications, decision making, and human interaction.

Because a structure creates human and social relationships which gradually develop into informal working relationships among members of the organization, an element of stability is created. Changes in the structure can disrupt stability. Therefore, when altering a structure, managers must take extra care that the disruption of these relationships does not cause further problems.

Structural change carried out by:

- Altering the basis for departmentalization; for example, changing from geographic departmentalization to technical or sector-wise departmentalization.
- Modifying the relationship between line and staff personnel.
- Restructuring the decision-making hierarchy. For example, by increasing or decreasing span of control.
- Changing the specification of particular jobs. For example, by redefining terms of reference or job specifications, the workload can be enlarged or reduced, or a worker can be given more autonomy or brought under greater control.
- Streamlining work by adding or changing equipment. For example, the number or type of personnel is often changed when machinery or other equipment is acquired.
- **Changing People.** To change people, efforts must be made to redirect and improve personnel attitudes, skills and knowledge. The objective is to enhance the capacity of individuals to perform assigned tasks in coordination with others. Typically, changes focus on improving the technical and interpersonal skills of managers or on improving the skills, knowledge and attitudes of non-managerial personnel. This however needs one thing very clearly – involvement of every one in the organization, as Tom Peters suggests “Involve every one in every thing-truly involved people can do anything”⁶.
- **Technological Change.** Introduction of technology or technological innovations can have far-reaching effects on the structure of the organization and on the behavior of the people in it. Technology is often a key determinant of the structure, and a decision to adopt new technology often involves a decision to adapt the organizational structure to that technology. Changes can include:
 - Major changes in the division of labor and the content of work.
 - Changes in the relationship among workers.

- The need for different supervisory and technical skills.
- Changes in operations.
- Changes in the decision-making hierarchy.

The extent of these changes depends on the type of technology being adopted. The acquisition of a new radio communications set to improve long-distance communications in the field or between the field and the home office would probably not have many structural consequences. However, the acquisition of a computer to perform accounting and logistics operation duties could require the creation of new departments and the placement of new personnel in staff positions.

2.1.5 Selection of a Change Strategy

Once a technique for change has been determined by management, a strategy for implementing the change must be developed. In general, there are three approaches that can be used. The change can be mandated by management from the top of the organization; the change can be worked out jointly by management and personnel; or the affected personnel can be allowed to implement the change by giving them the general parameters and leaving them to work out the details. The method selected usually depends on the time available, the importance of the structural change, the availability of options, and whether or not the changes must be made to a regular or temporary component of the organization.

Organizational changes are often resisted by those involved, unless they participate in the change management process. The resistance may range from passive resignation to deliberate sabotage. The objective of selecting a strategy to deal with the change is to minimize this resistance and to maximize cooperation and support for the changes. As a general rule, it has been found that the strategy which emphasizes shared authority has the greatest likelihood of minimizing resistance to change.

The choice regarding which change technique to use will be influenced by several constraints, including:

- The structure of the organization;
- The philosophy of the organization;
- The commitment of the leadership of the organization; and
- The commitment of the average personnel within the organization.

The realities of limiting conditions are such that managers must, in many cases, be content with only modest change or with no change at all. The implementation of change without considering the constraints imposed by prevailing conditions within an organization may only make the original problem worse.

2.1.6 Implementing and Monitoring the Change

Implementation of a proposed change has two dimensions: timing and scope.

Timing is extremely important and depends upon a number of factors, including a program's operating cycle(s), its budget cycle, and the amount of preparation required before implementing the change. Scope refers to the magnitude of the impact that the change will have on the organization or program. If the change is to be implemented throughout the organization and is mandated by top management, it may be possible to effect the change rapidly. On the other hand, it may be advisable to phase in the changes gradually or level by level.

Once the changes have been implemented, it is important that they be monitored. Monitoring involves acquiring data to measure the impact of the changes and to determine if they are working out as desired and determining trends that can indicate future performance. Managers are responsible for identifying indications of improvement, the extent or level of improvement, and the duration of the improvement. In the best case, improvements will begin immediately and will continue to increase until the desired level has been reached. The more usual pattern, however, is to first experience a gradual short-term decrease in performance, followed eventually by an increase as expected. In the worst cases, performance increases initially and then falls off or, even worse, starts off poorly and never improves.

A well-devised strategy for change should include an analysis of what patterns of change can be expected. This enables the manager to compare actual changes with those that were expected. If improvements in performance have not occurred within a specified amount of time, the change strategy must be re-evaluated and an alternative selected.

2.1.7 Continuous Improvement Process

Today's environment has forced the companies to continuously change in order to be successful. Continuous change is the way of life. The companies either change or get out of the business. In fact the only constant in corporate world is change. Every successful company has mastered the art of change to survive. As a result it has formalized change process. Few large companies have dedicated Corporate Planning Departments which work all the year long to ensure continuous improvement in the organization. Others have an OD section under the HR department/Function to keep a tab on the process.

Few OD interventions are given at Annexure C.

CHAPTER THREE

Findings

3.0.0 Demand and Supply Scenario

The consumption of petroleum products in the country during 2002-2003 was 17.2 million tones. The demand is expected to remain around 17 million tones per annum up to the year 2010-11. Thereafter, it is expected to increase to around 19 million tones by the year 2017-18. The refining capacity of existing local refineries is about 12.5 million tons per annum. The deficit products import will be 5 million tons in 2003-04 while it will remain around 5-6 million tons per annum up to year 2010-11. Thereafter, it is expected to increase to a level of around 8.0 million tons per annum by the year 2017-18.

The sales/consumption of Petroleum Products during the last five years has been as indicated in the following table (Figures in Metric Tons)

Product	1998-99	1999-2000	2000-01	2001-02	2002-03
100 LL	2600	2497	2092	2711	1840
JP-1	635449	660602	606169	583830	715232
JP-4	144122	125118	135124	166045	128630
MS	1075662	1158236	1100564	1081524	1091900
MTBE	113380	67410	10647		
HOBC	56952	33955	20132	12739	11634
SKO	500528	487155	457366	371983	313092
HSD	6619677	6956603	6992617	6964093	7011911
LDO	258481	303458	287478	242078	220898
FO	7397882	8117112	8236754	7759039	6663017
SOLVENT	29918	34714	34665	29813	8119
MTT	10642	10102	9413	8329	16411
JBO	307	217	3539	4176	4230
Asphalt	266112	257596	192924	149789	229277
Carbon Oil	10176	12236	6969	9209	1455
Process Oil	732	184			10
BTX	1486	184		812	
Lubes	101832	99309	103734	108709	118877
Greases	1290	1271	1106	1109	1197
T o t a l	17227228	18244796	18185674	17495988	16537730

The following table gives the long term POL demand projections (Figures in '000' Tons)

Product	2004-05	2008-09	2010-11	2013-14	2017-18
100 LL	2.5	2.5	2.5	2.5	2.5
JP-1	749.4	806.4	835.4	879.4	934.4
JP-4	150.0	150.0	150.0	150.0	150.0
MS	1125.7	1218.5	1267.8	1345.3	1456.2
HOBC	15.0	15.0	15.0	15.0	15.0
SKO	300.0	300.0	300.0	300.0	300.0
HSD	7297.2	8133.3	8628.6	9428.7	10612.1
LDO	275.0	275.0	275.0	275.0	275.0
FO	4993.0	5383.0	5492.0	5465.0	5545.0
T o t a l	14907.8	16283.7	16956.3	17860.9	19290.2

In order to bridge up the above demand and supply gap and to improve the POL supply infrastructure, following incentives have been given under the Petroleum Policy/ Investment Policy 1997 to attract local and foreign investments:

- Import parity price formula linked to Singapore Mean FOB spot price for the new oil refineries.
- Construction of oil pipelines/oil terminals on competitive tariff.
- Concessional rate of duties / taxes for the equipment not manufactured locally.
- Continuation of the Policy of de-regulation in the lube industry.

Besides this, first year allowance at the rate of 90% of the capital expenditure for new refinery projects and 50% depreciation allowance for oil pipeline projects have also been ensured under the investment policy 1997.

3.1.0 Deregulation of Petroleum Products

The present government has taken a step forward to build up investors' confidence through continuity of the government policies and honoring all agreements already in place in its letter and spirit. The President, the then Chief Executive of Pakistan while addressing the nation on 15th December 1999 announced the deregulation of the petroleum sector. This decision was taken with a view to attract foreign investment and to achieve the target of cost efficiency on

the one hand and quality services/competitive prices on the other hand through open market competition between the Oil Marketing Companies (OMCs). Ministry of Petroleum & Natural Resources has undertaken several reforms towards deregulation in accordance with the Government Policy. So far the following reforms have been introduced in phased manner:

- Import and fixation of consumer price of Furnace Oil was de-regulated with effect from 1st July 2000. The traders and private parties have also been allowed to import fuel oil.
- Import of HSD was out sourced to OMCs with effect from 1st January 2001 whereby OMCs were made responsible to manage import of HSD on competitive prices. Besides, bulk consumers have also been allowed to import HSD for their own consumption.
- Primary Freight pool management for equalization of consumer prices at depot level has been handed over to OMCs effective March 14, 2001. Secondary freight from depot to retail outlet is fixed by OMCs on actual cost basis.
- The Oil Companies Advisory Committee (OCAC) was authorized to review, fix and notify ex-depot sale prices of petroleum products in accordance with the approved pricing formula on fortnightly basis w.e.f 15th July 2001. The prices announced by OCAC/OMCs are uniform at 29 storage depots across the country. Under the formula the prices are pegged with the prices in international (Arab Gulf) market.
- The OMCs have been authorized to review, fix and notify the price of High Speed Diesel (HSD) individually on cost competition basis w.e.f. 15th September 2002.
- Complete de-regulation of retail outlet prices on cost competition is planned in the next phase.
- In order to give incentive to oil refineries their Import Parity Pricing (IPP) formula was rationalized by allowing import incidentals in line with actual imports w.e.f.15th July,2000. Under the IPP formula, the refineries were entitled a minimum 10% guaranteed rate of return from government. Subsequently, the IPP formula was replaced with tariff protection formula

by allowing the refineries to use import duty as deemed duty in calculating the ex-refinery price of HSD, SKO, LDO and JP4 w.e.f. 15` July 2002. With the introduction tariff protection formula, the minimum 10% guaranteed rate of return to refineries was removed. Only PARCO refinery is under guaranteed rate of return under contractual obligations.

- Dealers' commission and OMCs distribution margins have been increased to 4% and 3.5% respectively with effect from 01.07.2002.
- **Introduction of Environment Friendly Fuels**
 - Import of low sulphur (0.5% weight) HSD has been initiated effective 1st July 2002.
 - Unleaded Gasoline is produced and marketed effective from July 2002.
- **Improvement in Customer Services at Retail Outlets**
 - Modernization of their retail outlets and installation of latest computerized dispensing units for accuracy of measurements.
 - Setting up of mobile laboratories to check adulteration on the spot to ensure supply of quality products.

3.2.0 Investment Opportunities

The following investment opportunities are available in the downstream oil sector:

3.2.1 Oil Pipeline

Investment opportunities exist in following short distance pipeline projects:-

Pipeline Project Million	Distance	Estimated Cost In Rs. Million
Morgah - Taru Jabba	160 Km	1800
Morgah-Kharian-Machhike	300 Km	9000
Faisalabad, Mandi Bahauddin-Kharian	190 Km	6000
Faisalabad-Toba Tek Singh-Sahiwal	90 Km	3000
Dera Ghazi Khan, Bannu-Peshawar	430 Km	12000
Port Qasim to Korangi	23 Km	600

Note: The cost of the Morgah-Taru Jabba pipeline project is based on feasibility report prepared by ARL while the estimated costs of other projects is as given by ARL/PARCO on approximation basis without any feasibility study.

3.2.2 Oil Marketing

In the Oil-marketing sector, five OMCs namely, PSO Company Limited (PSO), Shell Pakistan Limited (SPL), Caltex Oil (Pakistan) Limited (COPL), Attock Petroleum Limited (PSO) and Total-PARCO Pakistan Limited (TPPL) are operating in Pakistan with an overall market share of 67%, 22%, 7%, 2% and 2% respectively. Three new OMCs viz PARCO-Pearl, Bosicar Pakistan Limited and Admore Gas Private Ltd. have been approved to market petroleum products. Pakistan offers good opportunity for establishment of new OMC in view of its fast growing petroleum products market.

Government of Pakistan welcomes the establishment of new oil marketing companies in order to expand oil infrastructure and create healthy market competition in the downstream petroleum sector. By virtue of competitive oil industry, Pakistan expects additional benefits of meeting regional requirement, conservation of fuel and quality improvement.

3.3.0 The Downstream Petroleum Industry

The petroleum industry in Pakistan can be divided into three main sections: the upstream, the midstream and the downstream. upstream activity mainly consists of petroleum products' imports and refining. Midstream activity deals with the transportation. The retail and marketing of various petroleum products to end users comprises the downstream activity. It is the downstream activity that the OMCs such as PSO are overwhelmingly engaged in. Although the government has granted marketing licenses to a large number of oil marketing companies including some refineries, however three active oil companies in Pakistan capture the market. These companies include PSO, Shell and Caltex. PSO and Shell dominate the downstream oil sector with respective market shares of 67% and 22 and 7% respectively.

3.3.1 Shell Pakistan

Shell Pakistan is not only the second largest company, enjoying 32% of the market share, but it also offers superior quality services to its customers. The Shell brand name enjoys a 100-year history in this part of the world, dating back to 1899 when Asiatic Petroleum, the far eastern marketing arm of two companies: Shell Transport Company and Royal Dutch Petroleum Company, began importing kerosene oil from Azerbaijan into the subcontinent. Even today, the legacy of the past is visible in a storage tank carrying the date - 1898.



The documented history of the Royal Dutch/Shell Group in Indo-Pakistan subcontinent dates back to 1903 when partnership was struck between The Shell Transport & Trading Company and the Royal Dutch Petroleum Company to supply petroleum to Asia. In 1928, to enhance their distribution capabilities, the marketing interest of Royal Dutch/Shell Group and the Burmah Oil Company Limited in India were merged and Burmah Shell Oil Storage & Distribution company of India was born. After the independence of Pakistan in 1947, the name was changed to the Burmah Shell Oil Distribution Company of Pakistan. In 1970, when 51% of the shareholding was transferred to Pakistani investors, the name of changed to Pakistan Burmah Shell (PBS) Limited. The Shell and the Burmah GroPSO, retained the remaining 49% in equal proportions. In February of 1993, as economic liberalisation began to take root and the Burmah divested from PBS, Shell Petroleum stepped into raise its stake to 51%. The years 2001-2 have seen the Shell Petroleum Company successively increasing its share, with the Group now having a 76% stake in Shell Pakistan Ltd (SPL).

Profitability is essential to discharging these responsibilities and staying in business. It is a measure both of efficiency and the value that customers place on Shell products and service. It is essential to the allocation of the necessary corporate resources and to support the continuing investment required to develop and produce future energy supplies to meet consumer needs. Without profits and a strong financial foundation it would not be possible to fulfil the responsibilities outlined above. In general Shell Pakistan Limited believes that the interests of the community can be served most efficiently by a market economy.

Criteria for investment decisions are not exclusively economic in nature but also take into account social and environmental considerations and an appraisal of the security of the investment. Shell Pakistan Limited insists on honesty, integrity and fairness in all aspects of its business and expects the same in its relationships with all those with whom it does business. The direct or indirect offer, payment, soliciting and acceptance of bribes in any form are unacceptable practices. Employees must avoid conflicts of interest between their private financial activities and their part in the conduct of company business . All business transactions on behalf of Shell Pakistan Limited must be reflected accurately and fairly in the accounts of the company in accordance with established procedures and be subject to audit. Shell Pakistan Limited acts in a socially responsible manner within the laws of Pakistan in pursuit of its legitimate commercial objectives.

Shell Pakistan Limited does not make payments to political parties , organisations or their representatives or take any part in party politics. However, when dealing with governments, Shell Pakistan has the right and the responsibility to make its position known on any matter which affects itself , its employees , its customers , or its shareholders. It also has the right to make its position known on matter affecting the community , where it has a contribution to make .

Where individuals wish to engage in activities in the community, including standing for election to public office, they will be given the opportunity to do so where this is appropriate in the light of local circumstances.

Consistent with its commitment to contribute to sustainable development, Shell Pakistan Limited has a systematic approach to health, safety and environmental management in order to achieve continuous performance improvement. To this end Shell Pakistan Limited manages these matters as any other critical business activity, sets targets for improvement, and measures, appraises and reports performance.

The most important contribution that Shell Pakistan Limited can make to the social and material progress of Pakistan is in performing its basic activities as effectively as possible. In addition Shell Pakistan Limited takes a constructive interest in social matters which may not be directly related to the business. Opportunities for involvement - for example through community, educational or donations programmes - will vary depending upon the scope for useful private initiatives. The company supports free enterprise. It seeks to compete fairly and ethically and within the framework of applicable competition laws; the company will not prevent others from competing freely with it.

Shell Pakistan Limited recognises that in view of the importance of its activities in which it is engaged and its impact on national economies and individuals, open communication is essential. To this end, Shell Pakistan Limited has comprehensive corporate information programmes and provides full relevant information about its activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost.

To further improve its services, it has been developing a network of Company-operated sites. Whilst contributing to the bottom line, these serve as models of excellence for dealer-operated outlets and are also used for testing market initiatives. Another customer service, the 'Shell Genie' fast and free oil change facility has been extended to more outlets. This has helped the company in increasing its lubricants sale. Its Lube Oil Blending plant is ISO-9000 certified ensuring continued supply of highest quality products. The Company has also initiated agency business for a new range of gear oils for commercial transport customers.

Shell has also initiated Business Process Re-engineering project — CHIPS. This name reflects the key themes: Change, Integrate and Profit. The Company envisages achieving revolutionary change in the way people work; by harnessing new technology to streamline business processes and focus on customers. The Company linked over 30 locations via a new satellite-based telecommunication network providing up-to-date information on details such as customer orders, delivery status and stock levels.

In 1993 The Royal Dutch Shell Group acquired a controlling interest in Shell Pakistan and, since then, profits have improved substantially. Profits are not only used to pay dividend and taxes, the amounts are also reinvested. Over the last seven years more than Rs 5 billion have been spent on building new and improving existing assets. Out of this the most visible investments are in branded service stations and tank lorries.

3.3.2 Caltex

Caltex is a part of ChevronTexaco Corporation, the third largest global energy company in terms of global oil reserves and the fourth largest in terms of global oil and natural gas production. ChevronTexaco operates in 180 countries with 53,000 employees, 8.5 billion barrels of oil reserves, 25,000 service stations, over 2.2 million barrels of refinery capacity and fuel-and-product sales of 3.5 million barrels per day. Caltex has operated in the sub-continent since 1938 and apart from the main oil storage facility at Karachi, has 12 Depots throughout the country, which includes three inland terminals in Rawalpindi, Machike and Shikarpur.

The company's Retail network consists of 456 outlets located throughout the country as well as wide spread Distributor network catering to the demands of the Industrial, as well as the Agricultural sectors. Caltex installed its first CNG facility at its Company managed retail outlet at Islamabad. Subsequently, more CNG facilities have been added to the network in Karachi and Lahore increasing the number of CNG refueling facilities to 25 nationwide. In addition, Caltex has

established five CNG conversion kit centers, located in Karachi, Lahore and Islamabad, respectively.

Caltex was the first oil marketing company to introduce many modern concepts in the industry in Pakistan. A hallmark of its technical advantage in the industry is its state-of-the-art computerised lubricating oil blending plant which has been set up and commissioned at the West Wharf Terminal, Karachi. Caltex was the first in modernising its retail outlets, installing electronic dispensers and implementing Customer Service Systems. Its modern testing laboratory fully equipped with the latest equipment coupled with fully documented procedures was the first ISO 9000 accredited Oil Testing Facility in the country. It is also the first oil marketing company to acquire ISO certification and adopt international Health, Environment and Safety (HES) standards. Caltex is the pioneer in establishing Convenience Stores and introducing co-branded Cards in the market.

In the refueling of International Airlines at Quaid-e-Azam International Airport, Karachi, Caltex became the first company in the country to have its refueling facility, equipment and systems accredited with ISO 9000. Caltex took the lead in renovating, revamping and modernizing its Retail network bringing the standards in line with its International image in order to provide quality products and services to their valued customers. The company has undertaken and sponsored numerous environmental projects and has made generous donations to the various campaigns launched over the years, living up to its reputation as a responsible corporate citizen.

The company has expanded its asset base in Pakistan quite significantly over the years. Its current investment comprises of the state of art computerized lube blending plant, refined oil storage depots and terminals, lube warehouses, tank truck fleet, mobile quality vans, lube vans and delivery trucks, lube shops, LPG bottling and storage plants, LPG bowsers, aviation refueling facility, CNG conversion centers and an extensive retail network which includes CNG operations. The future plans are also quite extensive as the company has committed a significant investment amount of around Rs. 4.5 billion since January

2000 in projects related to the development and improvement of petroleum infrastructure of national importance. Its biggest investment has been the purchase of 11 per cent equity in the White Oil Pipeline Project, which is estimated to cost around \$480 million. The pipeline will play a significant role in the country's overall economy by transporting HSD on the most economical, safe and reliable basis from Port Qasim to Mehmoodkot (Multan).

Caltex acquired the LPG business from Sui Southern Gas Company Limited at a cost of Rs.369 million through the privatization process of the Government. Caltex is continuously augmenting the investment in the LPG business to upgrade the existing bottling and storage plants especially in the Health, Environment and Safety areas.

Caltex like other OMC's has switched over to unleaded gasoline marketing in the country. As far as Sulfur contents in Diesel, is concerned, the Government has brought down the limit from the current 1% to 0.5% for all imports effective July 2002. Caltex seems fully aware of its responsibilities in the handling of major environment issues and plays a major role in addressing the need to further reduce sulfur, lead and Carbon-related pollution.

Compressed Natural Gas (CNG) is an environment-friendly fuel and is being promoted by the present Government. Caltex was the first amongst the oil majors to establish CNG refueling facility at its retail network. Caltex is committed to the Government's policy of promoting CNG as an alternative fuel. Caltex has already invested over \$1 million in setting up 25 refueling facilities. In addition to the refueling facilities, Caltex has also set up 4 CNG conversion centers and undertaken approximately 3000 conversions.

In the area of customer services, Caltex has brought about a revolution in retail marketing concept in Pakistan. The improvement in service levels at retail outlets backed up with a stringent quality control supply chain has greatly benefited the customers. As an equal opportunity employer, Caltex has employed women in key management positions across different departments. Caltex offers

excellent career development/growth opportunities to employees both in the country and overseas.

Caltex Pakistan has a smaller market share as compared to other two giants. To combat the onslaught of the process of deregulation, the Company has formed an alliance with Shell for import and handling of gasoline and HSD. However, the Company is not expected to witness any substantial gain in its market share due to a constraint of limited number of outlets.

3.3.3 Attock Oil Refinery

Attock Oil Refinery acquired the permission to establish its own outlets some years ago. Pursuant to its plan to establish these outlets it has established few outlets. It is expected that after the increase in its refining capacity the Company would establish few more of its own outlets.

3.3.4 Pak Arab Refinery

Pak Arab Refinery has formed strategic alliance with some of the world leaders for marketing of its products. Since it has a very large refining capacity and some of the products being produced are in surplus, it has two options: export the surplus or establish its own outlets.

3.3.5 PSO

PSO dominates the downstream sector by having a market leadership position in diesel, jet fuel and fuel oil with overall market share of 60 per cent in white oil and 75 per cent in black oil products. Pursuant to the GOP's attractive power policy, PSO invested heavily in infrastructure facilities to import and transport fuel oil to support the additional requirements generated by the influx of thermal independent power plants ("IPPs"). PSO signed long-term (22-30 year) supply contracts with IPPs to supply fuel oil. By virtue of these agreements PSO now commands 85% market share of fuel oil. PSO has been pursuing an aggressive marketing strategy by revamping its retail network and concentrating

on high margin products. As the largest OMC in Pakistan, PSO is committed to efficiently meeting the country's energy needs beyond the 20th Century. As a result, PSO has been listed in Asia's largest 1000 companies by Asia Week.

Following graph overviews company's performance over the years. Following table gives the Sales & Profitability Summary of PSO from 1995 to 2004 (Figures expressed in billions of Pakistan Rupees)

:Year	Sales	Sales Growth<	EBITDA	% of sales	Inc. bef Extra	% of sales	Emps	Sales/Empl
1995	49.208	12.1%	1.755	3.6%	1.041	2.1%	n/a	n/a
1996	52.932	7.6%	2.764	5.2%	1.498	2.8%	n/a	n/a
1997	79.452	50.1%	4.065	5.1%	2.046	2.6%	n/a	n/a
1998	77.719	-2.2%	3.349	4.3%	1.846	2.4%	n/a	n/a
1999	61.697	-20.6%	3.738	6.1%	2.671	4.3%	n/a	n/a
2000	102.467	66.1%	4.353	4.2%	2.231	2.2%	n/a	n/a
2001	143.306	39.9%	4.523	3.2%	2.251	1.6%	2,000	71,653,000
2002	153.111	6.8%	5.109	3.3%	3.188	2.1%	1,939	78,963,899
2003	172.446	12.6%	6.781	3.9%	4.030	2.3%	1,976	87,270,243
2004	161.517	-6.3%	6.809	4.2%	4.212	2.6%	1,965	82,197,146

Quarter of a century ago what started with the merger of three distinct entities now stands as one of the largest, most profitable and efficient companies of the country. This entire journey has been one of consistent effort and commitment. Tracing its origin to Esso Eastern, Pakistan National Oil and Premier petroleum, PSO has the unique advantage of enjoying the efficiencies and technological edge of the multinationals along with a strong understanding and commitment to the local environment. An advantage that has allowed it to truly live up to the slogan "National Company, International Quality Products".

In its twenty-nine year history, PSO has moved from strength to strength, in the process it has met more than 70% of the nation fuel requirements, created a 3805 strong retail network spanning the length and breadth of the country, developed the largest storage network in the country, built a customer base as diverse as the country itself and has been instrumental in developing as well as

defending the nation. Above all, it has given the nation the confidence of assured fuel supplies at all time.

PSO envisions to be committed to leadership in energy market through competitive advantage in providing the highest quality petroleum products and services to our customers, based on:

- Professionally trained, high quality, motivated workforce, working as a team in an environment, which recognizes and rewards performance, innovation and creativity, and provides for personal growth and development
- Lowest cost operations and assured access to long-term and cost effective supply sources
- Sustained growth in earnings in real terms
- Highly ethical, safe environment friendly and socially responsible business practices

PSO's values include:

- **Excellence.** It believes that excellence in core activities emerges from a passion for satisfying customers' needs in terms of total quality management. The foremost goal is to retain the corporate leadership.
- **Cohesiveness.** PSO endeavors to achieve higher collective and individual goals through team spirit. This is inculcated in the organization through effective communication.
- **Respect.** PSO is an Equal Opportunity Employer attracting and recruiting the finest people from around the country. It values contribution of individuals and teams. Individual contributions are recognized through reward and recognition program.
- **Integrity.** The company upholds values and Business Ethics principles in every action and decision. Professional and personal honesty, dedication and commitment are the landmarks of its success. Open and transparent business practices are based on ethical values and respect for employees, communities and the environment.

- **Innovation.** PSO is committed to continuous improvement, both in New Product and Processes as well as those existing already. It encourages Creative Ideas from all stakeholders.
- **Corporate Responsibility.** The company promotes Health, Safety and Environment culture both internally and externally. It emphasizes on Community Development and aspires to make society a better place to live in.

In pursuance of the corporate vision and cultural guidelines, constant evolution and development has been PSO hallmark. New Vision Retail Development now encompasses over 600 outlets; a new and comprehensive product line of lubricants and value added services such as the corporate, fleet and loyalty cards, c-stores, Auto-car wash facilities, Internet Kiosks, etc are continuously introduced. In addition to this, storage and supply chain facilities are being modernized and upgraded, while a series of structural and reorganizational steps have already been taken towards enhanced productivity and efficiency.

Along with its areas of core competence, PSO in recent years has placed a growing emphasis on health, Safety & Environment (HSE), good corporate governance and has developed a flexible and dynamic organization with a more active social role going beyond immediate business interests in line with our corporate vision.

Bringing the best to its customers as the largest OMC of Pakistan, PSO is engaged in the storage, distribution and marketing of petroleum products, petrochemical, LPG and CNG and forms the backbone of the country's fuel and energy needs. Since its inception in 1976 the Company meets more than 70% of the fuel needs of the country. PSO's 3805 retail outlets all across the country supply over 12 million tons of oil annually. In fact, PSO has the distinction of operating the world's highest gas station, situated at 14,500 feet altitude in the Sust pass, ample proof that the company's dedication to customer service is based on a deeply felt sense of national duty. 110 more New Vision outlets in place In line with its endeavor to provide better service to customers, 110 New Vision Outlets are already completed, thus substantially enhancing PSO's image. These stations

are designed to provide fast, efficient services and high quality products like petrol and diesel and world class Castrol lubricants. Marketing world class Castrol lubricants Castrol products are manufactured at PSO's own ISO 9000 certified facilities, ensuring the highest quality standards, and are marketed in a new shrink-wrapped plastic can with a pilfer-proof seal that offers customers the absolute guarantee of purity. PSO currently markets Castrol GTX, Castrol GTX Magnatec, Castrol Turbomax and Castrol CR-40. Automatic Car Wash, Shop Stop, Business Center, CNG and more New Vision stations have facilities like CNG, Shop Stop, and the Business Centre. The Business Centre is a unique and innovative service launched by PSO that has fax and email facilities. PSO has also installed Pakistan's first automatic and environment friendly car wash at its company-operated retail outlet in Clifton. This provides quick, efficient service within just five minutes and is available in four attractive economical packages to attract a large number of customers. In addition, PSO is now introducing a new phase of customer service with speedy, convenient Mobile Quick Oil change. Always eager for ways in which to improve, the Company also introduced a 24-hour Aidline for customers to call in with queries on PSO products and services, complaints, and suggestions on how PSO can serve them better. Mobile Testing Unit introduced Controlled by stringent quality standards, our 3805 outlets nationwide work to keep customers satisfied. To control product quality and quantity and to enhance customer satisfaction, PSO launched a Mobile Testing Unit service, fully equipped with modern computerized instruments. Now ISO 9002 certified, the Mobile Testing Unit network provides facilities such as emission test, fuel gas analysis and brake fluid condition tests to interested customers as a complimentary service. These vans in Karachi, Lahore and Islamabad monitor PSO Stations regularly and carry out "on-the-spot" checks for quality and quantity. Additional vans will soon be introduced to cover the entire country.

PSO strongly believes that its dealers are its business partners and this belief underlies all the Company's interactions with its network of dealers. The Company emphasizes the importance of regular dealer training programs that serve to equip dealers to face environmental challenges. In addition to regular meetings, periodic dealer conferences are also held to share views, ideas and arrive

at solutions to problems. To encourage its dealers, the PSO Millionaire Club awards a "Million Liter Award" to those dealers who had recorded an average monthly sale of one million liters of MOGAS or HSD. Compared with last year, 7 new members have joined the club thus increasing the total to 11. Contributing to the progress of rural Pakistan PSO also takes its responsibilities to the agriculture sector seriously. Its 700 strong agency network helps keep the farm machinery running throughout the country. Further, its kerosene sales are a major source of energy for the rural and low income households of the country. In areas unconnected to the natural gas, PSO provides LPG in cylinders. Supplying petroleum products to industrial Pakistan PSO's presence in the industrial sector is as important as its retail network. WAPDA, HUBCO, KESC and most other IPPs rely on PSO's storage and distribution network for fuel in order to generate electricity for the nation. In addition, our four lube blending plants cater to the requirements for automotive and industrial lubricants of the public defense and railway sector.

PSO also markets locally processed and imported specialized petroleum based chemicals and allied products to meet the requirements of paint, detergent, foam, polyester, textile, shoe and other industries throughout the country. Aviation & marine trade PSO is the industry leader in aviation business and serves domestic and international air carriers throughout Pakistan. The Company handles 4 domestic and 16 scheduled foreign carriers and 11 non- scheduled casual customers, and also caters to the requirements of Pakistan Army, Navy and Airforce. The Company's market participation is 68% and it operates in Karachi, Lahore, Islamabad, Peshawar, Multan, Faisalabad, Pasni and Turbat. Karachi makes up 66% of PSO's thruput, and the Company is now making a major investment at Lahore in constructing a fuel farm and hydrant system. PSO introduces Marine Diesel Oil PSO is a major supplier of marine business and has bunkering facilities at both Port Qasim and Keamari. The Company's recent introduction of PSO Marine Diesel Engine Oil D400 also caters to Pakistan's fleet of sea-going vessels at fisheries. Enhancing our Oil Distribution Infrastructure Serving the nation PSO's vast infrastructure serves the country supported by its 28 storage depots and 9 installations with a

total capacity of more than 800,000 tons. PSO's Zulfiqarabad Oil Terminal (ZOT) is spread over 90 acres, has 300,000 metric tons of oil storage capacity, and caters to two-thirds of the energy needs of the country. ZOT consists of Pipri Marshalling Yard, Buffer Oil Terminal and P.I. Booster pumping station. From ZOT, oil is supplied to the whole country through pipeline, railway tank wagons and oil tankers. In order to achieve efficient loading and to improve turnaround time for railway tank wagons, PSO has also upgraded its Pipri Marshalling Yard with tank wagons loading facility. This has increased capacity by an average of four oil specials per day with trains now lining up to load oil for transportation to various locations around the country. The Company has built a number of projects for enhancing its oil distribution infrastructure. Besides constructing additional pipelines linking new Oil Pier No. 3 to the PSO terminals at Keamari for receiving deficit products from ocean vessels, the Company has constructed aviation handling facilities at Sihala Terminal, modernized its Chakpirana Depot and created additional storage at Jaglot Depot.

CHAPTER FOUR

Analysis

4.0.0 The Need for Change

PSO - a public sector organization, which was flourishing under the umbrella of the government of Pakistan, suddenly had to face the brunt of external factors which adversely affected its performance in real terms. The question of maintaining previous years' performance became an issue. Concerns were also sounded and heard about maintaining the market share. Good performance of previous years had covered all short comings of the organization – viz: structural, technological and behavioral, but now it was a different ball game. Pressure on the organization for a better performance was compounded by the Government's resolve to privatize PSO – an effort to earn exchequer to beef up the ailing reserves. In order to attract handsome bids good results and potential for the sustained growth were prerequisites as who would extend expected bid for a doubtful organization. A close look at the environment surrounding the PSO starting FY 1999-2000, reveals that the disequilibrium was brought about, on one hand, by the economic factors and, factors specific to the oil industry on the other. We shall examine both categories in succession.

4.0.1 Economic Factors

The economic factors that effected the necessitated change in PSO included global recession of late 90s, the 9/11 incident, sharp decline in production and consumption of crude oil, Pakistan's categorization as low priority oil and gas market and government's decision to privatize PSO.

4.0.1.1 Economic Recession and 9/11

The worldwide economic recession in general and highly disturbed conditions in this region have their own effect on Pakistan's economy. The industry consumption of POL products has been essentially stagnant, depicting a

negative growth of 0.5 per cent primarily due to economic recession. During the 1st quarter of the fiscal year, the industry's demand declined by 15 per cent over the last year. There was a decline in demand of some major products like Motor Gasoline (MOGAS), Light Diesel Oil (LDO) and Superior Kerosene Oil (SKO) whereas fuel Oil (Furnace Oil) and High Speed Diesel (HSD or Gas Oil) showed a nominal growth. Key products like jet petroleum (JP-1), MOGAS, SKO and LDO declined by 8.2 per cent, 5.7 per cent, 6.2 per cent, 10.8 per cent while HSD and Fuel Oil showed marginal growth of 0.6 per cent. The Global **economic recession** of late 90s and the events that followed 9/11 incident diverted the mind set in the united states against terrorism instead of the world economy. These events also included a war in Afghanistan by coalition military forces. The effects of economic recession, Pakistan's proximity to Afghanistan and a war like situation on its border with India **resulted in lower domestic consumption** as the country's economy was put under tremendous pressure by these compelling factors.

4.0.1.2 Low Consumption

During the first half of FY 1999-2000, **the international crude and POL product prices and consumption dropped sharply** with trickle-down effect in domestic consumption and prices. With the upward movement in international prices and increased demand of POL products after January 2002, the local demand and prices also recovered and followed by the same trend however, **the consumption grew at a slower pace**. In the second half of the financial year 2002, the overall POL industry showed a growth of one per cent as compared to negative growth of 9.1 per cent registered during July-December 2001 period thus partially off setting the sharp drop on cumulative basis.

In financial year 2001-2, the overall POL **consumption in Pakistan was 17.3 million tons, down by 4 per cent over the preceding year**, which had been growing at a compounded annual growth rate of 7 per cent during the last two decades. The decline in consumption was primarily due to the reduced consumption of fuel oil, which registered a negative growth of 6.3 per cent. Consumption of Motor Gasoline, which had been declining at around 3 per cent

during the last five years, registered a decline of 2 per cent despite the CNG & LPG substitution, fluctuating prices and inflow of smuggled product from across the adjacent borders.

4.0.1.3 Low Priority Market

Pakistan's oil sector has been identified as a **low priority market** by the foreign investors. This priority is a result of the uncertain level of investment partly reflecting national political and economic uncertainties although there is potential business. Although it has repercussions for the country's economy, it has reduced competition thus augers well for firms already in business. This advantage may prove to be temporary and the foreign firms may step in any time their perception of the situation improves.

4.0.1.4 The Economic Revival – Role of Government

The government of Pakistan (GoP) aims at **minimizing state controls and eliminating subsidies** given to local industries. The deregulation of Petroleum, Oil and Lubricant (POL) products trade was part of its two tier policy: attracting investment in oil and gas sector and accelerating the pace of privatization. While the shift in the GoP policy has opened up the oil marketing sector to new investment, the move is expected to intensify the competition among the major oil marketing companies (OMCs). Deregulation of furnace oil business has rationalized its price in the local market. While the deregulation of motor gasoline and diesel trade is expected to put pressure on the profitability of OMCs, the policy is expected to have positive impact on the economic revival efforts of the present government.

4.0.2 Factors Specific to Oil Industry

The oil situation in the country heavily affects the business of OMCs. Let us see the oil situation in Pakistan:

4.0.2.1 Rise in Demand for Crude Oil

Oil & Gas are two of the major components of Pakistan's Energy Mix contributing more than 85% to the total fuel share of energy production. POL products provide around 43 per cent of Pakistan's total energy requirements. According to the Ministry of Petroleum and Natural Resources, the demand of oil has been increasing over the previous decade and this trend is likely to continue. Consumption, reserves and production data provide an indication of the current levels and the potential for future activity. It also helps to find out the required quantity of products needed from imports. As per official estimates, during 1999-2000 the demand for POL products increased to 17.6 million tonnes representing 6.3 per cent growth over the previous year. The consumption included 6.2 million tonnes of furnace oil and 5.5 million tonnes of high speed diesel (HSD) and the balance consisted of other products. While motor gasoline demand declined by 5.6 per cent due to substitution by CNG, HSD demand was up by over 5 per cent and furnace oil demand increased by nearly 10 per cent due to increased consumption by IPPs, WAPDA and KESC. Where as the total remaining proven and probable resources based on identified discoveries in 1999 stood at 2.7 million tonnes in oil production and the reserves accounted for 35.9 million tones. Pakistan, thus, is a modest oil producer but a more significant gas producer with potential for growth and possibility of more discoveries of gas reserves. Pakistan produces 57,000 barrels per day (bbl/d) of oil, and consumes 359,000 bbl/d. Net oil imports are 302,000 bbl/d. Pakistan's net oil imports are projected to rise substantially in coming years as **demand growth outpaces increases in production**. The state-owned Oil and Gas Development Corporation (OGDC) has been by far the major domestic player in the oil industry.

4.0.2.2 Refining Capacity

Until recently local refineries were meeting only 33 per cent of the domestic requirements and the remaining 67 per cent demand was met through import. However, with the commencement of Pak Arab Refinery, having a refining capacity of 4.5 million tonnes per annum, the country has become surplus in certain products.

4.0.2.3 Fuel Substitution

Pakistan's demand for natural gas is expected to rise substantially in the next few years, with an increase of roughly 50% by 2006, affecting sales volume of furnace oil, due to the GoP's policy to make gas the "fuel of choice" for future electric power generation projects. This will result in a sharp rise in production or import of natural gas, and a greater pressure on the oil reducing its demand and forcing the oil marketing companies to diversify into the gas and high-margin lubricants sector and also work harder and smarter to maintain their market share and sales of petroleum products. The high-margin lubricants business has encouraged other international companies to enter Pakistan. Over the last two years, companies like Elf-Total, BP-Amoco and several smaller regional companies have entered the Pakistan market.

4.0.2.4 Deregulation and Privatization

Pakistan remains a developing country with a **narrow industrial base**. It is still heavily dependent on agriculture, which accounts for roughly one-quarter of GDP. The public sector plays a dominant role in the economy but significant changes are under way including privatization and economic liberalization. Deregulation and privatization of petroleum sector is high on the agenda of the government of Pakistan where the focus is being laid on liberal and practicable policies to attract investment in petroleum sector and to explore all the areas to yield full advantage of locally available natural resources. As part of the privatization process, the government of Pakistan has set up the Petroleum Regulatory Board (PRB), which has separated the government functions from the state-owned companies to be privatized. Pakistan's government hopes to reap significant revenues from these privatizations over the next several years. In the fuel and lubricants distribution sector, the government of Pakistan plans to privatize the PSO (PSO) company, which holds three-quarters of the market share for petroleum products distribution and has more than 3,800 outlets. The Government of Pakistan ("GoP") holds approximately 54% stake in PSO, including both direct holdings of the Federal Government and indirect holdings through GoP owned institutions. The GoP is in the advanced stages of divesting

51% of the in PSO to a strategic investor. Final approval for the privatization was granted in January 2001, and the Pakistani government has attracted potential buyers but has not yet gone for PSO's privatization probably because PSO's clientele includes armed forces.

Deregulation of prices for petroleum products is being pursued in parallel with the privatization of PSO. **The GoP has initiated measures to completely deregulate the POL trade** in phases. Initially furnace oil imports were deregulated with lifting of price controls. Motor gasoline and diesel trade are in the process of being liberalized. The oil marketing companies through OCAC from 15th March 2001 implemented self-management of freight pool. The components that determine the selling prices include ex-refinery prices excise duty, petroleum development levy, inland freight, dealer margin, distributor margin and sales tax. Under that mechanism POL pricing being done on approved pricing mechanism which is tied up with the international oil prices. However the government levies which go to the exchequer are included in the oil prices. The components of selling price include ex-refinery/ import price, excise duty, petroleum levy, inland freight, dealer margin, distributor margin, sales tax and a possible difference due to rupee-dollar parity based on average inter bank rate for every fortnight. Deregulation of prices is likely to erode oil marketing companies' margin.

4.0.2.5 Investment Potential

There is **potential in the sector for investment and development** that, in addition to a more open market economy, should provide improved opportunities for international companies. The economy shows cause for concern with national debt and financing difficulties that gives the IMF leverage for other reforms. Nevertheless there is a recent commitment to the progress being made on practical reforms to reduce the levels of corruption and encourage payment of taxes.

4.0.2.6 Transportation Cost

Till recently, bulk of the POL movement to up country was from Karachi — be it locally refined or imported products. PARCO's pipeline used to handle most of the quantity and remaining was sent through railway wagons and tank lorries. After the commencement of PARCO, this pipeline has been dedicated for transportation of crude oil. However, a new white oil pipeline has come on line since 2002. As the GoP has started deregulation of POL trade, now transportation cost will play a key role in determining the profitability of the OMCs.

4.0.2.7 POL Consumption Vs Demand

The POL consumption is considered to have an inelastic demand. The consumption volume of furnace oil and HSD has been increasing despite increase in their prices. However, in last five years demand for motor gasoline has witnessed declining trend in its consumption. The lower offtake is due to gradual shift to other fuels, CNG in particular. Historically, the GoP has been collecting a very substantial amount as development surcharge on POL products to compensate for lower CBR-related revenue collection. While the international lenders did not appreciate this policy, the resistance against this practice also developed to a large extent locally. During the present regime efforts are being made to minimize dependence on this surcharge. Therefore, it was decided to review POL prices on quarterly basis.

4.0.2.8 Inventory Losses

OMCs are already under pressure due to the gradual deregulation of the POL trade. The reduction in prices puts pressure on the earnings of OMCs. With the reduction in POL prices, companies will face inventory losses. In the past, they were making substantial profit due to inventory gains. However, the extent of inventory losses, in the near future, would largely dependent on the **inventory management policy of each company.**

4.0.2.9 Increase in Dealer's Margin

OMCs had been demanding a raise in their profit/margin rates on petroleum products from 3.5 percent to 4.5 percent to make Pakistan an attractive place for them to invest more, as upward revision would ensure OMCs better return on their capital investment and subsequently enable them to improve their services, besides improving infrastructure. Moreover, the profit margin rates in Pakistan were the lowest in the region and therefore needed revision. The GoP, in response, has **increased the dealer's margin on POL products** by one per cent. However, the key issue is the ultimate dismantling of freight pool system, whereby all retail outlets across the country have exactly the same prices for the products. While the cost to exchequer is reportedly going to be Rs 1.5 billion because of this one per cent increase in dealers' commission, the government hopes to offset this by reduced charges on transportation at secondary distribution level which would now be borne by the oil marketing companies.

Thus in view of the compelling factors stated in the preceding paragraphs, the profitability of the OMCs will be directly related to volume of sales. Therefore, all the companies invested heavily to improve the quality of services being offered at their outlets. PSO, too had to wear a better look and improve upon its efficiency to remain competitive. A need for change, therefore, was felt very strongly by the concerned quarters. As a logical first step, a new managing director, from the private sector, was appointed to run the company on professional lines. Under his leadership efforts were made to restructure the company and also exercise cost controls.

4.1.0 The Change Leader

Without a well-established and competitive framework of corporate systems, no company can achieve such a high professional ranking that PSO has achieved. Usually, the companies get such systems developed on a turnkey basis by external consultants, based on payment of heavy fees and expenses. PSO has a unique distinction of developing and putting in place such systems

through in-house teamwork lead by an internal consultant - a change leader. A change leader may be a top executive, a manager of human resource or organization development departments or simply a member of the organization⁷. In PSO, Mr. Tariq Kirmani acted as the change leader in the whole change process. A committed and thorough professional with rich experience spread over three decades to his credit, he had a wide exposure of the oil industry in the United States, Australia, and United Arab Emirates that helped him spearhead the change process at PSO. Later Corporate Planning Department (CP) of PSO also played a key role in renewal of the company.

4.2.0 The Diagnosis

As a logical consequence, an effort was made to find an answer to the external pressures from inside. For this purpose the management adopted a systematic approach to understanding and describing the present state of the organization. The management, having decided the change objectives, with the involvement of all tiers, through interviews and surveys collected the required data on structure, administration, interaction, procedures, interfaces, and other essential elements of the organization in order to specify the nature of exact problem requiring solution, to identify the underlying casual forces, and to provide a basis for selecting effective change strategies and techniques. Analysis of the gathered data based on cause and effect relationship revealed numerous problems areas, some of which have been delineated below:-

4.2.1 Structural Issues

- PSO had a **tall hierarchy**, thanks to many managerial levels relative to its size, resulting into the consequential problems of distortion in communications, manipulation of information by various managers, larger span of control and higher bureaucratic costs amidst others.
- **Bureaucracy**, according to Max Weber⁸, a German Sociologist, can be extremely effective in decision making and distribution of resources, if it followed six principles. PSO, as is usual with most public sector

organizations, had an **overly bureaucratic** structure which had become dysfunctional for the organization. Instead of a rational legal authority, the bureaucracy in PSO followed the whimsical directions of the government functionaries. Kinship, social status and heredity had become the basis for organizational roles instead of technical competence. Though the relationship between different roles was clearly specified, many managers were bypassed in order to get a decision implemented. Reflection of this overly bureaucratic structure can be witnessed in decision making in hiring, promoting and rewarding which instead of being equitable was marred by nepotism, and distribution of resources which was done on personal whims.

- PSO was experiencing an acute shortage of suitably trained and loyal staff though its departments were **overstaffed**, owing mainly to the governmental intervention in its decision making process. Slowly a huge number of incompetent people had gathered in the organization who hardly added any value to the company.
- PSO had become a **highly centralized** organization over the years owing once again to the governmental intervention. Operational managers had to wait for orders from the middle and top management for routine issues. No one was willing to take the responsibility which made the decision making slow and cumbersome. In the process organization missed out many opportunities where its people could have added lots of value to the organization.
- As PSO was under the extreme influence of government, though present on papers, the formalization practically could not make its place in the organization. Rules and standard procedures for the recruitment and hiring of employees, for example were never followed in letter and spirit. Although a high level of centralization typifies high standard of formalization but this was not the case in PSO. The top management could not follow the set procedures because of heavy political intervention.
- PSO had a mechanistic structure instead of an organic one which is essential to promote mutual adjustment and an expertise conscious informal organization.

- PSO as an organization had lost its urge to develop and **grow**. The company was in a state of disequilibrium and the employees saw no prospects of growth be it personal or organizational. Although it did enjoy major market share – thanks to governmental protections, it needed to bring in best management practices to become efficient enough to survive if it were to be privatized that too amidst the environment of global recession.

4.2.2 Technological Issues

The company was working without an efficient management information system resulting in long queues and delayed orders processing. Most of its processes were manual thus cumbersome.

Declining sales pushed PSO into the nagging problem of **higher inventory levels**. The Company had not faced this type of situation in the past. It exposed the inefficiency of its inventory management system. Shell had been very active on this front and had invested substantial amount in acquiring state-of-the-art inventory management system.

Barring few stations in big cities, all retail outlets wore a boring look besides functioning on outdated gadgetry such as dispensers.

PSO as a brand image was not popular among customers. Shell, on the other hand, due to its market oriented approach and heavy investment, enjoyed a higher standing as a brand.

Poor health, safety and environment standards badly tarnished company image in the local community.

4.2.3 Behavioral Issues

PSO lacked the required standard of inter-department, intra-division and inter-division communication, resulting into misunderstanding, non-cooperation and at times mud-slinging. Coordination and resultantly integration among these

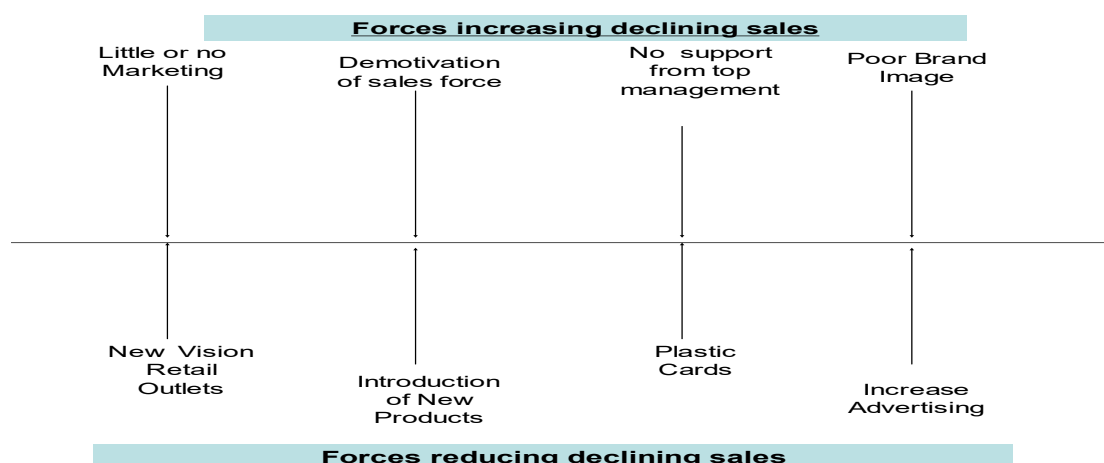
entities was a big issue. This situation grossly effected the problem solving and decision making processes totally defeating the concept of contingency management. Giving rise to problem solving and decision making, these behavioral snags adversely hampered collective approach and team spirit.

Coordination of formal and informal organization in PSO was missing. The problem grew out of proportion in the wake of centralization and non adherence to formal rules and procedures by the top and middle management. Employees surfaced ways of working to suit their convenience in absence of an effort to coordinate the informal organization with the formal one from the management.

At PSO, the top management was too intoxicated of its status as the leaders in this sector. No significant change program was planed by them to **revitalize** the company in order to maintain the top position. This resulted into a style of management that enforced top-down communication of decisions for implementation by the lower tiers breeding non-ownership attitude among them. This funneled into demoralized and consequently low output-employees who eventually contributed towards declining sales.

Lack of mutual confidence and understanding rampant among individuals and departments rendered the conflict resolution extremely difficult.

Taking help from force-field analysis model, a general purpose diagnostic technique, the quasi equilibrium of the organization for declining sales, for example, after a brain storming session was depicted by following diagram:



4.3.0 Change Initiatives

Having completed the diagnosis of the problems the company was facing, the next step was to evolve strategies, make action plans and use best techniques to achieve the desired objectives. PSO embarked upon a comprehensive and far-reaching corporate renewal programme resulting in dramatic corporate transformation which has been widely appreciated at various national and international forums, by world's leading consulting and financial advisory firms. This programme covered the revamping of the organizational architecture, rationalization of staff, employee empowerment and development, and efficiency and transparency in decision-making through Cross-Functional Teams. As a consequence, PSO saw a number of changes during the next three years starting from FY 2000-01. The objectives of these initiatives remained: increased operating efficiency, introduction of high margin products, expansion of new product lines and services, and tightening of systems and controls. With this sharp focus, the management finalized its initiatives appropriate to achieving desired results. The natural outcome was that despite the industry registering a decline due to adverse factors, PSO sold 12.6 million tons of petroleum products in the July 2000-June 2001 period, which was essentially the same volume it achieved in the preceding year. Management attributed the positive performance of PSO to the committed team of the managers moving ahead with a requisite spirit guided towards the goal with clarity of vision and sincerity of the purpose. Effective implementation of corporate reforms and business development strategies in line with best international practices enabled PSO to maintain its market leadership position in a highly competitive business environment.

Management catered for all the three facets of development namely structural, technological and behavioral and more importantly at all the four levels to include individual, team, inter-group and total organization. But before we look at these initiatives, adaptive orientation of PSO needs to be established. The change initiatives taken included:

4.3.1 Business Strategy

In view of the rapidly changing business environment and competitive realities, PSO undertook several far-reaching and comprehensive reform initiatives to provide a dynamic and innovative response to actual and potential challenges in all aspects of business. Such strategic initiatives aim at realization of the following aspirations⁹:

- Market leader providing the highest quality petroleum products and services to its customers.
- Professionally trained, high quality, motivated workforce, working as a team in an environment which recognizes and rewards performance, innovation and creativity, and provides for personal growth and development.
- Lowest-cost supplier with assured access to long-term supplies
- Sustained growth in earnings in real terms
- Highly ethical company; good corporate citizen

PSO basically capitalized on the distinctive features of low-cost leadership strategy because of its ability to import oil at much cheaper prices than its competitors. It enjoys this advantage due to the protection extended to it by the government. Its competitors lack this advantage as they are purely private and internationally owned companies.

In addition to the low cost leadership, followed previously, differentiation was an addition to business strategies of PSO. It successfully ventured into this unique combination of differentiation as well as the low cost leadership strategy which is usually difficult to achieve and maintain by business organizations. It depends upon the definite circumstances and available resources that enable a company to successfully adopt both strategies.

As part of its differentiation strategy PSO introduced and added a number of new products in its product line in a compelling manner in contrast to the competition. In addition to the extension in product line, the PSO succeeded in launching different kind of value added services for the consumers and set a basis of change initiatives in the organization. These include: loyalty cards, plastic cards, new vision retail outlets program etc.

4.3.2 Structure

In order to establish good corporate governance framework, the Ministry of Petroleum & Natural Resources reconstituted the Board of Management (BoM) of PSO by giving it the autonomy to run the company on a professional and commercial basis. The Board comprises ten members - two each representing the government and the public sector financial institutions, and six from the private sector. The Board is responsible for management and control of the company business. It meets periodically to comply with the statutory requirements of the national legislations and the Memorandum and Articles of Association of the Company, and to meet the requirements of the shareholders. The Board is assisted by three Board Committees in its decision-making process - the Board Audit Committee, the Board Finance Committee and the Board Human Resource Committee. The Board Audit Committee reviews, amongst other areas, management policies and practices to ensure adequacy and effectiveness of the company's system of internal controls. It also reviews business ethics violations, conflict-of-interest issues and irregularities as well as management's compliance with relevant policies set by the BoM. The Board Finance Committee reviews and evaluates the financial performance of the company as well as major projects and plans, based on economical viability or operational necessity, as directed by the Board of Management. The Board Human Resource Committee is responsible for developing a sound organizational plan for the company, and effective employee development programs, compensation and benefits plans and policies that would help attract and retain high quality professionals. PSO's current BoM is fully autonomous with the statutory powers under the

Companies Ordinance 1989. In addition to these Board Committees, the following committees assist the Management of PSO:

- Management (Man-Com) and Executive (Ex-Com) Committees
- Compensation, Organizational & Employee Development (COED)
- HSE Steering Committee
- Audit Committee
- SAP and Purchase Committees

The Head Office, located at Karachi, in addition to regular departments, now, has a legal, a retail construction, a retail facilities and a highly regarded Corporate Planning (CP) Department. The other Retail functions, located at the Head Office, provide support to the division staff, in collaboration with other departments of PSO, for development and operations of New Vision Retail Outlets, CNG facilities, CoCo Sites and execution of Retail Rationalization Program, leases, rentals, incentives and credit to PSO's business partners. Additionally, support for sales enhancement in terms of daily and monthly sales analysis is also provided to the divisions so that they can assess their position in the market and chalk out their selling strategy in the coming months and years. All in all, the Retail Fuels department carries out all strategic planning and policy making activities, conducts analysis on business development and provides support to the divisions. The department is the backbone of the company for expanding PSO's network of retail outlets, its customer base, and its customer focused repute.

PSO has 14 division offices across the country, each of which is divided into well-defined territories/areas. The division office is the custodian of PSO's activities, image and repute and facilitator of customer satisfaction in its defined territories, and as such is extremely vital to the overall progress of the company in terms of revenues, image building and customer focus. Each division office is headed by the Divisional Manager who, with his Deputy Divisional Manager and Sales Officers, is responsible for making sales in his territory and addressing concerns and issues of PSO's business partners i.e. the

dealers operating PSO Retail Outlets in the division. Additionally, and most importantly, division offices are centers of customer services where the Divisional Manager, with his field force, ensures complete customer satisfaction in his division and implements promotional campaigns and PSO's standards of quality, quantity and service at the Retail Outlets.

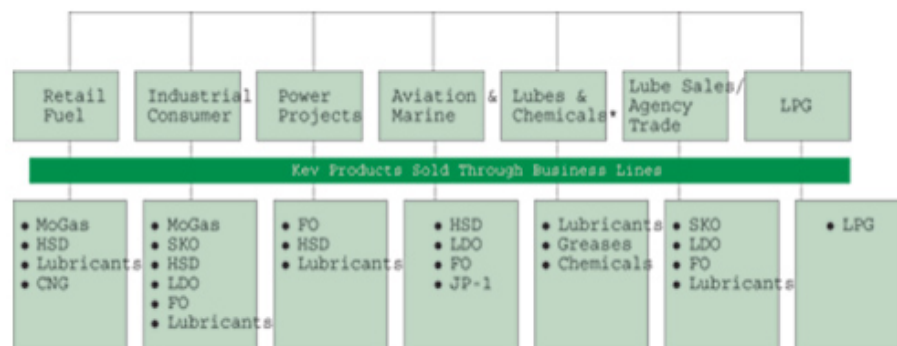
The PSO established a Corporate Planning department (CP), based on world-class qualifications and high-level international exposure of CP team, which has played key role in company's turnaround. In addition to formulating PSO's first ever Corporate Plan in line with best business practices, CP assisted all the departments of PSO in developing their plans. Today, every department of PSO, particularly each business unit, has a robust business plan. Together, the Corporate Plan and departmental plans form a cohesive, dynamic and internationally competitive strategic framework for good corporate governance. While serving as Secretariat of PSO's Management Committee (Man-Com), CP helped redefine the role and restructure the operations of Man-Com to transform it into an institution playing a pivotal role in PSO's corporate renewal and market success.

CP developed a corporate model to work as a capstone on PSO's transformation initiatives. This model tracks success from corporate policies and management behavior through employee attitude to customer satisfaction and financial performance. It provides an effective framework for analyzing various elements of PSO's corporate renewal program in context of classical and modern research. In this context, internationally renowned management scholar Professor Roderick Martin acknowledged PSO's corporate development, in the following words:

"The direction of structural change has been identified, which increased decentralization, management autonomy and the change from reliance on managerial authority to teamwork and the delegation of responsibility. The purpose of the structural change is to increase the

flexibility of the firm and its ability to respond to different market conditions."

PSO revamped the entire organizational architecture - geographical division structure, by implementing Matrix Management, which divided the company's major operations into independent entities supported by the financial, legal, information and other services. These entities were tasked to operate in an autonomous and collegial manner in the form of **Strategic Business Units** based on the clear and transparent allocation of responsibility and accountability for sales volumes, profitability and investments. This structural change was reinforced through instituting related checks and balances by putting in place several corporate monitoring and control systems. Following table gives reallocated PSO Business Lines:



PSO's New Vision Retail Outlets (NVRO) are a tangible representation of this transformation and a visible proof of PSO's brand new vision and dynamic new spirit. PSO began its New Vision development in the year 1999 and has 833 NVROs to date to its credit. The development of NVROs has become the backbone of company operations and the highest level of significance is given to all matters related to them. A Cross Functional Team comprising of representation from all related departments meets at least once a week for a comprehensive discussion on NVRO development in each division of PSO. NVROs also have facilities like the Shop Stop, Business Center, Internet Kiosk, Auto Car Wash, Service Station, Tyre Shop and availability of PSO

Loyalty, Fleet, Corporate and Pre-paid cards, literally making the outlets a convenient one Shop Stop for the customer.

Reduced unnecessary layers, making PSO lean and flexible, and eradicating the rampant issues of distortion in communications, manipulation of information by various managers, larger span of control and higher bureaucratic costs.

PSO is deeply conscious of the pivotal role that human resources play in the success of an organization. As a matter of fact, human resource development has been identified as an area of key importance. While upgrading the level of its existing HRM facility, strengthening the ranks of its workforce with quality professionals at various levels of management, the company also undertakes several initiatives for improving productivity and efficiency at all levels of services. With the manager HRM was now directly responsible to the MD, Human Resource Management in PSO is guided by the following principles:

- Emphasis on strategic management of people
- Integrating human resources policies and practices into business objectives
- People as a resource, an asset rather than cost
- Employee development
- Emphasis on business ethics policy
- Health and safety of workforce
- In order to handle the human resource issues efficiently, PSO Enhancing its status to a function and providing needed manpower and other facilities,.

In order to enhance communication and in a bid to increase sense of participation and involvement among employees, forum of Sales Conferences and Operations Conferences was put in place whose sessions are regularly held in which division managers and operations managers present the performance of their respective areas. Pursuant to its belief that no business

can prosper without effective communication among all stakeholders and their engagement in the decision-making process, PSO strived to get everyone heard and tabulated for proper solution the issues of prime importance. Table below outlines few of such issues:

	Environment	Community	Human Resource	Marketplace
Community	-Cleaner Air -Biodiversity -Waste management -Awareness	-Job creation -Economic development -Access to health and education facilities	-Equal opportunities -H&S* -Skills and training	-Investment
Customers	-Waste minimization -Cleaner fuels -Recycling -Awareness	-Welfare -Calamities		-Standards of service -Business ethics
Investors	-EMS* -Compliance -Cleaner fuels	-Environmental education -Social Inclusion	-H&S* -Equal opportunities	-Investment -Shareholder value -Business ethics
Employees	-EMS* -Awareness	-Job creation -Unemployment	-Skills and OJT* -Equal opportunities	-Business Ethics
Contractors	-EMS* -Awareness	-Social Inclusion -H&S*		-Standards of service -Business ethics

Company embarked upon an innovative services programme for the customers. Few of the initiatives are as under:

- During the Financial year 2001, the company maintained its strong focus on *New Vision Retail Development Program*, commissioning record 185 outlets bringing the total to 295. During financial year 2002, New Vision Network expanded to 503 retail outlets at an average construction rate of 2.2 days per outlet. The company successfully equipped 600 retail outlets with Internet facility while C-Store network expanded to 56, and 44 CNG facilities were made operational.
- In pursuant to a customer-focused approach PSO extended its product line of lubricants, introducing products for the segments that were previously untapped. Other initiative included: the extension of product line, technical seminars and improved customer service. In order to ensure the availability and quality of PSO lubricants, the company expanded its lube shop network to 126. The company also introduced Free Lube Delivery at nine locations to provide prompt service at customer's outlets without any extra cost. The company also introduced dedicated packed lubricant container service to transport product to all upcountry storage points in attractive color scheme. The launch of these

services helped the company introducing flow of spurious and counterfeit products with complete customer satisfaction through satellite tracking.

- PSO established a number of Convenience Stores (commonly referred to as C-stores) all over Pakistan to facilitate its customers. Currently, there are 66 C-stores or 'Shop Stops' at various locations including remote areas such as Haripur. These shops are stocked with a wide range of items ranging from chocolates to imported hair care products. Recently in an effort to standardize all the C-stores, a centralized distributor was appointed to provision the various outlets.
- PSO keeping in mind the government initiative for the promotion of technology, introduced the concept of the Internet Facility at its retail outlets. This facility is targeted at benefiting not only the external customer but also the station staff. To facilitate prompt and effective communication with the PSO Head Office, custom e-mail accounts have been setup for most of the outlets. Currently the Internet facility is available at over 750 outlets all over Pakistan. This is an expanding network whereby according to Company policy, all New Vision Retail Outlets will be provided with the facility as soon as they have been completed.
- Business Centers at retail outlets have been established at strategic locations to provide round-the-clock services to customers. Every Business Center is well equipped with all the basic facilities such as photocopier machines, fax machines and an e-mail facility.
- Apart from the above facilities, PSO is involved in a series of marketing alliances with various companies in order to continuously expand the number of services being bought to the customers at retail outlets. MCB ATMs have been set up at stations to facilitate customers, who prefer withdrawing cash in the relatively safer atmosphere of the outlet. In addition to this, Citibank's Easy Payment Service has been setup so that customers can easily pay their bills without the hassle of having to stand in long queues outside banks. The utility bills for companies such

as KESC, SSGC, PTCL, Citibank Credit Cards, Paktel and Instaphone are being accepted.

4.3.3 Technological

Several methods and models were developed at PSO, including the Corporate Performance Reporting System (CPR) and the Capital Resource Planning, Management and Optimization System (Capex System). CPR operates by way of obtaining and analyzing up-to-date sales and expense information relating to products and business units, translating that information into comparable benchmarks and conducting comparison of the present level of performance with past and planned levels of performance. CPR is a powerful analytical tool and control mechanism, which serves as a watchdog to ensure that implementation of the Corporate Plan is on-course and the performance milestones are achieved in a timely manner. It helps re-conceptualize the corporate business and establish primacy of Strategic Business Units with clear allocation of responsibility and accountability. Capex System facilitates understanding, development and implementation of Investment Plan as well as on-line management of capital resources. It helps eliminate the hassle-factor inherent in manual budget operation, including appropriation, re-appropriation, re-allocation, contingency utilization, record reconciliation, reporting, and periodic monitoring & review.

PSO developed information systems for obtaining and sharing up-to-date information on sales and operations on real time basis, lessening the magnitude of information distortion, streamlining inventory information and establishing common data warehouse across the supply chain.

The company also embarked on an ambitious program to promote the Internet, specifically in inaccessible areas all over Pakistan. PSO provided Internet at 500 retail outlets.

Sales Conferences and Operations Conferences are regularly held in which division managers and operations managers present the performance of their respective areas. This forum induces confidence in them, improves motivation and helps them to remain focused.

The company strengthened its internal controls specifically in supply chain area by implementing computerized load acknowledgement system, which is aimed at preventing misappropriation of products in transit and ensures prompt delivery of products to customers and depots. To ensure proper supplies to local retail outlets, fleet management plan was implemented at Karachi, Lahore and Islamabad, in phase 1.

The company improved its performance management system to ensure promotions and transfers are done purely on merit sending a message of confidence and security among them. These decisions were publicized on notice boards.

For all hiring and appointments, a fool proof system was adopted whereby written tests were taken by the IBA and interviews were carried out by a board of seasoned professionals. An honest effort was made to select the best talent on merit.

By adopting a proactive approach towards safety, PSO initiated near-miss reporting system, where all potential hazards are identified and reported. In addition, to reinforce our safety equipment inventory, latest fire-fighting and personal protective equipment were purchased from in and out of the country. The company has been laying special emphasis on quality and quantity of products. In this regard, 7 more mobile Quality Testing Units were added in major cities bringing the total to 12. This helps to ensure proper quality of products at retail outlets. These units are operational in Peshawar, Karachi, Multan, Lahore, Islamabad and Faisalabad.

After the construction of the tallest signs ever built in Pakistan (around 120 feet high), PSO installed the mega hoarding 115X47 feet at Qurban Service Station, Karachi, which is also the largest hoarding ever built by any company in the country.

The launch of "PSO Loyalty Card" was the most innovative marketing initiative, which not only enabled the customer to earn PSO Loyalty Points redeemable throughout the country, but also offered them attractive discounts for purchases at a large number of merchant outlets.

In order to enhance its storage capacity, the company constructed 2 additional storage tanks each 30,000 tons capacity for handling and storing crude oil on behalf of Boticor Refinery. The company is to enhance storage and handling capacity at depots and installation and to bring them at par with HSE standards undertook various other projects.

Starting from Karachi, the company set up Easy Payment Centers, in collaboration with Citibank, at selective retail outlets for payment of utility bills.

The company launched the Retail Safety Booklet to promote safety at its retail outlets, depots and installations and arranged series of lectures, movies, first aid displays and fire drills arranged to mark the Health, Safety and Environment (HSE) Day at depots and installations.

PSO being fully committed to implement total quality management approach achieved ISO 9000 certification for its six terminals while the balance storage would be made ISO compliant in the next couple of years.

In January 2003, the blue chip entity launched its new marketing innovation: the Fleet and Corporate Credit Cards. The cards were a part of aggressive marketing measures to attract fleet and corporate accounts, thus

enlarging its customer-service base manifold. The new cards are an extension of the company's cards diversification program. The vehicle-specific Fleet Card offers the advantage of a pre-approved credit limit and leads to improved fleet management. On the other hand, the corporate card is employee specific. It is a personalized card with a pre-approved credit limit. Other benefits offered by the two cards are security and savings through the elimination of pilferage, consolidated monthly billing statement, flexibility and convenience.

The company also installed "Price Display unit" at its monoliths and pylon signs to inform customers about the retail prices and introduced new products like Castrol GTX-XL and various other grades of industrial lubricants. They formed a complete value chain under the new business unit concept implemented by PSO. The company has introduced quick oil lube vans with an aim of providing customers oil change facility at their doorstep.

To enhance its brand equity, a series of successful sales promotions and corporate campaigns backed by strong media support were launched. In its endeavor to work beyond customer's satisfaction, PSO introduced computerized complaint lodging system with a toll-free number. The company has the distinction of being the first OMC to provide toll-free number at the Customer Services Department to offer free calling facility to its customers round the clock.

White Oil Pipeline (WOPP), with ultimate capacity of 12 million barrels was laid from Karachi to Mehmudkot. PSO acquired 12 per cent equity in the WOPP project, incorporated as PAPCO, with a total project cost of \$480 million. PSO has captured 100 per cent business of Lahore Airport since the company has built the Lahore terminal Complex.

4.3.4 Behavioral

Conducting the business with integrity is fundamental to PSO as a market leader. To maintain high ethical standards, the company has an ethics policy

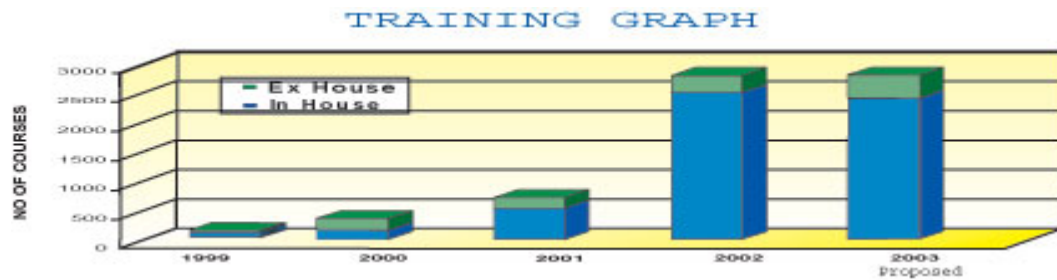
and established procedures for conducting business with integrity. At PSO, adherence to the published policy is a condition of employment. Company has adopted a zero-tolerance policy on ethical issues and never hesitated to take extreme steps when it comes to upholding these values. PSO extends its expectations of ethical operations to contractors and independently owned retail outlets that carry PSO brand. To inculcate business ethics in daily conduct, "Business Ethics Workshops" were arranged at different locations where nearly 700 employees were engaged for a full day in lectures and discussion on business ethics.

PSO strives to create a work environment that treats all people with dignity and self-respect, and encourages employees to express their ideas and develop their potential to the maximum.

Having a diverse and dynamic workforce, drawing on different perspectives and customs of its employees and harnessing their knowledge, creativity and commitment, PSO creates a powerful business advantage. It promotes superior employee motivation and commitment through truly valuing its people. By being open to new ideas it has helped enhance individual and team creativity and effectiveness. To involve employees in all aspects of the company's performance and to get their feedback on vital issues, PSO initiated interactive communication meetings addressed by the Managing Director himself. Q&A sessions at these meetings relate to company's performance, plans and critical analysis of company's approach.

As indicated earlier, PSO was suffering from highly inefficient human resource and needed meaningful changes in this department. While strengthening the ranks of its workforce with quality professionals at various levels of management, PSO also took several initiatives for improving the overall productivity and efficiency of its staff through computer training, in-house courses, sponsorship for studies at professional institutions and seminars. To improve its forecourt services, 2,500 forecourt attendants were

trained on customer services and HSE issues as part of the WOW Experience launched in 2003. Following graph indicates the manpower trained in previous years and more important to note is the increasing emphasis on employees training:



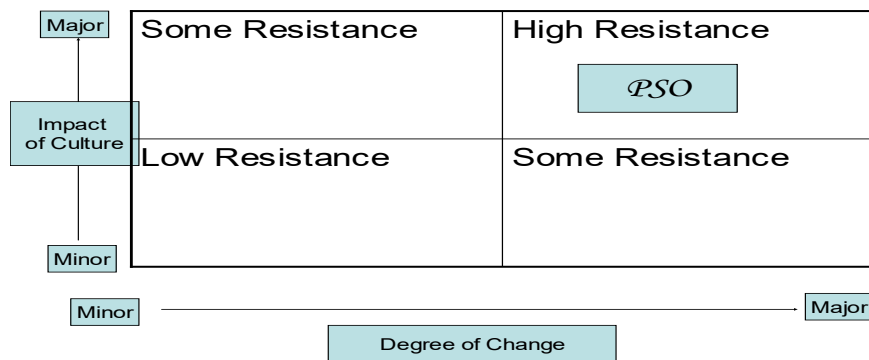
PSO's performance management process integrates business plans with individual goals. Inherent in the process is accountability for achieving results in a way that supports our core values and enables employees to develop new skills. As part of the process, the employee discusses his/her performance, objectives and development with the managers.

The company has ensured environment conducive to, and free from, gender discrimination and harassment. Recently the management enforced Gender Justice Code of Conduct for safe working condition for one of the important stakeholders of the company. This has contributed to further enhancing the confidence of female employees. The commitment to gender justice is practically reflected in PSO's recruitment and promotion policy.

PSO as a policy adopted to encourage and recognize individual initiative and prompt decision-making. In this regard, along with regular increments and financial rewards, several awards and citations have been instituted for those who have achieved extra in the line of duty. Smart and beyond-the-call-of-duty work is now recognized through Rewards and Recognition programs. Two Awards have been instituted: Shaukat Raza Mirza Award, announced in July, and the Managing Director's Performance Award, announced in January every year.

Understanding the significance of healthy, sound and safe work practices, a comprehensive HSE policy as well as HSE manual and procedures were developed by PSO. According to the policy, no New Vision outlet can be commissioned without a comprehensive HSE audit. Likewise, HSE audits are being conducted at Installations, Depots, LPG & Lubricant Plants as well as Aviation Stations followed by necessary corrective actions. In order to increase awareness, basic and advanced courses are conducted at all levels throughout the organization. Moreover, to motivate employees to report their accidents, incidents, near-misses and to take initiatives in improving HSE at their facilities, HSE Performance Evaluation has been started where best performing facilities are recognized at the end of the year.

Evidence suggests that the resistance can be expected whenever a change involves a significant impact on the traditional behavior, power, culture and structure within an organization. So was the case with PSO. In order to have a transition from what it was and what it wanted to be, the management initially faced tremendous resistance. Later on, however, using well recognized behavioral techniques the management was able to reduce the resistance to change from employees. The two major factors contributing to the sort of change model an organization fits in are: the degree of change and the impact on culture. In PSO's case the degree of change is major, since the environment confronting PSO was highly turbulent. Impact on culture is also major, since management attempted major changes in the culture. People therefore didn't welcome changes for obvious reasons. So PSO would be placed in the quadrant of high impact on culture with major degree of change, where the resistance is maximum and chance of success are low.



4.3.5 Corporate Culture

OD is a long-range effort to introduce planned change throughout an organization and provides a renewal process enabling managers to adapt their style and goals to meet the changing demands of the environment. These changes---improving quality, increasing innovation, adopting a customer orientation---are so fundamental that they usually require changing the organization's culture. As mentioned earlier, PSO strived to manage its own changes by emphasizing and refocusing its philosophy from efficiency to quality, increasing innovation by investing in technology and expanding into different business opportunities (NVROs), and by adopting more of a customer orientation. In recent years, strong competition has forced PSO to realize that efficiency is not necessarily synonymous with effectiveness. So, after more than 25 years as an operations-oriented company, PSO took significant steps to transform itself into a market-driven company with a distinct customer focus. This transformation has affected every part of its organization, including employee functions and roles within the organization. PSO has realized that its corporate culture must first change if any other organizational changes were to be successful.

"A corporate culture is a system of shared values and beliefs which interact with an organization's people, structure, and systems to produce behavioral norms (the way things are done around here). It gives the whole organization a

sense of how to behave, what to do, and where to place priorities in getting the job done¹⁰". Managerial factors such as philosophy, values, actions and vision, combine with organizational factors such as roles, structure, systems, and technology to form the shared sayings, jargon, actions and feelings that make up a corporate culture.

Internal changes will allow the organization to become more effective if its employees possess the skills and competence to implement these changes. To give its managers these necessary skills, PSO dedicated a large sums to training in 1999. Workshops, developed by professional consultants were the major expense: Trust & Teamwork (developed in 2000) and Quality at Work (developed in 2001).

The objectives of the Trust & Teamwork workshop were as follows:

- Build teamwork and collaboration in our work with others.
- Understand the role trust and credibility play in our personal effectiveness.
- Create an environment of win-win problem solving.
- Listen with skill and understanding.
- Take responsibility for producing desired results.
- Give and receive feedback effectively.
- Confront others in a caring and constructive way.
- Build self-confidence.

All management and full-time business professionals (non management) were required to attend the three-day workshop, which was comprised of lectures, games, and various learning exercises. The workshop concentrated on showing the relationship between trust and organizational performance, and how teamwork requires a win/win mindset as opposed to a win/lose mindset. "We believe that trust in teams and organizations is an essential ingredient. It is built slowly and can be destroyed almost instantaneously"

The workshop also dealt with five fundamental (HEART) principles of human interaction:

- Hear and understand me.
- Even if you disagree, please don't make me wrong.
- Acknowledge the greatness within me.
- Remember to look for my loving intentions.
- Tell me the truth with compassion.

"The five principles of *Managing from the Heart* are not a series of techniques to get other people to do what we want them to. They are a way of life, a way in which we as human beings can truly stand together and support each other. They build self-esteem and strong relationships and, ultimately build satisfying and productive workplaces" (Trust & Teamwork Workbook,). Every person who attended the workshop received a copy of the book referenced above (*Managing From The Heart* by Bracey, Rosenblum, Sanford, and Trueblood, 1990) and was encouraged to read it and apply its principles to his/her personal and professional life. The HEART principles were seen as a definite indicator of change at PSO---never had PSOers been asked to look for loving intentions. In fact, the word *loving* was not heard around the workplace prior to the workshop.

The Trust and Teamwork workshop portrayed a "soft-side" to PSO, which is something many employees did not think existed, and as a result, the principles of the workshop were not immediately accepted. Many questions and suspicions had to be confronted by workshop trainers in order for the participants to know that PSO was serious about this part of the change process; however, the workshop was viewed as a success and one big step in the direction of change. "To survive and prosper in today's and tomorrow's global economy will be difficult, if not impossible, for organizations in which people don't trust each other. Trust is the 'miracle ingredient in organizational life---a lubricant that reduces friction, a bonding agent that glues together disparate parts, a catalyst that facilitates action.' We believe that trust is the most fundamental fabric of any organization. Without trust, collaboration and teamwork are impossible" (Trust & Teamwork Workbook,).

A "New Language" resulted from the Trust & Teamwork workshop and to reinforce the "new language" and remind employees to use it, posters can be found on walls in almost every office. It is common for the phrase "I'm going to trust my partners" to be heard around the office; however, many times it is said in a reluctant tone. To encourage workshop participants to keep the principles learned fresh, reminders summarizing key learnings were sent out via housemail

4.3.6 Other Initiatives

Along with above mentioned initiatives, PSO emphasized on discharging its corporate social responsibility, as is usual with any socially responsible company that strongly believes in integrating social, economic and environmental aspects. Few initiatives taken by PSO are outlined in succeeding paragraphs.

Thalassemia is a killing disease that inflicts more than 100,000 of our population. To assist the patients, PSO has been a donor to the Thalassemia Centre in Quetta.

PSO is not only playing a vital role in the growth of country's economy but it has also proved its commitment towards local communities. The company has initiated welfare projects in villages (Goths), which lie along the path of its 82-km long pipeline from Pipri Terminal to Hub Power Plant. Many of these projects, which so far have cost the company over Rs. 1.5 million, have either been completed or are in the process of completion.

To fulfill the water needs of the local people, PSO installed three heavy-duty hand pumps in Ahmed, Laung and Murad Goths. These poor people had to travel long distances to fetch water or even had to pay from their pockets to obtain water for drinking purposes.

Well aware of the basic education requirements of the population, PSO's management initiated primary level education in Laung, Nabi Dad, Juma and Maula Dad Goths. Condition of the existing school buildings has been improved. Children, who now exceed 100, have been provided with notebooks, books, stationary, school bags, floor mats and black boards while teachers, who rarely visited these schools, have been provided with regular salary incentives.

As a part of welfare activities initiated for benefits of local people, the company conducted 2nd Free Eye Camp for the residents living between Kilometer Posts 01 to 53 of the Pipri to Hubco line. The camp was organized in collaboration with the Care and Kindness Society an NGO which had successfully managed a similar camp in December 2002.

In all, screening of 520 residents was carried out in 12 Goths by the eye specialists of Al- Ibrahim Eye Hospital in association with the staff. Required treatment including eye-glasses and medicines to over 200 men, women and children, was given on the spot.

The specialists also identified 92 patients for cataract operation, out of whom 52 men, women and children opted for the operation. The surgery was successfully carried out under most hygienic conditions by the surgeons in the well-equipped operation theatre of Al- Ibrahim Eye Hospital on May 03, 2003 and May 11, 2003.

The patients were well looked after by the hospital staff and they were discharged on the following day after giving them spectacles. The doctors have paid a follow-up visit to the patients in their respective Goths where they also gave the required medicines. The entire treatment and the logistic arrangements were taken care of by the company. The residents of the Goths appreciated the efforts for conducting such a beneficial free eye camp for them. Management and employees at the company showed their commitment

towards Health, Safety and Environment by remaining LTI (Lost Time Injury) free since its inception on November 6, 1996.

PSO's partnership in the Karavan Karachi Road Sense program was aimed at inculcating road sense among children and introducing them to public institutions. The program not only introduced the company to a number of school children but also showed to the people at large that PSO deeply cared about making this city a safer and a happier place.

PSO offered the largest number of internships to students of different universities from Peshawar, Islamabad, Lahore, Multan and specially the rural Sindh.

4.4.0 Self Renewal, Monitoring and Stabilizing

Most important of all, after initiating a step or intervention obviously is to stabilize the situation to remain balanced. This brief stop also helps in internalize the learning/ recently incorporated change. PSO, starting its interventions in an integrative manner from individual level, gave the employees a little while to digest the change. The focus then was shifted to higher level and finally to the level of total organization.

4.5.0 The Continuous Improvement

In order to ensure the continuation and stability of its strategic reform effort, PSO has put in place a corporate governance structure and a robust framework of systems and procedures in line with best international practices. This has helped institutionalize the reform process to ensure its stability in the long-term.

Significant progress has been made towards putting in place the basic framework for corporate reform in line with the modern concepts and practices. This includes streamlining the investment planning process, developing a model

for business-wise and product-wise profitability analysis as well as a comprehensive corporate plan.

Further steps in this direction include developing information systems for obtaining and sharing up-to-date information on sales and operations on real-time basis, lessening the magnitude of information distortion, streamlining inventory information and establishing common data warehouse across the supply chain. To this end, an Enterprise Resource Planning (ERP) project has been undertaken.

CHAPTER FIVE

Conclusions and Recommendations

5.0.0 Conclusions

PSO - a government regulated company went through a number of developments as a result of change initiatives launched by its management. Whether these initiatives helped the organization in achieving its objective of remaining profitable in the face of global economic recession? Did the company maintain its healthy posture of previous years well enough to be privatized? Or it failed to achieve its objectives? Answer to these questions through a thorough analysis will lead us to determine the efficacy and effectiveness of its change program and the importance of a systematic approach to change. The analysis would identify the change initiative at PSO as a whole – but first it would be in place to trace its performance as of 2003.

Effective implementation of corporate reform and business development strategies, in line with best international practices, enabled PSO to maintain its market leadership position in a highly competitive business environment. Resultantly, PSO increased its market share in key products, including Mogas, HSD and Jet A-1. PSO's sales revenue during FY03 surged to Rs.206.37 billion; up by 13.2 % over prior year. The company earned highest-ever profit before tax of Rs.6.21 billion, up by 20.9%, while the profit after tax reached an all-time high figure of Rs.4.03 billion, up by 26.4%.

Based on this remarkable financial performance, the company announced a final cash dividend of Rs 7/- per share (70%) to its shareholders, resulting in total dividend of 160% for the whole year, as against 130% cash dividend plus 20% bonus shares declared during the preceding year. The company spent Rs 1,643 million during FY03 to expand its retail network and enhance infrastructure along with sizeable expenditure on information technology. Besides, PSO contributed

approximately Rs.54 billion to the national exchequer in terms of taxes, duties, dividends and levies thus supporting the government in its revenue generation targets.

Other performance indicators like Return on Assets, Return on Capital Employed and Return on Equity reveal that PSO has outperformed its competitors in terms of operating performance. PSO's impressive business performance has resulted mainly from the management's thrust on increased operating efficiency, concentration on higher margin products, expansion of new product lines and services, and efforts to increase its margins¹¹.

The company has attracted numerous bids for its privatization – the second objective set for the management to achieve.

5.0.1 The Systematic Approach

After having seen the performance of the company, it is time to analyze the approach PSO took to its OD process to establish findings. Under the supervision of a competent and creative management, the company was successful to achieve its objectives of maintaining its profitability and becoming a lucrative organization for investors against prevailing odds. Moreover, it has now been turned into a flexible organization having an ability to transform quickly – organization's ability to respond quickly to the changing situations and the achievements of newly established Corporate Planning Department bear testimony to this fact. All this was possible, among other reasons, through a systematic approach to change undertaken by the management. Management embarked upon a clear path to organizational development. The efforts had a macro orientation, multiple techniques were used to instill the OD, it was thoroughly planned for implementation, and was aimed at overall health and effectiveness of the organization and its members¹². The succeeding paragraphs delineate the usefulness of each step in the approach followed by the company.

A **need for change** was felt by the management, through successful scanning of the environment. Factors such as global economic recession of late 90s, the 9/11 incident, sharp decline in production and consumption of crude oil, Pakistan's categorization as low priority oil and gas market, government's decision to privatize PSO, deregulation of POL trade resulting in removal of the government's umbrella from PSO, increase in dealer's margin, and the potential in the sector for investment and development that could attract more competitors forced management to look inwards and highlighted the urgent need to become more efficient. In its present form and content the organization was in a state of disequilibrium and unable to bear the brunt of challenges it was facing. Mr. Tariq Kirmani, on joining PSO made it clear to all concerned that it was no more a usual business. A change was essentially required in the way PSO did its business. Inefficient practices of the past were covered by the good performance of the company achieved essentially due to the protection provided by the government. Now in view of deregulation that protection was no more available rendering achievement of similar results extremely difficult if not unlikely. Therefore PSO must change to become efficient and to achieve the objectives set for it. This very feeling of deficiency as the first step invoked the realization within the management that present form and content of the organization was not sufficient to face the impending challenges and something needed to be done. Thus by feeling the need for change, PSO embarked upon the path a systematic approach to OD. As explained above, without this logical approach it would not have been able to take a proper start. The next stage in this chain was the development of Consultant-Client Relationship¹³.

PSO digressed from the book as far as the step of development of **Consultant-Client Relationship** is concerned. It did not engage any external consultant and thus lost on the benefits and missed the services of a professional consultant viz: professional approach, objectivity and independent view point of differences, leverage and greater freedom of operation, better top management support, indifference for power or position in the company, and independent attitude towards risk taking and confrontation¹⁴. The company did not benefit from

the expertise of a professional in OD and did encounter problems that could have been avoided. It had to rely on the services of internal consultant who in spite of being a thorough professional in his field, did not have expertise on the subject of OD which otherwise was a relatively new field and much was not available on it in the printed form. It not only took him longer to imbed required changes, he relied on experiments at various places which could have been avoided had a professional been hired for the job. However under the supervision of Mr. Tariq Kirmani, who acted as an internal consultant, the organization started its change process. Although it was only the top management of PSO which at this point in time recognized the need for change programme and was willing to support him, it was easier for him to understand the culture and related issues of the company and change his techniques accordingly. Having imitated and implemented the initial change package, a dedicated department namely, Corporate Planning Department, with experts in the field of OD had to be raised in Head Office to exclusively look after the OD issues. Though a combination of experts and internal managers, this step is rather in line with the literature and its efficacy has been proved by the output this department has given in the short duration since its inception. In fact it is a form of internal-external consulting team which is essential for a long term OD effort¹⁵ required at PSO.

The Consultant Style adopted by Mr. Tariq Kirmani was that of a **persuader** at initial stages when it was a task at hand to convince people to change their ways of working and resistance to change was extensive. Although his main aim was identified with the performance, profit maximization and upbringing of the organization, he managed to ensure that the organization members were also satisfied with the change programs. He successfully focused on both morale of the people and effectiveness of the organization. Though most appropriate under the circumstances, this approach did delay the progress of OD. Later, when the understanding about the intentions and content of the effort were well appreciated by concerned quarters, he and specially CP department adopted a **pathfinder** style to ensure both a high degree of effectiveness and a high degree of member satisfaction, believing that the greater effectiveness is possible when all

members are involved and problem solving is done through team work i.e: collaboratively¹⁶. PSO was fortunate to have Mr. Kirmani, who according to Susan Gebelein possessed all the six consulting skills critical to the internal consultant namely: leadership, project management, communication, problem solving, interpersonal skills and personal qualities such as confidence to help organization make tough decisions, and introduce new techniques etc¹⁷. After discussing the Consultant-Client Relationship, it logical to analyze PSO's OD effort in the light of the next step – The Diagnostic Process.

Michael Beer opined that the **diagnosis** was a method of analyzing problems and learning new patterns of behavior¹⁸. Adopting cause and effect approach, PSO's management examined the structure of its corporate headquarters, functions, divisions, departments, products, managerial levels and the prevalent relationship between these potentially interactive elements. They also looked at the organizational processes including communication networks, problem solving, goal setting and planning methods, and management of conflict and competition in order to find the reasons for the organizational ineffectiveness. They used diagnosis for enhancing organizational capacity to change its culture, providing an opportunity to organizational members to acquire new insights into their culture and pattern of behavior as a basis of developing a more effective organization and ensuring that the organization keeps improving continuously. The gap between the current situation and the desired situation became easy to determine. This in turn helped the management in deciding the next step – the selection of appropriate action plans, strategies and techniques. Had the organization not adopted this method, it would never have reached the right causes of their problems and consequently the remedial measure – thus the efficacy of the systematic approach.

Diagnostic phase lead to a series of **interventions** and activities aimed at resolving the problems and increasing organizational effectiveness. For the change in structure, such interventions were included which increased decentralization, management autonomy and the change from reliance on managerial authority to

teamwork¹⁹ and the delegation of responsibility. These interventions were: restructuring which made the organization lean and more competitive, redesigned the line of authority of various levels of management, changed the span of control and the re-arranged divisions and functions. Survey feed back and total quality management helped make adjustments where necessary and brought about most appropriate changes besides ensuring continuous improvement. On behavioral side team building, goal setting, total quality management and inter-group development were the main techniques used. Process intentions such as clarifying, summarizing, synthesizing and generalizing, probing and questioning, reflecting feelings, coaching, counseling, modeling, setting the agenda, and providing feedback were the main tools used for the development of group processes. Towards technological side, the techniques adopted were putting in place an efficient management information system, internet facility at numerous stations, overhead dispensers, beside job design, survey feedback and reengineering. It was due to the adoption of systematic approach to OD that not only the selection and application of appropriate interventions in a timely manner but also their integration became possible and paid rich dividends in shape of achievement of the desired results. Initiatives taken by the company include:

- Highest service station in the world (14500 ft above sea level)
- Courteous, customer-friendly service
- First automatic car wash in Pakistan
- Lubricant oil change machine
- CNG facilities
- World famous brands of lubricants
- Business Centre with e-mail, fax & telephone facilities
- Oil change at your doorstep facility
- Quality checking mobile van
- PSO New Vision station
- PSO Aidline for customer complaints/suggestions
- PSO award winning dealers Consolidating dealer relations

PSO proficiently managed the OD process, stabilizing after every important move. It progressed gradually allowing its members a respite to digest and internalize the initiated change simultaneously managing the routine affairs in an effective manner.

Realizing the importance of **continuous improvement**, PSO has put in place a corporate governance structure and a robust framework of systems and procedures in line with best international practices. CP department has been instituted as a watch dog and a facilitator of change for continuous improvement.

5.0.2 Change or OD

The complete change process at PSO would have been nothing more than a combination of haphazard efforts, had it not followed a systematic approach. It was now easier for the management to plan, roll and control different aspects of the change programme and more importantly carry on with the routine business. Unless need for change is felt, it becomes virtually difficult to convince the top management, let alone the entire populace of the organization. Without a professional, as a next step, the process takes longer than expected and gets boring. Diagnosis is also a specialized activity, which falls short of its objectives without an expert on the subject. Diagnosis identifies the areas to be ventured and makes it an easy and logical affair. Clearly chalked out strategies are then easy to follow by the individuals and help control the progress of the programme. Continuous improvement keeps people conscious of the need to go ahead. All these steps help to run this change program in a systematic and well thought out manner. The control of the program becomes easier from the top. Starting from the individuals, the change can easily be spread to groPSO and then to the entire organization. It can look after the interests of both the organization and employees. Without this approach any step would have been a mere localized and a haphazard affair and not an organizational development.

Besides a systematic approach, certain other factors were responsible for PSO's successful OD effort. Although these have been mentioned in preceding paragraphs, yet deserve a separate mention.

5.0.3 Adaptive Orientation

Some organizations resist change until a critical state of incongruence is reached, at which point a quantum change occurs²⁰. Others follow a transformational path to change. Adaptive style of any organization therefore determines the pace at which the change could take place in the organization. Adaptive style initially followed by PSO was that of a **sluggish thermostat**, living in generally stable environment under the umbrella of governmental protections with low adaptive orientation. The procedures followed were extremely bureaucratic and practices standardized. In presence of a high degree of government intervention, the adaptation to change and orientation was low. At PSO it was after the induction of the managing director Tariq Karmani, that a need felt for a serious change program which changed the level of adaptive orientation to some extent. This precisely indicates the reason for the resistance to change offered by the employees. The company needs to remain ready for change and keep a better style of management so as to be able to improve continuously.

5.0.4 Leading Change

The program of OD implementation at PSO is complemented with a series of planned changes. One such change was the induction of managing director who started with a vision and implemented what he thought was workable. Tariq Kirmani was the person who brought successful changes in the organization and thus is rightly considered the change leader. He taught people of the organization to work on changed patterns and minimized their resistance by making them a part of the change process. His interventions lifted demotivated and demoralized employees. He initiated a systematic change process with the active involvement of employees. Counting on the available human recourse, he managed to change the culture of the organization, its perceptions, the way its people worked.

5.0.5 Collaborative Approach

OD typically involves a collaborative approach to change that includes the involvement and participation of those organization members most affected by the changes. Here in this regard, the managing director went through a collaborative approach and made most of the individual participate in the change process. Although in the first place there was some resistance from the employees but later they moved along with him.

5.1.0 Recommendations

The above findings show that the company did numerous things right. There were certain places where the organization could have collectively performed better had it followed certain established procedures more closely. Based on these findings, following recommendations are offered:

5.1.1 Importance of a Systematic Approach

This study has proved one aspect beyond any suspicion that as of today a systematic approach has no parallel strategy as far as OD is concerned. Each action logically and automatically flows from the preceding one. If the sequence is followed in letter and spirit, possibility of going astray is minimized. Keeping track of activities becomes absolutely easy and methodical, easing the use of tools such as stream analysis²¹, thus increasing control and stability. PSO did well to follow the prescribed path without really knowing it in as categorical terms as the literature informs us and reaped the fruits. Now is the time to institutionalize this methodology for benefits in future and include in it the missing links such as external consultant and an array of established interventions.

5.1.2 Need for an External Consultant

Although PSO now has an elaborate set up for monitoring the external environment on continuous and sustained basis and initiating appropriate and timely response, yet it requires the services of an OD specialist. Since all knowledge improves, so does the knowledge of the field of OD. A specialist, with varied experience to his credit, has the expertise to handle varying professional

situations. His experience of working for a number of organizations lends him this advantage which takes a couple of years to get institutionalized and come in black and white for the benefit of others. Thus there is no substitute to a professional external consultant in handling contingencies. In fact, the slow initial response to organizational development of PSO is attributable to non availability of professional advice which can, in future, be avoided by having an external consultant. Teaming up with the domestic CP department, the external consultant can steer the development process more efficiently.

5.1.3 Adaptive Orientation

In order to ensure continuous improvement, PSO should keep itself at least satisficing mode of adaptive orientation in order to be able to minimize resistance to change and respond faster to the changing market conditions. The macro environment is ever-changing in character. In such circumstances it is only possible by overhauling strategies and harnessing strengths to stay ahead of the competition. The culture of change that has been developed in the company must continue.

5.1.4 Commitment to Change

OD is a process requiring commitment from not only the top management but also from the other tiers of management. For a number of contingencies no ready made solutions are available. Ideas and methods for developing solutions ought to be generated at all levels of the organization. This also results in some level of commitment from the members of the organization. In PSO's case the commitment from all the levels was not forthcoming especially in the initial stages of the OD effort. Later however, almost all the tiers of management were involved in the process, thanks mainly to the untiring efforts and resolve of Mr. Kirmani. Initial hesitation not only slowed the process but was also instrumental in bloating resistance to change making the process difficult and cumbersome. Thus for continuous improvement in future, thorough commitment from the management at all levels is recommended.

5.1.5 Beta Testing

It was important to experiment the innovations before expanding it to the entire organization. The proposed solutions should be developed, tested and recommended to adoption to larger problems or organization. In PSO, the OD effort started all over the organization simultaneously. This resulted in its poor acceptability by many employees, adding to the resistance. Future changes must be considered for wholesome adoption after testing their validity for a portion of the organization. This will successfully check the resistance as colleagues find it easy and useful to follow colleagues.

5.1.6 Flatten the Hierarchy

Although a couple of layers were reduced as part of the change initiatives, the hierarchy still remains tall as per the rule. PSO must cut down at least two more layers to become lean and flexible enough to survive in the future.

5.1.7 Need for Continuous Improvement

Continuous improvement is the key to sustained growth by thwarting the effects of increased competition. Not only foreign companies are taking keen interest in investments in this sector, numerous indigenous companies are also coming up adding bite to the existing competition. On top of it major consumers are also trying to import POL using different arrangements. WAPDA's move to float a tender for the purchase of furnace oil through competitive bidding is the first clear signal of increased competition among Oil Marketing Companies (OMCs) for this segment of the POL business. This could result in a loss of furnace oil business for PSO, reversing its growth which is currently the main supplier to WAPDA. The company consumes around 100-150 KT of furnace oil per month, where around 70 percent to 80 percent on average of its required amount is supplied by PSO. Now that WAPDA will start importing 50 percent of its requirements independently, this would impact PSO's profits. This could result in a loss of market share going forward, and could also translate into declining margins and growth in the future. In the short run, however, PSO may not be hit

severely thanks to its the sole storage capacity at Port Qasim. It undoubtedly needs to enhance its efforts to improve efficiency on continuous basis.

Maintaining market leadership position and achieving a tangible and preservable business advantage in a highly competitive, turbulent and uncertain business environment was the major challenge faced by PSO. With the objective of providing an effective and timely strategic response to the actual and potential business challenges, PSO successfully developed and implemented a comprehensive and far-reaching corporate renewal program adopting a systematic approach, which resulted in remarkable accomplishments that have been widely acknowledged and appreciated at various national and international forums.

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Notes

¹ Don Harvey, Donald R. Brown, *An Experimental Approach to Organizational Development, 2000, p-4.*

² *ibid, p-4.*

³ Mantz T, “Guiding IT Inspired Transformation”, Nolan, Norton & Co. Symposium, September 19-20, 1988, San Fransisco.

⁴ Beckard, Richard, *Organizational Development: Strategies and Models, 1969, p-9.*

⁵ Don Harvey, Donald R. Brown, *An Experimental Approach to Organizational Development, 2000, p-15.*

⁶ Peters “Thriving on Chaos”, Page 286.

⁷ Don Harvey, Donald R. Brown, *An Experimental Approach to Organizational Development, 2000, p-97.*

⁸ Organizational Theory, MBA Syllabus Book, p-78.

⁹ www.psoel.com

¹⁰ *Harvey & Brown, 1996, pp. 68-69*

¹¹ PSO Annual Report, 2004

¹² Don Harvey, Donald R. Brown, *An Experimental Approach to Organizational Development, 2000, p-4.*

¹³*ibid, p-16.*

¹⁴ *ibid, p-96.*

¹⁵ *ibid, p-98.*

¹⁶ *ibid, p-100.*

¹⁷ *ibid, p-106.*

¹⁸ *ibid, p-131.*

¹⁹ Kanter, Rosabeth Moss, “Change is every one’s job: Management the Extended Enterprise in a globally Connected World, :” *Organizational Dynamics*, Summer 1999, Volume 28, No1, p 6-24.

²⁰ Colvin, Teresa J., and Ralph H. Kilmann. “A Profile of Large Scale Change Programs,” Proceedings, Southern management Association. 1989, p - 202.

²¹ Don Harvey, Donald R. Brown, *An Experimental Approach to Organizational Development, 2000, p-223*

TARIQ KIRMANI

The Change Leader

A Change leader is a person in an organization responsible for changing existing patterns to obtain more effective organizational performance. Tariq Karmani , managing director at PSO without any doubts is the change leader who formulated a path and provided a platform for the organization to implement organization development strategies.

One naturally becomes inquisitive to know about factors pushing the company for such kind of performance in the face of a stiff competition offered by multinational companies especially in view of the sinking image of the public sector organizations causing losses worth over Rs 90 billion a year to the government.

Tariq Karmani incorporated change program by the help of his human resource that he himself give due credit. He was the one who had no fear from private companies and the deregulation of oil marketing and imports by the government. He remained consistent in his thoughts and practically implemented them.

Tariq Karmani adopted a dynamic approach and instilled “new vision program” that was the part of their strategy that symbolizes their new outlook towards the future while the “new spirit” guides them to become even more competitive. Under the supervision of change leader, the company has initiated a series of measures to strengthen the brand image of it. Due to this PSO became the first oil company to import approximately 33,000m tons HSD at Zulfiqarabad Oil terminal. Some of the basic change programs being implemented by Tariq Karmani that created a huge development process in the organization are as follows that are definitely very peculiar to the change leader and his initiatives.

- Easy payment centers, in collaboration of Citibank
- Complaint logging system
- Internet facility at retail outlets

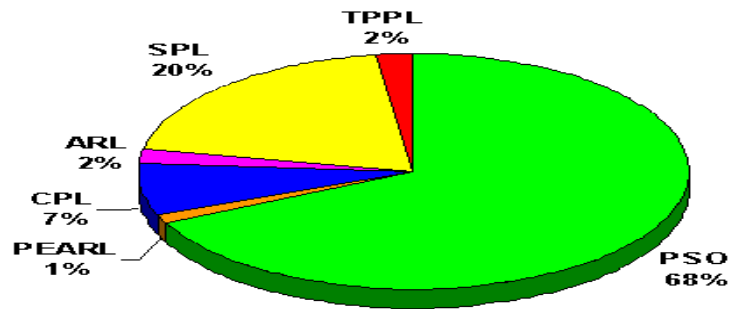
- New vision development Program aimed at Retail outlets expansion
- PSO loyalty cards
- Free Lube delivery at locations for prompt service

Results And Achievements of his Change Initiatives

- First oil company to import approximately 33,000m tons HSD at Zulfiqarabad Oil terminal.
- Due to vision program, the company made an all time record capital expenditure of Rs 1430 million with the total expenditure during the last six years i.e., 96-02 exceeded 6.6 billion.
- First oil marketing company to provide tool-free number at the customer services department.
- Largest hoarding of 115*47 feet in Karachi at Qurban service station
- First corporate organization in Pakistan to gain a Platinum Accredited Employer status
- Best company in training and development in 6 key areas of study support, work experience, appraisal, training records and continuous development of staff.
- Sole supplier of petroleum products to the Pakistan armed forces.
- First Pakistani corporate entity to be studied as a case of exemplary corporate transformation by the Wharton School of Commerce, University of Pennsylvania.

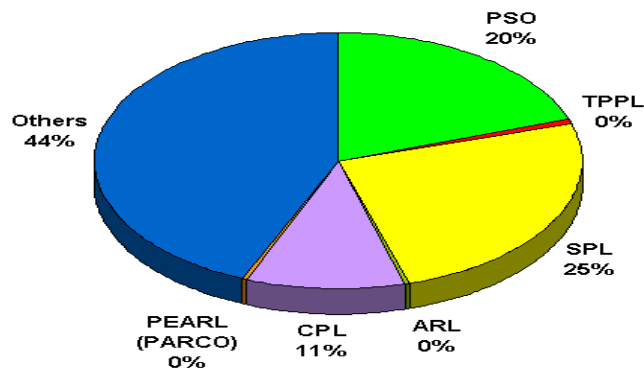
REFINED OIL MARKET PROFILE

- Refined Oils Market Profile - Energy Products (Local/Bunkers) 2002-03



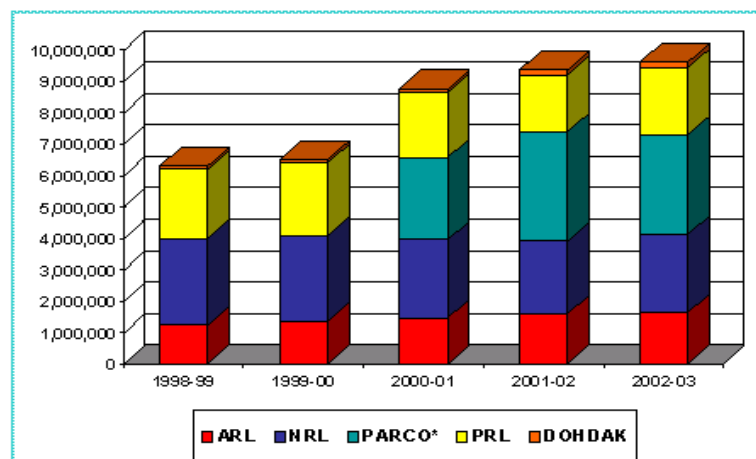
	VOL. (M. Tons)	% SHARE
PEARL	0.16	1%
PSO	10.68	68%
SPL	3.41	20%
TPPL	0.33	2%
COPL	1.12	7%
APL	0.30	2%
TOTAL	16.01	

- Market Profile - Lubes & Greases 2002-03



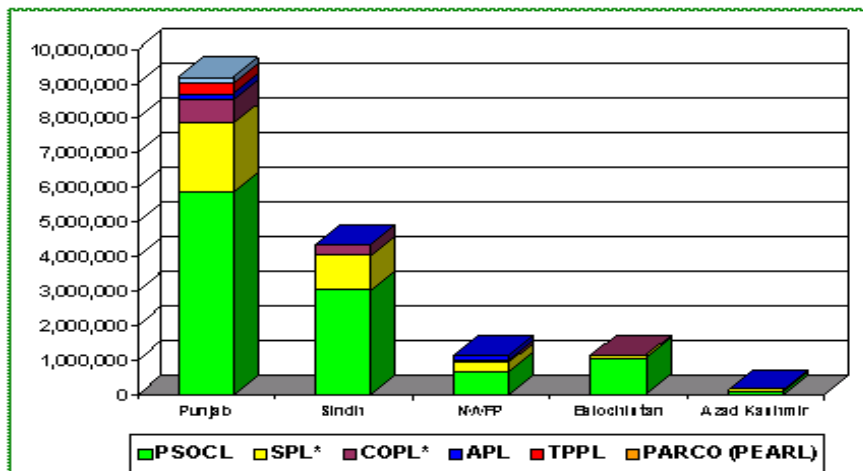
COMPANY	VOL. (M.Tons)	%
PARCO (PEARL)	186	0%
PSO	42,145	20%
SPL	53,123	25%
TPPL	1,044	0%
COPL	22,925	11%
ARL	651	0%
OTHERS	93,174	44%
TOTAL	213,248	

- **Historical Production - Energy & Non-Energy Products**



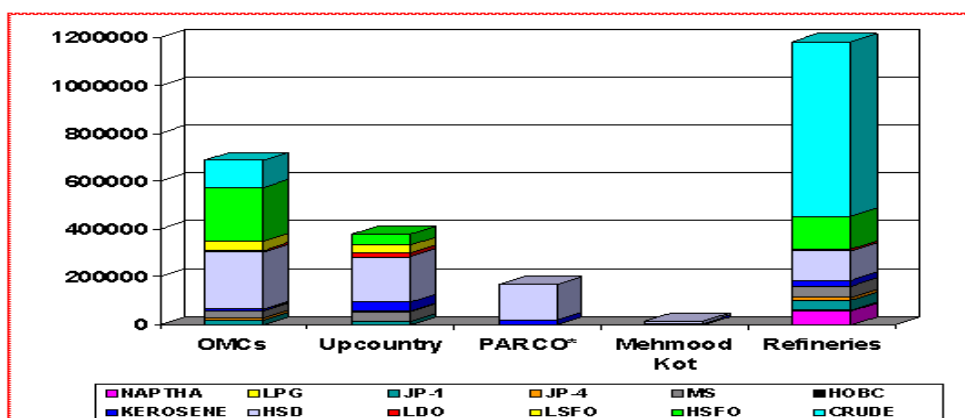
	1998-99	1999-00	2000-01	2001-02	2002-03
ARL	1,238,965	1,371,640	1,455,493	1,610,650	1,646,098
NRL	2,754,843	2,728,573	2,492,078	2,299,850	2,482,205
PARCO	-	-	2,631,714	3,485,970	3,171,438
PRL	2,203,219	2,293,426	2,067,404	1,808,480	2,140,529
DOHDAK	107,444	106,978	120,298	170,300	174,574
TOTAL	6,304,471	6,500,617	8,766,987	9,375,250	9,614,844

-
- **Province Wise Marketing Companies Sales - Energy Products - 2002-2003**



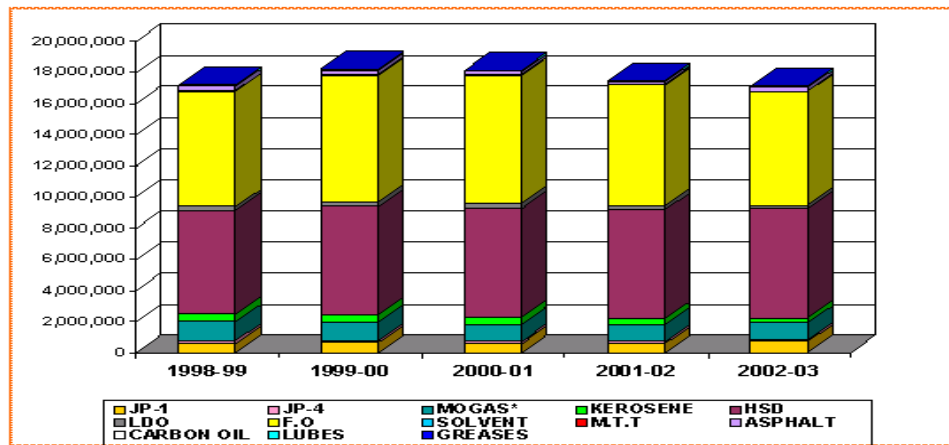
	PSO	SPL	COPL	APL	TPPL	PARCO (PEARL)
Punjab	5,857,597	2,000,968	673,026	181,281	326,670	162,571
Sindh	3,017,620	1,013,916	323,676	284	-	-
NWFP	653,055	268,816	78,308	121,788	-	-
Balochistan	1,059,398	74,233	9,193	-	-	-
Azad Kashmir	95,298	42,361	2,791	884	-	-
TOTAL	10,682,968	3,400,294	1,086,994	304,237	326,670	162,571

- **Storage Capacity at Main Installations & Up-Country Depots as of June 30, 2003**



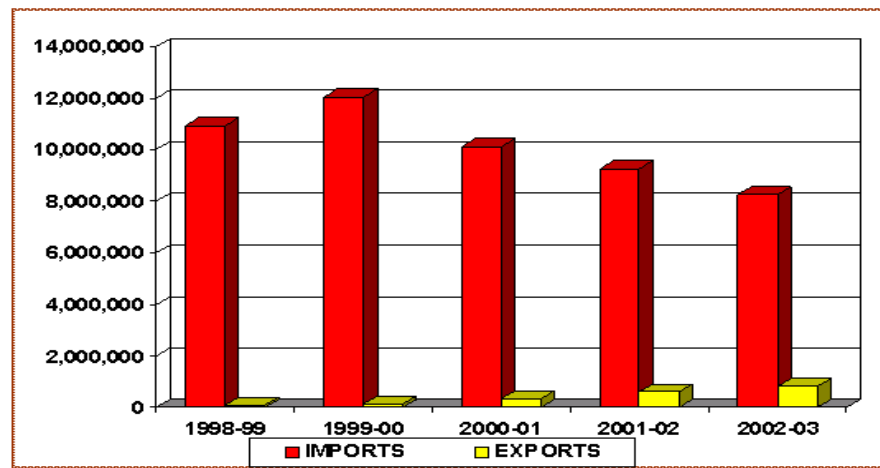
	OMCs	Upcountry	PARCO*	Mehmood Kot	Refinerires
Naptha	-	-	-	-	58,200
LPG	-	-	-	-	2,630
JP-1	20,920	13,326	-	-	42,400
JP-4	7,200	-	-	-	12,300
MS	29,550	41,201	-	-	46,100
HOBC	1,525	1,375	-	-	-
SKO	6,345	38,231	20,350	6,083	24,400
HSD	238,250	190,684	147,850	10,093	123,200
LDO	5,780	14,663	-	-	8,200
LSFO	38,200	33,036	-	-	-
HSFO	225,720	44,524	-	-	136,500
Crude	112,000	-	-	-	728,100
TOTAL	685,490	377,040	168,200	16,176	1,182,030

- POL Sales from 1998-99 TO 2002-03 - Energy & Non-Energy Products



	1998-99	1999-00	2000-01	2001-02	2002-03
JP-1	635,449	660,602	606,169	583,830	719,297
JP-4	144,122	125,118	135,124	166,045	128,630
MS	1,245,994	1,176,438	1,102,840	1,094,263	1,104,330
SKO	500,528	487,155	457,366	371,983	313,123
HSD	6,619,677	6,956,603	6,992,617	6,964,093	7,013,829
LDO	258,481	303,458	287,478	242,078	220,898
FO	7,397,882	8,117,112	8,236,754	7,759,039	7,280,263
Solvent	29,918	34,714	34,665	29,813	8,119
M.T.T	10,642	10,102	9,413	8,329	16,411
Asphalt	266,112	257,596	192,924	149,789	229,277
Carbon Oil	10,176	12,236	6,969	9,209	1,455
Lubes	101,832	99,309	103,734	108,709	118,880
Greases	1,290	1,71	1,106	1,109	1,194
TOTAL	17,222,103	18,241,714	18,167,159	17,488,289	17,155,706

- POL Products Imports/Exports (1998-99 TO 2002-03)



	1998-99	1999-00	2000-01	2001-02	2002-03
Imports	10,939,511	12,036,805	10,124,988	9,270,917	8,259,671
Exports	83,985	126,484	353,472	620,645	831,597

OD INTERVENTIONS

Here is a brief catalog of interventions that OD practitioners choose from in partnering with organizational leaders to create "planned change."

Applying criteria to goals

Here the leadership establishes objective criteria for the outputs of the organization's goal-setting processes. Then they hold people accountable not only for stating goals against those criteria but also for producing the desired results.

Establishing inter-unit task forces

These groups can cross both functional parts of the organization (the "silos") as well as employee levels. They are ideally accountable to one person and are appropriately rewarded for completing their assigned task effectively. Then they disband.

Experimentation with alternative arrangements

Today organizations are subject to "management by best-seller." The OD practitioner attempts to get leaders to look for changes that may take 3-5 years to work through. The meta-goal in these interventions is to create what is being called a "learning organization," one that performs experiments on organizational structure and processes, analyzes the results, and builds on them.

Identifying "key communicators"

The OD professional here carefully determines who seems to be "in the know" within the organization. These people often do not know that they are, in

fact, key communicators. This collection of individuals are then fed honest information during critical times, one-on-one and confidentially.

Identifying "fire able offenses"

This intervention deepens the understanding of and commitment to the stated values of the organization. The OD professional facilitates the work of the organization's leaders to answer the critical question, "If we're serious about these values, then what might an employee do that would be so affrontive to them that he/she would be fired?"

In-visioning

This is actually a set of interventions that leaders plan with OD's help in order to "acculturate" everyone in the organization into an agreed-upon vision, mission, purpose, and values. The interventions might include training, goal setting, organizational survey-feedback, communications planning, etc.

Team Building

This intervention can take many forms. The most common is interviews and other prework, followed by a one- to three-day offsite session. During the meeting the group diagnoses its function as a unit and plans improvements in its operating procedures See J. E. Jones & W. L. Bearley, *TEAMBOOK*, published by HRDQ, for a catalog of team-building interventions.

Intergroup Problem Solving

This intervention usually involves working with the two groups separately before bringing them together. They establish common goals and negotiate changes in how the groups interface. [See J. E. Jones & W. L. Bearley, *Intergroup Diagnostic Survey*, published by HRDQ, for a catalog of intergroup interventions.

Management/leadership training

Many OD professionals come from a training background. They understand that organizations cannot succeed long term without well-trained leaders. The OD contribution there can be to ensure that the development curriculum emphasizes practical, current situations that need attention within the organization and to monitor the degree to which training delivery is sufficiently participative as to promise adequate transfer of learnings to the job.

Setting up measurement systems

The total-quality movement emphasizes that all work is a part of a process and that measurement is essential for process improvement. The OD professional is equipped with tools and techniques to assist leaders and others to create measurement methods and systems to monitor key success indicators.

Studies of structural causes

"Root-cause analysis" is a time-honored quality-improvement tool, and OD practitioners often use it to assist organizational clients to learn how to get down to the basis causes of problems.

Survey-feedback

This technology is probably the most powerful way that OD professionals involve very large numbers of people in diagnosing situations that need attention within the organization and to plan and implement improvements. The general method requires developing reliable, valid questionnaires, collecting data from all personnel, analyzing it for trends, and feeding the results back to everyone for action planning.

"Walk-the-talk" assessment

Most organizations have at least some leaders who "say one thing and do another." This intervention, which can be highly threatening, concentrates on

measuring the extent to which the people within the organization are behaving with integrity.

This catalog is, of course, not exhaustive. It only covers the most common OD interventions. Every practitioner augments this list with both specially designed interventions that meet the precise needs of clients and with other, more complex interventions such as large-group sessions, and other popular programs. It is important, however, that all OD professionals be completely grounded in these basic interventions.