

INTERVIEW*

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Market Forces : What is the structure of energy demand in the country ?

Viqar Ahmed: Energy consumption in Pakistan over the years has increased to **29.0** MTOE with petroleum now accounting to **39%** of the total and natural gas for **35%**. There has been a gradual but definite shift from petroleum to natural gas during the last ten years. More and more power plants, cement factories and other industrial units are converting to natural gas in line with the government's policy of relying more on indigenous resources. As a result, there has been a marked drop in the intake of, especially, fuel oil.

Growth in white oil, especially HSD, reflects favorable economic conditions as Pakistan's economy is largely influenced by growth in the rural sector. Interestingly, Mogas, which is also used as a household commodity, is only **8.6%** of total consumption, while HSD (High Speed Diesel) and FO (Fuel Oil) comprise almost **81%** of total consumption.

Market Forces : What is PSO'S size and its share in the domestic market ?

Viqar Ahmed: Pakistan State Oil Company Limited (PSO) is Pakistan's largest company having an average turnover of around **US\$ 3.3 billion** annually. Therefore, the company can be easily ranked some where between 400-450 in a typical **Fortune 500 list of US Companies**. It enjoys an overall market share of **65%** with around **82%** representation in black oils and **58%** in white oil. The well-established infrastructure, built at par with international standards, representing **82%** of the country's storage capacity, provides PSO an edge over its competitors.

In the mid 1970s the government amalgamated three OMCs: Esso Eastern, Pakistan National Oil (PNO) and Dawood Petroleum. This is considered as one of the most successful mergers in the history of Pakistan.

With a retail coverage of around **3800 outlets**, representing 80% participation in the total industry network, the company supplies around **4.6** million tons of POL products. Rapidly expanded New Vision outlets currently number **1125**. They maintain international standards, not only with respect to the end user's needs but are also designed tastefully. These outlets are equipped with convenience stores, business centers, internet kiosks and CNG facilities. To ensure high quality of products **21** mobile quality-testing units have been deployed in all major cities to carry out on-the-spot checks.

PSO operates at **8** airports and serves **4** domestic and **14** international carriers under its technical / commercial license agreement with Air Total International and enjoys over **64%** market participation in aviation fuel.

The company's LPG business unit, supported by 4 plants with a combined capacity of 750 MT/day, is delivering cheap and environment friendly fuel to low-income households and rural areas where natural gas is not available. Its Agency trade unit provides kerosene, light diesel oil and lubricants to end users via 500 distributors appointed all over Pakistan.

PSO also enjoys around **36%** market participation in lubricants and is blending/marketing Castrol brands, in addition to a wide array of its own products. The company has an integrated value-chain system for its lubricant business which was put in place in 2002.

PSO has been a winner of the Karachi Stock Exchange Top Companies Award for many years. It is the only Pakistani corporation to have become a member of the World Economic Forum.

Market Forces: Some international oil sector analysts speak of a turn around at PSO. Has there been a turn around.?

Viqar Ahmed: During, 2002-2003 PSO has undergone radical changes, both internal and external, and has emerged with a new outlook; it has developed a long-term vision. The company is the only public sector entity in Pakistan that has been competing effectively with three multinational companies which are supported technically by their parent organizations. Owing to its radical turnaround, the company has been a popular topic of case studies in Pakistan and abroad.

Market Forces : How has this turnaround been achieved ?

Viqar Ahmed: It was realized some years ago that a need existed to induct senior professional marketing experts in PSO. There being few professionally sound person available within the organization, it was considered necessary to recruit persons from outside. This resulted in the appointment of a new Deputy Managing Director (Marketing) from outside by the government in April 1999.

In line with the government's stress on good corporate governance, the Ministry of Petroleum and Natural Resources undertook a bold initiative in the oil and gas sector and a restructured Board of Management of PSO was nominated by the Government in February 2000, comprising professionals of good repute.

The position of the CEO and non-executive Chairman of the Board were separated. The Board of Management is assisted by three sub-committees—the Human Resource Committee, the Audit Committee and the Finance Committee. These committees, review both policy and implementation of Management initiative.

This organizational restructuring made it possible to successfully undertake strategic initiatives in all spheres of operations while emphasizing high ethical values.

Market Forces : How was the new strategy conceived.?

Viqar Ahmed: Prior to launching the new strategy, the newly inducted professional management scanned the environment to analyze the factors (internal and external as well as controllable and uncontrollable) that had been affecting the organization's performance and its business. Here is an extract taken from the initial report / prepared by the team of professionals who conducted a detailed study of the corporation's past performance, human and accounting assets and internal systems vis-à-vis the external business environment:

Internal Constraints

- Obsolete Systems
- Lack of Automation
- Dearth of Quality Professionals
- Myopic business vision
- Bureaucratic management structure
- Ineffective organizational structure

- Heavy reliance on inventory gains

External Constraints

- Aggressive marketing and development by competitors
- Political intervention
- Highly regulated environment
- Rapid products substitution in the market
- New players in the market

The CEO shared his vision about the company's future direction, with key stakeholders. This was then translated into a Mission Statement and Shared Values followed by Corporate Objectives, both short- and long-term. There are summarized below.

Vision: To excel in delivering value to customers as an innovative and dynamic energy company that gets to the future first.

Mission: Committed to leadership in the 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.
- High ethical, safe, environment friendly and socially responsible business practices.

It is pertinent to add here that PSO management has effectively conveyed its vision to all employees and inculcated the shared values throughout the organization.

Long-term objective:

After conducting a detailed due diligence exercise, PSO management set the following long-run objectives for the company, specially indicating its future direction as an energy solution company rather than only an oil marketing company:

- Establish reputation as an energy company through diversification and integration.

- Retain market leadership in all key products.
- Maximize shareholders' wealth by sustainable growth in earnings.
- Establish PSO as a brand of choice for customers.
- Utilize all available resources optimally.
- Fulfill corporate social responsibilities.

Consequently, PSO conducted its SWOT analysis at the beginning of the revitalization process so as to arrive at a set of coherent strategies aimed at corporate improvement and transformation. PSO strengths were that it had a well-established infrastructure as well as the largest retail network in the country and was the sole supplier of Independent Power Plants and Hubco while its weaknesses were dilapidated retail network with low throughput per outlet; lack of assured supply sources; obsolescence, improper controls and lack of professionals. The identified opportunities were deregulation, globalization, upstream/downstream integration and diversification, probable threats were global externalities, products substitution and induction of new players.

Market Forces : What were the major new initiatives?

Viqar Ahmed: For effective corporate turnaround, a paradigm shift is a must, which requires revolutionary and drastic measures. However, during the implementation of these initiatives, PSO faced some decline in efficiency and productivity. It was passing through a transition phase.

PSO's transformation process was envisaged and implemented in FY2000. During 2000, the company's sale fell and it continued to lose market share in some key products. Although the declining market share was arrested in some product areas an overall upward trend in market participation could not be achieved and profits were stagnant over the preceding year.

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

Radical transformation of corporate architecture and business practices enabled PSO to develop a dynamic and innovative response to actual and potential challenges in all aspects of business, including product range, prices and service levels. PSO succeeded in enhancing professionalism in its staff and cultivating customer loyalty through effective and continual communication, reliable service and superior product support.

Market Forces: What are PSO's present human resources management and development policies?

Viqar Ahmed: At PSO today, human resource is seen as the single most important factor that can, and does, bring about change. It is a pity that while all other inputs and assets, from a pin to a skyscraper, have their book value, market value and replacement value there is no methodology to reflect human resource value in our balance sheets, through it is only a fully empowered, motivated and satisfied professional workforce that guarantees success.

In order to make the organization more competitive and responsive, PSO management embarked on a series of initiatives and revamped the entire organizational architecture, PSO's corporate structure has evolved into a matrix, which has divided the company's major operations into independent activities supported by the financial, legal, information and other services. These activities are performed in an autonomous and collegial manner in the form of Strategic Business Units based on a clear and transparent allocation of responsibility and accountability. This structural change has been reinforced and related checks and balances have been established by putting in place several corporate monitoring and control systems

Change management exercises usually start with the restructuring of the organization. It started in PSO with a Voluntary Separation Scheme which was handled by General Manager Training & Organizational Development and the MD the late Shaukat Raza Mirza himself without involving any other person from the organization in view of the confidentiality and sensitivity of the project. About 30 % staff was reduced i.e. 750 employees opted for VSS (312 management and 438 non management). The success of the whole exercise was due to two main reasons - confidentiality before the actual announcement and then its implementation in the most humane way without putting any sort of pressure on anyone to opt or not to opt for the scheme. This resulted in separation of a major chunk of employees who saw themselves as not fitting into the new culture and organizational structure of PSO. Restructuring

took place which was handled by the new MD Tariq Kirmani himself.

Market Forces : You put emphasis on ‘share values’. Has this been effective.?

Viqar Ahmed: PSO used to have no well-defined shared values before FY2000. Since, then we have developed and inculcated shared values among our employees and take them very seriously and not as mere words. Through concerted efforts, we have been able to develop and inculcate among employees the values of integrity; health, safety and environmental concerns, customer satisfaction; quality and productivity; leadership and teamwork; candid and open communication; innovation and creativity; diversity; respect for the individual and employee growth and development.

The Training & Organizational Development department pursued a strict policy for change in attitude of employees quite vigorously by inculcating a sense of participation, openness , integrity and keeping in focus the company’s vision and values in all training activities. A pace was set therefore, to bring change in all aspects of the organization and its systems. The entire outlook of the company was changed from a ‘Supply Driven Company’ to a ‘Customer Focused Organization’.

Later on HR policies were updated and revised, a work which had not been done for at least during the decade before 2000. A proper performance management system based on the bell curve methodology has been adopted and implemented with success and employee acceptability. Salary and benefits surveys helped to bring the remuneration structure in line with the market based pay and benefit structures. Proper reward system in the shape of two yearly awards was introduced , one being the ‘Managing Director Performance Award ’ and the other being Shaukat Raza Mirza Management Excellence Award’. Similarly discipline has been greatly improved and ethical values are being widely respected now within the organization in all spheres of decision making.

Market Forces : What are the new systems that have been introduced ?

Viqar Ahmed: Before 2000, PSO’s internal systems had been weakened owing to obsolescence, mismanagement and leakages and as a result the company’s financial systems and controls were badly affected and a negative public perception took root a fate the majority of state-owned companies suffer from. We had to therefore embark on a journey to strengthen our systems, from our financial systems to marketing and from our HR to information management systems.

From a semi computer literate organization PSO has come into the 'Enterprise Resource Planning' era wherein SAP (a German software) has been selected to integrate the whole of PSO so that all business decisions are based on accurate and timely computerized data and keeping in view more than 50 locations this in itself is no mean achievement for a public limited company.

Quick and merit based decisions taken by respective cross functional teams have yielded important successes in terms of volumes and profit. Cost savings have occurred due to strict vigilance and proper negotiations in supply and purchases . Similarly distribution systems and logistics have also been improved to a great extent and financial transactions as stated earlier show a remarkable change. Similarly security and HSE have also seen a turn around

The management, being fully cognizant of the training and development needs of employees, has launched an ongoing training program to equip its workforce with necessary skills and knowledge. 10000 training inputs have been imparted, to our employees since 2000 despite their being busy. In addition more than 10000 forecourt attendants have been trained on customer services as part of WOW experience launched in FY2002. Defensive driving training input was given to over 7000 drivers carrying POL products. Customized sessions on ethics, team building, presentation skills, sales and marketing, customer courtesies, realizing potential, success, taking charge and leadership, computer based project management, etc have been organized on a regular basis. The Company has also launched ongoing internship program for graduating university students and so far about 900 students have benefited from this. Apart from this rigorous SAP training has been imparted to all users.

Market Forces : And your management style ?

Viqar Ahmed : This is based on the Strategy Mix Matrix (GSM) which PSO has adopted. We emphasize quick decision making in our style of management We strengthen teamwork promoted through formation of various cross functional teams to expedite decision-making and execution of policies. In a clear departure from the bureaucratic style of management, employee empowerment has been enhanced through delegation of authority and employee participation has been ensured through open invitation of suggestions.

Market Forces : Large corporations have lately developed a social responsibility agenda.
What of PSO ?

Viqar Ahmed : Before FY01, PSO did not see itself as having a role for itself role in the corporate social responsibility area. Now, PSO is deeply conscious of its duties as the country's premier corporate citizen. The company firmly believes that the benefits of its successes and achievements must necessarily flow down to the grass-roots level, particularly to the deprived and underprivileged sections of the populace, irrespective of ethnicity, caste and creed.

As a conscientious and caring corporate citizen, PSO lays emphasis on the area of HSE. Ensuring the health and safety of PSO employees, contractors, customers and members of public is one of our basic corporate objectives, and as a priority it ranks equally with sales and profits. Accordingly, it is the company's policy to enable its employees to function in safest manner, consistent with best industrial practices, while adhering completely to the requirements of health and safety codes and practices.

Market Forces : What has been the impact of this organizational restructuring on the bottom line

Viqar Ahmed : A quick look at our profits tells our story in two lines:

	Jul,04-Mar,05	2004	2003	2002	2001	2000	AV 2000-2005
Profit before Tax	6,729	6,263	6,209	5,137	3,451	3,581	
Profit after Tax	4,305	4,212	4,030	3,188	2,251	2,231	
Rate of growth of profit after tax	2.20	4.51	27.20	41.62	0.83		
Mean							15.26
Standard Deviation							16.56

Source : PSO Financial Statements

