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CORPORATE SUSTAINABILITY AND ORGANIZATIONAL CHANGE. CASE OF OMV PETROM

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Abstract

Many corporations have recognized the importance of being perceived as socially responsible to the environment, employees or local community. They have worked hard to be labeled as sustainable organizations. Corporate behavior, however, implies a gap between theory and practice. Therefore, we consider it necessary to study how to transform corporations into sustainable organizations based on organizational change models. The paper brings an original contribution to the study of organizational sustainability by introducing a framework for sustainable organizational change using organizational culture components and Deming's Plan-Do-Check-Act (PDCA) cycle of continuous quality improvement.

Keywords: sustainability, organizational change, culture management, PDCA, OMV Petrom

JEL classification: Q01, L16

Introduction

The beginning of the third millennium witnessed significant changes in organizations strategy in terms of focusing on sustainability as a mean of organizational development (Enquist and others, 2007, Epstein, 2008; Ihlen, and Roper, 2011). To achieve sustainability, organizations must change their business models and undergo a process of unprecedented organizational change, prioritizing social responsibility and business ethics (Sebhatu, 2008). Sustainability policy management is a challenge for organizations must create a framework to integrate social and environmental issues with economic performance.

Dinu (2010) considers that sustainable development is essential to achieve and maintain the economic success and commercial advantage through increasing organization reputation among stakeholders.

In recent years, many organizations have resorted to organizational change for implementing policies of pollution abatement, fossil fuels use decrease, improvement of

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relations with stakeholders (Crane, 2000; Dinu, 2011). Some researchers have argued that these changes are not adequate to ensure organizations sustainable development (Hart & Milstein, 1999; Senge & Carstedt, 2001). To face the social and environmental challenges, organizations should undertake a cultural change and sustainable structural transformation (Post & Altman, 1994; Stead & Stead, 1992; Welford, 1995). Organizations must implement a culture of sustainability if they plan to implement organizational change that ensures business sustainability (Crane, 1995).

Brief and others believe that sustainable change can only occur if implementing a new organizational climate and culture that lead to a better performance than in the past. Changing the organizational climate is an important step in the process of changing company's employees' values and beliefs. In fact, these beliefs and values form the organization's culture. (Brief and others, 1996, p.16)

Pasmore and others show that, in shaping an organization, an important role is played by implemented management practices (Pasmore and others, 2009). Understanding the role of organization top management is an important contribution to any organizational change theory focused on improving social, environmental, and competitive performance (Iacob and other, 2009). Linnenluecke and Griffiths state that an important research direction is provided by the complexity of relationships between organizational culture and organizational sustainability. (Linnenluecke and Griffiths, 2010, p 364). They also assert that the change of organizational culture can be an important driving of organizational change in all respects: economic, social and environmental.

Our research proceeded from the review of organizational change, culture management, and sustainability literature and direct observation of OMV Petrom organizational change characteristics. The research can be classified as exploratory, representing an initial study that deals with the issue of organizational change in terms of ensuring a sustainable organization. The choice of OMV Petrom was based on the numerous changes experienced by this national company, along with privatization and its transition to a responsible company.

1. Models of organizational change

Organizational change specialists have proposed several ways of intervention to operate change in a company: organizational development programs, management by objectives, social and technical approach, improved reward systems, Total Quality Management (TQM), etc. Woldring thinks that substantial organizational change works best if the change is phased (Woldring, 2010, pp.5-10):

- Preliminary Phase, problem identification, involves the detection of abnormalities in the structure and organization's life, resulting in reduced functionality and low efficiency of organizational activity;
 - Data collection, analysis and diagnosis;
 - Get agreement on the change;
 - Implement organizational change;
 - Assess and improve organizational change plan.

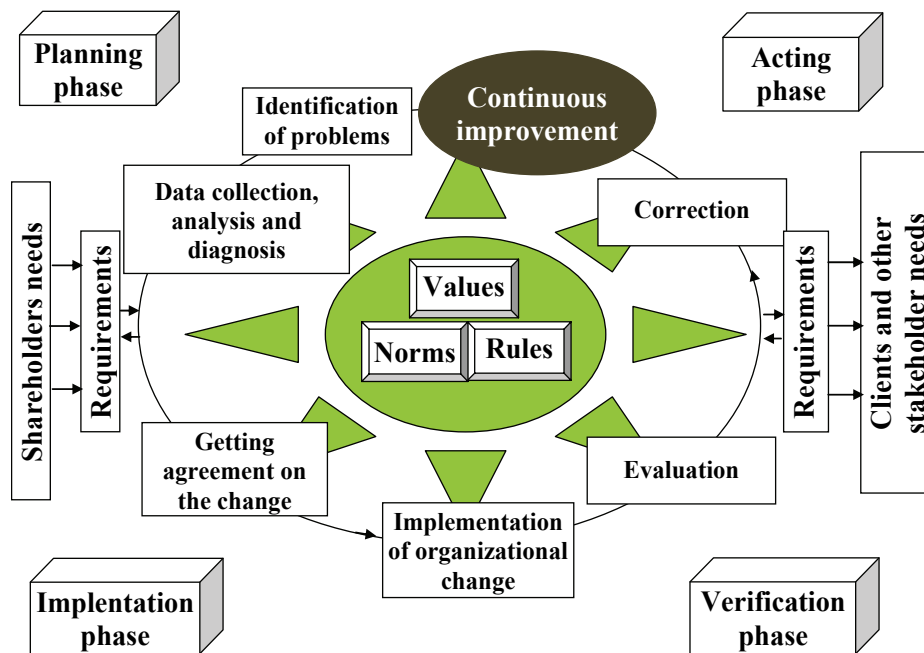
Brief and others introduced the concept of total organizational change, assuming that successful organizational change is achieved only if organizational environment and culture

are changing. Total organizational change involves the following steps: (Brief and others, 1996, pp.8-9)

- creating organizational framework for implementing the corporate change,
- analyzing the proposed change taking into account four variables: human relations, hierarchical relations, labor relations, reward system configuration,
- detailed planning of measures for total organizational change,
- reconfiguring the rewards system, to ensure employees total support to organizational change plan,
- allocating resources to implement the total organizational change,
- close monitoring of plan fulfillment.

Based on these steps, we built an integrative model that apply organizational change phases (problems identification, data collection, analysis, and diagnosis, agreement on change, organizational change implementation plan, assess and improve organizational change plan) to components of culture management (values, norms, rules).

Integrative model of organizational change process mixed with culture management is based on Plan, Do, Check, Act (PDCA – *Plan-Implement-Verify-Act for this specific case*) Deming's cycle of quality continuous improvement. Implementing this model without achieving an effective integration could cause confusion, inconsistency and incompatibility (Figure no. 1).



**Figure no. 1: Integrative model
(culture management, organizational change phases, PDCA cycle)**

Source: Developed by the authors

The *planning phase (PLAN)* provides a thorough overview of the actual situation and states the requirements, responsibilities and resources for changing each value, norm and rule, which does not correspond to an organizational culture focused on sustainability.

Implementation phase (DO) involves the plans implementation.

Verification phase (CHECK) involves comparing the standards set in the first phase with achieved results to determine the level of objectives' fulfillment.

Acting phase (ACT) requires readjustment of plans in order to achieve adequately the objectives.

The benefits of both this approach and the model we developed are the “red threads” among model’s various components, whose integrated implementation leads to achieving organizational goals.

2. Achieving sustainability in OMV Petrom trough organizational change process

Petrom is the largest South-Eastern European producer of oil and natural gas, combining experience of the first oil producing country with international knowledge of OMV, the leading oil company in Central Europe.

The company's main activities are:

- Exploration and Production,
- Refining oil and Gas,
- Marketing.

Company’s top management efforts were devoted to undoubted change Petrom into a company socially responsible, involved in various areas of social development. As an integrated oil and gas company, currently with over 20,000 employees, influencing and affecting the lives of many people through its business operations, OMV Petrom is focused on preserving and improving the environment it activates in. OMV Petrom change into a modern company dedicated to development and improvement would not have been possible without the strong commitment of employees.

Activities development is supported by significant investments aimed at improving efficiency and increasing production. Appropriate corporate governance and social responsibility high standards are the cornerstones of social sustainability culture. The company aims to become not only a model in the business community, but also a responsible "citizen" of the community it operates in. Another company's objective is focused on reducing the impact of climate changes through growing energy efficiency and reducing carbon emissions, by implementing highest quality environmental standards. (OMV Petrom, 2012)

OMV Petrom integrated sustainable development issues in business development strategy. Sustainable development is the way in which OMV Petrom prioritizes health, safety, security, environment, community relations and social issues. The analysis of sustainable development indicators underlines that although environmental and social costs have increased the responsible policy led to a positive trend of financial indicators (Table no. 1).

Organizational change process initiated by and inside OMV Petrom, along with company privatization, had impressive results, the total turnover of Petrom OMV represented in 2011 more than 5% of Romania’s GDP.

In 2012, OMV Petrom aims to become the largest South-Eastern Europe integrated oil company. As a responsible industrial company, OMV Petrom is committed to support the efficient and appropriate use of energy sources, taking into account current customers and future generations' needs and interest in terms of environment protection.

Table no. 1: Sustainable development indicators

	2008	2009	2010
Financial and operational indicators			
Total oil products (thousands bep/day)	188	181	184
Total crude oil processed (thousands tons)	6121	5161	4,15
Net Turnover (million ROL)	16751	12842	18616
Taxes to the state budget (million ROL)	6476	6720	7607
Wages and salaries (million ROL)	1820	1822	1836
Safety			
Fatalities	7	1	3
Incidents with temporary loss of working capacity (LWDI)	52	33	29
Death rate (FAR)	10,79	1,74	6,01
Frequency of accidents with lost working time (LTIR) per million hours worked	0,91	0,59	0,64
Severity of accidents with lost working time (LTIS) per million hours worked	63,53	39,98	24,79
Environment			
Power Consumption (PJ)	81,57	61,36	50,6
Water consumption (million cubic meters)	58	45,57	39,94
Greenhouse gas (GHG) (million tons CO2 equivalent)	5,1	4,1	4,7
Suspended in air emissions (tons)	2437	1750,9	368,9
Discharges in wastewater			
Chemical oxygen demand (COD) (tons)	1625	1610	1256
Hydrocarbons (tons)	45	49,8	39,62
Total nitrogen (tons)	281	233	134,4
Employees			
Number of employees at December 31	33311	27470	24111
Number of employees in management positions	2297	1266	1428
Women in management positions (%)	18,58	25	30
Dismissal for non-compliance and unethical behavior	45	14	20
Contribution to the community (million lei)	16,56	29,48	18,14

Source: OMV Petrom, 2012. Yearly Reports, 2006-2010

Sustainable development means meeting current needs without compromising the ability of future generations to meet their own needs. Consequently, OMV should consider as part of its business approach, the means and tools to produce and ensure long-term energy supplies while ensuring a balance among environmental, social and economic grounds. (OMV Petrom, 2012)

Functional strategies of Sustainability Strategy for 2015 ensure a balanced development from economic, environmental and social points of view. OMV Petrom annual program of sustainability provides a consolidated overview of company's performance during the reporting period, in eight areas: (OMV, 2011, p 8)

- leadership,
- economy,
- human rights,
- employees/employment,
- health,
- safety,
- environment
- community relations.

In 2011, OMV Petrom continued the process of promotion and implementation of performance-based culture. In this respect, OMV Petrom has developed and communicated, internally and externally, the strategy up to 2015. It also continued with the other initiatives on performance: emphasize positive communication, consider team's development objectives as important as business objectives, implement a robust performance management, design a process and programs of talent management and to eliminate deficiencies in communication between headquarters and offices around the world. (OMV, 2011, p 42)

To assess performance and configure a rewards system OMV Petrom introduced an effective MBO system (Management by Objectives) as a continuous process based on defining goals and assessing managers' performance related to the objectives. This led to a more efficient management for both managers and employees, and to a better integration and alignment to OMV Petrom group general objectives.

The ultimate goal of these programs is the sustainable development and creation of a unified corporate culture based on transparency and performance.

3. Adapting the integrative change model at OMV Petrom case

To ensure sustainable development, OMV Petrom intends to diversify its energy sources and find solutions to reduce fossil fuel use impact on climate. Therefore, OMV Petrom builds a strategy called "3plus". The three levels of strategy are (OMV, 2011, p 8): three business segments (Exploration and Production, Gas and Power and Refining and Marketing); three markets (CEE, SEE and Turkey); three values (Professionalism, Pioneering, Partners).

To support and promote this operational strategy, OMV Petrom has defined a set of operational strategies: health, safety, security, environment, community relations, social

affairs, and human resources. To achieve objectives in these areas of interest for the sustainability, the company awards bonuses in reward system.

Analyzing the main synthetic indicators illustrating OMV Petrom road to sustainability, we mentioned a considerable extension of the turnover and granted rewards, while increasing work safety and reducing negative environmental impact (Table no. 2).

Table no. 2: Synthetic indicators of sustainability

	2005	2006	2007	2008	2009	2010
Net Turnover (million lei)	10760	13078	12284	16751	12842	18616
Wages and salaries (million lei)	1537	1745	1657	1820	1822	1836
Frequency of accidents with lost working time (LTIR) per million hours worked	2,21	2,56	1,46	0,91	0,59	0,64
Power Consumption (PJ)	83,6	74,0	77,5	81,5	61,3	50,6
Greenhouse gas (GHG) (million tons CO2 equivalent)	7,2	7,5	6,7	5,1	4,1	4,7

Source: OMV Petrom, 2012. Yearly Reports, 2006-2010.

In figure no. 2, there are introduced the growth rates of sustainability indicators with the base year 2005. Figure illustrates the interest of OMV Petrom in responsible policies.

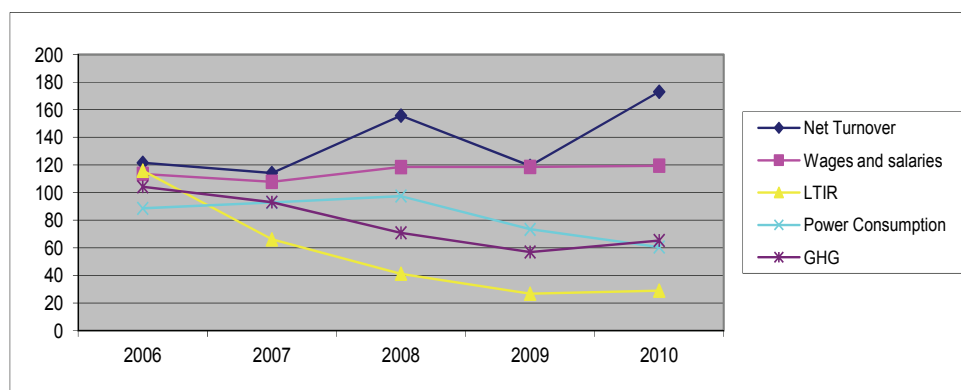


Figure no. 2: Sustainability indicators growth rates (%), OMV Petrom

Source: OMV Petrom, 2012. Yearly Reports, 2006-2010

In parallel, to increase OMV Petrom employees’ awareness and accountability, we proposed the application of an integrated system that combines phases of organizational change with stages of management by objectives. This integrated system will be reinforced (strengthened) by PDCA cycle of quality continuous improvement of processes, values and rules of organization (Figure no. 3).

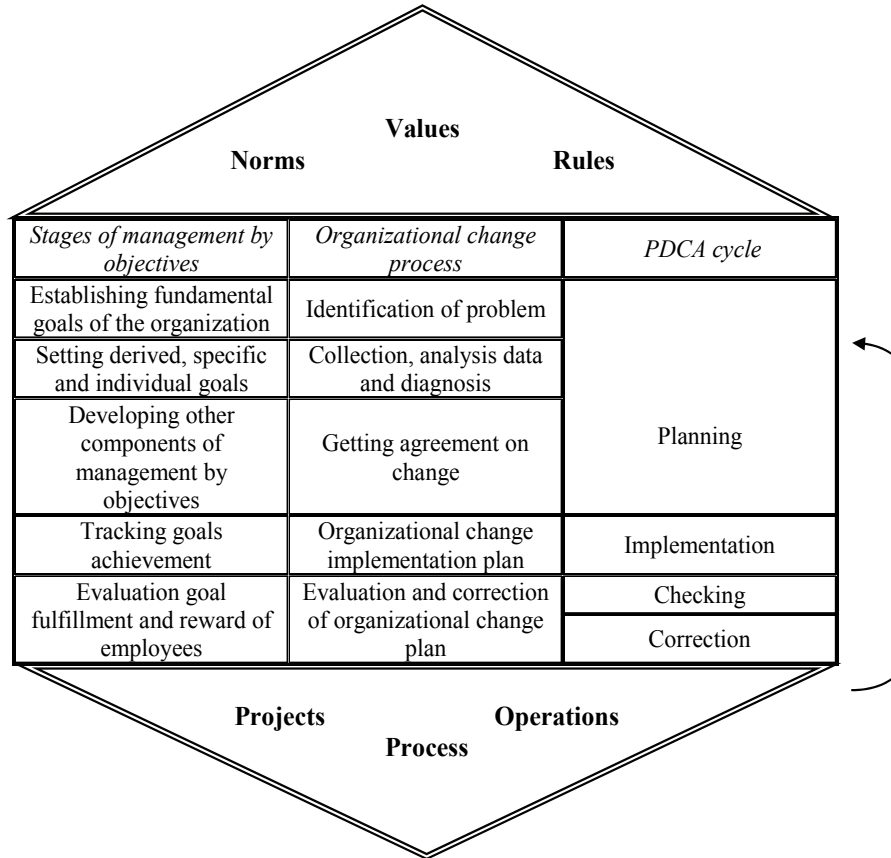


Figure no. 3: Continuous organizational change system

Source: Developed by the authors

Such a system, which we have titled Continuous Organizational Change System (COCS), can ensure sustainable development under increased social responsibility and continuous awareness of environmental issues.

Conclusions and further research

Organizational change occurs within the companies that build new organizational climates and cultures. There is no recipe for success in terms of culture or organizational climate entailing change. Only organizational climate and culture accepted by all stakeholders will generate sustainable organizational change.

Top management is responsible for initiating and managing organizational change. At OMV Petrom, change began when the company's management turned from the public to private, reaching a high level when the company chose to change to a sustainable policy. The change took a long time, assuming enormous financial and social efforts. The change

continues today, OMV Petrom proposing a strategy to ensure sustainability and to turn itself into a responsible company, competitive and profitable.

This paper presents a model of organizational change to increase organizational sustainability. Model provides an overview of organizational change plans, change components under the conditions of adapting organizational culture to sustainability policy. The paper concludes with recommendations for implementing a system of organizational changes within the company OMV Petrom in terms of sustainable development objectives. The approach covers the PDCA cycle and provides a logical and objective path for the organizational change to achieve the goals in organizational sustainability area.

The paper indicates a number of areas for further research. The next step is to consider the role of leadership in organizational change. Moreover, research is needed to explore and identify what happens when organizational change is used within organization as a mean and tool for behavior, values and processes continuous improvement to ensure sustainability.

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