Preparing for the Future Business
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ABSTRACT

GS Caltex is one of the major energy companies in Korea. Like all other energy companies in the world, the company seeks to become a “total energy provider” by successful launching new types of energy businesses and also by managing its traditional business more efficiently. However, the inherent nature oil business and its associated organizational culture make successful change for oil companies to future energy companies very challenging. Therefore, appropriate preparation and a clear image of the future business are required to facilitate the organizational transformation to which GS Caltex aspires.

This thesis is mainly focused on analyzing GS Caltex’s current HR system and suggesting possible solutions to the following questions:

1. What are appropriate preparations for transformation to a “total energy provider”?
2. How can the HR division best support the company’s change?

To find answers to these questions, IBM and NIKE’s cases were used as examples of companies that had successfully undertaking complex corporate transformation initiatives. In this context, it became clear that successfully preparing for the future requires a keen focus on sustainability.

I conclude by suggesting that a well-structured HR system based on “a high road strategy,” launched in conjunction with a sustainability-oriented strategy at the corporate level, is an optimal path through which energy companies can make the significant transformations required to continue their success well into the future.

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I. Preface

As human society has started to use the fossil fuel as the major energy resource, we have been experienced radical economic development and changes. At first, coal had been the major resource for industrialization and then, crude has been the dominating energy resource. Universally, regardless of its declining importance, still oil industry is the biggest industry in the world.

Oil business can be divided into two huge areas, one for energy resource and the other for petrochemical business. The importance of oil as the energy resource has been declined slowly because of various approaches to develop new energy resources. However, oil companies are still the biggest energy companies and, not just because of their immense capital, but because of their continuing investment on new energy resources, they might be able to keep their strong status as the major energy providers long into the future. Although it has a large impact on the whole industry and the society, many believe that it is not a sustainable business in the long run. (Unfortunately, regarding petrochemical business for material, we have not found good alternative ones yet.) Because of the nature of existing oil business, it will not be an easy thing to make successful change for oil companies to future energy companies. Without any right preparations and clear images on the future business, they might fail to make a change and will be declined just like the dinosaurs.

As a HR manager in Korean oil refining & Energy Company, I believe that we can and we should make the good change for the future. In Korea, oil refining industry has been the basis of whole Korean industry and all of Korea's main industries are closely related to the oil industry. By providing good soft-landing in transformation, we can contribute a lot to the society.

Through this research, I want to suggest the suitable management systems to support
future changes with sustainability. I hope that the ideas considered through in this paper will help to find out some common clues for future change and sustainability in any other industry.

II. Nature of the industry

1. Characteristics of oil & energy industry

    Huge impact on whole economy

    Leading oil business requires huge initial investment. It also effects deeply into the national economy. For example, in 1960s, Korean government had designed its national economic development plan from founding some oil refineries. Because Korea had no social infrastructure at the time, it decided to build some industrial complex with government loan from US and other developed nations. To build a refinery, one should need to build a lot of other relating infrastructure such as oil pipeline and harbor and storages. Yeosu refinery of GS Caltex was built in 1968. It is located in the southwest part of Korean peninsula, and along with the plant, plenty of facilities for petrochemical and other oil related facilities also had been built in that area.

    Once the oil business goes into orbit, it is just like rolling the snow into the ball, and now Yeosu industrial complex with GSC's refinery plant has become one of the most important parts of Korean economy. GSC should provide petrochemical materials such as naphtha and benzene with stable price and good quality.

    Because refined oil is the main resource for material and energy, managing stable refining business is very significant. In Korea, there are over 10,000 gas stations in the nation and one third of the stations are selling GSC's oil product. Unpredicted fluctuations in the price of gasoline and diesel will affect the whole Korean economy. Expenditure on oil
products is one of the biggest items in normal Korean family.\textsuperscript{1} In addition, the tax on gasoline and diesel product has been the major resources for tax revenue of the government. Still the thermoelectric power plants are in charge of a considerable portion in the electric power supply. For the airline companies and shipping firms, price of oil product is the most critical factor which can decide its profitability.

Also, the whole economic and political situations all over the world will affect the oil business. The three major factors, which are critical to an energy company's profit, are 1) crude price, 2) price of oil product of international market, and 3) exchange rate. However, a single company cannot handle or affect all these factors. Rather, any big change in the global market can affect the factors such as the Global recession, wars, fiscal policy of local government and the rapid growth in China. Because of its huge impact on human society, oil related business tend to related to political issues.

**Close relation with environmental issues**

While enjoying the benefits of oil consumption, we are facing a lot of environmental problems as the result such as environmental pollution, climate change and the depletion of resources and energy. Many a scholars insist that the current greenhouse effect and global warmth come from excessive usage of carbon-dioxide which is by-product of oil and coal consumption. Now it is threatening the future of the earth.

However, deciding to reduce oil consumption is not an easy problem. Still, crude is the cheapest and most efficient energy resource in the world. Once we develop the epoch-making technical development, we might stop using crude as the energy resource, but, unfortunately, we have not found the good solution yet.

\textsuperscript{1} Financial news(www.fnnews.co.kr), 03/31/2013
Producing processes of oil products are also closely related to the environmental issues. For example, we have experienced several disasters occurred from the wreckage of oil tanker. Once an oil tanker had been wrecked, the whole ecosystem adjacent the place would be destroyed, and it will take decades to recover. Soil contamination caused by leaks of oil tanks or pipelines is also severe problem. The oil refining facility is vulnerable to fire and explosion which might lead a huge problem. All the petrochemical production processes can emit any toxic substance without right prevention and caution. In some sense, oil industry might be the most dangerous one for the environment.

**Finiteness**

Petroleum is a limited resource. Some people believe that human already spent too much crude, and they insist that we will experience the oil peak in a near future. Regardless of the theory's credibility, it is clear that we cannot use crude permanently. Not just because of environmental issues but also because of the finiteness, many companies are heavily investing on developing new energy resources. I hope that we will find good substitutes in the near future, and we must do it. Consequently, major oil companies are also joining the trend. They are investing large money with lots of effort on developing new and renewable energy. With the help of the size of the capital and global network accumulated through their business, they might be the pioneers of the new energy era.

**Request for the sustainability**

Leading an energy company means a lot of social responsibility. Future of the energy company is the future of the whole society, so it is truely important to build a robust and sustainable energy company. For a society, it is hard to imagine a stable economic growth
without stable energy resources. Radical change in the energy industry might cause lots of problems. For example, in Korea, tax on oil product such as gasoline and diesel is the major source of government funding. Once people stop using gas for their cars, it might cause serious deficit. Summing up the situation, the oil industry is a very important business which is directly connected to human and the earth, and it is in the urgent need of change for the future.

2. The nature of the typical oil/energy company

**Global vs. National**

An oil company usually has a strong network with global companies. Major upstream companies produce crude in multinational regions, and the downstream companies have to buy crude from the global market via long logistics. Global oil majors have the network all over the world.

Usually, because of its huge impact on the national economy, oil & energy business is heavily controlled by local government’s policy. In some nations, the companies are owned by the government itself and even it is owned by private, following government regulation is very important for maintain the business. Before the 1990s, in Korea, the selling price of gasoline had been controlled by the government. So it is essential to build a strong relationship with the local government, the legislature, mass media and other stakeholders. Balancing between global and national mind is critical to managing the business.

**Long term perspective and risk adverse tendency**

In an oil company, the impact of one decision might be tremendously important. One single mistake might lead huge disaster, which can harm the whole society. Building a new
facility or carrying investment for upgrading requires a huge amount of money. However, once the decision proved out as false one, it might collapse the company and its vendors. For example, few years ago, GSC invested on its HOU (Heavy oil upgrading) project about 30 billion USD. It took years to make the decision on new investment. Companies sign trading contracts for crude or other natural resources on long term basis over years, so once the basic assumptions for the decision proved out as wrong ones; it might lead a big risk.

Petrochemical facilities are very dangerous and delicate ones, which are vulnerable to explosion. In a company, once a single process in the facility gets into a trouble, one should stop the whole plant because every process to produce oil product is related to each other which can lead critical damage to its business. In any cases, one wrong decision can cause lots of problems for the company and its whole society.

As a result, managers of energy companies tend to be conservative and risk averse which make the organizational culture as the similar one. Comparing to companies in other industries, it takes the longer time to make any decision. Also, usually, there is little room for delegation and autonomy.

**Inner-directed culture rooted on long history**

Usually, employees in an oil company tend to be long term employees. For the manufacturing sector, relatively, there had been few radical technical changes. Moreover, because of the complexity in the manufacturing process, it would take years to develop an employee to the mastery level. Even for the sales and managing fields, due to the importance of global and local network which take a long time to build, having longer experiences means the better performance. So seniority is regarded as a major factor when you judge one’s performance. All the business processes in an oil company is related closely to each other.
From crude purchasing to retail business in the gas station, every activity affects to each other, so teamwork based on trust is regarded as the highest value.

Once a man gets his job in the oil company, he cannot easily move to another company because his skills, which he has acquired in his job, would be needless in other company. As the result, employees tend to work longer. However, spending decades with same members would make employees a little bit more inner-directed ones. Because of the reasons above, it might be hard to make changes in this company.

III. GSC: As-Is analysis

1. History and current status of the company

Korea’s oil market is an oligopoly market led by four major players: SK Energy, GS Caltex Corporation (GSC), S-Oil, and Hyundai Oil Bank. In the market, GSC is the second largest leading company with the market share of 30%. Even though, GSC have been investing some oilfield in south Asia and other areas, it still focuses on downstream (refining) businesses.

GSC established as a 50/50 joint venture with Chevron and GS (called ‘LG’ at that time) in the late of 1960’s. Since Korea was an impoverished country in the middle of the twentieth century, building the strong relationship with global major oil companies was one of the key success factors because it enabled the Korean companies to ensure stable supply of crude. With financial and initial technical support of shareholders, GSC has been growing rapidly and now it has the world’s 4th biggest refining factory.

In terms of business area, at first, GSC started crude oil refining business for the domestic market and then expanded into other business areas as it expanded petrochemical facilities through 1990’s. Now the company is about to launch new/ renewable energy
business. Moreover, as refined oil supply from local major companies' facilities exceeds domestic demand, GSC has been exporting its products to other countries. Overseas business has become more profitable and important than domestic business. (GS Caltex exported 83.3% of annual crude oil import value in 2011) In order to expand its business to China, GSC opened its own office in the northern part of mainland China with stakeholders’ agreement. Also, GSC is trying to expand its lubricant business to India and other Asian countries.

2. The Basic HR structure of GS Caltex

Organizational structure

The organizational structure of GSC has been designed along with its business process. There have been several changes in organizational structure of this company. However, main structure has not changed so much. Major divisions of the company are (crude) trading, manufacturing (refining), sales, and business supporting. Not just because of the growing size of sales volume but because of enhancing the specialty in sales, GSC launched independent sales divisions for petrochemical product and lubricant. Also, it established GS Energy, which will be in charge of new energy business.

In addition to strengthening our existing businesses for sustainable growth, GS Energy was established as a new platform to secure future growth engines. The new business structure will enable GS Caltex to focus on its core businesses including petroleum, petrochemicals, and lubricants business and further strengthen its competitiveness. GS Energy, a holding company specializing in energy business, will create synergistic effects

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2 GS Caltex Corporation, Sustainability Report, 2011, P. 2
3 GS Caltex Corporation, Sustainability Report, 2011, P. 2
with GS Caltex by identifying and developing new business areas with growth potential. 4

With this structural change, GS Energy will handle many issues related to new businesses with speed and with different points of view. For example, by positioning new business units in the holding company, it would not be troubled by short-term profits which usually had been the stinking points of new businesses. The two companies are not so separated and are still operated like one company. It will take some time to build a new HR system in GSE but it is clear that GSE needs different HR system in the future.

**Organizational Hierarchy**

A team is the basic unit of GSC’s organizational structure. A team leader has the power and authority to manage team member’s performance. A vice president is in charge of multiple teams. An Executive VP or Senior VP is a division manager. He/she is usually in charge of multiple VPs. All division managers are members of the highest management committee.

**Implications of organizational structure**

The structure has been designed according to existing oil business process with clear R&R. CEO has strong control power on each process so once he has a deep understanding for every process, it will work better. However, ideas for new business might be neglected because, sometimes, they are regarded as nobody’s business. There might be some approaches for new business driven by each division manager without aligning whole corporate’s business. While considering important business decisions, the number of committee members might be a matter because once we require every member’s consent, we

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cannot expect a speedy decision. A division manager tends to regard his role as representing his division’s view, which would cause the silo problem and unnecessarily disputes. Division managers tend to hold up decisions by defending their unit’s interests. Even though, the CEO encourages open discussion of different views, some other executives do not feel able to challenge the CEO’s views.

Compensation system in GS Caltex

GSC has been recognized as one of the Korean companies with the highest compensation standards. Average annual salary for employees and executives has been always higher than any other manufacturing companies. We need to understand the reasons why GSC has such a high compensation level.

First of all, the company has been enjoying its profitable business for decades. The company founded in 1967 and through almost 45 years, it never experienced any severe financial or business crisis. Through stable and profitable domestic oil business, the company had invested huge money on its refining and petrochemical production facilities. The complex located in Yoesu is proud of the world’s best complexity. Nowadays, with the cost efficiency and good quality of product, the company earns more money in the global market than the domestic market by exporting its oil products. Oil industry is a highly mechanized and capital intensive industry. Compared to its business volume, labor cost has not been regarded as a big issue. These situations also have affected on the current compensation level.

Virtuous circle

Compensation strategies influence employee behaviors and organization performance. Recent studies suggest that a total compensation package that emphasizes performance-based
pay is related to firm performance only when the organization is performing well.\(^5\) It is clear that the company has enjoyed a sort of virtuous circle from high compensation level. Many Koreans regard GS Caltex as the best company to work because of its stable business and high salary. Because the company is so popular for job seekers, it can easily hire the best people in Korean society. Then the smart people have been operating GSC’s business more efficiently and profitably which also has been accelerated the company’s higher compensation level.

**Relatively low differentiation and low diversity in compensation**

Even GSC has launched a flexible compensation system still there is little differentiation among employees. A vice president who is in charge of multiple teams has the power to adjust merit increase for all team members under his/her control. After setting budgets for the salary increase, he/she can set the different range for A players and B players. However, in many cases, managers do not make a large differentiation among A player and B players.

The whole business process of GSC is a bit simple, but all the steps are so closely related to each other. Once some people feel that they are treated worse than others they cannot endure the situation because they also believed that they have contributed a lot for the whole company’s business result. Also, it is too hard to calculate one people or one division’s specific contribution.

GSC’s employees have strong loyalty, and they are proud of their job and the company. Majority of employees have spent and will spend decades in the company, and they feel like the family members, so they tend to emphasis on equality and teamwork. A manager

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\(^5\) Milkovich & Newman, Compensation, 7\(^{th}\) edition, P. 46 - 47
who wants to make big differentiation in basic salary among his subordinates soon would be blamed by others in the company’s “inner society.” A typical manager believes that differentiation can harm the existing culture. People tend to believe that differentiations among employees are not a good thing for the whole performance. However, young people tend to complain because they believe that existing culture is too conservative and inner-directed.

Rather, in order to encourage high performance, the company has focused on position promotion. Also, benefits (e.g., long-term overseas training course) are used as good tools to promote competition. It is also related to the culture of Korean society. In Korea, compensation issues are regarded as a complicating one. Influenced by the Confucian culture, many people usually say “we do not care about the money.” Instead, people tend to cherish their social position and title.

**Compensation Structure**

![Diagram](Picture 1. Compensation structure of GSC)

An executive’s compensation is divided into fixed pay and variable pay (executive incentive program). Benefits include retirement plan. Fixed pay is divided by base salary and positional allowance. Base salary is decided by one's title. A SVP will get the same amount of
base salary with all SVPs regardless of one’s age, experience, and performance. Positional allowance is differentiated by the job position. The amount of positional allowance is updated at every year by CEO. There are two kinds of variable pay: short-term incentive and long term incentive. Basically, these are decided by one’s individual contribution on the period and also by the corporate’s business performance.

General employee's compensation is also divided into fixed pay and variable pay. In case of the base salary, all employees are classified by three pay bands according to one’s seniority and experience. At every year, within a pay band, amount of the salary increase would be decided based on the individual's performance appraisal. Then additional adjustment will be done considering individual's salary level and job value. Team leaders will get additional positional allowance. In case of variable pay, a one-time lump sum bonus to high-performers will be given based on one’s annual base pay. According to the company’s business performance, the corporate incentive will be given by equal payment ratio to all general employees.

**Implications of the compensation system**

The compensation system of GSC looks like so well designed one with balance for its current business. However, for the future business, it might have some limits, so it needs to be developed into more delicate system. Current compensation systems for executives and employees are totally different ones, and they have no apparent relationship to each other. It might bring about potential conflicts between executives and employees. The total performance of a company is not related to compensation of executives although it is indirectly reflected to each executive’s evaluation grade. Usually, executive are regarded as temporal workers, and they have no tenure because they sign on the annual contract. Because
there is no clear rule for dismissal, executives tend to focus on short-term performance to keep their current positions. Also, the performance grades, which used for short-term incentives and long-term incentives, are the same so there would be no differential effectiveness in two apparently different incentives. Usually, individual incentive does not have a big effect on one’s compensation rather than corporate incentive. However, because there is no clear rule for corporate incentive, it is hard to utilize the incentives as the tool for encouragement.

New Leadership Model: GSC Way

In 2007, GSC announced a new leadership model, “Energy Leadership Model”. It came from its existing leadership model, but the new model strongly emphasized on the leader’s role of challenge. By this new model, GSC made profiles of all the team managers and directors through 360 degree diagnosis with which also relieved some improper managers. GSC also started a lot of cultural change management programs based on the leadership model.

GS Caltex announced GSC Way in January 2012 and is striving to practice GSC Way in its policies, management and daily business activities to achieve the vision. In order to achieve the company’s vision of “The Leader in Providing Total Energy Service” and management goal of “Bridge to the Future”, and proactively prepare for future changes in the business environment, GS Caltex provided a common framework of principles which is applicable to all employees. GSC Way was upheld through executive meetings, employee surveys, and internal/external expert workshops.

GSC Way is consisted of four organizational values and three core behaviors. Trust (Fulfill one’s role, trust and respect one another), Flexibility (Welcome diversity with an open
mind and behavior), Challenge (Set high goals and pursue them aggressively, and Excellence (Strive for excellence in individual and organizational performance) are the organizational values. Core behaviors are proactive (Think ahead and be the first to act), Collaboration (Concentrate internal and external resources and capabilities) and Performance-Driven (Create tangible results).⁶

\[\text{Picture 2. GSC Way Charter}\]

\begin{center}
\begin{tabular}{|l|}
\hline
\textbf{GSC Way Charter} \\
Based on our organizational values of Trust, Flexibility, Challenge and Excellence, We will: \\
\quad - Think ahead and be the first to act \\
\quad - Concentrate internal and external resources and capabilities \\
\quad - Create tangible results \\
We will achieve our vision through the GSC Way.⁷
\hline
\end{tabular}
\end{center}

\textbf{People development system}

GSC has invested a lot for its human resources development system. For the leadership development, it has launched its own leadership model and has provided many tools such as training programs and other individual programs. (Ex. Coaching, mentoring and regular leadership feedback)

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Six Sigma Management Innovation Initiatives

GSC has been adopting the 6 sigma program as the main tool & concept for the innovation. *GSC introduced Six Sigma initiatives in 1999 as a company-wide integrated innovation program to achieve sustainable profit growth. By 2011, our continuous efforts for innovation led to 300 Champion projects, 800 BB* projects and 3,800 GB* projects. With these achievements, we are moving towards the goals of creating financial benefit, developing leaders and improving the way we work.*

*Building Company-wide Innovation Culture In 2011, “Champion Project Evaluation Committee” was held in order to set stretched goals and support to achieve them.*

Every team should carry out 6 sigma projects at every year, and every manager should spend 2 year to get a 6 sigma black belt to be designated as a team leader. Even there had been some deputes that the spirit of Six Sigma might harm the risk-taking and innovative spirit which is required for new business, many people has accepted that the core idea of Six Sigma initiatives which enhancing pursuit of zero-defect will help developing GSC’s main business.

Changes in HR system

As mentioned above, the compensation structure of GSC is basically based on its employee’s seniority with little differentiations. GSC started adjusting more flexible annual salary system in 2003. Regarding compensation and promotion systems, in 2009, GSC launched a new HR system for researchers in R&D center. It is based on so flexible compensation scheme that the amount of compensation can be changed, not by his/her seniority but the performance of researcher. A researcher’s title and salary are mainly decided by his/her “level”, which reflects the competency and market price of the researcher’s own

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8 GS Caltex Corporation, *Sustainability Report*, 2011, P. 10
area. However, R&D center is just one small unit (the number of researcher in R&D center is near 100) in GSC and yet the company does not have any other HR system for the new business.

IV. Drawing the future model

1. Basic picture

Introducing the basic image of the future, I used a two-by-two matrix. The whole future image based on two big areas: existing business and new business. Even we know that GSC should pursue new business models to survive in the long run I believe that it should not neglect the importance of its existing business. In case of the energy business, oil business should evolve into new energy business and, in case of petrochemical business, the traditional business producing basic materials such as naphtha and benzene should give way to new materials. However, these all changes are so closely related to each other that once we neglect the existing businesses, we cannot assure the success of the future business.

<Picture 3. The basic concept of GSC’s future change>

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>Existing Business</th>
<th>New Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Operational Excellence</td>
<td>• Technology leadership</td>
<td></td>
</tr>
<tr>
<td>• Eco-friendly</td>
<td>• Global perspective</td>
<td></td>
</tr>
</tbody>
</table>

 Org. Culture

• Pursue for perfection

• Change Agility
• Passion for challenge

Unity in variety & Openness to the world

Keep Balancing

On the basis of

Sustainability and trust to the society
Good partnership with global company

The most effective and eco-friendly refining company

Technical Excellence in oil refining

Relentless approaches for the new energy resource

Regional and global business expansion

The best case of a successful change
For each business, I want to suggest different business strategy and organizational culture. Organizational culture is the tool for leading business strategy. Once we clearly define the direction of business, we can also design and develop the right culture for each business.

All the business should be done on the basis of sustainability and trust to the society. Because of the nature of the energy business, it is critical to build good partnership over the world. With making suitable balance with existing and new business, GSC might able to reach its own vision, the leader in providing total energy service.

2. Business strategy

Existing business

First of all, for the existing business, GSC should keep focusing on pursuing the operational excellence. Global refining market has entered into the stage of severe competition. It is clear that cost efficiency of refining would be the key success factor in this business. In the past, because of poor logistics and strong regulation of local government, even a local refinery with poor efficiency could survive for a while. In Korea, decades ago, the local oil market had been closed to foreign manufacturers by the Korean government. However, in the late 90s, Korean market has been opened. So even a company has no manufacturing facility in Korea, once it is able to get the oil products at a cheaper price, it can freely import, distribute and sell them in Korea.

GSC already has the world best refining facility with highest complexity. However, just having a good facility does not ensure the good result. Operating a complex and huge refinery requires a lot of know-hows based on delicate planning. It is the people who operate the facility. Training the workers and keeping good labor relationship with them are essential
for successful business.

The oil refining process should be done by eco-friendly. Every step is so closely related to the environmental issue. While carrying crude from overseas or distributing the final product to retail gas stations, the company should keep all the standards required. GSC has been making efforts to prevent any risk or harm to the environment and it has lead successful operation. However, nobody can feel at easy on this issue. A well-structured systemic procedure for observing, close collaborations with NGOs and employees mindset which highly emphasize on risk prevention are required.

For the new business, GSC should capture the technology leadership. Until now, nobody knows that what will be the future image of new energy business. However, it is clear that once the market set a new standard, a few companies will be the winners who will take it all. Vigorous approaches to develop new technologies are in need. Surely, there might be a lot of trial and errors, so it is essential to build a strong culture which encourages ventures and innovations.

Moreover, nowadays, technology leadership cannot be acquired by one single company. It can only be given with various partnerships over independent R&D center, university, and other global companies. Also understanding the global trend is also important. In any sense, having the global perspective is essential to ensure the success.

3. Organizational culture

To build the successful balance of maintaining current business and launching of new business, organizational culture should be approached with two different ways for each business. For existing oil product business, I believe that we should do emphasize on execution with pursuing perfectness. Once we found any smallest problems, we should not
neglect it and should do our best to improve them. Maintaining high quality in the production system can be achieved by relentless pursuing for perfectness. In that sense, the Six Sigma way implementation programs are still important. I believe that the core spirits of Six Sigma will be very helpful for all employees who are engaged in the current business.

For the new business, we should encourage the culture with change agility and passion for challenge. I hope that every employee should be ready to any kind of change. They should be eager to change. However, organizational culture is usually the result of the whole management. To encourage the culture change, we should design adequate HR system and other supporting programs. Also, we need new leadership by which will lead the culture change.

4. Building Sustainability

Sustainability Management Framework at GS Caltex

We at GS Caltex move towards sustainability management in our own GSC Way. Our sustainability management framework, which aims to achieve its corporate vision, is formed upon the principles of ISO 26000 (International Standard on Social Responsibility) with the 4 strategic directions of: Sustainable Operation, Reliable Energy, Accountable Engagement, and Responsible Marketing. This framework guides our endeavors in managing detailed implementation tasks.

We are continuing to fulfill our Corporate Social Responsibility (CSR) by taking various initiatives focused on two main themes, “Green Sharing” and “Community Involvement”, under the slogan of “Beautiful Korea through Energy Sharing.” In particular, the completion of the Yeosu Culture and Arts Park “Yeulmaru”, a venue where public can experience high-quality culture and arts, and the “GS Caltex Energy Field,” an independent
exhibition hall in the Expo 2012 Yeosu, played a significant role in pursuing our CSR initiatives. 

Nowadays, sustainability issues are not just a subsidiary matter for a company but the basic essential issues for management. Especially, for an energy company like GSC, it is crucial because of its nature of the business. Actually, GSC has been investing a lot of efforts to strengthen its sustainability over Korean society. From the protection of the environment to contribution to local society, it has shown a role model of a Korean company. However, we know that the sustainability cannot be achieved by one-shot events and we always keep focusing on the issues.

5. Strong Global Partnership over the world

From the beginning of its business, GSC started as a joint venture between Chevron and GS group. It has been led good partnership over 40 years and now it became one of the best cases of successful joint venture in Korea. In the energy industry, building a good partnership is tremendously important. Because of the nature of this industry, one single company cannot complete every process being required to the business from oil exploitation to retail business.

However, to build a strong partnership with global companies, GSC might need additional efforts. First of all, it must provide global experiences to its employees as much as possible. Many of employees who work in headquarter or domestic business seldom had chances to experience global business. External internship or personal exchange programs with global partners can be the good option.

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6. The goals

Once we are able to manage all the factors above successfully, I think GSC can reach its own goals. It might be the most effective and eco-friendly refining company with technical Excellency in oil refining. Through its relentless approaches for the new energy resource, it will be able to expand its regional and global business.

V. Designing New HR System

1. A high-road strategy

There is no royal way in management. However, by adopting the high-road strategy, a company can complete on innovation, product development, and service quality. The specific practices vary across industries, but there are some generic features.

- Selection of employees with technical, problem solving and collaborative skills;
- Significant investment in training and development
- Commitment to building trust and relying on employees to solve problems, coordinate
operations, and drive innovation;

- Compensation systems that align the firm’s and the employees’ interests; and

- Labor-management partnerships in setting where employees are represented by a union or a professional association.  

Achieving and sustaining high levels of performance requires a combination of workplace innovations that produce and sustain a positive workplace culture and practices that develop and leverage employees’ knowledge and ability to create value and coordinate their efforts to work together. While the specific practices need to be tailored to fit different industries and occupations, they generally include selection, training, mentoring, incentives, knowledge-sharing, engaging front-line workers in operational decisions, and partnership based labor-management relations and other shared decision making mechanisms to address broader issues. It is most effective when implemented together and in concert with new capital or technological investments. However, while following the basic ideas in the high road strategy, GSC should make some fine tuning in the HR system which would be suitable for its unique business environment. How to adopt and customizing the model to GSC will be the key of success. Below are the core ideas of adopting and customizing the strategy to GSC.

<Picture 5. Adopting and customizing the “high road strategy” to GSC>

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10 Thomas A Kochan, A Jobs Compact for America’s Future, HBR, Mar. 2012, P. 68
**Basic salary**

- Small differentiation in basic salary while keeping GSC’s competitiveness on compensation
  - To facilitate the collaboration among team members and among teams
  - To develop young talents who understand the big picture of this business

**Incentive system**

- Increase the amount of individual incentive with personal differentiation for motivation
- Adopting the group incentive program to encourage employees who are in charge of new business
- Designing same long term incentive program for employees and executives.
- Group incentive program for C-level managers to promote their teamwork and responsibility

**Promotion : The strong tool for differentiation**

- Position allowance for team leader needed to be increased much more including all the other benefits.
- The process for finding and developing future team leader should be upgraded.

**Career and Leadership Development**

- Strong focus on developing people’s job skill and knowledge is required.
  - Current HRD programs of GSC are mainly focused on the leadership development.
  - For the young high potentials who are interested in new business areas,
2. New HR System

The basic direction

I believe that the compensation system for existing business and new business should be different ones. Every business has its own character and HR system should be designed to support the unique business. Also, each individual and each team or divisions should be evaluated by one’s own performance. Moreover, we need the structure which enables alignment among various businesses to achieve the vision. Adopting new long-term corporate incentive program can be an option for this matter. Especially, in case of executives, I want to suggest that there should be a new approach to facilitate teamwork among them.

Basic salary
Before considering changing basic salary system, we should understand the social norm and employee's expectation for the basic salary. In Korea, the amount of individual salary is dealt as secret. The only thing that can be open to the market is the starting salary for a university graduate. Because of the lack of information, people tend to be cynical at any change of the compensation system. Usually, employees believe that once a normal employee gets a job in a company he should experience annual increase on every year, which reflects his experience. To raise a family for an employee, the amount of increase also should include the inflation rate of Korean economy.

I believe that GSC should not differentiate the basic salary according to one’s performance or jobs too much because of two reasons. First of all, we should not neglect of the nature of this industry. In existing oil refining business, every business process is so closely related to each other. Even in single team, every team member will contribute to each other. To facilitate the collaboration among team members and among teams, we should not make a big differentiation in basic salary. Second, from the view of people development, it makes senses. To prepare for new energy business or to develop refining business further, we should develop young talents who can understand the whole business processes and big picture of the energy business. A middle manager should experience different jobs as much as possible with the help of career development system. However, suppose that one’s basic salary is fluctuated according to job; one might not want to move to other jobs.

Another possible issue in basic salary is about its inelasticity. In Korea, because of the culture and also because of existing pension system and labor law, it is impossible to lower one’s basic salary. Apparently, GSC has been adopting the annual salary system, but because of lack of flexibility, the nature of the system is not so different from the salary step system in real. However, for the reasons above, I believe that we need not change the system
Some minor issues, in operation, should be reconsidered. There are three pay bands in this system. (JR, SR, and LD) Promotion of pay band from JR to SR is not so hard. People usually think that the promotion in pay band is not a big deal. (However, promotion from SR to LD is different because it is closely related to team leader’s position) By using salary cap in pay band, we can expect the minimal side effects of free rider. Some might concern that little differentiation in basic salary will discourage young high potentials, but I believe that it can be minimized with the help of individual incentives, promotion system, and inner recognition.

Standard of basic salary can be another issue. While setting basic salary for the new business divisions, we should care for the job market. By offering the slightly higher basic salary to competitors, we can easily higher the best job seekers in society. However, the standards are different by industries. Especially in new starting energy business, we cannot
clearly see the trend or standard. By using the signing bonus program, we can attract people in the emerging industry.

**Individual Incentives**

Under the current incentive system, employees get a relatively small amount of individual incentives, which are calculated almost automatically according to the results of annual performance appraisal. I think the individual incentive system should be evolved into a flexible one. First of all, the amount of incentive should be increased. A typical middle manager with A grade in performance will get 5~6% of his/her annual total basic salary which might not a big amount for motivation. What is more, almost half of total employees will get the same incentive. By decreasing the number of beneficent and by decreasing the increasing rate of annual basic salary, we should increase the amount of individual incentive, for example, up to 30% of one’s annual income. Also, there should be personal differentiation. According to its current performance appraisal system, all the S-players will get some portion of once basic salary as the incentive. By evaluating their contribution and performance, we should differentiate the S-players’ incentive. Also, HR team should provide diverse incentive package for S-players. Besides suggesting basic guideline for S-players, there should be additional consideration of individual contribution or performance. Through the annual compensation committee, we can give exceptional incentive for a few S-players who had made fabulous performances.

**Group and Corporate Incentives: Aligning**

GSC has not yet been adopting the group incentive program. However, as the company diversifying its business into new areas, it should consider the introduction of group
incentive. In the initial stage, it should not be designed and operated under zero-sum system. To encourage some business units which are in charge of new business, after analyzing the group performance, we should provide some additional group incentives for whom that have achieved its own goals. By doing this, we can make people believe that the company is fully supporting challenge and trials in new areas.

Also, GSC should consider changing its corporate incentive program. Until now, corporate incentives have been given to employees without any clear rule. So even the corporate incentive has been contributing to raising employees’ compensation rates, I think it has not accomplished its own purpose: motivating people to concentrate for the whole company’s growth. Aligning employees’ motivation to long term performance of the company is very important and critical matter. One of possible option for this matter is that adopting same long term incentive program for employees and executives.

**Developing teamwork over different functions**

In the long run, the current businesses of whole GSC might be divided into three different parts. The first one still be the part which in charge of oil refining and domestic sales business. The second one would be the part which in charge of petrochemical and material businesses. The third part would be the new energy businesses.

Because each part has its own differentiated area, it should have its own culture, HR system and performance measurement. However, these three parts should be bound up with the core value because they will be related to each other and will have some common business areas.
Divided structure can cause serious silo problems. Even now, in one company, we experienced some silo problems, which mainly come from each business unit leaders’ own interest. One possible solution might be the adoption of the committee system. All the members of highest management committee should have teamwork. They all should think and make decisions based on the whole company’s long term perspective like the cabinet members in government. To enhance the teamwork, I believe that they should be appointed as the committee group member at the same time and also there should be under compensation programs, which will enhance their teamwork. For example, the group incentive program for C-level managers should be needed. Also, there should be frequent open workshops which help them to understand other member’s view and situation. GSC should build them the mind that they are binding together as one group.

**Promotion as the strong tool of differentiation**

GSC has three position layers: team member, team leader and executive. In order to motivate high performer, it should emphasize the importance of the position, especially the team leader. Selecting a suitable team leader is very important. Nowadays, to be appointed as a team leader, one should satisfy a lot of preconditions. However, compared to its difficulty to satisfy all the requirements, still the compensation for team leader is relatively low. Position allowance for team leader needed to be increased including all the other benefits. Usually,
once a new employee entered the company after the graduation, it would take 15–17 years to
be a team leader on average. Many young people believes that it is such a long time and
thought this long term, one might lose one's energy and creativity. For the young high
potentials, we should shorten the period. Finding and developing young-future team leader
process is to be upgraded.

**Career and Leadership Development**

Current HRD programs of GSC mainly focus on the leadership development. Employees in GSC usually learned required skill or knowledge by on-the-job training. They would spend decades in one field and they have not been challenged by radical technical changes in the traditional oil business. However, developing people's job skill/knowledge through training programs and adopting well-structured career development plan are necessary for launching the new business. GSC might not have the right people resources to design and implement the right program structure. Outsourcing or consulting can be the option.

To minimize silo effect, one should provide a more advertently designed career rotation program. Especially for young high potentials, we should provide them to experience wholly different area to develop their deep potential. Leadership succession program should be renewed. Nowadays, GSC has its succession program based on position successors. At every year, it selects multiple potential successors for all team leaders and vice presidents. There are two problems in the current program. First, the lists of successors are mainly filled up with existing people. I suggest hiring peoples for some important positions from the outside of the company. Through this, GSC can either stimulate its inner-oriented culture or upgrade our competency. Diversity in gender, ethnicity, and age should be also increased.
Second, developing programs for potential successors should be ungraded. GSC needs to analyze all the strengths and weaknesses of the candidates and also it should provide them adequate developing methods including job assignment.

**Labor policy leadership**

To build sustainability, GSC should consider adopting more radical and progressive approaches in HR system. Because the Korean economy has experienced a rapid growth for decades, still there are lots of old-fashioned practices, which would catch up with future growth. To be the future leader, GSC should be the company which will lead change of current labor practices. Even the areas where Korean labor law keeps low standards, GSC should set its own standard in accordance of global standard because it will be the global leading company.

Setting a progressive labor relationship with the union and employees also should be reconsidered. When treated as partners rather than adversaries, unions have been and can be a positive force for promoting adoption of and increasing the performance benefits generated through high performance work systems. GSC has been one of the great Korean companies which have been managing its good partnership with the union successfully. However, it still leaves much room for improvement. Top managements and union leaders should have lots of opportunity to discuss the future of GSC. All of them should realize that keep building a good partnership is so important but hard one to achieve. For example, union leaders have to learn to partner without abdicating their responsibilities to represent their members. They need deeper understanding of financial matters and more meeting management skills. Above all,

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12 Thomas Kochan, Eileen Appelbaum, Carrie Leana, and Jody Hoffer Gittell, The Human Capital Dimensions of Sustainable Investment, the Sustainable Investment Research Initiative Sustainability & Finance Symposium June 7, 2013, P. 8
they need to develop deeper forms of union democracy so that any enrichment of their dialogue with management is paired with dialogue within their union.\textsuperscript{13}

Even though, some companies advocate the “work and life balance”, still many Korean employees spend more time in their office than workers in the western world. At the initial stage of economic growth in Korea, it had been regarded as a reasonable and acceptable situation because, for the company in a developing country, the only way to survive in severe global competition was cutting down the labor cost by sacrificing the employees’ personal lives. However, even Korea has become one of developed countries in the world, still the culture has not been changed a lot which has been caused a lot of social problems. Such an excessive environment cannot be continued permanently. It is true that still many people believe that once they spend more time in office, the company will trust them for their dedication. From few years ago, GSC has urged its employees to enjoy two weeks of summer vacation. However, there are still some employees who prefer not to use the vacation. I believe that these kinds of working culture are old-fashioned one, and it will harm the productivity in the long run. By all means, GSC needs to persuade our employees to realize the importance of work and life balance.

How about adopting the mandatory retirement system? Although the Korean labor law has imposed the companies that retirement age would be 58, nobody believes that he can work until the age. Life-time employment based on fair wages, no-part time or no-contract worker policy can be considered. A new and proactive model for labor relationship is required.

\textbf{3. Delicate operation based on humane perspective}

\textsuperscript{13} Thomas A. Kochan, Healing Together, ILB Press, P. 235
Although a company launched a well-designed HR system, it would not ensure the great effectiveness. With a delicate operation based on humane and considered perspective, one can expect the true effect of the HR system. Here, I provided two examples.

*Sample cases of the delicate operation*

**Maternity leave program**
- Allowing 1 year of paid vacation guaranteed by the labor law
- No additional disadvantage after return
  - No additional help for soft landing
  - Might lose one’s specialty after the leave
- Providing job-related information and training programs during the vacation
- Regular communication with HR staff

**Promotion as an executive**
- Clear and fair selection process based on the candidate’s performance and potential
  - No additional help for failed candidates
  - Might lose one’s confidence by frustration
- Individual feedback based on fact
  - Clear explanation why one had been failed
- Training and mentoring to develop one’s leadership and performance

Developing female employees’ ability is very important issue for future success. In Korea, regardless of many attempts to change the situation, the working condition of women is still in trouble. It is the structural problem rather than discrimination issues. Few decades ago, women had suffered by the cultural discrimination in office. Only a few jobs had provided for women, and if a female worker got the job fortunately, she usually had to quit the job after marriage or childbirth under the pressure of her boss. Nowadays, these kinds of discrimination are hard to imagine but still many female workers are not fully developed because of other reasons. In Korea, a working mom should be a super woman. Raising a kid with a nanny is extremely expensive and to enter a good childcare center is not easy. To my surprise, many Korean women with ambition for their job tend to not marry nor having a
child. It is a big social problem in Korea.

Once a female worker spent one or two years for the maternity leave, she would not promote for the period. I believe that it might be reasonable in some sense because she did not contribute anything for that period. Nowadays, because of labor regulations, every company should provide maternity leave for the expecting female worker. Also, there should be no additional disadvantage relating to the leave. However, during the maternity leave, she is fully insulated from the business world. She might forget her ideas and knowledge relating to her job so after the leave, she might lose her specialty. I suggest GSC should adopt a special soft landing program for mothers during the maternity leave by providing training, right information for her job and allowing the opportunity to join some part-time projects. Also after the leave, we should provide a soft-landing program.

During the promotion process, the company selects candidates among high performers at every year. Usually the number of candidates is double or triple of new positions. So after the process, there must be the candidates who fail to promote. So far, a failed candidate should bear the situation alone. Nobody tells him the reason why he/she had been failed to promote. Even a company operates a fair and reasonable process for the promotion; we cannot say it is not good enough. Rather we should care for the failed candidate. They are the important assets for the business, and they will be able to promote with adequate advice and help in the near future.

VI. Change Management

1. Lessons from IBM’s case

   Deep understanding on existing business to create linking pin with new business

   Regardless of difference in business, I could find some great implications about
change management from IBM’s case. When Louis Gerstner came to IBM as the CEO, mainframe business seemed not going to disappear overnight, but they were old technology, and the realm in which they hold sway was steadily shrinking. However, he strongly believed that, when the going gets tough in their base business, one should not decide to try their luck in new industries. Even now, when IBM has been leading a lot of new businesses successfully, the mainframe business is still one of the major areas among IBM’s business portfolios. Some managers in oil companies believe that the new and renewable energy business is totally different from traditional energy business. They believe that GSC should build a whole new business model from a scratch. However, without developing linking pins between exiting business and new business, it might be hard to lead the new business successfully. I believe that the oil business as for material will survive in the long run. Maybe this point can be a new start point of the future business.

**Keep trust and developing the company’s existing asset: human**

At the initial stage of management, Louis Gerstner might be able to bring many talents from outside. However, he did not do that because he believed that IBM has sufficient talent pool inside and also he knew that the importance of encouragement. Suppose that he felt IBM’s major positions with people from the outside. Many existing talents must be discouraged so that they might leave the company or resist any new approaches by the new management. It does not mean that all the new business should be only developed by existing people. It is obvious that some technical knowledge with experience in the new area is essential to launch new energy businesses.

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GSC has been a famous company for job seekers because of its attractive salary and stable business. Many of the employees are elites in Korean society. I believe that it has plentiful of talents inside to launch and to lead the new business. However, it lacks the ability to create synergy with people from outside because of its strong organizational culture. To develop the ability, GSC should provide its employees to diverse experiences. Especially for the young people, I suggest that they would spend a certain period in GSC’s affiliate companies.

US society can be another good sample. There are tremendous reasons why US is the dominating country in the world, but one important thing is that the country had built by immigrants from all over the world and it is still open to the world. Moreover, to my surprise, it still has been successfully creating the culture of patriotism. How can we make the culture of “unity in variety”?

Clear, straightforward and timely communication

In the hierarchical organization, we know that people tend to communicate indirectly. To lead change in organizational culture, Louis Gerstner preferred to have a lot of candid and straightforward communications. Because he believed that CEO should communicate the crisis and how to end the crisis, he wrote "Dear Colleague letters" to all employees.17 He even remarked that we had to stop saying that IBM did not lay off people.18 At first, this kind of communication might make some people embarrassing, but in the long run, they will prefer it. It is the role of CEO and CHRO. They should start to communicate with employees

right now. Pop meetings with frontline workers and frank mails written, not by professional writers in the secretary office but CEO or CHRO will lead huge change.

2. Lessons from “Leading Change”

Leading Change: The eight-stage process of creating major change

While studying “Leading Change” written by John P. Kotter, I could find a lot of good implications for change management. Sometimes, people tend to believe that there are some specific activities which are only useful for changing the culture. However, changing corporate culture is not such a simple one. The author insists “useful change tends to be associated with a multistep process that creates power and motivation sufficient to overwhelm all the sources of inertia” and “this process is never employed efficiently unless it is driven by high-quality leadership not just excellent management.” So, when one prepares the change strategy for an existing organization, he/she should design the step by stages and also he/she should design and touch the leadership.

<Picture 9. The eight-stage process of creating major change

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<thead>
<tr>
<th>1. Establishing a sense of urgency</th>
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<td>2. Creating the guiding coalition</td>
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<td>3. Developing a vision and strategy</td>
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<td>4. Communicating the change vision</td>
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<td>5. Empowering broad-based action</td>
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<td>6. Generating short-term wins</td>
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<td>7. Consolidating gains and producing more change</td>
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8. Anchoring new approaches in the culture

In his book, Kotter says that there is an eight-stage process of creating major change. Every stage is related to each other, so once after we make a former step completely and successfully, we can precede the next step. He argues that building the sense of urgency is the first and the most important step for change because without enough sense of urgency, one cannot lead next and other steps successfully.

I believe that the eight-stage process is a well-designed approach to understand dynamics of leading a good change. Usually, in many organizations, people tend to try all the eight steps simultaneously but imperfectly. Even in GSC, because we already have experienced a lot of trials and errors for change management, and there might no step which had not been attempted yet. However, suppose that now we restart the change management from the first stage, it might make employees cynical to any attempts for change. Starting the whole process from the first step might be costly. I suggest that once we thoroughly repeat the first step, establishing the sense of urgency we should process all the next steps concurrently. So the conclusion is that once we have the right direction for change based on right sense of urgency, we might not need to repeat the whole processes from the scratch.

The sense of urgency vs. the sense of hope

However, even in case of the first step, building the sense of urgency, we should approach it carefully. People tend to be defensive for any negative stories. They already have experienced a lot of negative future assumptions and also have experienced that the company has survived at any situation. Even we analyzed a lot of potential future threats relating to the oil industry, no one can make sure these problems will happen in a near future or not. For

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example, after 1970s, people have heard that the oil crisis would come in 30 years.

Instead, I suggest that we should build the sense of hope. Because we want the change for the future, the sense of hope might be more comprehensive than the sense of urgency. By proposing them a clear and tangible goal, we might expect at least the same or the better effects. For example, once we can clearly provide the answer for the question such as “How much money I can get once the company becomes the future energy leader?” it might be easy to make people to participate new change with endeavor.

Building the sense of hope requires a company to become more transparent and predictable management system. For example, if a company declares that it will be the market leader in 5 years with 5 billion’s revenue, the company also should announce its employees that how much money they will get as the incentive or salary once it achieves the goal. It is needless to say that the company should keep the promise.

3. Setting a new culture

Vision statement

GSC has a strong and clear vision, “The leader in providing total energy service.” While building the vision, in early 2000, it had taken a long time to make consensus through elaborate process. With the help of various culture campaigns, the vision is so deeply settled to employees’ mind that every employee clearly memorize the vision. However, some argue that the vision is still confusing one because of change of management surroundings. They think that the vision has been used for a decade, but it might be the time to build a new vision.

I believe that once we have the vision for a company we need not change it frequently according to any external or situational change. The important thing for the vision is that one should check the real meaning of the vision repeatedly. For example, we know that
the bible has been functioning for Christian's vision for thousands of years; nobody argues that one need to revise the Bible for any change. It is because that every meaning of Bible has been reconsidered by numerous people at every day. So I believe that changing the vision itself is not a critical matter, rather we should focus on interpreting its real meaning as the change of the world. HR and corporate culture team should develop regular and non-regular steps to help employees to understand the meaning of vision on the current situation.

Flexibility

To prepare for any possible future change, a company should have the culture of flexibility. To be a flexible organization, a company should be generous for diversity and also be able to detect and respond to its environmental changes in a reasonable and timely manner. On the basis of flexible culture, one might sense and capture emerging opportunities swiftly and be able to stress both rapidity and efficiency in decision-making and execution.

The organization structure would be a tool to establish organization culture and to motivate employees in higher commitment. However, in terms of organization structure, GSC has formed organization structure that heavily focuses on refining crude oil and marketing. Its organization structure had been designed along with the simple process of refinery; purchasing crude oil, manufacturing, sales on the domestic market and exports. Thus, regardless of current changes in organizational culture, still the company might not well support its new business by efficiently allocating resources to the business.

However, because its current formal organizational structure has lots of advantages in leading its current business, it might not need to change the whole structure itself. Besides, by adopting some operational changes, we can expect the good effects. For example, we should support and develop the job rotation program. Even in the executive levels, I suggest that an
executive has spent 5 years in one area should move into another area. Some might concern that the job rotation can bring about the loss in specialty. Once we design the rotation on the basis of deep analysis on the recipient’s competency and the delicate career development plan, it will work. Young high potentials should be exposed to lots of global experiences. Nowadays, GSC has been managing the internship (personal exchange program) with Chevron, and it has been proved out as one of the most successful program for developing future leaders. Whenever possible, young managers should go overseas, and they should have the chance to understand global trends. A good way for HR and the corporate team to do this might be building and upgrading the database of each individual’s job experiences and competency.

How to change the culture? : Consideration for the smallest things

Managers in companies tend to believe that they should execute sort of special activities in order to change existing culture. Usually, they launch the culture change teams which would lead a lot of extra events and activities for change management. However, it is doubtful that these approaches will do much to change existing culture. I guess that there are two reasons why these approaches are hard to achieve success. First, once a company launches a new culture change team, people will feel that changing culture is not their job but the culture change team’s job. Then every event or approaches are regarded as unnecessary ones. Once employees perceive that changing culture is another job, and they should focus on their own business, it is hard to carry out the right change. Second, as the new change management team feels pressure of short-term output, it tends to rely on big events such as launching vision statement and carrying out leadership workshop for all employees. I believe that a good change starts from the smallest change. Main agent of change should not be a
separate organization or some smart people in headquarter. CEO and all the executives should be the role models for change. Whenever possible, they should share their experiences in the business and should listen carefully for the voice of employees. By being interested in any small stories inside of the organization, they might find a great clue for the change management.

VII. Building Sustainability

1. “Sustainability as a driver of growth”

Even GSC has been a role model company in social contribution and sustainable growth in Korea, I think it should have the chance to build strong consensus among employees because the major initiatives relating sustainability had been given from the top. As we understand that building sustainability is the critical factor for the successful future business, it is time to build a real consensus among employees. It is time to activate the bottom up approaches. Throughout many public hearing and discussion, we should let the employees understand the importance of sustainability.

The reason why we are working in this company

While leading changes and developing new businesses with profitability, I hope that every employee in GSC should keep thinking about the reason why he/she is working in an energy company. Why does a smart young man decide to work in an energy company instead of being a stock day-trader with the bigger income? We should discuss this issue over and over again. To answer this question, we should need to understand the business and its responsibility over the society. We are here to make a better world. Let them recognize the
importance of their mission and let them proud of their jobs.

We must understand that only with the strategies and approaches based on sustainability we can survive and grow in the long run. Especially, in the energy industry, building trust with the society is the most important factor to ensure its successful future business. All the efforts for changes should be merged into sustainability. Moreover, for the future business, we should regard the sustainability issues as one of the most critical one in the growth strategy. Even once we developed a new material or a new energy resource, only by acquiring the consent and support of the whole society, it will be able to be the new standard. Even when developing the new energy service, we should try to build the social consensus. Throughout continuous communication on the future business with the society, we can launch our new business successfully.

2. NIKE’s case

A sustainable company should affect the whole business process

Once GSC completed its own change, it should impose all standards to the vendors and affiliates. By sharing all the know-hows with them, GSC can build a strong sustainability over the society. NIKE’s case and its approach to sustainability issues can be a good model for GSC. NIKE has a unique business model.22 NIKE’s headquarter in US is in charge of marketing and designing. Manufacturing is usually done by the vendors which are mainly located in under-developing and developing country. At first, because the core idea of this business model is capturing cost efficiency in manufacturing, NIKE had not spent lots of efforts for the vendors. However, some of its vendors committed some serious problems such as child labor issues which made NIKE’s whole global business in trouble. Then the company

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22 NIKE Inc, Sustainable Business Performance Summary, 2011, P.11
realized that, to survive in the business world, the company should care for all the business processes on the basis of sustainability. Nowadays, NIKE is improving its operation over the vendors. Its sustainability report deals all the data of its vendors whether they are observing not just the local law but also global standards in labor and environmental affairs. Generally, NIKE’ vendors have not enough money or knowledge to improve its situation, NIKE is trying to help them with its own expense. Following the pressures experienced by firms such as Nike, a growing number of multinational employers have now established codes of conduct containing a wide array of workplace conditions and workforce requirements. The implication of this case is that to gain a good sustainability a company should care for all the business process over its vendors.

**Contribution to society**

As a leading energy company in Korea, GSC has played an important role in many ways. For the future sustainability, it should do its best for four ways. First of all, by doing its current business effectively and stable, it can contribute to the society. Although it is the one of developed country in the world and one of major players in global business, still Korea has few natural resources and has no oilfield which makes the whole economy of Korea being vulnerable to external energy crisis. Whole Korean economy is depending on a stable supply of energy resources from foreign countries. From the establishment of this company, GSC’s the most important role has been regarded as a stable provider of oil and energy product. By continuing its global network and keep observing global trend and its changes, GSC could contribute a lot to the society.

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23 NIKE Inc, Sustainable Business Performance Summary, 2011, P.26
Secondly, GSC should pursue the technical leadership in its current and future business. The human society has been suffering from lots of side effects, which have come from excessive fossil fuel consumption. With continuous investment on technical development, GSC will be able to improve these current problems. The huge refining facility, pipelines, product storages, gas stations should be operated carefully because any small problems relating these business process can do tremendous harm for environment. Also, by developing new and renewable energy resources, it will be able to establish itself as a new energy leader.

Third, GSC should care about the vendor issues. Comparing to other manufacturing companies, an oil and energy company has fewer employee. However, once we think about the business process, we can find that there are lots involved people working in the related business. For example, suppose that GSC has 2,000 gas stations in Korea and each gas station hires 5 to 10 people, than we can say that at least 10,000 people are working with GSC. It is more than three times of GSC’s direct employees also it is not a small number. For the sustainability, we should care about all people in this business.

Finally, GSC should keep doing its endeavor to develop the local society. GSC’s Yeosu complex is one of the core facilities in Korea’s southwest area. Junla province, which Yeosu is located, is still one of the under-developing areas in Korea because of its historical background. Now, the area’s economic growth is very important issue in Korean society. Once GSC got into trouble in its business, the whole economy of Junla province also would be collapsed. We know that GSC has been investing a lot for social infrastructures in this area and regional society. I suggest it should keep growing its business; GSC will be able to contribute a lot to its local society.
VIII. Conclusion & Recommendations

Conclusion

To survive in the hyper-competitive oil refinery business environment, a company must have the abilities to explore opportunities and to launch new businesses in the right timing. Companies that actively develop new businesses would thrive in the future; those companies solely sticking with existing operations put themselves at risk. However, while preparing the thesis, I realized that once we neglect the importance of existing business and current characteristics of organization, we might not be able to launch the new business either.

The success in new businesses will depend on its ability to outtrace rivals in identifying new opportunities, securing the necessary resources and operational systems. Like other major energy companies, GSC has built great assets throughout its history. It has a lot
of smart employees who have huge potentials and great organizational culture. Moreover, over decades, it changed its management system a lot to develop its competency.

All the ideas discussed in this paper are concentrated on the picture 10. Preparing for the future, GSC should set the new changes in business strategy and HR system. It also should implement the delicate change management with open communication. Moreover, all these activities for change should be aligned to the view from sustainability.

This is the right time to establish the new organization culture, and to renew the relation contracts to make a high performing organization against the fluctuation of externalities. Also, it is the right time to design GSC’s future with balancing its legacy and the new challenge. Radical changes in HR systems might bring about some side effects. However, it needs to change its compensation system to promote teamwork and performance. From the cultural side, new leadership promoting diversity and spirit of challenge is also required. Throughout continuous and sincere communication with employees, GSC might be able to launch its change successfully.

GSC needs to hire attractive talents from outside. In their incessant pursuit of new technologies and business opportunities, companies around the world concluded that their internal talent pool is not big enough quantitatively or qualitatively to sustain success, and thus they have engaged in a global war for talent. However, in GSC where a strong culture of solidarity prevails, it was difficult to hire excellent experienced people from outside. Especially for the new business, GSC should hire more talents from outside. Until now, GSC simply hired some talents and expected that they would prove their abilities. It needs to build intensive processes of nurturing and acclimation for the new employees. These will help reduce any anxiety over cultural separation and also help instill a sense of belonging. I believe that the future of the energy business is the future of human society. With the deep
understanding on an energy company's mission and responsibility and love of its business and human society, GSC will be able to complete its own goal and also will make a fabulous contribution for the world.