



By Dina Pyron
 Partner, Ernst & Young

The oil and gas industry is seeing dynamic changes in its workforce, and in Ernst & Young's report on Strategic Business Risks for Oil and Gas in 2008, workforce issues were identified as the number one risk. Changes in the workforce include an aging global population with many experienced employees having recently retired or planning to in the near-term, a geographic shift in where employees are needed, and fewer new engineers seeking jobs in the industry.

A survey by Ernst & Young and Rice University confirmed the extent of the struggle that companies have undergone to recruit, retain, and develop a sufficient number of employees in recent years. Nearly 90% of

the senior human resources (HR) executives at 22 top international oil and gas companies believe their industry faces a talent void and call the problem one of the top five business issues facing their companies.

In describing the scope of the workforce shortage in their industry, most of the oil and gas company HR executives surveyed acknowledged difficulties in recruiting executives, management personnel, and, especially, engineers. In fact, more than a quarter of the executives found it "extremely difficult" to hire qualified engineers.

The effects of the shortage of qualified workers have already begun to ripple throughout the oil and gas industry. More than half of the executives surveyed feel

the talent void could hurt corporate growth as a result of an inability to staff projects, with a small minority calling these potential problems “significant.”

A talent shortage also increases the marketability of those individuals who possess needed skills, leading to higher labor costs. Almost half of the HR executives worried that rising labor costs would pose problems for the financial performance of their companies.

Workforce shortages can impact many other aspects of corporate performance. When a workforce is stretched thin covering just the essential tasks, there are fewer resources available for research and development. Forty percent of the HR executives thought the talent void could hamper innovation. The same percentage fears that this industry issue could negatively impact safety and operations.

How can oil and gas firms overcome the challenges posed by the workforce shortage? Here are six organizational and strategic steps companies can take to become employers of choice, thereby attracting and retaining the talent they need.

1. Adopt a Hybrid HR Organization

Historically, the organization of HR in the oil and gas industry has oscillated between centralized and decentralized models. At the moment, the decentralized model predominates. There are certain advantages to decentralization, particularly when it comes to attracting talent. On the other hand, a centralized HR system can often perform better in terms of retaining and developing employees who must be moved from project to project on a global basis.

We see companies gravitating toward greater centralization, while still retaining the best processes from the decentralized system. Companies will keep certain processes at the local level, while centralizing core HR leadership and management processes in a shared service center. This new hybrid arrangement will allow companies to craft processes at the most suitable level: local, regional, or corporate. Large companies may be able to set up these shared service centers on their own, while smaller firms may derive greater benefit from engaging a business process outsourcing provider for assistance.

2. Redirect Energies From Process to Strategy

By centralizing key processes through the hybrid HR model described above, companies will free their best strategic HR professionals to focus on workforce challenges. Too often, these best performers are tied down trying to solve process issues. Process problems such as payroll or equity errors understandably deserve high priority, but if the best HR professionals are perennially occupied by such matters, they will have little time to address the larger looming problems posed by the talent void.

By managing, defining, and coordinating some HR processes on a centralized level, companies can reduce the duplication and inefficiencies associated with decentralization. Top HR professionals can then devote their time and energy to creating the training and development strategies to help their firm become an employer of choice, able to weather the challenges posed by the workforce shortage.

3. Improve Coordination and Communication

In addition to repositioning current HR talent, oil and gas companies can also benefit from hiring regional recruiting directors and taking other steps to increase cross-division collaboration on recruiting matters. The

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survey found that more than 50% of executives surveyed called “lack of internal coordination” one of the top two challenges they faced in recruiting.

Given the global arena in which oil and gas companies operate, efficient coordination and clear communication are more important than ever. If companies are to recruit and retain the employees they need, they must make sure that all their divisions are working in harmony. Companies must remove all barriers to communication if they are to operate with the speed and agility necessary to attract the necessary human resources despite the talent void.

4. Invest in Culture and Language Training

Oil and gas companies trying to cope with the huge costs of relying on large numbers of expatriate employees in their global operations have turned their attention toward hiring a more local workforce. Hiring local workers for employment in their home countries has helped companies reduce costs while simultaneously eliminating some of the cultural differences caused by placing expatriates into foreign cultural environments.

On the other hand, greater use of local workers has created a new set of problems involving language barriers and miscommunication. Furthermore, expatriate managers who previously worked seamlessly with employees from their own countries must now bridge the cultural gap with their local workforce.

To maintain a consistent corporate culture in a global organization, oil and gas companies should continue to invest in placing trained managers at corporate headquarters around the globe. Corporations could assist in preparing these expatriates by arming them with the cultural and linguistic skills necessary for success. In many oil and gas HR departments, culture and language training barely makes it onto a list of top ten priorities. We believe that such training should be reprioritized toward the top of that list.

5. Develop Creative Retention Plans

When the market for talent is tight, companies will fight to recruit the top employees at competitive firms. The survey found that competition from peer companies represented the biggest challenge to retention. More than three-quarters of the executives surveyed rated such competition from peers as challenging or significantly challenging.

Traditionally, companies have responded to such peer competition by throwing cash at the problem. Nearly all of the executives surveyed used greater compensation to try to keep employees. Furthermore, according to the HR executives, the business operating units believe that retention issues primarily revolve around questions of compensation.

Digging a little deeper, however, it turns out that HR departments recognize that compensation is just one factor in an employee's decision to stay or to leave. Many executives reported that their companies employ a variety of retention incentives, including career planning, workplace flexibility, and training or education programs.

A large majority (76%) of the HR executives said they believe retention cannot be a one-size-fits-all approach; rather, different strategies must be employed in different places. Oil and gas companies will need to hone their understanding of what it takes to develop and retain an employee from India, as compared to an employee from Venezuela, Eastern Europe, or a native of New Orleans, Louisiana.

6. Train the Next Generation

The workforce shortage has had a ripple effect on the composition of the oil and gas workforce in a way that has increased the need for training and development worldwide. As companies have shifted their employment strategies toward reducing the use of expatriates, they have hired large numbers of non-English speaking employees. Growth of the entire industry in an atmosphere of scarce talent has led to the hiring of employees whose background and education may not be an exact match with the industry's needs. For example, employers unable to find trained petroleum engineers have had to hire civil engineers instead.

At the same time, the industry itself has grown more complex. Large numbers of baby boomers (in the

US) with decades of experience are retiring and being replaced by younger, inexperienced workers who expect training as part of the job. Nearly three-quarters of the HR executives surveyed agreed that the need for training has increased due to changing workforce demographics. Despite the complexity involved in delivering training programs across the globe, the need for global training has never been greater. Now more than ever, companies are placing a high priority on executing training and development activities.

The executives in our survey named leadership development and technical training as their top two training and development priorities. Companies can and do use both external and internal resources to accomplish training goals. Industry associations and private training companies can play an important role from outside the company. Internally, Internet-based training may help improve consistency and availability of training in remote areas.

Summary

Right now, there is an opportunity for an oil and gas company to take the lead in addressing the workforce challenges and improve its internal coordination, provided it has executive commitment. This will give HR executives the ability and resources to focus on strategic solutions to talent issues. These companies have the best chance at overcoming the challenges posed by the workforce shortage.

With the support and leadership of the company's executives, these empowered HR professionals can build benchmark quality programs to recruit, train, develop, and advance skilled employees. Such programs form the foundations on which companies can develop their reputation as employers of choice. Those oil and gas companies known as employers of choice will have an advantage in attracting and retaining talent. This cycle will enable them to solidify a leadership role in the industry. ❖



DINA PYRON is a partner focused on human capital issues in Ernst & Young's Tax Services group, based in Houston.