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Oil & Gas

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## Reap what you sow:

Cultivating progress by getting to the root of the talent management challenge



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# Introduction

Much has been written about the talent management challenge. Companies and HR executives understand the problem, and there seem to be many solutions and resources available to address it. However, meaningful progress at most companies has been elusive. For HR, winning the war for talent appears to first require winning a war within. One HR executive in the oil and gas industry recently remarked, “We are losing market share within our own company. Our customers — the businesses we serve — are beginning to grow and embed their own competing HR organizations.”

Is the battle for talent a war on two fronts: one inside and one outside? And if so, how can both wars be won?

We suggest that peace be achieved by cultivating a landscape where HR and the business can address the full cycle of growing and managing talent.

# Seeds of turmoil

Oil and gas companies today are operating in an extremely dynamic business environment, some would argue an unprecedented one. The industry's key business challenges, such as the increasing global demand for energy, the development of unconventional oil and gas reserves, or the need for continuous innovation, cannot be resolved without a robust global talent supply. This phenomenon, combined with changing workforce demographics, is moving talent up the CEO's strategic agenda as an increasingly critical business issue. CEOs are looking to their HR executives to drive the strategic path forward for people issues. Unfortunately, HR executives have been weighed down by compliance and HR operations, leaving them unable to perform a more strategic role.

This perceived failure of HR is not an HR-only problem, it is a business problem. And it is not a new problem. IT executives confronted a very similar set of issues during the ERP wave, as did finance executives with the introduction of Sarbanes-Oxley. We can learn from the successful approaches used by CIOs and CFOs to transform their organizations. Critical to the success of these approaches is a recognition that functional leaders cannot establish a more strategic role without mastering the primary roles they play, those things that "must" be done, and then directly targeting the roles that contribute to the successful execution of business strategy.

For the CIO, the focus had always been on the technology, and justifiably, a focus here was critical. If the technology did not work, perception was that the IT function adds little or no value. But once the technology was securely in place, IT needed to balance its focus on the technology, with a focus on the "information" needed by the business to make critical strategic decisions. CIOs needed to transform their IT organizations in order to ensure that they were equipped with the talent needed to deliver the broadened set of roles now in the CIO's purview.

The story for the CFO is a similar one. CFOs had been focused primarily on accuracy, timeliness, and regulatory compliance. In finance, these things are as basic as water is to farming, and again are the primary reason finance exists. But once the "steward" roles had been mastered, finance organizations needed to move toward providing the critical financial information needed by the business to make sound business decisions. CFOs had to adopt the more strategic roles by acquiring, building, or moving the talent needed to expand into roles beyond traditional "accounting."

As you can see, the chief HR officer (CHRO) is facing an issue that has plagued, but has also been solved by, others before. Growth and contraction within businesses, mergers and divestitures, and changing regulatory environments have all driven the need for CHROs to focus on the "water," and rightly so. But what comes next is a need to focus on the more strategic HR roles, and to do that, HR needs to start by pulling in the right people, organizing itself the right way, and connecting more with its primary customers.

## Talent management

### The bad news ...

The pool of talent is shrinking for all industries. Of today's workforce, 60% is older than 45.

... the even worse news for oil and gas ...

- Bachelor of science degrees granted in petroleum engineering declined 74%, from 1,529 in 1983 to 393 in 2006<sup>1</sup>
- The expected percentage loss for petroleum engineers over the next five years is greater than 80%; it is almost 80% for geoscientists<sup>2</sup>

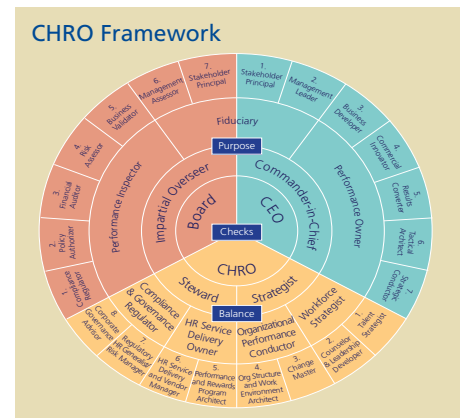
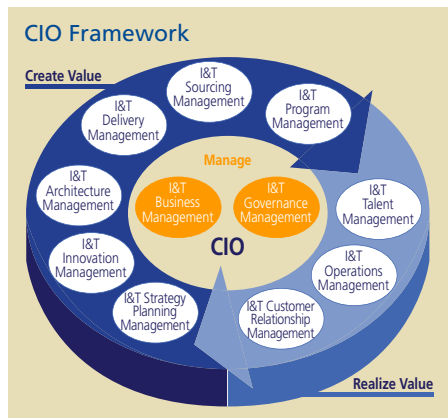
... but there is hope ...

- For the 2008 academic year, there are 3,710 undergraduates in the United States pursuing petroleum engineering degrees, twice as many as four years ago and the highest level since 1986<sup>3</sup>

<sup>1</sup> Source: Lloyd R. Heinze, Texas Tech University

<sup>2</sup> Source: Lloyd R. Heinze, Texas Tech University, Schlumberger Business Consulting (Antoine Rostand, 2005, and Oliver Wyman (December 2007)

<sup>3</sup> Source: Lloyd R. Heinze, Texas Tech University



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# Common pitfalls

These new strategist roles are problematic for HR executives, because to deliver on them requires a revised HR business model to support it. The requirements of this new, strategy-driven HR model represent a significant departure from those of traditional, steward models. Traditional HR models have been staffed and organized to support the operational and tactical, which shaped the core competencies for its HR staff and the design of the IT infrastructure. Since the traditional HR model does not support the new requirements, the HR executive cannot successfully fulfill the strategic, leader role in helping his or her business executives address their top concerns. Therefore, others in the business have to move to fill the void. In addition, the standard approaches designed to shift the HR model generally rely on point solutions that attack various symptoms without successfully effecting change to the overall HR organization. While this challenge is industry agnostic, its repercussions are all the more severe in the oil and gas industry, where talent issues are so acute, in part because frequent downsizing initiatives employed in previous decades had deleterious impact on the industry's attractiveness as a source of employment.

The CHRO shift from steward to strategist cannot occur without adequate roots to gain business buy-in and support.

With talent issues looming beyond their domain, HR leaders are recognizing that they need to redefine their role. But thus far, their growth from operationally focused stewards to business-driven strategists has been stunted. Just as the expectations of HR leaders move from operational to strategic, so, too, must their HR foundation shift to support this change of focus. Without it, change attempts tend to be reactionary and isolated, leading HR leaders to withdraw from the strategic role to fill the more familiar tactical role. We've identified four common dimensions of internal pitfalls related to these existing HR foundations:

### Case example: Organization

An integrated petroleum company was anticipating a large amount of growth, requiring an additional 750 people per year over four years to resource its business strategy of operational excellence and growth. Its current recruitment model was fragmented — in some locations, it was driven by the business, while in others, a regional HR organization was driving. This fragmented model was also characterized by recruitment approaches that ranged from a self-service model in some areas to a full-service model in others. The result was an enterprisewide failure to effectively respond to the demand for talent.

## Organization

Roles and responsibilities are structured based on either traditional conventions; obsolete requirements; or sound, but incorrect, assumptions of how best to be structured. HR organizational structures are often convoluted in the oil and gas industry given the legacy of M&A activity that has defined and continues to define the sector. Few companies of significance in this sector have not grown, in part, through acquisition. Given the production declines facing many oil and gas companies, M&A activity may increase unabated. With each acquisition, the HR organization is altered in some fashion and strategic initiatives require making appropriate adjustments.

## IT infrastructure

When HR professionals are interested in assuming the role of strategist, they often do not have the proper tools to do so. Typical HR reporting favors stewardship (e.g., compliance) and not strategy (e.g., talent demand forecasting). These tools become critical success factors for oil and gas companies given the complexity, variability, and remoteness of their operations.

## Capabilities

Core HR capabilities and skill sets are not aligned with the strategic responsibilities; as responsibilities shift from steward to strategist, some attempt must be made to grow or attract individuals who are best prepared to fulfill these new responsibilities. HR staff must have the core capabilities that enable them to recognize and be prepared for addressing the specific challenges of the businesses they serve. For example, oil and gas companies require highly trained workers with very specialized backgrounds, in highly technical fields, from disciplines that are not readily transferable across industries (e.g., geologists, petroleum engineers). The challenge of defining and sourcing these capabilities is pronounced and is most appropriately addressed through a rigorous, strategic and perhaps non-traditional approach.

## Governance

When HR fails to shift priorities in response (or better yet, align resources to be able to anticipate issues), the business begins to take ownership of addressing its own needs outside of HR. As the world's appetite for energy outpaces supply and in the face of a myriad of challenges that include resource nationalism, cost inflation, and regulatory uncertainty, successful oil and gas companies must be sufficiently focused on the competencies that can address these challenges. HR organizations must be capable of and responsible for addressing their own issues without the involvement or unnecessary oversight of the organizations' business units.

### Case example: IT infrastructure

With more than 80 separate country-specific HR information systems, recruiting strategies at a multinational oil and gas client were driven at the local level. The global HR shared services organization primarily supported the process on a "demand pull" basis, by performing some or all of the activities in the hire process for a specific job opening as requested by the business. HR leadership recognized that its strategic position was limited, since it could not specifically articulate a strategy that would best leverage an understanding of workforce trends globally for its unique talent supply and demand equation.

### Case example: Capabilities

After a series of organizational and process improvements, an integrated oil and gas client's staffing organization attempted a relaunch as a full-service recruiting organization that could provide consultative services to its business. One key component of the support infrastructure was ignored, however. Its professional staff was hired as "selections counselors" with the primary job responsibility of screening resumes. They were now rebranded as "recruiters" who could develop the sourcing strategy for a position, actively recruit passive candidates, and perform a host of other duties in the full-service model. This rebranding happened with little training or assessment of individual capabilities to support the new role, and customers quickly began to complain they saw little to no difference in the service with which they were provided.

### Case example: Governance

An integrated energy company forecasted a talent gap of 900 IT employees within three years. The talent gap was exacerbated by fractured recruiting efforts, inconsistent hiring processes, and a lack of visibility into the skills and experiences needed for future strategic efforts. To address this talent gap, the IT organization implemented a global talent management organization, which was separate and distinct from the HR organization, and yet performed activities that could have been driven from the HR organization. For example, the talent management organization drove its strategic staffing planning process, revamped its recruitment and development program, and launched an onboarding and integration program for new college hires.

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# Cultivating progress

HR transformation, from stewardship to strategy, should be informed and supported by the business. Outlined below is an approach we have introduced to oil and gas clients to develop and execute their talent strategies.

#### Case example: Align

In order to meet the growing challenges and complexities of operating in the global oil and gas industry, a client performed a business review of the HR function to determine whether its HR function was effectively organized to meet the current and future pressures of its business and to understand whether HR was well positioned to create value for the organization. Some of the outputs of this review were as follows: guiding principles for people management across the enterprise, including HR, IT, and the business functions; a distinct statement of purpose and guiding principles for the HR function that aligned with and supported the enterprise guiding principles for people management; and a redefined HR service delivery model for the global HR function.

## Align

**Create a clear line of sight between your business and your HR organization. Clearly identify which resource skills are needed to support the business strategies.**

HR leaders cannot expect to successfully avoid losing market share to their business customers by continuing to employ failing approaches. Further, we believe HR leaders can be more effective in working together with the business to jointly address the talent challenges they face. Outlined below are steps that HR leaders can take to align with their business and create a clear linkage between the organizations.

- Understand the business strategies and the underlying objectives the business is trying to achieve now and in the future:
  - Discuss the business strategies with senior leadership to understand how the strategies need to be supported from a talent perspective
- Identify which business requirements HR can affect and then build HR strategies to meet those requirements:
  - Identify specific talent management strategies by mapping business strategies to HR solutions and then document how the HR function can affect each item
  - Perform a talent assessment to determine whether you have the right people in the right jobs to achieve the business strategies
  - Perform an organization assessment (See Tool profile: Organization Assessment) to determine whether the HR function has the internal capability to support the necessary talent management strategies

Understand who is currently driving resolution for various talent issues in your company today.

## Analyze and prioritize

Get a fact-based understanding of your organization's capabilities to deliver the identified HR strategies.

Outlined below are steps that HR leaders can take to **analyze** current HR programs and processes in terms of how well they meet the business and talent requirements today and **prioritize** the steps needed to be well positioned to meet future needs.

- Utilize the Talent Diagnostic (See Tool profile: Talent Diagnostic) or other tool to clearly articulate what you can deliver today, what you want to be able to deliver in the future, and what needs to be put in place to close any gap:
  - Map the "desired state" for each talent management area based on what is required to achieve the business strategies
  - Map the "current state" for the same areas based on the definitions included for each level within the specific maturity models
  - Identify and document the gaps/surpluses between current and desired states across all aspects of talent management
  - Prioritize the gaps to determine how to focus initial efforts to align desired and current states
- Utilize a functionally agnostic approach, looking both at the business and within your HR organization to create a comprehensive picture

## Differentiate and organize

Assess options and develop a roadmap that will deliver the mix of talent and work solutions that will drive competitive advantage.

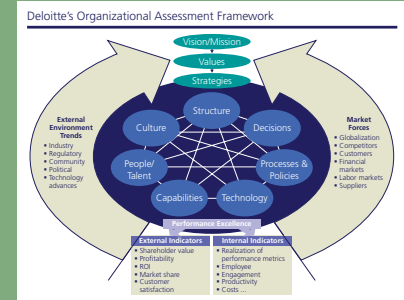
Each company has a unique profile determined by its response to the economic environment and its position in the world market — geographic location, customer base, workforce base, product distribution, financial portfolio, etc. Outlined below are steps that HR leaders can take to **differentiate** its offerings to the business based on alignment to the specific business strategies, and to **organize** its efforts to address any gaps within the HR organization. Each company's unique profile will determine its starting position, prioritization, and sequencing as it grows from an operationally focused steward to a business-driven strategist organization.

- Determine which people issues are most pressing for your organization, given the specific business strategies identified during **Align**:
  - Determine which issues require a common approach and processes, and which require more flexibility
  - Determine the resources necessary to help HR close the gap for priority areas
- Organize efforts to address gaps based on determined priorities:
  - Build a roadmap (See Tool Profile: Talent Roadmap) that will stabilize, transform, and evolve your organization's capabilities:
    - Prioritization:** The organization life cycle, or maturity, will determine which talent drivers are more salient and affect how the company is equipped to enact the change
    - Sequencing:** Given the environment, life cycle, and other factors (including other planned strategic initiatives), the sequencing of what is addressed and when should be different
  - Establish success measures that tie to the identified priorities and processes for monitoring progress against these measures

Example: Both the historic and current economic environment will have a specific impact at a point in time and shape how a company "grows up," dictating the overall make-up of the people of the organization (i.e., hiring freezes and surges versus a steady stream of hires over time). Oil and gas companies are facing a talent shortage today, in part, because of the frequent downsizing initiatives employed in previous decades and the deleterious impact those moves had on the industry's attractiveness as a source of employment.

### Tool profile: Organization Assessment

**Align.** An Organization Assessment can help align the key drivers of an organization's performance with an organization's strategy and its ability to drive performance excellence.

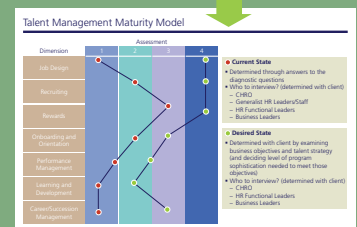


### Tool profile: Talent Diagnostic

The Talent Diagnostic helps an organization analyze how to change to support its future talent management program, then differentiate among options to create a roadmap forward.

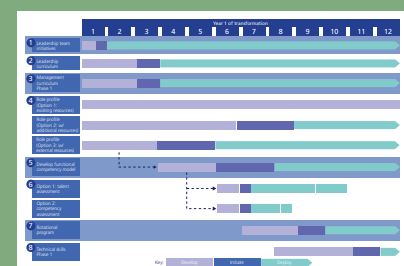
**Analyze and prioritize.** Each dimension of the talent management program (e.g., Recruitment and Selection, Succession Management) is described in terms of how a company would look at different levels of maturity, enabling a clear assessment of how that dimension looks today and how it should look in the future.

	Maturity Levels		
	Level 1	Level 2	Level 3
<b>Recruitment and Selection</b>	<ul style="list-style-type: none"> <li>Engagement and Program focus on the employee experience and to deliver a consistent, standardized process</li> </ul>	<ul style="list-style-type: none"> <li>Engagement and Program focus on the employee experience and to deliver a consistent, standardized process</li> </ul>	<ul style="list-style-type: none"> <li>Business-critical roles are filled through a consistent, standardized process</li> </ul>
<b>Succession Management</b>	<ul style="list-style-type: none"> <li>Engagement and Program focus on the employee experience and to deliver a consistent, standardized process</li> </ul>	<ul style="list-style-type: none"> <li>Engagement and Program focus on the employee experience and to deliver a consistent, standardized process</li> </ul>	<ul style="list-style-type: none"> <li>Business-critical roles are filled through a consistent, standardized process</li> </ul>
<b>Learning and Development</b>	<ul style="list-style-type: none"> <li>Engagement and Program focus on the employee experience and to deliver a consistent, standardized process</li> </ul>	<ul style="list-style-type: none"> <li>Engagement and Program focus on the employee experience and to deliver a consistent, standardized process</li> </ul>	<ul style="list-style-type: none"> <li>Business-critical roles are filled through a consistent, standardized process</li> </ul>
<b>Compensation and Benefits</b>	<ul style="list-style-type: none"> <li>Engagement and Program focus on the employee experience and to deliver a consistent, standardized process</li> </ul>	<ul style="list-style-type: none"> <li>Engagement and Program focus on the employee experience and to deliver a consistent, standardized process</li> </ul>	<ul style="list-style-type: none"> <li>Business-critical roles are filled through a consistent, standardized process</li> </ul>



### Tool Profile: Talent Roadmap

**Differentiate and organize.** The gap/surplus between the current and desired states can then be defined in terms of the capabilities needed to close them, the priorities of the changes that are required, and the sequencing of any changes along a roadmap.



# A bountiful harvest

Moving from a field of battle to a field of growth requires forward movement on two fronts. On the internal front, it means developing a common set of goals for HR and the business, both of which can align to achieve them. On the external front, it requires differentiation through a mix of solutions to attract, develop, and retain quality talent. Successful leaders will develop a balanced view of their roles and understand how the organization must be structured to meet the talent challenge. This challenge is not a new one, but is time critical for the oil and gas industry.

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