



# BEATING THE HIRING CYCLE

OIL AND GAS COMPANIES NEED TO REDESIGN  
THEIR HUMAN RESOURCES PROCESSES

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In the past 12 months, oil and gas companies have been forced to do an about-face and shift from preparing for a shortage of experienced employees to shrinking their abundant workforces.

The turnabout illustrates the long-term staffing challenge for the oil and gas industry. (See Exhibit 1.) Many organizations handled worker shortages in recent years by developing forward-looking human resource strategies and investing in programs such as strategic workforce planning. But the drop in energy prices is both sharper and more pronounced than the prior upward trend. (See Exhibit 2.) The last downturn saw a considerable amount of knowledge and talent leave the industry, which ultimately slowed the recovery.

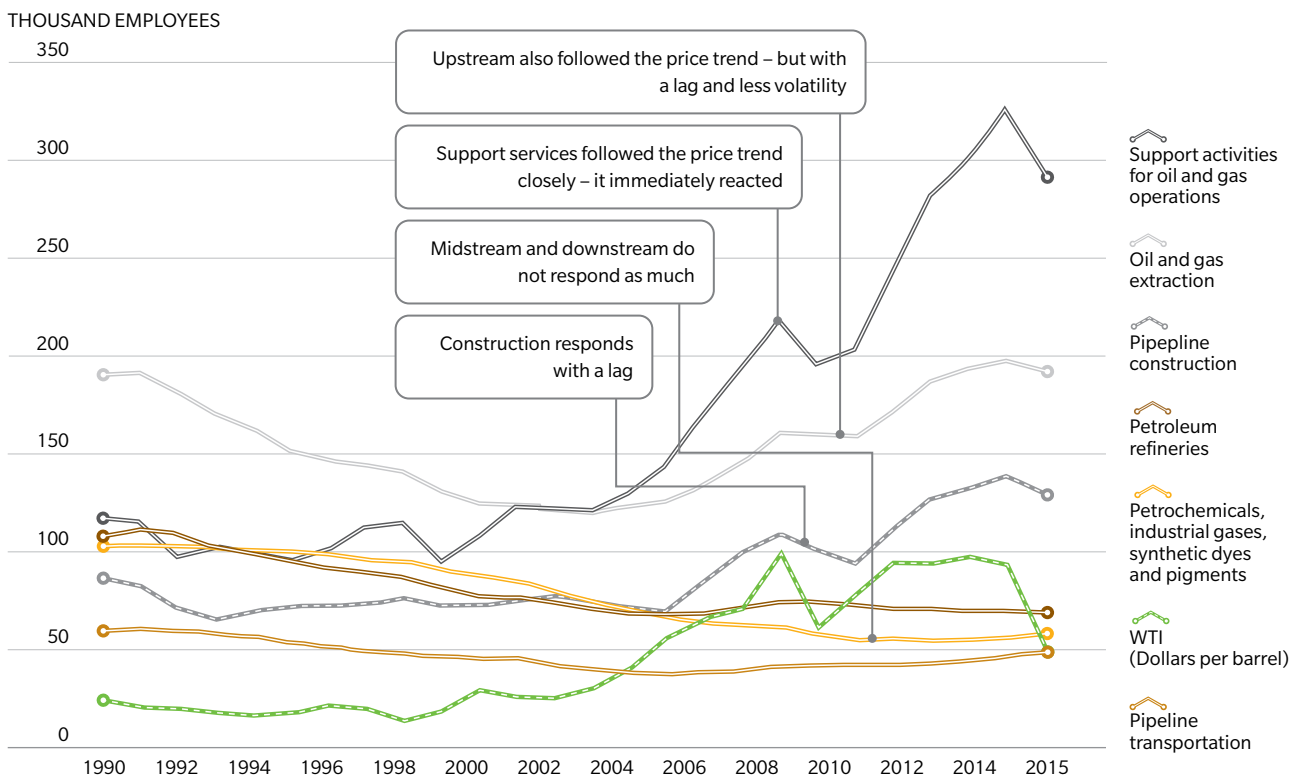
Smart energy executives are stepping off the roller coaster by developing robust human resource processes to manage the contraction in a way that preserves organizational strength and capabilities for the future. They are pulling data and resources from across the energy industry to create databases that can predict and respond to hiring cycles. Those organizations that can forge a staffing approach that weathers the ups and downs will be the first to recover and best positioned to take advantage of future growth.

## EMPOWER HUMAN RESOURCES

To stop the frenzied hiring-and-layoff cycle, top energy companies are empowering

### EXHIBIT 1: MARKET-LED EMPLOYMENT IN THE OIL AND GAS SECTOR

Employment has changed dramatically in some sectors as oil prices have moved



Source: BLS, EIA and Mercer

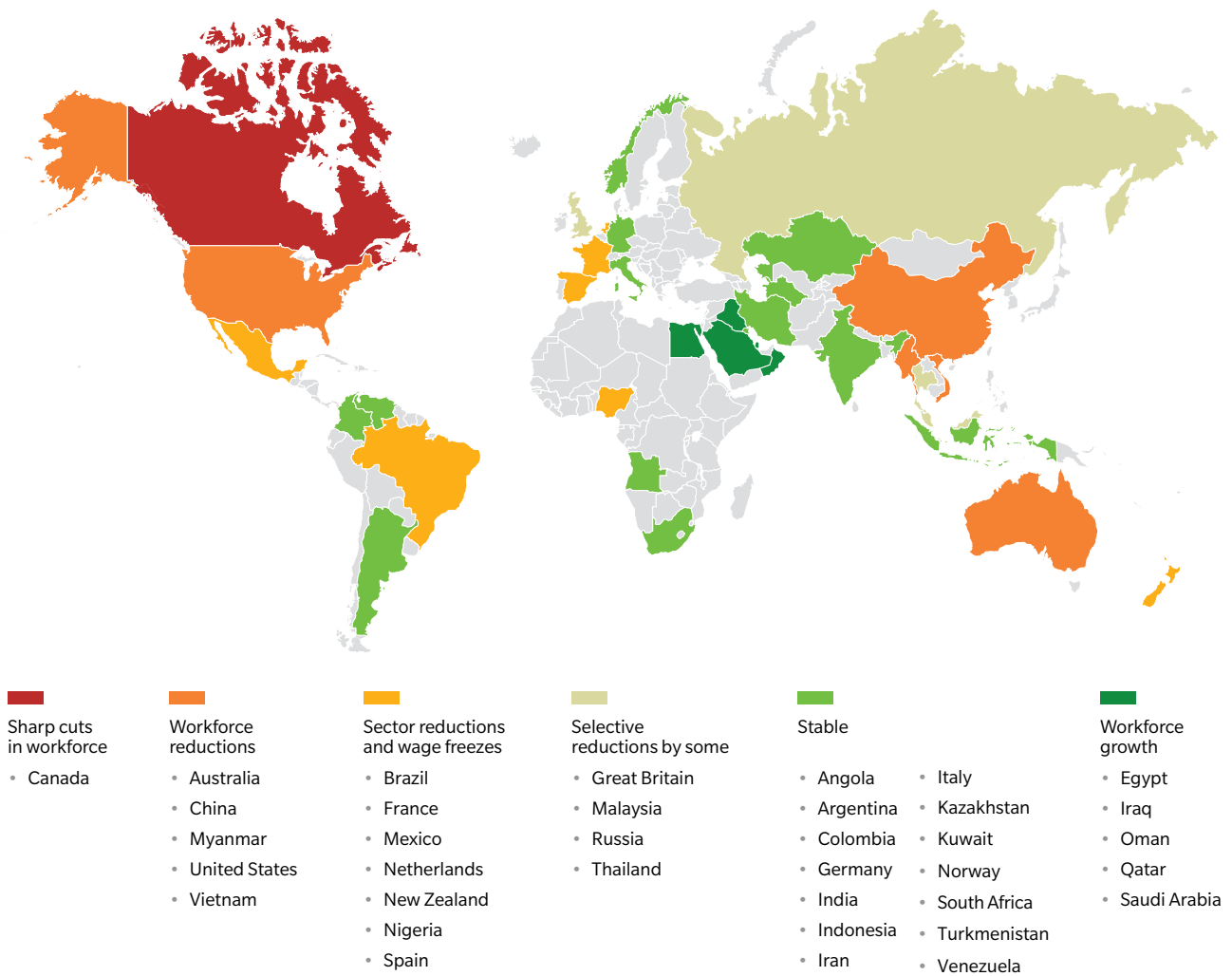
their human resources departments to influence decision making and giving them new processes, tools, skills and positioning to work effectively. They are creating an end-to-end, data-based approach to staffing to allow a proportionate response to the most recent market drop. This includes a deep understanding of the economic outlook and trends facing the industry, their likely impact on the organization and a strategic

view of how to manage those issues and constraints from a human resource perspective.

The start of that journey is giving human resources a greater role in cost management and in recruiting and retaining talent. Using human resources to simply enact strategic decisions (helping business units reduce costs) can lead to long-term problems retaining the knowledge and capability critical for future performance.

**EXHIBIT 2: IMPACT OF LOWER OIL PRICES ON WORKFORCE IN 2015-2016**

The steep decline in oil prices will result in workforce reductions in some regions, but some countries are still hiring



Recruiting opportunities for experienced talent

Source: Mercer analysis

It could also miss some creative opportunities to manage costs more effectively, thereby reducing the need for staff cuts, which pose high risks.

Driving robust and effective core talent decisions requires a change in process. Human resources should be elevated to the level of board investment (project portfolio management) and take part in corporate and operating decision forums. Robust talent data is critical, including numbers, capabilities, workforce drivers, capability gaps and supply and demand forecasts, as well as alternative options, such as contractors, joint ventures or acquisitions, so the team can challenge and support decisions on strategy.

## CONDUCT PREDICTIVE ANALYSIS

Today's issues also demand more predictive analysis. Typically, a company receives demand data and creates the right supply of key skills in the business. Instead, oil and gas companies should establish current skills maps to assess locations, job families, capabilities and other information. Then they should benchmark the map against best practices to highlight gaps and opportunities. Future workforce requirements should reflect the varying expected productivity gains by skills group due to technology advancement. With this in hand, oil and gas companies can test different demand scenarios to understand vulnerabilities in workforce composition under extreme market movements. Then, they should define the range of options, including levers other than changing staffing levels, such as redesigning benefits or using alternative workforce configurations.

As top oil and gas companies shift to this data-driven approach, they are taking a more holistic approach to talent management to resolve other, long-standing staffing issues. For example, they are using the market downturn as a catalyst to support the great crew change

as Baby Boomers retire. They're drawing on different models for contract workers or early retirement while building accelerated knowledge transfer approaches.

Oil and gas companies can use the market disruption to target, recruit and upgrade specific skills previously in short supply. Already, many are considering more radical approaches to using and managing contractors, such as bringing capabilities back in-house. In addition, they can work with other market players to develop talent-based joint ventures and key resource sharing schemes, including with contractors.

To stop the frenzied hiring-and-layoff cycle, top energy companies are empowering their human resources departments

It's important to embed sustainable change with robust processes that build talent management into investment decisions and redesign the management approach regarding business unit demands. This will require experimenting with processes and approaches, from pure analytical modeling to changing the way resources are managed in the business.

For example, it may mean rebalancing the needs of the business or project with the need to develop staff and create a better employment proposition. One approach may be to create teams with blended skills, rather than putting the A team on the biggest projects and the rest on what is left. Think about professional development and career paths, rather than project outcomes.



## A MORE MARKET-LED APPROACH

The overall dynamics in oil and gas are changing to a more market-led approach. While the drop in oil prices won't likely last forever, the return of oil prices to mid-2014 levels is at best some way off. Operating models must change to reflect this, and talent management must change, too.

Driving a radical redesign of human resource processes and positioning will do much more than address the immediate need to cut costs. It will permit companies to reflect market conditions while keeping an eye on the future, enabling businesses to recover more quickly as hydrocarbon demand increases.

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