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When one crisis meets another: Focusing on talent for the long term

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Executive summary

With the spate of payroll reductions and project postponements that have come in the wake of falling oil and commodity prices, energy and natural resources (ENR) companies may be lulled into thinking that their talent crisis has been solved. If it were only so easy. The talent shortage that has challenged the industry for over two decades is still very much a concern. To truly resolve it, industry executives need to give talent as much attention as they did when the price of oil was over US$100 per barrel.

It is true that the low price of oil has led to the suspension or postponement of some projects. It is also true that many companies have announced extensive layoffs as they search for savings in the face of declining revenues. But the industry has a history of overlooking issues related to its talent needs; long-term strategic planning has not been the priority for many companies, and most short-term strategies have fallen short in solving the problem. This unintentional neglect has led to significant shortages, inflated salaries, the overuse of third party contractors and widespread poaching. It has also left the oil and gas sector a step behind other industries when it comes to attracting talented people in the millennial generation.

If the industry doesn't change its approach, the crisis will persist, regardless of the price of crude. And if the price of oil returns to its normal trajectory, the problem will only worsen.

Companies need to take a strategic approach, even as they deal with current low energy prices. This will not only solve internal issues but will also bring considerable advantages when it comes to competing for new talent.

Armed with the results of a KPMG/Rigzone Talent Crisis survey comprising 2,543 respondents' views on the industry's approach to talent management, KPMG International has identified five key strategies that companies can implement now to deal with the talent crisis over the long term:

1. Define your strategic workforce planning model.
2. Make the most of analytics.
3. Manage third parties more actively.
4. Safeguard knowledge.
5. Rethink the employee value proposition.

Overall, ENR organizations have to recognize the business imperative to put talent management at the top of their business agenda and take a strategic approach to attracting and retaining the right skills. This is even more critical when it is put in the context of the different expectations that millennials have for their careers.

The chronic issue of talent shortages in the ENR industry will only be addressed if a long-term, strategic approach is adopted, even at difficult times like the current one. Executives must show leadership by becoming more engaged with the issue. The practical solutions outlined in this paper represent the first step.

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How we got from there to here

As the price of crude surpassed US$100 per barrel in 2014 and energy companies invested in projects to keep pace with consumer demand, the shortage of talent in the industry went from a serious problem to a full-fledged crisis. No longer an issue for human resource departments alone, it was now an agenda item for C-suite executives as the talent gap began to present significant business risks.

The chronic and ever more expensive problem is explained mostly by a failure to anticipate demographic-related issues. As is seen in Figure 1, people over the age of 65 now dominate the membership of the Society of Petroleum Engineers (SPE), whereas in 1997, the 40–44 age group held sway. As the price of oil rose, so too did the growth expectations of many companies. But the people they needed to manage this growth – baby boomers first hired in the 1970s and '80s – were into their retirement years. An industry-wide slump in the 1980s and '90s, combined with inadequate workforce planning, translated into a lack of qualified Gen Xers ready to replace them.

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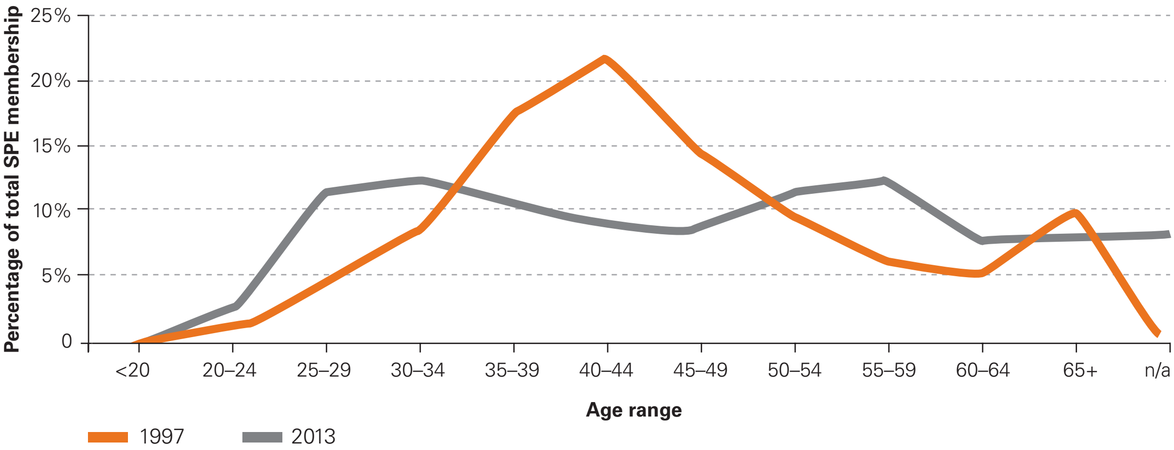
Figure 1: Society of Petroleum Engineers (SPE) membership by age range, 1997 versus 2013



Source: The Society of Petroleum Engineers, 1997–2013

Industry newcomers, represented by recent science, technology, engineering and math (STEM) graduates, provide hope, but their numbers and on-the-job experience are not sufficient to fully replace the boomers.

As the shortage worsened, executives grappled with the best ways to address the talent needs of their companies. Most took an ad hoc approach, employing quick but expensive fixes such as poaching good people from other companies or paying experienced professionals to delay their retirements. Salaries soared as potential employees gained the upper hand with recruiters. While these strategies solved immediate problems, they only delayed what became a serious talent crisis.

Things have changed. In a matter of months, the price of oil has dropped by as much as 60 percent from a peak of over US$100 in March 2014.[1] One could be forgiven for assuming that the problem has corrected itself. The truth is, however, that the industry is set to repeat the mistakes of the past unless major initiatives are enacted to close the talent gap.

As every industry veteran knows, the price of oil has ridden this terrifying roller coaster before. At least four times in the past 40 years, the price has dropped by more than 33 percent from its peak. And the industry has generally reacted the way it is reacting to the current dip: with targeted layoffs.[2] To date, over 100,000 positions in oil and gas have been laid off. This is nothing new. In the 1980s, for example, hundreds of thousands of positions were eliminated, again without regard for long-term needs. When the price of oil eventually rebounded and the race for talent restarted, the competition for talent made for a costly recovery.

The price of oil has dropped by as much as 60 percent from a peak of over US$100 in March 2014.

1 ABC News, Associated Press, "Oil Near $102 on Ukraine Crisis; US Gas Prices Up", 24 April 2014.
2 Bloomberg, "Global Layoffs Exceed 100,000", 12 February, 2015.

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Could it be different this time?

> **"Companies need to take a strategic approach to talent management, even as they react to the current slide in oil prices."**

What if this time, companies plan differently, for the return of the oil price to its historical trajectory? What if, instead of employing short-term reactionary measures, they take a long-term strategic approach to managing talent, identifying the skills they need now and for the future and finding the best people to meet those needs? What if they ensure that they are able to offer these individuals the most targeted and attractive value propositions possible? Wouldn't these companies have a tremendous advantage over those that spend the first part of the next recovery scrambling to fill the positions they are currently eliminating?

We certainly think so. Indeed, it is now more important than ever for companies to be clear about their future talent requirements and how they plan to acquire and keep the people to meet those needs.

To help companies better understand the talent crisis and how to navigate it, KPMG International interviewed a targeted group of senior human resources (HR) and talent management professionals, along with energy industry professionals across its global network. This paper combines their views with the findings of the KPMG/Rigzone Talent Crisis Survey, an extensive review of energy and natural resources professionals in June 2014.[3] While no easy solution applies to every kind of company in the industry, this much is clear: Companies need to take a strategic approach to talent management, even as they react to the current slide in oil prices.

That means focusing on some key talent initiatives:

- identifying the key skills required to deliver the future strategy of the business
- using well-designed analytics to measure the value of existing talent management initiatives
- rethinking approaches to third party vendors
- safeguarding knowledge to ensure that the next generation is able to utilize the experience of their elders
- rethinking the value proposition to attract and retain the best employees possible.

3 KPMG/Rigzone Talent Crisis Survey June 2014. There were 2,543 industry professionals from around the world and across the value chain who responded to the survey.

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Before anything, take a strategic approach

Casual industry observers may be forgiven for believing that the recent precipitous drop in the price of oil has eliminated any talent crisis in the oil and gas sector. It is certainly true that the price drop has alleviated some of the pressure caused by severe skills shortages. A second Rigzone survey on talent, Hiring Outlook, 2015,[4] found that US companies are planning to hire fewer people and expect to be able to retain more talent than they did only six months ago.

While price volatility has been a characteristic of the commodity for over four decades, Regina Mayor, Principal and Head of Oil & Gas, Americas, KPMG in the US, notes that the practice of cutting staff or freezing hiring when the price declines has resulted in long-term talent issues: "Part of the reason the industry is having problems is that they've been overly reactive. They stopped hiring for about a decade during the late 1980s and early 1990s and it has created a massive gap in talent at a time when senior people are hitting retirement age."

This lack of investment has permeated the culture of many companies. The KPMG/Rigzone Talent Crisis Survey (see Figures 2 and 3) revealed a deeply concerning lack of internal candidates (only 21 percent of companies are able to draw from their own ranks) and defined strategies for talent management (only 23 percent have planned sufficiently).

Juxtaposed with this is a growing gap between actual HR functions and C-suite expectations. The survey noted that only 14 percent of respondents agreed with the statement that HR made a significant contribution to the strategic objectives of the organization. Leaders want HR to be more evidence based: to use predictive analytics and published research. They are not convinced, however, that HR will rise to the challenge. Only 22 percent of respondents agreed with the statement that HR strategy was significantly influenced by analysis of business and people data from across the organization's operations.

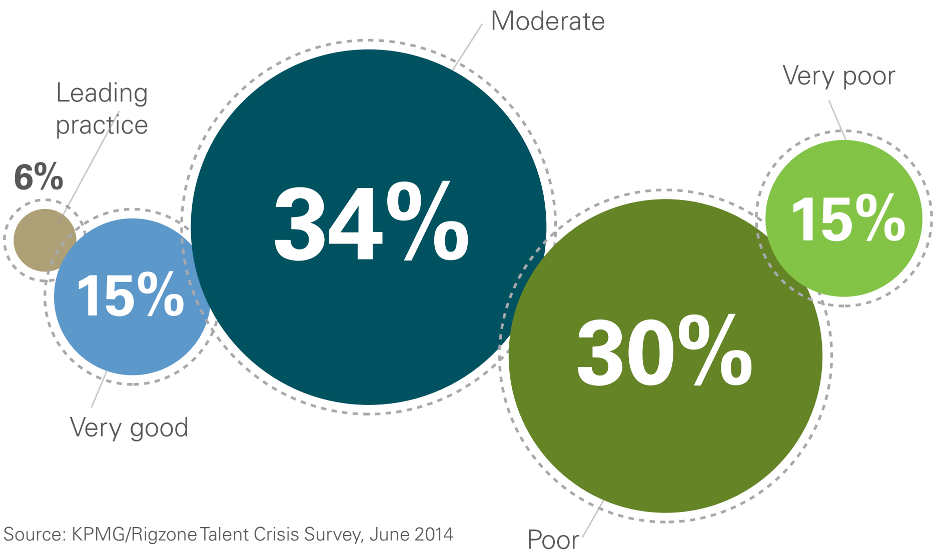
The case study on page 10 shows how KPMG worked with a global mining company to take a strategic, multi-tiered workforce planning approach.

Regina Mayor

Principal, Head of Oil & Gas, Americas, KPMG in the US

With over 22 years of experience in advisory services across the oil and gas value chain, Regina Mayor has significant depth and expertise in business transformation, process redesign, organizational design and change management, delivering large-scale business and technology changes to major global oil companies. Harvard-educated, Regina is a sought-after speaker at global industry forums, such as the National Petroleum Refiners Association, the Argus Americas Crude Conference and the World Energy Conference.

Figure 2: Depth of internal candidates for critical roles, 2014



Source: KPMG/Rigzone Talent Crisis Survey, June 2014

4 Rigzone, Hiring Outlook, 2015, December 2014. The survey comprised 114 respondents, all recruiting in the US. All segments and sizes were represented, with 26 percent of respondents from companies with more than 5,000 employees.

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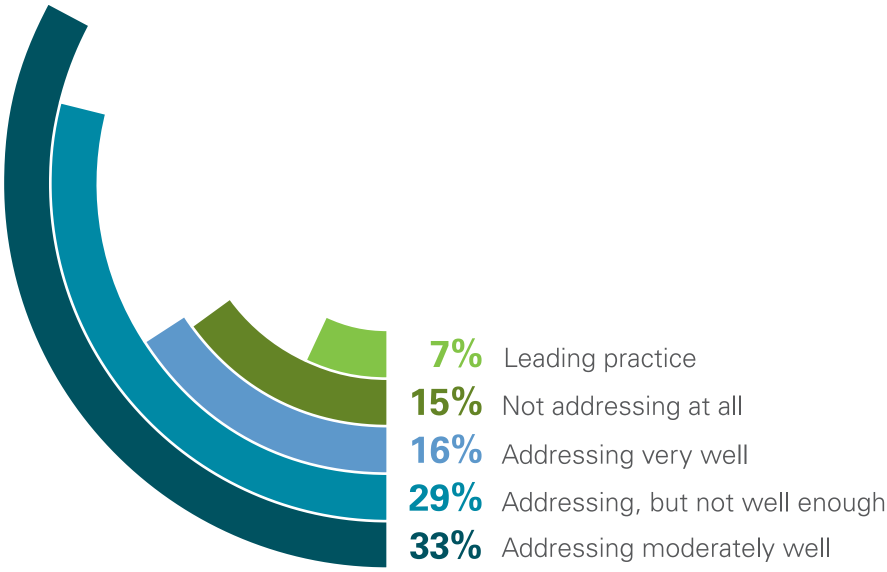
"The gap is most evident among people in their 40s and late 30s. This is due to a lack of investment in young people in the early 1990s."

Sarah McNaught

Figure 3: Defined strategy on talent management, 2014



Source: KPMG/Rigzone Talent Crisis Survey, June 2014

Sarah McNaught

Partner, Head of Energy & Natural Resources, KPMG in the UK

Sarah McNaught has 20 years of deep knowledge of the oil and gas industry and has led KPMG's global relationship with a number of large global oil and gas companies. With over 15 years of experience in transaction services, she has also advised clients throughout the deal space, from option analysis through to due diligence, contract negotiation and integration. In past roles, Sarah was responsible for innovation and knowledge management at KPMG and has developed a strong understanding of how to leverage the enablers and avoid the barriers to change. She currently leads KPMG UK's Energy & Natural Resources practice.

CASE STUDY
Global mining company:
Global workforce planning system

Client challenge

A large mining company realized that it was not using a consistent method to identify gaps between workforce demand and supply in the short to medium term (0 to 5 years). Business units (BUs) were at risk as decisions to invest in local talent were not being based on medium-term forecasts and the group HR Workforce Planning department was unable to determine the resources needed for strategic human resource investment.

KPMG response

Taking a multi-tiered approach, KPMG in the UK gathered information on current workforce planning and identified what appeared to be working best. Inputs, processes, outputs and the use of tools and templates to highlight areas that represented best practice were identified. We determined how existing projects and processes relied on workforce planning and areas that required improvement to raise global standards.

A summary was provided of how the company was carrying out workforce planning to provide a basis on which to build a new system.

Benefits to the client

KPMG's work culminated in a baseline from which a new solution for workforce planning emerged. Classifying central processes – including strategy, planning and talent management – and determining how they interacted with workforce planning proved essential in building a consistent and rigorous new approach. By engaging with the business as a whole, as well as at local levels, KPMG helped to create viable new solutions.

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5 key talent management strategies companies should implement now

1. Define your strategic workforce planning model
2. Make the most of analytics
3. Manage third parties more actively
4. Safeguard knowledge
5. Rethink the employee value proposition

Balancing the immediate and future needs of the business can be difficult. And yet there are immediate steps that companies can take to address their current and future talent requirements. The following are five key strategies that companies should use to help them find the right balance for their business.

1

Define your strategic workforce planning model

In the past, when companies made cuts, they were unable to determine where and how deeply to do so. This led to costly mistakes in both directions, as companies scrambled to repair cuts that went too deep – or continued to pay people who were not necessary to their operations.

It is essential for companies to have a structured approach to identifying their strategic talent needs and an innovative approach to sourcing these critical skills. Some companies are beginning to do this and finding that it allows them to invest in skills development more effectively.

Sarah McNaught, Partner and Head of Energy & Natural Resources, KPMG in the UK, says, "You need to be clear on the talent and skills that an organization needs. If you want to be renowned for exploration, you need good explorers. If you want to be renowned for drilling, the same. You need to know where you're going to get the talent when you can't get it in house. If you think that talent is going to be scarce, you need to look at the alternatives to ensure you can get it."

Identification, however, is just the first step. Companies must actively develop skills in order to ensure that future needs are met. Skills development can take place within the company via training or mentoring programs, but it must also have an external component.

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2

Make the most of analytics

Those charged with managing talent have benefited in recent years from a spate of new analytical tools. Some of these tools allow managers to view their entire organization and then identify the major gaps in skills, succession and performance. Others help predict potential gaps so that they can be prevented.

KPMG BIO* (Benchmarking, Insights and Opportunities) is a tool KPMG has developed that provides a sophisticated analytics capability to reveal how a company's workforce drives business performance. Armed with this knowledge, companies can leverage existing data to target their recruiting efforts and shape their entire talent management strategy. What's more, analytics tools help companies understand the return on investment of their initiatives and drive evidence-based talent decisions. Analytics can also help HR functions link talent data to business outcomes to help ensure that talent initiatives are prioritized based on their impact on the business strategy.

These technologies are an integral part of strategic planning and should be employed as robustly as possible. Unfortunately, too few HR departments are able to define the value they are getting from their current spending on talent and learning and development. This represents a massive opportunity cost.

3

Manage third parties more actively

Traditionally, companies have reactively turned to third party contractors as an immediate solution to talent shortages. In the current downturn, that practice may become more widespread. The upside is flexibility. The downside is the risk that comes with bringing new people aboard. The longer-term risk is that when third parties move on, they invariably take any knowledge they have gained with them.

In any case, paying more attention to third parties talent has a great deal of value, and companies would do well to broaden their talent measurement to include third party suppliers. The cost and productivity of such suppliers should be built into resourcing models and then tracked to help reveal how to deploy these service providers most efficiently. Proactive measures to ensure that key knowledge is transferred from contractors to permanent employees should also be put in place.

4

Safeguard knowledge

One of the essential areas to invest in during this downturn is knowledge management. Everyone who works for the company – from third party contractors to workers on the verge of retirement – holds knowledge about the business that should be captured and organized for future use.

This process should be actively managed so that the most important pockets of knowledge are not only retained but also disseminated to the areas of greatest need. Some companies are using formal mentoring programs to pass institutional knowledge along from experienced employees to new recruits, tying compensation to the mentoring role to encourage active participation. Others are offering more flexible working arrangements to over 50s so that they can improve work/life balance without leaving the company, such as a a large global financial services organization that hired workers over 50 for trading floor positions. Many recruiting agencies are paying greater attention to these experienced workers as companies seek new ways to keep valuable knowledge within the company.

Any knowledge management program must also take into account how millennials learn. Peer-to-peer programs and common technologies, such as YouTube, should be maximized. Some companies have had success by making a game of learning, offering rewards for participation and results. At Google, for example, the vast majority of learning is peer-to-peer, employing internal social media platforms as a way to disseminate and access knowledge.

* KPMG BIO may not be available in all KPMG member firms.

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5

Rethink the employee value proposition

To attract the best talent, companies need to rethink their employee value proposition. Competition for top STEM graduates is intense because of demand not only from the ENR industry but also from other sectors of the economy.

Financial services and information technology (IT) are two prime examples, says Hilda Mulock Houwer, Partner and Global Advisory Leader, Energy & Natural Resources, KPMG in Qatar: "There's a perception among STEM students that these industries are more technologically advanced than energy. This might not be the case, but finance and IT have been able to target the younger market through advertising and public relations."

Perceptions carry a lot of weight. In addition to seeing the ENR industry as less technologically sophisticated, millennials tend to question the environmental purpose of the industry. Pipeline and offshore spills, fracking leaks and carbon emissions are of great concern to this environmentally minded generation.

HR functions need to work with the business to redefine the 'deal' that the organization offers its employees, current and prospective, to forge a link between the company's purpose and the individual's value system. In a time of salary freezes and cost-cutting initiatives, non-monetary incentives and talent retention approaches will make the difference.

Hilda Mulock Houwer

Partner and Global Advisory Leader
Energy & Natural Resources
KPMG in Qatar

With 23 years of consulting and auditing experience in the oil and gas, energy and mining industries, Hilda Mulock Houwer provides advisory services across the entire oil and gas value chain, from strategy development to strategy implementation. Hilda's extensive experience includes operational excellence, process transformation, procurement, change management and financial process redesign.

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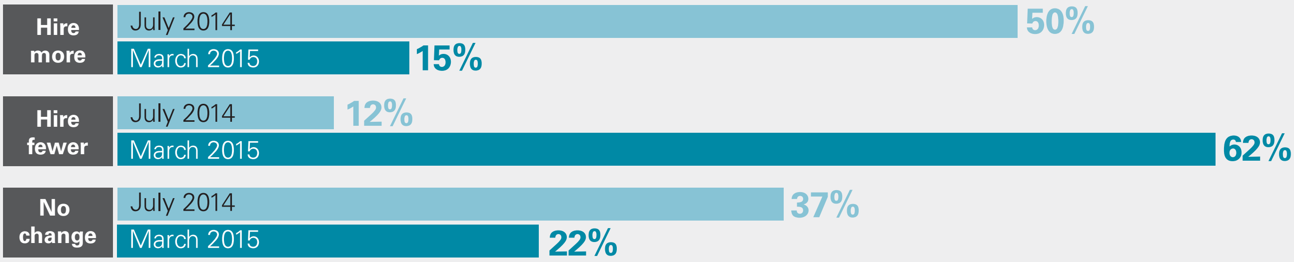
An interview with David Lee
Vice-President of the Americas, Rigzone

The current price of oil has forced companies to make some hard decisions. What are you seeing with respect to talent?

A: It is still a mixed bag. We've seen companies – particularly in offshore drilling and drilling services – slow down recruitment and cut staff, but others are adding people. When I speak to different organizations, some remain cautiously optimistic, some have made some quick decisions for the fiscal year and others have yet to see an impact.

In the next six months, how will your hiring of oil and gas professionals differ from the previous six months?



Source: Rigzone survey, Global Hiring Outlook, March 2015

Are you seeing any patterns in the activity?

A: It's not data rich, but anecdotally, we've seen a dramatic impact in the North Sea and other offshore operations such as those in the Gulf of Mexico. There's been an immediate response in terms of labor. In the North American market, upstream is slowing while downstream is doing quite well. Production levels should remain steady for six to 12 months. Engineering, procurement and construction (EPC) companies are also fairly busy.

What percentage of companies do not expect an increase in voluntary departures in 2015?

January 2015

68%

of companies do not expect an increase in voluntary departures in 2015

Source: Rigzone survey, Global Hiring Outlook, January 2015

VS

March 2015

61%

of companies do not expect an increase in voluntary departures in 2015

Source: Rigzone survey, Global Hiring Outlook, March 2015

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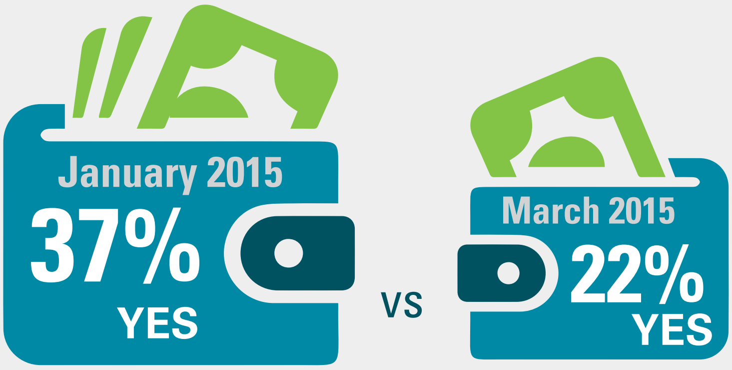
Are candidates asking for more money as compared to six months ago?



Source: Rigzone survey, Global Hiring Outlook, January 2015 and March 2015

How do you balance the immediate needs of the bottom line with long-term talent needs?

A: It comes down to an individual company's strategy. Some companies see the opportunity to upgrade certain positions by targeting candidates they might not have had access to in the recent past. Other organizations don't have that luxury. They're focused on the budget and they might not be thinking at all about the expanded candidate pool.

In terms of recruiting, what are the smart companies doing right?

A: The companies that are succeeding understand that today, the candidate pool is different. You're starting to see more sophisticated branding and recruitment strategies, whether direct recruiting on a job board or recruiting at industry sites.

I know of companies that have completely revamped their onboarding process. They noticed that they were losing many of the millennials they had worked so hard to recruit because the process hadn't changed in 20 years. They gave them dozens of pages of written forms, classroom orientation materials, then put them in classrooms for hours. It's now more virtual, more mobile and they're using automated training – and it's working out well for them.

Different generations seem to have different views of the crisis. What does that tell us about the nature of the crisis?

A: The greatest levels of concern are being expressed by Gen Xers, who are being looked at to carry the workload once the retiring group leaves. Even in companies that have been successful in recruiting young people, there is still a big gap in leadership. And so the challenge is how to support the Gen X leaders in the most senior positions by surrounding them with the next generation of leaders.

Where should companies be directing their energies?

A: Companies need to build teams internally to focus on finding the right people, while effectively managing third party resources. Oil and gas is the most challenging industry for recruiters and you need to put serious resources behind it. This also means making sure recruits know that their career goals are being given due consideration.

David Lee

Vice-President of the Americas,
Rigzone

David Lee has over 20 years of experience in talent management and recruitment solutions for leading organizations. For the past 10 years, he has helped design and implement recruitment strategies, as well as technology platforms, to address the talent shortage issue surrounding the oil and gas industry. As VP of the Americas for Rigzone, David oversees all sales and operations for Rigzone's Career Center, Digital Advertising and Data Services business units.

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Attracting and retaining talent

"In Australia, industry is working with universities and training centers to help develop qualified graduates. But they are also working on branding, with programs and campaigns designed to encourage students to go into the industry."

Brent Steedman

Brent Steedman

Partner, Energy & Natural Resources
Oil & Gas, KPMG Australia

Brent Steedman has extensive experience working with numerous international oil companies and large independents. As the former National Oil & Gas Leader for KPMG Australia, he specialized in due diligence, mergers and acquisitions, joint venture arrangements, accounting and financial reporting, audit, cost allocation, contract management and process and system implementation.

In recent years, companies have become creative as they seek out new and interesting incentives to boost their attractiveness to potential and existing employees. In addition, the industry has worked to strengthen its brand among potential candidates by:

- sponsoring scholarships, prizes and afterschool programs that enhance education in STEM disciplines
- sponsoring business-school conferences and job fairs
- forging stronger relations with universities and other training institutes
- sponsoring programs to promote interest in the STEM disciplines among high school students.

Recruitment can begin even earlier than university. Pre-secondary school children are the intended audience for campaigns designed to get youth interested in the industry. The purpose is clear: If students don't have the industry on their career radar, they may not take the secondary school courses necessary to get into postsecondary programs that turn out oil and gas professionals. Girls are a special priority for some campaigns, with the hope of addressing the industry's gender gap.

Money isn't everything

When it comes to crafting a value proposition for younger employees, companies need to keep in mind that money isn't everything. Companies are beginning to understand that millennials expect more, as Robert Bolton, Partner, HR Transformation, Global Center of Excellence, KPMG in the UK, remarks: "I see oil and gas starting to be quite sophisticated, even more than some other industries, at looking at what they can do to grow people, to give them challenging experiences and build their capabilities in order to create that sense of progression that younger people are seeking."

The lesson, according to Hilda Mulock Houwer, is that "you can't have one value proposition for every employee. Different groups, different generations require different propositions. Good organizations will work with their employees to come up with the solutions. This is much better than devising solutions unilaterally."

The following case study shows how one oil and gas company took steps to better understand its staffing needs and improve its staffing model.

Recruitment initiatives

- offering internships that provide undergraduates with extraordinary opportunities to gain industry experience
- targeting non-traditional sources for recruits, such as military veterans

Retention initiatives

- in-house academies to teach engineers about project management as well as a number of leadership and technical skills
- programs to enhance leadership skills
- partnerships with external training academies to offer employees a wide array of opportunities to upgrade existing skills or learn new ones
- scholarships for employees wishing to further their education
- networks for disabled employees or employees with disabled dependents
- child care programs[5]

5 KPMG International, Energy Talent Crisis presentation, October 2014.

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CASE STUDY

Oil and gas company: Staffing norms and planning

Client challenge

An oil and natural gas company wanted to better understand its staffing needs and how those needs affected the immediate, medium-, and long-term trajectory of the organization. It asked KPMG to develop staffing norms, examining overlapping roles and activities that added little or no value. The client's goal was to develop capabilities for its internal change management team that would facilitate the implementation of any proposed staffing norms.

KPMG response

KPMG in the UK undertook an intensive overview of the company's current staffing norms and existing productivity framework. Overlaps and valueless activities were identified and best practices from comparable or benchmarked companies were discussed. Transforming the identified staffing norms into staff requirements, KPMG provided the transitional support needed to make those changes.

Benefits to client

A comprehensive report included recommendations that would greatly advance the client's staffing model and training for the internal change management team – and cost savings were achieved. The client was able to define a clear path for procedural improvement and gained a new ability to define its staff requirements going forward.

In Demand
Oil and Gas Professionals

1. Mechanic
2. Mechanical Engineer
3. Project Manager
4. Electrical Engineer
5. Quality Assurance/ Control Inspector
6. Business Development
7. Design Engineer
8. Sales & Marketing
9. Technical Sales
10. Field Service Technician

Note: New and updated jobs posted to Rigzone January and February 2015

Robert Bolton

Partner, HR Transformation, Global HR Center of Excellence, KPMG in the UK

Robert Bolton has 20 years of consulting experience in the KPMG People & Change practice. With a focus on HR transformation, strategic talent management and evidence-based people management, he works with large corporate clients particularly in oil, energy and natural resources. Robert leads KPMG's HR Transformation Global Center of Excellence and drives KPMG's development of consulting assets and thought leadership for high-performance people management in organizations.

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Attracting a more diverse workforce to the industry

The employee value proposition will also be key to attracting more women to the industry.

Targeting new sources in recruiting efforts is one step toward remedying the issue. Making the workplace more welcoming is another, as Regina Mayor notes: "Some companies are trying to make themselves more friendly to women. Not very long ago, it was difficult for a woman to feel welcome on a rig. There might be only one bathroom, for example. Now companies are more mindful of ensuring that women are able to live as comfortably on a rig as everyone else."

Today, women account for about 24 percent of senior managers worldwide (see Figure 4). While this represents an improvement from the 'one-bathroom' days, there is clearly room to bring more women into leadership positions. Laws in some countries require a board and/or management to comprise a certain percentage of women, reflecting that the industry still struggles to attract women.

Taking this a step further, the approach to diversity and inclusion needs to go beyond gender and racial diversity to embrace the business case for a more inclusive leadership style across all areas. In 2005, for example, L'Oréal realized that by staffing its headquarters with a predominantly European, white, elite-school-educated workforce, it was developing products that appealed to only a minority of the global population and consequently missing out on several million dollars of revenue. It was also losing market share to the Body Shop, which

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was appealing to animal rights and environmentally conscious customers with its 'no animal-testing' philosophy. L'Oréal realized that diversity and inclusion involves more than statistics; it's about accepting the direct link between business strategy and the bottom line and talent management decisions.

The ENR industry needs to develop a similar view of the business case for diversity and inclusion that will allow it to attract a broader set of talent – in all regions.

Figure 4: Women in senior management by region, 2013

Sources: Catalyst, "Women in Management, Global Comparison", accessed 29 October 2014; Harvard Business Review, "Strategies to Promote Women Should Vary across Cultures", accessed 29 October 2014; CFA Institute, "Women on Corporate Boards: Global Trends for Promoting Diversity", accessed 29 October 2014

Note: The Nordic region comprises Denmark, Finland, Iceland, Norway and Sweden.

Some companies have been quite active in this regard, with targeted programs. Some have entered into partnerships to help women plan their careers. In the upstream and midstream segments, however, only 15 to 16 percent of workers are women.[6]

Other initiatives include awards that recognize outstanding contributions by women in the industry and the establishment and sponsorship of networking organizations to encourage networking among female professionals.

"One way the industry has been trying to address its branding issues is by telling young people that they can be part of the solution."

Brent Steedman

"The industry still has a massive branding problem 10 years after the first attempts to change its image. Companies have tried to use money to overcome it, paying recent graduates high salaries. PR campaigns can be useful, but in the end this is still a gritty, dangerous industry that requires pulling oil out of the ground."

Regina Mayor

6 IHS Global Inc., "Minority and Female Employment in the Oil & Gas and Petrochemical Industries", March 2014.

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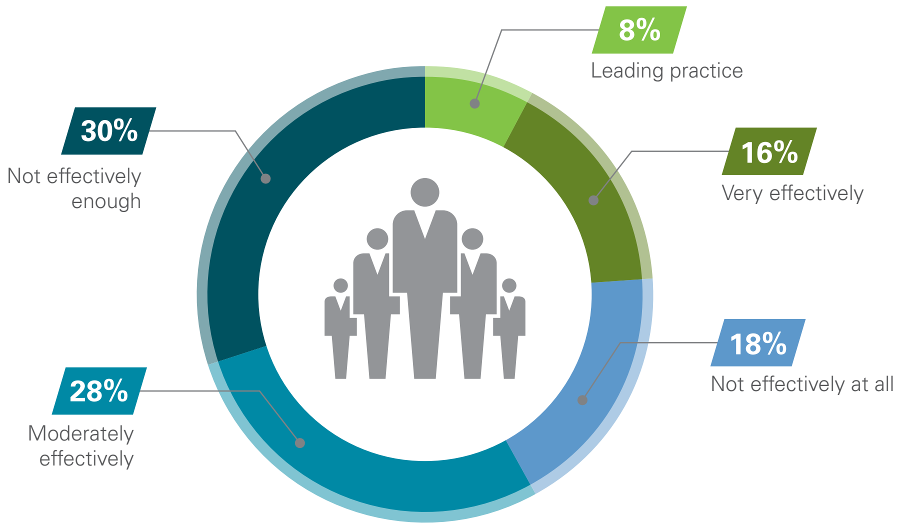
The importance of strong leadership

> **"74 percent of respondents said their companies are putting an average or below-average effort into developing distinct training for older and younger generations, even though millennials and baby boomers have different learning and communication styles."**

One revealing finding of the KPMG/ Rigzone Talent Crisis Survey was that 48 percent of employees believe their company leadership has failed in both communication and engagement (see Figure 5).

A similar proportion think their companies lack a defined, organization-wide strategy for talent management. Perhaps most strikingly, 74 percent of respondents said their companies are putting an average or below-average effort into developing distinct training for older and younger generations, even though millennials and baby boomers have different learning and communication styles.[7]

Figure 5: How effectively does your company's leadership engage employees?



Source: KPMG/Rigzone Talent Crisis Survey, June 2014

These responses should serve as a clarion call to anyone in a leadership role, even those who have been putting resources into talent. If the message is not being received, key employees, lacking confidence in their leaders, may begin to look for opportunities elsewhere.

Not changing behaviors to reflect a new focus on talent can have business consequences, as Brent Steedman, Partner, Oil & Gas, KPMG Australia, emphasizes: "Because there's so much movement from job to job and emergency gap filling, it makes it hard to concentrate on improving productivity."

7 KPMG, "Addressing the Energy Industry Talent Gap". Data based on KPMG/Rigzone Talent Survey, June 2014.

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Assessing talent risks

Anthony Lobo

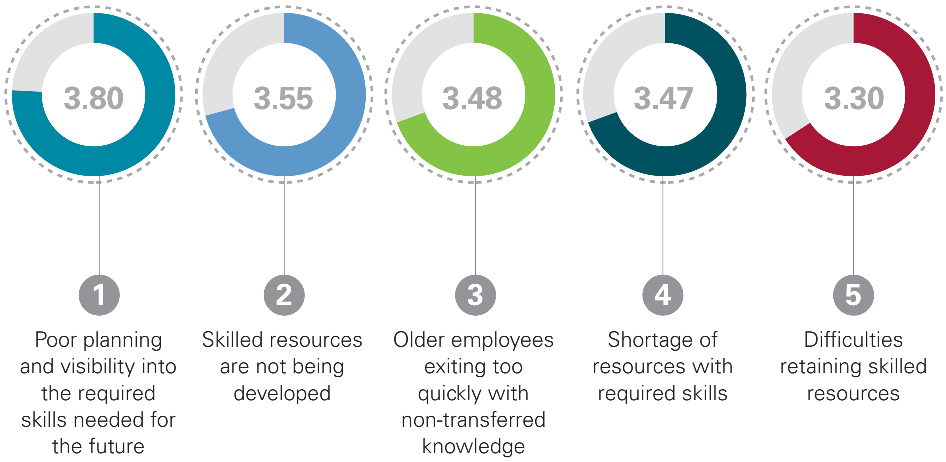
Partner, Transaction Services and Head of Oil & Gas for EMEA and Asia Pacific
KPMG in the UK

Anthony Lobo is a Partner, Transaction Services and Head of Oil & Gas for EMEA and Asia Pacific and is responsible for coordinating the delivery of all KPMG's oil and gas services in the EMEA and ASPAC regions. Drawing on over 20 years of M&A experience in the energy sector, including extensive upstream and downstream experience, Anthony leads the delivery of M&A services to a number of major oil and gas clients and many national oil companies. From 1997 to 2000, Anthony was seconded to our Hong Kong practice and worked on multiple large transactions across Asia.

Failure to implement a long-term strategic plan for talent means incurring a range of needless business and organizational risks (see Figure 6). Assessing and quantifying talent risks can be extraordinarily complex but in the experience of our professionals, those risks are real.

Take payroll reduction as an example. Anthony Lobo, Partner, Transaction Services, and Head of Oil & Gas for Europe, Middle East, and Africa (EMEA) and Asia Pacific, KPMG in the UK, points out that layoffs can have unintended negative consequences: "The projects that will be most impacted are those high-cost, highly technical projects that require the very best talent. For companies, the challenge will be in redeploying that talent to profitable ends. We may see them moved to existing marginal fields to see if these can be made more viable."

Figure 6: Talent risk factors at oil and gas companies



Average Risk Ratings (1 = low, 5 = high)

Source: KPMG/Rigzone Talent Survey, June 2014

"Downsizing in response to falling oil prices may prevent a company from focusing its key talents where it thinks gaps exist. Decisions on talent are made to fit with the downsizing strategy – not a strategy that anticipates future growth."

Regina Mayor

When companies don't plan properly, they are forced to scramble for scarce talent. Our interviews revealed that recruiting skill is very much a cross-border practice. Engineers from Asia are working in South America; African operations are populated with technical people from Europe and North America. That trend comes with a hefty price tag for relocation and migration.

Equally common, and just as expensive, is the practice of poaching, when talent goes to the highest bidder. The advantage is that the receiving company gets the exact skills and experience it needs. Robert Bolton points to the disadvantage: "If everyone starts doing it, it can develop into a war of attrition and is perhaps less effective except for those who get first-mover advantage. If you move into a 'tit-for-tat' situation, no one wins."

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Enhancing shareholder value

"You need to create that DNA in the organization that creates the competitive advantage. Without it, you're not enhancing shareholder value. You're not going to enhance value because your churn rate is going to be so high. The cost of training will increase. The risks around safety, health and environment will increase dramatically."

Hilda Mulock Houwer

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Key regional differences

Although the industry is increasingly global, with most big energy companies operating on every continent except Antarctica, some aspects of the talent crisis are distinctly regional. Specifically, our global partners told us the following:

- Demographic problems such as early retirement are more acute in North America and Europe.
- Branding is of less concern in Latin America. According to Manuel Fernandes, Lead Partner, Oil & Gas, KPMG Auditores Independentes, KPMG in Brazil, "Here, the energy sector is considered a good place to start a career."
- The oil price drop is having the greatest impact in high-cost areas such as the North Sea. The situation in the Middle East is more stable, and Asia is also strong.
- Companies operating in Africa have unique challenges, according to Anthony Lobo: "In west Africa, the issue of local participation is emerging as a political issue. Governments want more work to flow to local suppliers, but many of these suppliers lack the technical skills. Talent isn't the issue; there are plenty of young, bright, ambitious engineers on the continent. But there is a shortage of leaders to help train them and bring their skill levels to where they need to be."

"A high churn rate makes it difficult to build that feeling of ownership that itself is an important factor in retaining employees. A company filled with short-term employees will have a harder time establishing and maintaining its identity."

Manuel Fernandes

Manuel Fernandes
Lead Partner, Oil & Gas
KPMG Auditores Independentes
KPMG in Brazil

With 29 years of experience in audit and advisory services to domestic and foreign publicly held companies across several industries, Manuel Fernandes is the Office Managing Partner in Rio de Janeiro and the Lead Partner, Oil & Gas for KPMG in Brazil. He is a member of the KPMG in Brazil Executive Committee, the Accounting and Audit Technical Committee, the Brazilian Institute of Independent Auditors (IBRACON), the Brazilian Institute of Corporate Governance (IBGC) and the Brazilian Association of Listed Companies (ABRASCA). Manuel also serves as a director of the American Chamber of Commerce, where he is the chairman of the Energy Committee, and is a board member of the Brazilian Institute of Executives in Finance (IBEF).

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The view from elsewhere: How other companies have addressed talent issues

The ENR industry is not unique. Many industries have faced and conquered serious talent-related issues.

Hoping to attract more female engineering graduates, **Jaguar Land Rover** created a special program for female engineering students that offered exposure to a number of areas of the automaker's operations. In four years, the plan has helped increase the number of female hires from 7 percent to over 20 percent.

Faced with a similar gender imbalance, **IBM** went further, targeting 15- and 16-year-old girls to give them exposure to possible careers in technology. Surveys show that the program is working; many of the participants said that they would consider a career with IBM. For the same reason, **Microsoft** has implemented a formal mentorship program designed to attract women.

Seeking to improve retention rates in the wake of the 2008 market crash, Indian recruiting giant **Naukri.com** acted quickly and replaced its traditional stock option plan with a more attractive scheme. It also reworked its bonus structure so that employees are rewarded for hitting sales targets.

Perhaps not surprisingly, **Google** is leading the way with the use of analytics to help manage talent. The company aims to bring the same level of rigor to people decisions as it does to engineering decisions.

Finally, Chinese energy company **Envision**, aiming to compete on technology rather than on cost of labor, developed the Talent and Development Challenge System, which asks employees to solve increasingly difficult technical challenges, take on additional responsibilities and create internal and external value.

The following case study shows how a multinational financial services company was able to find ways to get better value from its branch workforce.

Source: KPMG International research, 2015.

CASE STUDY

Multinational financial services company:
Better value from branches

Client challenge

A large financial institution was seeking ways to get better value from its branch workforce, focusing on four key areas: customer experience, branch financial performance, employee engagement and conduct risk. It wanted to make better-informed decisions about recruitment, training and workforce, to improve branch performance and to better position itself as a market leader in banking.

KPMG response

Over three months, KPMG in the UK analyzed multiple sets of existing data to determine which workforce management processes were driving branch performance and customer engagement and lowering risk. Multiple stakeholders across the business were brought together to develop initial hypotheses to test.

Cross-referencing seemingly disparate databases to find correlations, KPMG identified the drivers of superior branch performance and customer experience.

Benefits to client

KPMG identified three priority areas to improve workforce performance in low-performing branches. Also identified were up to 10 percent uplift in branch financial performance and customer engagement scores that were explained by different workforce management practices.

KPMG helped unlock performance through effective staff planning and scheduling, combined with a more flexible workforce i.e. maximizing part-time staff. This extended to the bank's recruitment processes and talent strategy, with a focus on reducing attrition and employing experienced workers.

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What are the skills the business needs to succeed over the long term?

- How can we actively develop skills through both internal training and mentoring and external programs, to ensure future needs are met?
- What analytical tools should be used to target recruiting efforts, shape learning and development programs, identify return on investment and determine the most useful application of programs?
- What employees are making valuable contributions and might therefore be the target of poachers? How can we be proactive in offering them incentives to remain with the company?
- Should we use third party talent suppliers? What are the benefits? What are the risks?
- How can we create a knowledge-management process to ensure that institutional memory is preserved and disseminated to the areas of greatest need?
- How can our employee value proposition be rethought to address possible misconceptions about the business and attract the right people?

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Conclusion

The drop in the price of oil may have bought companies some time to address their talent shortage, as they cut their workforces and put projects on hold. While such short-term approaches solve some problems, however, they will surely create more when the price of oil returns to historical levels and the race for talent resumes.

As Hilda Mulock Houwer makes clear, "You can't just develop a policy to deal with immediate problems. The crisis can't be resolved this way. You need to have changes to the whole approach to talent, and the change must come from the company culture."

To help ensure success when that day comes, ENR companies must view talent management in a new way. In the short term, this means:

1. defining a strategic workforce planning model that truly understands the needs of the present and of the future
2. making the most of analytics in order to gather objective data to guide decision making
3. managing third parties more actively to optimize their strategic contributions to the company
4. safeguarding knowledge by implementing programs to ensure that experienced workers pass on their company and industry knowledge to the next generation
5. rethinking the employee value proposition to attract, develop and retain millennials and avoid ongoing talent issues.

This is the starting point of an effective strategic workforce plan. With it, companies can ensure that the words *talent* and *crisis* never again appear together.

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KPMG People & Change Global Advisory practice

- The KPMG People & Change Global Advisory practice focuses on the human experience in business transformation. We support the development of strategies to attract, develop, motivate, retain and manage the right people with the right skill sets and the right experience to deliver the goals of the organization (see Figure 7).
- KPMG professionals work with their clients to develop HR strategies, programs and plans that facilitate a cooperative approach between the HR function and line management, helping to ensure that people are both motivated about and capable of delivering the business strategy. We believe that HR transformation should align HR and business strategy, so that the appropriate structures, capabilities and systems are in place to enable the HR function to deliver value to the business.
- Our expertise is by no means limited to the HR function. By focusing on the people agenda, we help to deliver large-scale transformational change – across all business functions.
- KPMG's HR Center of Excellence gives clients dedicated access to global teams of senior professionals with broad business backgrounds and deep HR expertise. Together with some of the world's foremost academic researchers, we foster innovation and develop market-leading insights in all areas of human resources, putting us at the forefront of thinking on the subject.
- We have market-leading capabilities in HR technology solutions and real-time employee engagement techniques as levers to help drive the business agenda. Our People Powered Performance (P³) proposition is a revolutionary, multidisciplinary approach to delivering performance through people, and our U-Collaborate offering is transforming the way complex business decisions are made.

Figure 7: KPMG People & Change Services Offering

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- The KPMG Tune in to Talent framework (see Figure 8) was developed to help organizations form a unified, strategy-driven approach to successful talent management and to assist them in aligning their workforce to the needs of the business. The framework can be tailored to individual businesses, thereby applying to a wide array of talent-related challenges.
- KPMG OnBoard is a new state-of-the-art, mobile-enabled employee onboarding solution. It offers a new perspective on the age-old problem of how to help ensure new hires enter your business feeling confident, inspired and fully prepared to add value from day one. Connecting everyone involved in the process – from HR professionals and hiring managers to the new hires themselves – it provides transparency and connectivity along the way, encouraging communication and enabling early productivity. This solution will help build relationships with new hires, from job offer through to their first three months on the job.
- KPMG has developed the BIO* (Benchmarking, Insights and Opportunities) performance tool to enable companies to analyze how talent data and HR data link to business performance.
- As a global network of firms, we have over 650 professionals in more than 30 countries. Leveraging relationships throughout KPMG, we successfully collaborate across sectors and geographies, making full use of our breadth and depth of project experience. We are there for the entire journey with our member firms' clients – from solution design to implementation and optimization – working across the lifecycle of change projects.

Figure 8: Tune in to Talent framework

* KPMG BIO may not be available in all KPMG member firms.

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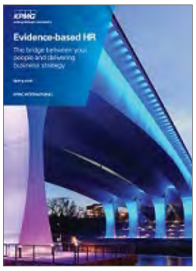
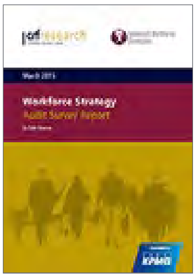
Further insights



Evidence-based HR: The bridge between your people and delivering business strategy

According to a survey conducted by the Economist Intelligence Unit on behalf of KPMG, 82 percent of respondents expect their organizations to either begin or increase the use of Big Data and advanced analytics ("evidence-based HR") over the next three years. CEOs across all industries and regions are grappling with talent issues and skills shortages, regulatory concerns and the changing demands of the workforce. C-level and HR leaders need to embrace evidence-based HR now or risk losing ground.



Workforce strategy: Audit survey report

The report by the Corporate Research Forum, in conjunction with KPMG, on strategic workforce planning, indicates that there is substantial room for business improvement in this area. UK businesses are not planning how to manage and deploy human capital, according to the survey poll. Poor planning can make it difficult to adapt to changing market conditions, as well as to retain talent in competitive industries. The ability to forecast skills requirements and to pre-empt workforce risks and deploy resources efficiently will underpin financial success for organizations in future.

War for talent – Time to change direction

In this global survey, a majority of People & Change practitioners from KPMG member firms worldwide agreed there is a new war for talent, and that this war is different from those in the past. Skills shortages are set to increase as globalization and competitive pressures take hold across sectors and industries and improving economic conditions spur employees to seek new jobs.

Addressing the energy industry talent gap

Sparked by industry downturns in the 1980s and 2000s, which drove out a significant portion of potential leaders, a talent shortage has been anticipated for at least a decade, and it has finally reached crisis level. With the impending retirement of many of the industry's leading technical specialists and senior managers, other factors have exacerbated the problem: inadequately skilled workers to rise through the ranks and replace them, the new complex and technical skills necessary to compete in an always innovating sector, intense competition over a limited talent pool, and the lack of petroleum engineers entering the industry in the downturn during the late 1980s and '90s.

RIGZONE
News | Jobs | Data | Events

Strategies to address the energy industry talent gap (Rigzone)

Panelists discuss how to address the industry-wide shortage of skilled workers at the KPMG Global Energy Conference in Houston (May 2014).

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KPMG Global Energy Centers

KPMG member firms offer global connectivity. We have 18 dedicated Global Energy Centers in key locations around the world, working as part of our global network. The centers are located in Beijing, Berlin, Budapest, Calgary, Dallas, Doha, Houston, Johannesburg, London, Melbourne, Moscow, Paris, Perth, Rio de Janeiro, São Paulo, Singapore, Stavanger and Tokyo.

These centers enable KPMG professionals to transfer knowledge and information globally, quickly and openly. With regular calls and effective communications tools, member firms share observations and insights, debate new emerging issues and discuss what is on their clients' management agendas.

The centers also produce regular surveys and commentary on issues affecting the sector, business trends, changes in regulations and the commercial risk and financial challenges of doing business.

KPMG member firm Energy Centers

What sets **KPMG apart**

Our **business model** enables our network of **industry experts** to work side by side with **business leaders** to help develop and deliver strategies or solutions using highly **specialized teams** tailored to the specific **business needs** of **member firm clients.**

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The KPMG Global Energy Institute (GEI)
Launched in 2007, the GEI is a worldwide knowledge-sharing forum on current and emerging industry issues. This vehicle for accessing thought leadership, events, webcasts and podcasts about key industry topics and trends provides a way for you to share your perspectives on the challenges and opportunities facing the energy industry – arming you with new tools to better navigate the changes in this dynamic arena.

Register today to become a member of the KPMG Global Energy Institute

Visit kpmg.com/energy

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The KPMG Global Energy Conference (GEC)
The GEC is KPMG's premier event for executives in the energy industry. Presented by the KPMG Global Energy Institute, this conference is held in Houston and brings together energy executives from around the world in a series of interactive discussions with industry luminaries. The goal is to provide participants with new insights, tools and strategies to help them manage industry-related issues and challenges.

#KPMGGEC

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KPMG LLP (KPMG), in collaboration with Rigzone, conducted a talent crisis survey to assess the perception of the talent crisis. Analysis of responses from over 2,000 operational and back office professionals from a broad cross-section of the energy sector uncovers how different generations, regions, and segments of the sector perceive the urgent challenges of talent recruitment, development, retention, and management.

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