

Closing ^{the} Talent Gap

Tailored strategies for
work force development

by **Bob Orr**
Bridget McVerry
Camilo Sema

A major problem is looming for energy businesses around the world: worsening shortages of the talented employees whom these enterprises need to sustain an edge over rivals. Energy firms find it increasingly difficult to attract and retain talent in tight labor markets; to retain younger employees with different approaches to life than their older colleagues; to retain older workers considering early retirement; and to transfer critical knowledge within the firm.

Even as executives acknowledge mounting evidence of the problem, few energy organizations have taken steps to head off its consequences.

It doesn't have to be this way. By understanding the forces behind the imminent talent shortage and anticipating potential ramifications for their firms, executives stand a better chance of developing effective talent strategies.

There's no one right answer to the question of how to prevail in the talent wars. Instead, each firm will have to tailor its strategy to its own unique business circumstances and operating environment. The most successful contenders will develop a savvy mix of tactics for defining their work force needs, attracting the right employees, helping people manage their careers, transferring and managing critical knowledge, and keeping the right workers engaged so they stay with the company.

Where Is All the Talent Going?

The imminent talent shortage in the energy industry stems from a confluence of demographic and other forces. A few examples:

- **An aging work force.** In many regions around the globe, the percentage of the population consisting of older people is rising; that means an older work force. For instance, by 2012, the number of employees aged 65 or older in the U.S. is expected to jump 43 percent over the 2002 figure. And more than 80 million U.S. Baby Boomers (people born between 1946 and 1964) are expected to retire in the next 20 years. As a result, some utilities expect to lose up to half their work force in the next five to ten years.
- **Fewer workers with the right skills.** Owing to increased integration across the value chain in the oil and gas industry, companies need workers with more specialized—hence scarcer—skills. Other trends, such as the slashing of training budgets to ease operating-margin pressures, the change in required skill sets because of greater reliance on integrated solutions and advisory services, the lack of nuclear plant construction in the U.S. since the 1970s, and the decrease in university programs for positions such as petroleum

engineer or nuclear-plant operator, are further worsening the skills shortage.

- **Difficulty attracting entry-level talent.** Energy companies are finding it increasingly challenging to convince young employees to join their ranks. For one thing, many of these workers have more employment options inside and outside the industry, so competition for them has grown fierce. Moreover, harsh locations, remote assignments, or even the energy industry's reputation, may discourage individuals entering the work force.
- **Growing challenges retaining experienced employees.** For oil and gas companies, the toughest challenge is retaining employees with seven to 15 years of experience.

Thanks to these and other trends captured in Exhibit 1, companies must brace themselves for a sobering reality: In the coming years, there simply will not be enough workers to fill the available jobs. (The sidebar “New Labor Challenges for National Oil Companies” shows how these dynamics are playing out in the oil industry.) To survive, firms will need to come up with innovative talent management strategies led from the top.

Exhibit 1 Today's work force dynamics



Wanted: Top-Down Talent Management

In the past, many energy companies relied on high-level retirement rules of thumb (such as 55 years of age and 25 years of service), existing performance evaluations, and anecdotal evidence while conducting their work force planning. But these traditional approaches do not provide the forward-looking, specific information firms need to attract, groom, and retain employees with required knowledge and capabilities in a tight market. These methods fail to shed light on questions such as:

- Which skills are we most at risk of losing as the talent wars heat up? And where in our organization's functions, levels, and geographies are these skills currently located?
- What new capabilities will our company need to address emerging challenges? When will we need them, and where in our organization should we locate them?
- What career trajectory—promotion path, training needs, lateral moves, timing—will internal candi-

dates need to navigate in order to fill key roles?

- What labor markets must we tap to ensure we have the right people with the right skills at the right time? Who is competing with us for these workers? And what do our rivals offer them that we don't?
- How are workers' needs evolving? What changes must we make in our career trajectories and reward systems to meet newly emerging needs so as to retain our most valued players?
- How are we preparing to retain and manage the knowledge that will be walking out the door? Have we documented it all?

To answer these questions, energy firms need a top-down—and top-notch—talent management strategy, one spearheaded by senior-level executives and supported by leaders throughout the organization.

The first step in developing a talent management

New Labor Challenges for National Oil Companies

As oil and gas markets globalize, national oil companies, which once had fairly exclusive access to their home labor markets, are facing increasing competition for managers, engineers, and experienced technicians and operators. Rival firms are offering attractive wage packages that may be difficult to match. At the same time, less-developed countries that once provided expatriate labor to the oil industry are evolving into dynamic emerging economies, offering employment opportunities that are tempting skilled workers to return home.

In a poll taken by Marsh Risk Consulting (a sister company to Oliver Wyman) at a recent National Oil Companies Seminar in Dubai, 73 percent of respondents said that recruitment and retention of a qualified work force had become either a "very important" or "critical" issue for their companies. Of the nine key strategic issues mentioned in the poll, only one—the availability of oil and gas resources—was ranked as more important than work force recruitment/retention by poll participants.

In a separate survey at the seminar, 41 of 50 participants said that their companies have considered making managing staff turnover a Key Performance Indicator. And 56 percent said that they had already implemented such an indicator. Only unplanned outages, lost-time accidents, and security incidents were mentioned more frequently as KPIs.

Work force issues are creating a strategic problem for these firms that, if not addressed, will threaten their ability to achieve their strategic goals. Many national oil companies lack the tools to manage the attrition common in competitive industries as well as strategies to source talent from the larger market. To secure the qualified work force they will require going forward, these organizations—as much as privately owned oil and gas companies—will have to develop talent management strategies that are more appropriate to the globalized labor environment.

strategy is a work force gap analysis: articulating the skills your company will require to carry out its competitive strategy, and using detailed work force analytics to anticipate shortfalls in those skills. Armed with your gap analysis, you can then craft action plans to counter the most serious risks throughout your work force—or in specific subsets of employees. Action plans might contain a blend of different initiatives, such as accelerating career advancement for key talent pipelines, rehiring retired employees during periods of peak activity, and developing wellness programs for mature workers in physically demanding jobs.

Additional initiatives might include cultivating talent pools for feeder jobs to mission-critical positions, providing job-sharing or reduced-workload opportunities for employees interested in moving to a part-time schedule, drawing on alternative recruiting sources, such as community colleges and different industries, and identifying employee populations most at risk for defection and developing plans for retaining them.

Conducting a work force gap analysis and customizing action plans to your firm’s particular strategic needs and work force realities takes careful thought and ongoing attention (Exhibit 2). But the effort pays big dividends: It generates strategies based on facts and evidence, not hunches, opinions, or stories from your own and other compa-

nies. Thus, it best positions your company to maintain and grow its work force in line with long-term business goals, despite the relentless shrinkage of talent pools characterizing the industry.

Understanding the Talent Management Process

To position your company to prevail in the upcoming talent wars, you’ll need to design action plans for five specific elements of the talent management process: defining your work force needs, attracting and selecting the right employees, developing people, engaging and retaining them, and managing and transferring knowledge within your organization (Exhibit 3). Let’s take a closer look at each of these elements.

1. Defining your work force needs. Before making any decisions on your work force strategy, carefully assess your company’s strategic goals. For example, what are your revenue growth plans over the next five to ten years? What new products or services do you intend to offer? What new technologies do you want to invest in?

Determine which skills will be essential to carrying out those plans in the short, medium, and long term. And decide where in your organization those skills should be concentrated. Consider how many employees embodying each type of skill you’ll need at each level, pay band, job classification, occupational group,

Exhibit 2 Analyzing work force gaps and designing action plans

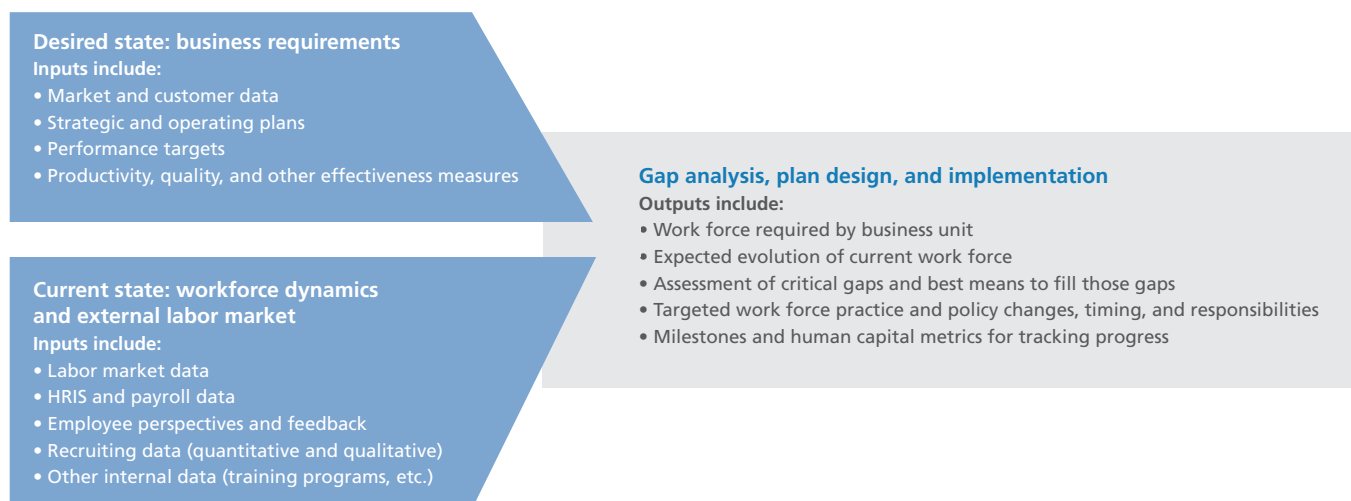
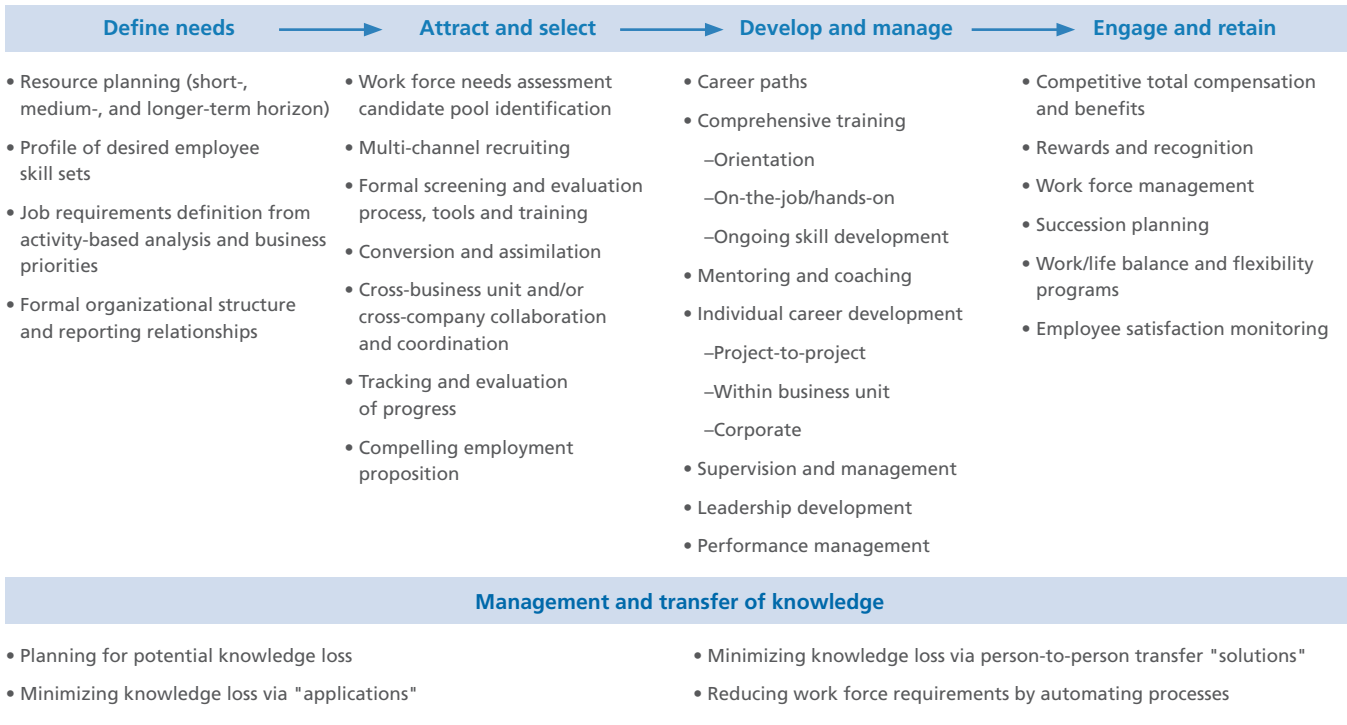


Exhibit 3 Key elements of the talent management process



department, and site. Also determine the maximum allowable expected turnover rates for each skill type.

You now know the total number of employees you'll need over the coming years, which tells you the annual required employee growth rate. Next, take stock of your company's current staffing situation and what that situation will be in the short, medium, and long term, based on current resource-allocation plans. Do your plans support the annual work force growth rate you'll need to achieve the revenue-increase targets you've established? Exhibit 4 depicts one company's failure to correctly quantify resource requirements for its planned expansion and revenue growth.

2. Attracting and selecting the right employees.

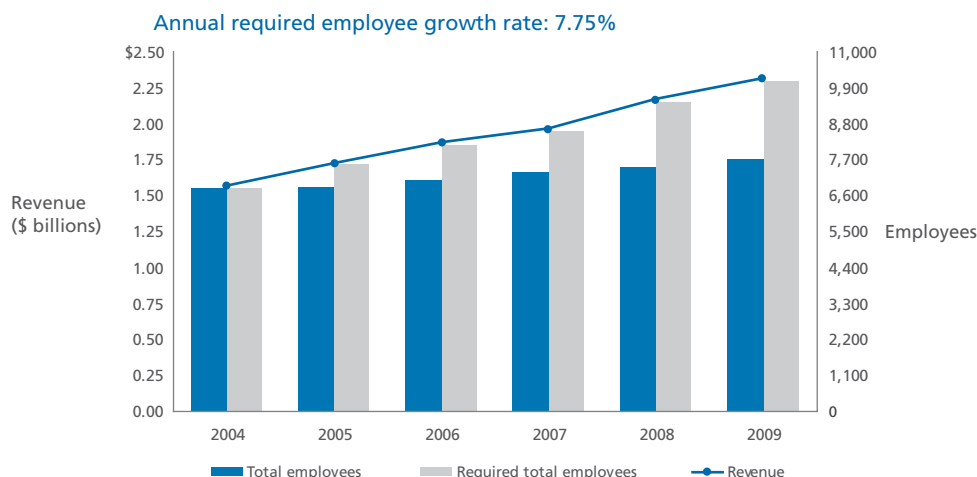
To prevail in the intensifying competition for qualified candidates, cultivate new, non-traditional talent pools from which you can draw to expand your work force. Most companies already recruit from the appropriate colleges and offer internship programs. Augment these efforts: Beef up your company-sponsored scholarships. Support educational programs; for example, by providing colleges

and universities with equipment or by sponsoring professors. And invest in pre-college efforts, by working with teachers and parents and sponsoring career fairs. Non-traditional schools and foreign sources of workers may help further expand the potential talent pool.

Now, get creative in how you reach these potential new hires. In addition to using professional recruiters, job postings, and referrals, spread the word about available positions at niche trade associations and through employee referrals. Consider putting together a state-sponsored work force investment board in your area to develop new programs to address your company's and industry's needs.

Also ensure that your firm's brand image appeals to potential candidates' values. For example, many candidates appreciate employers that "take care of their own." If your firm has benefits programs that align with this value (such as family-friendly policies or paid sabbaticals), be sure to communicate that fact throughout your recruitment efforts.

Exhibit 4 Revenue growth relative to total employees at one company—a mismatch



Finally, remember that it takes two to make a good match. To ensure that new hires are right for your company, use a disciplined, formal process for evaluating candidates' capabilities, knowledge, and cultural fit with your organization.

3. Developing people. High-quality employees value formal career management, leadership development opportunities, and challenging roles and assignments that stretch their skills. By providing these, you not only satisfy these values, you also build a strong leadership bench in your organization as well as improve retention of your star performers.

To ensure your firm's long-term success, you'll also need to invest in staff training, especially if you're recruiting talent with more general skills or new hires from other industries. Put structured training programs in place, and establish a mentoring program whereby older, more seasoned employees can help newer hires hone highly specialized skills. Clarify the career paths in specific job families that qualified workers can travel if they put in the requisite time at your firm and demonstrate the required capabilities—for example, the point at which an entry-level engineer might expect to be promoted to senior engineer and then supervisor, as shown in Exhibit 5.

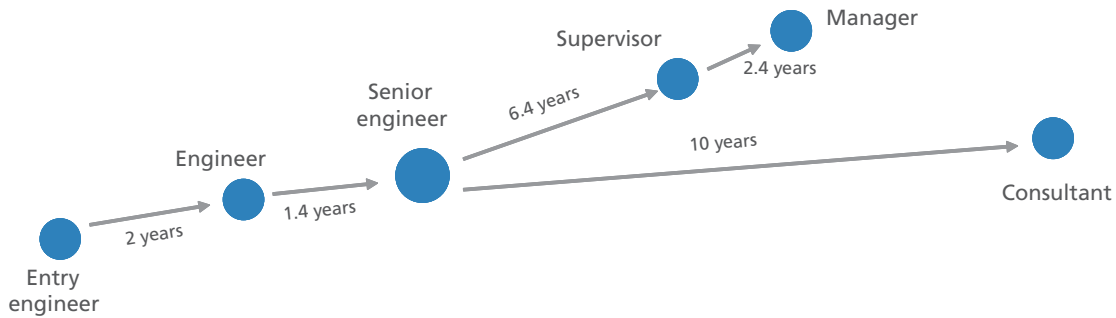
4. Engaging and retaining valued performers. As competition for talent heats up and employ-

ment opportunities proliferate in the energy industry, you'll need to work even harder to keep valued employees engaged and loyal to your firm. The right retention strategies—including recognition, reward, and benefit systems—can help. Tailor these strategies to the demographics of your talent pool. For example, if your best plant/operations engineers tend to be parents with young children, consider providing family-friendly policies, such as flex-time, on-site day-care, or job-sharing. Given that the aging population is a particularly powerful force behind the looming talent shortage, make a special effort to retain workers nearing retirement age, perhaps by considering phased retirement programs, changes to existing pension plans, or retention bonuses for key personnel.

Keep in mind that failing to invest in retention strategies can spawn a vicious cycle of turnover, recruitment, and training. This cycle is not only costly; it can also jeopardize overall performance, as you lose knowledge and experience affecting safety, front-line productivity, external markets, and operations.

5. Managing and transferring knowledge. You know that whenever a valued employee leaves your company, important knowledge walks out the door. Thus, make sure your talent management strategy includes action plans for managing knowledge and transferring it within your organization. A good first step is to anticipate potential knowledge loss;

Exhibit 5 Mapping employee career progression



for example, by assessing which employees will soon be retiring or leaving the company for some other reason. By understanding where the company is most at risk for knowledge loss, you can design effective countermeasures.

For example, mentoring and journeyman programs can help experienced employees transfer their hard-earned wisdom to newer workers. Automating processes can also enable you to preserve important information and procedures. And encouraging people to share best practices—for instance, through mentoring and shadow programs—can further reinforce the importance of transferring knowledge.

* * *

Crafting an effective talent management strategy is hard work. But given the challenges that are now gathering momentum in the energy industry, no company can afford to ignore this crucial business activity. Companies will have to move beyond the standard recruiting and retention activities they are accustomed to, and take a bolder approach. By adopting a new approach to developing work force action plans, which addresses the five elements of the talent management process, you position your company to secure the staffing it will need now and in the future—even as recruiting and retaining skilled employees grows ever more difficult. ❖

Bob Orr is a Houston-based director, Bridget McVerry is a Dallas-based principal, and Camilo Serna is a Chicago-based principal of Oliver Wyman. They can be reached at bob.orr@oliverwyman.com, bridget.mcverry@oliverwyman.com, and camilo.serna@oliverwyman.com. Jay Doherty at Mercer, a sister firm of Oliver Wyman, contributed to this article.