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Energy Industry Cites Employment Challenges In Latest Mercer Survey

By **Lew Bullion**, Senior Editor

The energy industry is facing a talent shortage as retirement thins the ranks of experienced employees. Mercer Management Consulting has conducted the latest in a series of surveys of industry participants to learn what the size of the challenge is and, more importantly, to learn what pipelines and distribution companies are doing to master the challenge.



P&GJ posed some questions about the results to Bob Orr, a director with Mercer Management Consulting in Houston. During his 10 years with Mercer Management Consulting, Orr has specialized in growth strategy development, execution and change management. He has extensive experience consulting with clients in oil and gas, convenience retail, metals and other commercial process industries. His report of the survey results gives some assurance that the industry's future is in good hands and provides guidance to companies that have not yet confronted the challenge of managing talent continuity.

The most recent Mercer Oil & Gas industry talent outlook and strategy survey indicates the employment challenges facing companies and gives some indication of the steps they are taking to master the challenges. A key finding among the responses is the recognition of the benefit of "branding" a company to distinguish it in ethical dealings, professionalism and treatment of employees.

The outlook and strategies industry survey included more than 40 companies representing a cross-section of company types across the value chain:

- Globally, about 13% of oil and gas employees work in midstream activities.
- Midstream workers are distributed around the globe, with the highest volumes concentrated in the Asia, US/Canada, and Middle East/North Africa regions.
- Roughly 55% of survey participants have midstream operations (pipeline, gathering and processing, LNG).

P&GJ: What concerns and comforts were expressed by respondents from the midstream sector of the oil and gas industry?

Orr: Overall, the oil and gas industry in general is facing a talent shortage as it enters a period of business expansion. Over the next

decade, industry growth and strategic priorities are expected to drive increased demand for qualified talent.

"Comforts"

- Although midstream and downstream segments are experiencing talent shortages, companies are more confident in their ability to manage these talent gaps.
- In addition, while the application of skills may vary across specific jobs, the tasks in these areas are often less specialized than upstream, resulting in an easier overall learning curve.
- Projected increases in the supply for newly minted talent suggest that the global labor picture should improve.
- A significant number of qualified entry-level candidates is projected to enter the pipeline across most regions with some regions expected to have an oversupply if historic productivity improvements can be sustained.

"Concerns"

- The primary challenges companies with midstream operations expressed in attracting and managing talent were highlighted as:
 - Aging workforce. In the pipeline segment, baby boomers are retiring, which is introducing a significant gap in experienced positions.
 - Insufficient supply of qualified candidates outside the company to fill anticipated needs for experienced employees. Shortage is particularly evident in search for pipeline project managers (experienced internally) and experienced technicians (most evident through contractors' difficulty staffing projects).
 - Difficulty in attracting new hires into the industry. Midstream companies are working to overcome a negative perception of the work environment and industry image. This is resulting in the need to more proactively focus on building a brand — a relatively new concept for many of the companies interviewed.
 - Necessity to provide a clearly defined career path. Employees are expressing a greater desire for a clearly defined career path and leadership opportunities (highlighted in an internal employee survey conducted by one midstream participant).
 - Difficulty maintaining competitive compensation levels in a "seller's market;" however, most companies have been able to make short-term adjustments in this area.

P&GJ: What factors appear to be affecting the comforts that were expressed?

Orr: Despite regional imbalances, global labor trends suggest an adequate or even excess supply of entry-level talent to meet increasing demand over the next five years. Supply is outpacing demand at the entry level and is expected to grow across all geographies. But, this does not directly address the increasing need for experienced hires (even with a more reasonable learning curve).

P&GJ: What factors appear to be affecting the concerns expressed by the respondents?

Orr: Integration across the value chain is increasing the need for specialized workers, particularly in midstream operations. As the hydrocarbon mix shifts — increasing the demand for natural gas — the demand for experienced technicians in new segments of the business, such as LNG harvesting and re-gas, is also expected to rise. Companies are primarily seeking project managers and mid-career hires. One independent said, "When you are building a pipeline, you need trained people."

Midstream companies also feel the indirect impact of labor shortages by the inability of contractors to find experienced hires to staff the projects. A disproportionate number of experienced industry workers are expected to retire over the next 10 years, further exacerbating the gap in experienced employees:

- In the pipeline industry, a high percentage of workers are in their 40s and 50s.
- Companies are in a situation where they lack internal infrastructure to train new employees, partially due to historical reliance on contractors in the field.
- As more of the workforce retires, highly tenured workers are being replaced by entry-level workers.

These trends combine to drive greater competition for skilled talent across geographies:

- Global business expansion and development, along with a desire to decrease usage of expatriates, are creating competition for locally recruited workers throughout the world.
- Reliance on non-local hires to fill experienced midstream positions is expected to increase over the next five years (up from ~8% today).

Greater demand for talent, in turn, is increasing pressure for companies to retain their existing workforce and find alternate sources of new talent; however, there is perception of a fixed pool from which to identify new talent.

P&GJ: Are there other factors impacting midstream companies in their quest to attract talent?

Orr: Midstream companies' ability to attract new talent is also impacted by their image in the marketplace:

- While mid-level hires appear to seek interesting work and developmental opportunities, younger workers are looking for brand recognition and a positive reputation.
- In the post-Enron environment, midstream companies have been forced to take greater care in developing and protecting their brand. (They may have experience building brand among industry stakeholders, but this is a relatively new audience for these companies).
- One midstream player sees its reputation for ethics, safety and environmental protection as "a huge advantage in recruiting and retention that is hard to duplicate, so we are very careful not to squander it."

P&GJ: What should midstream managers be concentrating on to meet talent/skill needs over the next 10-15 years?

Orr: Companies with midstream operations need to concentrate most heavily on developing new sourcing strategies to attract

employees and on retaining and developing their existing skilled workforce.

In order to succeed, given the current talent outlook, midstream companies need to focus on identifying and attracting workers from new, less typical channels:

- Companies must ramp up recruiting activities and expand their recruiting coverage to international institutions. Midstream companies are specifically expanding their focus to recruit engineers and project personnel globally. One survey participant indicated an increase in target universities from five to over 15 in a one-year period.
- Companies are also expanding their channels and seeking qualified, trainable resources from other industries.
- A participating pipeline company instituted a referral bonus program, in which employees can receive from \$1,000 to \$5,000 for referring qualified candidates from technicians to project managers.

Retention efforts are focused on the baby boomer population:

- Companies are offering gradual retirement programs for people over 60 in which employees phase out over three years.
- In addition, companies are offering greater job flexibility to aging workers, such as 50-50 and 60-40 job sharing and nine days/80 hours with every other Friday off.

Midstream companies also need to develop internal infrastructure for employee training and development:

- One pipeline company has implemented a journeyman program (to work in conjunction with aging workforce retention efforts), in which new hires are paired with experienced workers to learn the trade.
- Midstream companies are also placing significant focus on more formal leadership development opportunities in order to improve quality and consistency of leaders in the organization. One company developed an internal rotational program specifically geared toward developing leadership skills in high-performing individuals.

While competitive compensation is highlighted consistently as a key factor in talent management, participants universally acknowledge that on its own, compensation is not enough to address their challenges.

- Companies have been able to make short-term compensation improvements to remain competitive in the marketplace.
- Changes highlighted in interviews with midstream companies included the addition of long-term incentives, increases in sign-on bonuses, and more attractive relocation packages. **P&GJ**