McKinsey&Company

Adopting a through-cycle approach to talent management

Oil & Gas July 2015

  

Authored by:
Laura Borland
Mark Dominik
Christopher Handscomb

For years, the oil and gas industry has warned of the “great crew change” as a generation of talent prepared to retire. In the face of projected talent shortages, salaries skyrocketed and talent poaching intensified. But, falling oil prices and mounting cost pressures over the past year have changed that conversation significantly. Instead of dealing with a petro-technical talent shortage, many oil and gas companies are now juggling a surplus of labor.

Compounding the issue is the fact that many existing human resource management systems are outdated and contain inconsistent and incomplete reporting on skills, job histories, and performance data. That makes it hard for managers to make an objective portfolio assessment of employee performance as well as their talent needs to see where they can reduce labor costs. In the absence of a robust, data-driven process to inform decisions, many oil and gas operators end up relying on blunt tools, such as across-the-board cuts, when they need to reduce headcount. These are quick to execute but can feel arbitrary and dehumanizing to employees and they often forfeit operating flexibility and momentum when oil prices eventually recover.

At the same time, some companies are seeking opportunities to high-grade their workforce, retaining and rewarding their best employees while also taking advantage of the current availability of talent to recruit externally to replace under-performers. The oil price fall is just one such event that has triggered the move to high-grade talent – other company-changing events such as mergers can also act as a trigger.

A rapid individual performance management system can both help oil and gas companies fairly and transparently address their near-term workforce needs while laying the groundwork for a more sustainable performance management system in the future. Through a combination of organizational forecasts, data mining, fact-based review, and transparent communication companies can make the most of a difficult situation and build a stronger organization.

By retaining the right talent and removing under-performers, oil and gas companies can significantly improve financial and operational performance. Research across industries has demonstrated that in high complexity jobs – like technical roles in oil & gas companies – high performers are 8 times as productive as average performers. Properly applied, a rapid individual performance management system can help oil and gas companies retain and reward their top performers even in the midst of industry-wide cuts.

THE FOLLY OF THE TRADITIONAL APPROACHES

Traditional downsizing approaches suffer from several common pitfalls:

Failing to factor in relative individual contributions: Blanket cuts often seem the fairest and simplest way to manage headcount reductions, but they often cut too deeply in hard-to-fill skillsets and too little in areas where skills are abundant. A better approach takes econometric and external talent pool data into account so leaders can plan based on what resources are likely to remain scarce or in high demand.

Cutting support without addressing underlying workload: Knee-jerk reductions that result in short-term gains can be hard to sustain because they don't address the root-level inefficiencies that create them. Support staff are often among the first to see layoffs, but thinning administrative ranks without first reassigning or restructuring those duties can force higher-wage, higher-value staff to pick up the slack. That often unintended redistribution reduces the amount of time specialized talent can spend on revenue generating work which can cost the organization more in the long run. In the last downturn, one independent chose to reduce subsurface technician roles, leaving data prep and loading to highly-paid geophysicists. The unintended end result was lower productivity at higher cost – soon after the change, a geophysicist typically spent 90% of his or her time preparing and loading data, which had previously been done by a technician at a quarter of the cost. A better approach is to reassign, outsource and automate administrative tasks wherever possible in advance of reductions to improve efficiency and cost performance.

Failing to weed out under-performers: Static performance metrics and incentives, locked into the system from years of rapid growth, have left many oil and gas companies with an outmoded way of gauging and tracking employee performance. That makes it difficult to identify and exit under-performers. Leading companies by contrast regularly prune their base to elevate performance norms and make space for new talent to refresh the organization.

RAPID RIGHT-SIZING DONE THE RIGHT WAY

Our casework shows that by implementing a strategically aligned, insight-driven approach to workforce management, leaders can establish a more sustainable, long-term resource management plan. That framework is based on a four-step process:

1. **Determine the right size for your workforce (today and tomorrow):**
   Companies that need to actively manage labor cost always face the temptation to salami slice. However, such an approach is like a yo-yo diet: what is trimmed normally creeps back over time without a shift in underlying activity.

   Companies must get honest on both short- and long-term potential for each of their assets. Asset strategies and staffing needs may vary considerably across the portfolio. For example, one company issued a statement that the company would split in two: while one division would continue to maximize production and extend field life, the other would aim to become a safe and ultra-low cost operator at the forefront of late-life asset management.

   With asset strategies established, companies can conduct a bottom-up assessment of the capabilities and capacity required to deliver on those strategies. A granular, activity-level understanding combined with external benchmarks can help operators identify duplicative and low-value functions that can be eliminated and automated and shine a light on more efficient ways of working.

Top performers use a data-driven approach to forecast, model and optimize the size of the talent pool based on the company's strategic priorities, operational changes (such as process automation that reduces FTE needs), and anticipated changes in the external environment.

2. **Mine existing organizational data for insights**
   Performance management systems contain a raft of information that can help operators with resource planning. But the quality of that data can vary significantly. For instance, tabulating total internal and contractor headcount and labor spend is a critical, but often formidable challenge for companies whose operations span multiple geographies. But such data can reveal surprising patterns. One company, for instance, was shocked to find that a pool of contractors from a low-cost locale who were assumed to be inexpensive instead ranked among the company's most costly.

   Fully aggregating and integrating employee data in a standard, shareable, cross-geography template to establish "total cost of ownership" at the individual employee level takes time, but short-term workarounds can be very effective. Steps like card swipe analysis, where analytics capture average attendance, and data cuts that tabulate segments, such as the 100 most expensive contractors, can be completed relatively quickly, yet yield important insights that companies can use to make swift, informed workforce decisions.

   In addition, sophisticated digital solutions can generate new insights by playing datasets across each other to tag high performers and match them with critical roles. For example, machine learning and clustering algorithms can leverage a company's HR, financial and business data to identify important performance markers and clusters that drive disproportionately high value across the organization. For instance, people with specific expertise or who participate in certain specific training programs, usually sustain higher performance in the long term. Those insights allow management teams to re-design training and learning programs, focus performance management around those core characteristics, and recruit the right talent.

3. **Develop and deploy assessments**
   Operators that codify and standardize metrics, reporting, and resource management practices are better able to understand who their talent is, how they measure up and where the critical gaps are. An employee scorecard system is an effective way to accomplish this. Scorecard systems can be created very quickly – often in less than six weeks – and offer a simple, streamlined and consistent way to aggregate and present relevant facts.

   Basic scorecards are populated with core employment data, such as years of service, salary, grade, skills, as well as prior performance reviews and assessments that note an employee's potential within the organization. These can be advanced to include a grading scale that defines what "good" looks like for different roles and departments. Metrics, configured to role and job type, are a key element. For rig managers, the scorecard might be based on operational metrics like move days and downtime. For a deep water projects team, relevant metrics might include stage gate performance and cost overruns. Those scorecards can reveal – in an objective, consistent, and empirical way – which employees are contributing the most value.

HR and the business can use scorecard data to guide immediate resizing priorities. That includes thinking creatively about talent and cost optimization in ways that go beyond straight headcount reduction to include job shares, secondments, grade and hour reductions. Longer-term, companies can use scorecard insights to redesign organizational charts to match people to positions based on formalized skills inventories and relevant scorecard matches.

4. **Scale and apply insights**
A clear communication script is critical to scale insights and minimize anxiety among the workforce. A good process guide should provide answers on such issues as demotions, such as whether it is acceptable to demote talented employees to protect them from layoffs, whether retention and redeployment decisions should be made at the individual or crew level, which activities will be the a business unit's responsibility to coordinate and which should be managed centrally, and so forth.

Rapid performance management offers an informed, transparent and strategic approach to headcount optimization. It allows companies to make difficult headcount decisions in a way that treats employees with respect and dignity. That process not only helps operators address labor costs quickly in the near term, it establishes the foundation for a more sustainable and flexible approach to talent management in the long term.

The authors would like to thank Tom Janssens, Scott Nyquist and Alison Underwood for their help.

Laura Borland (laura_borland@mckinsey.com) is an Engagement Manager in Houston and **Mark Dominik** (mark_dominik@mckinsey.com) is an Associate Principal in London, where **Christopher Handscomb** (christopher_handscomb@mckinsey.com) is a Partner.

Oil & Gas Practice
July 2015

Visual Media Europe
www.mckinsey.com