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A Guide to Organizational Planning during a Downturn

June 24, 2015

In the first half of 2015, we saw oil at well under $100 per barrel, hitting a six-year low of about $43 per barrel in mid-March. Since oil prices began to tumble in late 2014, oil and gas companies have had to adjust their operating strategies to address the weaker oil price – which many analysts believe will continue well into 2016.

According to experts, oil and gas companies should target company initiatives with careful thought and consideration for the future of the company, essentially known as organizational planning.

Organizational planning is defined by Business Dictionary as "the process of identifying an organization's immediate and long-term objectives, and formulating and monitoring specific strategies to achieve them."

This means any proposed plans should take into account how they will affect a company or organization in the short-term as well as in the future … so if oil and gas companies weren't doing that before, they should definitely be doing it now.

Rigzone spoke with HR and industry professionals who shared their insight on organizational planning.

THIS DOWNTURN IS DIFFERENT

Before companies can implement any kind of organizational planning strategy, they must first identify the factors that make this downturn unique.

In Ernst & Young's report titled "Responding to shale's pressure test in 2015," it said the downturn differs from those of the recent past because of the availability of the capital markets to energy companies and access to a wide range of nontraditional forms of capital, such as private equity.

Additionally, many oil and gas firms involved in the shale boom (characterized by unconventional exploration and drilling – horizontal drilling, fracking, injecting water, etc.) face unique challenges. Cutting back on drilling plans leaves many drilled, but uncompleted wells and "significant idle asset capacity waiting for profitable job opportunities."

John Koob, North America Energy Vertical Leader for Mercer, said the current downturn is different because of its "suddenness and severity."

"We were kind of growing and going in November and then the world tipped upside down in December and January," Koob told Rigzone. "I have not met a business or HR leader who knew that was coming."

COST CUTTING & WORKFORCE REDUCTION

During an industry downturn, companies often jump straight into cost-cutting mode which includes squeezing suppliers, reducing headcount, shutting down high-cost projects and slashing capital spending – a drill most senior executives have down cold, said EY's report.

But while cost-cutting is commonplace in these situations, companies should consider the short-term and long-term effects on a company.

"During this downturn, the market is forcing companies to do some belt-tightening and do things that, quite frankly, they didn't have to do when the oil prices were high," Brent Potts, senior director of global marketing for the oil and gas industry for SAP, told Rigzone. "When things are good, in general, companies can afford to be a little sloppy. When there's a downturn, they can no longer be sloppy. They have to look at ways to control costs; otherwise, they'll go out of business."

Arguably one of the most difficult decisions when cutting costs is reducing workforces or laying off employees. Since layoffs began for the current downturn, the industry has seen over 150,000 job losses globally, with more expected.

"Some larger companies that can afford to do so are offering early retirement programs to some individuals instead of forcing people out," Potts said.

Kim Brady, who heads up the energy group for capital advisory and financial restructuring firm SOLIC Capital, said layoffs are likely to continue into 2016.

"There will be more layoffs and pain," Brady told Rigzone.

He doesn't believe oil prices are likely to increase much, if at all, by the end of the year. He said exploration and production companies "have too much hope that things will turn around by the end of the year" and "need to be more analytical," structuring their companies based on the expectation that oil prices will remain about the same.

Brady said honest and clear communication is key when handling layoffs.

"While most companies talk about being honest, I think you have to be brutally honest; basically, 'here's why we're laying off and here's what we're doing about it,'" said Brady. "Be transparent and honest and follow it up with consistent communication because employees … they know. They understand the capital structure. They hear the rumors. Managers should say to employees 'here's what we're doing to preserve the jobs we have now and here's how you can help.'"

Susan Power, owner and CEO of Higher Talent Inc. in St. John's, Newfoundland and Labrador, said oil and gas companies should avoid several rounds of layoffs, if possible.

"My advice for companies is to cut once and cut deeply," said Power, who has witnessed many layoffs in Canada's offshore oil and gas industry during the downturn.

After the first cut, she suggests companies begin building up their team and morale.

"The worst mistake I see with small businesses and large corporations is having two or more rounds of layoffs and waiting to see what the market is going to do," Power told Rigzone. "It's demoralizing to the remaining employees and often times, companies will end up losing top talent this way. Those individuals will begin looking for work elsewhere because they don't want to be in the next round of layoffs."

STRATEGIC RECRUITING

When oil prices began to take a plunge late last year, oil and gas companies had to make swift decisions when it came to their workforces. There was also uncertainty of when the industry would pick back up.

Many hiring managers have found it necessary to adjust their strategies for talent acquisition because of ongoing industry challenges such as the global talent shortage, an aging workforce and low engagement, which are exacerbated by the downturn. Koob said HR probably didn't manage previous downturns as well as they should have.

"In the recent past, organizations placed an overwhelming weight on recruiting or buying talent. This has created a global market condition that was unsustainable – there was and remains a global shortage of talent that caused compensation and benefits to escalate," said Koob.

According to a Mercer survey which explored what HR professionals were considering and/or planning in response to the downturn, among top priorities was a decrease in "buying" talent.

Now how will these companies go about that? According to Mercer's report, HR leaders plan to deploy a balanced strategy of buying and building talent with the following priority actions:

- Optimizing the organization's structure
- Building supervisory and leader capability
- Building internal capability and career development
- Optimizing employee engagement
- Enhancing the performance of the HR function
- Using data and analytics to effective workforce planning
- Upskilling talent
- Targeted talent acquisition

Koob said though overall recruiting efforts have been subdued substantially, companies are focusing on strategic recruiting, essentially using the downturn as an opportunity to secure specific talent and targeted talent at competitor organizations.

"Candidates are going to be much more selective now and in the future," said Koob. "HR teams and hiring companies need to be very clear in how they continue to compete in the future because candidates are talking to each other. Social media enables that. They know which companies are making which decisions and why they're making these decisions."

When looking at strategies and plans for 2016 and beyond, the report found:

- 45 percent were primarily focused on "building" internal strength and capability; coupled with
- 45 percent enhancing supervisory, management and leadership skills; and
- 41 percent understanding and optimizing employee engagement
- 23 percent were seeking to reshape HR service delivery
- 22 percent optimizing the organization at large
- 20 percent assessing and reshaping their employment value proposition

NAVIGATING A PATH FOR THE FUTURE

Analysts and experts seem to be in agreement that the industry is going to have to sustain several more months of the weaker oil price. So it's going to take the right mindset – a long-term approach to organizational planning – to remain agile while the industry is in this downturn.

"A typical survival playbook is to conserve cash during this period, not only for a year, but [companies] may have to think about two years," said Brady. "Next year, it's going to be more painful in terms of cash flow."

Brady said rather than a knee-jerk reaction, it's important to have a plan and a process and look at two or three different scenarios, rather than just one. He said employers should consider if the market turnaround was to be prolonged for two years, what that means for their organization, meeting interest obligations, how much money is available for drilling and how to retain talent.

"This has to be a data-driven process," said Brady. "I don't believe Saudis are going to change their views about their role of being a swing producer. U.S. shale players are going to have to embrace a new role about being swing producers."

According to Potts, workforce innovation will offer oil and gas companies the competitive advantage.

"A key area to focus on is around the Internet of Things and the digital economy" as a way of connecting the business with assets, suppliers, stakeholders, etc., Potts said.

Something else to anticipate as a result of the downturn, Koob added, is an influx of mergers and acquisitions.

"M&A will be a fixture of the future in energy as companies rebalance their business portfolio," said Koob. "This will mean divesting assets and also [joint ventures], acquisitions and mergers as companies seek to optimize their portfolio for a new $60-$70 per barrel reality which most expect for the foreseeable future."

Though the future of the industry is uncertain, what is clear is that there is an opportunity for oil and gas companies to ramp up their organizational plans now so that they put themselves in the best possible position for the short- and long-term.

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