The fortunes of the energy sector in the United States and Canada have been changing dramatically as the industry has transformed its trajectory from decline to growth and opportunity. According to a report from the American Petroleum Institute, from 2009 to 2011 the energy industry added more than 600,000 new jobs and contributed 6.3 percent of the total U.S. labor income in 2011. Prior to the recent decline in prices, the impact of the shale revolution on U.S. gross domestic product (GDP) was estimated to double over the next decade, rising from $284 billion in 2012 to an estimated $533 billion in 2025.

Thus, just a year ago, we were talking about the looming shortage of skilled workers in the energy sector. In 2014 the U.S. shale oil and gas industry directly and indirectly employed 1.7 million people. By 2015, talent needs were expected to rise by 50 percent to 2.5 million jobs before reaching 3 million jobs by 2020. Additionally, these are jobs that paid higher than average wages and offered an important boost to our middle class prosperity.

Now we see a precipitous drop in oil processes, a decline in drilling and exploration, and recent layoffs being announced by the hardest hit in the shale play areas – highly leveraged drillers as well as oil field services companies whose customers are looking for savings everywhere they can. Earnings are down for companies that have made record profits in recent years, forcing them to decommission rigs and sharply cut investments in exploration and production.

In addition to challenges related to commodity price swings, energy companies face longer term trends related to workforce capabilities and talent development. How do leaders manage this downshift yet also anticipate the longer trajectory of energy innovation, sector growth, and impending workforce supply gaps that will ensue? Here are 10 major trends that we see in the energy sector and some of the most pressing strategic implications for talent management.

**PRICE VOLATILITY**

The energy sector is no stranger to ups and downs and booms and busts. Every worker in the industry, from the oil field to the executive suite, needs to understand the global context of the sector; otherwise current conditions can appear as a buzzing confusion of random events, and lead to a sense of helplessness among those who have not weathered the price drops of the late 80s, or as recently as 2008.
This a complicated question, but it boils down to the simple economics of supply and demand.

United States domestic production has nearly doubled over the last six years, pushing out oil imports that need to find another home. Saudi, Nigerian and Algerian oil that once was sold primarily in the United States is now competing for Asian markets too, and the producers are forced to drop prices. Canadian and Middle East production and exports are rising year after year. Even the Russians, with all their economic problems, manage to keep pumping. On the demand side, the economies of Europe and developing countries have slowed and vehicles are becoming more energy efficient. So demand for fuel is lagging a bit.

This situation places great demands on operational leaders. In effect, an operations leader in the energy sector has never been a pure engineer, but also a risk manager. Although technical skills remain critical, leaders must also be able to deal with economic uncertainty, regulatory issues, geopolitical risk, and supply excesses/disruptions that drive volatility in oil and gas prices. So what is the impact of this volatility on leadership and workforce management?

- Does your scenario planning include “black swan” events? The conditions for unlikely scenarios are ripe given the global complexity of the market and the pace of innovation.
- Are you taking a long term view of your talent pipeline to manage supply and demand? One reason the talent shortage in the energy sector became so acute in the last few years was the reduced hiring during the 1980s and earlier. The delayed impact coincided with the burst in exploration activity—many in the energy workforce were aging out just as the sector needed these managers the most. This shortage could reappear in the next couple of years if oil prices rise to $70 barrel, which many experts feel is a possibility.
- How do you maintain high employee engagement during slower periods? How can you hold on to key talent who may feel insecure and jump for a safer ship during stormy weather?
- Those companies that appear safer during a downturn likely have business models that integrate upstream, downstream and chemical business so they can weather the commodity price cycles. Identify your talent at risk for leaving and make sure they have the full picture on when and how things can get better and the advantages to staying where they are.

**COST ESCALATION AND CONTROL**

The high cost of capital combined with lower prices, tighter cash flows and rising costs are putting the squeeze on energy sector companies.

- What options do you have for part time work, flexible work models, or job redeployment to retain key technical talent during this challenging time? My clients tell me it can take between nine and 18 months to train a worker with seven or eight years of oilfield experience and shift them into work that involves hydraulic fracturing. If you have to reduce your headcount, do it carefully and strategically.
- How are you aligning cost containment objectives to performance management at the individual employee level?
- What steps can you take to instill greater accountability in frontline leadership?
- What cost saving synergies are possible by increasing collaboration and eliminating organizational silos?
- It’s critical to engage your employees in how they can individually contribute to maintaining financial strength and flexibility during the downturn while preserving longterm growth options. This balance of short and long term thinking fosters the agility that is crucial for success in the energy sector.

**MERGERS, ACQUISITIONS, AND DIVESTITURES**

Warren Buffet said “only when the tide goes out do you discover who’s been swimming naked.” Companies that came late to the shale play and paid a premium for shale assets are experiencing difficulties. Now they are the most at risk for being acquired or bested by vertically integrated companies with more staying capacity. Before the price drop, oil and gas companies were seeking to divest noncore assets to increase shareholder return, while increased competition is forcing consolidation among independents and oilfield service companies. Although slower now given the volatility, M&A activity in the oil and gas industry is expected to regain momentum largely driven by energy companies seeking some form of “reset.” If your company will experience an organizational restructuring:

- Are you taking steps to speed the cultural integration of all workers to realize desired synergies?
- Have you built a strong communications plan into your change process?
- What training programs are in place to develop core competencies?
- Have you identified your key talent that must be retained?
TAKING THE LONG VIEW

The top three trends above are occupying today’s headlines now. Yet, lest we be unprepared for the next shift, we need to be watching and anticipating seven other trends that are sleeping giants in terms of their impact.

AGING WORKFORCE

The Society of Petroleum Engineers estimates that up to 50 percent of skilled workers in the energy sector could retire within the next five to seven years, presenting an immense challenge to the industry.

- Have you inventoried the critical skills and experience that are due to walk out the door?
- When did you last update succession plans for top managers and technical personnel?
- Are you putting programs in place to facilitate knowledge transfer? Considering options like flexible work models to retain staff?

INVESTMENT IN NEW TECHNOLOGY

- Technology innovation remains a critical component to achieve and sustain leadership in all energy sectors, from wind and solar to petroleum exploration and production operations. The development of emerging technologies and the integration of existing technology into the energy industry are game changers for nearly all job roles. Rapid advances in technology impact not only the talent needed, but how employers compete for available talent. How are you developing “cross platform” skills in workers to transition to emerging and unconventional technologies?
- Does your culture place as much value on innovation and critical thinking as the willingness to follow the chain of command?
- Do you have the right assessment processes to uncover talent who can flourish in a collaborative, knowledge-based environment?
- Are you anticipating what technology skills and internal training programs allow career transfers, from the contracting, coal or construction industries to emerging energy solutions?

COMPETITION FOR RESERVES

The search for oil reserves is intense, forcing companies to drill in increasingly remote, inhospitable locations – making it even more difficult to attract and retain workers.

- What workforce mobility and relocation strategies will help you staff up in critical locations?
- Are you considering ways to develop in-country talent and reach out to new populations (GenY, women) to widen the labor pool?
- What technologies can be harnessed to create more attractive working conditions?

RISE OF THE NATIONAL OIL COMPANIES (NOC)

Private sector links to NOCs have become increasingly important. According to the World Bank, NOCs control approximately 90 percent of the world’s oil reserves and 75 percent of production, with similar numbers applying to gas.

- Are you developing in-country leadership talent to service as trusted advisors?
- How are you enhancing your company’s global mindset and instilling cross-cultural competencies in the workforce?

REGULATORY AND POLICY PRESSURES

Issues like the Gulf of Mexico spill, hydrofracking water concerns and global climate change have underscored the need for energy companies to exhibit strong leadership skills, operational integrity, and environmental stewardship.

- How are you helping key managers improve their skills related to transparency, collaboration, and open engagement with stakeholders?
- Are you paying enough attention to alternative scenario planning and operational agility?
- Are you building an employment brand that puts safety and environment first to attract the right talent?
JOINT VENTURES

To gain access to reserves or service opportunities in many countries, energy companies must increasingly rely on joint ventures to share risk and capital.

• Are you moving quickly enough to develop local leadership and a local workforce in countries of interest, supported by cultural understanding across the organization?
• What steps can you take to deepen your understanding of geopolitical risk and local regulatory environments?

FUTURE DEMAND

This industry tends to work on a 15 to 25 year time horizon because of the size and complexity of the investment projects. Slides in oil price need to be understood against the likely long term trend. Yes, global demand has slowed relative to the recent increase in supply from the U.S. and Saudi Arabia’s lack of willingness to cut production. As a result, oil prices have dropped almost 50 percent in the last six months. However, demand for energy is still increasing at 2 percent a year (though slowing) and there will come a time when the market will reach an equilibrium that encourages that new investment and growth. Future markets are betting that the oil price will be $90 barrel by the early 2020s. Some countries expect a doubling — even a tripling — in production from 2010 to 2030. The U.S. is uniquely positioned to leverage the shale drilling revolution and has an edge in competing to fill surging Asian demand for natural gas. We should not allow the current downshift to disproportionately affect our long term view and success. And, when the demand situation does turn around:

• Are you prepared to handle increasing competition for skilled employees?
• What steps will you take to retain your best talent?
• Are you maintaining connection, respect, and loyalty with severed employees so that you may bring them back when demand returns?
• Do you have detailed data to forecast labor demand and identify potential talent gaps?

As we move into the second decade of the 21st century, our energy clients talk frequently about the importance of an innovative workforce and developing a corporate culture with the agility to manage change and drive growth under dynamic conditions. Examining your workforce strategies in light of these 10 trends can be a good litmus test to evaluate your preparedness for the challenges ahead.

ABOUT THE AUTHOR

Tony Rogers is a senior consultant with Right Management where he manages and delivers talent management solutions. His experience covers a diverse range of companies and industries, with a primary focus on energy and also includes financial services, biosciences, manufacturing, hi-tech, and healthcare. His expertise also includes implementing comprehensive leadership programs including executive assessment, succession planning, individual coaching, and executive team workshops.