Human resources in Canada's oil and gas sector
A snapshot of challenges and directions
In September, Ernst & Young’s Oil and Gas team gathered together HR leaders and executives from some of the nation’s leading energy sector firms for a strategic brainstorming session in Calgary.

The HR professionals listed here, as well as many others from a broad cross-section of large, medium and small upstream oil and gas companies, participated in a survey designed to identify broad topics and challenges facing Canada’s oil and gas sector as a whole, and to begin to develop a robust industry-wide “community of practice” designed to facilitate knowledge — and information-sharing throughout the industry.

While a wide range of issues — environment, cost, public perception, raising capital and others — quickly emerged as common themes, it was clear that the talent issue was the most urgent and pressing. The lively discussion and open exchange of ideas yielded valuable observations and predictions, which quickly became focused on answering the question “How can Canada’s oil and gas sector continue to reconcile the ongoing tension between outstanding growth potential, on the one hand, and a chronic, ongoing and deepening shortage of skilled labour resources on the other?”

While labour shortages are an issue throughout the global oil and gas industry, our focus in Calgary was to foster dialogue at a regional level and lay the groundwork for a robust action plan that supports the unique nature of the region and its challenges.

In this report, we provide a snapshot of the current state of the challenges facing Western Canada’s oil and gas sector, as well as share the participants’ perspectives and ideas. Our sincere gratitude goes out to all those who participated with such insight and candour. In the challenging months and years ahead, it will be interesting to look back and reflect on how this dialogue contributed to the evolution of the industry.

**Snapshot: an industry facing multiple challenges**

While much of the world is understandably focused on today’s fluctuating economic conditions, there is a looming demographic and labour market crisis in the oil and gas sector that has the potential to shake the very foundations of the industry.

While this “skills crunch” is nothing new for the oil and gas sector, (as many have faced “boom and bust” cycles in the past), the nature of the problem we are seeing in the last one to two years is deeper and more systemic than anything the industry has grappled with before.
In the coming years, oil and gas companies everywhere will be looking to expand their workforces at a time when the number of working people aged 15 to 64 is predicted to sharply decline. At the same time, rapid technological change is demanding new kinds of workers - those with far more sophisticated and up-to-date training and skills than have ever been required by oil and gas professionals in previous generations.

As if these challenges weren't enough, oil and gas HR leaders must also continue to grapple with the relentless ongoing HR realities that have always been unique to the sector – managing seasonal demand, coping with higher-than-average employee turnover, and attracting workers to remote and hard-to-recruit locations.

While all industry sectors will continue to grapple with these tectonic shifts, Calgary’s oil and gas industry is likely to feel them most deeply. Unlike almost any other region heavily involved in oil and gas, Calgary has the deepest concentration (approximately 500 companies within the downtown square mile) anywhere in the world. This makes it very easy for talented people to move between and among companies, with limited disruption to their daily lives. As the war for talent heats up, more and more companies are focused on recruiting from other local companies rather than increasing the overall worker pool. What this means for everyone is a continuing upward pressure on wages, without any foreseeable relief from the chronic shortages faced by the industry as a whole.
The combined pressures of aging demographics, the need for higher levels of training, and a static pool of qualified individuals with high levels of mobility, mean Alberta’s oil and gas industry is facing a perfect demographic storm, the effects of which will be felt for decades. With Alberta Minister of Employment and Immigration Thomas Lukaszuk’s predicted labour shortage of 77,000 workers within the next 10 years, it is likely Western Canada will continue to see far-greater-than-average hourly wage increases, and will continue to maintain the highest average hourly wage in Canada, as it has since 2006. Few attempts have as yet been made, however, to address this issue on a sector-wide basis, as more and more HR leaders feel immediate pressure to focus on the shorter term need and to think about the larger demographic problem as something they can deal with in the future.
Candid roundtable discussions identify common themes

With senior HR peers speaking candidly about emerging trends in the oil and gas sector, Ernst & Young’s HR roundtable generated a valuable snapshot of challenges and identified potential solutions that participants are exploring in the fast-evolving industry.

When asked what companies are predominantly focused on, participants overwhelmingly cited labour, cost, environment, finding capital, and public perception among their most pressing overall challenges. In the HR space specifically, availability and the strategic recruitment of talent, employee capability and engagement, and developing leaders of the future are the most important issues in 2011. Companies agree with findings from the Petroleum Resource Council of Canada that roles in which there is the greatest talent crunch include project/field engineers, project managers, geologists and geophysicists and IT specialists, but the shortages are pervasive in every aspect of the business.

Greatest labour supply/demand challenges

(Petroleum Resource Council of Canada)

- Oil and gas drilling and services field workers
- Supervisors, oil and gas drilling and services
- Trades - mechanics, industrial electricians, millwrights, machinists
- Engineers from all disciplines
- Operators, particularly second and third-class steam-ticketed
- Geologists and geophysicists
- Production accountants
- Drilling co-ordinators, production managers
- Landmen/purchasing agents

In your organization, where are you experiencing the greatest talent crunch?

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Construction specialists</td>
<td>46%</td>
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<tr>
<td>Project/field engineers</td>
<td>12%</td>
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<tr>
<td>Project managers</td>
<td>29%</td>
</tr>
<tr>
<td>Geosciences</td>
<td>0%</td>
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<tr>
<td>Research and development</td>
<td>0%</td>
</tr>
<tr>
<td>Finance and accounting</td>
<td>0%</td>
</tr>
<tr>
<td>Commercial</td>
<td>0%</td>
</tr>
<tr>
<td>Human resources</td>
<td>0%</td>
</tr>
<tr>
<td>Marketing and communications</td>
<td>0%</td>
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</tbody>
</table>

Which of the following is the most important business issue you’re faced with?

- Health and safety: 12%
- Environment management (water, CO2, reclamation etc.): 0%
- Stakeholder management: 6%
- Finding capital to support growth: 12%
- Cost control: 12%
- Government and regulation: 0%
- New sources of demand for your oil and gas: 12%
- Public perception of the industry: 12%
- Labour availability: 47%
1. Managing change is a dominant issue

Within such a strained environment, managing change is not just demanding the lion’s share of HR executive time, but is beginning to consume more and more of the time and attention of senior executives in all parts of Alberta’s oil and gas companies. The ability to respond to and manage change stands among the most difficult issues facing the industry. This is a significant departure from the days when HR executives focused the greatest portion of their time on HR metrics and reporting, performance management, succession planning or leadership development; in our post-discussion survey, not a single participant identified these among their most pressing issues. What else is getting attention? Nearly half of the participants identified partnering with senior executives on strategy formulation as demanding the greatest share of their time and attention; many also named cultural assessment and transformation as a significant challenge.

In your position, what demands your greatest time and attention overall?

<table>
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<tr>
<th>Area</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Partnering with senior executives on strategy formulation</td>
<td>31%</td>
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<tr>
<td>Managing change within and outside of HR</td>
<td>25%</td>
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<tr>
<td>Developing HR strategy</td>
<td>6%</td>
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<tr>
<td>Transforming your HR department</td>
<td>13%</td>
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<tr>
<td>Cultural assessment and transformation</td>
<td>19%</td>
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<tr>
<td>HR metrics and reporting</td>
<td>0%</td>
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<tr>
<td>Performance management</td>
<td>0%</td>
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<tr>
<td>Succession planning</td>
<td>0%</td>
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<tr>
<td>Leadership development</td>
<td>0%</td>
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</table>

On a scale of 1-5, how would you rate your ability to respond to HR issues?

- Strategic recruitment/attracting talent: 4
- Retaining key talent: 4
- Aging workforce management: 4
- Demand for flexible work models: 4
- Developing leaders for the future: 4
- Employee capability and engagement: 4
- Social networking: 4
- Compensation: 4
- Automating HR processes: 4
- HR measurement and analysis: 4
- Managing change: 4
- Job design: 4

2. Companies are finding success with new approaches to managing the talent issue

Top of mind for roundtable participants is the talent challenge. From attracting and recruiting, to developing and retaining top employees, these HR leaders spoke openly about their challenges and strategies for coping with the current and projected talent crunch.

The greatest gap seems to be in finding and keeping highly qualified project and field engineers, but the need for project and geosciences managers and skilled IT workers was also among the most pressing concerns. No doubt this is part and parcel of increasing automation of processes and systems throughout the industry. The need for greater technological skills will no doubt continue to increase at all levels as the industry continues to automate, and as technology plays an increasingly central role in the innovation of oil and gas extraction worldwide.
In light of these challenges, oil and gas operators will need to be much more creative with their hiring plans by considering such things as sourcing talent from other countries around the world, targeting under-represented groups, and including new and different business operating models. A company’s operating model defines its way of working. It’s the formal representation or map of the ways in which they manage processes, risks, assets and organization. Operating models also look at ways of doing business differently by either outsourcing or co-sourcing with other industry players to create a shared service centre for processing or training drivers in oilsands, or innovative ways to increase employee productivity.

Thinking differently about job design was among the most promising opportunities for leaders to make the unconventional aspects of our industry more attractive to younger people. Most feel they can accommodate the demand for flexible work models. Others identified the need to put ongoing “lifelong learning” knowledge transfer practices into place to quickly bring workers up to speed on processes in the face of rapidly escalating change and technological innovation.

Now, more than ever, HR departments are creating targeted development programs, using social networking tools, employing search firms and offering attractive signing bonuses to lure and retain talent. At the same time, more and more groups are partnering with universities and graduate programs.

Overall, it appears that the majority of companies are recognizing the need to create a workforce management plan. Increasingly the need to identify with some precision the specific roles and people numbers required several years into the future will be essential to success, especially when it comes to executing large multi-billion-dollar capital programs.
3. Potential high value in industry collaboration

As they stand, these challenges are not unique to any one company. The competing demands of labour availability and cost control are consuming senior leaders throughout the industry as a whole, and heads of HR across the sector are struggling equally to find skilled talent and develop leaders of the future. One of the central leadership issues that emerges in the face of the massive talent issue in Western Canada is that oil and gas people move fast and freely between and among employers. As levels of pay and responsibility increase, it’s often without the requisite appropriate experience that would normally be required for leadership. Hence, issues of engagement and employee capability come up repeatedly.

Partnerships – including public-private initiatives, industry-wide collaborations with community colleges and other training institutes, or initiatives entirely within the private sector – should be a major consideration to maximize available resources, respond to the talent issue collectively and generate a common labour pool. Many see a need for collaboration, but fear they may lose competitive advantage by doing so. The key here may be to find those activities that are high volume, transactional in nature, and not core to the business, and explore how industry can work together in these areas for mutual benefit. Service companies may also need to step up and work with operators to provide the kinds of services and outsourcing resources that support such collaboration. Viable models may include outsourcing, co-sourcing with other industry players, or even such novel solutions as creating a shared service centre for processing invoices or training truck drivers.

Looking ahead, Canada’s oil and gas sector has an opportunity to rally together to aggressively market the opportunities in this industry to high-potential talent worldwide, to work with local governments to provide incentives, and to better engage employees.

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Do you see value in greater industry collaboration on workforce management?

<table>
<thead>
<tr>
<th>Yes</th>
<th>88%</th>
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<tbody>
<tr>
<td>No</td>
<td>12%</td>
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</table>
4. Employee engagement and capability a concern

Western Canada’s talent crunch is driving oil and gas industry professionals into positions of power that their experience and ability don’t necessarily match. As competition for resources heats up, companies are offering more money and seniority to potential employees. But companies who compromise on talent may be filling positions with underqualified staff who don’t possess the skills necessary to be successful.

It’s no surprise then that leading industry players cited employee engagement and capability as the most important HR issues they’re facing this year. Caught in a fast-paced industry with little or no pool of talent to recruit within, companies must ask themselves: how can we prepare our people to be successful?

A tightening market for qualified labour will place upward pressure on compensation expectations, while a changing labour landscape will challenge traditional methods of recruitment. Canadian oil and gas companies will need to become more efficient at attracting and retaining talent in a cost-effective manner. Those who embrace innovation and flexibility will thrive as this exciting sector continues its rapid evolution in the years ahead.
How we can help

Operating model

Ernst & Young has extensive experience in helping oil and gas companies in Western Canada achieve their potential. We provide support in designing and implementing an appropriate operating model strategy that aligns with your business. This involves analyzing the strategy and specifications of the criteria for your model assessment, looking at your current business model before developing and designing the target model and helping you with your transition plan.

Our approach

1. **Objective:** Analyze the corporate strategy and determine criteria for alternative operating models assessment
   - Analyze the corporate strategy.
   - Shareholder interviews.
   - Design an enterprise-level process map and define a list of key end-to-end business processes.
   - Define key performance indicators.
   - Determine the operating model assessment.
   - Conduct a strategic alignment workshop.

2. **Objective:** Analyze current operating model and determine target operating model
   - Assess the current operating model.
   - Perform a benchmark analysis with peer group.
   - Draft alternative operating models.
   - Compare and evaluate the alternative operating models against the adopted criteria.
   - Conduct a strategic session to build consensus over the target operating model.

3. **Objective:** Design target operating model blueprint
   - Describe target authority allocation between head office, branches and subsidiaries.
   - List business processes and functions to be outsourced or shared.
   - Develop flowcharts and process manuals for the target key end-to-end business processes.
   - Define key competencies within the target operating model.
   - Conduct workshop to build consensus over the target operating model blueprint.

4. **Objective:** Develop transition plan
   - Define key activities for the transition.
   - Assign responsibility for the key transition activities.
   - Define key stakeholders and develop communication plan.
   - Conduct workshop to build consensus over transition plan.
   - Perform training.
   - Conduct monthly status meetings during six-month period after project completion.
People and Organizational Change

Our People and Organizational Change practice is made up of experienced professionals who understand the complexities of the oil and gas sector. We can help support your plans for change, adoption and sustainability of business improvements.

1. **HR transformation** - To help you improve your organization's HR function, our offerings include vision and strategy development, service delivery model development and implementation, process re-engineering, business process outsourcing, and HR information system selection (request for proposal and vendor management).

2. **Talent and performance management** - In times of both boom and bust, retaining your best employees and getting the best performance from them is a top priority – and a challenge. To help you manage your talent and improve their performance, our offerings include performance management strategy, plan and implementation; succession planning and management; role and competency design; and leadership development.

3. **Enabling change** - Our team can help you build an effective change management program to help increase the success of your projects and their adoption exponentially. We can help you develop, set up and execute the following: change strategies and plans, leadership alignment, development and engagement, change readiness assessments, stakeholder alignment and engagement, communication strategies and plans, and training and development.

4. **Organizational effectiveness** - In order to execute on your strategy and achieve desired returns, your organization needs to build necessary structures, set appropriate talent priorities and align its culture. This can be done through restructuring, leadership modifications, a change in strategic direction or a broad-scale transformation.
Learn more

To learn more about our research, drawn from discussions and experience advising international, national and local oil companies, contact one of the following professionals:

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