

The Future of HR in Oil & Gas

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Three Disruptions that are redefining the role of HR in Oil & Gas

During the last decade, the oil and gas industry experienced a sense of resource scarcity, leading to high oil prices for most of the period. Combined with globalization, this led to a global “war for talent” and the creation of centralized technical functions that could deploy scarce talent around the globe. The move toward centralization accelerated with the increased focus on risk and compliance prompted by the Texas City and Macondo incidents. In a system of centralized decision making, change requires clear mandates from the top, typically through leadership-driven change programs.

However, three fundamental changes are disrupting the oil & gas industry, with significant implications for industry players:

- **Resource abundance** and the need to be prepared for a sustained period of lower oil prices and a focus on cost, efficiency and speed. Traditional talent is no longer scarce, exploration capability is less of a differentiator, megaprojects are not the only way to grow, and market opportunities may only be economical for the earliest movers in a basin. Meanwhile, conventional, deepwater, unconventional and renewable assets each require a distinct operating model that cannot be delivered optimally from a single corporate centre.
- **Profound technological advances** are disrupting the old ways of working and enabling step changes in productivity. Automation is replacing workers (including knowledge workers) on a large scale, and the jobs that remain require increased human-machine interaction. As more devices connect to the cloud, data generation continues to grow exponentially. This explosion of data – combined with advanced analytics and machine learning tools – lets companies fundamentally reimagine how and where work gets done.
- **Demographic shifts** mean that employees are demanding changes in the working environment and expressing concerns about the role of oil & gas companies in society. Millennials will soon constitute the majority of the workforce in developed markets, and have already started their climb into management and executive roles. These digital natives bring their own expectations regarding technology, collaboration, pace, and accountability. At the same time, a well-educated, globally competitive talent base has grown rapidly in emerging markets.

The war for traditional technical talent is now less fierce, but the competition for new skills and capabilities has instead intensified. Most notably, companies seek digital business talent, especially people with industry, leadership, and digital skills who can act as ‘translators’ between business needs and the providers of digital solutions.

Just as new skills and capabilities are required to succeed in a new industry environment, the same is true for mindsets and behaviours. For example, day-to-day leadership capabilities must continue to evolve as oil & gas becomes more like other manufacturing industries, with a focus on efficiency and continuous improvement. This requires a cultural and organisational shift towards more autonomous front-line leaders and teams, without putting safety at risk.

These changes will create a flatter organisation where the relevant skills for the task at hand become increasingly important relative to the person’s level in the hierarchy. At the same time, technology is already changing the way we communicate and access information across organisational boundaries. With instant access to information and expertise, people at lower levels in an organisation can make increasingly informed decisions. Carefully exploring these opportunities can not only help to deliver direct business results, but will also help to accommodate demands for more meaningful work from the next generation of talent.

Emerging themes and trends shaping the HR of the future

These industry disruptions are happening at a time where HR itself is also fundamentally changing across industries. We see three themes (and 12 related trends) shaping the future of HR (see Exhibit 1):

- **Managing for value and energy** is founded on the idea that each employee creates ever more business value with more automation and digital tools at his/her disposal, leading to increasing returns on investment in personalised development and support for top performers to get the most out of their efforts
- **People analytics and digital tools** will provide HR with the means to deliver these individualised, just-in-time, and forward-looking interventions, while artificial intelligence and automation can begin to release HR from transactional services and simple judgement- or expertise-based tasks
- **More flexible organisational models** also equip HR with powerful tools to increase the pace of change and promote continuous improvement, as new technology enables fundamentally different ways of managing human interaction and how we work

Exhibit 1: We see 3 themes and 12 emerging HR trends

Managing for value and energy	1	Multi-dimensional diversity and inclusion	<ul style="list-style-type: none"> • From gender to multi-dimensional diversity • Clear link to business results, e.g. through improved decision making
	2	Increasing complexity of global talent markets	<ul style="list-style-type: none"> • Emerging markets as talent factories • Selective application of globally dispersed teams vs. co-location
	3	Intrinsic skills and renewal	<ul style="list-style-type: none"> • Focus on intrinsic skills and ability to learn as business needs change • Multi-skilling for broader role definitions and rapid re-deployment
	4	Individualised, strength-based development	<ul style="list-style-type: none"> • Individualised, strength-based development and spiky leaders • Personalised career paths based on individual talents and preferences
	5	Differentiated performance management	<ul style="list-style-type: none"> • More individualized and peer-to-peer feedback and development discussions • Performance ratings for selected employee groups only
	6	Digital talent paradox	<ul style="list-style-type: none"> • Companies fight for digital talent, while 'white collar' work is being automated • Need to get more out of existing workforce in a digital world
People analytics and digital tools	7	People Analytics	<ul style="list-style-type: none"> • Use big data and advanced analytics to predict outcomes and improve decision making, e.g. targeted retention initiatives and succession planning
	8	Digital talent management operations	<ul style="list-style-type: none"> • Use digital technologies (including mobile devices, RFID) to provide services, e.g. continuous coaching, tailored learning, or digital onboarding
New levers for flexibility and change	9	Driving culture change like a business	<ul style="list-style-type: none"> • The 'soft' topic of culture can be measured, analyzed and changed • Increasing focus on culture and values relative to structure and processes
	10	Decentral and differentiated operating models	<ul style="list-style-type: none"> • Organisation structure will change to reflect new ways of working – with differentiated operating models tailored to business needs
	11	Agile organisation	<ul style="list-style-type: none"> • The relentless pace of change puts a premium on the ability to adapt quickly, while companies also need a stable 'backbone' to secure efficiency and safety
	12	Blurred company boundaries	<ul style="list-style-type: none"> • Increasing use of suppliers, contractors, consultants, and freelancers • Seamless integration of externals and internal workforce

SOURCE: McKinsey research

Implications for HR strategy and operating model in Oil & Gas

Taken together, the industry disruptions and fundamental changes to HR across industries described have deep implications for oil & gas companies' HR functions. In light of this, oil & gas companies must consider refreshing their HR strategy and rethinking their HR operating model.

HR strategy

At a time of rapid advances in artificial intelligence, automation and human-machine interaction, people will remain core to oil & gas companies (and their HR functions). In fact, at all levels of the organisation, each employee will need to create ever more business value. Given this reality, and the wide productivity differences between average and top performers, HR's strategic importance is increasing. In particular, HR will create value by identifying the right person for each job in a more fact-based manner, and supporting these people to perform to their full potential.

Thus, HR must shift its focus further towards its strategic role – with the CHRO emerging as a top advisor to the CEO, within the 'G3' consisting of CEO, CFO, and CHRO. Similarly, the 'G3' model should be replicated in business unit and project leadership teams, with HR leaders taking on more strategic roles and freeing up BU leaders from strategic HR responsibilities.

To get started on this journey, oil & gas companies can consider prioritising four strategic actions:

- 1. Provide more tailored development for key employees** to support them in their role and context.
- 2. Drive the shift from programmatic change to continuous improvement**, e.g. work towards empowering leaders and pilot alternative operating models.
- 3. Develop a roadmap for people analytics** with a combination of proven techniques with a clear link to value creation and more experimental, but high-value applications.
- 4. Build out your digital talent strategy** to support each business area in responding to technological advances.

HR operating model

Within each organization, we also observe a number of areas where a refreshed HR operating approach can unlock significant value.

Digital skills and capabilities: As in other areas of oil & gas companies' business, artificial intelligence, analytics, and digital tools will also provide value-creation opportunities within the HR function. Therefore, HR itself must start to build capabilities in these fields.

Particularly, HR must develop in-house 'translators'. Such a translator is a person who understands not only data and analytics, but also strategic HR capabilities like business and industry knowledge. The translator acts as a 'product owner' when the company considers external people analytics and other digital solutions, ensuring that external teams focus on solving the problems that will create the most business value. Similarly, the translator works with internal business leaders to understand their needs and facilitates changes based on analytical insight.

Pool-based, 'flow-to-the-work' staffing and flatter HR organisation: Artificial intelligence and digital tools also allow traditional HR service delivery with fewer HR people – even compared to already significantly reduced HR workforces of today. This is true not only for standardised tasks like payroll, but also for judgment-based tasks like advising employees on relevant training programs.

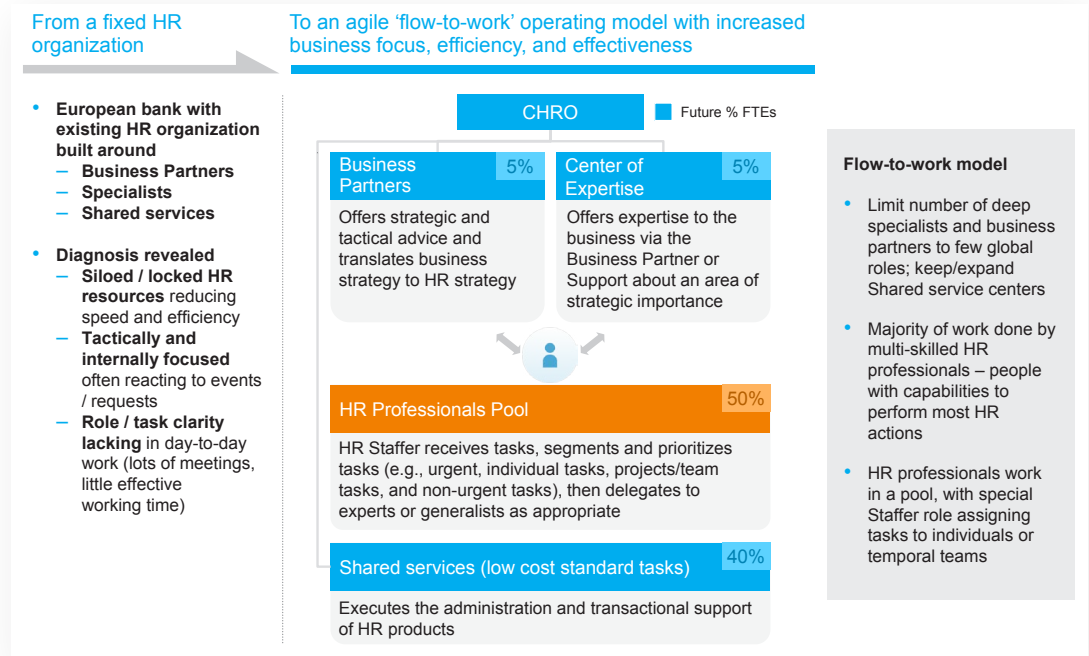
In fact, we believe that in-business HR will be reduced to little more than the HR leader as a close advisor to the business unit/project leader in a 'G3' formation together with finance. Similarly, corporate HR will remain small and strategically focused, while remaining HR practitioners move to a pool-based model.

With 'flow-to-the-work' staffing, needs for HR expertise are reported and people allocated by a dedicated staffer, who has a dual responsibility for meeting business needs while providing personalised development for HR people. We know that several companies are already exploring these types of models in other areas, and we see companies who are successfully doing the same in HR (see Exhibit 2).

Tighter integration with the business: Pool-based staffing also helps embed more HR employees (part- or full-time) in business projects. For example, if a company runs a project to optimise well-planning, one or more people from the HR staffing pool might be staffed full-time on the project team to evaluate the implications for employee well-being, or even to generate insights into well-planning team performance using people analytics.

This type of engagement supports both a more strategic HR role and an overall trend towards autonomous, cross-functional teams committed to solving specific business problems. Paradoxically, moving HR people from the business to centralised, pool-based staffing enables much tighter integration with the business and more direct influence on strategy and business value creation.

Exhibit 2: European bank introduced flow-to-the-work model for HR generalists



SOURCE: McKinsey disguised client example



The idea that
talent is less
important
than business
strategy
no longer
holds true.

Today and moving forward, a company's ability to manage talent will be a driver, an enabler, or a major constraint in creating a competitive advantage and business value. HR must be a part of or even help shape the business and talent strategy discussion early on, supported by data-driven, well-founded perspectives about the talent challenges and opportunities that the company will face.

Furthermore, with ever more value generated by each employee, maintaining and further developing a strong talent culture becomes increasingly important. Ultimately, a strong talent culture is built and maintained through implementation of sound HR practices, shaped by the trends and disruptions as described above. By capturing (some of) these opportunities, oil & gas companies will not only improve delivery of specific HR services, but also lift the role of strategic HR and further develop their own talent cultures to set up for lasting, stronger organizations.

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