strategy+business

ISSUE 69 WINTER 2012

Talent Is a Strategic Asset: A Virtual Roundtable

At Devon Energy, building the most critical capabilities requires a high-touch approach to human capital and the HR function.

INTRODUCED BY CHRISTOPHER CLICK

REPRINT 00132

This article was originally published by Booz & Company.

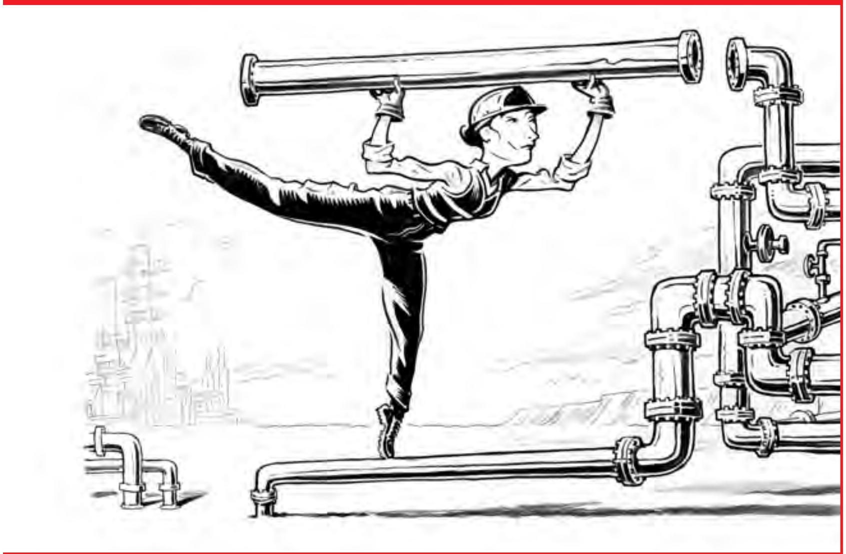

Illustration by Lars Leetaru

Talent Is a Strategic Asset: A Virtual Roundtable

At Devon Energy, building the most critical capabilities requires a high-touch approach to human capital and the HR function.

Introduced by Christopher Click

Many business leaders talk about treating human capital as a strategic asset, but few companies put the idea into practice. For many years, this was especially true in the oil and gas industry, where HR strategy — including recruiting, training, career development, and succession planning — was not seen as a top priority. More recently, however, the HR function in many energy companies has begun struggling to fill positions. The industry is suffering from a pronounced shortage of skilled, experienced technical professionals — especially those who can design, operate, and manage complex oil and gas exploration and production projects. This is an unintended consequence of the industry's talent practices in the mid-1980s: When the oil price fell, companies stopped hiring, and a generation of geological science and engineering students chose other fields of study instead. Now, as turnover rates rise and competitors lure away skilled engineers, this talent gap means that human capital capabilities have been strained for nearly every company in the industry.

One notable exception is the Devon Energy Corporation — a rapidly growing oil and gas company. Devon has built its HR strategy around attracting and retaining high-caliber people, and putting in place a thoroughly capable HR structure to support and develop them. This contrasts with the widely held idea that line managers should be directly responsible for appraising, developing, and setting the career paths for people. At Devon, those are seen as specialized professional responsibilities.

Devon is also known for its disciplined overall strategy, focused on a few strong capabilities, in which it continues to invest heavily. Founded in 1971 in Oklahoma City, the company operates exclusively in the United States and Canada, producing about 680,000 barrels of oil and natural gas equivalents per day. The company has always had a distinctive culture; it was started by a father-and-son team, John and Larry Nichols, who were known for their pragmatic, self-effacing approach to business. One of the company's core leadership values, which was inspired by the Nicholses' personalities, is to be "egoless."

At the start of the 2000s, Devon held a diversified portfolio of assets, including international oil fields and deepwater drilling programs in the Gulf of Mexico. But the company then began concentrating on the newly emerging shale-based resources onshore in North America. It reasoned that its most distinctive advantage was in hydraulic fracture well completions and other shale-related technologies. Soon Devon was the largest operator in this sector, managing many of the prominent shale gas and oil deposits in northern Texas (home to the Barnett Shale, estimated to be the largest such field in the U.S.), Oklahoma, and Canada.

This strategy paid off as oil and gas demand increased during the early and mid-2000s, but Devon, like all other oil and gas producers, remained vulnerable to the industry's cyclicality. When the recession came in 2008, and decreases in demand reduced hydrocarbon prices, the company's leaders made the decision to sell off its international and offshore operations and to focus even more on the onshore assets in North America.

Over the next few years, HR strategy and talent practices became a major source of Devon's competitive advantage. That is the subject of this narrative. It is told by four Devon business leaders who were directly involved. **David Hager**, Devon's executive vice president of exploration and production, was one of the executives on the ground who keenly felt the need for change; in effect, he was a client of the HR team. **Frank Rudolph**, executive vice president of human resources at Devon, was recruited in 2007 precisely because he believed that HR professionals should be directly accountable for building organizational capabilities, not just for the minutiae of HR work. **Tana Cashion**, vice president of human resources at Devon, was present through the transition and saw firsthand its effect on both the talent-related functions and the company as a whole. And **David Eberhardt**, Devon's director of human resources strategy and planning, was brought in to help manage the transition. (Previously, he worked at Booz & Company, the management consulting firm that publishes this magazine.)

A shift like this does not come easily; it means changing the way titles are assigned, careers are planned, recruiting is organized, and executives spend their time. But so far, it is yielding remarkable results. Here, in the words of four key participants, is the story.

> "Going forward, our success would depend less on technical experts and more on experienced leaders who could foster engagement."

Context for a New Approach

HAGER: When I joined Devon in an operating role in 2009, after a period when I'd served on the company's board, we were facing some big challenges. We had just gone through the financial collapse of 2008. Oil and gas prices, which had been as high as US$120 a barrel, had fallen significantly. I think there had been an expectation in the energy industry that prices were going to stay high forever. Instead, reality was sinking in.

We were in the position of being relatively unhedged against an energy price decline, which was not a good thing, and of having more promising projects than we were able to fund.

Historically, we had tremendous capabilities on land, having been the first to commercialize horizontal drilling and hydraulic fracturing in the Barnett Shale. It struck us that the right thing to do was to divest our deepwater and international assets — which we ultimately did, netting $10 billion pre-tax — and to refocus our efforts in North American onshore.

In doing so, however, we were changing our strategy: ending our reliance on acquisitions and focusing on organic growth, where you really need people who are skilled, comfortable leaders. Going forward, our success would depend less on technical experts and more on broadly experienced business leaders who could foster high levels of engagement and productivity.

Yet, over the years, we had developed an organization that wasn't sharing its best practices as well as it should. Our business leaders tended to know their area of expertise extremely well, but did not always know what others were doing — and didn't have the perspective that comes from working in multiple domains. We tended to promote employees based only on technical competency, and we didn't give people any leadership training. Once we realized this approach was no longer adequate, we began working to change our practices and reenergize the company.

RUDOLPH: Devon had been a company with a very strong culture and leadership ethic, but it was scattered; there were siloed practices and a real desire to raise the talent game in a consistent and coherent way. When I was recruited to come here in 2007, my view of HR fit naturally with what Devon's leaders wanted to do.

My view of HR is not typical in the field. I started my career in operations, and maybe that's why I take a skeptical view of conventional best practices. For instance, many HR experts believe that line managers should directly drive HR processes, like succession planning and career development plans. They think the role of HR is to create tools and processes for other people, "partnering" with the business unit leaders to get things done. That doesn't sit right with me. Accountants don't go to the rest of an organization and say, "We want to partner with you to do accounting."

We decided to act on the belief that HR professionals should run all people-related processes — coaching, succession planning, recruiting, career planning, and talent management. They should define the goals, measure the outcomes, and be accountable for achieving the company's core strategy of having a distinctively capable workforce. This required a higher investment level than HR typically gets, but we were also aiming for higher returns. Instead of trying to get costs down, we would approach HR as a highly refined, high-touch service function that would benefit our employees in a way that was critical for our company's growth.

We didn't know, when we began running the company this way, that there would be changes in the industry or that Devon would refocus its portfolio, but the changes we made positioned us well. For instance, despite the shortage of midcareer geoscientists, we were in a good position to compete for energy-industry talent.

"Many HR experts believe that line managers should directly drive HR processes. That doesn't sit right with me."

CASHION: Our highest levels of leadership, starting with CEO John Richels and the executive committee, decided in 2007 that HR was going to contribute in a significant way to implementing our business plans. For the first time, they created a head of HR position on the executive committee, reporting directly to the CEO. When Frank [Rudolph] arrived to fill that position, some of us expected him to come in with guns blazing. Instead, he took about four months to look at our practices and digest what he saw. Only then did he pull the HR group together and say, "Here's what we're going to do."

At that session, he had several senior executives come in and talk about the business strategy. That showed us that they believed in what he was saying. Then he talked about changing our human resources functional structure. Our HR operations people would spend 90 percent of their time as talent managers, improving people's capability. Many people's jobs would shift. We would centralize many of our functions, like recruiting, performance management, workforce planning, and relocation.

The meeting was followed by the kind of upheaval you would expect. People went back to their offices and started questioning. "That's not how it works around here — is it possible?" Some people didn't believe in this direction and ultimately left. Others, including me, thought the change was fantastic; we would now get to do interesting, and vital, talent management work.

An Edge in Recruiting

EBERHARDT: In the past, when it "staffed up," Devon used outside recruiters. They tend to be very aggressive — more like salespeople than talent scouts. My charge, starting in 2008, was to in-source this process: to have our internal recruiters be more strategic in how they work with our hiring managers.

We have become a lot more analytical and deliberate. Recruiters spend more time up front talking to managers about the type of talent they're looking for and where they're likely to find it. That's a lot more focused than just posting openings on job boards and hoping the right people will come along.

RUDOLPH: Formerly, when our operational people in the business units did a search, HR would hand them a list of candidates. It would be their job to decide which candidates to see and then to sell the candidates on Devon.

Now, we in HR sit down with the business leader and talk about the need, and the strategy to fill the need. From there, the recruiter handles everything from sourcing to the selection process. The recruiter

Christopher Click
christopher.click@booz.com
is a Booz & Company partner based in Dallas. He focuses on growth and organizational strategies for the upstream energy sector.

Also contributing to this article were Booz & Company partner Andrew Clyde and consulting writer Robert Hertzberg.

ultimately makes the offer. In addition, our recruiters give a great deal of attention to the candidates by educating them on our organization, and providing regular updates about what to expect next. This is a very high-touch approach, calibrated to make sure that it's always Devon's decision whether or not someone joins. We don't want candidates to go through the recruiting experience and think, "Geez, I'm still mixed on whether to join Devon." In 2007, about 42 percent of the external offers we made were accepted. Today, the number is above 90 percent.

All of the candidates being recruited are asked to fill out a 12-question survey evaluating the process of interviewing at Devon and the recruiters they met with. We look at the recruiters' scores monthly. In effect, that allows us to measure how well we're delivering on our high-touch approach.

We have also improved our practices on developing people and promoting from within. Generally, the data says that world-class companies promote from within 60 percent of the time. Our percentage is 85 percent, and we want to push it to 90 percent. That's a very powerful brand statement for prospective employees; if you come here, you can expect to be developed, and to be rewarded well for your performance.

HAGER: We have a number of talent development initiatives within the company, allowing people to enhance their individual skills as they wish. We recognize there's no perfect model for what a leader looks like. Rather than focus on their weaknesses, we tell people to take advantage of their strengths and make sure that those are used as much as possible.

The Analytics of People Practices

RUDOLPH: Within HR, we have created a small analytics group. It is instrumental in developing and tracking HR metrics and predictive analytics. Beyond producing numbers, this team has found strength in turning analytics into stories that ultimately drive decisions.

EBERHARDT: Having this sort of data changes the conversation. For example, we asked our HR analytics group to look at our campus recruiting program. There was always a lot of back and forth: How many petroleum engineering graduates should we hire, and what sort of development should we give them? Should we try to make them into broad experts who know how to do production, reservoir, and drilling engineering? Or do we let them focus on just one area?

The analysis determined that Devon was investing upward of a million dollars in each of these new college grads in their first three years of employment. If they left before year five, we got no return. This made us reconsider our insistence on a broad rotation for everyone; we saw the attrition and the financial price we were paying.

Another example occurred when many business units pushed to hire large numbers of midcareer geoscientists. We had the data to say, "The people you're looking for don't exist." We began to rethink our approach on how to acquire, develop, and retain our geoscientists.

"World-class companies promote from within 60 percent of the time. Our percentage is 85 percent, and we want to push it to 90 percent."

Rethinking Benefits

RUDOLPH: For the past five years, we've been cited by *Fortune* as one of the 100 best companies to work for in the United States. Our HR function does a few things that have earned us this reputation. For example, we don't outsource our HR call center. Instead, we set up a service called HR Connect, staffed with Devon people whose job is to answer employees' questions and help them with their benefit issues.

EBERHARDT: Our wellness team uses data to encourage employees to be aware of their own health risk factors. Employees are given incentives to participate in a biometrics screening program, which includes baseline tests of blood pressure, cholesterol, weight, and body mass index. Those who do the assessment become more aware of their health risks, which drives changes in behaviors that ultimately lead to a healthier employee and healthier workforce.

We have also opened wellness centers — high-quality fitness facilities — in and near our largest offices. We provide free memberships for employees who go at least five times during the month, and we charge $15 a month for less frequent users. Spouses are also welcome.

RUDOLPH: It pays off in a number of ways. We now have insightful data that establishes a relationship between leadership behavior, employee engagement, and business results, which ultimately impacts total shareholder return. We also believe there is a strong connection between employee engagement and our wellness spend. Not many companies can claim, as we can, to be spending *less* on healthcare now than they did a year ago, while adding employees.

"Not many companies can claim, as we can, to be spending *less* on healthcare now than they did a year ago, while adding employees."

Credible Succession Planning

RUDOLPH: In early 2008, we took on succession planning, running it end to end with accountability for results. A lot of senior executives said, "We've tried fixing the succession planning system; it's too complex." There wasn't a believer in the room. But when you say you're going to be responsible for something, it breaks down a lot of the resistance.

CASHION: I was in the middle of that effort. We held 90-minute meetings every Thursday, with people in HR operations and development. In those meetings, we worked together on creating a new process. Some people had the view that, "We don't need to change; we already do enough." But we didn't have a repeatable, organization-wide approach for identifying future leaders or the ability to identify the associated individual development activities necessary for their future success. We took three months to design the process and launched it in March 2008. It was very rewarding to see how we could all pull together and make it happen.

Our succession planning process looks three levels down from our executive committee; in some areas we go a bit deeper. The conversations with leaders make the most difference. Among many other things, they are asked to think about which potential future leaders might be a flight risk, and what people need to work on for their development.

We make a fact-based assessment about each person. That prevents us from making decisions based on isolated impressions, like: "I was in a meeting with so-and-so five years ago, and I thought he was a jerk." Instead, we factor in everything that's relevant. Maybe the person who previously came across as a know-it-all has had a chance to develop his interpersonal skills during the ensuing years.

This pays off in some very practical ways. When we conducted a huge reorganization in late 2011, moving from a more functionally aligned organization to asset-focused business units, our existing base of succession and development information allowed us to move very fast. We knew immediately who was ready to be placed in dozens of critical new roles.

HAGER: Succession planning should not just be about the CEO or senior management. Energy companies everywhere will have a wave of people retiring at all levels in coming years. With the demographics we have, it's inevitable, and we need to be prepared.

Let's face it, most of us on the business side here are technical people by training; I'm a geophysicist, and a lot of my colleagues are geologists or engineers. As technical people, we don't have a lot of skill in succession planning. But it's important for us to be accountable for the management of our people. HR provides us with information about the people who might be available, and helps us with the thought process of who might be best; we make the decisions, based on our own experience and on an understanding of the business's needs at any given time.

RUDOLPH: Strategically, succession planning had to be integrated with our workforce planning, the statistical forecasts of our future labor needs. The planning process also connects to our technical and leadership development courses and our assessments, and it helps reduce our turnover rate, which is one of the lowest in the industry.

A lot of the problems companies have with succession planning are exacerbated by the conventional human resources stance of setting itself up in a facilitating role. When HR says to line managers, "It's your job to do development and succession planning, and here are some tools to help you," that confuses the issue. Some very good leaders get downgraded because they don't do the HR piece well.

At Devon, HR has become a differentiator. I've always felt that I was part of the senior team, and expected to contribute at that level, including with the board. In 2010, my third year, we conducted a full-scale talent review with the board. As a result, we were able to talk more effectively about some of the specific people who have been affected by our leadership development and succession planning — and whether they're positioned most effectively for the future. At this point, our business leaders' view has shifted from, "Yes, this is a very good program," to, "This is the way we're going to do business."

HAGER: If another company were contemplating making a shift similar to what we did, and asked me for advice, I'd say there are elements that both sides — the HR staff and line operations — need to take responsibility for. This isn't just an HR initiative, nor is it driven by operations, with HR totally subservient. Everyone needs to take ownership, and they have to embrace the case for change. If it's just a program where you check the box, it won't work. On the other hand, if you see how it's important to your organization, it can be very successful. +

Reprint No. 00132

strategy+business magazine
is published by PwC Strategy& Inc.
To subscribe, visit strategy-business.com
or call 1-855-869-4862.

For more information about Strategy&,
visit www.strategyand.pwc.com

- strategy-business.com
- facebook.com/strategybusiness
- http://twitter.com/stratandbiz

101 Park Ave., 18th Floor, New York, NY 10178

pwc | strategy&
Formerly Booz & Company