Crisis in the Oil and Gas Industry

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In the midst of one of the greatest periods of expansion in its history, the global oil and gas industry is facing a labor crisis, brought on by years of layoffs, that could jeopardize its future. Even as companies unveil increasingly ambitious plans to uncover new sources of oil — projects that have led oil companies to boost capital expenditure roughly 20 percent in the last two years — the industry has continued to shrink its labor force. And because the shortage is most severe among specialized workers such as senior scientists and engineers, it will take seven to 10 years to train replacements to help close the gap. Over the last 12 to 18 months, a confluence of events, including rising oil prices, planned capital investments, and changing industry demographics, has stretched industry resources to the breaking point. From rig workers to petroleum engineers, there’s more work to be done than there are workers to perform it.

The talent challenge is nothing new for an industry like oil and gas, which is subject to wild market fluctuations. Throughout the 1980s and ‘90s, in response to softening oil prices, the industry laid off hundreds of thousands of skilled workers, many of whom abandoned the business altogether in search of more stable jobs. Accordingly, recruitment of new employees plummeted, and fewer and fewer university students were entering petroleum engineering programs. Now the industry is paying heavily for its shortsightedness. The average oil company employee is nearly 50 years old; in the next decade, more than half of the industry’s employee base will retire, leaving behind a massive void of skilled workers. “There has never been a time when our industry so needs outstanding talent,” said Rex Tillerson, chief executive officer of ExxonMobil. To meet its escalating needs, the industry will have to transform the way it develops its labor force.

Even now, companies are scrambling to fill critical positions, with many paying exorbitant salaries to lure highly skilled employees away from rival firms, and implementing short-term solutions such as delaying retirement and rehiring retired employees. In hot spots such as Canada’s Athabasca oil sands region, where billions of barrels of oil are thought to reside in the ground, engineers and workers are relocating from as far away as Mexico and China to join the labor pool. The Canadian government has even offered citizenship to foreigners working on the project as an incentive to attract and retain skilled workers. Yet, few believe these tactics provide a blueprint for future success.

To move beyond the vicious cycle of laying off workers each time the price of oil drops or paying exorbitant sums to poach existing talent, companies are recognizing the need to refine their human resources strategy.
strategies to focus on the underlying problems. The process starts by determining the company’s hiring needs for the next 10 years and aligning hiring practices with those needs. A sound human resources strategy must also ensure that existing employees maintain the critical skills necessary to keep the company competitive. Of course, overhauling human resources practices is not always easy: When BP set out to improve its hiring and training processes, the exercise led to a complete restructuring of the company’s HR team, including the replacement of more than 60 percent of the company’s senior HR staff.

With a clear internal strategy in place, companies can then focus on replenishing the workforce. Both Shell and Exxon have recently invested in global training centers to provide hands-on experience to thousands of recruits. With the ability to train nearly 10,000 students annually, the two companies hope their training facilities will attract bright young scientists and engineers to the field. BP is following suit, partnering with the Massachusetts Institute of Technology (MIT) to build a career development program for new employees.

Companies must also develop retention strategies. These include helping workers develop specialized skill sets and focusing on the work–life balance. Such planning requires that leaders ask themselves and their colleagues the right questions to get a sense of organizational advantages and shortcomings. Are line managers and team leaders encouraged to actively develop staff? Do human resources and technical and operations teams work together effectively? Are we seen by potential workers as the employer of choice? Each of these questions needs to be addressed within the organization. These talent-retention questions have the potential to reshape the market and even drive consolidation if companies can’t find the skills to embark on critical projects.

Although it may be difficult to get there, the goal is simple: find a better way to manage the industry’s most valuable asset — its talent. If companies can continue to build partnerships with universities, invest in new recruits via company-funded training programs, and overhaul current human resources practices, it will be possible to avert another labor crisis before it begins. Although it may take time, abandoning the reactionary labor practices of years past and focusing instead on realistic hiring goals for the next decade could eventually correct the current labor shortage and strengthen the industry for years to come.

**Resources**


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