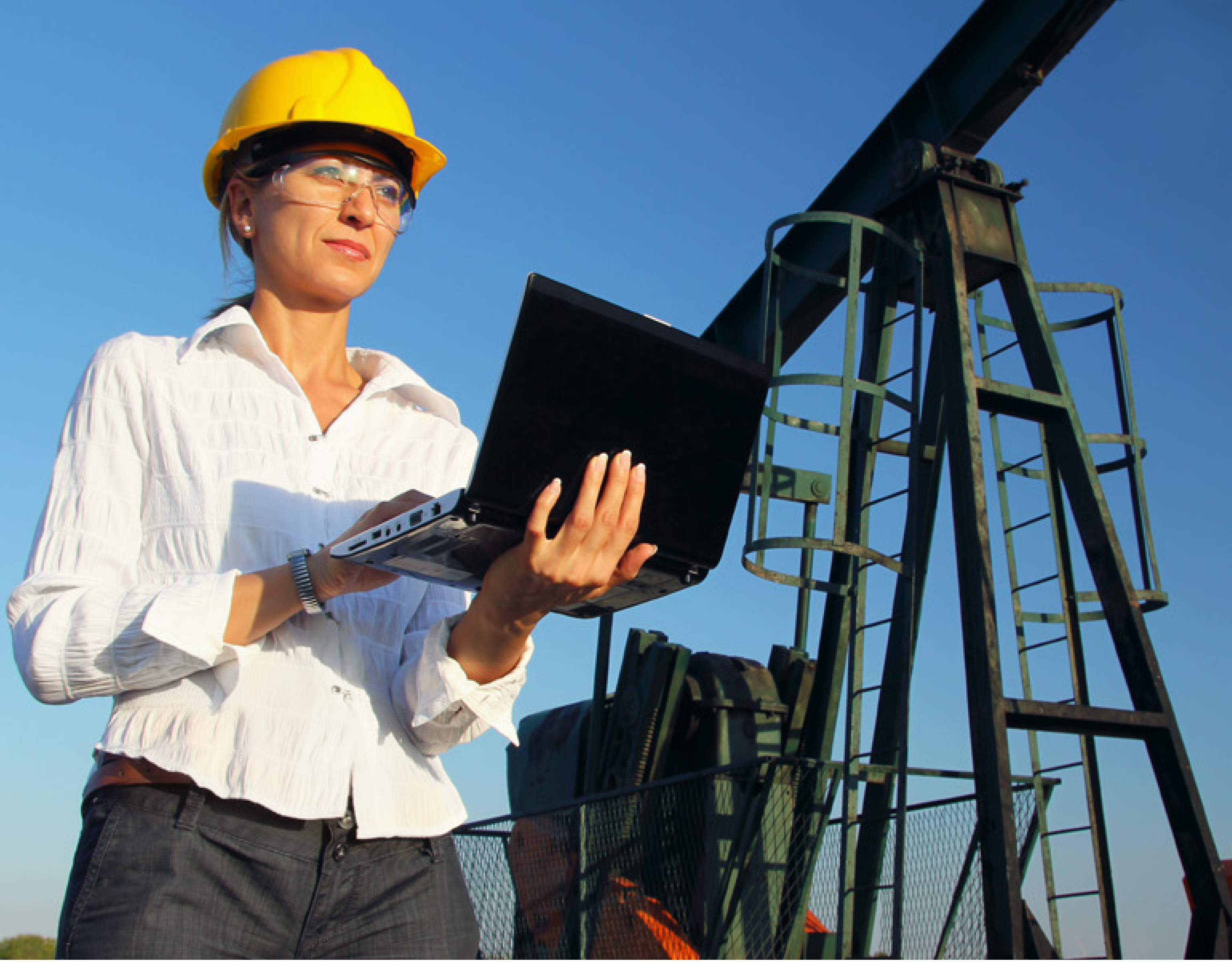
HEALTH WEALTH CAREER

ENERGY

DELIVERING THE ENERGY WORKFORCE FOR THE FUTURE

THE VITAL ROLE OF ANALYTICS AND VISION



MAKE TOMORROW, TODAY

MERCER

Two multinational corporations successfully reinvent themselves to take advantage of changing markets and new opportunities.

Change is difficult. Forecasting evolving markets years out can be really hard. Overhauling your organization to prepare for and capitalize on change can be, well, really, really hard. But if you don't do this — and do it well — your organization will fall behind and may not recover.

The past few years have been challenging for many oil and gas companies and other industrial organizations as they have sought to recoup losses from commodity price drops, intense competition and efforts to improve margins. Staff, processes and inefficiencies have long since been squeezed for margin; the challenges now are more systemic and require greater levels of creativity from across the business. According to a recent article from our sister company Oliver Wyman, the next set of forces to hit the oil and gas industry will require greater agility and flexibility from senior management teams and the wider workforce.[1]

[1] Oliver Wyman. "Developing the Oil & Gas Workforce of the Future," 2017, available at https://www.oliverwyman.com/our-expertise/insights/2017/sep/developing-the-oil-and-gas-workforce-of-the-future.html.

The following cases illustrate this concept in practice as we show how two industrial organizations (one an oil and gas company, the other a chemical conglomerate) embarked on a substantial disruption that required extensive teamwork, deep knowledge of industry forces and an entirely new way of looking at the overall organization. Though many lessons can be learned from the two cases, the primary takeaways are:

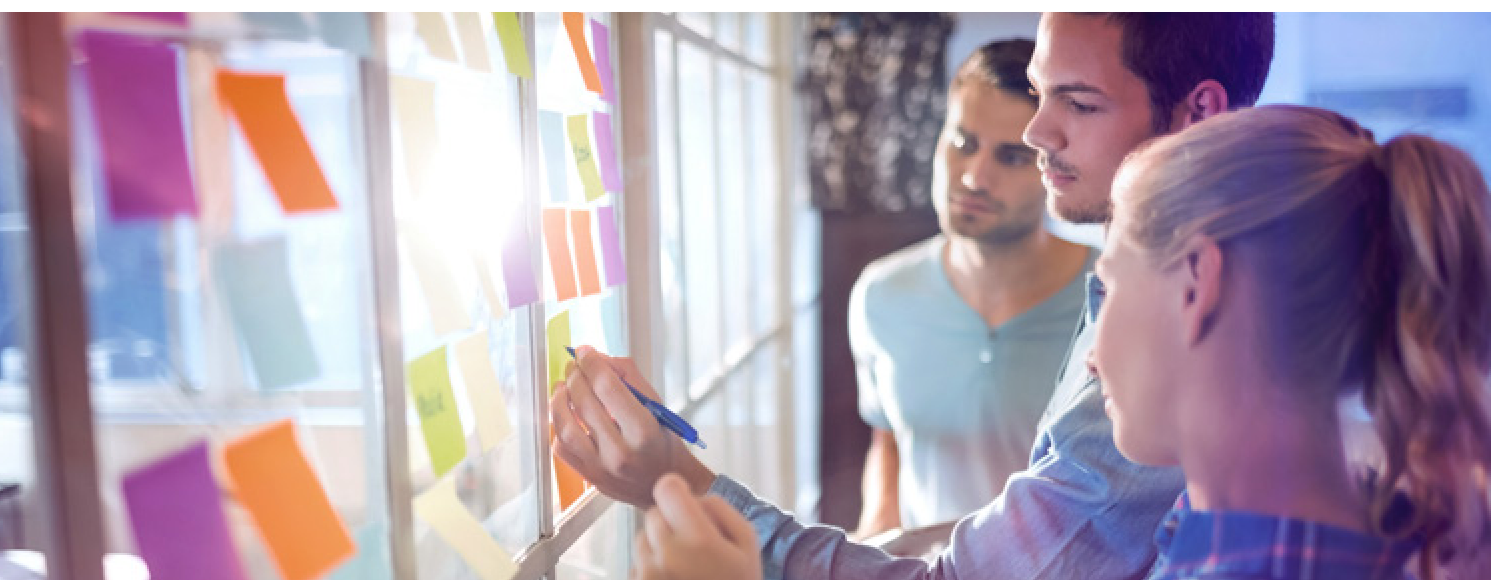
Lesson 1. Analytics are foundational to any change strategy. During disruption, organizations must remove the emotion and rely on facts, which are often difficult to obtain ... or believe. The more subjective a discussion, the more painful the process and more open it is to errors. One executive recently summed up this thought about the data proof points uncovered through deep analysis: "I might not like them, but I can't really argue with them."

Lesson 2. A thoughtful, rigorous design is important to any significant change. In support of this, the leadership team must have a clearly developed strategy and vision, internal and external data support, clear communication with all stakeholders and the wherewithal to remove themselves from the equation.

DEFINING THE FUTURE OF WORK

Mercer, the leading company in HR consulting, and Oliver Wyman, a premier management consulting company, have partnered to support business leaders and HR functions with an integrated talent, digital and skills strategy approach. Our unique combined perspective on the workforce for the future provides clients with a holistic and integrated view, enabling organizations of all sizes to transition to a technology-enhanced environment while ensuring that their workforce thrives.

Learn more about how organizations are shaping their future-of-work strategy and progressing from envisioning to delivering their future workforce: Delivering the Workforce for the Future



CASE 1

A TRICKY SPINOFF, MERGER AND FULL REDESIGN

One of the world's largest chemical conglomerates sought Mercer's help to divest one of its distinct businesses and merge it with an established — but relatively smaller — market leader in that product. We will refer to this new company as Chem Global. The conglomerate would hold a majority stake in Chem Global but operate it as a fully separate organization.

This process faced countless potential potholes, twists and turns as the conglomerate sought to unwind a business unit, reorganize it and then successfully weave it into Chem Global. Just some of the concerns included:

Culture: Could we merge two distinct businesses with different locations, expectations, workers, benefits plans and so on?

Staffing and communication: How would we educate employees and other stakeholders about the transformation, achieve buy-in and develop the right messaging for successful adoption? Which employees should stay with the conglomerate, which should go to Chem Global and which should be let go?

Marketing: How would we design sales, marketing and logistics to create a global footprint tailored to different countries with different products and varying support needs?

Back office: What kind of HR services would the new entity need, and could it share services?

The right decision: Was this multibillion-dollar deal the right move or would it come back to haunt the conglomerate later? Would it help the company de-risk and generate solid returns?

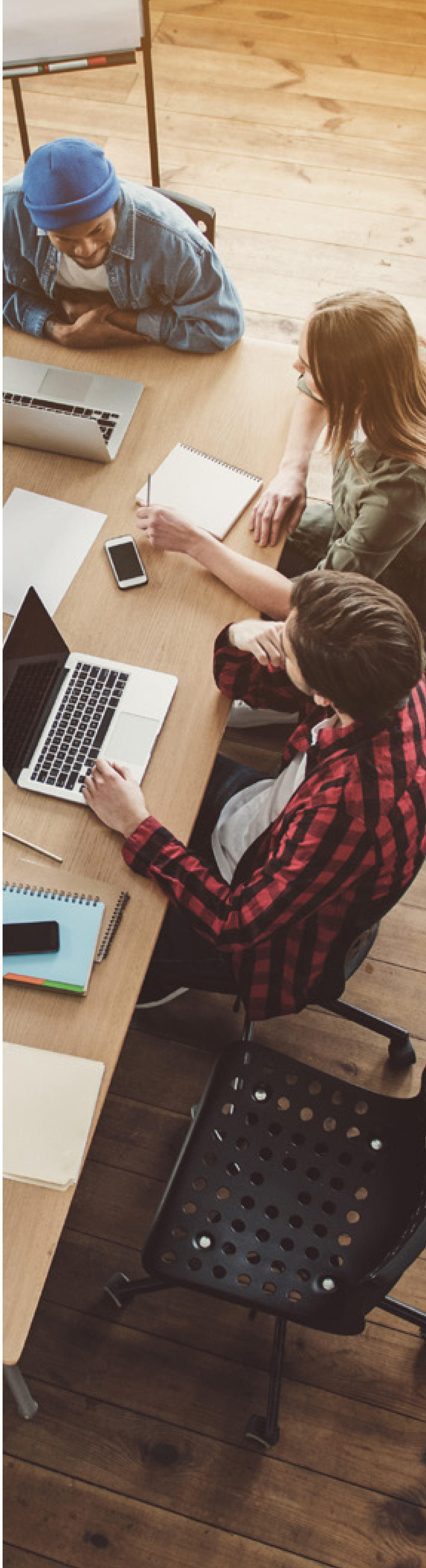
DATA AND SUCCESS CRITERIA

Before creating the right design, we had to find and use the right data. We sought benchmarks to see what was best in class and map a path to that level. This process included research into what it would take to have the best sales, talent management and shared services. Clear metrics would show how we were progressing against lofty, but achievable, integration targets and cost savings.

From a strategy perspective, we combined the Mercer and Oliver Wyman (OW) toolkits and approaches: the classic OW work would investigate strategic intent and define the broad shape of the organization, while Mercer data would provide an important look into best practices, costs, job design and considerations for classic HR function, IT, shared services, offshoring, outsourcing and more. Having multiple options helped the conglomerate determine the best approach, add in flexibility and create achievable timelines.

Culture: Merging two separate companies is difficult, and this case was no different. Employees of the small market leader were accustomed to a smaller, family-like business with traditional benefits, long careers with the same company, years working at the same location and long-term personal and professional relationships with co-workers. Their new counterparts from the conglomerate were employed by one of the world's largest corporations, were more transient and were more accustomed to a modern rewards structure that relied on clear accountabilities, metrics and targets.

Staffing and communication: From a redesign standpoint, the process had many unknowns, including perhaps the greatest uncertainty about how many workers would remain with the conglomerate, how many would join Chem Global, who would be retained by neither and what capabilities the "new" employees would bring. To help ease uncertainty, the new company was clear about why this change would be good for all and where it wanted to go. Communication efforts painted a vivid picture of the future organization, detailed the transition process and developed communications around a core message: "There is a big change and this is exciting, but if you feel this isn't for you, we'll help you find what you're looking for."



Marketing: This case was especially challenging, as the new entity included two distinct businesses — a commodity business and a specialty business. The new organization, Chem Global, would create an overarching sales and marketing team with each distinct business having its own specialists. Due to channel and product differences, it was nearly impossible for any individual to sell both types of products.

Back office: During strategy development, we determined that Chem Global would best be served, at least in the short-term, by sharing HR services with the conglomerate. Once Chem Global became more settled, the new company could investigate the best HR solution for its own needs.

The right decision: All early indications point to a successful merging of two distinct organizations, though as is common in major M&A activity, the determination of complete success is a multi-year proposition. Some of the early successes include:

- Chem Global pooled production volumes and consolidated in a few larger sites to increase capacity utilization and reduce costs.
- The new combined business was able to successfully determine the right employee count, where these employees would be deployed, their required skills and capabilities, additional business opportunities to pursue, and the necessary organizational changes.
- The process allowed the Chem Global to drive synergies, but at a measured pace to ensure the business did not try to do too much, too soon. The priority was to get the organization up and running smoothly with minimal disruptions.
- Leaders of both parties, who represented different backgrounds and business constructs, came together, planned out a future vision and agreed on how to get there.
- At the time of writing, the conglomerate's leadership was pleased with its new strategy and early outcomes, including achieving the desired level of cost reductions, reaching new global markets, combining two distinct business and earning top industry positions in the sale of some of its leading products.

CASE 2

A REDESIGN TO LEVERAGE THE ENERGY TRANSITION

The Great Energy Transition is coming, but industry experts differ on when and how significant the change will be. What we do know is that a few enterprising organizations are beginning to make at least a partial move in that direction as signs point to the changing economics of oil and gas, the emerging influence of technology and the role of government and consumer sentiment in the shift from traditional energy sources to lower-carbon resources.

One of the world's largest oil companies, which we will call Global Oil, is not waiting for change; it's adapting its business models now to maintain operational excellence in the upstream for decades to come. Such a dramatic shift in approach, however, can generate uncertainty, second thoughts, talent woes and mistakes. And at this level, missteps can equate to billions of dollars.

The Oliver Wyman article we referred to earlier also states that oil and gas companies will need to accommodate two different organizational cultures simultaneously in the future,[2] and Global Oil is a perfect example. The first model is a command-and-control culture — which is Global Oil's traditional business — that allows the organization to manage the rigors and standardized processes of a production platform or refinery. The second model — one that responds readily to changing conditions and new developments — would more closely resemble an entrepreneurial or technology company and would seek new growth markets, such as clean energy.

A major shift in strategy and operational design requires much more than a leap of faith, so Global Oil sought analytical and professional help from OW to see how it could maximize its traditional business while diving aggressively, but prudently, into cleaner energy and renewables.

[2] Oliver Wyman, 2017.

DATA-BASED STRATEGY FIRST

In the first strategic phase, Global Oil began by brainstorming the world of opportunity that could arise from a major leap into new businesses. Organizational leaders had a number of questions: Is now the right time? What businesses do we need to build? What will the complete organization look like? How will we measure success? How do we show others that this move is worth pursuing, especially when results might not be evident for some time? How can data show the value of change, success measures, return on investment and that the Great Energy Transition is imminent? How will this change our capabilities, governance, capital investment process and so on? How do we address cultural issues and build understanding?

These were only a few of the questions running through their heads, which underscores the complexity and skill required to build a new organizational design. To help the team focus and establish a winning strategy, OW's first order of business (Phase 1) was to educate company leadership on new value chains as they shifted a portion from specifically oil and gas to a broad-based energy value chain. The OW consultants concentrated a good deal of time on helping Global Oil's leadership better understand the tremendous market differences, including finance, leverage, risk management, delivery, assets, new geographies and product markets, potential returns and much more.

Phase 2 looked at the design of business models that would ensure continued success of the organization's historic business, new opportunities with new ventures, a growth in returns, identification of potential markets, feasibility of current capabilities, and so on. In essence, the business moved from a new-found understanding of how the market works, current value, existing and potential new technology, financial requirements and staffing capabilities to begin building the new businesses that would carry them into these new markets. To ensure a cohesive existence between the two concurrent business models, Global Oil emphasized to all stakeholders that it was simply building a new business with new markets that would not conflict with the traditional business.

The new venture is in its early stages, but there are signs of success already, including a new flexibility that allows the organization to rapidly adapt to market changes, seize new opportunities and build a more diverse business portfolio. For other organizations considering a similarly bold move, consider the following:

- Create a new governance process to ensure any new approach is managed and driven, that metrics are in place to check status and success, and that cross-functional units seize opportunities over the coming years.
- Challenge the processes for strategy, investment and governance, because in today's energy industry, you can no longer treat every asset as an oil and gas asset. What might be successful today might not apply in one, five or 10 years.
- As you pursue a dual-stream of businesses — one geared toward traditional business and the other to new growth opportunities — incorporate a dual set of decisions, strategies, talent processes and much more.
- Know your current and future talent needs: what are their skills, markets, success drivers, availability, etc.?
- Be prepared to demonstrate potentially different portfolio returns for the two businesses and compare results with respective markets; for example, benchmark returns of the traditional oil and gas business with similar companies; compare the new growth business with similar companies. You may feel pressure to compare the results of the two endeavors, which could be misleading.

As of this writing, Global Oil has successfully entered a few new markets, has teams in different global markets and is seeking opportunities to build these new opportunities to scale. This case illustrates the importance of being able to reinvent a business without creating a crisis, something that many companies have failed to do over the years. A creative vision will remain wishful thinking unless leaders can use modern tools, analytics and expertise to turn the dream into reality.

TRANSFORMATIONAL CONSIDERATIONS FOR ALL

For companies considering a significant organic or inorganic transformation or a strategic business venture into a completely new business model, the key is to do it right first time — you will rarely have the opportunity to re-do it without serious consequences. Run it as a robust process that's clean, optimized and transparent.

TOP TIPS FROM MERCER

1. Communicate with senior leadership to ensure buy-in and to confirm short-term and long-term needs are addressed. Leadership must be a part of the process so that they can help build the organization of the future, drive desired behaviors and create lasting change. Facilitate key stakeholder discussions to drive consensus.

2. Stay on message and make sure all employees understand the reasons for undertaking this exercise, the need for change and the potential advantages of doing it right, as well as the probable negative impacts of not doing it well or at all. Make sure all employees know that leadership is proud of past successes and that this process will ensure future success.

3. Use analytics to benchmark against other companies, gauge effectiveness and efficiencies, and project future changes.

4. Determine what kind of culture your organization currently has, what it hopes to be and what traits should be encouraged to carry forward.

5. Hand over the completed design to HR, which will be charged with implementing the plan, hiring the right people, aligning pay and benefits to new outcomes, and more. Keep to the plan.

6. Throughout the design process, always be on the lookout for "sticking points" that could derail the entire process. Look for growing disinterest from leadership or the change team, infrequent or off-message communication, and signs of inexperience from the design team.

Thanks to new technologies, diverse workforces, cleaner energy and more, the energy industry is set for unprecedented change. Energy companies should build a strategy and organizational design that prepares them for tomorrow's changes, today. If you wait, it'll be too late.

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ADDITIONAL READING

Great Energy Transition: Writing in the March 1, 2018, issue of Harvard Business Review, Oliver Wyman colleagues Saji Sam, Juan Trebino, Bob Orr and Robert Peterson detail the changing face of energy. For example, by 2050, more than half of the world's passenger cars are likely to be electric vehicles. How will oil producers respond to this and should they begin to shift their focus away from transportation and diversify toward innovative petrochemical products? One strategy is to **develop new digital efficiencies** and use cutting-edge technologies to reduce development cycle times and costs for conventional offshore oil projects. Though still in its infancy, digitization will soon mean an increase in artificial intelligence, robotics and predictive maintenance into offshore operations. Are you ready?

Four Mega Trends: In other Oliver Wyman research, we highlight four mega-trends that will reshape the global energy industry, including a move to four distinct business models: 1) coal-fired and nuclear power will no longer be viable sources of power in OECD countries by 2050; 2) the speed of adoption of renewable generation and distributed energy resources will result in a mostly decentralized and highly democratized energy system by 2040; 3) the engine for developing technologies that will power the energy revolution will reside in Asia and, to a lesser extent, the US; and 4) the energy transition will change the economics of the oil and gas industry, leading to the emergence of low-cost, high-volume producers; onshore, unconventional (agile/low-cost) operators; integrated, asset-owning service companies (oil companies and oilfield services); and finance-backed operators. How will this impact your organization?

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