STEVE CHAN AND REANNA DORSCHER

Be Smart about Talent in Lean Times

Overseeing an effective people strategy in the energy sector

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Following an exceptionally challenging year for the energy sector, there seems to be a loose sentiment that the industry has "bottomed out" and we may start seeing the beginning of a recovery in 2016.

Nevertheless, management teams continue to cope with the downturn and do more with less. Budgets have been slashed and workforces are significantly leaner, with the impact most pronounced in small and mid-cap organizations.

Overseeing energy companies is a daunting challenge for boards. Effective leadership has become critical and time intensive. Directors must support management in reacting to day-to-day challenges and keep an eye on the horizon to ensure the company and its people are positioned for long-term success and sustainability.

We asked four experienced corporate directors of energy companies to share their perspectives on overseeing an effective people strategy, while preparing the company to thrive in the future:

SARAH RAISS
Vermilion Energy Inc.
Loblaw Cos. Ltd.
Commercial Metals Co.

KENNETH McKINNON
Lightstream Resources Ltd.
Alvopetro Energy Ltd.
Touchstone Exploration Inc.

GREGORY TURNBULL
Crescent Point Energy Corp.
Marquee Energy Ltd.
Oyster Oil and Gas Ltd.
Storm Resources Ltd.

MARTIN LAMBERT
Civeo Corp.
Zedi Inc.

Q: In light of the current economic backdrop, what human capital issues need to be a priority for directors?

SARAH: The overarching human capital strategy should be a key area of focus for boards, regardless of the market condition, though obviously it does become more central during these challenging times. Firms who have had to make the difficult decision to downsize have to worry about the reputation of their organization, in terms of future hiring and retaining people, and also employee engagement and how that affects productivity. People are seeing friends and co-workers let go, and they're waiting for the next shoe to drop. That totally affects employee engagement, which affects loyalty, people performance and productivity.

Q: Any interesting or innovative approaches you've seen when it comes to reducing costs but retaining and motivating staff in a 'lower-for-longer' environment?

KEN: I don't think there is a magic bullet. Try to keep your top people on interesting projects and provide the opportunity for growth in the company when things turn around. Companies should try to use this environment to strengthen the team, particularly in technical roles. There are a lot of "A players" out there without a job. It is also worth noting that while no company wants to lay off people, having a bunch of people working at 50 percent capacity can be more harmful for the culture and morale of an organization than layoffs. It sounds counterintuitive, but good people want to be busy, and if they are not, it can be demotivating.

GREG: It is critical that boards focus on communication. We have seen huge creativity: Some companies have gone to their staff and communicated that there can either be layoffs or across-the-board compensation reductions. Some companies have made the choice to reduce the compensation of everybody in the company by 5 to 15 percent, for example, with the plan being no terminations. You start this by getting all employees on board to share the pain, then provide some time off in lieu of the salary reduction.

MARTIN: When times are tough, free cash flow is a much more important metric than usual. At one of the organizations I am involved in, we created a bonus plan that empowered employees to suggest ways to increase free cash flow. A piece of the savings from every idea implemented was shared with those who brought it forward. Employees became really cost conscious and started thinking about what they could be doing differently. Some examples were the sale of redundant assets, adding an extra year before replacing fleet vehicles, and transitioning to having the camp rooms cleaned every other day. Over all, these represented small alterations in service but big cost savings. It has been motivating for the employees at the front line of the operations, and has created a positive cultural evolution.

Q: What are your thoughts on how boards might evaluate employee-retention risks, and what actions might be taken?

SARAH: I'm not a big believer in broad-based supplemental retention programs, but I do recognize that there can be select key people that truly add significant value in the long run for an organization. If a retention program is required, it should be longer term and very selective. Boards also need to not lose sight of the non-compensation elements in the retention discussion – making sure management is motivating and engaging the workforce, including ensuring they are thanked, appreciated and valued for their contributions in these challenging times. Whenever I see employee-engagement surveys, the piece that always scores lowest is the appreciation factor. Now is the time to engage your high-potential talent in really special projects that you want done. A board should regularly ask itself and its management team: "Are we doing things to really engage our top talent and encourage loyalty?"

KEN: The current labour environment is pretty static, so I would not anticipate much movement. However, the real risk for retention will be coming out of the downturn, when talent is motivated to move [to other] companies to "reload" on equity. In my view, this will require some plain discussions with shareholders and advisory groups on strategies to mitigate that risk and ensure companies are positioned for the upturn, including the possibility of equity exchanges or repricing.

Q: Will hiring freezes and reductions in training-and-development spending create gaps in the workforce and hurt succession planning – particularly for the senior executive and CEO pipeline?

SARAH: I do think it is going to create a gap, and I liken it to the kind of gap that exists for organizations right now where almost three layers of management are all the same age, and that probably occurred from a similar situation in the 1980s.

What I have seen some companies do is focus a bit more on the demographics of their workforce to ensure they don't have as much of a gap going forward. The smart companies are understanding who the "high potentials" are, ensuring that they are being seriously developed, and making sure they understand that they are valued and figure into the future. I would invest some resources to identify the talent that is being let go out in the market and hire them right now for key roles – it may add a little cost, but a handful of key people, not necessarily at the most senior level, can make a huge difference, especially for a small organization. There is some really good talent out there right now at different age cohorts.

GREG: What I have seen is you go through the downturn and people get bruised and battered and, depending on your age and stage, it's often a good time to exit. The tough part is trying to marry the experience of grey-hairs with the enthusiasm and optimism of youth. Combine the two and you'll have a really strong company. It's fascinating to watch this city, as the money in Calgary is not made by the young entrepreneur but by the old grey-haired guys who have been through five or more price cycles and know [the sector] is coming back. [In this city], we tend to commit our capital too early and believe the downturn will be shorter than it is and we believe the upside will be greater than it is.

Q: What changes can be implemented today to make compensation in this sector sustainable long-term?

MARTIN: You are going to do better in tough times if you are more conservative in the good times. A significant piece of the current trouble is capital structure, which drove accelerated growth when times were good. If you finance aggressively to capture the upside, you should expect to suffer more on the downside. If there are harsh lessons coming out of this downturn, it may be that people will be more prudent in the upturn; the same can be said for compensation decisions.

Q: Any other advice you would share with directors facing similar situations?

SARAH: I also would encourage my management teams to keep an eye out for good people, even at an entry level. While the company may not be hiring, management can set aside time to meet with those people and that will be remembered by the future candidates. These types of strategies build for the future – they enhance the brand and internal loyalty, and those potential candidates will probably pay more attention when you knock on their door in the future as opportunities become available.

For organizations that are in truly rough shape and have to cut good talent, then I suggest assigning someone to keep in touch with these people, because maybe the company can get them back in the future when it has recovered.

KEN: I would note that teams are getting leaner and we are asking management to take on more and more. Boards and directors should be cognizant of that fact and ensure our expectations of management are reasonable. We still need to get the right information, but we can't expect everything as quickly as we used to get it and we need to really prioritize what we ask of management.

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PERSPECTIVES

"With the decline in commodity prices, the Canadian oil and natural gas sector is going through a dramatic restructuring that has resulted in many tens of thousands of layoffs. The critical challenge facing the sector is to maintain the skills required for efficient and environmentally responsible operations today, and having sufficient capacity to respond quickly to growth opportunities when economic conditions improve."

Gerry Protti, chair of the Alberta Energy Regulator

"Being part of the energy transition means developing more sustainability expertise in the boardroom, on risk committees and in core operations. In recent engagements with oil and gas investee companies, we were impressed to find that they supported carbon pricing, with most embracing strategies to align with a lower-carbon economy, such as retaining their sustainability staff despite adverse economic conditions."

Alison Schneider, director of responsible investment, Alberta Investment Management Corp.

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