

INSIDE EMPLOYEES' MINDS:[™] WHAT OIL AND GAS EMPLOYEES VALUE — CANADA

APRIL 2015



Current market conditions in the oil and gas industry are dangerously disruptive for certain companies and create opportunities for others to gain competitive advantage. As companies consider whether changes to their business strategy are appropriate, they must consider whether such changes require a modification to their HR strategy.

To assist oil and gas employers in the ongoing effort to align business and HR strategy, Mercer conducted an **Oil and Gas Talent Outlook and Workforce Practices Survey** and prepared a companion **Global Talent Forecast** (both released in 2014). As the price of oil continued to drop, Mercer completed a **Changing Energy Industry Dynamics Survey** which summarized employers' preliminary thinking on actions they were taking to deal with the current situation and Point of View summarizing how employers can address short term needs (for example, financial savings) without jeopardizing their long term human capital strategy (released in February 2015 and updated in April 2015).



To complement employers' perspectives, Mercer designed and conducted an **Inside Employees' Minds™: Oil & Gas Survey**, in partnership with Rigzone, to assess employee satisfaction and perspectives considering the current environment. Our combined research, gathered from both employer and employee perspectives, provides clients with the tools to navigate the oil and gas industry's human capital issues in a complex and high-risk business environment.

The primary objective of the **Inside Employees' Minds™: Oil & Gas Survey** is to gauge employee preferences for various elements of their employment package, as well as measure engagement levels and current satisfaction with what companies offer in terms of their employee value proposition (EVP). Close to 1,800 responses represent a broad sample of industry employees — working across the industry value chain — primarily in the US and Canada.

Key Dimensions Assessed by the Survey

- Total rewards preferences (conjoint analysis) – Respondents rated the relative importance of various elements of their employment package (for example, base pay, job security, and career).
- Satisfaction with current total rewards elements – Respondents rated their satisfaction with elements such as base pay, job security, career, healthcare, and retirement.
- Engagement – The responses measured participant engagement levels (for example, pride and commitment).

THE IMPORTANCE OF FEEDBACK

Although employers make a significant investment in their human capital assets, they often understand this investment far less than their physical capital investments. Getting a true sense of employees' preferences and satisfaction with total rewards is paramount to attracting and retaining employees and keeping them engaged. Motivated employees are more productive and allow organizations to maximize the ROI on their human capital investment. Also, not only does low productivity pose a serious business threat, but low employee engagement can result in more dangerous working conditions in the field.

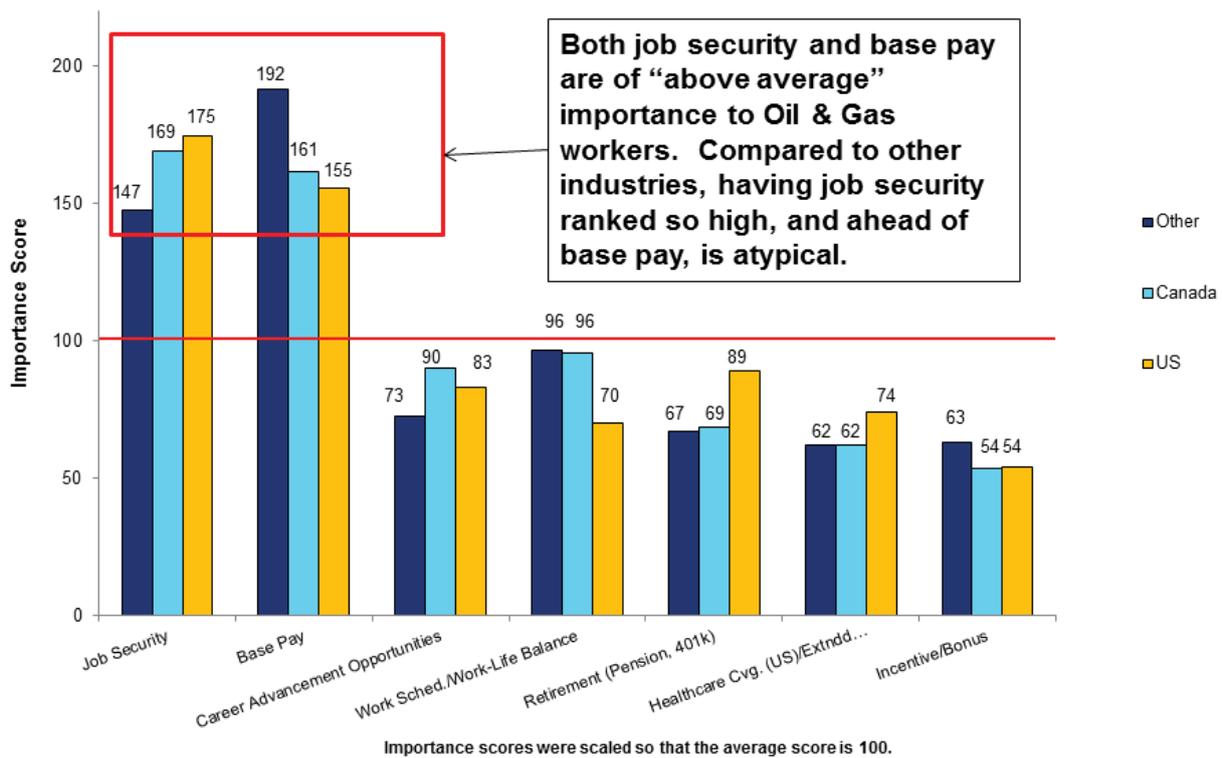
Additionally, a better understanding of the workforce allows employers to implement targeted solutions that address employee concerns. Without that comprehension, employers could implement approaches and strategies for human resources programs that are ultimately rendered ineffective. Shifting resources from HR programs that employees find unsatisfactory and of low importance to programs that resonate well with the workforce can significantly increase ROI on programs that employees find valuable.

INSIDE EMPLOYEES' MINDS™: OIL & GAS SURVEY

While responses from different demographic and geographic segments varied to some extent, the most striking finding of the survey is the universal influence the current economic environment played on employees' overall ranking of employee value proposition elements and the match (or mismatch) between importance and satisfaction of those items.

EXHIBIT 1

Total Rewards Preferences GEOGRAPHY



Although Canadian employees valued Job Security and Base Pay at similar levels, the relative importance of those reward components varied slightly. Canadians ranked base pay higher, and job security lower, than their counterparts in the US.

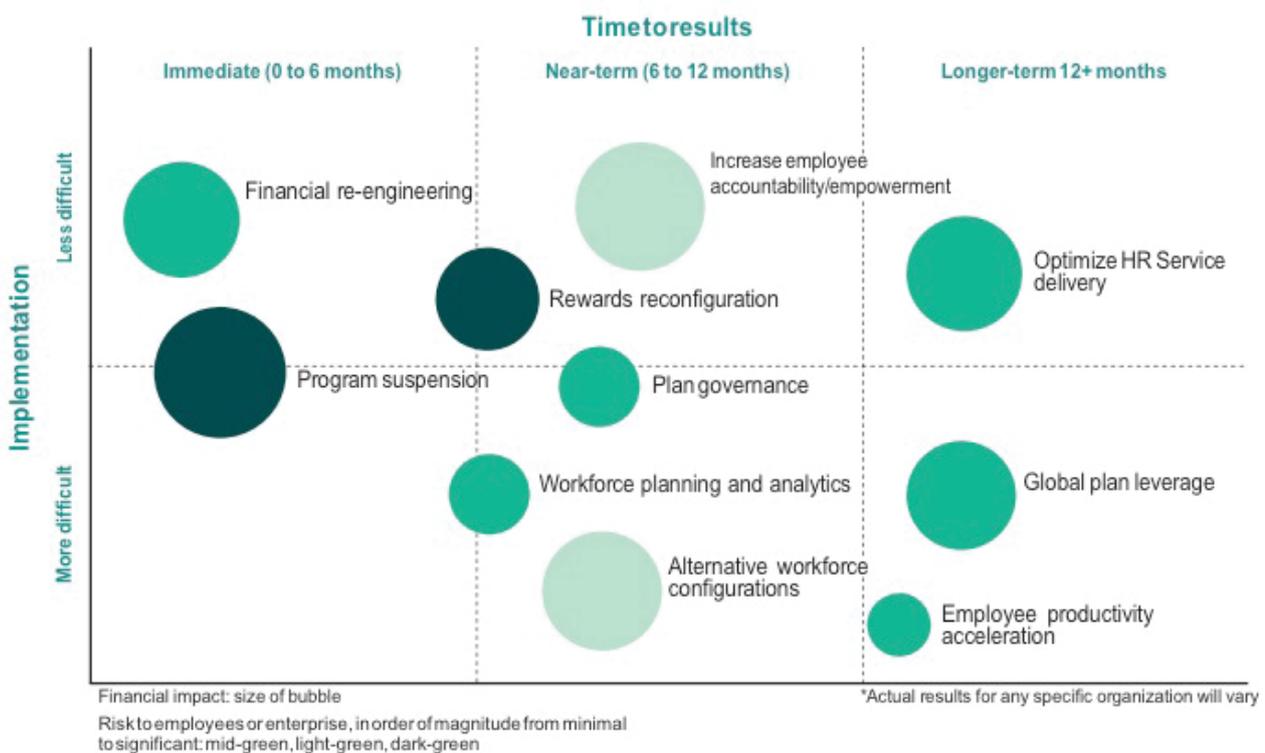
Job Security vs. Base Pay

In prior surveys that crossed industries, base pay overshadowed all other elements by a significant margin. However, among the elements assessed by this survey, and perhaps not surprising given the current environment, job security ranked highest in importance. This result appears to signal that oil and gas employees are more concerned about keeping their jobs during a time when many organizations are cutting investments, freezing pay, or eliminating jobs. If the recent instability in crude oil prices raises the relative importance of job security, it is plausible to expect that importance rankings will shift once oil prices stabilize or rebound.

Mercer’s point-of-view article, **Managing Human Capital Assets during a Market Disruption** (released in January 2015), presented a series of “priority actions” that can help improve the company’s overall financial performance (see Exhibit 2). By leveraging these actions and balancing the sentiments of the employees surveyed, an employer can prioritize and select the appropriate steps during this market disruption and decline in the price of oil.

EXHIBIT 2

Priority actions to deliver financial performance improvement* MERCER POINT OF VIEW



For illustrative purposes, knowing that oil and gas employees are less focused on base pay (although it is still a core area of strength) compared to job security, an employer might consider — under “Rewards Reconfiguration” — deferral, or possible elimination, of merit increases or variable compensation and allocate those resources towards other actions that can save jobs.

Workforce Segment Variability

Some variability in the ranking of total rewards components was evident by geography, industry segment, and job level:

- Higher-tenure employees (correlated with age) valued retirement plans and healthcare coverage, while assigning significantly lower importance to career advancement.
- In contrast to workers in the US and Canada, who ranked job security the highest, respondents in other countries ranked base pay highest in importance.
- Refining employees are somewhat less-focused on job security than other segments, while placing greater emphasis on career opportunities, retirement, and incentive/bonus. This is likely because this segment of the value chain is more positively impacted by a decrease in the price of oil than other segments.
- Executives ranked incentive/bonus plans as the single most important element in the employee value proposition (EVP). In fact, it is the only element they ranked “above average” importance, while non-executive employees ranked incentive/bonus plans as their least important element in the EVP.
- Canadian employees ranked work schedule/work-life balance and career advancement significantly higher than their counterparts in the US. Conversely, they ranked retirement and healthcare coverage significantly lower than their counterparts.

Who Is Plugged In?

As noted earlier, motivated employees are more productive and employee engagement correlates with motivation. This survey measured current engagement levels by asking questions related to pride and commitment. Although engagement levels were typically favorable, averaging 70%, some segments of the workforce are less engaged.

According to the survey, older employees with longer (11 to 20) years of service not only are less inclined to go beyond their job requirements to help the organization succeed, but are also less willing to recommend their organization as a good place to work. The data suggests this valuable segment of the workforce, who possess critical knowledge (based on the number of years to become proficient in the industry) could improve productivity if they were more engaged. Many studies have proven the relationship between employee engagement and productivity – engaged employees take fewer sick days each year, are significantly less likely to leave the organization, generate more revenue than non-engaged employees and have a much better understanding of how to meet internal and external customer needs.

The data also suggests that knowledge transfer to younger or less-tenured employees could be hindered as well, slowing down the time-to-proficiency for certain roles. With respect to older employees with longer years of service; the company might get this segment of the organization more engaged by understanding what drives their engagement. The survey reveals that this segment values its retirement and healthcare coverage more than other groups, suggesting some type of age, service weighting of these benefits might serve both the employees and company well.

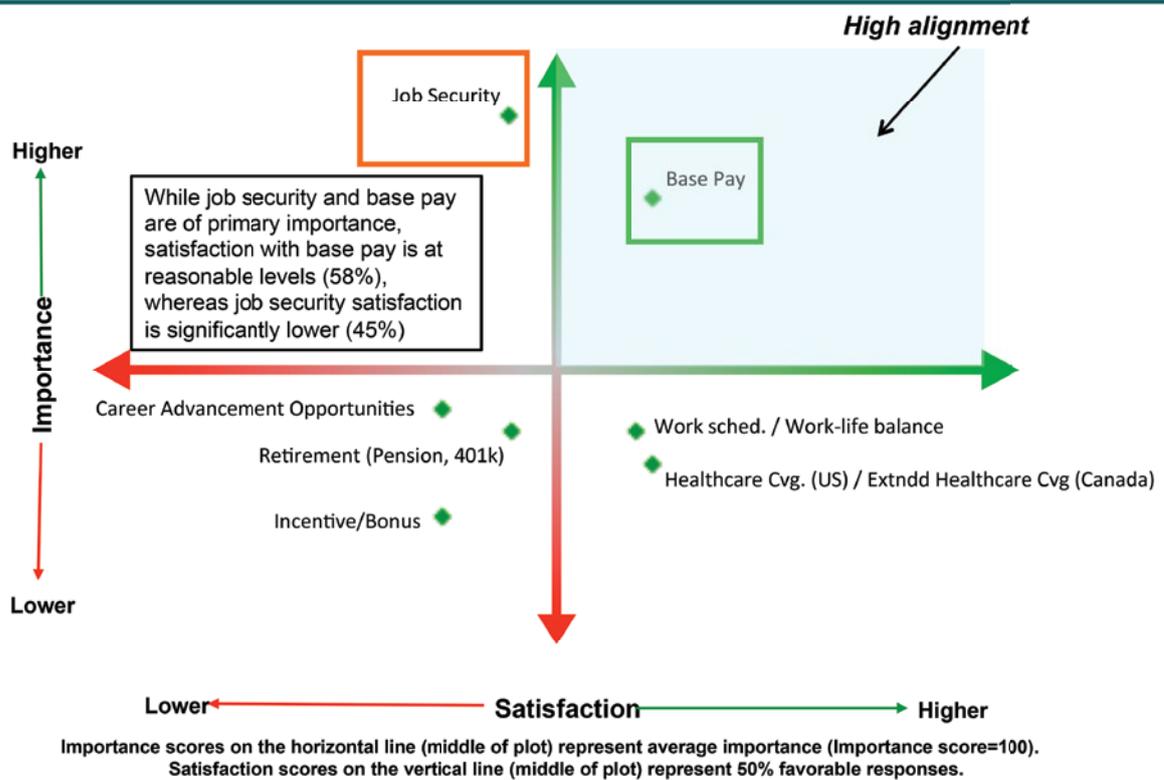
The data reveals that Canadian employees are significantly less engaged than their US counterparts. When asked the same pride and commitment questions, Canadian workers were not as proud to work for their employer, more of them would not recommend their organization to others, and a higher percentage are looking to leave their employer for other opportunities.

The Employee Value Proposition (EVP)

The survey also assessed current satisfaction with EVP elements. Whereas overall satisfaction with pay is reasonably high (58% favorable), satisfaction with job security is significantly lower (45%), signaling a misalignment between the importance of job security and satisfaction with the level of perceived job security in the industry (see Exhibit 3).

EXHIBIT 3

Importance x Satisfaction Graph OVERALL



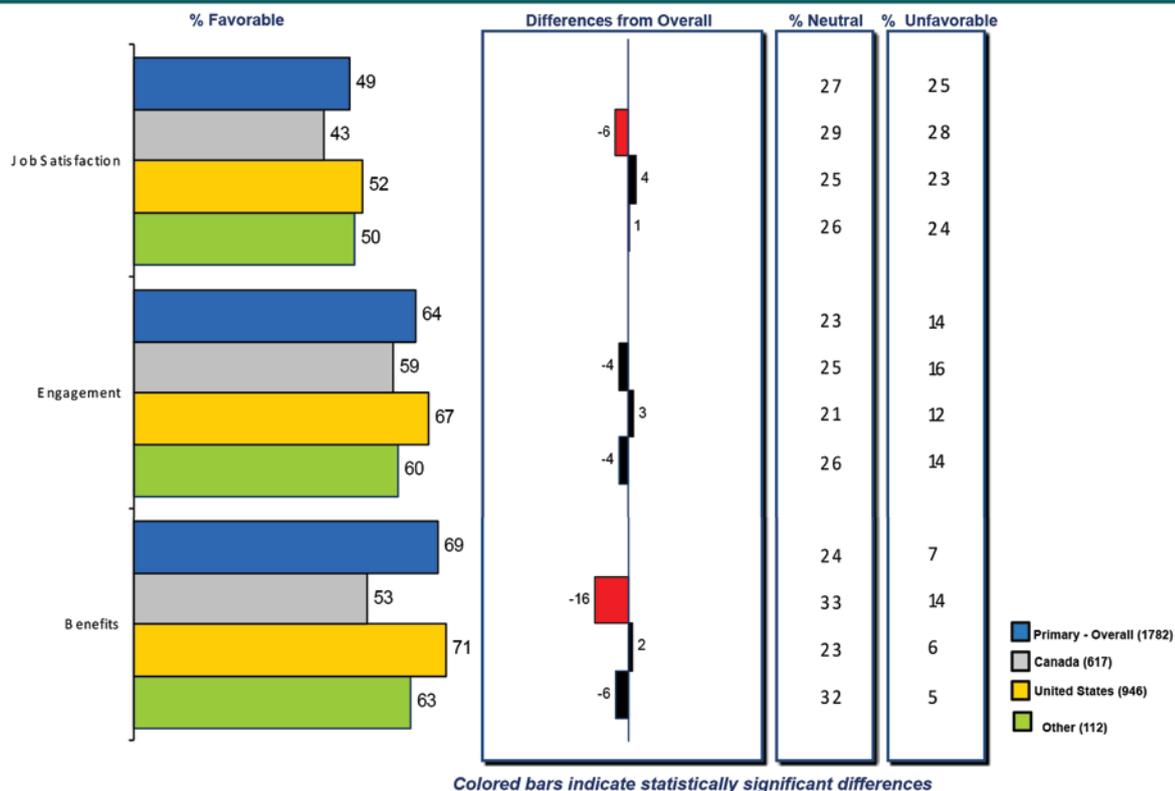
Most other EVP elements received moderate satisfaction ratings and low-to-moderate importance rankings. The one borderline exception is career opportunities, which received the lowest satisfaction ratings in the survey (39%), yet ranked third in overall importance. While other elements, such as retirement and incentives plans, play a role in the EVP, they vary in priority levels for different segments of the workforce.

Canadian Workers Are Less Satisfied

Canadian workers are significantly less satisfied with both their retirement and healthcare benefits as compared to their US counterparts. However, as benefits have lower importance to Canadian employees than other elements of the Employee Value Proposition, as employers form their strategy to deal with the market disruption, they may choose to give more attention to other elements of the EVP.

EXHIBIT 4

Total Rewards Satisfaction GEOGRAPHY



Focus on Petroleum Engineers

According to **Mercer’s Oil and Gas Talent Forecast** (released in 2014), which predicts the supply and demand of critical industry jobs, the energy industry will face a global shortage of 22,000 petroleum engineers in 2017. Segmenting the total reward preferences by job type, petroleum engineers rank career advancement opportunities and short-term incentives, respectively #1 and #2. This insight provides employers with the preferences of one of the most critical jobs in the industry, allowing them to create an EVP tailored to this workforce segment and supporting their “buy” strategy until their “build” strategy is fully implemented.

“Buy” strategy has traditionally been the preferred method to secure talent in the oil and gas industry, where employers incent workers to leave their competitors to join their firms by offering higher reward packages and accelerated career growth. However, as noted in **Mercer’s Changing Energy Industry Dynamics Survey**, there has been a notable shift toward a “build” strategy, where employers invest more in developing their current workforce to meet their talent demands.

While this shift in strategy is currently taking place, the demand for critical labor still exists and opportunities to make strategic hires are still present. Knowing what is important increases the likelihood of successfully acquiring, retaining, and motivating that individual.

PRACTICAL DATA LEADS TO RIGHT ACTION

Finding out what employees value most helps to identify the distinct total reward components that can have the greatest impact on their productivity and engagement. This information provides a richer foundation for making human resource decisions, including human capital investment decisions that maximize ROI, than simply knowing where the company stacks up against peers — particularly in a time of economic uncertainty and market disruption.

ABOUT MERCER

MERCER'S ENERGY VERTICAL

Mercer helps organizations in the oil and gas industry outpace the competition through a combination of expert resources globally, regionally, and locally; deep project experience across the value chain; unequalled global oil and gas workforce data and insights; and cross-industry adaptive innovation. To learn more, please visit www.mercer.com/energy.

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