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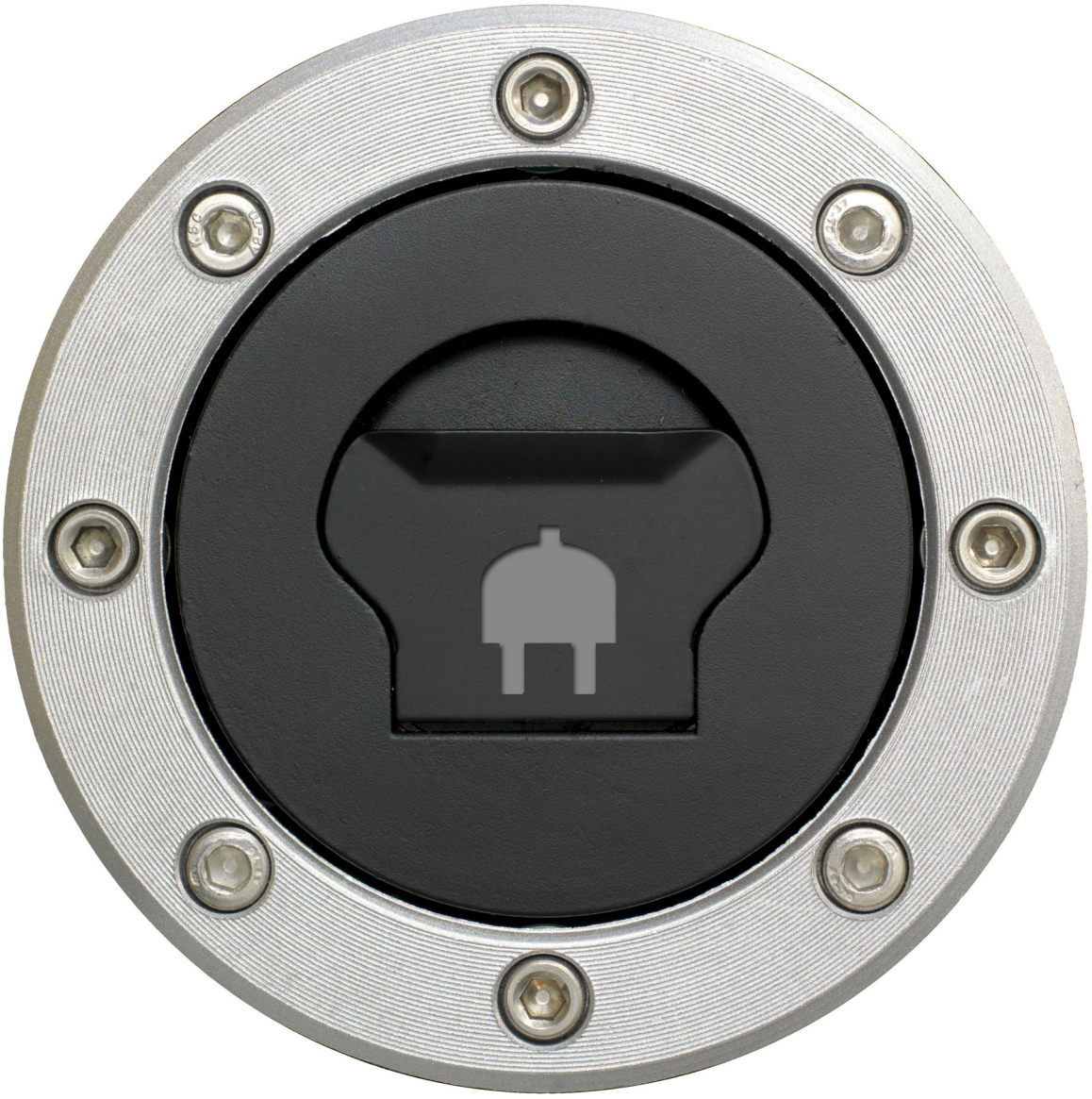


Global Human Capital Trends 2016

Energy and Resources (E&R) edition

Global Human Capital Trends 2016:

The new organization: Different by design

The theme of this year's report—*The new organization: Different by design*— reflects a major finding: After three years of struggling to drive employee engagement and retention, improve leadership, and build a meaningful culture, executives see a need to redesign the organization itself, with 92% of survey participants rating this as a critical priority. The "new organization," as we call it, is built around highly empowered teams, driven by a new model of management, and led by a breed of younger, more globally diverse leaders.

This fourth annual survey of more than 7,000 human resources (HR) and business leaders globally ranks 10 key trends and companies' readiness to respond to them. The report also includes both country and industry analyses, as well as an interactive dashboard and mobile app to explore the survey results.

Organizational design: The rise of teams
Hierarchical organizational models are not just being turned upside down—they are being deconstructed from inside out. Businesses are reinventing themselves to operate as networks of teams to keep pace with the challenges of a fluid, unpredictable world.

Leadership awakened: Generations, teams, science
Leaders of all ages, genders, and cultures are now poised to take the reins at organizations around the world. How ready will these future business leaders be to take charge in an increasingly complex global marketplace?

Shape culture: Drive strategy
The impact of culture on business is hard to overstate: 82% of respondents to the 2016 Global Human Capital Trends survey believe that culture is a potential competitive advantage. Today, new tools can help leaders measure and manage culture towards alignment with business goals.

Engagement: Always on
Employee engagement and retention today means understanding an empowered workforce's desire for flexibility, creativity, and purpose. Under the evolving social contract between employer and employee, workers become "volunteers" to be reengaged and rerecruited each day.

Learning: Employees take charge
Corporate learning departments are changing from education providers to content curators and experience facilitators, developing innovative platforms that turn employee learning and development into a self-driven pursuit.

Design thinking: Crafting the employee experience
Design thinking takes aim at the heart of unnecessary workplace complexity by putting the employee experience first—helping to improve productivity by designing solutions that are at once compelling, enjoyable, and simple.

HR: Growing momentum toward a new mandate
Good news: This year's Global Human Capital Trends survey shows an improvement in the HR organization's skills, business alignment, and ability to innovate.

People analytics: Gaining speed
The use of analytics in HR is growing, with organizations aggressively building people analytics teams, buying analytics offerings, and developing analytics solutions.

Digital HR: Revolution, not evolution
A new world for HR technology and design teams is on the horizon. Mobile and other technologies could allow HR leaders to revolutionize the employee experience through new digital platforms, apps, and ways of delivering HR services.

The gig economy: Distraction or disruption?
How can a business manage talent effectively when many, or even most, of its people are not actually its employees? Networks of people who work without any formal employment agreement are reshaping the talent management equation.

Foreword

As we compile this year's report, we find ourselves in a time of low commodity prices and, consequently, low growth. It is a time of rising supply and weakening demand, of regulatory gridlock, and tightening public scrutiny. For organizations in the E&R industry in particular, it is a time of relative hardship and uncertainty—but not impossibility.

This last part is critical and it is why we are pleased to share with you a summary of the human capital trends and priorities currently driving HR business decisions in global E&R. This report compares industry-specific results with cross-industry trends as identified by our comprehensive survey of more than 7,000 business leaders and HR executives in Deloitte's 2016 Global Human Capital Trends report, ***The new organization: Different by design***.

The results are illuminating.

The E&R industry is aligned with the broader industry counterparts in each of this year's top three trends—namely, organizational design, leadership, and culture. This is an encouraging sign that, despite facing uncertain political and socioeconomic conditions, they are not alone.

The invigorated focus upon organizational design, with an emphasis on restructuring, could not come at a more poignant time. In an effort to drive operational efficiency, the movement toward smaller, decentralized, and increasingly empowered teams is critical. Realizing operational efficiency gains in today's cost-constrained environment remains a high priority as addressing cost pressures contributes to financial health and ultimately survival in a turbulent environment.

Complementary to organizational design changes, leadership, and culture trends remain highly relevant. Companies increasingly require versatile leaders capable of leading at multiple levels to close capability gaps and equip people with the skills and knowledge required for success and long-term sustainability. Culture becomes an integral factor amid organization and leadership changes and acts as a catalyst to help companies adapt to new conditions with agility.

This E&R-specific report was designed to complement Deloitte's 2016 Global Human Capital Trends report, ***The new organization: Different by design***. We believe both reports will inform your organization's leaders on the human capital issues affecting companies in the E&R industry.

We look forward to sharing our analyses with you and welcome the opportunity to discuss your specific situation and goals personally.

Ron Harman **Louise Wilson** **Tony Maurice** **Hugo Medina** **David Brown**

Top human capital trends in E&R

Organizational design takes a clear lead as the most important trend in E&R.

Fast-moving global markets and digital disruption have forced companies to innovate rapidly, adapt their products and services, and stay closer than ever to local stakeholders. This has prompted a resurgence of interest in business organization (see Figure 1).

Top three global human capital trends:

- **Organizational design** is moving toward decentralized authority, product- and customer-centric organizations, and dynamic networks of highly empowered teams that communicate and coordinate activities in unique and powerful ways. E&R companies are taking the productivity lens on this trend.
- **Leadership** remains paramount for companies facing capability gaps—especially in E&R, where the current environment is presenting leaders at all levels with a true test.
- **Culture** continues to be one of the most important issues not to just HR leaders , but to the business overall.

Trends that keep HR leaders in the E&R industry up at night are very similar to those that are critical for HR professionals at large.

Especially notable is the prominence of organizational design. Forced into ever-increasing operational efficiency, companies are carefully reviewing their entire organizational structures.

While leadership has been the top issue in past years, this year it has taken a back seat. As it was last year, meanwhile, culture is seen as another key challenge overall. Learning, while still critical, has fallen out of the top three.

Figure 1. Global versus E&R trends
(number indicates relative importance)

Trends	Global	E&R
Organizational design	92	92
Leadership	89	86
Culture	86	83
Engagement	85	82
Learning	84	81
Design thinking	79	75
HR organization	78	79
People analytics	77	77
Digital HR	74	72
Workforce management	71	73

Very important — Not very important

Note: Figures represent the percentage of respondents who rated each trend "important" or "very important".

This report will look closely at these three most important talent challenges for E&R, prompting thoughts on how leaders can begin to address them, as well as providing suggested starting points to consider.

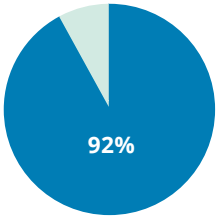
Organizational design: The rise of teams

For the first time, organizational design is one of the most pressing talent challenges facing E&R organizations. More than nine out of 10 global HR and business leaders (92%) cited organizational design as a top issue, while 57% rated it as "very important". Fully 86% of respondents have restructured their organization within the past five years.

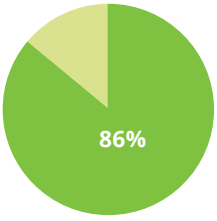
But while they are continuously restructuring, results suggest organizations are not necessarily getting better at it. Only 14% of companies believe their current organization is highly effective at achieving business goals, while almost half (47%) believe their current structure is not effective and requires improvement.

With nearly all companies recognizing organizational design as a critical issue, why are so few companies effective at addressing it?

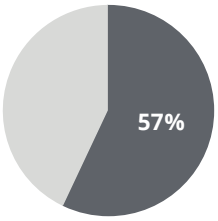
Organizational change continues to evolve and the pace of disruption hitting E&R organizations is leading to constant renewal of business strategy. This in turn, is increasing the frequency of organizational redesigns required to keep pace with competitive plans. We are finding that leading firms are driving structural interventions annually rather than every three to four years—often through rapid deployment of focused/interdisciplinary teams.



of E&R firms rated organizational design as a top priority



have restructured within the past five years



of E&R firms rated it as "very important"

The key to success is constant experimentation in how work is organized, rather than expending effort in perfecting formal reporting hierarchies.

Leading organizations are experimenting with more flexible and fluid models that promote:

- Rapid deployment of cross-functional teams
- Increased use of mission- or outcome-based organization structure
- Increased autonomy for these cross-functional teams to make decisions
- Enabled networked teams through increased use of digital, collaboration, and workspace design

Keys to an effective network of teams:

- Clearly define each team's mission
- Delegate responsibility
- Assign strong team leadership
- Build a shared culture and sets of both information and communication tools that help teams align with each other

Bottom line

Current disruptions require a shift in mindset for redesign stewards away from viewing the organization as a collection of disparate parts and instead as a dynamic and evolving system. Redesign should seek to get the most out of your talent and their aspirations, rather than stifling them through too great a reliance on traditional hierarchy.

The challenge is that reorganization too often relies on conventional answers like functional, geographic, or matrix orientations. These types of models will continue to have an important role to play for large E&R enterprises—in fact, for many it will be the only way to organize core capabilities at the highest levels. But we argue that these traditional models also need to be complemented with more fluid structures to enhance flexibility and responsiveness to emerging business needs.

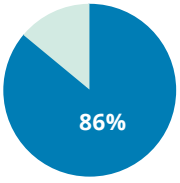
Leadership awakened: Generation, teams, science

For the third year in a row, leadership remains one of the most pressing talent issues for E&R organizations. **An overwhelming 86% of respondents believe the issue is "important," with 54% citing the problem as "very important."** While not the top trend for 2016, leadership remains a priority.

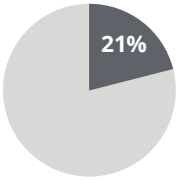
The leadership capability gap remains high, with only 21% of companies rating their leadership bench strength as either "strong" or "very strong," and only 9% of respondents rating the development programs for millennials as "excellent". **With many companies recognizing leadership as a critical issue, why does progress addressing it remain so slow?**

A key reason may be that, as organizational design shifts from a structured hierarchy to a network of teams, companies require different types of leaders and inclusion capabilities. As organizations grow flatter and more diverse and as the global operating environment becomes increasingly more complex, there is a stronger demand for people who can lead at all levels of the company.

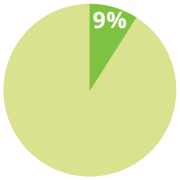
Our view is that adopting a more scientific approach to leadership development, measuring potential, matching roles and strengths, and redesigning work itself can play a powerful part in solving the leadership challenge.



of E&R firms rated leadership as a top priority



of E&R firms rated it as "very important"



Only 9% rate their development programs for millennials as "excellent"

E&R companies continue to focus on the present at potential risk to the future:
80% continue to invest in development of senior/executive leadership, but still only 18% have clear succession plans and programs

Fortunately, companies can improve leadership in several ways:

- **Take a fresh, hard look at leadership development strategy**. Many companies find that this is the best place to start. Nearly two in three of our respondents (62%) report that they have updated their leadership strategy in the last year or are currently doing so. Perhaps most important is to challenge the current strategy: Is it delivering the impact, results, leadership pipeline, and caliber of leaders the business needs now and in the future?
- **Cast a wider and deeper leadership net**. Many organizations are trying to broaden their definition of leaders and leadership, yet too often those definitions are still not broad enough. The potential leadership pool must expand teams and networks of teams beyond organizational boundaries.
- **Focus on young, diverse leaders**. Identifying great leaders as early as possible is an important way to deepen the leadership bench and promote dramatic change.

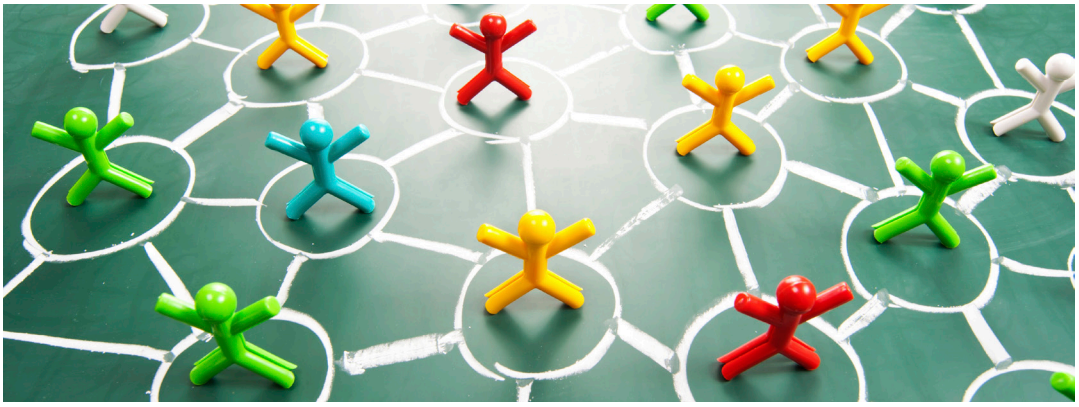
Bottom line

Are the organization's leadership strategy, pipeline, and programs up to the task? Our data on this question over the past several years suggest they are not. To make progress on the perennial and pervasive challenges of leadership, companies need to ask hard questions.

Who in the organization is likely to be a true game-changer? Does the organization tend to promote people who look and think like current leaders? Do current leaders conduct deep analyses to identify and develop people with potential? How much time do leaders in the organization spend on elevating team effectiveness?

Only by answering such questions can organizations find ways to effectively cultivate the leadership talent they will need to compete.

Shape culture: Drive strategy

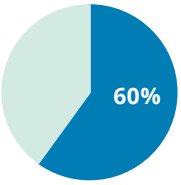


Culture remains a huge issue for E&R companies in 2016. **An overwhelming 82% of respondents believe the issue is "important," with 48% citing the problem as "very important."** Data also showed substantial capability gaps in culture —many of the respondents to this year's survey (49%) report that their organizations are not ready at all, or only somewhat ready, for the challenges they face.

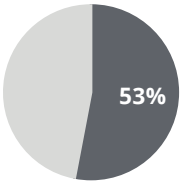
As organizations restructure and greater focus is placed on the ability of teams to work across boundaries, the cultural pillars on which the organization is built will need to be tightly aligned to business and operating model demands. New tools and methods can help companies achieve that alignment.

While 83% of respondents view culture as a potential competitive advantage, they continue to have mixed results with execution. Only 17% of respondents rated themselves as excellent at effectively driving the desired culture—which needs to start at the top. HR can support through measurement, process, and infrastructure —but responsibility lies in the C-Suite.

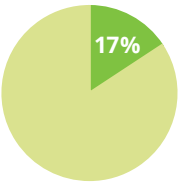
Organization's culture



of E&R firms have "excellent" or "good" understanding of their organization's culture



of E&R firms agree that their corporate culture needs to change to reflect changing business and demographics



of E&R firms rate themselves as "excellent" at effectively driving the desired culture

Given broader business and workforce changes, E&R companies must effectively measure, define, and drive desired changes in culture.

Indeed, and further to its already deep focus on safety culture, now is the time for E&R companies to also drive a high performance, collaborative culture with a stronger focus on social responsibility.

Fortunately, companies can drive culture by starting in several areas:

- **Culture cannot be delegated; it must be on the CEO's list of top priorities**. C-Suite executives must clearly understand their company's cultural values, determine how they relate to business strategy, and take responsibility for shaping them—while also analyzing whether their own behaviors reinforce the desired culture.
- **Understand both the current and the desired culture**. Business leaders should closely examine current business processes step by step to identify which practices are aligned with the desired culture and which are destructive and require change. This begins by uncovering the values and behaviors that allowed those practices to develop. While many HR organizations are building teams to better communicate leaders' vision of the desired culture, these teams do not always connect cultural change programs to behaviors and business strategies.
- **Measure culture**. Use empirical tools to understand employee attitudes and actions. If measurement reveals that current behaviors conflict with desired cultural values, refine the program to communicate and model desired culture throughout the organization.

Bottom line

Although HR has a distinct and proactive role to play in driving cultural change, the challenge of culture should be owned at the highest level: by the leaders who are responsible for business strategy. Just as this is ultimately the CEO's responsibility, so too is culture.

Leaders must understand that their beliefs and actions are the primary drivers of the organization's culture. In the "new organization," senior leaders must drive cultural change just as they do other cross-organizational issues, reinforcing the behaviors necessary to support the business strategy.

Start by identifying the practices that need to change before any cultural transformation can take hold, and then use new tools available today to help.

Is HR ready?

Key findings

On the whole, HR leaders made significant strides this year. E&R companies in particular saw their "underperformance" ratings improve from 13% to 9%, showing that HR is supporting their leaders through the difficult times.

As shown in Figure 2, however, capability gaps in readiness to address key challenges remain large relative to the identified importance of those challenges. At a time when talent is indisputably a CEO-level issue, HR leaders and organizations need to refocus to keep up with business needs.

Leadership gap remains

Survey results show that companies are not yet wholly confident in their ability not only to identify, but also to groom strong leaders. But a global shortage in engineering, and the impending retirement cliff, means that identifying and developing future leaders is more important than ever. Companies need leadership commitment to promote programs that develop a diverse set of future leaders within their organizations.

While 2016 saw a slight uptick in readiness—from 40% to 43%—this is still very low for such a critical issue.

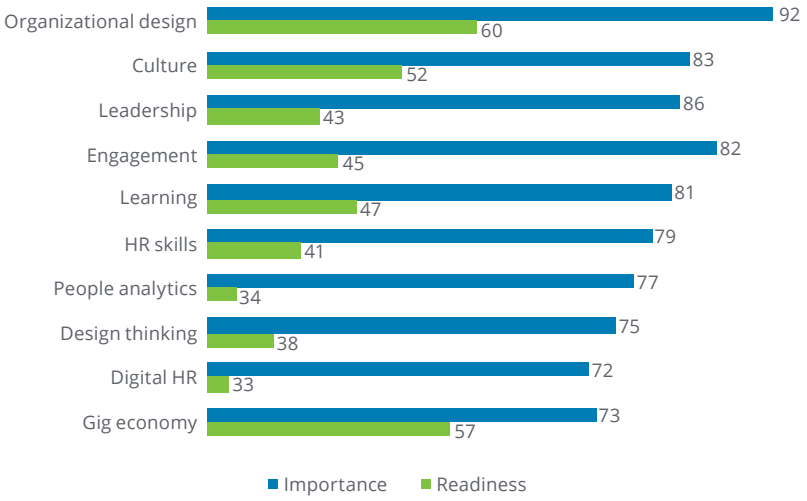
Taking organizational design to the next level

While the readiness gap on organizational design is comparatively low—demonstrating HR's growing confidence to manage the challenges of restructuring—it remains unclear whether HR's growth in confidence is commensurate with their growth in capabilities.

A new mandate for HR

An overwhelming majority (79%) of leaders continue to see increased HR capabilities as a crucial issue. But to make good on the promise inherent in that view, HR's role needs to expand beyond the traditional focus on talent management, process, and transactions. HR is becoming an innovative consultant with a broader responsibility to design, simplify, and improve the entire employee and candidate experience. And despite the work still to be done, we believe it is beginning to hit the mark.

Figure 2. Relative importance and relative readiness

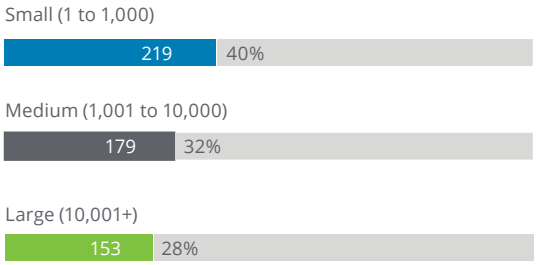


Report demographics—E&R

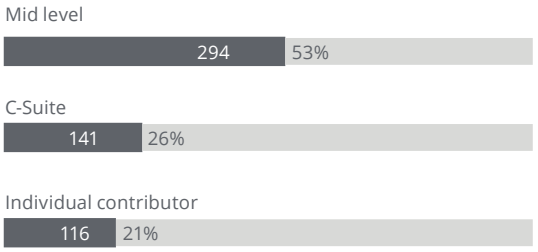
This report is based on the responses of business and HR leaders from specifically E&R companies to our comprehensive annual survey. Encouragingly, participation has increased in 2016 over the previous year—from 277 in 2015 to 551 this year. This also includes an increase in the participation of large companies with 10,000 employees or more from 53 in 2015 to 153 this year.

Figure 3. E&R survey demographics

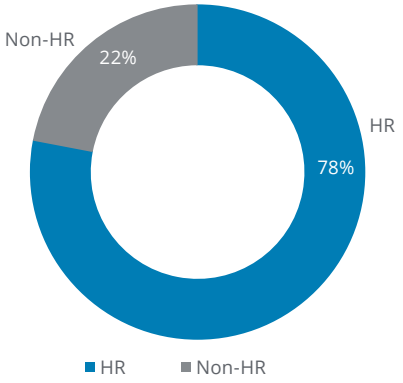
Organization size



Organizational level



Job function



Here are a few ideas to spark conversation and action

Make designing the organization a priority.

Existing organization design is compounding the challenges faced around engagement, culture, and leadership and hindering efforts to "move the needle" on important business issues. It is time to put organizational design at the top of the agenda and move beyond a post-factum 'boxes and wires' update, towards the design of the truly new organization that operates differently.

Simplify.

Companies should simplify their structures in the areas of cost decision-making speed and the flow of information, to name a few. They need to increase outside sensing mechanisms to understand disruptors and balance the need to respond and act internally.

Use what works.

Organizations need to gain an understanding of the informal structures and organic team collaboration that already takes place because these are clues as to how work actually gets done. They should then leverage the best of what they discover—and the best of the formal structures already in place—and change those aspects that hold their people back.

Learn from disruptors.

A host of nimble, innovative start-ups have emerged in recent years, keen to seize talent, market share, and disrupt traditional business models. These disruptors often exploit highly dynamic structures and ways of working ideally suited to the modern business environment. By learning how these innovative new players approach structure and workflow, engage with partners within their ecosystems—not to mention culture, engagement, and other top human capital issues—E&R companies can take away ideas to apply to their own efforts.

Embrace the digital experience.

Soon, half of your workforce will be made up of millennials. Digital is their language and the more quickly you embrace digital ways of working and managing talent, the more effectively you will be able to connect with and engage this cohort. Digital is interconnected with efforts of driving more agile culture and raising new type of leaders that think and act differently.

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About the report

This report was designed to complement the Deloitte report *Global Human Capital Trends 2016: The new organization—Different by design*, which is based on a comprehensive global survey of more than 7,000 business leaders and HR executives in 130 countries. The report examines specifically the results for companies in the Energy & Resources industry, based on 551 respondents.

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