

Energy Industry Spotlight





UNIQUE FINDINGS, POLICIES AND PRACTICES: ASSIGNMENT MANAGEMENT IN THE ENERGY INDUSTRY

Soaring demand and record breaking energy prices are creating a demand for expatriate talent not seen in the oilfields for many years. The success of exploration and services companies to profit from this peak in the boom or bust cycle depends greatly on their ability to attract and retain expatriates with proven experience.

In research conducted by Brookfield Global Relocation Services, we have supplemented the quantitative analysis from the 2006 Global Relocation Trends Survey by conducting interviews with mobility professionals responsible for international assignment strategy at six of the world's leading global energy companies. The research revealed an industry where experience pays, and workers with the right skills are compensated equally, regardless of their nationality. It looks at the impact of long term assignments and how calculating expatriate costs can: "make or break a project".

Within the energy sector, 79% of respondents surveyed reported expatriate population growth for 2006, and 86% anticipated growth for 2007. Both of these percentages were higher than the figures reported in the 2006 Global Relocation Trends Survey, where the findings were the most optimistic in the history of this survey.

All of those interviewed acknowledged that the industry was experiencing robust growth in its expatriate population, with the most

pressing need for experienced expatriates lying in the upstream services areas, namely exploration and production. A small number of interviewees indicated that their companies were atypical because of temporary internal changes or because of other practices that reduced the need for expatriate assignments.

EXPERIENCE PAYS OFF

Respondents to the 2006 Global Relocation Trends Survey reported that only 10% of their employees had previous expatriate experience, as opposed to 23% in the energy sector. (see chart on following page)

In particular, interviewees identified the need for expatriates who demonstrated the technical proficiency and levels of experience to prevent accidents at oil-extraction sites: "These assignments are both highly technical and dangerous," said one. "Safety is important in this industry, and inexperienced workers have problems...it is difficult to get local staff to fill these roles...we need experienced, trained workers".

Previous Expatriate Experience



Another agreed: “Safety is important on an oil rig, and there is a shortage of experienced talent. We try to staff positions with experienced people. Technical training to operate these machines contributes to safety, and that’s what we need”.

This high demand for skilled expatriates has also led to fierce competition for the limited pool of talent. There were repeated references to a high rate of “churn” among these expatriates as they were tempted away from one employer by better offers from another. One implication was that a previously unvisited international location was an irresistible lure for some expatriates looking for something new.

Recruiters take note! Employees are aware that they can be choosy because: “expatriates are getting and considering many offers at once”.

A FOCUS ON RETENTION AND REWARD STRATEGIES

The rise in competition for key talent is causing companies to place retention and reward strategies under the microscope. Interviews uncovered various approaches, with one participant boasting that 90% of the company’s expatriates have “been with the company for years”, despite attempts by other organizations to “poach” their workers with better offers. When asked how they warded off these attacks, the manager pointed to a policy of longstanding company support and loyalty to its employees. “They (other companies) want experienced people, but their assignments will be short term. To combat this, we’ve been loyal to our employees when there is a downturn in the market. We find things for them to do. So the employees are loyal to us in turn. We’ve been successful at retaining employees due to our history”.

At another company, however, things were different. “How do we retain them? It’s all in the reward package. And this goes beyond just an expatriate package. It consists of shares and stock options. We build into our contracts (vesting) delays that allow expatriates to gain access to their rewards only after three years, so they must stay with us at least for that long to take advantage of them. So they stay with the company to get their stock options. Nevertheless, even with these lucrative offers, turnover has been a challenge. Our turnover used to be very low – about 2%. Now it is

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17%, and some companies have over 20% turnover. Everyone in the industry is seeing this trend”.

To cope with the high demand for experienced talent, one approach has been to maintain a pool of potential candidates for expatriate assignments. This gives the organization additional flexibility when looking to deploy expatriates, especially at short notice.

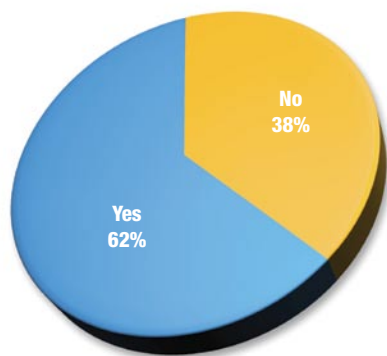
In today’s environment, all companies interviewed recognized that the point of origin is infrequently a factor in either the hiring process or in calculating the size of the compensation package offered.

As one mobility leader put it, “If you have global talent, it is irrelevant where they come from – at least for compensation. There is no benchmarking of wages using a place-of-origin standard, and there is no local basis for pay. Companies must compete for talent and close the gap if their offer is too low. There is great transparency in knowledge about salaries and competition for talent”.

COST-BENEFIT ANALYSIS; OR THE DEVIL YOU KNOW...

In the energy sector, cost-benefit analyses and cost estimates were widely employed. 62% of energy-sector companies required a cost-benefit analysis to justify an international assignment (compared to 43% in the 2006 Global Relocation Trends Survey), and 62% prepared cost estimates (compared to 78% in the multi-industry report).

Preparation of Cost Estimates



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The interview process presented the opportunity to dig deeper into these statistics for the energy sector, and again it highlighted various differing practices amongst the participants.

At some companies, for example, the cost-benefit analysis applied only to the entire project, not separating out the human resources component. At other companies, there was no true definition for situations where a cost-benefit analysis is required: “We have either senior corporate assignments or exploration assignments, so this doesn’t hold true for us”.

In other words, corporate development of senior executives was a matter of course and was its own justification, while resource-exploration assignments were just part of the cost of doing business.

Other companies went even further. Their culture is such that a successful assignment had less to do with cost and more to do with getting the job done to the best of their ability, to budget and with as little fuss as possible: “Successful individuals are those who don’t rock the boat. The use of back-to-back assignments makes a cost-benefit analysis unrealistic”. At one organization, there was even a sense of resignation about the use of international assignments: “Success and failure

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In contrast, some companies devoted a great deal of attention to their cost estimates and analyses. "Before an assignment starts, we do a costing that includes individual data about the assignee, the family, and all applicable taxes for assignments of two to three years. The assignment will not proceed unless the host-country signs off to meet full costs". At other companies, estimates of the assignment cost were part of the overall competitive bid:

"Everything is based on the bid requests for drillers. We supply cost-benefit analyses of how many expatriates we will assign and their compensation. So we are accustomed to submitting bids for the staffing of a rig. Our bid can make or break us".

When asked who prepares the bids, it depended upon what was included. Some companies outsourced the tax portions, but some companies conducted the process in house. One representative described the entire process: "I do the bids. I'm in the tax department, and I coordinate it with personnel and our tax department. For tools, we use a spreadsheet with lots of formulas. I have previous experience in the industry, and I've used other software tools, but our company goes to some remote places – such as Tunisia and Bangladesh. We can't get details for these places from off-the-shelf software.

Also, since we are in some places only for a short time, we don't buy the software package for such an event because it would be too expensive as well as too far off the beaten track. Off the shelf doesn't work for all assignments".

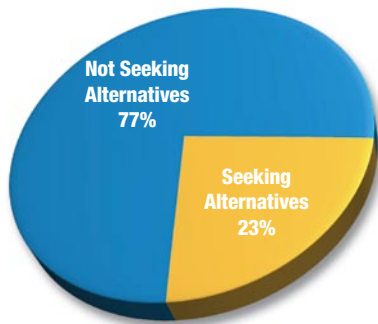
While record profits are being announced by many in the energy sector, it was also clear that companies were not taking their eye off cost control and containment. Many are seeking creative remodeling of reward and benefit structures to contain assignment related expenditure. Methods used by those companies include emphasizing caps and ceilings in the expatriate policies – in the allowances, the school fees, and in home leave, cash allowances. Some provide the actual car and actual home in some locations because, in some areas, it would be commercially naive to use a standard from another country to assign a cost limit. In such locations, the use of cash allowances is thus limited to keep costs under control. The overriding emphasis is on obtaining value for the money.

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LONG TERM ASSIGNMENTS WORTH EVERY PENNY

In sifting through the data, it became clear that only 23% of respondents in the energy sector were seeking alternatives to long-term assignments (over one year) as a way to control costs. This compared to 55% in the 2006 Global Relocation Trends Survey – a substantial difference.

Seeking Alternatives to Long-Term Assignments



When we interviewed participants to determine the cause of this approach, there was no apathy towards assignment related costs. Instead we found that companies in the energy sector utilize a greater range of assignment types to accommodate the various business and client needs. These range from three to four-year assignments for some tasks to limited-scope assignments of only a few days or a week. The more common assignments were drilling-rig rotations of four or five weeks on the job followed by four or five weeks off.

In some cases, there was simply no substitute for long-term assignments. One head of mobility, who reported having more long-term than short-term assignments, said, “If the nature of the assignment is to establish an operation in a new place, it takes time to set up and train local employees. We do use some commuter assignments – in Europe, for example – because the shorter distances within that region make it possible”. This assessment was mirrored by other interviewees, who perceived long-term assignments as an intrinsic part of their business. “Our typical assignment length is two to three years. The assignee cannot maximize his or her output until after the first year. They have to settle in, especially if language is an issue. It is better to have fewer, but long-term, assignments than to have more short-term ones if you want to obtain the most productivity from employees”.

Some interviewees identified client relationships and continuity as the driving forces behind long-term assignments.

“We seek long-term assignments because we have drilling contracts. The clients for those contracts want continuity. Most are offshore, and the clients get attached to our personnel and do not want them changed. So we keep them long term. We don’t have career-development assignments or training, but we keep our personnel on an assignment as long as they are needed. It’s client driven”.

Within the energy sector, there is no real business driver to seek alternatives to longer term

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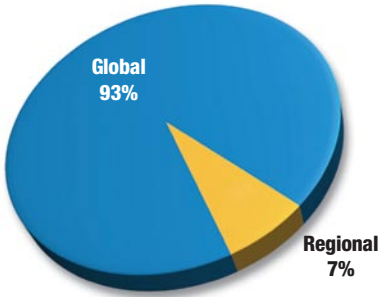


assignments. Companies have been creative in developing more policies to better suit the nature of assignments in the industry. Long term assignments, again dependent on the nature of the project, allow client relationships to be cemented and promote continuity. As long as the company is able to retain these longer term expatriates, then they are more competitive in terms of their own client retention and development strategies.

STANDARDIZE POLICY AND AVOID EXCEPTIONS

In the energy sector, 93% of respondents standardize policies on a global basis, and 7% use regional standardization. This compared to 70% and 18% respectively in the 2006 Global Relocation Trends Survey, another significant disparity.

Method of Standardization



According to most of those interviewed, information transparency characterizes the oil and gas industries in particular because employees are commonly open about sharing the make-up of their assignment packages. Many see policy standardization as a natural result of open competition and widespread availability of policy information: “In this industry, people talk a lot, so it is all transparent. Everyone knows what’s available, and we are all competitors. So for us (in implementation), there are no exceptions (to policy). Otherwise, everyone would want the exception. The motivation for standardization is that everything is known”.

Exceptions to policy have by no means been eradicated, but there is a genuine effort to keep



them to a bare minimum. The days of individual negotiation on a grand scale seem to have disappeared to a large extent. To avoid “recreating the wheel” for every individual assignment, companies are retaining standard package types, but allowing flexibility for negotiation on base salary and reward excluding allowances.

Where exceptions still seem to be prevalent are senior level assignments, but even for these a sign-off process is in situ.

Does such standardization stifle creativity? Many organizations would advocate that limited creativity is positive, and the principle is a good one. However, when mobility policy becomes so market-driven, it limits the mobility professional’s ability to introduce new concepts and policy parameters.

PREMATURE RETURN FROM ASSIGNMENTS IS RARE

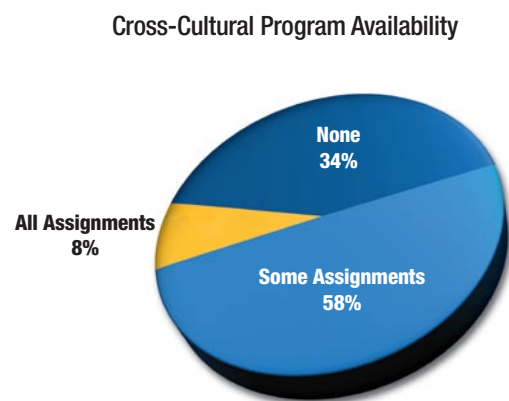
Those companies interviewed were almost unanimous in reporting that early returns from assignment simply do not happen in the oil and gas sector. 40% of interviewees insisted that it didn’t happen at all, with the remaining 60% acknowledging its occurrence but in the same breath confirming that it is very rare. Among those who considered premature return to be a rare occurrence, the primary drivers were family considerations and undesirable locations. The nature of the energy sector, and particularly oil and gas, is such that less desirable assignment destinations can become the norm as opposed to the exception.

Companies are overcoming this by sound assignee selection criteria and aligning expatriate personal circumstance with potential host locations. “There are only a few where there were early returns due to personal problems of the family or if the family came home or was not integrating well – about 10%. We send families only on the long-term assignments. They are standard expatriate assignments with no big expatriate camps, and how we treat their housing depends on the number of people we have working at the location. The most we have at one location is about 15 people, but usually it is two or three. In risky countries, they live near each other, but in other places, such as in Europe, they live anywhere”.

Frequent home trips are also used as a means of ensuring as much stability as possible for the family while the assignee is in the host location. For the most challenging locations, only the more experienced expatriates are deployed. As one interviewee put it, “They can take it in their stride”.

CROSS-CULTURAL TRAINING NOT WIDESPREAD

Cross-cultural preparation availability and participation was low in the energy sector. While only 58% of companies in the energy sector provided training in some fashion, a mere 8% made it available for all assignments. These figures were lower than the respective 80% and 34% figures in the 2006 Global Relocation Trends Survey.



The approach taken by companies in the energy sector to minimize culture-based conflicts varies from simple to complex. Some companies seek to quietly minimize contact between expatriates and the local population “It (training) is not really used. We don’t have special expatriate camps either – no special arrangements. But we try for an appropriate location, and our assignees stick to our housing and drivers. Usually, however, these are experienced people, and they move into an appropriate (expatriate) community”. More common is an ad hoc approach, with companies and not assignees deciding whether the new host location merited any specific awareness training. Needless to say, the nature and length of assignment are also motivating factors. “In our case, we offer it when appropriate, but it is not mandatory. Most assignees have traveled before within the company’s ‘world,’ so they already understand the situation. They already are familiar with it by the time they travel. The family situation, however, can change that”.

Some of those interviewed identified tight time constraints and even a sense of “arrogant colonialism” as the reasons for a lack of interest in cross-cultural preparation within the industry. They also attempted to utilize multi-cultural work teams to globalize the expatriate population. Nonetheless, cross-cultural preparation was available upon request: “We do integrate expatriates and emphasize cross-cultural preparation, but it is not mandatory. The reason is that there is simply no time. But our expatriates do request it at our company, and we provide it when they do. In our industry and in our nation, there is a kind of arrogance – even a type of colonialism – in that people say ‘everyone speaks English in this industry. So why do you need to learn another language?’ We hear this, and everyone knows it’s there. Our cross-cultural programs are sometimes just an evening and the following day. We also have a good local program for expatriates that come into the headquarters country – we have good providers here. But in the industry, the trend is less cross-cultural briefings, but maybe more of the idea of working in multicultural teams. In addressing multicultural teams, we try to shake things up – encouraging

people to be empathic about their fellow workers, their body language, etc. to get the best results”.

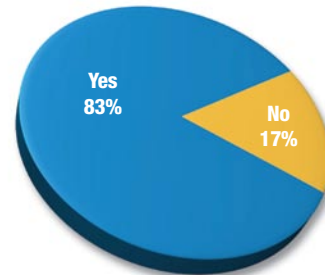
It is encouraging to note that companies are becoming creative in their approach to cross cultural awareness and its importance. One company had implemented set criteria for using cross-cultural preparation: “We started this last year, and there are three kinds of training: there is country-specific training, for places such as Kazakhstan (because of lack of familiarity with the culture); there is training for Muslim countries (to avoid culturally insensitive situations); and this year we have training in one European country. It lasts for two days and the family can join. It is not mandatory, but so far, all the people who were offered the training accepted it. All believed they learned from it.” So, despite a company’s mindset that cross cultural awareness is in the main not necessary, there may be surprising rates of acceptance from assignees – and it is such offerings and the resulting employee engagement that can really help to drive competitive advantage and improve retention. One head of mobility, supporting greater cross cultural training, criticized the lack of an international mindset: “Too many people who are not prepared to be internationally mobile join the firm knowing that it is an internationally mobile company. We need incentives to help develop them as truly international expatriates”.

STAFFING THE INTERNATIONAL ASSIGNMENT MANAGEMENT DEPARTMENT

In the 2006 Global Relocation Trends Survey, only 19% of respondents reported cuts in their international assignment management departments – the lowest percentage since this question was first asked. In the energy sector, the percentage was even lower, with only 17% reporting cuts. These results were mirrored in the personal interviews. None of the companies reported cuts in their departments. “There are no cuts,” said one. “We are stable. We outsource our administration, and we take care of the management in house”. Part of the rationale for the lack of cuts is the belief that company mobility teams in the energy

sector are already running efficiently, so cutbacks are not a consideration.

Staff Cuts in Assignment Management



Why do some companies retain, or even grow their assignment management teams? “We’ve doubled in size and volume. In addition to industry demand and growth, the idea of complexity is the reason for our expansion. Assignments have many complexities and angles that require international management. Also, the need for speedy mobilization is a factor. For our operations, we need an experienced, international staff and seasoned expatriates. There are important global contracts involved, and they require very specialized knowledge. We like in-sourcing, and we like to have a direct relationship with the service providers. We can’t distance ourselves from the expatriates or the service providers. It is very high-touch. As a result, we have little need for interventions on assignments (assignments run smoothly)”.

Those companies that reported partnerships with relocation management companies have done so only partly to reduce relocation related expendi-



ture. They reported a desire for centralized reporting capabilities for the entire expatriate workforce and peace of mind on global compliance. They also sought to benefit from the relocation management company's network of suppliers in areas such as removals and local relocation support, and some even relied on them to review and pay expatriate expense claims.

CREATIVITY AND INNOVATION ARE KEY TO FUTURE SUCCESS

It is clear that the most pressing challenge for organizations in the oil and gas sector is the retention of key expatriate talent. Loyalty strategies are more commonplace and will continue to be. Companies are experimenting with various reward methodologies to retain key expatriate staff – these include long term stock options and loyalty bonuses.

Companies willing to be innovative in their approach to managing international assignee talent, to “break the mold” and introduce new approaches to the management of their expatriate workforce, will be the most successful in the years to come. Organizations that are setting the new trends will consistently have the upper hand on competitors and will have the ability to attract “rising stars” as well as experienced talent from competitors.

Energy industry statistics demonstrate that the demand for qualified, experienced people with international experience is only going to increase. This against a backdrop in decreasing numbers of graduates in engineering and a growing number of experienced talent reaching retirement age. Organizations need to place an emphasis on matching people, skills and talent with the long term company goals. Companies are having success by implementing strategies by particular company segments and geographies, recognizing that there are trends towards talent shortages in these specific areas in the medium to long term and are already putting plans in place to address them. This includes targeted recruitment of foreign nationals to be immediately seconded to company

subsidiaries for training and career development, with the clear goal of returning to their home location or pre-determined host location three to five years later. Also, targeting institutions that offer qualifications in specific engineering fields is fundamental to future international success.

Although the compensation elements of international assignment packages are vital in attracting and retaining expatriate talent, companies need to focus on rounded offerings if they are to win in the long run. Companies need to supplement packages with structured support offerings for the partner and family accompanying the assignee. Is there employment or further education support? For those families left in the home location while partners are overseas for four to six week periods, can support be offered?



This research has confirmed that companies in the energy sector are indeed aware that, as the pipeline for international talent starts to run dry, they must focus not only on retention strategies for their more experienced expatriates, but also on recruitment programs for the next generation of globally mobile employees. Innovative approaches to reward and assignment policies designed to engage the assignee and family members will ultimately differentiate companies in this sector and give them a competitive advantage in the years to come.

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ABOUT THIS RESEARCH

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