

INVEST IN PEOPLE TO STRENGTHENING ORGANIZATIONAL CAPABILITY AND ACHIEVING TOP-TIER PERFORMANCE IN OIL COMPANY

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The strategic plan sets direction, align among organizations, and differentiate corporate or enterprise from the competition. It guides actions to successfully manage risk and deliver shareholder value. Some companies have two greater details strategies: (1) Enterprise strategy represent for organizational capability and talent to maximize the value and growth and (2) Major Business Strategies represent focus selection of major business areas.(upstream, downstream, and other derivative products).

There are four group of dimensions that help companies deal with the competitive challenges (global, sustainability, and technology), called people management framework which are **(1) Managing organization environment**, linking organization practices to the company's business objectives – long term shareholder value (strategic staffing, global diversity, functional competency management, organization design), **(2) Acquiring and preparing people as resource**, recruiting and selecting employee (university hiring, experienced hiring, outsourcing), **(3) Assessment and development people**, measuring employees performance, preparing future work roles, training and development, and identifying employee work interests (on boarding, competency assessment and development, knowledge transfer / management, leadership management, succession planning, career development, job selection), **(4) Compensating**, creating pay system, rewarding people contribution and provide benefits. (performance management, pay determination, compensation benefits and policies, employee relations, retention program).

People competency (technical know how) is critical to execute with excellence on existing assets, grow company through the use of competitive advantages and conquer increasing technical complexities.

Key words: Organizational Capability, Knowledge Management, Performance Management, Competitive Advantage, People Management Framework, Performance Measurement System (PMS), Balanced Scorecard, Human Resource Management

Research Type: Research paper

Introduction

The energy industry is the totality of all of the industries involved in the production and sale of energy, including fuel extraction, manufacturing, refining and distribution. Modern society consumes large amounts of fuel, and the energy industry is a crucial part of the infrastructure and maintenance of society in almost all countries.

The petroleum industry (including oil companies) is categorized as energy industry. The petroleum industry includes the global processes of exploration, production, extraction, refining, transporting (often by oil tankers and pipelines), and marketing petroleum products. The largest volume products of the industry are fuel oil and gasoline (petrol). Petroleum (oil) is also the raw material for many chemical products, including pharmaceuticals, solvents, fertilizers, pesticides, and plastics. The industry is usually divided into three major components: upstream, midstream and downstream.

Indonesia Petroleum Industry Overview

Indonesia has been active in the oil and gas sector for more than 125 years after its first oil discovery in North Sumatra in 1885, and continues to be a significant player in the International oil and gas industry.

Most oil and gas production is carried out by foreign contractors under production sharing contracts (“PSC”) arrangements. The major crude oil and natural gas producers (as PSC operators) as of December 2010 were as follows:

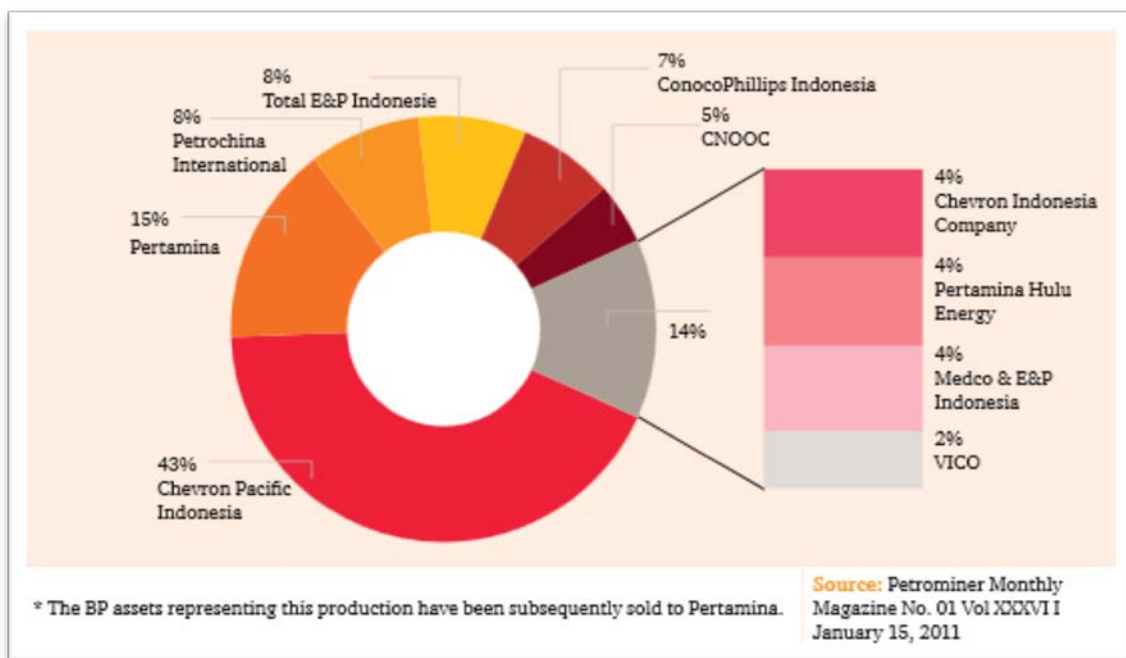


Figure 1. Indonesia Major Oil Producers as of December 2010

Oil company tends to be dominated by strong technical engineering and technology cultures as their success function. Hence, most of those foreign contractors believed that the people or human as one of key role plays in determining the survival, effectiveness, and competitiveness of their business. Competitiveness refers to a company’s ability to maintain and gain market share in their industries. While company effectiveness is determined by whether the company satisfies the needs of stakeholders (groups affected by business practices).

This paper will elaborate more about investment in people and Human Resources Management conducted by one of global oil company operated in Indonesia to strengtening their organizational capability and achieving their top-tier performance.

Problem Formulation

There are three competitive challenges that company now facing and influencing: The sustainability challenge, the global challenge, and the technology challenge.

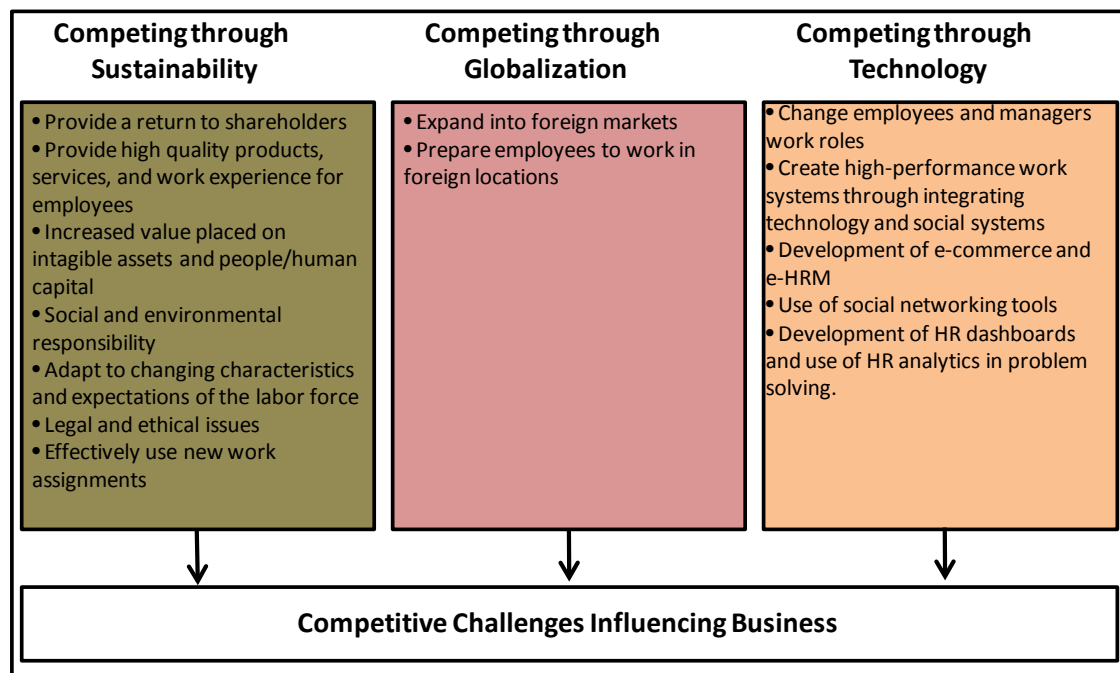


Figure 2. Three Competitive Challenges

The sustainability Challenge

Sustainability refers to a company's ability to make a profit without sacrificing the resources of its employee/people, the community, or the environment. Sustainability includes the ability to deal with economic and social changes, practice environmental responsibility, engage in responsibility and ethical business practices, provide high quality products and services, and put in place methods to determine if the company is meeting stakeholders' needs.

The global Challenge

Every business must be prepared to deal with the global economy. Global business expansion has been made easier by technology. The internet allows data and information to be instantly accessible and sent around the world. The internet, e-mail, social networking, and video conferencing enable business deals to be completed between companies thousand of miles apart.

Business around the world are attempting to increase their competitiveness and value by increasing their global presence, often through mergers and acquisitions.

The Technology Challenge

Technology has reshaped the way we play, communicate, plan our lives, and where we work. The Internet is a global collection of computer networks that allows user to exchange data and information.

Conceptual Frameworks/Theoretical Foundations

The Balanced Scorecard

Today, the organizations are competing in complex environments so that an accurate understanding of their goals and the methods for attaining those goals is vital. The financial measures only are inadequate.

Kaplan (1996) stated that the Balanced Scorecard expands the set of business objectives beyond summary financial measure, including the performance drivers of those financial performances. The Balanced Scorecard translates an organization's vision and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. The scorecard measures organizational performance across four balanced perspective: financial, customers, internal business processes, and learning and growth. The BSC enables companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they need for future growth.

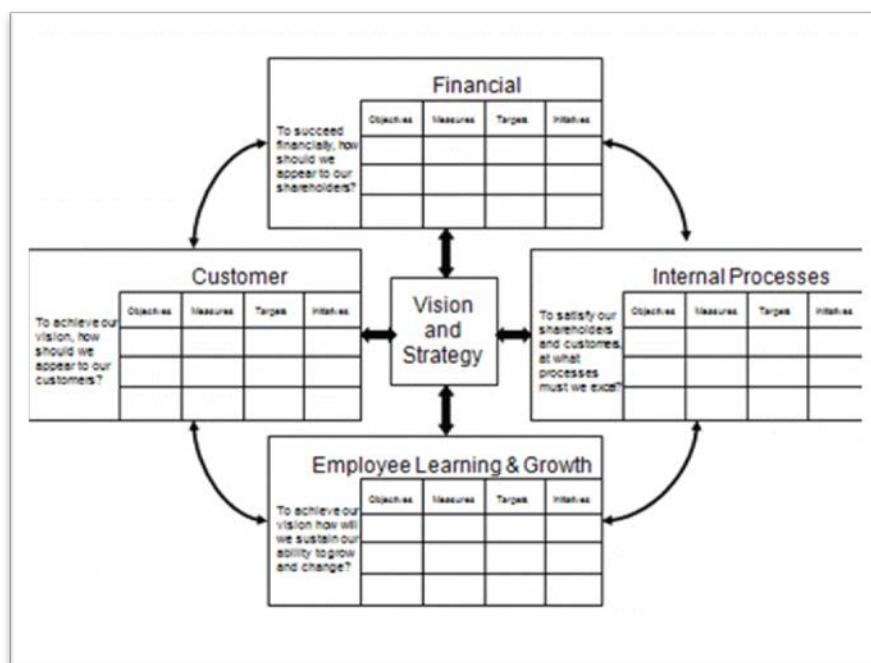


Figure 3. The Balanced Scorecard Framework to Translate A strategy into Operational Terms

Learning and Growth Perspectives

Organizational learning and growth as one of BSC perspectives, come from three principal sources: people, system, and organizational procedures. The financial, customer, and internal business process objectives on the Balanced Scorecard typically will reveal large gaps between the existing capabilities of people, system and procedures and what will be required to achieve breakthrough performance. To close these gaps, business will have to invest in reskilling employees, enhancing information technology and systems., and aligning organizational procedures and routines.

Raymond (2012) stated that the Balanced Scorecard should be used to (1) link people/human management activities to the company's business strategy and (2) evaluate the extent to which the Human Resources Management (HRM) function is helping the company meet its strategic objectives. Communicating the scorecard to employees give them a framework that helps them see the goals and strategies of the company, how these goals and strategies are measured, and how they influence the critical indicators. Measures of HRM practices primarily relate to productivity, people and process. Productivity measures involve determining output per employee (such as revenue per employee). Measuring people include assessing employees' behaviour, attitudes, or knowledge. Process measures

focus on assessing employee satisfaction with people systems within the company. People systems can include the performance management system, the compensation and benefits system, and the development system. To show that HRM activities contribute to a company’s competitive advantage, managers need to consider the questions shown in table. 1 and be able to identify critical indicators or metrics related to people/human resources. Critical indicators of HR practices primarily relate to people, productivity, and processes.

Table 1. The HR Scorecard: Linking People, Strategy, and Performance

PERSPECTIVE	QUESTIONS ANSWERED	EXAMPLES OF CRITICAL BUSINESS INDICATORS	EXAMPLES OF CRITICAL HR INDICATORS
Financial	How do we look to shareholders?	Profitability, growth, shareholder value	Compensation and benefits per employee, turnover costs, profits per employee, revenues per employee
Customer	How do customers see us?	Time, Quality, Performance, Service, Cost	employee satisfaction with HR department services, Employee perceptions of the company as an employer
Internal	What must we excel at?	Processes that influence customer satisfaction, availability of information on service and/or manufacturing processes	training costs per employee, turnover rate, time to fill open positions
Innovation and Learning	Can we continue to improve and create value?	Improve operating efficiency, launch new products, continuous improvement, empowering of workforce, employee satisfaction	Employee/skill competency levels, engagement survey results, change management capability

Meeting Competitive Challenges through HRM Practices

The management of human resources plays a critical role in determining companies success in meeting the challenges and competing in complex environments. Compensation, staffing, training and development, performance management and other HRM practices are investments that directly affect employees/ people motivation and ability to provide products and services that are valued to company.

Raymond (2012) stated that research has shown that companies that attempt to increase their competitiveness by investing in new technology and becoming involved in the quality movement also invest in state-of-art staffing, training, and compensation.

HRM practices that help companies deal with the competitive challenges can be grouped into the four dimensions called people management framework, shown in Figure 4.

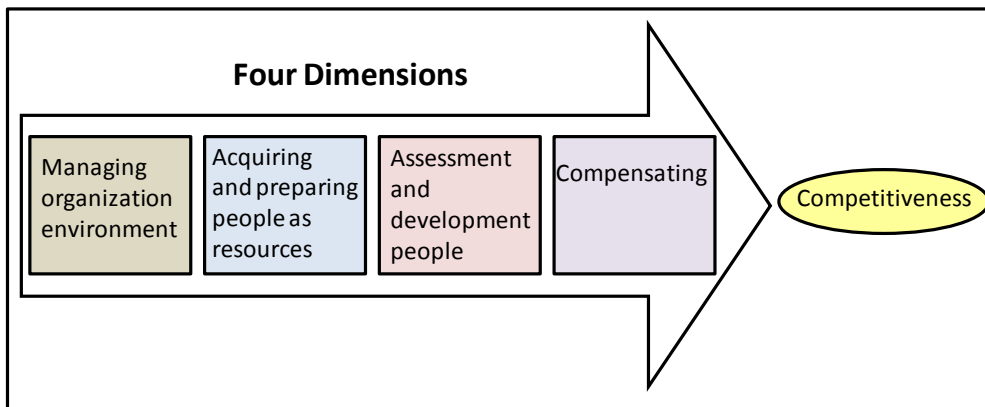


Figure 4. Four Dimensions of HRM Practices Contributing to Company Competitiveness

Methodology

Illustrating the established processes from translation company’s vision and strategy into link people/human management activities to the company’s business strategy and evaluate the extent to

which the Human Resources Management (HRM) function is helping the company meet its strategic objectives. Figure. 5 showed the overall process.

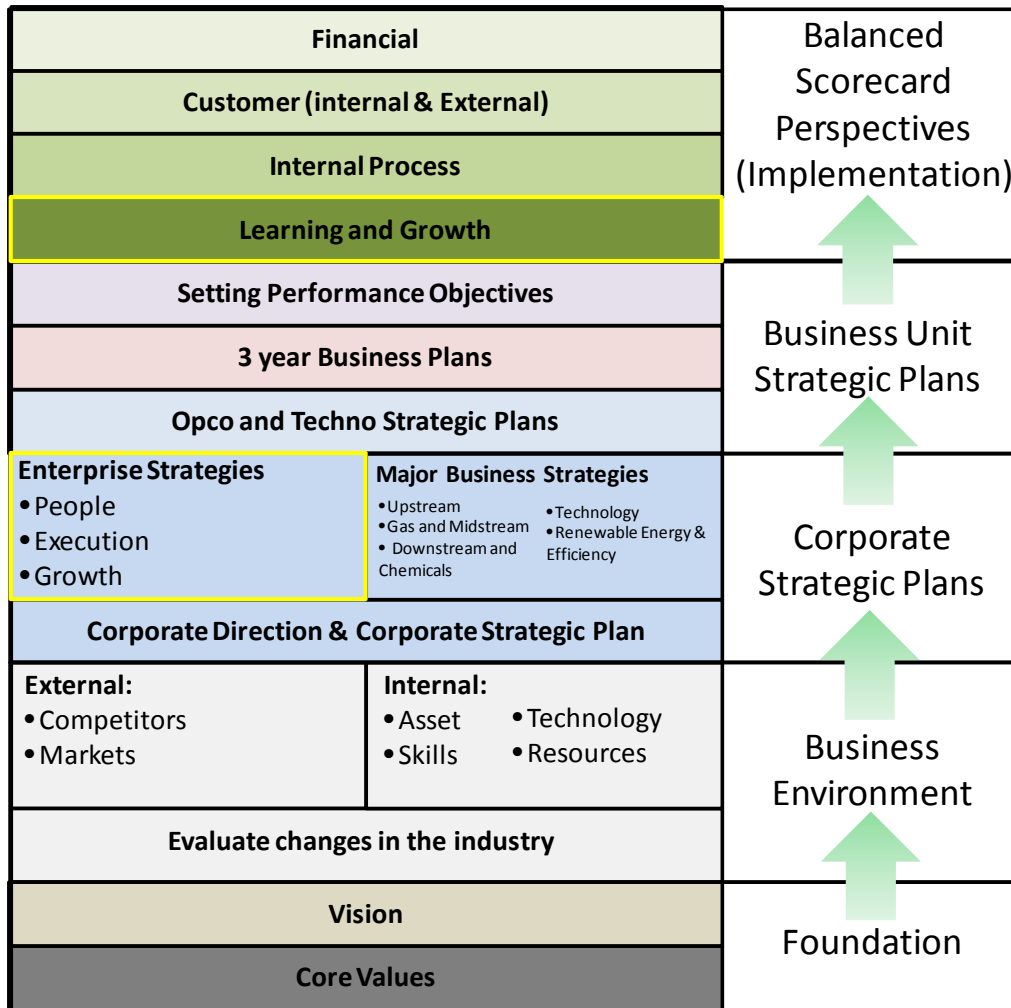


Figure 5. Process of Performance Management System

This paper will elaborate more on people and human resources management practices which is associated with their enterprise strategies and Learning and Growth of BSC perspectives (highlighted in yellow).

Analysis

Core Values and Vision

Core values

The company’s foundation is built on their values, which distinguish them and guide their action. The values are:

Integrity

Honest with others and themselves. They meet the highest ethical standards in all business dealings. They do what they say they will do.

Trust

They trust, respect and support each other, and they strive to earn the trust of their colleagues and partners.

Partnership

They have an unwavering commitment to being a good partner focused on building productive, collaborative, trusting and beneficial relationships with governments, other companies, their customers, their communities and each other.

Diversity

they learn from and respect the cultures in which they work. They value and demonstrate respect for the uniqueness of individuals and the varied perspectives and talents provide. They have an inclusive work environment and actively embrace a diversity of people, ideas, talents and experiences.

Ingenuity

They seek new opportunities and out-of-the-ordinary solutions. They use their creativity to find unexpected and practical ways to solve problems. Their experience, technology, and perseverance enable them to overcome challenges and deliver value.

Protecting People and the Environment

They place the highest priority on the health and safety of their workforce and protection of their assets and the environment. They aim to be admired for world-class performance through disciplined application of their Operational Excellence Management System.

High Performance

They are committed to excellence in everything they do, and they strive to continually improve. they are passionate about achieving results that exceed expectations – their own and those of others. They drive for results with energy and a sense of urgency.

Vision

At the heart of their core values, their vision is ... to be *the* global energy company most admired for its people, partnership and performance.

Their vision means they:

- safely provide energy products vital to sustainable economic progress and human development throughout the world;
- are people and an organization with superior capabilities and commitment;
- are the partner of choice;
- earn the admiration of all our stakeholders – investors, customers, host governments, local communities and our employees – not only for the goals we achieve but how we achieve them;
- deliver world-class performance

Business Environment

The corporate Planning staff prepare an external analysis to evaluate changes in the industry, external environment, competitors, and market – and an internal analysis to evaluate assets, skills, technology and resources.

Corporate Strategic Plans

Corporate Strategic Objective is to deliver top-tier Total Shareholder Returns (TSR)

TSR is a metric combining stock price movement and the value of reinvested dividends to determine the total economic benefit to the stockholder over a period of time. TRS measured relative to the competition on a quarterly, annual and rolling five-year basis.

To continue achieving top-tier TSR, the following which need to deliver:

- Industry leading Operational Excellence
- Earning per share growth with competitive Return on Capital Employed (ROCE)
ROCE is measure how effectively capital investment is managed in business. It is calculated by dividing earnings in a given period by the average amount of capital employed in the business to generate earnings.
- Profitability upstream growth with sustainable reserves replacement (reserves to production)
- Disciplined investment to balance growth, returns and our financial priorities.

The strategic plan is reviewed and refreshed periodically as business conditions change to ensure they have the right strategies in place. During the review, the company improved clarity and focus on their priorities. For greater details on the corporate's strategies, view the enterprise strategies and major business strategies.

Enterprise Strategies

People

Invest in people to strengthen organizational capability and develop a talented global workforce that gets results the right way

Execution

Execute with excellence through rigorous application of our operational excellence and capital stewardship systems and disciplined cost management

Growth

Grow profitably by using our competitive advantages to maximize value from existing assets and capture new opportunities

Major Business Strategies

Upstream

Grow profitably in core areas and build new legacy positions

Downstream and Chemicals

Deliver competitive returns and grow earnings across the value chain

Gas and Midstream

Apply commercial and functional excellence to enable the success of Upstream and Downstream & Chemicals

Technology

Differentiate performance through technology

Renewable Energy and Energy Efficiency

Invest in profitable renewable energy and energy efficiency solutions

Corporate's People Strategies

The corporate employs a highly talented workforce. They draw upon the expertise of their employees to deliver outstanding performance. Their people and the values they demonstrate differentiate them from their competitors. They provide a wide range of career opportunities (succession management) and invest in employee and leadership development programs to strengthen employee competencies. They strengthen their organizational capability by ensuring critical knowledge, talent and systems are in place to deliver their strategies (align business needs and talent processes). Organizational capability is the ability of an organization to deliver its plans and execute its strategies.

People Management Framework

There are four core focus areas define programs needed to source, develop, manage, and retain world-class talent.

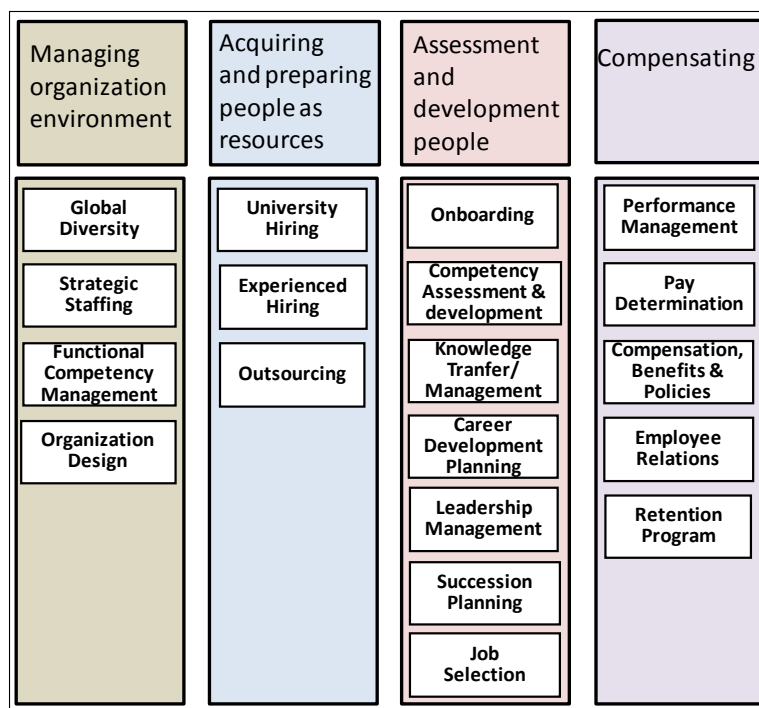


Figure 6. Four Core Focus Area – People Management Framework

Supporting Strategies:

Develop a talented workforce

- Attract and retain a diverse talent pool to meet short- and long-term business needs
- Recognize and reward strong performance
- Accelerate development through training, mentoring, learning on the job, and cross-opco assignments that balance business and individual needs

Develop leaders who get superior results

- Identify and develop high-potential leaders
- Strengthen business and technical leadership development programs

- Enhance succession planning to ensure development and transition of skilled and diverse leadership talent

Strengthen organizational capability

- Strengthen execution through targeted competency assurance programs
- Combine the skills of employees with core processes, technology and partnerships to deliver on execution and growth expectations
- Align talent management processes with business needs to ensure the right people with the right skills are in the right place at the right time

2013 Strategic Implementation and Achievement

Company effectiveness and competitiveness are determined by whether the company satisfies the needs of stakeholders. Stakeholders include stockholders (who want a return on their investment), customers (who want a high quality product or service), and employees (who desire interesting work and reasonable compensation for their service). The community, which wants the company to contribute to activities and projects and minimize pollution of the environment, is also an important stakeholder.

To Stockholders

Annual report (2013) stated that Corporate delivered solid financial and operating results in 2013 while advancing their industry-leading queue of major capital projects. Their sound financial performance was reflected in net income of \$21.4 billion on sales and other operating revenues of \$220 billion. They achieved a competitive 13.5 percent return on capital employed. And for the 26th consecutive year, they increased their annual dividend payout to stockholders.

To Customers

Annual report (2013) stated that the company continued to add resources to their portfolio through both exploration and targeted acquisitions in 2013. The success rate of their exploration wells was nearly 59 percent, and they added crude oil and natural gas resources through discoveries in 10 countries. Delivering results the right way is a responsibility that our company takes seriously.

To Community

Annual report (2013) stated that the company deeply linked to society's progress as partner with government, non governmental organizations and communities to build beneficial and enduring relationship. Their business and social investments boost local economies by creating jobs, improving livelihoods and supporting local businesses.

Discussion and Recommendation

- Corporate core values and vision as foundation and compass that will guide all corporate strategy/actions and as aspiration for future results.
- The company which achieving outstanding performance clearly communicate their strategy and strategic measures.
- The management system is needed for alligning corporate strategy to integrated business unit strategy and communicate across their people/employee.
- People as one of key role plays in success function of oil company which tends to be dominated by strong technical engineering and technology cultures.

- Human Resources/ People management practices help companies deal with three competitive challenges that now facing and influencing: the sustainability challenge, the global challenge, and the technology challenge.
- There are four major dimensions of people management practices contributing to company competitiveness and success: Managing organization environment, Acquiring and preparing people as resources, Assessment and development people and compensating.

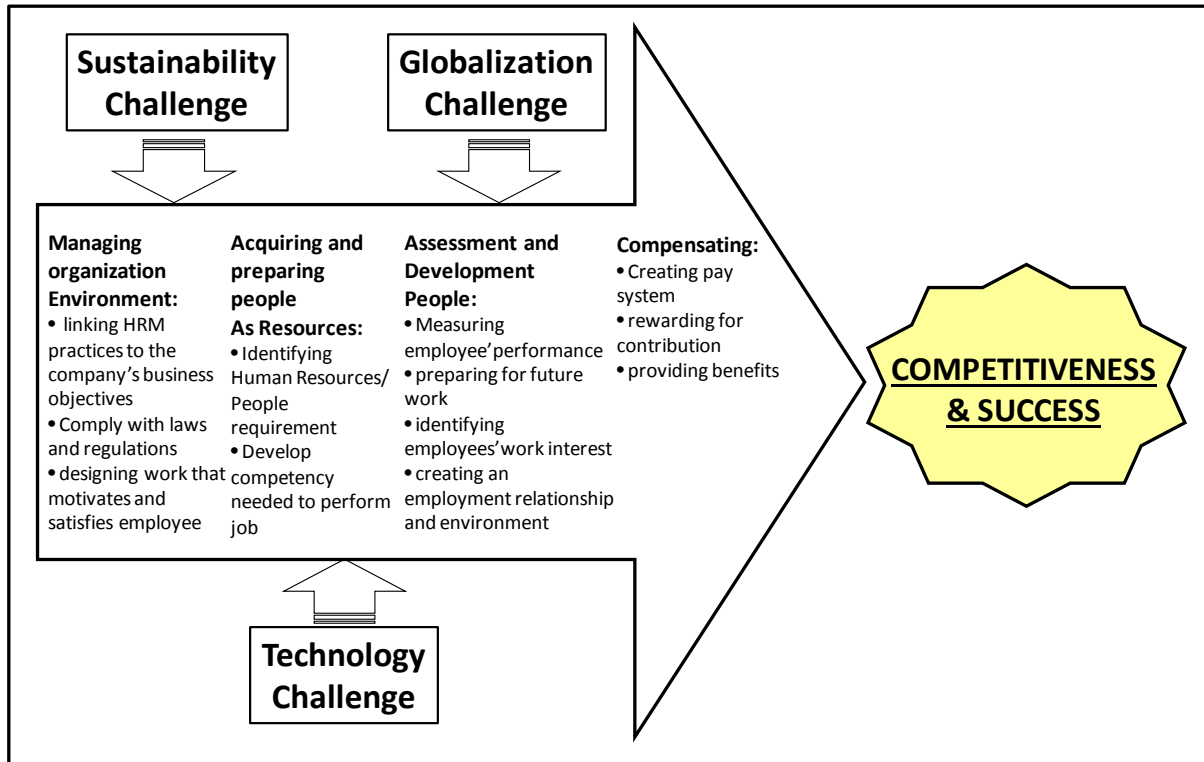


Figure 7. Illustration HRM Practices Can Help Company Meet Competitive Challenges

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