

Permanent Employment versus Contract Work: What's Best for the Oil and Gas Industry?

by Bruce Crager
CEO
INTEC Engineering

In the past two years, the oil and gas industry in Houston and worldwide has experienced a significant and welcome upturn in business opportunities and firm projects requiring a ready resource of qualified personnel. The high price of oil and gas, as well as continued discoveries, has fueled industry's improved climate and demand for qualified personnel.

This good news, however, comes as the industry begins to suffer losses of an aging work force and the retirement of senior personnel. These individuals take with them some 30 to 40 years of knowledge and expertise that is not easily replaced. Gaps in training compound this dilemma, as the industry has not effectively and consistently recruited new engineers.

In general, the industry has allowed the cyclic nature of its business over the last 20 years to dictate redundancies and to deemphasize employee retention and development.

In short, the industry has high demand and low supply, with service firms and operators alike struggling to fill engineering positions to support the present boom cycle. Continued shortages and industry in-fighting for engineers will surely slow project deliveries and drive up development costs.

Lessons Learned: Continuity

Here begins the choice between permanent employment and contracting. While consulting/contracting employees may make more money in an independent role – if they are willing to give up benefits and, potentially, security – permanent employment facilitates long-term growth for employees, companies and the industry.

That is, permanent employment develops seasoned personnel and allows companies and projects to build on lessons learned. Projects in general, and frontier



Permanent employment facilitates long-term growth so that industry may support deepwater frontier projects, such as subsea work depicted for this Gulf of Mexico project in more than 7,000 feet of water.

projects in particular, benefit from this information transfer, as teams and individuals are poised to take the expertise and knowledge of one experience to the next challenge, building continuity for the entire industry. This experience results in better asset management and improved life-of-field systems that are safe and efficient to operate. Permanent employment, therefore, facilitates:

- Improved engineering designs
- Improved flexibility and more choices through integrated systems engineering
- Longer lead times for manufacturing and sourcing of equipment
- Improved constructability
- Lower cost for operations and maintenance
- Opportunities for expanded development
- Stronger knowledge base to tackle tough technical issues

Sadly, for those individuals choosing contract employment, the lessons of a project and these life-of-field attributes are often lost to the customer and, ultimately, the industry. Meanwhile, certain industry segments are looking to correct and reverse the loss of permanent employees, beginning with an aggressive, global search for experienced personnel.

Matching Qualified People with Challenging Positions

The industry's search for qualified people to complement existing and expected positions is one of its immediate challenges. Offshore oil and gas development is a highly technical industry and often requires significant education and experience to fill certain positions.

Matching a candidate's interest and experience with positions of commensurate capability and opportunity for advancement also creates some frustration and delays, with candidates possibly remaining in a specific position for some length of time before appropriate parties and expertise connect.

The networking process in this effort is often complex and lacking in timely information. While the industry operates on a worldwide basis, most people are familiar with potential employees only in their geographic area. For example, South America may have an excess of reservoir engineers; however, a Houston operator looking to hire trained personnel in this field may not be aware of that availability.

Less-experienced personnel, such as those in the two- to five-year range of experience, also are often unknown outside their own organization and, therefore, are difficult to locate and recruit. While the industry eagerly seeks and accepts new graduates, these individuals

have limited expertise and require a higher initial cost to train and orient, with less immediate capability to perform meaningful work.

Today's tight market and the industry's limited availability of qualified personnel unfortunately finds companies – operators and competing service firms – recruiting from one another. That is, operators are hiring from their engineering consultants and service providers, and competitors are seeking personnel from each direction.

"Musical chairs" may solve an immediate need for the hiring company, but it certainly does not solve the industry's shortage of qualified personnel. More importantly, this constant shuffle of people shortchanges projects and unnecessarily extends delivery schedules.

Permanent versus Contract Employment

The opportunities for individuals to leave permanent employment and become contractors have become rampant in today's environment of limited personnel. While both positions can be challenging and rewarding, people are too often lured into contract positions without fully understanding the benefits received as a permanent employee.

In theory, a person who contracts his or her services receives higher compensation per hour, may have more flexible hours and may be available to work for more than one employer. The concept, however, does not always hold true in practice.

In effect, this person becomes a captured employee with good compensation but no benefits and little time off. Contract employees are not compensated for vacation or holidays, thus motivating them to work as many hours as possible. Contractors also may not secure placement on challenging projects and may be assigned work and locations that permanent employees simply do not want to undertake.

These circumstances may have a negative impact on time with family and possibly personal health. These individuals also are not compensated when attending conferences or training sessions or when looking for future work.

In the U.S. market, a contractor also absorbs all payments toward the Federal Insurance Contributions Act, whereas a permanent employee only pays half, with the employer paying the balance. This cost represents a 7.65 percent increase to the contractor for the first \$94,200 per year, as well as another 1.45 percent of an employee's total earnings. A contract employee also assumes acquisition of his or her own benefits and may have to make 1.5 to 2 times an annual base salary to make up for the cost of benefits, lack of bonus and coverage of nonworking periods.

Permanent employees have a much better benefit package, with some if not all funded by their employer. Permanent employees receive paid vacation, sick leave and holidays. In the United States, this package equals approximately two weeks of holidays, plus two to six weeks of paid vacation, and paid sick leave as needed with some upper limit. Permanent employees also are often eligible for bonuses and/or stock options.

Company-funded training and development further benefit permanent employees, along with company-paid attendance at industry conferences and events. Most importantly, permanent employees normally can expect career advancement and the opportunity to be part of a larger team and the pursuit of long-term goals.

Long-term Focus

In our company, permanent employees have significant advantages. We take a long-term focus on employees with regard to training, benefits, retention and involvement in industry activities.

Most importantly, we are focused on improvement through lessons learned, translating knowledge gained with each project into innovative opportunities for projects worldwide. Experienced, permanent employees make this challenge a reality, capturing lessons, observations and new ideas for ongoing and future applications.

As a technology leader in areas of expertise, INTEC employees contribute to high-profile, challenging projects and develop new concepts that benefit both customers and the industry as a whole, thus creating a continually exciting business environment. Employees also appreciate good camaraderie among colleagues who are highly motivated.

INTEC is focused on succession planning and career growth and works toward keeping its employees motivated and fairly compensated. Benefits include a company-wide profit-sharing program, from which all employees benefited in March of this year, based on 2005 results. While we naturally consider our company an exceptionally good place to work, a number of other companies in the offshore industry have similar attributes.

Summary

Finding employment in today's active offshore market shouldn't be difficult. The challenge, however, is finding the right type of employment that accommodates financial criteria while also delivering challenging work and positive team interaction.

Contractors will continue to have a number of opportunities; however, permanent employees are more likely to find long-term strategies for growth and more promising avenues for development and industry

contribution. Before selecting the contracting route, one should consider all related issues and the benefits of permanent employment, including current compensation and project assignments.

This closer evaluation likely will encourage more of the industry's work force to choose permanent employment. Beyond the personal and professional benefits afforded permanent employees, permanent employment facilitates industry-wide continuity and business growth while building on lessons learned for improved information transfer and technology development. The payoff for the industry will be a ready resource of seasoned employees delivering greater project stability, improved asset management and lower-cost frontier development. ■

Bruce Crager is chief executive officer of INTEC Engineering. He joined the company in February 2006, bringing more than 30 years of management and executive experience in the oil and gas industry.

With expertise in serving both international operators and suppliers, Mr. Crager has focused his career on leading teams and companies in the evaluation and selection of field-development solutions. His forte includes floating production systems and subsea production initiatives.

Mr. Crager was president of ABB Offshore Systems Inc. from September 2001 through March 2004. At ABB, he was responsible for all company activities, including profit and loss, company growth, strategic planning and coordination with other ABB divisions.

Mr. Crager previously served as president of Smit-Oceanering Cable Systems in 2001 and as senior vice president of Oceanering International Inc., with responsibilities for mobile offshore production systems, from 1988 through 2001.

Previous to Oceanering, Mr. Crager held several senior positions related to worldwide marketing and the manufacture of subsea products, with experience including offshore drilling and the consulting and management of offshore operations worldwide.

Mr. Crager is the author of nearly 30 industry papers and articles and has coauthored four patents. He holds a bachelor of science degree in ocean engineering from Texas A&M University at College Station and a master's degree in business administration from the University of Houston.