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Do Oilfield-Services Companies Strategically Manage Customers and Employees? Halliburton, National Oilwell Varco, and Schlumberger

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Abstract

Many companies try to simultaneously manage customer satisfaction and employee satisfaction, even though it may be difficult to do so. We examine three major companies—Halliburton, Schlumberger, and National Oilwell Varco (NOV)—in the oilfield-services sector to examine the level of consistency in their customer and employee orientation. These companies seem to have become more employee-focused than customer-focused over time. There seems to be diminished consistency in customer and employee focus. Based on empirical research we conclude this may hurt the long-term financial value of these firms. There are considerable implementation challenges in these companies to overcome barriers for consistency in customer and employee focus.

Keywords: customers, employees, long-term value, energy industry, Halliburton, National Oilwell Varco, Schlumberger

Introduction

A focus on key stakeholders—customers and employees—is considered essential for strategic success[i]. Many companies try to simultaneously manage customer satisfaction and employee satisfaction, even though it may be difficult to do so. For example, satisfying employees may entail higher wages and benefits which in turn may reduce customer satisfaction due to increased prices. Similarly, satisfying demanding customers may come at the expense of reduced employee satisfaction and emotional burnout among employees[ii]. These issues can be especially challenging in industries that entail high degrees of customer-employee contact due to technological intensity. Oilfield-services companies represent one such industry. Employees need a relatively high level of technological competence, while their work must meet stringent specifications, hard deadlines, and ever increasing safety and regulatory criteria. In addition, employees must perform in high-stress environments (remote rigs and pipelines) to meet customer needs. Their customers must manage large-scale, capital intensive projects that are subject to stringent regulation and vagaries of commodity-price fluctuations. These requirements impose strong demands on employees of oilfield-services companies to satisfy their customers. To what extent do oilfield-services companies balance customer and employee needs?

We examined the extent to which oilfield services companies meet customer and employee needs using three sources. We limited the analysis to three leading oil-field services companies: Schlumberger, Halliburton, and National Oilwell Varco (NOV). Note, pending completion of their respective mergers and acquisitions—Halliburton and Schlumberger will represent the two largest companies in the oilfield-service sector followed by NOV. GE Oil & Gas is excluded only because separate data on GE Oil & Gas is difficult to obtain. We report results based on three analyses.

Qualitative Analysis of Company Identity ("About Us")

For each company's website, the first paragraph of "About Us" section was examined[iii] (reproduced below – We bolded the text mentioning customers and employees).

Schlumberger: Schlumberger is the world's leading supplier of technology, integrated project management and information solutions to ***customers working in the oil and gas industry worldwide***. ***Employing more than 95,000 people representing over 140 nationalities and working in more than 85 countries***, Schlumberger provides the industry's widest range of products and services from exploration through production.

Halliburton: With approximately ***65,000 employees, representing 140 nationalities in over 80 countries***, Halliburton is one of the world's largest providers of products and services to the global energy industry. The Company has corporate headquarters in Houston, Texas, and Dubai, United Arab Emirates.

NOV: Throughout every region in the world and across every area of drilling and production, our family of companies has provided the technical expertise, advanced equipment and operational support necessary for success. ***We have the people***, capabilities and vision to serve the needs of a challenging and evolving industry. One the world can't live without.

Conclusion: As seen from the bolded text, all three companies specifically mention their employees. All three companies talk about the wide range of products and services they provide for an "industry", "global energy industry" and "challenging and evolving industry." Only Schlumberger mentions its customers.

Analysis of Insider Perceptions (2015 SCOPE Survey)

In 2014-15 we conducted a survey of 51 companies in the energy industry with over 1,900 responses[iv]. The survey measured perceptions of these companies among employees and managers in the energy industry. These perceptions were measured on several dimensions including a company's employee-orientation and customer-orientation. We focus on these two dimensions.

The score of each company on these dimensions was indexed to 100. This allowed a comparison of different companies within a single sector. Results for the three companies are shown in Table 1.

Table 1: Employee and Customer Orientation Scores for Oilfield-Services Companies

Company	Employee Orientation Index (Human Resources)	Customer Orientation Index
Schlumberger	113.3	107.5
Halliburton	99.9	98.3
National Oilwell Varco	95.9	99.3

Conclusion: In general, the differences within each company's orientation indices are not large. Yet, they are instructive. Industry insiders view that Schlumberger is higher on employee orientation than on customer orientation (113.3 vs. 107.5). Halliburton shows the same pattern, but with smaller difference (99.9 vs. 98.3). NOV is perceived as having lower customer orientation than employee orientation (95.9 vs. 99.3).

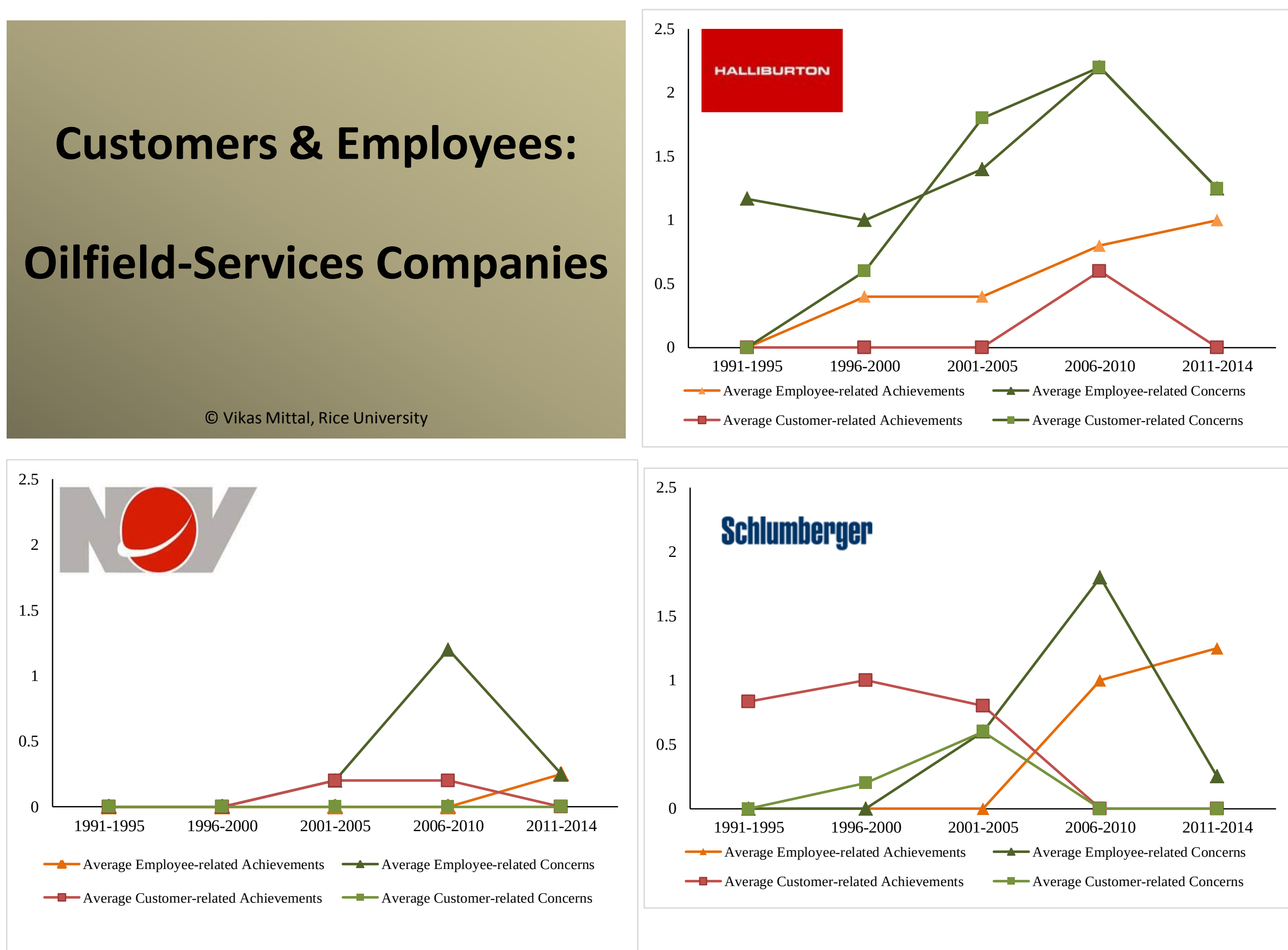
Analysis of Objective Performance Indicators

For over two decades, objective indicators of a company's employee-related and customer-related performance indicators have been available to research scholars for analysis. Specifically, they can be classified as follows[v]:

	Achievements	**Lapses**
Employee	***Union Relations.*** The company has taken exceptional steps to treat its unionized workforce fairly. ***Cash Profit Sharing.*** The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce. ***Employee Involvement*.** The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees; gain sharing, stock ownership, sharing of financial information, or participation in management decision-making. ***Retirement Benefits Strength*.** The company has a notably strong retirement benefits program. ***Health and Safety Strength.*** The company has strong health and safety programs. ***Other Achievements*.** The company has strong employee relations initiatives not covered by other MSCI ratings.	***Union Relations*.** The company has a history of notably poor union relations. ***Health and Safety Concern*.** The company recently has either paid substantial fines or civil penalties for willful violations of employee health and safety standards, or has been otherwise involved in major health and safety controversies. ***Workforce Reductions.*** The company has made significant reductions in its workforce in recent years. ***Retirement Benefits Concern*.** The company has either a substantially underfunded defined benefit pension plan, or an inadequate retirement benefits program. ***Other Lapses.*** The company is involved in an employee relations controversy that is not covered by other MSCI ratings.
Customer	***Quality*.** The company has a long-term, well-developed, company-wide quality program, or it has a quality program recognized as exceptional in U.S. industry. ***R&D/Innovation*.** The company is a leader in its industry for research and development (R&D), particularly by bringing notably innovative products to market. ***Benefits to Economically Disadvantaged.*** The company has as part of its basic mission the provision of products or services for the economically disadvantaged. ***Other Achievements.*** The company's products have notable social benefits that are highly unusual or unique for its industry.	***Product Safety*.** The company has recently paid substantial fines or civil penalties, or is involved in major recent controversies or regulatory behaviors, relating to the safety of its products and services. ***Marketing/Contracting Concern*.** The company has recently been involved in major marketing or contracting controversies, or has paid substantial fines or civil penalties relating to advertising practices, consumer fraud, or government contracting. ***Antitrust*.** The company has recently paid substantial fines or civil penalties for antitrust violations such as price fixing, collusion, or predatory pricing, or is involved in recent major controversies or regulatory behaviors relating to antitrust allegations. ***Other Lapses*.** The company has major controversies with its franchises, is an electric utility with nuclear safety problems, defective product issues, or is involved in other product related controversies not covered by other MSCI ratings.

Based on the above classification, we can develop an index of employee related achievements and lapses experienced by a company each year. The index starts from 0, and may go up to 3 or 5 depending on the category. We created four indexes for our companies, and plotted them in 5-year intervals. The results are shown in Figure 1:

Figure 1: Achievements and Lapses for Customers and Employees



The red lines show achievements and the green lines show lapses. The lines with the “triangles” show employee issues, while the lines with the “squares” show customer issues.

Conclusion: Over time, Schlumberger, Halliburton and NOV have become more employee-focused as seen by the increase in employee achievements. Their focus on customers seems to have stayed flat or declined. Halliburton had a slight increase in customer achievements during 2006-10 but showed a decline in 2011-14. Schlumberger has had a steady decline in customer achievements. After a slight bump during 2001-10, NOV showed a decline in customer achievements. During 2006-10, there was a spike in employee-related concerns for all companies, but it showed a sharp decline during 2011-14. Customer concerns have been relatively flat for NOV and Schlumberger. In general, there is inconsistency in customer and employee management within the three companies. As shown in Figure 1, they seem to be more employee-focused than customer-focused.

Conclusions

Overall, the evidence suggests the three companies appear to be more employee focused than customer focused. This is surprising and not surprising. Since the 2009 boom in oil, oilfield services companies struggled to keep up with ever increasing demand. Employee salaries, wages, and perks escalated while quality and service may have suffered due to increased backlog of customer orders. There was an inconsistency in customer and employee orientation. Now that the industry is in a recessionary environment, these companies may have become more customer focused offering lower prices and better value. However, this change may come at the expense of employees—large layoffs and reduced engagement and involvement. Again, an inconsistency in employee and customer orientation seems to be occurring.

Why is it important to have consistency in employee and customer management?

In a recent paper[vi] we found that companies that are consistent in employee and customer achievements create significant long-term value for their shareholders. Specifically, long-term firm value, on average, was 11% higher for companies having consistent achievements for employees and customers than companies having inconsistent outcomes. This translates into $1.1 billion in firm value for an average firm in the Standard & Poor's 2,000 index with a market cap of $10 billion. In other words, consistency in employee achievements and customer achievements matters — financially and metaphorically.

This conclusion was based on a study of 21,447 observations between 1994 and 2010 that represented 4,643 firms. We found that customer- and employee-related achievements can amplify each other's positive impact on a firm's valuation. Similarly, customer- and employee-related lapses can strengthen each other's negative impact on a firm's valuation. In other words, when there is consistency between customer-related activities and employee-related activities, their effect on the firm's value was much stronger than when there was inconsistency.

When customers interact with satisfied employees, they draw different conclusions than when they interact with relatively dissatisfied employees. In another paper we examined 933 employees and 20,742 customers across 50 outlets of a do-it-yourself retailer. Results showed that the association of customer satisfaction with customer loyalty was higher for those outlets where employee satisfaction was relatively higher. In other words, customer loyalty (which was related to sales) was highest when both—customers and employees—were highly satisfied[vii].

What should oilfield services companies do to gain this consistency?

In many oilfield services companies, marketing, sales, and human-resources work in silos. Here is a simplified portrait.

> Typically, in oilfield-services companies, marketing is a communications function which maintains websites, does PR and communications, and provides support for trade shows. Sales is most frequently in touch with customers, though it has little control on internal manufacturing and services. Human resources manages employee training, leadership development, and compensation management. In most organizations, customer-related activities are under the purview of sales which may not always interact well with the marketing group. Employee-related activities are under the purview of human resources which may be isolated from both sales and marketing.

Human resources, marketing and sales need to collaborate on their big initiatives to ensure they have a consistent focus and are executed on a consistent timeline.

Ground Realities: Despite Good Intentions, Collaboration is Difficult

Over the last five years, we have had the opportunity to work with several oilfield services companies in various capacities. Here are examples of issues that these companies confronted:

- The HR department decided to develop a management training program to enhance customer focus. Though the program had support from the CEO, some divisional presidents maintained they would not fully support the program because they lacked trust in the HR department.
- Seeking to improve customer loyalty, the VP of sales and the VP of HR collaborated on a study gauging employee and customer engagement. Based on the results several initiatives were developed to improve employee satisfaction. However, initiatives to improve customer satisfaction languished due to internal politics.
- One company equated customer focus with technology enhancements and new product development. Irrespective of customer needs, engineers keep improving products. However, many studies commissioned by the company show that customers desire better service, not technologically superior products. Yet, the service training which would come from HR is lacking because of the Sales-HR disconnect. To compound matters, marketing in this company is simply viewed as a communication function.

Oilfield-services companies operate in a complex industry, and no simple solutions exist to gain customer-employee consistency. Yet, gaining consistency between employee-related and customer-related activities needs to become a strategic imperative if long-term firm value is to be maximized.

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