

The Gig Economy

Why Oil and Gas
is a Natural Fit

Tim Clarke



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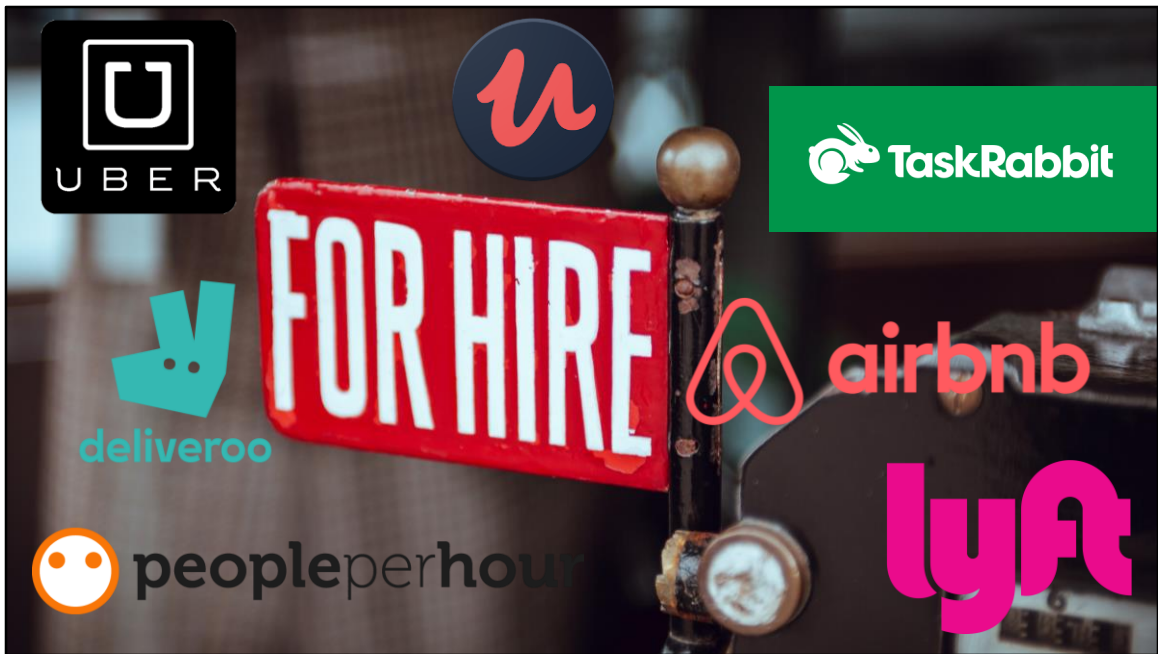


Just quickly I'll run through the format so you know what to expect.



Before I start I'm going to tell you a little bit about myself and my career path. I graduated in the early 2000's from Aberdeen university with a Masters in Religious Anthropology, so naturally enough I started working in the oil industry, specifically within coring and core analysis. I rose through the ranks relatively quickly eventually looking after Coring in the UK and Europe for Baker Hughes. During the downturn coring activity dropped by 90% and I was made redundant in 2015, since when I've been working as a Freelance Contractor. So one of the reasons I'm here is that I've attended a lot of young professional events over the last 3 years and one of the most common discussions is around career path. And I hear the same answer every time, hold on in there, keep learning and things will come back eventually. This is the same answer that you would have heard during every previous downturn, supplied by people who are at the end of their career. I want to talk about a different approach and encourage you to look at a non-conservative alternative. When I talk about the Gig Economy people often ask is the workplace really changing that much, the short answer is Yes.

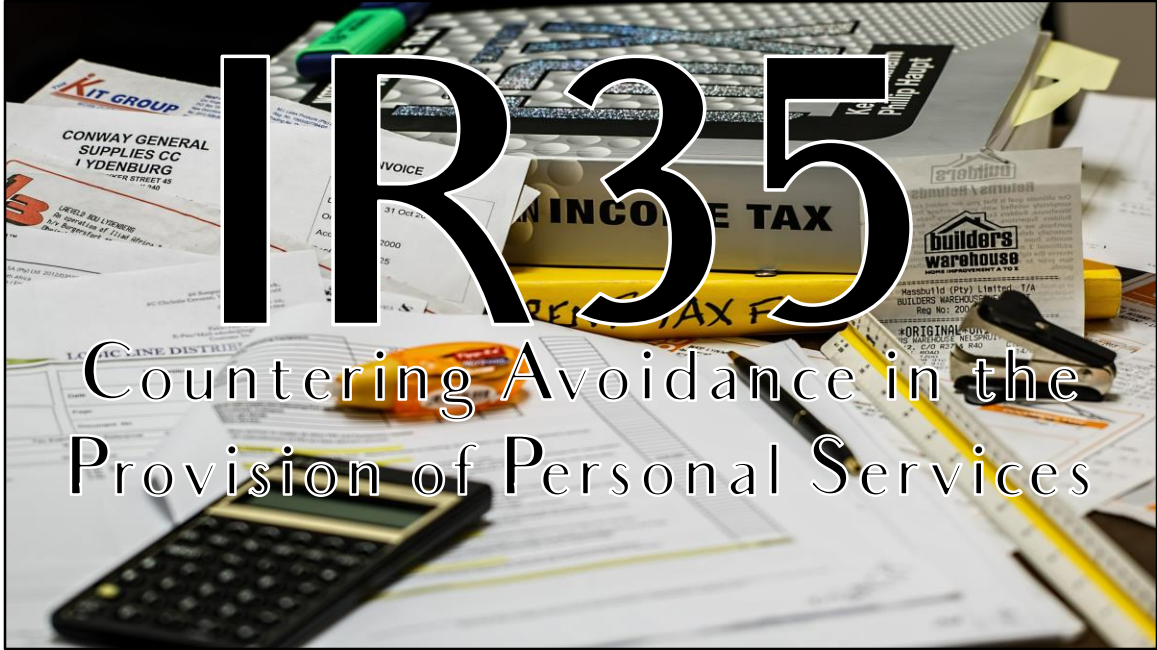
Now time for the long answer



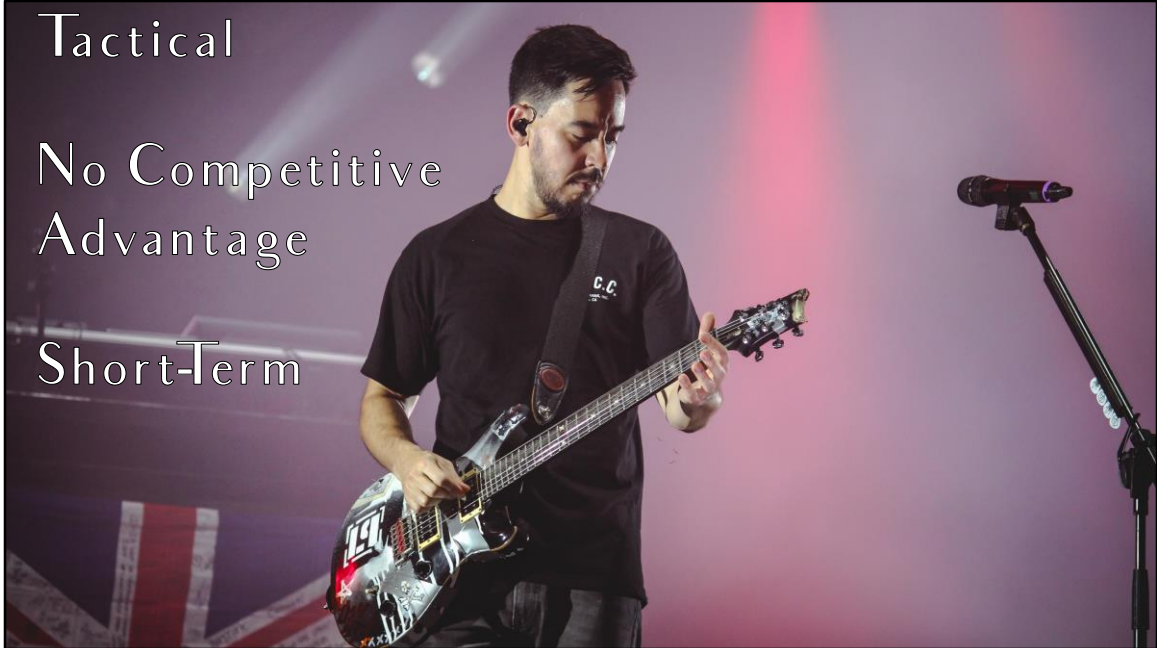
Some of you might be asking what the gig economy is. You say consultant, they say gig, I say freelancer. Let's call the whole thing work, or work in the 4th industrial age. The gig economy is focused on the contingent workforce, around online on demand platforms that give access to opportunities to independent freelancers. Now I would just like you to throw out some of the key players in the gig economy, I'm sure you will know them: Yeah you're right when most people look at the gig economy they look at companies who are focused on the lower end of the employment market.



However, where the gig economy is going to have the most disruptive and innovative effect is where the work is more specialist or rarefied in nature, and executed by more experienced and expensive people. Before I continue I'd like to look at the definition of contractors. Who in this room works with contractors? Pretty much all of us. How many of those contractors have worked at the same company for 10 or more years and maybe even receive "staff" benefits. I know of at least two contractors who have worked for the same company for over twenty years, one of which gets a company car. Now are these guys legitimate contractors or are they disguised employees who are managing their tax? To be clear I don't believe these guys are legitimate contractors, and through the course of this talk I will be talking about Freelancers when I talk about legitimate contractors. While I'm talking about this I should also mention IR35.



IR35: Countering Avoidance in the Provision of Personal Services. This is legislation designed to combat disguised employees, like the two contractors I mentioned earlier, to ensure HMRC is receiving appropriate taxes. So to be a contractor you need to be a legitimate freelancer. As you may or may not know, IR35 has been tightened up in the public sector, with a view to bringing it in to the private sector, probably within the next 18 months. If I was a consultant who had been working at the same company for the last 20 years I would be worried, I would also be really worried if I was their employer, because one major change is that now both parties are liable for back taxes owed if the consultant is found to be inside IR35. My concern would be further exacerbated because of the downturn, given that the revenue generated for HMRC by the oil industry has dropped, significantly. They will want to make up that shortfall some how, and it's a hell of a lot easier to go after one man limited contractors than big multinationals. Now that I've given you a few definitions and a bit of context I'll go into depth about the gig economy.



The gig economy gets its name from the touring music industry, with each piece of work being akin to an individual 'gig'. It has also been called the "sharing economy" — mostly in reference to platforms such as Airbnb — and the "collaborative economy". However, at its core are app-based platforms that dole out work in bits and pieces — making deliveries, driving passengers or cleaning homes.

Not all gig economy roles are based around a technology platform. Gig economy Freelancers can also work for more traditional companies, which have changed how their staffing system operates. These changes are innovative and disruptive because they offer an organisational structure that is designed to make the most out of the available workforce, while offering a different route to market for skills that companies require, alongside a means to track and evaluate the freelancers. The use of the gig economy tends to be tactical, a means to an end and doesn't offer a competitive advantage, but a short-term solution to an immediate problem.



What are the benefits of the gig economy for freelancers?

There have been numerous articles written in all manner of publications that assert this is the end of the employee and that there will only be contractors in the future. While this is probably hugely exaggerated it is built on a foundation of truth and going forward we will see a dramatic change to the composition of our workforce. As an extreme example Uber has one employee for every 80 contractors.

The prevailing assumption in the UK is that most people who work in the Gig Economy do so because they are desperate and can't find a real job. That they are exploited, and miserable. That in an ideal world these freelancers would have a proper 9 to 5 job with contracts, gold watches and retirement in 30 years' time. A 2017 report by McKinsey shows this assumption to be utterly false, and that most freelancers work that way out of choice.



Changing Attitudes & Technology Autonomy and Control Intellectual Investment

Changing attitudes, technological development and changing clients demands are seeing an increase in professionals working in the Gig Economy. According to a report by the World Economic Forum the numbers of European professionals working in a freelance capacity has increased by 45% in three years, while some organisations forecast that as much as 40% of the North American workforce will be freelance within 2 years. So why is this happening.

There are a few reasons, some of the reasons revolve around autonomy and control, but working as a freelancer also means that you are able to work on projects in which you are interested, that you are intellectually invested in. Freelancers state that they can express higher levels of creativity at work, with improved opportunities for learning and recognition. While enjoying their work more and valuing their independence. Although Freelancers demand higher day rates, I don't count this as a benefit because you have to take into account normal business overheads such as insurance, training, corporation tax etc. Please again note I am talking about Freelancers here as opposed to consultants.



How the System Works

Individually, a gig, assignment or project represents a small portion of a freelancer's income. When freelancers aggregate a variety of projects for different clients or companies, their cumulative earnings are equivalent to full-time employment. The concept of the Gig Economy is not a new one, but what is new is the level of uptake and growth. Increasingly, the gig economy operates on technology platforms that aim to connect freelancers looking for flexible work arrangements with the companies who need them in a centralized location. This could be an app or website. Some platforms are focused on certain niches, while others are broader, connecting gig workers with companies and clients for tasks ranging from driving, to writing, to programming.

Previously if you wanted freelance work performed you were limited to those in your personal network or whom you could easily find from advertising and searches. With the advent of freelancer market place, you can find, quickly communicate, assess and negotiate with multiple freelancers anywhere in the world.

These technology platforms have revolutionised how customers and freelancers

interact, typically:

An intermediary makes the introduction between the freelancer and the customer, they may also set the fee and processes the payment – like Uber matching a driver and passenger.

Freelancers are paid a set amount based on the size of the gig or job – for example Copify where you pay per article dependent on word count.

Gig workers use their own equipment to perform the task – often working from a home office or using their own car or bike.

Gig workers can obtain work through multiple intermediaries for multiple customers at any one time – a designer could work on multiple projects in a day.

Workers, and organisations, can build their brand via rating and ranking systems based on the service/results received.

This structured platform is key, as well as improving the interaction and access, it allows companies to accurately assess talent and project cost. While allowing freelancers to build up a portfolio that they can use to demonstrate talent and judge where they should invest in their own personal development.



One of the biggest drivers for the Gig Economy is economic downturn, such as we had in 2008, and 2014 for the oil industry. These downturns caused significant problems for people in the first third of their career trying to find work, companies institute hiring freezes and lower workers' salaries, the job market is in drought. The gig economy gives people opportunities without demanding excessive sacrifices or risks; in an economy that functions largely on short term contracts and temporary gigs, turnover is expected, and loyalty isn't a guarantee. The gig economy makes it easier for the millennial generation to experiment, gain more experiences, and build bigger networks at a faster rate, and the baby boomers at the end of their career to ease into retirement slowly on the back of the occasional project.



Benefits for the Companies

The reality is that most companies are already hiring on a gig economy basis, they just don't talk about. The use of gig economy platforms has been compared to dating platforms. Not only in the way they operate, matching freelancers with clients, but also in that ten years ago no one admitted that they used online dating, or that was where they met their partner, now its completely accepted and mainstream.

In 2013 the Harvard Business School predicated the disruption of established consulting firms as smaller, then larger, clients started using alternatives to the established methodologies for all but a core of critical work. The Gig Economy is moving towards the mainstream. Having access to known evaluated talent at short notice on a "pay as you go" basis, at a reasonable price seems like a no brainer, it's manpower unlimited.



It's not only easy access to this contingent workforce though, its more than that. Properly implemented, the correct use of Freelancers working in the Gig Economy creates a more flexible workforce, enabling companies to bring a diverse range of expertise to bear on strategically important areas, enabling downsized departments to operate more effectively by adjusting their resource levels. This also promotes agility and creativity within the corporate culture, exposing the workforce to individuals with radically different spheres of experience.

These platforms and this method of working also encourages skills retention within an industry by offering employment on an as needed basis. Increasing the number of ways talented individuals interact with organisation and an industry.



However lets talk about the number one reason companies are embracing the gig economy and using freelancers, it is cost effective, it terms of both time and money. Firstly lets look at the time saving. How long do you think it takes, on average, to fill a vacancy in the engineering sector? 62 days. This is far too slow, especially in an industry like oil and gas where time is literally money, drilling operations can cost in excess of \$700 a minute. While I'm talking about the recruitment process what do you think the average cost to a company to recruit a new employee? \$10 to \$13 thousand dollars, or £7 to £9 thousand pounds.

Now lets look at the costs of taking on an employee, so you have base salary, then tax, national insurance, insurance, that's before you even start looking at benefits, like healthcare, dental, company car, pension contributions, and what about costs to productivity like holiday time and sick leave. On average an employee costs an employer 1.4 times their base salary, and that's before you start to factor in costs such as IT equipment, communications, training courses and other essentials you need to offer your employee before they can become productive.



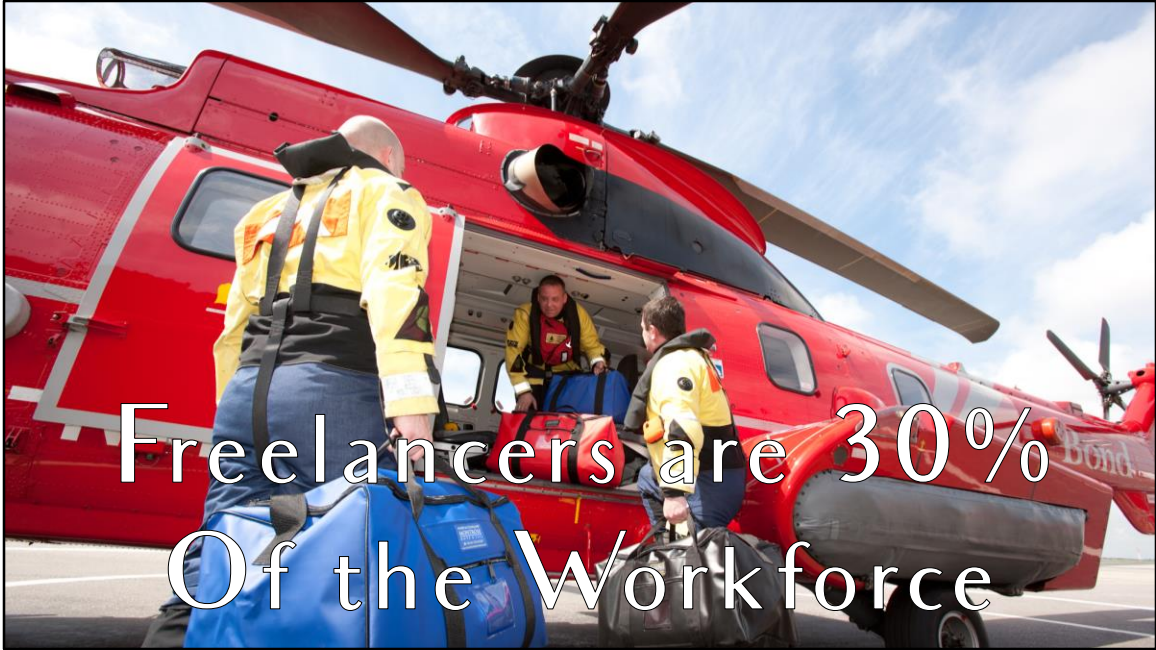
One major UK based pharmaceutical company told the FT that it estimated savings in excess of £2.5 million in personnel costs in 2016 by utilising the gig economy. When you look at it like this it's no wonder that corporate blue chip companies are increasingly using the gig economy to meet their needs. Companies such as Panasonic, IBM, Unilever, Paypal, PwC, EY, Cisco Systems and Hallmark all tap into this pool of on demand talent. It is seen as an exceptional resource and potentially key to one of the biggest constraints on the operations for these giant companies, lack of resource. The gig economy is set to keep on growing, and expected to generate \$63 billion for the world economy by 2020.



Fit with Oil and Gas

But how will the gig economy work in oil and gas. I'm here today because I love working in the oilfield, but I get increasingly frustrated with the institutionalised resistance to change. To the point that I believe that an industry that likes to portray itself as forward thinking and innovative, is actually quite backwards, so how will it deal with embracing new hiring practices?

When you google Gig Economy and oil and gas, a number of quite negative articles pop up, and it isn't until you research the authors and the members of the round tables that you find it is companies who are heavily invested in traditional methods that are providing these disparaging reports, i.e. traditional recruitment companies and job boards.



The reality is that the concept is not a new one, and that oil and gas has been using the gig economy for years, 30% of the oilfield workforce is made up of Freelancers. What has changed is the delivery method, using digital platforms rather than recruitment agencies to improve the efficiency of service in finding people, getting information about them, seeing their certifications, negotiating rates and in the end offering a contract.



The industry that is leading the way with the use of the Gig Economy is the Tech industry. Like Tech we work in a project-based industry where the use of contingent labour is already widespread. Because of this project-based environment, there is a need to ramp up and ramp down quickly in order to satisfy project demands. For example Drilling Service companies can easily go from one project per month to seven projects per month, and forecasting project duration and kick off point is quite difficult. In situations such as this the contingent workforce is key to meeting contract requirements.



It's also worth mentioning the downturn here, staff numbers were hit hard, and the experience has made companies hesitant about taking on and committing to employees. As we come out of the downturn there are significant numbers of skilled personnel available, and demand is increasing, but there is massive uncertainty as to how long that demand will last. Further the downturn has covered up the generational transition that we were all expecting, the great crew change has happened, and the baby boomers are retiring. This is compounded by people having left the industry and not wanting to come back. All this means that we are shortly going to see a talent crisis in the oil industry. The millennial generation is the great hope of the industry, but the big challenge is to provide them with as much experience as possible to take the reins, to ensure the industry remains competitive in the future, the gig economy can help us do this.



For the Gig Economy to work in the oil and gas sector the platforms have to adapted to be sector specific. Currently in oil and gas people evaluate a candidates capabilities by making phone calls and word of mouth, assessment and referral is important. Any platform that wants to operate in oil and gas will need to take this onboard, as well as the specialised nature, high risks and liabilities involved in the industry. It will need high levels of functionality to properly reference skills, competencies, qualifications and verification. Tools of this nature will help significantly speed up employment searches, screening and hiring cycles which have been historically very high within oil and gas.



Risks

By this point hopefully you will be going it's a no brainer, I'm going to become a freelancer and every company should be using freelancers. But now I'm going to look at the risks.



In my opinion the biggest risk for companies is not, as I'm sure most people will tell you, the use of untested freelancers, systems can be put in place to deal with this by the platform provider. The biggest risk is that the corporate culture and systems are not currently set up to accommodate true freelancers, nor does the governance exist. Integrating freelancers into the corporate environment can be awkward if its not done right, the contractor workforce can create discord and tension as their ethos can be seen in direct competition to the corporate culture cultivated within most companies. Existing employees can feel resentment believing work is being taken away from employees, or the at higher rate of pay. It can also be intimidating for long established employees who are uncomfortable with change in working practices, while from a cultural perspective, employees can be unsure of how to collaborate with Freelancers. For the more sophisticated companies, such as those blue-chip companies I mentioned earlier, they are putting in place the appropriate corporate governance to ensure the benefit can be realised with minimal risk.



Every freelancer will talk lyrical about the benefits of free time and flexibility but they also face huge pressure to find the next challenge and opportunity. The inherent instability of freelancing is a big risk, and certainly means it is not for the unadventurous. However the biggest risk is that your ongoing professional development is in your hands.



Here I would also like to, again, point out that I'm not talking about the traditional oilfield consultants who's career development is still structured by the companies they work for, because they are not Freelancers but disguised employees.

As a Freelancer you have to look at your career own development planning, and not just from gig to gig. Have a proper career development path outlined, one that looks ahead 2 years at the skills you need to enhance and develop. Staying current and relevant in skillsets is more critical than ever to retaining and increasing personal value. While in oil and gas failing to maintain skills makes you an additional liability for companies engaging your services. As a Freelancer you have to be comfortable with making time to try new things and improve your skill set. You have to manage your career more proactively than ever before because every minute of your day belongs to you. Unless you're proactive and interested in lifelong learning, you're going to get stuck. The first measure of success is, therefore, to develop or become irrelevant.



Conclusion

There is growing demand for a more flexible workforce from businesses who are keen to bring on project workers, which will result in a workforce that is set to change rapidly over the next 20 years. Wake up to the gig economy before it's too late. It's a no brainer, engaging with the gig economy, and implementing it properly deals with many of the workforce challenges facing the oil industry. I see a future where companies have a core group of employees, drawing on specialist Freelancers to supplement skillsets when required, this model makes for a much more cost-effective workforce model.

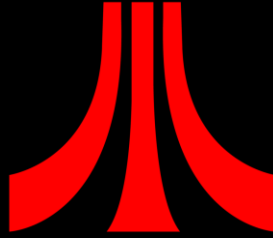
For the Gig economy to work successfully there are three core drivers that need to exist for it to get established and grow.

Independently minded Specialist Freelancers who are risk takers.

The innovative digital platform to provide the marketplace.

Open minded clients who want to tap into an open marketplace with top flight talent.

In the end it should result in better matching of the supply and demand resulting in the better utilisation of people and assets. There is no doubt that companies will fuel some of their growth by utilising the resources of the gig economy. Established organisations will need to ensure they don't get left behind.



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"The critical ingredient is getting off your butt and doing something. It's as simple as that. A lot of people have ideas, but there are few who decide to do something about them now. Not tomorrow. Not next week. But today"

Nolan Bushnell Atari Founder

But, before I open up for questions, the message I want to get out there is that we are living in different world than we were in 2014. We have a window to effect change within the oil industry. For the first time since the 1980's the industry is being dynamic and exciting. Necessity, as they say, is the mother of invention, and economic hardship is forcing the oil industry to innovate and to listen. So don't just hunker down, don't just wait, if you have an idea, if you want to do something a little bit different, this is your opportunity, the time is now. "The critical ingredient is getting off your butt and doing something. It'd as simple as that. A lot of people have ideas, but there are few who decide to do something about them now. Not tomorrow. Not next week. But today."

360 DISCUSSION SUMMARY:

Based on the discussion after the presentation at the 360 series event, I would like to emphasise that this will likely be a gradual process that takes place over a number of years, and that the systems are ones that already exist and what the use of effective digital platforms does is provide more better quality information about peoples skills and ability in a shorter period of time, while giving the people who have these profiles a greater degree of control over the information they are providing.