Global Leadership

Keeping the Pipeline Flowing: Six Tactics for Overcoming the Talent Crisis in Energy

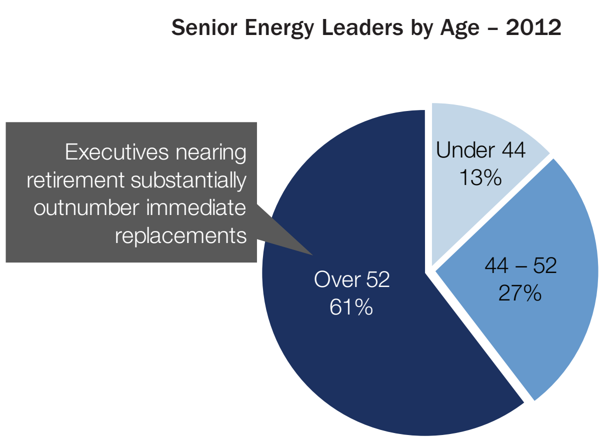
Groundbreaking discoveries, transformational technologies, new sources of investment and rapid regulatory evolution are fueling deep changes across the energy industry. Within energy companies, the pace of business now is faster and far less predictable. Decision making and organizational structures are decentralizing. The lines between business units and functional silos are blurring. And cultures, once highly bureaucratic and top-down, are becoming much more entrepreneurial and horizontally managed.

Navigating an organization through these uncharted and choppy waters requires a different type of leader—one who brings unique knowledge, skills and experiences while maintaining a keen understanding of the nuances of the energy business. And therein lies the single greatest challenge facing human resources (HR) executives in the energy sector today: few such leaders exist.

The decade-long hiring freeze that began during the recession of 1982 has meant that the leaders who should be preparing to take the reins today were never hired in the first place. Indeed, as Figure 1 shows, there are more than twice as many energy executives nearing retirement than there are available replacements. Firms that do not immediately address this problem risk quickly falling behind their rivals.

To help energy firms overcome the current talent crisis—and mitigate the impact of future economic downturns on executive leadership—Russell Reynolds Associates interviewed a number of innovative HR leaders within the industry to understand their approach for resolving the impending talent shortage issue. Their insights, combined with the experience of our Energy practice, form the basis of six recommended tactics outlined below. We hope these tactics are helpful for ensuring adequate awareness within your organization of the talent crisis and for taking the right steps to address the talent challenges you might face.

Figure 1



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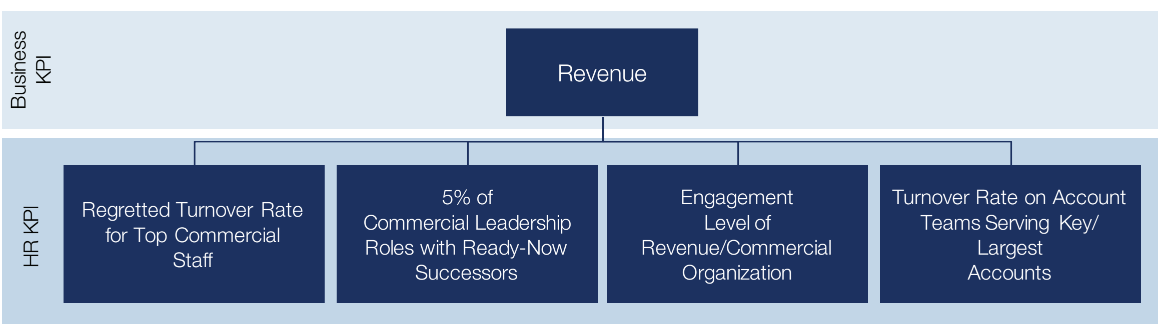
1. Establish talent metrics and KPIs.

As the old adage goes: "What gets measured gets managed." Unfortunately, few energy firms are adequately heeding this advice when it comes to leadership talent—and, therefore, face three risks. First, without a quantified understanding of where the greatest talent gaps exist across the business, firms risk overlooking the issue entirely or misallocating (limited) resources to low-priority areas at the expense of those that are more critical. Second, in the absence of metrics designed specifically to target talent issues, firms cannot effectively measure their efforts to fix talent problems over time. And third, without quantified evidence of talent shortages (and, ideally, their financial implications), capturing the attention of senior leaders in the business and engaging them in managing talent gaps is exceedingly difficult.

To overcome these challenges, leading energy firms are taking the following actions: (a) they are comparing the volume of expected retirees in key functions and business units (demand) with the volume of ready successors (supply) in order to surface and quantify key gaps and (b) these firms are translating key performance indicators (KPI) from the business into talent-relevant measurements (see Figure 2). By sharing this information with senior business leaders through regular checkpoints—and holding executives accountable for monitoring any deficiencies—leading organizations are ensuring that critical talent issues are correctly identified and adequately addressed.

> "If we didn't have that information, we would be hiring the right people for the wrong jobs."— **Sheila Feldman, Vice President of Human Resources at ConocoPhillips**, after an extensive analysis of future talent needs revealed that two-thirds of the predicted job shortages most likely would occur in 10 specific roles.

Figure 2



2. Map and measure future-focused competencies.

Competency models—i.e., frameworks that list the skills and knowledge required for success in various positions—are hardly new to organizations in the energy sector. However, many existing models are incomplete, focusing solely on the skills and knowledge required for success in the near term while ignoring competencies that are required for success in the future. When future-focused competencies are omitted, companies risk hiring and developing leaders who ultimately will be ill-equipped to perform when the time comes.

To mitigate these risks, leading organizations not only redesign their competency models to include future-focused skills, they also ensure that the models are the basis for hiring and developing rising leaders over time. (See Figure 3 for a list of leadership competencies that we believe to be most important in the evolving world of energy.)

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Note: A perennial challenge surrounding competency models is getting business leaders to use the models, as the frameworks often are viewed as the domain solely of HR. To overcome this issue, leading companies are engaging executives in the design of future-focused competency models (the theory being that those who have a say in building something are more likely to use it). Enterprises first ask business leaders to consider the barriers standing in the way of the organization's success. The next question asked is which skills/knowledge will be required to overcome those barriers. By presenting the business problem first—and the HR problem second—executives better understand the relevance of the competencies and become more engaged in building and using them.

> "The key is having a formal development process—and one that is forward looking since roles always are evolving. You can't just think about which skills are required for success today—you also must be thinking about the skills that are required for success tomorrow. Development is dynamic."— **Al Hirshberg, Executive Vice President, Technology and Projects, ConocoPhillips**

Figure 3

Key competencies for the New Generation of Energy Leaders

1. Conceptual Thinking Skills: Conceives novel ideas and utilizes effective critical thinking when setting strategy or solving big-picture problems.
2. Learning Agility: Possesses the ability and willingness to learn from experience and then applies that learning to perform successfully in new situations.
3. Relationship Building and Use of Influence: Gets others to buy into a vision; quickly earns credibility; grasps opportunities while creating win-win situations and maintaining a reputation for fairness.
4. Motivation and Urgency: Is hungry to make things happen and effectively engages the rest of the organization in moving swiftly. Drives teams toward goals and deadlines.
5. Thought Diversity: Has a deep personal belief in the power of diverse thinking and actively enables team members to think differently. Creates an environment where diversity of thought is a core value.
6. Cultural Astuteness: Understands how current industry trends are impacting organizational cultures and leverages that knowledge to drive the right changes.
7. Entrepreneurial Orientation: Actively seeks new ideas and opportunities and ways to commercialize them. Challenges accepted ways of doing things and devises novel approaches.

3. Look outside the industry for talent.

Running an energy company undoubtedly is unique to running other types of organizations. However, the industry's long history of being insular and hiring predominantly from within is exacerbating the challenges posed by the current talent crisis. While not all leadership positions can be filled by outsiders, many can be—especially when rising leaders are provided the right types of developmental opportunities (see tactics 4, 5 and 6 below).

To help overcome existing talent shortages, leading energy firms are altering their recruitment strategies and are focusing on two pools of out-of-industry candidates. First, energy firms are increasingly looking outside for leadership roles that require less energy-specific technical knowledge such as running major internal functions like HR and finance. Firms are turning to "academy" companies that are renowned for cultivating excellent functional leaders and providing fertile terrain for sourcing top functional talent. Second, energy firms are looking to adjacent industries such as the military and aerospace, where similar (though not identical) technical skills are required. By recruiting promising candidates earlier in their careers from these organizations, energy firms are finding they can fast-cycle technical development and then improve leadership abilities over time through rotations and stretch roles (see tactics 4 and 5).

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"We had to look outside the industry, given the number of people we needed with a contemporary mindset and a P&L orientation."—**Chris Lewis, Group Vice President and Chief Corporate Officer at DCP Midstream**. Approximately 20 percent of DCP's 135 executives at the director level or above come from outside the industry.

Phillips 66 focuses on three different tranches of candidates: those from within the industry, those who are best in class (whether from inside the industry or not) and those who may not be best in class but who are excellent "overall athletes." "Looking at candidates from all three tranches makes for very insightful deliberation," says **Jonathan Rosenberg, the company's Talent Planning and Acquisition Manager**. "It also reminds us that our industry doesn't always have all the answers."

4. Boost learning impact from developmental rotations.

Like competency models, rotational assignments are not new in the energy business—yet they often lack important elements. Many firms deploy rotations without adequately targeting specific skills for improvement. As a result, rising leaders risk developing skills that aren't priorities for the business or which already are strengths—or they risk missing opportunities to improve much-needed skills that currently are deficient. In addition, due to a frequent absence of awareness among managers around how to help their direct reports get the most from rotations, many rising leaders fail to maximize learning impact.

To overcome these issues, a handful of top energy firms devised innovative tactics to help rising leaders benefit more from rotations. For example, by mapping out the specific lessons that various developmental experiences teach (e.g., how to negotiate, how to communicate with senior management), aligning the lessons with employees' key skill gaps (ideally surfaced through future-focused competency models), and requiring rising leaders to reflect on the lessons before, during and after the rotation, managers and HR can significantly increase a rotation's learning impact.

Hether Benjamin-Brown, Head of Human Resources at Calpine, takes a process-driven approach to ensuring a steady stream of developing leaders—the result of her tenured background in supply chain management. For example, the firm recently put its treasurer/vice president of finance in charge of greenfield and brownfield development efforts to deepen the executive's understanding of the business and further cultivate strategic planning skills.

5. Create unique stretch roles.

One challenge associated with rotational experiences—especially those that provide the right level of difficulty for developing the most promising high-potential employees—is finding such opportunities in ample quantity. Given the current scarcity of talent, many organizations see greater demand than supply for rotations—and failing to offer stars the right stretch roles can significantly erode employees' engagement levels, potentially driving rising leaders into the open arms of competitors.

To overcome this perceived demand/supply imbalance, leading organizations are creatively identifying hidden stretch roles. For example, rather than merely filling a senior-level vacancy, a company might carve out two or three jobs from that position, which can be filled by rising leaders. And by providing them with access to a senior-level executive and peer-to-peer mentoring, firms can help ensure the success of rising leaders.

"Stretch assignments need a good balance between pushing against a person's boundaries and offering effective management support to provide a framework for success. And while there needs to be a risk of failure, I think a sink or swim mentality from management is a grave error in these assignments."— **Dave Roberts, President and Chief Executive Officer, PennWest**

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6. Make succession planning everyone's job.

To help energy firms learn from leading succession planning practitioners—and take action on their recommendations—we created a simple diagnostic tool presented below. It outlines critical elements of a best-in-class succession process. And, notably, it highlights the need for full engagement access for all key players in the succession process, i.e., the board, the chief executive officer, HR and C-suite leaders.

Recommended actions four and five in the diagnostic tool below are critical to effective succession planning as they help ensure a steady pipeline of ready leaders who can take the reins when the time comes. However, these rising stars represent a small part of a much broader succession planning framework that top enterprises are implementing.

1.	Our metrics for talent management are as rigorous as our metrics for operational management.
2.	We leverage talent metrics that provide our leadership team with a clear picture of the quality of our leadership pipelines and the viability of our succession plans.
3.	Our talent metrics provide leading indicators of risk in our leadership pipelines.
4.	We have a future-focused leadership competency model that clearly conveys the future requirements of leaders, not simply the current requirements of leaders.
5.	We actively apply a future-focused leadership competency model when selecting and developing leadership talent.
6.	We rotate rising leaders across a range of challenging job experiences that are targeted to their development needs.
7.	We task leaders with challenging stretch assignments designed to push them beyond their comfort zones.
8.	Senior leaders are held accountable for identifying and developing high-potential leadership talent.
9.	Our board and executive team challenges senior leaders on their succession plans with the same force that they challenge leaders on their strategic and operational plans.
10.	We routinely hire leaders from outside of the industry.

"If you're responsible for getting someone the right development opportunities and that isn't happening on schedule, you're going to have to answer for that," explains **Bob Sovine, Marathon Oil's former Vice President of Human Resources**, describing how Marathon keeps its senior leaders focused on developing the next generation.

"We expect our line managers to be fully involved and engaged in the development of talent and succession planning for their area of the business—and we're incorporating that into how managers are evaluated. Using modern HR analytical tools, line management and HR are in a position to articulate and plan for current and future talent needs."—**Bruce Culpepper, Executive Vice President of Human Resources, Shell Americas**

Conclusion

While the energy industry is experiencing tremendous innovation and growth, its success is hampered by a scarcity of talent and a long-established culture of insularity. By rethinking traditional approaches to internal metrics, hiring, leadership development and succession planning, a handful of leading energy companies are overcoming these challenges. We hope the summary of the tactics and the diagnostic tool provide the information you need to minimize the impact of the existing talent shortage and prevent future crises from occurring.

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