Five Leadership Issues Worthy of Board and Executive Attention

Oil and Gas
Power and Utilities
Introduction

The oil and gas and power and utilities industries are undergoing major transformation. The uncertainties linked to commodity prices, changing operating and business models, the effects of technological innovation and cybersecurity, expanding regulation and oversight, new competitive forces and a host of other major risk drivers all are contributing to dialogues in boardrooms and executive offices. Most significantly, executives are asking if they have the right leadership talent in light of the challenges they face.

From our conversations, the following five issues and their implications on leadership talent have emerged as top of mind for oil and gas and power and utilities sector executives:

- Identifying next-generation leaders
- Improving capital allocation
- Mitigating risks
- Embracing and managing technological change
- Creating a board ready for the future

We hope this executive briefing document will serve as a discussion starter for thinking through how to attract and retain the right leadership talent in the face of these challenges.
Identifying Next-Generation Leaders

- Future oil and gas and power and utilities executives will be doing business in a very different industry from the one we know today. Companies need to think about which executive profiles will enable the organization to thrive in an increasingly connected global industry.

- The broader senior executive talent pool is getting smaller because of limited hiring in the 1980s and an aging workforce. Hence, preparing for CEO (and other senior positions) succession is critical as the competition is likely to intensify.

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**CEO Turnover in Oil and Gas Was Higher and in Power and Utilities on Par with the Industry Average in 2015**

<table>
<thead>
<tr>
<th>Industry</th>
<th>M&amp;A</th>
<th>Planned</th>
<th>Forced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas</td>
<td>23%</td>
<td>3%</td>
<td>14%</td>
</tr>
<tr>
<td>Power and utilities</td>
<td>17%</td>
<td>2%</td>
<td>14%</td>
</tr>
<tr>
<td>Across all industries</td>
<td>11%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

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**The Majority of CEOs in Both Oil and Gas and Power and Utilities Globally Have a Tenure of Less Than 5 Years**

- **Oil and gas**
  - 38% Been in role less than 5 years
  - 62% Been in role 5 or more years
- **Power and utilities**
  - 81% Been in role less than 5 years
  - 19% Been in role 5 or more years

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**Globally, Power and Utilities CEOs Are More Diverse Than CEOs in Oil and Gas**

- **Female (gender diversity)**
  - Oil and gas CEOs: 3%
  - Power and utilities CEOs: 19%
- **Experience in different sector**
  - Oil and gas CEOs: 12%
  - Power and utilities CEOs: 34%
- **External recruits**
  - Oil and gas CEOs: 21%
  - Power and utilities CEOs: 29%

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**Identifying Next-Generation Oil and Gas and Power and Utilities CEOs: What Attributes to Look For?**

- High strategic capability and independent thinking
- Ability to innovate
- Demonstrated ability to execute for results
- Ability to motivate
- Ability leading teams and building relationships

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**Key Takeaways**

- Mentor up- and-coming talent. The role chairmen can play in mentoring CEO successors is important.
- Actively review your employee value proposition not only against sector peers but against industries that could be tomorrow’s talent pool.
- Evaluate talent from other industries to determine who can move into “designate roles” and be developed and trained by industry veterans.
- Ensure an inclusive culture and working environment in order to attract and retain diverse talent.
Improving Capital Allocation

- While power and utilities are also facing significant capital allocation demands, a focus on maximizing the value of each capital dollar is on the oil and gas space—best-in-class capital allocation remains a make- or-break factor in regard to how well oil and gas companies will emerge from the industry downturn.
- The role of the CFO has evolved, as the ability to allocate capital effectively has become very important for better project execution.

**KEY TAKEAWAYS**

- Take stock of how key financial talent is performing in order to assemble a strong team that supports the CFO’s management of the capital expenditure.
- Generate cross-functional experience within the organization by exposing finance leaders to more P&L roles.
- Cultivate CFOs with M&A experience or add leaders with experience in corporate strategy and development to finance teams.
- Recruit executives with risk management proficiency in order to improve the predictability of results, as well as modeling talent to effectively assess new opportunities and sales expertise to enable growth.

**MOST COMPANIES HAVE GROWN CFO TALENT INTERNALLY**

- Oil and gas: 67% internally, 33% externally
- Power and utilities: 65% internally, 35% externally

**THERE HAS BEEN A FAIR AMOUNT OF TURNOVER AMONG CFOs IN THE PAST THREE YEARS**

- Oil and gas: 56% Appointed before 2013, 44% Appointed 2013 or after
- Power and utilities: 67% internally, 33% externally

**OIL AND GAS AND POWER AND UTILITIES CFOs APPOINTED SINCE 2013 HAVE HAD LESS PRIOR CFO EXPERIENCE AND MORE GENERAL MANAGEMENT EXPERIENCE THAN THOSE APPOINTED PRE-2013**

- No prior CFO experience: 11% Appointed before 2013, 27% Appointed 2013 or after
- Division/regional GM experience: 38% Appointed before 2013, 63% Appointed 2013 or after

**KEY ATTRIBUTES OF CFOs IN OIL AND GAS AND POWER AND UTILITIES**

- Business partner mindset: Strong understanding of the performance drivers and industry challenges, including the complex operating environment
- Strategic thinking: Independent thinking and good judgment
- Digital savviness: Breakthrough technology can help oil and gas companies achieve a competitive advantage
Mitigating Risks

- Oil and gas and power and utilities companies are facing more pressure to minimize risks and future-proof the business in a challenging economic environment, volatile world events and fast-changing technologies.
- In addition to the finance team, the legal function; the health, safety and environment team; and the cybersecurity teams are increasingly at the forefront, ensuring that the company is well-protected against external risks.

<table>
<thead>
<tr>
<th>SECURITY IN THE AGE OF DIGITAL ENABLEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Given the scale of recent breaches, cybersecurity is now a key item on the agenda of boards and executive teams. Businesses are deploying monitoring and logging technologies and are able to detect more incidents.</td>
</tr>
</tbody>
</table>

Average number of detected incidents²

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas</td>
<td>12,884</td>
<td>15,331</td>
</tr>
<tr>
<td>Power and utilities</td>
<td>5,493</td>
<td>10,601</td>
</tr>
</tbody>
</table>

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60% increase in hard IP theft in 2015 for oil and gas

234% increase in hard IP theft in 2015 for power and utilities

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RISK MANAGEMENT IS NOT A ONE-MAN JOB. BOARDS AND EXECUTIVE COMMITTEES SHARE THE RESPONSIBILITY

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GENERAL COUNSEL ARE ADDING MUCH WIDER RESPONSIBILITIES TO THEIR WORKLOAD AND BROADENING THEIR OVERSIGHT THROUGHOUT THE ORGANIZATION

Best-in-class general counsel share three traits:³

<table>
<thead>
<tr>
<th>Trait</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>More decisive</td>
<td>18%</td>
</tr>
<tr>
<td>More likely to display dynamic leadership</td>
<td>18%</td>
</tr>
<tr>
<td>More likely to cut through bureaucracy</td>
<td>36%</td>
</tr>
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THE RISING ROLE OF THE CHIEF RISK OFFICER

The role of the general counsel continues to evolve, with 14% currently acting as chief risk officer, a number that is expected to more than double to 31% by 2020⁴

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KEY TAKEAWAYS

- Ensure that members of the board have the right skills and experience and are prepared to work alongside the ExCo to safeguard the company.
- Enable the executive committee to work in a highly integrated way when managing various company risks.
- Empower the chief information security officer (CISO). As companies continue to face cybersecurity risks the CISOs role will become more important and the role needs to be closer to the board and executive committee in order to remain competitive.
Embracing and Managing Technological Change

- The rise of new technologies is impacting oil and gas and power and utilities companies and changing the operating environment. Investments in innovation and a corporate culture ready to adapt new technologies will be main differentiators going forward.
- There is an opportunity to embed next-generation digital and data analytics capabilities, as well as leadership talent in organizations.

### While Most Energy Companies Say They Have the Right Digital Strategy and Team in Place, a Minority of Them Feel They Have the Right People to Execute the Digital Strategy

**RUSSELL REYNOLDS ASSOCIATES DIGITAL PULSE SURVEY, 2015**

<table>
<thead>
<tr>
<th>Question</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does your company have a digital strategy?</td>
<td>64%</td>
</tr>
<tr>
<td>Do you have a digital team in place?</td>
<td>64%</td>
</tr>
<tr>
<td>Do you have the right people to define your digital strategy?</td>
<td>43%</td>
</tr>
<tr>
<td>Do you have the right people to execute on your digital strategy?</td>
<td>35%</td>
</tr>
<tr>
<td>Do you have the right organizational structure to realize the new digital opportunities?</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Energy Industry respondents N=206**

**Boards Are Not Digital Ready**

- 0 board directors had digital experience. Only 3 had technology experience among top 10 U.S. oil and gas companies.
- 1 board director had digital experience. Only 4 have technology experience among top 10 U.S. power and utilities companies.

**Digitally Disruptive Leaders Have the Following Attributes**

- Learning agility
- A willingness to take calculated risks
- The confidence to go against the grain
- An entrepreneurial spirit
- The ability to exert influence and gain support
- An aptitude to think “outside the box”
- Open to new things

### Embedding Data and Analytics Into an Organization Is Increasingly Driven by the Chief Data/Analytics Officer

**Who sets the DNA strategy at the company?**

- 53% Chief data officer/chief analytics officer
- 21% Other
- 13% CMO/chief commercial officer
- 4% CIO/CTO
- 9% CEO

**Key Takeaways**

- Look for executives with digital experience or consider forming a Technology Advisory Board to help the company prepare for the future.
- Establish infrastructure, supporting tools and systems to enable world-class data collection, storage, quality and access.
- Create a company culture supportive of a new way of thinking and foster a culture that is open to innovation and technology.
**Creating a Board Ready for the Future**

- An effective board is one that represents a rich variety of perspectives, allowing companies to develop (and execute) robust strategies while simultaneously managing risk.
- The work of the board of directors has never been more complex. Traditional issues like CEO succession and remuneration remain, while shareholder activism, digital transformation and cybersecurity present new challenges.

<table>
<thead>
<tr>
<th>BOARDS HAVE LITTLE GENDER AND NATIONALITY DIVERSITY*</th>
<th>BOARDS ARE IN NEED OF A FRESH PERSPECTIVE: 31% OF BOARD DIRECTORS HAVE BEEN ON THE BOARD 6 YEARS OR MORE, SUGGESTING BOARDS COULD BE STRUGGLING TO RENEW THEMSELVES*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender of board members</strong></td>
<td></td>
</tr>
<tr>
<td>Oil and gas</td>
<td>17%</td>
</tr>
<tr>
<td>Power and utilities</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Nationality of board members</strong></td>
<td></td>
</tr>
<tr>
<td>Oil and gas</td>
<td>78%</td>
</tr>
<tr>
<td>Power and utilities</td>
<td>22%</td>
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**SHAREHOLDER ACTIVISM IS INCREASINGLY IMPORTANT TO MANAGE FOR BOARDS. ACTIVISTS IDENTIFIED ENERGY AS A SECTOR WITH SIGNIFICANT OPPORTUNITIES WHILE, UTILITIES REMAINS AN AREA WITH LIMITED OPPORTUNITIES**

**Sectors identified as having significant opportunities**

- Energy: 52%
- Industrial: 43%
- Healthcare: 38%
- Telecom services: 26%

**Sectors identified as having limited opportunities**

- Utilities: 65%
- Financials: 30%

**KEY TAKEAWAYS**

- Conduct regular director and board evaluations—this will help ensure that director performance is aligned with the company’s strategic objectives.
- Monitor all advance warning signals. Assess and address vulnerabilities and maintain an effective, ongoing shareholder outreach program.
Endnotes

IDENTIFYING NEXT-GENERATION LEADERS
A. 2015 CEO Succession Study, PwC
B. Russell Reynolds Associates’ proprietary analysis of 100 CEOs (68 oil and gas and 32 utilities) of the largest oil and gas and utilities companies globally, 2016

IMPROVING CAPITAL ALLOCATION
A. Russell Reynolds Associates’ proprietary analysis of 63 CFOs (36 oil and gas and 27 utilities) of the largest oil and gas and utilities companies globally, 2016
B. Proprietary research, Russell Reynolds Associates, 2016

MITIGATING RISKS
B. Russell Reynolds Associates’ proprietary analysis of 78 top legal executives, 2016
C. The Rise Of The GC: From Legal Adviser To Strategic Adviser, NYSE Governance Services, February 2016

EMBRACING AND MANAGING TECHNOLOGICAL CHANGE
B. Proprietary research, Russell Reynolds Associates, 2015

CREATING A BOARD READY FOR THE FUTURE
A. Russell Reynolds Associates’ proprietary analysis of 100 top energy boards, 2016
B. The Shareholder Activists’ View, FTI Consulting, 2015
Russell Reynolds Associates is a global leader in assessment, recruitment and succession planning for boards of directors, chief executive officers and key roles within the C-suite. With more than 370 consultants in 46 offices around the world, we work closely with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today’s challenges and anticipate the digital, economic, environmental and political trends that are reshaping the global business environment. Find out more at www.russellreynolds.com. Follow us on Twitter: @RRAonLeadership.