



# CHROs in energy: Reshaping the role to lead through disruption

Interviews with 20 leading CHROs in the energy industry highlight how senior human resources leaders are meeting new challenges and helping to create real business value in a disrupted industry.

Responding to unprecedented economic and social pressures, the energy sector is undergoing a highly disruptive time in its history. In 2020, energy CEOs are focused on generating free cash flow; evaluating and executing M&A transactions; driving digital readiness; sharpening their environmental, social, and governance (ESG) mindsets; and creating sustained innovation—while seeking to attract, develop, and retain top talent to do so. These are the priorities set in the context of energy investors demanding more robust ESG goals and strategies; for example, BlackRock, the world's largest institutional investor, has placed climate change at the center of its investment strategy. Such concerns as the secular decline of oil and gas, the social license to operate, and the impact of climate change have made attracting and retaining talent in the sector more challenging.

We interviewed 20 leading energy CHROs to understand more about how their roles have evolved during this disruptive period to meet these new demands. One CHRO quoted her CEO as saying, "In my 39 years as an energy CEO, the past few years have seen the fastest rate of change with respect to managing a workforce and dealing with disruption to our operating model." Another CHRO confided, "We are the 'unloved sector,' and how we respond over the next year or two may set the course for our resurgence or our further decline."

# New imperatives for CHROs

Traditionally, CHROs in the energy sector have grown their careers through a series of generalist and specialist roles, such as staffing and recruitment, compensation and benefits, talent development, employee relations, and labor relations. Today, however, leading CHROs don't view themselves as functional leaders but rather as executive business leaders with direct oversight of human capital across the organization at a strategic as well as an operational level. In our conversations, the following four capabilities consistently stood out as being the most critical for succeeding as a CHRO in energy today.

## Reinvigorating purpose and meaning

*"We have been tarred with the label 'harmful carbon producers,' with some even comparing us to the tobacco industry. This damaging perception creates an even more urgent need to reinforce the valuable work our industry does in providing reliable, cheap, and responsible energy that powers the world."*

In order to attract and retain the next generation of leaders, particularly millennials, many CHROs have observed that the industry must be more proactive in underscoring the industry's moral purpose and meaning in powering the world with energy. Under daily criticism from investors, eco-activists, and journalists about mitigating climate risks from CO<sub>2</sub> emissions, the industry has been overly defensive about its purpose and has failed to communicate that purpose effectively. In order to attract top talent, other sectors have been more deliberate in creating purposeful and compelling stories about the value of their work, their organizational culture, and the opportunities they offer to learn, innovate, and make a meaningful difference. For instance, innovations in US shale gas and switching from coal- to gas-fired power generation have been reversing CO<sub>2</sub> emissions in the United States over the past decade and created a "trillion-dollar transfer" in lower energy costs, along with greater US energy independence.<sup>1</sup> The leading CHROs we spoke with understand the need to explicitly highlight these benefits to their workforce—along with other benefits, such as the industry's contribution to major innovations (while petroleum-based plastics have been vilified, for example, it is because of plastics that fresh water can be piped and supplied around the world to many indigenous populations, reducing disease and starvation and saving thousands of lives every day) and technological advances in medicine, healthcare, and feeding the world (through modern natural gas-based fertilization in agriculture).

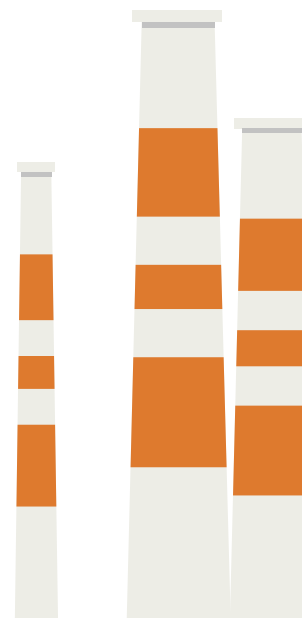
CHRO leaders recognize that unless they, and other leaders, can re-create purpose and meaning in the work that millions do each day in the energy sector, the industry will continue to struggle with attracting the kind of innovative and creative thinkers required to successfully meet the disruption it faces.

## Being an enterprise leader

*"When a leader steps into the CHRO role, their 'first team' becomes the executive team, with an enterprise-wide focus rather than a functional focus."*

The executives we talked with consistently focused on the importance of being able to drive transformation and strategy at the enterprise level to ensure longer-term competitiveness, rather than focusing on HR execution and function-related improvements. This entails some fundamental changes, such as shifting focus from a typical yearly HR cycle to working with a three-to-five-year strategic plan to deliver on the organization's vision and goals. It also means thinking like a P&L leader; as one CHRO put it, "We spend \$90 million on people costs, and I look at it as a business investment. My role [as CHRO] is to maximize that return on investment."

Leading CHROs have a strategic focus on building the right organizational and cultural capabilities to enable the business strategy and goals. They must be able to align strategy, structure, and culture and to articulate a compelling vision and story for the executive team and organization. This is crucial in the energy sector now, as companies face competing demands for both incremental and game-changing innovation, while at the same time contending with the need to drive down general and administrative (G&A) costs and reshape operations for lean execution.



1. See, for example, Ed Hirs, "The arithmetic of fracking," *Forbes*, February 21, 2020, forbes.com; and Bruce Jones, ed., *The New Geopolitics of the Middle East: America's Role in a Changing Region: A Brookings Interview*, Foreign Policy at Brookings, January 2019, brookings.edu.

## Creating a culture of innovation

*“An innovative and digital culture is guided from the top, with the norm being agile decision making and non-hierarchical approaches to management.”*

The CHROs we interviewed described two ways in which they drive innovation: pushing the enterprise to be digitally enabled and shaping the broader culture to be more innovative and agile.

Digital disruption isn't new. All business leaders today need to possess a digital mindset, including an understanding of how data can power better decision making about the workforce and generate real value for customers and stakeholders.<sup>2</sup> Leading CHROs are providing opportunities for their executive teams and other leaders to be exposed to cutting-edge thinking that will inspire their teams to employ data in smarter and more productive ways. “As organizations accelerate digitally,” one CHRO shared, “they will need even more leaders who can couple digital dexterity with commercial acumen. Building these capabilities and talent pipelines should be a priority for CHROs in energy.” Another CHRO recruited an economist to run data analytics and help the HR team advance their thinking on how to employ data to drive better decisions on recruitment, engagement, inclusion, and multiyear workforce planning.

Related, leading CHROs understand the need to align strategy, structure, and culture to accelerate organizational performance. In a time of change, they are helping their organizations break away from entrenched thinking and behaviors to embrace a more open, test-and-learn mindset to drive innovation—creating an environment and structures that promote uninhibited information sharing, seeing complexity as an opportunity, and learning from setbacks and failure. As other work from Heidrick & Struggles shows, shaping culture must be owned by leaders, and it starts at the top.<sup>3</sup> Leaders throughout the enterprise have an enormous role to play in modeling the way, by being inclusive, transparent, collaborative, and empowering. CHROs must challenge themselves and their peers with questions such as “Are you truly open to learning and adapting?” and “Are you developing, promoting, and learning from those who possess these traits?” One of the CHROs we spoke with explained that he set up a weekly lunch for employees to discuss a range of topics around digitization, and that it quickly grew from 15 attendees bringing their own lunch and ideas to more than 70. This served as a forum for the CHRO to learn from talented and passionate people.

Another CHRO explained: “We hire disruptive and strategic thinkers expecting great outcomes but don't want to disrupt our culture to allow them to flourish. The CHRO has to be a champion of culture and build those cultural capabilities that foster innovative thinking and practices.”

2. For more on helping leaders build digital skills, see Yulia Barnakova, Steven Krupp, and Scott Snyder, “Building digital dexterity in your leadership team,” Heidrick & Struggles, May 15, 2019, [heidrick.com](https://heidrick.com).

3. See Larry Senn and Jim Hart, *Winning Teams, Winning Cultures*, Huntington Beach, CA: Senn Delaney, 2006.



## Demonstrating courage in promoting ethics and integrity

*“When you become CHRO, peer relationships are different. Being a business leader at this level takes personal courage. At times I need to be the parent in the room and the custodian of ethics and culture.”*

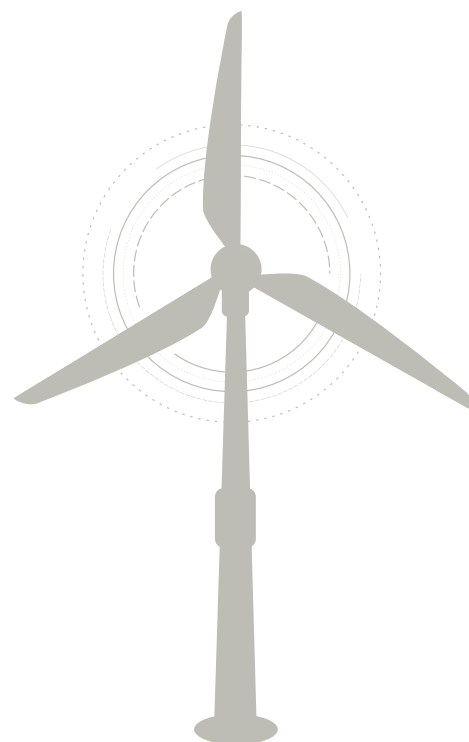
Most CHROs are keenly aware that they have a central role in stewarding the organization’s ethics and culture, at times serving as the conscience of the executive team. This role sets them slightly apart from their executive peers, other than the CEO. This is for good reason from a governance perspective, especially when it comes to working with the board on executive compensation or with respect to promotions and executive separations. When asked what it takes to skillfully and effectively play this role, the response was “Courage.” Our interviewees, with remarkable consistency, mentioned the need to regularly act as the “adult in the room,” asking the tough questions that often are uncomfortable for the CEO or other executives. This has been particularly true lately in the energy industry: “In this industry, we are going to be either merging or acquiring,” one CHRO said, “and during times like these, executives can get focused on change-in-control agreements and their personal situations, with potential to suboptimize alternatives for the business. This is an example where CHROs need to keep their focus on the best long-term outcomes for investors and employees.” With a strong need for many companies in the sector to generate free cash flow, there is a renewed focus on reducing G&A. To this end, it is common to see planned reductions in the workforce, consolidation of locations, and even erosion of employee benefits. Although these are difficult and unpopular decisions, leading CHROs approach these emotionally challenging events with courage and see them as opportunities to act with integrity and demonstrate compassion.

## Finding the right CHRO

While the CHRO role has changed, the perception of HR and its potential may not have yet permeated the rest of the C-suite. If energy companies are to remain competitive in their talent strategies, CEOs and executive teams should focus on developing or recruiting CHROs with a heavy weighting on these core capabilities and personal traits over purely HR functional experience.

That means that someone whose career has progressed entirely in HR is likely not the kind of executive leader energy companies are most in need of today. CEOs can seek to develop their current HR leaders by providing opportunities inside and outside the HR function that will help build business acumen and a strategic, enterprise-wide mindset, such as leading special cross-functional projects or acting as the leader for an integration of a new company. One CHRO was given the task of acting as the project manager for the construction of the company’s new corporate headquarters, with accountability for all aspects of the project.

Heidrick & Struggles has shown that leaders, teams, and organizations can accelerate performance by mobilizing, executing, and transforming with agility, known as the META framework. Energy companies and leaders have long focused on being able to mobilize and execute efficiently and safely. With the new challenges facing the sector, however, leaders who can demonstrate strong abilities and the potential to lead transformation and show agility will be highly sought after. (See the following table for the key behaviors our research shows drive transformation and agility.) As CEOs seek to develop senior human resources leaders, they would do well to focus on these traits in the context of leading transformation and change, reinforcing meaning and purpose, shaping the culture, and building digital dexterity. Companies that need to look outside for a CHRO with the mindset and capabilities most useful today may need to search in adjacent industries such as engineered products, process manufacturing, aviation, or automotive.



Core leadership behaviors to accelerate performance

Transform	Disrupt and challenge	<ul style="list-style-type: none"> <li>Create possibilities from new thinking</li> <li>Generate disruptive change</li> <li>Lead change</li> </ul>
	Lead innovation	<ul style="list-style-type: none"> <li>Experiment</li> <li>Collaborate across boundaries</li> <li>Scale and invest in new ideas</li> </ul>
Agility	Foresight	<ul style="list-style-type: none"> <li>Solve complex problems</li> <li>Develop creative solutions</li> <li>Think with dexterity</li> </ul>
	Learning	<ul style="list-style-type: none"> <li>Self-aware</li> <li>Curious and open-minded</li> <li>Courageous</li> </ul>
	Resilience	<ul style="list-style-type: none"> <li>Ownership mindset</li> <li>Purpose and integrity</li> <li>Persistence and sustained energy</li> </ul>
	Adaptability	<ul style="list-style-type: none"> <li>Be authentic</li> <li>Demonstrate empathy</li> <li>Flex and transform</li> </ul>

Human capital leaders need to bring these capabilities themselves while growing and instilling them throughout the organization. Driving these capabilities in current and future leaders will pay dividends as the energy industry continues to face disruption.



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# Human Resources Officers Practice

We partner with organizations to help them identify strategic human resources leaders who are prepared to lead and create high-performing organizations. We help our clients find HR leaders with the business acumen, strategic and market insight, financial savvy, operational capabilities, and ability to harness data and technology to drive business success. These leaders must be culture shapers with the foresight, resilience, and adaptability to drive transformative change in organizations through strategic talent management.

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