ARTICLE

The next energy crisis? Talent

Eleven CEOs across the energy sector share their insights on how companies can recruit and develop the leaders the industry urgently needs to create a sustainability of leadership for decades to come.

Introduction

"Someone's sitting in the shade today because someone planted a tree a long time ago."

Warren Buffett

"Energy is life." So, wrote one of the foremost thinkers on energy systems, Czech-Canadian scientist Vaclav Smil. Touted by the likes of Bill Gates, Elon Musk, and CEOs of major energy companies, his simplicity nevertheless captures energy's enormity. The increasing demand for life-sustaining energy cannot be produced or sustained without leaders—which is why leadership in energy matters more than we can imagine. Warren Buffett, himself long on energy for decades, highlighted the need for visionary leadership in imagining its power: "Someone's sitting in the shade today because someone planted a tree a long time ago."

As the world wrestles with a growing energy crisis, nations are scrambling to rapidly increase the production of oil and gas and scale renewable energies. A "global squeeze on energy supply that's triggered crippling shortages and sent power and fuel prices surging may get worse," the International Energy Agency recently reported. Even traditional thermal sources such as coal and nuclear are making a comeback. Some European governments are reconsidering their fracking bans. Other European countries are rationing energy and resorting to wood, the original biofuel. In this context, the "all of the above" approach to energy, long espoused by many pragmatic analysts, is finally breaking through as common sense. A "just transition," one that harms neither the people living in energy poverty nor the climate, may eclipse the familiar "energy transition" refrain.

Yet senior executives in the sector are paying little attention to another crisis bubbling underneath: the talent crisis—namely, the recruitment and development of the leaders who are necessary to envision, plan, and deliver the increasing demand for energy.

Traditional sources of talent for oil and gas (namely, trained engineers and geologists[1]) are drying up. Consecutive oil and gas downturns have created a leadership deficit, and baby boomers are beginning to exit the industry as equity values recover and the great crew change takes place. In renewables, companies are growing faster than the supply of leaders can keep up with, forcing them to be especially imaginative in competing for, recruiting, retaining, and developing talent.

And, even though companies spend millions of dollars publishing annual sustainability reports and celebrating net-zero pledges, hardly any make disclosures about a sustainable strategy for talent, which must be considered a material risk and, at the CEO level, is one of the key responsibilities of the board. Indeed, capital, strategy, innovation, and technology are all fundamental elements of a successful enterprise, but none matter without wise and discerning leaders.

Without a new paradigm of leadership and an associated talent strategy, this global energy crisis (and future ones) will never be solved.

We believe that without a new paradigm of leadership and an associated talent strategy, this global energy crisis (and future ones) will never be solved. Moreover, the world's voracious thirst for reliable, affordable, plentiful, and clean energy may never be fully quenched. The stakes have never been higher, and, like the sea levels, are rising every day. Across industries, leadership across the boundaries that divide us is not only necessary but urgent, but nowhere is this type of leadership needed more than in energy.

Based on our experience building energy leadership teams, our research, interviews with 11 top energy CEOs and leaders, and discussions with dozens of other leaders in 2022, we offer a set of practical suggestions and considerations to help energy companies build their bench and meet the talent challenge head-on.

1 Stephen Rassenfoss, "Petroleum engineering continues to drop, but there is talk of better times ahead," *Journal of Petroleum Technology*, March 1, 2022, jpt.spe.org.

Three significant trends

1. The demand for more energy requires a new supply of leaders

Energy, specifically petroleum-based energy, fueled the rise of modern industry, modernized agriculture, and powers the digital age—and it literally powers almost every other industry in the world. Though renewable sources are taking more market share (supported and powered by the petroleum energy supply chain), most experts acknowledge that the vast majority of the increasing demand for power cannot be generated or supplied by renewable sources in the next—or even the following—decade. It's not a zero-sum game: growing energy demand must be met by all sources.

According to the International Energy Agency, fossil fuels meet 81% of global energy demand today, a figure that is expected to drop to only 78% over the next 20 years, while overall worldwide energy demand is expected to grow by as much as 50% by 2050.[2] Furthermore, energy poverty remains a global crisis, especially in sub-Saharan Africa and parts of Latin America, China, and India; roughly 3.3 billion people still live with little or no electricity.[3] And, according to the World Health Organization, household air pollution was responsible for an estimated 3.2 million deaths per year as of 2020; women and children, typically responsible for household chores such as cooking and collecting firewood, bear the greatest health burden from the use of polluting fuels and technologies in homes.[4]

That said, renewable sources of energy are becoming a larger share of global energy supply. Last year, the World Resources Institute reported that the market share of solar and wind in global electricity generation grew at a compound average annual growth rate of 15% from 2015 to 2020.[5] If growth continues at this rate, solar and wind would reach 45% of global electricity generation by 2030.[6] Furthermore, the US Energy Information Administration (EIA) forecasts that most of the increase in US electricity generation through 2023 will come from renewable energy sources as a result of growth in US renewable generating capacity. The EIA expects renewable energy will provide 22% of US electric power sector generation in 2022 and 24% in 2023, compared with 20% in 2021.[7]

The US Inflation Reduction Act includes climate and energy incentives, with roughly $369 billion to be spent over the next 10 years. This includes tax credits for buying electric and hydrogen vehicles, numerous incentives to accelerate the build-out of wind and solar farms, and large-scale batteries to store their output for use when production declines. Yet the legislation also benefits fossil fuel companies by providing access to millions of federal acres onshore and offshore and support for nuclear power production.[8]

Taken together, all this means that the energy business will remain fossil-fuel based for decades to come, but with an increasingly larger share from renewables. David J. C. MacKay, a physicist at the University of Cambridge, summarized the situation clearly: "I love renewables, but I am also pro-arithmetic."[9]

There are limits in the supply of leaders precisely while demand is increasing.

But the slow shift in industry structure is obscuring a more immediate demand for more leaders in every part of the industry. Like the lack of energy supply, there are limits in the supply of leaders precisely while demand is increasing.

2 "US total energy exports exceed imports in 2019 for the first time in 67 years," US Energy Information Administration, April 20, 2020, eia.gov.

3 *International Energy Outlook 2020*, US Energy Information Administration, October 14, 2020, eia.gov; and Robert Bryce, *A Question of Power*, New York: Hachette Book Group, 2020, p. 74.

4 "Household air pollution and health," World Health Organization, July 27, 2022, who.int.

5 Joel Jaeger, "Explaining the exponential growth of renewable energy," World Resources Institute, September 20, 2021, wri.org.

6 *Global Renewables Outlook 2020: Energy Transformation 2050*, International Renewable Energy Agency, April 2020, irena.org.

7 "Short-term energy outlook," US Energy Information Administration, October 12, 2020, eia.gov.

8 *Global Renewables Outlook 2020: Energy Transformation 2050*, International Renewable Energy Agency, April 2020, irena.org.

9 David MacKay, "A reality check on renewables," filmed March 2012 in Warwick, United Kingdom, TED video, ted.com.

On the fossil fuel side, exploration and production sector stocks have been the number one performing equity asset class in the past two years. As equity values recover, more CEOs and senior executives are electing to retire. Others, of course, exited during the previous prolonged downturn. And yet other prospective leaders refused to enter an industry considered a pariah and under daily attack from a narrative that questions its very existence. The result is a dwindling grove of seasoned executives and newly developing leaders, with some transplanting themselves time and time again.

"The energy industry will be faced with a great range of challenges in the coming years as we work to provide energy to power and fuel the world. At the top of the list is recruiting, retaining, and properly developing a talented and capable workforce. Our industry depends a great deal on problem-solving capabilities, development and application of technologies, and effective risk assessment to provide affordable, reliable energy for societies around the globe. Many of the answers to these challenges will lie in the areas supported by STEM education. For a variety of reasons, we simply are not seeing the number of graduates from universities, technical programs, and so on, to meet the current need, let alone to be in a position to meet the future needs. We need to be extremely careful about an overreliance on assuming continued efficiencies and technologies will be the savior that many espouse."

Rick Muncrief, CEO, Devon Energy

The war for talent in renewables is reaching unprecedented levels. This relatively new and fast-growing sector must recruit, develop, and retain leaders and compete effectively against fierce rivals, but most boards and CEOs have tended to seek proven and seasoned experience and skill sets, and reasonable market compensation.

In renewables, start-ups, capital providers and private equity firms, pre-IPOs, and early-stage companies are all scrambling to fill seats on boards and management teams. The war for talent in renewables is reaching unprecedented levels. This relatively new and fast-growing sector must recruit, develop, and retain leaders and compete effectively against fierce rivals, but most boards and CEOs have tended to seek proven and seasoned experience and skill sets, and reasonable market compensation.

Given the current context, renewables companies are becoming more willing to sacrifice depth of renewables expertise depending on desired functional capabilities. This is especially true where functional expertise is severely limited or nonexistent within the sector (such as digital or cybersecurity expertise) or where some sector exposure and familiarity exist (such as coming from conventional power). However, when renewables companies can find the skills and appropriate sector experience, compensation levels are reaching unprecedented levels.

"There isn't nearly enough being done to bring new talent into the industry. The growth in renewables will require a massive influx of talent that has not historically been proactive in meeting long-term needs. We are spending two to three times the normal effort (and, subsequently, expense) to attract new talent to fill open positions. We are paying above market salaries and often providing titles above experience levels. Once [we have talent] on board, it is a constant fight to retain the top talent due to continued recruitment from others that are doing the same thing. This is going to result in a zero-sum game for all of us if we do not adjust our historic methodology of talent acquisition and retention."

Jason M. Allen, CEO, Leeward Renewable Energy

All energy companies must begin to plan for the coming talent crisis so that they can benefit from the protective shade of large oaks planted in time. Numbers and supply alone are just the first problem. The new leaders in renewables and oil and gas will need to deepen their skills tool kits as their jobs become increasingly more difficult and complex.

2. Energy jobs are more demanding and complex

In 2021, we recommended four attributes of the "new energy leader" to deal with the increasing demands and complexities of their responsibilities at that time:[10]

- Think like an activist
- Relate like a diplomat
- Serve as an advocate
- Develop a new humility

Those attributes are now in urgent demand. More oil and gas leaders (whether financial, operational, commercial, technology, executive management, or governance) need to *adopt an internal activist mindset* (cost efficiencies, shareholder returns); *engage and relate with stakeholders with diplomatic skills; advocate for the purpose and meaning* of their work in providing affordable, plentiful, and reliable energy to the world; and *develop a new humility* about new ways of operating, innovating, and communicating in a world that demands more transparency and trust. That is a lot. But it is no longer enough.

"While the energy business has been far from 'easy' lately, navigating wildly volatile commodity prices and disruptive external environment events has always been part of the job—the other stuff is all new, incremental, and extraordinarily challenging."

Clay Williams, chairman and CEO, National Oilwell Varco

There is also complexity added by new communications expectations:

"As a CEO, you can no longer just issue edicts and hope people follow along. Employees want to be inspired, they want to understand the vision—not just the 'what' but also the 'how' and 'why.' What part do they play in this vision, and what's in it for them?

Dennis Arriola, former CEO, Avangrid; non-executive director, ConocoPhillips

Strategic complexity

For decades, oil and gas leaders were expected by investors, analysts, and consumers to lead companies that produced greater volumes of reliable and affordable energy.

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Over the past decade, the United States nearly doubled its global oil and gas market share, from 8.9% to 17.0%, but the sector delivered an average return on capital employed from 2010 to 2020 of just 4.0%—well below the industry weighted average cost of capital. Furthermore, in January 2021, the S&P warned 13 oil majors that they were at risk of downgrades because of growing competition from renewables.[11] The fact that many exploration and production CEOs were earning well over their target compensation while debt piled up and value declined was not lost on investors, whose faith in sector leadership steadily deteriorated. All this destroyed industry trust for perhaps a generation.

The shale sector got religion about its business model in 2020 and has made disciples among its peers in the past two years; companies have been embracing capital discipline and the need for free-cash-flow generation versus growth.

10 Les Csorba and David Pruner, "The new energy leader: The essential attributes of US energy leaders for the next decade," Heidrick & Struggles, heidrick.com.

11 Ben Butler, "Rating agency S&P warns 13 oil and gas companies they risk downgrades as renewables pick up steam," *The Guardian*, January 26, 2021, theguardian.com.

The industry now faces a new, multifaceted strategic dilemma: meeting the urgent demand for more supply while returning cash to shareholders, operating with a stewardship mindset for the land and the community, and avoiding another cycle of value destruction and broken trust.

Dividends, variable dividends, and stock buybacks have trumped explosive capital expense budgets. The discipline stuck when prices recovered, with the industry resisting its "spend, baby, spend" habits. As of October 2022, oil and gas companies made up 5% of the S&P 500 index.

However, the industry now faces a new, multifaceted strategic dilemma: meeting the urgent demand for more supply while returning cash to shareholders, operating with a stewardship mindset for the land and the community (mitigating emissions and reducing methane and gas flaring intensity, for example), and avoiding another cycle of value destruction and broken trust. The noticeable and perhaps irreversible change from volume to value demands a new kind of leadership, a shift from traditional execution-oriented operators toward more transformational, digital, and strategic skill sets. This will require building a supply pipeline of new talent for a sustainable future.

"[Among the factors making the role more complex is] the uncertainty around the future of the industry, driven by energy transition and unpredictable policy environments [which require] strategy to innovate, refocus, and pivot to sustain growth and stay relevant in the world of energy transition."

Soma Somasundaram, CEO, ChampionX

"An energy CEO must balance multiple priorities, many of which have increased in emphasis in recent years. In particular, a robust, credible ESG strategy is essential to an increasing proportion of energy investors. A company's performance among an expanding group of ESG rating agencies may make the difference in whether many investors are able to invest in your company."

Chris Kendall, CEO, Denbury

In renewables, the strategic talent challenges begin with the pressure to scale start-ups quickly, mature organizational capability, and produce more volumes of reliable energy—all with a real return on capital invested. Indeed, managing demanding first-time capital providers has become one of many challenges for new energy leaders. They must also effectively and efficiently compete for capital and projects and navigate a complex web of stakeholders and a constrained supply chain for essential hardware and services.

Adding to the complexity, renewables companies are being forced to address increasingly emergent trends such as digitization, cybersecurity, technology integration, and rapidly scaling delivery targets. All of these often contribute to an organization's positioning for longer-term success in the sector and, ultimately, the ability to continuously attract and retain top-performing talent.

"With today's unstoppable momentum toward a net-zero future, the renewable energy industry is evolving more rapidly than ever. The need to demonstrate innovation and agility is key. Technological innovation to drive real-time, data-driven insights for our clients is at the core of our offering and is creating stimulating work to attract and retain the industry's leading talent."

Eduardo Medina, CEO, RES

Early-stage renewables leaders would do well to learn the lessons from their oil and gas peers not to sacrifice value for volume. Equally, oil and gas leaders would do well to learn from their new energy peers to innovate and develop new revenue models while investing in and deploying new technologies to mitigate, capture, and store CO_2. And yes, some energy companies will seek to be fully integrated hydrocarbon and renewables businesses, putting an *extra premium* on the talent able to collaborate and partner across energy value chains.

Digital complexity

In addition to strategic complexity, there is the omnipresent digital challenge. Every industry faces the challenge of fully embedding digital operations, but energy leaders have among the most to gain.

Numerous industry reports and surveys show that the energy industry has not been able to gain as much value as many others from the data and digital revolution.[12] Industry leaders assumed that, as engineering-savvy organizations with a history of ingenuity, they could easily find the value from digital—but that was easier said than done.

"I am conscious that the energy industry is behind many others in this area. At RES, the digitalization of our services and solutions and the adoption of artificial intelligence is at the heart of our strategy. There are very few companies that can marry digital capabilities with real-world engineering experience, and that blend is working well for us."

Eduardo Medina, CEO, RES

While many energy companies are leveraging big data and AI to make better capital decisions (such as for well spacing) and monitor and mitigate emissions, for example, most still have not fully leveraged existing data, especially in areas such as monitoring methane intensity or equipping field personnel with digital tools to manage operations more effectively.

Energy leaders know that building digital ways of working is necessary to add value but often struggle with their own inertia. They have "let the perfect be the enemy of good," letting their aspirations get in the way of capturing the value of digital excellence.[13] While many energy companies are leveraging big data and AI to make better capital decisions (such as for well spacing) and monitor and mitigate emissions, for example, most still have not fully leveraged existing data, especially in areas such as monitoring methane intensity or equipping field personnel with digital tools to manage operations more effectively. Our own earlier research showed an alarming digital deficit.[14]

Adding to the complexity is that, to a large extent, energy companies are, in fact, highly digital and asset heavy, and they face digital risks that can affect almost everyone, such as pipelines being hacked. In May 2021, for example, Colonial Pipeline was the victim of such an attack when a hacker group accessed the IT network and infected it with ransomware. Colonial was forced to shut down its pipeline to prevent further potential damage, disrupting fuel supplies to major US East Coast markets. This attack demonstrated that critical infrastructure remains highly vulnerable and that governments and companies must work harder to prevent future hacks. This, in turn, has driven several companies to create or enhance functional capabilities associated with cybersecurity.

Functional complexity

The Colonial cyberattack also highlights the fact that the industry faces one of the fundamental realities of progress in a free market economy—namely, Adam Smith's rule of "division of labor." This division of labor has evolved into a phenomenon many business academics have referred to as the "hyperspecialization" of work.[15] The trend became especially sacrosanct in the energy industry over the last decade and persists to this day—though it is the opposite that is now required.

Hyperspecialization led to increasing delegation and outsourcing, which may have worked in a large matrix global organization. In renewable energy, specialization grew up differently: organizations have grown two- or threefold in a single year to

12 Adrian Booth, Nikhil Patel, and Micah Smith, "Digital transformation in energy: Achieving escape velocity," McKinsey & Company, September 3, 2020, mckinsey.com.

13 Adrian Booth, Nikhil Patel, and Micah Smith, "Digital transformation in energy: Achieving escape velocity," McKinsey & Company, September 3, 2020, mckinsey.com.

14 Les Csorba and David Pruner, "The new energy leader: The essential attributes of US energy leaders for the next decade," Heidrick & Struggles, heidrick.com.

15 Thomas Malone, Robert Laubacher, and Tammy Johns,"The Big Idea: the age of hyperspecialization," *Harvard Business Review,* July–August 2011, hbr.org.

keep pace with the demands of growth. And, as organizations have matured and streamlined processes and resourcing, critical functions have become centralized, requiring leaders with highly specialized technical or functional skills to develop leading capabilities in a specific domain. The pace, volume, and complexity associated with competing in a crowded sector continue to increase.

Yet more and more energy leaders (regardless of function) are forced to be multifaceted. CEOs and executive teams (and the boards that provide oversight) are responsible collectively and individually for far more than their functional specialization. Indeed, energy leaders (whether oil and gas or renewables) have at least seven areas to be broadly mindful of: financial performance, investor confidence, innovation, social or people or safety leadership, environmental stewardship, reputation, and risk and resilience. They cannot succeed today by simply excelling in their functional specialization or comfort zone. The expectation from a growing range of stakeholders is that energy leaders must perform like *decathletes*.

The expectation from a growing range of stakeholders is that energy leaders must perform like *decathletes*.

"Historically, my job was 70% execution driven and 30% people focused. Real problems were contract or equipment related. In the past two years, that has changed materially, and the complexity has increased. The industry is much more competitive due to positive external forces. Demand is way up, so there are more players in the space. The ability to move a new project through the development continuum has extended materially. Coupled with this, on the personnel side, it is a buyers' market on steroids. I now spend 20% of my time on the commercial side and the remaining 80% focused on our most important resource, our employees. Is this a bad thing? I would say no, but it certainly requires a new executive skill set."

Jason M. Allen, CEO, Leeward Renewable Energy

This complexity is reflected in executives' compensation, which for oil and gas leaders is frequently tied not only to financial performance and shareholder returns but also to ESG targets such as carbon reduction and net-zero goals. Among renewables executives, compensation is tied to scale and growth, regulatory and community approval for development projects, and, increasingly, profitability and return on invested capital.

The fact that the jobs of oil and gas and renewables executives and non-executive directors have become more demanding and complex exacerbates the talent supply crisis. It also presents the greatest opportunity in a generation: companies that deeply invest in new leadership will gain lasting advantage.

Diversity complexity

Finally, making energy leaders' jobs even more complex is the ongoing challenge of developing an increasingly diverse workforce across the enterprise, and treating everyone with inclusion and equity. All energy companies (new and old) seemingly celebrate and champion diversity. Yet, according to recent Heidrick & Struggles research on DE&I in companies around the world, the energy and chemicals industry was slightly behind other industries in making diversity and inclusion a higher priority in their business, and the mandate for driving diversity and inclusion falls more on CHROs or chief diversity officers in these sectors than at the CEO and board level.[16]

Making energy leaders' jobs even more complex is the ongoing challenge of developing an increasingly diverse workforce across the enterprise, and treating everyone with inclusion and equity.

16 Heidrick & Struggles proprietary analysis. For more on diversity, equity, and inclusion around the world, see Jonathan McBride, *Employees at the Center: What It Takes to Lead on DE&I Now*, Heidrick & Struggles, heidrick.com.

Most energy companies celebrate their "inclusiveness," but many exclusively pick from their own kind. At the board level in particular, most boards still recruit the people they know best and who are most like them.

Most energy companies celebrate their "inclusiveness," but many exclusively pick from their own kind. At the board level in particular, most boards still recruit the people they know best and who are most like them. In other words, in an industry that has made significant progress in diversifying its boards and teams and driving an inclusive culture over the past five years, this still remains an ongoing challenge and opportunity.

"Today, legislators, policymakers, customers, and other external stakeholders (for example, environmentalists) have an important seat at the table. In order to stay ahead of the game, we can't just look within our industry for talent and innovation; we've got to be open to people outside our sector. This will require us to make our traditionally insular cultures more accepting—that is true diversity."

Dennis Arriola, former CEO, Avangrid; non-executive director, ConocoPhillips

Renewables leaders will also be challenged by fast growth. It is anticipated that jobs in the sector will reach 42 million globally by 2050, four times their current level. Energy efficiency measures would create 21 million additional jobs, and system flexibility 15 million.[17] Bringing in and integrating this many new employees will create significant diversity, and, therefore, significant inclusion and equity challenges.

Three new attributes for the next generation of energy leaders

So, altogether, in addition to thinking like an activist, relating like a diplomat, serving as an advocate, and developing a new humility, we would add three attributes crucial to leadership in energy today and the next decade: first, a digital dexterity, which will enable leaders to address the supply and emissions challenges more easily and efficiently;[18] second, an agility that enables them to meet the full range of stakeholder expectations;[19] and third, a commitment to doubling down on inclusion and diversity (especially experiential diversity) that enhances innovation and performance.

3. The talent challenge has become a zero-sum game: A now-or-never proposition

As today's energy leaders seek to attract and develop their successors, they face not only a small pool of potential leaders and roles that are getting far more complex, reducing the pool even further, but also several significant considerations that continue to raise the stakes. The investment in energy talent is a now-or-never proposition, perhaps even a zero-sum game. For those who go big, the rewards are huge; for those who play small ball, the losses could be far greater. The talent stakes in the current global energy crisis could be best informed by applying a Chinese proverb: "The best time to plant a tree was 20 years ago; the second-best time to plant a tree is today."

"The best time to plant a tree was 20 years ago; the second-best time to plant a tree is today."

17 *Global Renewables Outlook 2020: Energy Transformation 2050*, International Renewable Energy Agency, April 2020, irena.org.
18 Steven Krupp, "Building digital dexterity in your leadership team," Heidrick & Struggles, heidrick.com.
19 Steven Krupp and Becky Hogan, "Agility for the long term," Heidrick & Struggles, heidrick.com.

Additional leadership considerations include:

- The perpetuity of hybrid virtual workplace environments making leadership development and mentoring more difficult, an issue raised by both oil and gas and renewables CEOs

"Emerging openings popping up downline are creating great growth opportunities for employees (who sometimes get "battlefield promotions"—a signature of our industry during upcycles of the past). However, we are worried about the longer-term effects of the work-from-home movement on our leadership talent development. It's unclear how effective future leaders will be if big chunks of their experience base are doing Zoom from their couch."

Clay Williams, chairman and CEO, National Oilwell Varco

"While it's possible to mentor and coach early- and mid-tenure employees remotely, I believe that the transaction cost imposed by lack of physical proximity slows the pace of learning and growth. The stakes for our business and our industry are not achieving our goals as quickly as we would like; a secondary stake is early- and mid-tenure leaders getting frustrated by the pace of their development and seeking other opportunities because of it."

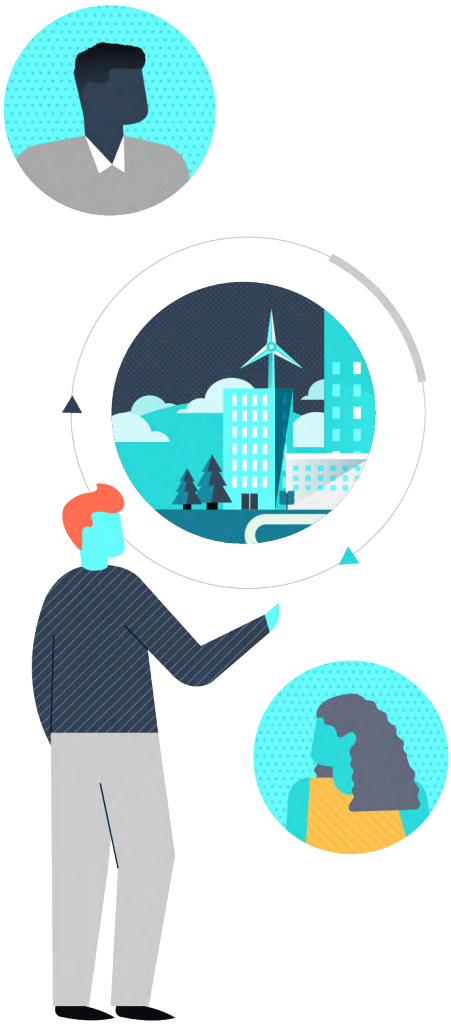
Caton Fenz, CEO, ConnectGen

- A contradictory narrative in oil and gas that suggests the world needs more reliable and affordable hydrocarbon production, yet also suggesting strongly that the industry will ultimately disappear

"Workers are fearful that our industry will soon be gone and that others will stigmatize them for working in this industry. COVID certainly amplified anxieties about rapid changes in society. We work tirelessly to help folks at Liberty feel proud and that they are critical agents for bettering human lives. This point is hard to overstate. People crave purpose in their life. Leaders must bring this purpose and instill deep belief in it."

Chris Wright, CEO, Liberty Oilfield Services

- The tendency to hire from within the industry, which not only shrinks the pool but also creates incestuous cultures that inhibit innovation and promote old habits—just when transformation is needed most



A reluctance to use coaching for development

Many energy CEOs and boards strongly advocate for coaching for their high-potential leaders, but not for themselves. In many other industries, such as technology and financial services, coaching is considered a perk; in the energy sector, it is largely viewed as remedial. Given the small pipeline of leaders and growing complexity of roles, energy companies cannot afford *not* to support any current executive who might have the ability to lead if given the right development opportunities.

Start by "naming the elephants" and broadening horizons

These challenges and apparent contradictions are complex. Yet leaders who name the elephants in the room, acknowledging the risk and high stakes, and do the hard work will capture opportunity. Again, as Warren Buffett said, "Someone is sitting in the shade today because someone planted a tree a long time ago." The companies that get ahead of this talent crisis now, those who are intentional about talent initiatives, will gain significant competitive advantage and market share in the years ahead.

Both oil and gas and renewables sectors, though they are seemingly fierce competitors for energy market share, have the opportunity to learn from each other, collaborate, and gain wisdom from other industries that have invested in leadership development. If the automotive industry can collaborate internally to produce both internal combustion engine and electric vehicles, cannot the energy industry create the same kind of partnerships and cooperation around talent and the future generation of leadership?

Our advice

Based on our research, interviews, and conversations with energy CEOs and board members, as well as our experience building leadership teams for a diverse set of energy companies (hydrocarbon and renewables), we believe the following recommendations for boards and management teams will deepen the leadership pool in the years ahead and help companies get ahead and gain market share in the growing war for energy talent. We have specific recommendations in response to the three trends discussed in this article, as well as several overarching recommendations.

Attributes of the new energy leader

Think like an activist

Relate like a diplomat

Serve as an advocate

Develop a new humility

Build digital dexterity

Transform with agility

Model inclusive leadership of a diverse workforce

1. The demand for more energy requires a new supply of leaders

- Increase advocacy for the meaning and purpose of working in both the oil and gas and renewables sectors. These are industries that power all other industries and contribute to humans' flourishing. Articulating the purpose and meaning of this work will always enhance talent acquisition and retention.
- While affirming a bias for the development and promotion of internal leaders, consider selectively going outside the industry to reinvigorate cultures and bring more experiential diversity.
- Double down on building inclusive cultures, role-modeled by leaders and aligned with operating systems and processes, that engage employees, enhance the free flow of innovation, and, in turn, create an attractive environment for outsiders to join.
- Invest in best-in-class governance and leadership initiatives as a way to attract the best and the brightest from any industry (as well as to demonstrate shareholder stewardship). For example, rigorous 360-degree assessments should be expected not only for high potentials but also for CEOs, executive leadership teams, and, yes, boards. Boards should set the tone for good governance by replacing annual self-assessments with rigorous board reviews (board effectiveness) and 360s at least every two years.[20]
- Oil and gas boards should be more intentional about adding diverse voices of energy expertise (climatologists and "new energies" leaders, for example); renewables boards should consider adding voices from oil and gas who bring the necessary operational, regulatory, and safety mindset.
- Discuss ways that companies across the sector can collaborate and learn from each other (oil and gas leaders learning from renewables and renewables leaders learning from oil and gas). Beyond advocating for the fundamental purpose and meaning of the industry, for example, companies can collaborate in planting the seeds for new leaders with industry-wide support of initiatives in STEM education.

"Oil and gas needs to do a better job articulating both the great work we've done lifting humanity out of energy poverty and our industry value proposition for careers (solving cool technical and commercial problems, a global industry, rapid advancements, responsibility growth during upcycles, and so on). Our industry (and company) has a long history of assigning big, meaningful jobs and growing great leaders and people as a result."

Clay Williams, chairman and CEO, National Oilwell Varco

"We as an industry have an important role to play in balancing the improvement of prosperity of people around the world while protecting the planet. We must tell this compelling story more."

Soma Somasundaram, CEO, ChampionX

"I firmly believe that capturing the massive opportunity offered by the Inflation Reduction Act requires us to look outside the renewable energy industry for talent. I myself came from outside renewable energy in 2007, and we need to attract and nurture the next generation of leaders from outside our industry to meet this challenge."

Caton Fenz, CEO, ConnectGen

20 For more on board effectiveness reviews, see Alice Breeden and David Hui, "A board review that accelerates competitiveness," Heidrick & Struggles, heidrick.com.

"We are partnering with school districts throughout our areas of operations to build interest in STEM programs at the elementary and middle school levels, in an attempt to build for the future by investing in today's young students."

Rick Muncrief, CEO, Devon Energy

"There is ever-growing competition outside the oil and gas industry for STEM talent. We should develop a pipeline of future talent by investing time and financial resources to encourage student interest in science, technology, engineering, and math."

Ezra Yacob, CEO, EOG Resources

2. Energy jobs are more demanding and complex

- To develop broader skill sets, refocus internal training and development of high-potential leaders to get outside of hyperspecialization, including more rigorous rotational assignments across a range of functions.
- Regardless of functional roles, make sure that high potentials are grounded in the strategic complexities, that all leaders hone their digital expertise, and that leaders understand and role-model inclusion.
- Develop or significantly update the leadership framework so it is appropriate to current demands. We know that, across sectors, there are four leadership capabilities most tied to impact now and potential for the future: leading through influence, driving execution, creating new ideas, and having an ownership mindset.[21] These align with the seven capabilities we have identified for new energy leaders.

"Rotational talent development programs have been a great way for us to launch careers; they provide exposure to the company and industry, [giving potential leaders the opportunity to] get launched in a discipline while learning from seasoned managers. Remain focused on culture and proven talent development principles: stretch assignments, strong bosses and mentors, a learning mindset, and so on. That works in both oil and gas as well as new energy."

Clay Williams, chairman and CEO, National Oilwell Varco

3. The talent challenge has become a zero-sum game: A "now-or-never" proposition

- Start with urgency by "naming the elephants" of the talent crisis that are most prevalent, leading from the front on the need to reinvest in leadership development and broaden talent horizons.
- Give CHROs and/or chief talent officers the mandate and the power and strategic authority to align leadership development and talent acquisition initiatives with the business needs.
- Boards must insist that CEOs and designated officers (such as CHROs) are continuously updating and communicating effectively about their leadership and talent strategies. This may include publishing an annual leadership sustainability report so that investors and other stakeholders may understand the company's commitment to leadership development. Such a report may include what the company is doing to develop, recruit, and retain the next generation of leaders; leadership initiatives, academies, coaching, and mentoring programs; CEO, CFO, COO, and CTO of the future programs; and whether external leaders are being recruited to continually reinvigorate leadership, innovation, and diversity of experience.

21 TA Mitchell and Sharon Sands, "Future-ready leaders: Finding effective leaders who can grow with your company," Heidrick & Struggles, heidrick.com.

"You need people who are more flexible, adaptable, and innovative, but you also need companies and programs that are more adaptable and flexible. You need to stay close to your people and find new ways to collaborate. Find less-rigid corporate governance and more informal channels to engage people."

Eduardo Medina, CEO, RES

Overarching recommendations

- Make succession planning a key part of the C-suite and boardroom agenda—not once a year but quarterly, at least. Boards should hold management teams more accountable for rigorous talent acquisition and leadership development programs, and even consider making this metric a part of executive compensation plans.
- Leverage the CHRO as a key lever for implementing business strategy, with a focus on building a sustainable leadership model. Just as the CFO and head of audit work closely with audit committee chairs, CHROs should more actively report to and participate in nominating and governance committee meetings on boards and be accountable alongside the CEO for the company's leadership strategy.
- Reinforce a thriving culture every day. As Peter Drucker wrote, "Culture eats strategy for breakfast." A high-functioning, healthy culture, one in which leaders continually demonstrate their commitment to both their company's values and all their stakeholders' values, practice the curiosity and humility needed to collaborate across industry or political boundaries, and build and disclose the company's efforts to develop a sustainable leadership model is one that will not only attract but help organizations retain top talent.
- Though leadership compensation metrics are already wide ranging and complex, we believe they should also include one more metric of sustainability: leadership supply. Only with this disclosure will investors, analysts, and consumers have the confidence that these leaders and companies are truly investing in a sustainable future. At other levels, as Soma Somasundaram, CEO of ChampionX, notes, more flexibility in compensation may be needed: "We are looking at different compensation models for our digital business and flex work models." A long-term focus even in the face of transformational change is key.

"At the core, our fundamentals are still the same: creating an inclusive work environment that treats people with respect, providing great service for our customers, improving the communities and environment around us, and earning industry-leading returns for our shareholders."

Jeff Miller, CEO, Halliburton

"When you have strikes against you, you need to get strikes for you. We strive to be flexible and fun without any lowering of our high-performance standards."

Chris Wright, CEO, Liberty Oilfield Services

Conclusion

In the years ahead, the world will be thirsting for more, not less, energy—affordable, plentiful, reliable, and cleaner energy. Billions of dollars of capital will be made available, and government tax incentives, attractive carbon credits, and subsidies will continue to boost energy production. But none of that will translate into greater supply without a sustainable supply of new leaders, where planting trees today will provide the shade for someone years from now. It is forward-thinking leadership that will differentiate and create market advantage. The real competition in energy in the next decade won't be for capital or customers, but for leaders.

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Further reading

"The new energy leader: The essential attributes of US energy leaders for the next decade" As the petroleum industry continues to navigate unprecedented price volatility and falls out of favor with investors, the real competition in the next decade will not be for customers, but for leaders: those who are able to develop a new humility building their capabilities to think like activists internally, relate like diplomats externally, and serve as effective advocates for the industry that powers all others.

"Sustainable and inclusive leadership in the oil and gas sector: A Canadian perspective" Marty Proctor, vice chair of ARC Resources, discusses the challenges currently facing the oil and gas industry and the opportunities for collaboration between industrial sectors such as oil and gas and forestry.

"Leadership for renewable energy companies: An interview with Jim Hughes, EnCap Investments" Jim Hughes, the managing partner for energy transition at EnCap Investments, discusses the challenges and dynamics of the transition to clean energy.

For more Heidrick & Struggles thought leadership, visit Heidrick & Struggles' Insights.

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