



EXECUTIVE LEADERSHIP FOR ENERGY MARKETS — THE VIEW FROM ASIA

By Arnaud Despierre

Despite the recent volatility in global markets, underlying growth prospects remain strong in many industries over the medium and long term. The energy industry is one example where fundamentals are resilient, supported by a momentum of rising energy demand over the long run. Asian markets, in particular, will serve as the global growth engine for energy consumption and, increasingly, production in the 21st century. As a result, the region is becoming a major focus for investment by energy companies.

As it seeks to address long-term demand, the industry will continue to be challenged and reshaped by powerful and nearly irreversible economic, social and geopolitical trends. These trends include the shift to new energy sources as conventional resources reach maturity, an ever-growing geographic divide between sources of energy production and consumption, the shift toward larger and more complex capital investments and greater global awareness of environmental issues.

In this article, we explore how these fundamental trends are challenging energy companies in developing or hiring executives with the skills required for the future. We highlight four specific competencies that will be critical for leaders of energy companies to thrive in this new environment:

- > **Commercial deal-making**
- > **End-to-end value chain optimization**
- > **Large-scale project management**
- > **Strategic change management**

We also share several recent examples from our work in Asia to illustrate how these competencies translate into specific roles, provide a view of the relevant talent market and reveal recruiting strategies that have proven to be most effective.

Commercial deal-making

“The ability and drive to strike constructive, mutually beneficial commercial deals in high-stakes business situations”

Several trends are driving the need for outstanding commercial leaders. First is the growing geographic divide between sources of energy consumption — today still dominated by Western countries despite a recent resurgence in conservation efforts — and energy production. Production is inexorably shifting to the developing world, where access to oil and gas reserves is often government-controlled, for example, as in Saudi Arabia. In addition, these resources are frequently located in countries where political issues can take precedence over economic rationale, in countries such as Iran or Nigeria, for instance.

Exploration and production (E&P) deals often take the form of production sharing contracts (PSCs) between international oil companies (IOCs) or independent E&P players and government-controlled national oil companies (NOCs), where NOCs typically provide reserve access in exchange for technology transfer and a sizable share of revenue. In these high-stakes negotiations, long-term relationships, cultural sensitivity and financial savvy can make the difference between significant revenues and huge opportunity costs. In Asia, the economic risk inherent in such ventures has been illustrated by ExxonMobil’s dealings with Indonesia over the Cepu oil field, which reached first oil in early 2009 after a multiyear political epic, and

the giant Natuna gas block, whose exploitation rights remain clouded with uncertainty.

Renewable energy companies also need to secure a stable and low-cost supply of critical raw materials. This is particularly relevant to the photovoltaic solar industry, where securing low-cost access to silicon can be a source of competitive advantage for wafer-based producers. Suntech Power, the leading Chinese solar company, has been especially successful in securing minority-stake deals with local silicon suppliers. Such agreements give Suntech preferential access to low-cost, long-term silicon supply deals, in an industry in which raw materials account for the largest share of the final product cost base. In addition, the company has made a strategic foray into thin-film solar technology, thereby effectively hedging itself against this potentially disruptive new technology.

Given the vital and growing importance of these commercial agreements and investments, energy companies will need more highly skilled deal-makers with the business acumen, intercultural ability and long-term orientation necessary to help their companies generate significant strategic and financial value. It can take executives several years, sometimes decades, of commercial experience to develop these qualities. Our experience is that energy companies often use external recruiting to accelerate the development of their leadership bench for senior business development roles, which gives them an accelerated access to existing business relationships.

Commercial deal-making: Investment in methane abatement in China

The client was a hedge-fund-backed U.K. investment organization specializing in environmental projects with a fast-growing office in Beijing and aggressive plans for establishing more than 10 new joint-venture partnerships in methane abatement in China over a three- to five-year period. The Beijing office needed a business development director with extensive deal negotiation experience in energy in China, a distinctive entrepreneurial spirit, personal drive and fluency in Mandarin.

Spencer Stuart segmented the target talent pool into three distinct groups: 1) national Chinese, 2) overseas-born Chinese and 3) foreign executives with fluency in Mandarin. We tailored our approach for contacting the different pools of prospects, as they can have different motivation levers regarding their career development. The firm was able to close the search in just over two months, bringing to the client a Chinese executive with extensive experience in the energy industry and professional services.

The lesson? Segmenting and targeting the right talent pools helps ensure the search approach is effective — and most relevant to the specific career development priorities of potential candidates.

End-to-end value chain optimization

“The ability and mindset to look across a value chain, and beyond generally accepted company boundaries, to uncover and exploit sweet spots in value creation”

The growing scarcity of energy resources and the widening geographic distance between sources and consumers of energy make optimizing the energy value chain a complex but highly valuable process. The natural gas market is an excellent case in point.

The recent geopolitical row between Russia and the Ukraine illustrated the physical and political limitations of the cross-border gas pipeline supply model. These limitations have supported the emergence of the already fast-growing global liquefied natural gas (LNG) supply chain. Unlike the global petroleum markets, LNG markets are fairly illiquid and rely mostly on long-term supply contracts. The bulk of production is concentrated in Russia, Africa and the Middle East, while demand growth will be dominated by China and Western Europe for years to come. Global LNG flows are expected to increase signifi-

cantly in the future, particularly from the Middle East to Asia, as new liquefaction capacity comes onstream. LNG distribution markets need players with global LNG logistics capabilities, including liquefaction, storage and transport assets. Companies able to secure access and optimize the complex utilization dynamics of these assets will build a significant market position in a fast-growing segment of the energy industry.

Value chain optimization also is important to companies in the renewable energy space. The wind turbine industry, for instance, has carved a profitable niche in energy markets, achieving grid-parity prices without subsidies in select markets, according to a recent study by Lazard. Over the last two decades, emerging wind players from Europe and, more recently, from Asia have focused on technology development and achieving market acceptance for their products. In the last few years, the focus has shifted toward the development of turbine services, which has proven to be a higher-profit-margin business in similar industries. The most advanced wind turbine manufacturers are even moving to replicate Rolls Royce’s success-

ful “power by the hour” service model, where turbine performance and availability is guaranteed by the manufacturer in exchange for a fixed operating and maintenance fee.

Companies and their leaders who can identify and take strategic control of the most critical parts of their value

chain will be able to extract significant economic rents, as gas and other energy sources grow to be more cost-effective and environmentally friendly alternatives to oil. Strategic hiring is often critical in that area, and transfer of executives across segments of the industry helps companies access critical skills to seize new opportunities quickly.

Case Study

End-to-end value chain optimization: Wind turbine services in Singapore

A leading international player in the wind industry had identified Asia as a key growth area and wanted to develop its capability in high-margin wind turbine service. To drive growth, a new Asia Pacific vice president of customer service was required in Singapore. The ideal executive would have both the technical experience to supervise a fleet of thousands of turbines in service in Asia and the customer focus to serve as the champion of customer needs with the rest of the organization. The Spencer Stuart team focused on identifying candidates with an outstanding depth of technical know-how in servicing rotating equipment, particularly from companies in the gas and steam turbine industry

that have an advanced service model highly relevant to the emerging wind turbine service industry.

A high-potential candidate in China with the required experience and personal style to fit in the client organization was identified early on. Spencer Stuart invested significant time and attention, counseling the candidate and positioning an offer that would make his transition to the wind industry attractive. Ultimately, the executive decided to join the client organization and become the leader of the Asian customer service team.

The lesson? Looking beyond industry boundaries can yield a field of candidates who bring a broader perspective and best practices from related sectors.

Large-scale project management

“The ability to lead the planning, execution and operations of complex, capital-intensive and multi-stakeholder technological investments”

The consensus among petroleum industry observers is that the era of “easy oil” is over for Western countries, as the U.S. experienced its “peak oil” in the early 1970s and the North Sea oil fields have reached maturity in Europe. For many oil companies outside of the Middle East, the

future will lay in so-called non-conventional oil sources, of which the most promising are found in deep-sea water and oil sands. Both of these non-conventional sources require significant and lengthy development investments to reach production stage, and their return on invested capital is highly sensitive to variations in worldwide energy prices. As a point of reference, the cost of renting one deepwater oil rig can reach upward of \$500,000 per day, locked in over several years. Oil sands are also financially and operationally complex projects. They require

significant amounts of process stream for bitumen extraction, and additional processing is required to turn the bitumen into synthetic crude oil. Additionally, these processes raise a number of environmental concerns for the land, water and air resources involved, which will need to be addressed by new technologies. But the potential payoff in the long run is likely to be worth the investment as oil sands from Canada and Venezuela alone amount to roughly two-thirds of the world's total petroleum resources.

Integrated oil companies are not just impacted in E&P. There is, for instance, a push for larger and more complex refineries worldwide. Large, capital-intensive refineries seek economies of scale at capacities of more than 100,000 barrels per day. They also are increasing in complexity — the number and diversity of processing units in the plant — to give them a flexible hedge against crude supply variability. Constructing and operating these large-scale refineries in a

cost-effective manner requires dynamic decision-making to optimize the operational configuration of the site based on local market and competitive conditions. One illustration is the major extension of Reliance Industries' Jamnagar refinery in India that covered a project site area said to be larger than the city of London. The extension aimed to double capacity, adding nearly 600,000 barrels per day dedicated to exports, to become the world's largest refinery and fundamentally reshape regional petroleum trade flows.

With so much riding on the success of these projects, energy companies need senior general managers and project leaders with the financial and operational savvy to make the right decisions about where and when to invest — and when to delay or cancel unprofitable projects. As talent markets for these executives are global and fluid, our experience is that companies need to look proactively internally and externally across the world to meet their leadership needs.

Case Study

Large-scale project management: Oil and gas E&P role in India

The client was an Indian E&P company owned by a large European independent E&P group. The company had made a major oil discovery in India with an estimated 10 billion barrels of reserves. The company needed to complement the team with an experienced chief operating officer to take responsibility for the initial development investment to first oil of around \$800 million.

A key challenge was to bring in a senior oil and gas professional with India experience, significant management expertise and the ability to lead in a complex, multiproject environment.

Because India had not been a key country in E&P traditionally, the talent pool was thin and spread globally. Spencer Stuart reached

out across the globe, leveraging the expertise and candidate knowledge of consultants in our Energy Practice across five continents. The team identified an American executive in Houston who had previous experience in India. Spencer Stuart played an active role in crafting a job offer that would make it attractive for the candidate and his spouse to relocate from the U.S. to India, enrolling help from compensation and tax experts in the process. Both the client and the executive have been very satisfied with the mutually beneficial outcome, and the business is now on target to start the first significant phase of production on time and within budget.

The lesson? Reaching out globally — even to executives outside the immediate geography — can help ensure that the search approach identifies the industry's best talent. Once the right candidate is identified, it is essential to craft a compelling personal value proposition to attract the candidate to the role.

Strategic change management

“The ability and perseverance to challenge an established strategic and organizational model and to drive a transformation in order to lead an organization through a quantum leap in performance”

Large IOCs and NOCs face pressure on their operating models from multiple fronts. In the case of publicly listed IOCs, the quest for financial performance and growth has led some to rethink their positioning and invest heavily in new market ventures.

One company that has made significant efforts in this direction is BP, which initiated a bold transformation program in the late 1990s to reposition itself as an environmental leader among the oil majors in response to growing environmental awareness among customers and stakeholders. To support a highly publicized rebranding as a major “beyond petroleum,” the company started to focus on alternative energies. A new independent alternative energy group was created to host BP’s global businesses in wind and solar energy, as well as its new business development in biofuels, coal and distributed energy. For an oil major, building a capability in alternative energies is obviously as much of a cultural challenge as a new business value proposition and requires an extraordinary amount of leadership resolve to ensure success.

NOCs are also challenged by global market forces and cannot passively depend on expectations of rising oil prices over the long run. NOCs in the most progressive countries aspire to be more proactive, developing new capabilities and getting on par with, if not ahead of, IOCs in certain areas. Companies such as Statoil in Norway or

Petronas in Malaysia have leaped forward in performance over the last decade. For NOCs to really transform themselves and build their capabilities, significant change needs to be driven by their senior leaders, sometimes with the help of strategy consulting firms, potentially over the course of several decades.

Vision-setting, strategic planning, reorganization and operational improvement programs need to be carefully orchestrated and communicated in order to provide a compelling road map for change. The skilled strategic change leader will be able to carefully balance story-telling and capability-building to engage others in the organization in the journey of the company’s transformation. In addition to assigning responsibility for change management to senior-level general managers or specific functional leaders, some energy companies also are experimenting with creating temporary “chief transformation officer” positions. When filling any of these roles, companies should look for senior executives with both the industry knowledge and the emotional intelligence required to lead them successfully through the necessary changes.

Conclusion

The recent volatility in oil, gas and petroleum markets has reached an all-time high, driven by a tug-of-war between long-term supply-side constraints and short-term demand-side uncertainty. There is broad consensus that supply constraints will win over the medium and long term, bringing investments in capital-intensive projects such as oil sands or ultra-deep water E&P back “in the money.” Asia will be a major driver of the energy market dynamics of the future, as its oil consumption will

Strategic change management: Oil and gas strategy consulting in Singapore

The client was a fast-growing strategic management consulting company focused on oil and gas markets and serving a broad range of IOCs and NOCs on strategic and organizational transformation issues. To strengthen its Asia leadership team, the company needed to bring in a senior executive with a proven strategic management consulting background as well as firsthand knowledge of the industry, particularly of the E&P sector, for which the talent pool traditionally has been thin and very competitive.

Spencer Stuart used a cross-segmentation methodology to analyze the leadership markets across top-tier consulting firms and reputable E&P companies operating in Asia Pacific. Through this

analytical process, relevant candidates emerged from across the region, including one executive who had left the industry for a couple of years but had both a long experience in the E&P sector and as a top strategic management consultant in Southeast Asia. The candidate was happy to return to his “first love” of oil and gas and was willing to relocate from Australia back to Singapore, having complemented his earlier management consulting career with a few years as a general manager.

The lesson? In very competitive talent markets, casting a broad net for candidates, including executives who have left the industry and might be willing to come back under the right conditions, can result in a richer candidate pool and better choices for the organization.

approach that of the United States — the world’s largest consumer — around 2020, according to management consulting firm McKinsey & Company.

To respond to the strategic, organizational, operational and technological challenges they face, energy companies will need leadership with a broader, more sophisticated set of skills. Commercial deal-making, end-to-end value chain optimization, large-scale project management and strategic change management will be the capabilities that distinguish value-creating leaders across the globe, as the industry’s center of gravity inexorably shifts to the East over the course of this century. Spencer Stuart has developed significant experience scouting energy talent markets to help forward-looking companies secure access to these key leadership abilities. Having a global reach,

strategically segmenting and targeting talent pools and crafting personalized value propositions all help ensure that companies can be effective and efficient in identifying and attracting the leadership talent needed for today and tomorrow.



About the author

Based in the Singapore office, Arnaud Despierre is the Energy Practice leader for Spencer Stuart in Asia Pacific and a member of the firm's Industrial and Human Resources practices. He brings eight years of engineering and strategic management consulting experience to his role as a specialist in the energy and chemicals industries.

About Spencer Stuart

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 51 offices in 27 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments.

Spencer Stuart has maintained a presence in Asia Pacific for more than 35 years. The firm established an office in Sydney in 1970 and, since then, has opened offices in Beijing, Hong Kong, Melbourne, Mumbai, New Delhi, Shanghai, Singapore and Tokyo. From these locations, Spencer Stuart consultants execute assignments across the region, including China, India, Indonesia, Japan, Malaysia, the Philippines, Thailand, Taiwan and Vietnam, for clients in a broad range of industries.

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