LEVERAGING THE DOWNTURN

For energy CEOs, when revenue plunges due to low commodity prices, it's leading, more than managing, that will determine the winners when the clouds lift.

ARTICLE BY
STEVEN V. GOODMAN

Excerpted from
Oil and Gas Investor
July 2015

1616 S. Voss Rd.
Suite 1000
Houston, TX 77057
(713) 260-6400

The oil industry's downturn has CEOs—not only E&P heads but leaders of the range of product and service firms that support the industry—furiously adjusting course and battening down the hatches, with the overriding goal of making it to the recovery. The belief is that if a company can do so, it will live to fight another day and everything else will take care of itself.

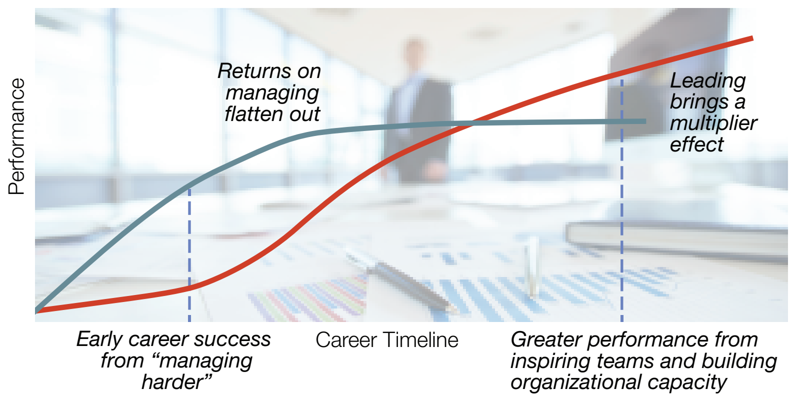
But looking at how various firms have fared at the end of past downturns shows that strategy to be, in many cases, wishful thinking. Some companies emerge with strengthened and focused leadership teams, while others, weathering the same storm, are left with a weakened culture and hemorrhaging talent.

Based on conversations my colleagues and I have had with boards and CEOs over the past decade, the determining factor is whether a company's top executives continue to lead through the crisis or revert to managing.

No CEO likes to think that he or she is merely "managing," but what frequently happens during a downturn? Vision and strategy take a back seat to planning and budgeting; communicating and building buy-in give way to organizing and staffing; helping the organization adapt to change is replaced by controlling and efficiency building. Of course, all of those functions are necessary. But even in a downturn, they should be *consequences* of strategy, not ends in and of themselves.

When CEOs who merely manage do reach the recovery, many of the high-potential leaders they were counting on in their talent pipeline soon defect.

Leading vs. Managing



Source: Egon Zehnder

To head off this reversion, it is important to understand why it occurs. For virtually all senior executives, "managing" has defined not only their early responsibilities but also their early successes. They could solve issues and challenges with the brute force of working harder and longer and were rewarded for it with more responsibility. The leader who reverts to managing is therefore returning to an approach that has been successful in earlier times.

This behavior is entirely understandable. The problem derives from the fact that as today's CEO rose through the ranks, he or she ascended to senior roles based on building and motivating teams and translating insight into strategic vision. Not only does managing not get the job done, but it fails to provide the CEO's subordinates with what they need to be able to perform and grow in their roles.

Not surprisingly, our consistent observation has been that when CEOs who merely manage do reach the recovery, many of the high-potential leaders they were counting on in their talent pipeline soon defect to competitors whose CEOs continued to provide the leadership that attracts top talent.

The key insight here is that the reversion to managing is a behavior, and that oil and gas CEOs can thus help prevent it by adopting other behaviors that reinforce a focus on leadership. We have found that CEOs who have been able to retain top talent during recoveries share one or more of these five leadership practices:

Focus the team on the journey, not just the destination. Downturns call for hard choices. But before choices can be made, they must be defined in the face of a great deal of uncertainty. For example, several CEOs have told me about developing various scenarios based on the projected severity of the downturn. The first option generally included a 5% to 10% decrease in revenues and required only a freeze on hiring and on merit pay increases. A second option assumed a 20% to 25% decrease and called for more aggressive asset consolidation and headcount and compensation reduction. A third option was based on a revenue decrease of 40% and included a restructuring of the com-

The imperative to involve the team particularly holds for high-potentials.

pany, significant asset dispositions and a refocusing of the business.

The default behavior is for CEOs to undertake this essential process by themselves. But the difficulty and ambiguities in constructing these paths make this task an ideal opportunity to engage the entire leadership team. CEOs should draw on their teams' varied perspectives regarding customers and the competitive landscape to plot the course forward. Turning company survival into a collective journey means that the team will own the recovery when it comes—an emotional investment that will be difficult to break.

The imperative to involve the team particularly holds for high-potentials. The real-world training they receive from the assignments they are given during the downturn today will materially affect the type of CEO they become.

Call on the board early and often. The business media, analysts and investors can frame the downturn as a "test" for company CEOs—a metaphor that implies it is to be undertaken alone and that seeking help is somehow "cheating." But the reality is the exact opposite. For example, after the CEO and the leadership team flesh out the options forward, the CEO should turn to the board for guidance in choosing the optimal path. Indeed, it is exactly such occasions for which the board was designed. Engage the board both as a group and in one-on-one conversations to fully tap their collective wisdom. The benefit of doing so has led several companies to include a regular slot in board meetings for unstructured brainstorming and problem solving between the CEO and the board.

Be open and transparent. After all the input and discussion, however, it is usually the CEO who must make the final decision regarding which path to take, even when the decision may not be welcome news. Take the time to explain to your team why you made the decision you did and the steps that can be taken to minimize any adverse impact. The team should be updated regularly regarding implementation and how the costs and benefits are unfolding against projections. When mid-course corrections are necessary, involve the team in their design.

Know thyself (even better). Downshifting from leading to managing is only one type of regression that can occur in high-stress situations. CEOs need to be particularly self-aware and on the lookout for common leadership derailers (see sidebar). A history of trust between the board and CEO allows the board to give unvarnished feedback in this critical area.

Keep building team culture. There's a tendency to think of team building as a luxury that can wait for the upturn. The fact is, however, that there is no better time to evaluate a team than when the chips are down—and no better time to provide mentoring and coaching that can be truly impactful. Key attributes to examine include:

- *Balance:* Does the team respect and value the distinct strengths each member brings to the group?
- *Alignment:* How aligned is the team with the strategic priorities of the company?
- *Efficiency:* Does the team consistently improve as a result of learning from experience?
- *Openness:* How receptive is the team to new ways of thinking?
- *Resilience:* How well does the team operate under stress?
- *Ambition:* Does the team embrace "stretch goals" both in the short term and long term?

The five-year boom that preceded the current downturn was a tide that lifted all boats. In the current environment, even with a modest recovery in oil prices, the quality of leadership becomes a differentiating factor—and this will be even more the case once the recovery comes, as decisions made now will have a multiplier effect then.

In the meantime, boards and CEOs will be able to measure how they are weathering the storm by answering this question: What has been the biggest decision that we have had to make, and did the decision-making process and its outcome reflect the company we want to create? The answer will show the extent to which they are leveraging the downturn into an opportunity and how well they will be able to retain future CEO candidates when they emerge. □

Steven Goodman, based in Houston, leads Egon Zehnder's energy practice in North America and is active in the firm's private equity practice. He has a major focus on CEO and board placements along with succession planning and board effectiveness consulting. Contact him at steven.goodman@egonzehnder.com.

COMMON DERAILERS

These management styles can move strategies off course during a downcycle:

Losing composure. Remember that oil is by nature a cyclical business—downturns are just part of the job.

Leading by decree. Cutting your team out of the process and shutting down debate deprives you of your strongest resource.

Taking the short-term view. Focusing only on immediate problems filters out solutions that could have longer-term benefits.

Having unrealistic performance expectations. Being "tougher" doesn't solve problems any faster; it just weakens and alienates your team.