KORN FERRY **Institute**

Talent Framework

Tapping a new talent pipeline

Private equity and small cap firms urgently need executives to run energy enterprises in Europe, the Middle East, and Africa.

But can the new CEOs move over from big oil and gas companies?

Introduction

EMEA's vastly different CEO talent.

As oil prices have retreated globally, private equity firms have advanced into Europe, the Middle East, and Africa searching for attractive investment opportunities. "Private-equity funds that once profited from energy deals in North American shale are hunting in a new bargain basement for cut-price oil-and-gas fields: almost everywhere else," The Wall Street Journal announced last year.

Although private-equity firms found the supply of oil and gas opportunities in Europe, the Middle East and Africa to be plentiful, they also have discovered that CEOs with requisite experience is scare there. "Clearly, North America is a much more developed region for private equity, with many success stories," notes Lord John Browne, executive chairman of DEA and Letter One Energy. As a result, he adds, North America has a "pool of CEO talent that funds are comfortable investing behind.... In EMEA, the dynamics around CEO talent are vastly different."

This imbalance raises a crucial question for private equity firms and boards of small-cap oil and gas companies seeking to exploit investment opportunities: Can executives from large oil and gas companies transition well to private-equity-backed and small-cap companies and thrive as CEOs in a more entrepreneurial environment?

The answer is a cautious yes, at least in EMEA. That opinion is based on early examples, the application of leadership science, and insights from interviews with two dozen portfolio company executives, private equity firm leaders and small-cap company board members (see Appendix). Hiring teams can identify large-company CEOs who can lead PE-backed companies in EMEA with a rigorous and precise approach, similar to approaches that businesses routinely apply to tracking and valuing key performance measures. Companies scrutinize inventory, product quality, operating expenses, profit margin, and client demand with useful metrics offering insights into current and future values. They can seek similar clarity in assessing executives' competencies, experiences, traits, and drivers when selecting large companies' oil and gas leaders most likely to thrive in new roles. This paper examines the challenge of finding this type of CEO in EMEA, introduces a framework for evaluating candidates for PE-backed or small-cap companies, and presents an ideal CEO profile based on information from 23 portfolio company CEOs and private equity firm leaders.

‘Wonderful, wonderful opportunity’ but….

Private equity funds first sought increased investment in North Africa, Nigeria, the North Sea, and other EMEA locales when competition in the U.S. shale market intensified. Falling oil prices further whetted PE appetites by boosting debt burdens of many smaller oil and gas companies. PE firms shopping for distressed assets increasingly see alluring targets and related opportunities in the region. As one chief executive of a leading PE firm recently told The Economist, turbulence in the global oil and gas industry presents a “wonderful, wonderful opportunity for us.” But this possibility also demands leadership—entrepreneurial CEOs, preferably with deep experience in the region and who can lead PE investments or scale up small-cap companies. These CEOs are rare; as a notable investor described the challenge: “There appears to be a disconnect between what the funds are looking for in [EMEA] and what is actually available.”

Why? Private equity investment in energy enterprises in the region, in contrast to North America, has been spare. North America has a mature PE market with a record of value creation and decades of investment data. The region also has produced a supply of executives with records of entrepreneurial success. EMEA has a more complex geography and a mix of political environments with broader ranges of above- and below-ground risks. Industry growth in EMEA regions has been driven by state-owned organizations and large corporations, many subject to intense regulatory oversight. International oil companies and large integrated service companies operating in EMEA regions also have grown up to be much more process-focused; they have added layers of decision-making and reporting structures. These organizational dynamics don’t foster the entrepreneurial mindsets that PE firms and small-cap boards seek when hiring CEOs. Companies that emerged (and were sold) in the previous major downturn—including Lasmo, Arco, Amoco and Enterprise—are now regarded as valuable stables for entrepreneurial talent. That’s because they have simpler reporting structures that increase leadership accountability.

Five Challenges

CEOs of PE-backed and small-cap companies describe these challenges for large-company CEOs moving to a PE or small-cap environment:

- **Finite capital:** Unlike their big company counterparts, small enterprise CEOs operate with tight capital constraints; they must be extremely efficient in allocating capital.
- **Entrepreneurial spirit:** In large companies, executives may succeed by navigating internal politics and avoiding bad decisions; in small companies, they must bet big on well-crafted plans with risks.
- **Accountability: There** is nowhere to hide if returns fail to meet expectations in small companies; accountability cannot be shared among many, as it can in large corporations.
- **Operational experience:** Small companies’ leaders tend to possess deep operational expertise in a target basin. Large-company leaders tend to gain broad experience as they rotate through roles and geography.
- **Lean staffs:** Successful execs must wear many hats in smaller, low-cost operations.

"The best advice I could give a CEO of a private equity-backed company is to understand that you are not going to have the internal resources you have in an integrated oil company," says Sequa Petroleum NV CEO Jacob Broekhuijsen. "You will rarely have a geophysicist on staff, and there is no IT person to call when you are having computer problems."

Economic and budget realities also have curtailed the number of entrepreneurial industry executives in the region. The 1990s oil-price slump reduced leadership recruiting, retention, and development in large oil and service companies. The pool of CEO candidates in their mid-40s to 50s now is shallow. Small-cap companies, meantime, rarely have the resources to develop future chief executives and thus tend to seek them externally.

Although hiring teams would prefer to find CEO prospects in EMEA with private equity and small-cap leadership experience, few exist. This is pushing PE firms and small-cap boards to scrutinize executive talent from large oil and service companies. In an informal poll of sources for this paper, select respondents were quizzed about whether an executive at an independent oil company or large service company could become a successful CEO in a private equity-backed or small-cap energy enterprise; most EMEA-based private equity executives and small-cap company board members sad yes. In contrast, an even larger percentage of North American executive respondents said "no. This vast difference is a function of talent supply.

Evaluating candidates the right way.

PE firms and small-cap boards searching for leaders in EMEA express concern about large-company CEOs, few of whom have significant experience at small-caps and start-ups. This worry can be addressed with a comprehensive, methodical evaluation of candidates' suitability, starting by defining the desired qualities of prospective CEOs. "We like to see a track record of good judgment," says Andrew Bartlett, partner, Helios Investment Partners. "If the market is changing for better or worse, will they go all in or get out? Management cannot lead by consensus; the executive team needs to be decisive in these moments."

Although it would be optimal—and rare—to find a candidate with experience leading distressed small-cap companies through turnarounds in North Africa or in high-growth ventures in the North Sea, hiring teams can consider other ways to evaluate if candidates possess judgment and the capacity to act decisively, for example. It can be counterproductive to overemphasize a single leadership dimension when hiring an executive. Korn Ferry Hay Group has observed a frequent tendency by hiring teams to over-focus on candidates' experiences and to give short shrift to their competencies, drivers and traits; world-class CEOs can be overlooked when hiring teams place too much value on experiences, which are vital but only one criterion in a comprehensive leadership evaluation.

Korn Ferry Hay Group research shows that human performance in the workplace is governed by four factors: competencies, experiences, traits, and drivers, the Korn Ferry Four Dimensions of Leadership and Talent (KF4D, see Figure 1). These four areas are highly predictive of performance differences and correlate with all key talent variables: engagement, retention, productivity, leadership effectiveness, and leadership potential. (Crandell et al. 2014) By leveraging the world's largest set of data on talent—more than 2.5 million assessments of professionals and top executives—the firm has categorized the elements of talent and isolated the most potent facets.

Figure 1. KF4D

WHAT YOU DO

Competencies

Skills and behaviors required for success that can be observed.

FOR EXAMPLE

Decision quality, strategic mindset, global perspective and business insight.

Experiences

Assignments or roles that prepare a person for future opportunities.

FOR EXAMPLE

Functional ecperiences, international assignments, turn arounds and fix-its.

WHO YOU ARE

Traits

Inclinations, aptitudes and natural tendencies a person leans toward, including personality traits and intellectual capacity.

FOR EXAMPLE

Assertiveness, risk taking, confidence and aptitude for logic and reasoning.

Drivers

Values and interests that influence a person's career path, motivation and engagement.

FOR EXAMPLE

Power, status, autonomy and change.

The ideal CEO.

By taking into account all four leadership dimensions, hiring teams get a high-resolution view of how CEO candidates' abilities fit a role, and they can better anticipate links and disconnects between talent variables. Based on discussions with the 23 private equity and industry executives who participated in a KF4D talent assessment exercise, a model profile emerged for the CEOs that PE leaders and small-cap boards want as leaders of their EMEA regions' organizations. Here are the "critical" and "desirable" qualities in each of the four dimensions, with some qualitative insights:

Competencies

Critical	Desirable
▪ Balances stakeholders ▪ Acts courageously ▪ Ensures accountability ▪ Manages ambiguity ▪ Adapts to Situations ▪ Possesses financial acumen	▪ Aligns execution ▪ Engages and inspires ▪ Manages conflict ▪ Persuades ▪ Possesses strategic vision

Competencies reveal what a leader is capable of now. A leader with the right drivers and experiences still may lack skill proficiency to succeed in a particular role. When describing competencies they seek in CEOs, leaders of PE firms and small-cap companies offer terms like "communications," "alignment," "cash management" and "a focus on value." Participants say financial acumen is crucial: "Cash!" asserts New Age CEO Steve Lowden. "In large corporations, no one talks about cash, although they think they do.... Even in prudent PE-backed companies, there is more debt than a corporate executive is used to, and in a downturn these types of risks are much quicker to develop."

CEO candidates should master financials at a level of detail needed to maintain creditors' and backers' trust. Communications and alignment are important competencies because they mean that the executive can align compensation with objectives and strategy with time lines and risk profiles. They can manage expectations of investors, shareholders, and board members. "Always break bad news early," says Sparrows CEO Stewart Mitchell, noting that communicating too little has far more negative consequences than conveying too much.

Experiences

Critical	Desirable
▪ Autonomous business unit/profit and loss leadership ▪ Leadership of a new country entry or strategic buildout ▪ Leadership or involvement in a major merger-acquisition ▪ Track record of value creation for shareholders ▪ Expertise (geographical or technical)	▪ Has worked for more than one company ▪ Will pass the "press test" (is a figure recognized in the industry) ▪ Has monetized a business as a CEO ▪ Has exposure to capital markets and investors

Experiences sum up accomplishments. Executives may have the right dispositions, drivers, and skills, but they may not have encountered key business challenges that would provide them the perspective and wisdom to lead. Experiences also must be categorized so as to transcend job titles and to capture the core quality of work history.

For the EMEA CEOs, key experiences would include autonomous profit and loss responsibility, strategic buildouts, value creation, and merger and acquisitions (M&A) experience. Executives with involvement in major M&A and integration initiatives have an advantage over those who do not when moving to a small company, experts told Korn Ferry. "As an investor I can get comfortable backing a CEO who is fresh out of a large corporate environment," says Warburg Pincus Managing Director Simon Eyers. "This may give him or her a useful network and the ability to think big, but the individual must have faced and recovered from adversity, even company or sector failure, and above all cannot have grown to depend on the support a big company provides." Other participants said they prefer CEO candidates with records of creating growth, whether at a large or small company.

Personal credibility and personal brand were deemed desirable. Private equity firm leaders and board members of publicly listed companies want CEOs with name recognition in an industry and a positive reputation (so they can pass the "media test") from institutional investors and shareholders.

Drivers

Critical	Desirable
▪ Independence ▪ Challenge	▪ Power ▪ Collaboration ▪ Balance ▪ Structure

Drivers reflect what is important and valued; they lie at the heart of engagement. Even with the right competencies and experiences, executives unmotivated to lead may not thrive in top jobs. Drivers are a crucial selection consideration yet, like the traits described in the next section, they are often overlooked in CEO talent evaluations, which place too much emphasis on experience and competencies. Drivers are the deep internal values, motivations, and aspirations that influence people's choices and shape answers to their critical questions: What is important to me? What do I find rewarding? Do I want more challenge in my work? Or do I have a need for stability?

CEOs in PE or small-cap oil and gas enterprises tend to be driven les by stability and much more by steep challenges and a desire for independence. "Typically executives who are most likely to thrive in a less structured, more entrepreneurial environment are those who challenge the status quo and have perhaps become frustrated by the pace of change or the bureaucracy," notes Sterling Energy Executive Chairman Alastair Beardsall.

Drivers may be very specific or broad. They may fluctuate based on individual circumstance or stage of life. But they are crucial to cultural fit, employee engagement, and talent retention; if an individual's drivers are a mismatch with the organizational culture, this can hinder performance.

Traits

Critical	Desirable
▪ Composure ▪ Need for achievement ▪ Persistence ▪ Risk-taking - experience ▪ Curiosity	▪ Influence ▪ Adaptability ▪ Focus ▪ Tolerance of ambiguity ▪ Sociability

Traits are a person's natural tendencies and abilities. Executives with the right drivers, experiences, and competencies still might not possess traits associated with effective leadership.

For CEOs at PE-backed and small-cap companies, persistence and composure can be critical traits. "Resilience is essential," says Logstor CEO and President Yves Paletta. "It is a bumpy ride. Keep your composure. This is the key to maintaining the trust and backing of investors." There is a related need for leadership endurance and speed: "Being a PE-backed CEO is like running a marathon with every mile at sub-4-minute miles," Paletta adds.

Traits show through a person's behavior, and how they do so can be shaped by experiences and motivations. For CEOs, success is bound up with a need for achievement and curiosity. Top leaders also need high degrees of traits like risk-taking experience and tolerance of ambiguity, traits valuable to leaders of PE-backed and small-cap companies. One executive who successfully moved from a large oil and gas company to a PE-backed venture emphasized the value of the risk-taking trait; he also applied it when working at an independent oil company. For organizations seeking to maintain a healthy supply of leaders, traits can indicate high potential for moving into top leaders roles.

Conclusion

Can EMEA executives from large oil and gas companies successfully transition to PE-backed and small-cap companies and thrive as CEOs in a more entrepreneurial environment? Despite the challenges, the answer is yes in EMEA, as long as hiring teams conduct multidimensional evaluations of CEO candidates that address four related questions:

What competencies does the position require?

What experiences are essential for success?

What drives CEO success in our realm?

Which traits dovetail with effective leadership?

Each of these four dimensions provides valuable insights into leadership. Each influences the others and interacts within each person, revealing deep insight into what makes leaders succeed in one context and derail in another. These deeper insights also can be decisive to the high-stakes question of whether executives from large oil and service companies can successfully become CEOs of private equity-backed or small-cap energy companies.

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Appendix

Korn Ferry would like to express its appreciation to these leaders for sharing insights and participating in its CEO profile exercise

CEO	Investor/Shareholder
Fernando Basabe, CEO, Applus+ (Carlyle-backed)	Lord John Browne, Executive Chairman of DEA and LetterOne Energy
Pierre Jungels, Chairman at Rockhopper; former CEO at Enterprise Oil	Marcus Billman, Partner, Triton
Andy Inglis, CEO, Kosmos, (Warburg Pincus-backed)	Simon Eyers, Managing Director , Warburg Pincus
David Peattie, former CEO, Fairfield	Haroun Van Hovell, Managing Director of EMEA, KKR
Atul Gupta, former CEO, Burren Energy	Trevor Burgess, Managing Director, Lime Rock
Yves Paletta, President and CEO, Logstor	Andrew Bartlett, Partner, Helios Investment Partners
Alastair Beardsall, Executive Chairman, Sterling Energy	Paul Atherton, CEO, Heritage Oil
Brian O'Cathain, CEO, Petroceltic	Eric Faillenet, Director, Carlyle
Francis Egan, CEO, Cuadrilla	Huda Al Lawati, Partner and CIO, Abraaj Capital
Jacob Broekhuijsen, CEO, Sequa Petroleum NV	Kosta Jovanovic, Vice President and Portfolio Manager, Seacrest Azimuth Group
John Craven, CEO, Discover Exploration	Ovais Naqvi, Senior Vice Presidnet, Abraaj Capital
Steve Lowden, CEO, New Age	Meb Somani, Oman Oil, formerly Barclays Natural Resource Investment
Stewart Mitchell, CEO, Sparrows Offshore	Maurizio La Noce, Senior Adviser and former CEO, Mubadala
Alan Brown, CEO, ASCO	Faysal Hamza, Head of International, EnQquest, formerly with Swicorp
Les Thomas, CEO, Ithaca	Eric Nielsen, Managing Director, Quantum Energy Partners
Tony Hayward, CEO, Genel	Kyle Kafka, Managing Director, EnCap Investments
Gary Guidry, CEO, Gran Tierra Energy Inc.	Carl Williams, Managing Director, Riverstone
Nick Cooper, CEO, Ophir	
Rene Kofod-Olsen, CEO, Topaz Energy & Marine	
Patrick Allman Ward, CEO, Dana Gas	
Andy Anderson,President, Middle East, Africa and Asia, Proserv	
Joe Jaggers, CEO, Jagged Peak Energy	

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The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books, and a quarterly magazine, Briefings, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth, and success.

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