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CHANGING THE GUARD

Five Potential Trends From Energy Leadership Adjustments

Posted by Jim Wolf on July 9, 2013

Energy companies have hired or promoted a spate of new CEOs, with a dozen or more new incumbents or openings in the upstream sector alone. What compensation and governance trends might this concentrated wave of new leadership create over the next few years? – Here are five possibilities.

1. **Homogenization?** It appears that the new wave of CEOs may be paid within a narrower range across their peers, and through programs that look increasingly similar. Many of the recently departed CEOs were some of the highest paid, and in some cases their boards were under pressure to bring the new CEO's compensation within a closer range of industry peers. Three years of Say on Pay have already produced nearly identical long-term incentive programs across companies that before had different approaches driven by their prior leaders. The new CEOs may be challenged to differentiate their compensation programs among peers.

2. **New ways to pay bonuses?** The biggest criticism levied against oil and gas companies this past proxy season concerned how companies paid bonuses – with proxy advisors looking for more objectivity and less subjectivity. A new CEO, especially one from the outside, may feel less tied to a company's past practice when it comes to the difficult task of measuring short-term performance in a long-term business like oil and gas. The new CEO class may more quickly usher in new metrics, a new evaluation process, or new expectations for the role of bonuses in their companies.

3. **Senior executive attrition?** New leaders often swap out players on their team. Energy companies have invested heavily in retention-based awards, which have largely been successful in keeping leadership teams stable. A rise in senior executive job openings may put certain of these retention awards to the test.

4. **Sustained separation of Board Chairman and CEO roles?** Energy companies have yet to broadly embrace separating these roles on a sustained basis. Several have announced at least an interim separation as part of their leadership transition. The governance environment may make it difficult to recombine the roles in the future, possibly creating a new sustained standard for the industry.

5. **The end of excise tax gross-ups?** Nearly every oil and gas company has either removed or frozen eligibility for excise tax gross-up benefits (for certain severance payments following a merger or sale). None of the externally hired CEOs will likely be eligible for gross-up benefits. As a result, companies and boards may find it difficult to keep gross-ups for a subset of executives when a new CEO "leads by example" by not having the provision.

Whether these trends happen or not, it's no bold prediction to say we'll look back on these past eighteen months as an important era of change in the energy industry.