The DNA of the COO
Time to claim the spotlight

An oil and gas sector perspective
The DNA of the COO provides much-needed insight into what it takes to be a chief operating officer (COO) today. It explores the expectations and aspirations of those in the job, along with the skills, capabilities and relationships that they need to master in order to succeed. It is one of a series of EY thought leadership programs that seek to understand what it takes for C-level executives to take control of their evolving roles.

This EY report is based on our global analysis of 306 COOs, including 48 from the oil and gas sector. A further 43 respondents from across the C-suite were also polled to give their perspective on how the COO is perceived by the rest of the management team.

Finally, a program of in-depth interviews with leading COOs and other C-suite peers allowed us to explore the distinctive qualities of this community of professionals.

Oil and gas: a sector facing change

The oil and gas industry has experienced a turbulent few years. A combination of economic uncertainty, geopolitical risk and supply disruptions have fueled volatility in oil and gas prices. Competition for reserves has increased, forcing upstream companies to drill in increasingly remote, difficult and inhospitable locations. Regulatory pressures have intensified, and upstream operators and service companies face much closer scrutiny in the wake of the Gulf of Mexico spill. Meanwhile, the industry faces a number of major structural changes, including a shift in consumption from West to East and the rise of non-conventional hydrocarbon sources, such as shale gas, oil sands and biofuels.

Cost control remains firmly on the executive agenda as companies face higher costs of capital, a squeeze on cash and the need for significant capital expenditure. As a result, many oil and gas companies are reducing headcount, making working capital improvements and seeking to make their operations more efficient through the increased use of shared services and centralization. Mergers and acquisitions are on the rise as oil and gas companies seek to divest non-core assets and as increased competition forces a wave of consolidation among independents and oilfield service companies. In order to gain access to reserves or service opportunities in many countries, companies must increasingly rely on joint ventures to share risk and capital.

Being able to juggle these priorities and challenges requires a COO with a rare combination of skills and capabilities. The days when an operations leader could be a pure engineer are long gone. Although the technical skills remain critical, COOs must also be able to deal with regulatory issues, rising demands for sustainability, political risk, as well as the normal commercial challenges of running an oil and gas company in the 21st century. For those COOs who are able to handle this dynamic, fast-moving role, this is also a time of opportunity – to raise their profile, gain a more strategic seat at the table and, potentially, cement their position as the CEO-in-waiting.
The DNA of the COO

The role of the COO often defies a “one-size-fits-all” description, particularly in the oil and gas industry. Essentially, it is a job whose responsibilities are defined closely in tandem with the individual needs and goals of the chief executive officer (CEO). Despite this, there are common themes and concerns that cut across everyone in this position. What we find is a breed of executive who combines deep operational and engineering knowledge with broad strategic and commercial insight, and who has what it takes to become the next CEO. Yet, we also find a role that is fraught with challenges. Successful COOs have to adapt constantly to a fast-changing economic, regulatory and risk environment. They must possess a mastery of change, to help translate strategic vision into action and ultimately help the business to innovate and grow.
One of the C-suite’s toughest roles

Operational responsibilities are greater in the oil and gas industry than in other industries. COOs and their teams must plan, map out and manage highly complex engineering projects that may take years to build and have a life span of decades. They must frequently operate in highly challenging business environments and deal with a vast array of risks, including regulation, health and safety, project risk, and fluctuating oil and gas prices. At the same time, they must remain at the cutting edge of technology, helping to adapt their business as the dynamics of the industry evolve. No wonder that, when asked how the COO role has changed, oil and gas respondents point to increased complexity as the single most important shift over the past five years. Dealing with the wide range of challenges that COOs in this sector face requires strong leadership to catalyze and implement the strategic agenda. In many companies, COOs are ideally placed to lead this charge. But doing so is far from easy; almost one in three COOs of oil and gas companies strongly agree\(^1\) that their role is one of the most difficult in the management team.

Thriving on the adrenaline of complexity and change

For COOs in the oil and gas sector, the inherent challenges of the job are part and parcel of its appeal. Overall, 54% say that the variety and excitement of the role is fundamentally what makes it worthwhile for them. They also point to the ability to make a difference and achieve goals in the company as an important motivation. This ability to drive through business transformation is at the heart of the COO role, and is particularly valuable at a time when the oil and gas sector is itself undergoing radical change. Among the oil and gas COOs surveyed, 44% strongly agree that they thrive on constant change and challenge. When asked about the attributes that are necessary to perform their role, oil and gas COOs point to change management as the most important, after leadership and communication skills.

\(^1\) Whenever we refer to terms such as strong/strongly or major, we refer to those respondents that chose 9 or 10 on a scale from 1 to 10, where 1 is low and 10 is high.
A stepping stone to the top job

COOs of oil and gas companies are the logical successors to the CEO role. Forty percent of those polled aspire to be promoted to CEO within the next five years, ahead of the 31% who see their current role as a final career destination. There are many reasons why COOs make good candidates for the top job. Successful operations lies at the heart of business performance, which makes deep knowledge of the nuts and bolts of the company a prerequisite for the CEO role. In addition, any oil and gas company can easily be blown off course by the volatile commodities market, regulatory challenges, environmental risks or health and safety failures. Having a safe pair of hands at the helm, someone who understands the importance of these issues, helps to reassure investors. But while operational excellence is critical, it is not enough. Although the route from COO to CEO is becoming more common, the scale of the ascent should not be underestimated. COOs who aspire to the CEO role need to look beyond their operational heartland and adopt a more strategic mindset. They will also need to build strong relationships with a wider range of stakeholders, both internally and externally, particularly at a time when external scrutiny on the sector is at an all-time high.

Leadership skills vital, but confidence here lags

COO responsibilities differ, but one theme remains constant. To perform the role well, 75% of oil and gas COOs say that highly developed leadership qualities and interpersonal skills are the most crucial attributes, while 60% point to communication and influencing skills. Indeed, many admit that soft skills were an essential part of their career development, second only to hard work, which is a baseline assumption of any C-suite role. The reason is simple: COOs have to interact with almost every function in the business and, in oil and gas companies that typically straddle multiple jurisdictions, with a wide variety of different cultures. Oil and gas COOs recognize, however, that there is still room for improvement in their softer skills. When asked about the areas in which they most need to improve themselves, 40% agree strongly that they need sharper leadership skills, while 35% highlight the need for stronger communication and influencing capabilities.

A lack of visibility hampering prospects

When asked about the biggest barriers to the career development of the COO, respondents point to lack of acceptance or understanding as their number one concern. This highlights a common issue for COOs: a lack of visibility. When operations are running smoothly, they rarely get the credit for “keeping the wheels turning,” but often only become noticed when things go wrong. For the most part, it is the CEO and CFO who are visible to the media, analysts and investors, while the COO typically remains behind the scenes. Especially for those COOs who aspire to the CEO position, it will be essential to make their input more visible to both internal and external stakeholders.
A need to become more strategic

Compared with their peers in other sectors, COOs in the oil and gas sector tend to have less influence at the board level. For example, while 57% of all COOs agree strongly that they play a role in actively discussing strategic decisions at board level, only 46% of those from the oil and gas sector hold the same view. And when asked about the value that a COO brings to the company, oil and gas respondents point to the delivery of cost efficiencies and operations performance as the most important factors, rather than their broader commercial and strategic contribution.

There are good reasons why COOs in this sector lack a seat at the strategic table. They have a highly complex, technical role requiring deep engineering expertise as well as the ability to navigate complex regulatory, political and business environments. Some may also come from an engineering background, and that can mean that they are less likely to have a general business or commercial mindset.

Yet the opportunity to step up to a more strategic role is certainly there. Oil and gas COOs are inextricably linked with the overall leadership of the business and have strong external relationships, particularly with key clients. Many have the genuine ability – and aspiration – to do the top job. But to prepare for that transition fully, and to ensure their own relevance within their current job, stronger efforts will be needed to bolster specific skills, strengthen core relationships and increase their visibility.
A snapshot of today’s typical oil and gas COO

Basic characteristics
• The average COO is a 47-year-old male. He has typically been in his current role for six years.
• COOs in the sector come from a range of different educational backgrounds besides Engineering, e.g., one-third holds a master’s degree in Business Administration, 10% have a master’s or bachelor’s degree in Operations Management, and 10% have similar qualifications in Finance.

Skills and focus
• The soft skills are seen as critical to the success of the role. Three-quarters of oil and gas respondents agree strongly that leadership skills are essential for them to perform at their best, while 60% emphasize the need for communication and influencing skills. Both are also seen as the areas that are most in need of further development.
• Change management skills are particularly important in the oil and gas sector. Almost two-thirds agree strongly that they are a vital attribute for success, which is slightly higher than the average.

Relationships
• They are strong team players in the C-suite. Compared with peers in other industries, oil and gas COOs are more likely to say that they have excellent relationships with the chief financial officer and department heads. They also report stronger relations with analysts, suppliers, consultants and clients.

Career
• Compared with peers in other sectors, oil and gas COOs report slightly lower levels of satisfaction across a number of metrics, including the potential for career development, work-life balance and the ability to influence broader company strategy. They report greater satisfaction, however, with compensation and benefits.
• They believe strongly that motivation and hard work got them to where they are today, but also admit that being in the right place at the right time may have played a part.
• They are ambitious and strive for the CEO role, with 40% aspiring to take the top job.

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