Building and sustaining resilience: The 2022 Energy CEO Outlook

Energy leaders focused on the recession and political and technological risks.

KPMG International

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In a year of upheaval caused by geopolitical tensions, the ongoing pandemic and an uncertain economic climate, energy CEOs face challenges and opportunities amidst the sector's ongoing transformation. As part of our 2022 CEO Outlook, we surveyed 138 energy CEOs in the oil & gas, power & utilities and renewable energy spaces, gathering their insights and perspectives into the business and economic landscapes over the next 3 years.

Energy CEOs pinpointed regulatory risk and emerging/disruptive technology as two of the top threats to their organizations during this time, but also expressed optimism over their company's growth prospects. This is a shift from 2020 and 2021, when they felt environmental/climate change risk was the greatest threat to their organization's growth. Climate change fell out of the top three 3-year risks in our 2022 Outlook survey, with just **9 percent** saying it's their top risk (down from 35 percent in 2021).

Here's more on what energy CEOs had to say as the sector continues to prioritize transitioning to a low carbon economy.

The economic outlook: Energy CEOs prepared for a recession

Eighty-seven percent of energy CEOs say a recession is likely in the next 12 months. While **59 percent** believe the recession will be mild and short, **75 percent** of those CEOs also think it will upend growth over the next 3 years. And when asked about their most pressing concern for their organization today, economic factors (rising interest rates, inflation and an expected recession) came out on top.

CEOs are exploring how they can mitigate recessionary impacts to plan for this economic disruption. To hedge against supply chain risks, **41 percent** of respondents have taken steps to diversify their supply chains, while (as of August 2022) **36 percent** said they plan to do so over the next 6 months. Nearly half of energy CEOs (**49 percent**) indicated they're considering reducing employee headcount over the next 6 months.

87%
believe there will be a recession in the next 12 months

75%
think a recession would upend anticipated growth over the next 3 years

59%
say an anticipated recession will be mild and short

Source: KPMG 2022 CEO Outlook

Inflation and supply chain challenges

Though mainly driven by the price of energy and food, inflation has also impacted the cost of materials and the supply chain.

The hardening of central bank rates in the US and worldwide has caused interest rates to go up, as has turmoil in the currency markets. CEOs are finding the need to inflation-proof businesses is a significant priority. This was especially true in the energy sector — which typically involves high capital expenditure — leading to a noticeable increase in business expenses.

Since the pandemic's start, many CEOs have focused on diversifying and restructuring supply chains. With an expected recession, this movement appears to be growing stronger again.

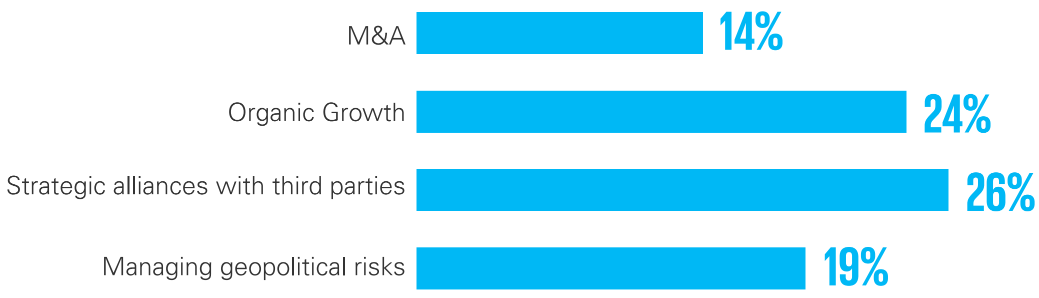
M&A takes center stage

This time around, energy CEOs are increasingly enthused about M&A opportunities, particularly compared to 2020. Almost half (**47 percent**) indicated their appetite for M&A is high and that their companies are likely to undertake acquisitions that may significantly impact their business. This is an increase of 11 percentage points from two years ago when we were only months into the COVID-19 pandemic and shows that CEOs are looking to capitalize on their strong balance sheets despite emerging risks to growth.

> Many economies have seen the fastest inflation and interest rate hikes in decades. This may last longer than what was expected and puts considerable pressure on companies' labor, operation and financing costs. Other evolving agenda items like geopolitics, ESG and carbon tax have made restructuring of the supply chain complicated and challenging.
>
> **Alex Choi**
> ASPAC Regional ENR Leader
> KPMG China

In line with their enthusiasm for inorganic growth, **26 percent** of the CEOs are looking at alliancing with third parties as a further means to grow their businesses. This trend of inorganic growth is more apparent in the oil & gas sector, where there would be greater portfolio churn in the long term. In the power & utilities sector, growth is more focused on expanding the core business both organically and inorganically, such as by transforming operations to align with new regulatory frameworks, including new technologies, and attracting and retaining talent.

Which of the following strategies will be most important for achieving your organization's growth and objectives over the next 3 years?



Source: KPMG 2022 CEO Outlook

> The combination of uncertainty, delays and price fluctuations is forcing some executives to significantly shift their priorities and pivot their business models in an attempt to maintain their growth and confidence as they enter an incredibly challenging period.

Regina Mayor
Global Head of Clients and Markets
KPMG International

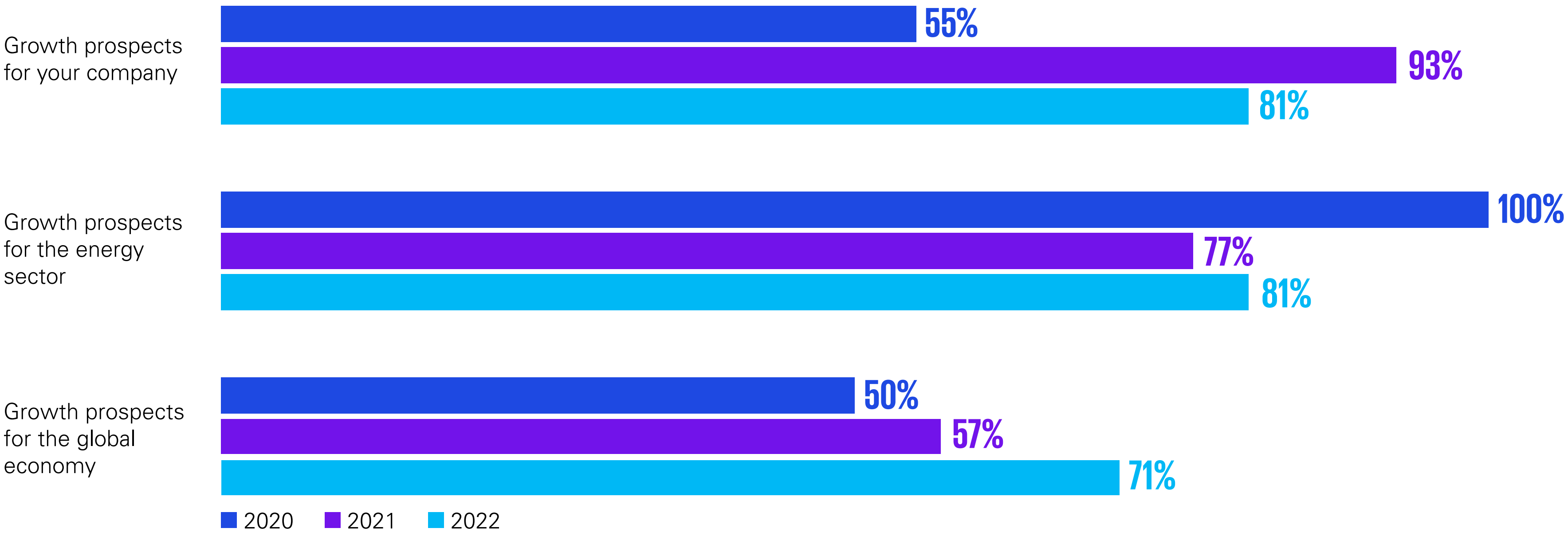
A sense of optimism

Although energy CEOs are readying for a recession, many also report feeling optimistic about growth prospects over the next 3 years — for the economy more broadly, the energy industry and their companies. **Seventy-one percent** indicated they feel either confident or very confident about the global economy's growth potential, and **85 percent** said they feel confident or very confident about the energy industry and their specific organization.

CEOs are increasingly confident in their country's growth prospects, the global economy and the industry overall, reflecting buoyant energy prices amidst global volatility and geopolitical changes.

In the short- and long-term, energy CEOs and organizations should prepare responses to potential economic scenarios related to the energy transition, regulatory and other emerging risks. Focusing on operational efficiencies, retaining employees, and M&A opportunities will also be crucial to keep their organizations on the right track.

Energy CEOs remain resilient and focused on long-term, sustainable growth, despite increased uncertainty



Source: KPMG 2022 CEO Outlook

> There has been significant geopolitical and economic shock that has disrupted energy supply and pricing. CEOs are reacting to the current environment while trying to ensure that their businesses are agile enough to respond to the risks inherent in that change. The challenge is to predict the reaction of governments and the market to these shifts and to prepare the organization for them.

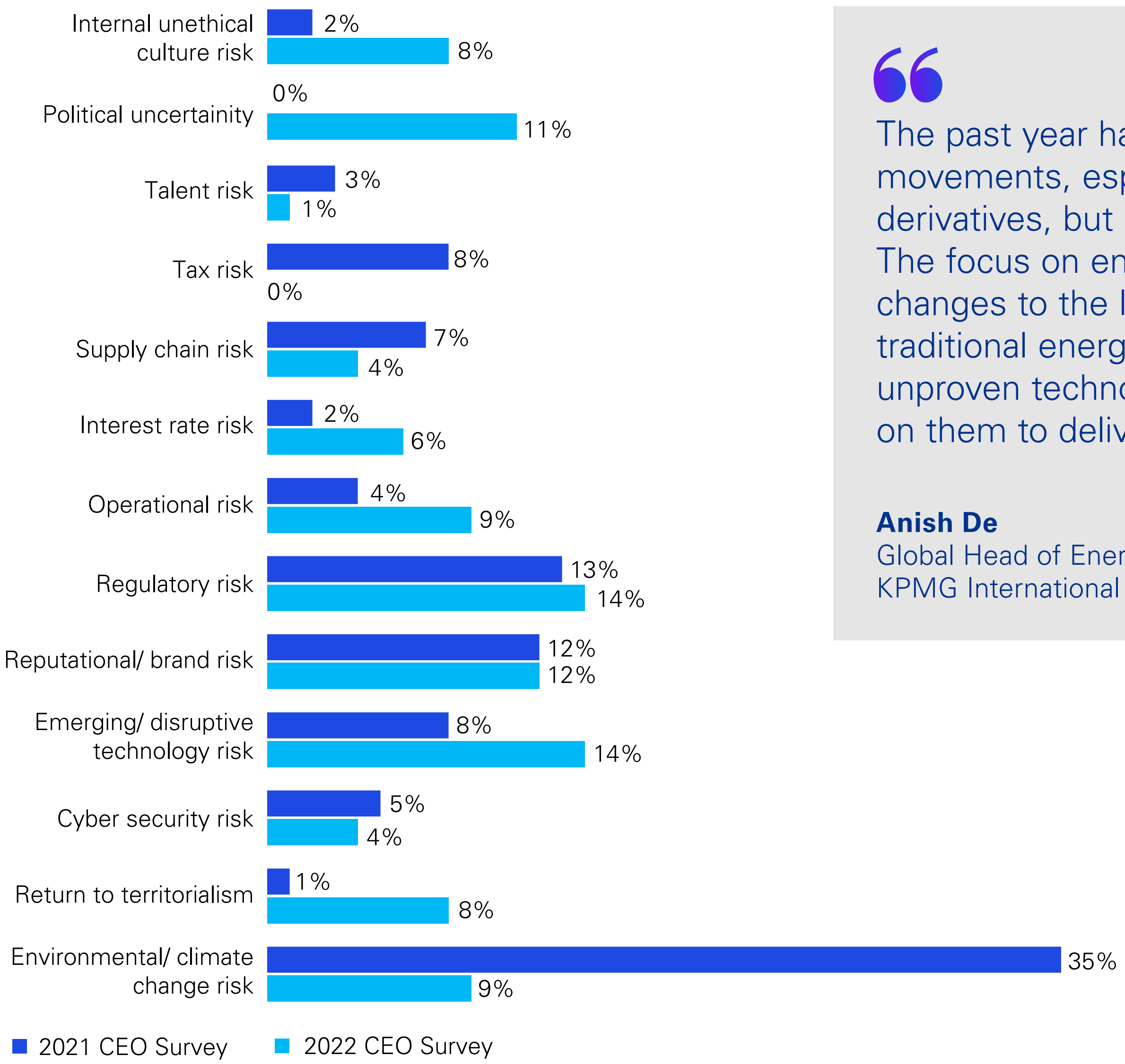
Jonathon Peacock
Global Oil & Gas Sector Leader
KPMG Australia

Technology

Emerging tech a top risk

In 2022, **16 percent** of energy CEOs indicated that emerging/disruptive technology is the most significant risk to their organization's growth over the next 3 years — doubled from our 2021 CEO Outlook, when only **8 percent** felt the same way.

This concern may be leading CEOs to step back and think carefully about their digital strategies. **Thirty-seven percent** of CEOs have paused their digital transformation strategies in response to geopolitical challenges, and another **46 percent** plan to do so in the next 6 months (as of August 2022).



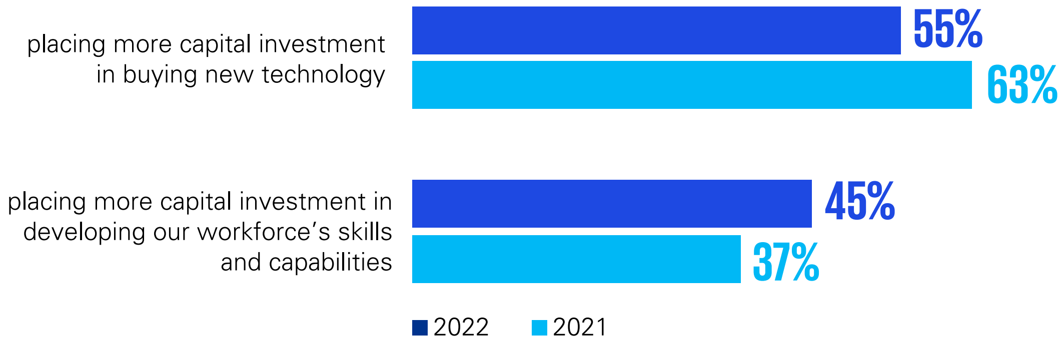
Source: KPMG 2022 CEO Outlook

> The past year has seen core energy technology movements, especially in green hydrogen and its derivatives, but also in aspects like CCS/CCUS. The focus on energy transition is also set to make changes to the long-term business portfolios of traditional energy players. Many are new and unproven technologies, but the world still relies on them to deliver decarbonization.

Anish De
Global Head of Energy, Natural Resources and Chemicals
KPMG International

Investing in tech

Advancing digitization continues to be a top operational priority in 2022, with a quarter of energy executives agreeing that doing so is how they can best achieve their growth objectives in the next 3 years. Most energy CEOs (**55 percent**) say they plan to put more capital into purchasing new technology, compared to **63 percent** who said the same in 2021. The other **45 percent** want to invest more in their people to enhance their skills and capabilities.



Source: KPMG 2022 CEO Outlook

> Sectoral megatrends on energy transition, ESG, supply chain restructuring and global delivery constructs drive the demand for digitization and innovation. Energy CEOs expect digital platforms and skills to get firmly integrated into the operating fabric of their organizations. Additionally, the emergence of a vibrant startup and innovation ecosystem complements the industry's digitization agenda.

Sushant Rabra
Global ENR Digital & Technology Leader
KPMG in India

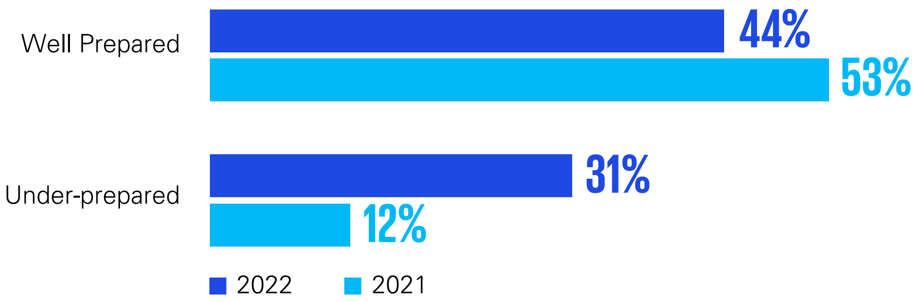
Cybersecurity worries, threats and strategies

Seventy-five percent of energy CEOs believe a solid cyber strategy is critical to generate trust with key stakeholders. **Seventy-three percent** also agree that geopolitical uncertainty, specifically the ongoing war in Ukraine, raises concerns about a cyberattack within their organization. The Russian government's invasion of Ukraine is clearly weighing on CEO minds, as a combined 20 percent say political uncertainty and return to territorialism are their top risks over the next 3 years.

However, less than half (**44 percent**) of energy CEOs feel their organization is prepared for a cyberattack, with **31 percent** feeling underprepared. Only 2 percent feel very well prepared for a cyberattack, compared to **22 percent** just two years ago.

IT departments are no longer solely responsible for cyber protection and resiliency. Recent geopolitical volatility worldwide has heightened the risk of companies of all sizes being hit by cyberattacks. Cybersecurity is fundamental to energy availability, sustainability, reliability and affordability, and by extension, the economy and national security. It's crucial for energy companies to embed cybersecurity into their overall culture.

More Energy CEOs recognize they're underprepared for a cyber attack



Source: KPMG 2022 CEO Outlook

> Recognition of under-preparedness is an essential first step towards the journey of being well-prepared. Through that journey, the organization gets better protected against cyber-attacks and can contain and mitigate cyber-attacks before they become more significant incidents.

Ronald Heil
Global ENR Risk Leader
KPMG in the Netherlands

Talent

Though energy executives are considering reducing employee headcount in the next six months, **a quarter** of them said the employee value proposition (EVP) to attract and retain talent is a top priority. This is particularly the case for CEOs in the power & utilities space, who are concerned about their company's EVP but also say they're either not growing or are reducing the size of their workforce. On the other hand, **84 percent** of oil & gas CEOs say they're planning to increase the size of their workforce, potentially to execute their M&A strategies. This increase will not be drastic, though. **Sixty-five percent** of them expect headcount to grow by less than 5 percent.

With the ongoing labor shortage, companies should do everything they can to hold onto talent while addressing economic, competitive and demographic realities. The baby boom generation will continue to age into retirement, and the Gen-Z cohort is much smaller by comparison.

Planning to increase the size of their workforce over the next 3 years

84% Oil & Gas CEOs

46% Power & Utilities CEOs

Source: KPMG 2022 CEO Outlook

> While in some geographies, we envisage recession and therefore downsizing in the employee base, in others, due to the increasing energy demand, thousands of new jobs are expected to be created. Companies must consider investing in technology and automation, training their global labor force, and promoting more mobility when managing their need for talent.

Manuel Fernandes
Americas Regional ENR Co-Leader
KPMG in Brazil

Furthermore, **71 percent** of energy CEOs think those who worked in offices pre-pandemic will be back in the office regularly in 3 years' time. This could make it difficult to attract employees, as many have decided a hybrid or work-from-home model is better for them. Making the short-term decision to downsize or bring people back into the office full-time could have significant long-term consequences.

CEOs and organizations would do well to invest in their current talent pool and ensure their skill sets are up to date — a necessary step to prepare for the energy sector's ongoing low-carbon transition.

Energy CEOs are preparing for an anticipated recession

69%
have implemented or plan to implement a hiring freeze in the next 6 months

83%
have considered or will consider downsizing their employee base in the next 6 months

Source: KPMG 2022 CEO Outlook

“While an economic slowdown might result in short-term changes in hiring, longer-term structural changes in the labor market persist. The energy sector has lost several skilled workers over the past two years creating talent shortages and increasing the risk of workplace safety incidents in the field. The baby boom generation isn’t getting any younger, while generation Z (25 and under) is smaller by comparison. Competition for these workers will remain strong. Furthermore, there has been a fundamental shift in employee expectations around hybrid work environments. The question executives should ask is not “when will we return to a pre-pandemic work environment” but “how can we effectively incorporate hybrid work arrangements and maintain high-performing teams.”

Angie Gildea
Americas Regional ENR Co-Leader
KPMG in the US

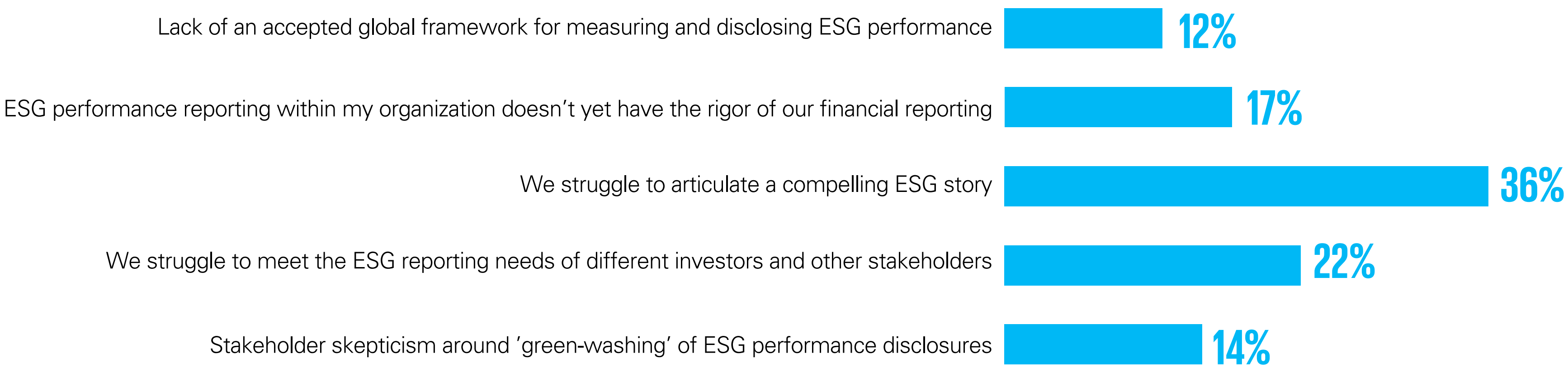
The demand for — and challenges of — ESG

Companies are facing more interest in their ESG strategies and performance.

Sixty-six percent of energy CEOs report demand from stakeholders, such as investors, regulators and customers, for increased reporting and transparency on ESG issues. Less than half of them (46 percent) connect ESG with improving financial performance. This could have to do with their struggle to tell a compelling ESG story, as **36 percent** indicated this is their biggest challenge in communicating their ESG performance to stakeholders.

For energy CEOs, this challenge includes identifying and measuring agreed-upon ESG metrics and the technology to support gathering these metrics. Investment in tools such as ESG measurement and governance is increasing, though — **two-thirds** of energy CEOs have committed to allocating more than 6 percent of revenue to make their organization more sustainable.

Key challenges in communicating ESG performance to stakeholders



> CEOs are now facing a new question from their stakeholders, which goes to the heart of communicating ESG performance. These stakeholders want to understand the impact of any ESG investments made by energy companies. Unfortunately, there is no single accepted methodology to do this yet.

Mike Hayes
Global Renewable Energy, Climate Change, and Decarbonization Leader
KPMG International

Rethinking investments and relationships

In light of Russia's ongoing attacks on Ukraine, **75 percent** of power & utilities CEOs and **80 percent** of oil & gas CEOs have or plan to discontinue their working relationship with Russia. Similarly, **80 percent** of P&U and **93 percent** of O&G CEOs have already or plan to rethink their investment strategies in response to geopolitical challenges.

And, nearly **20 percent** from both sectors agree that managing geopolitical risks is an important strategy for achieving their growth objectives over the next 3 years. This is a considerable change from previous years, where geopolitical risks were considered a much lesser threat.

A recession's impact on ESG

As CEOs take steps to protect their businesses in the face of a likely recession, signs point to ESG progress and efforts taking a hit. **Half** of the energy executives surveyed said they plan to pause or reconsider their planned ESG efforts over the next 6 months, and **36 percent** have paused or are revisiting their ESG efforts.

Beyond demands for ESG from stakeholders, employees and those in the job market increasingly expect businesses to take actionable steps on this front. Delaying such progress may make recruiting and retaining talent more difficult. Therefore, organizations must continue their ESG planning and implementation.

> "The current geopolitical uncertainties reemphasize the importance of energy supply security both for states and corporations. While reshaping their energy policies, they are adapting to this new geopolitical environment: in the short term, by implementing measures to find alternative energy sources, and in the long term, by focusing investment in regional and cleaner power generation."
>
> **Valerie Besson**
> EMA Regional ENR Leader
> KPMG in France

Reconsidering investment strategies in response to geopolitical challenge

93%	80%
Oil & Gas CEOs	Power & Utilities CEOs

Source: KPMG 2022 CEO Outlook

Just as Rome wasn't built in a day, ESG is an ongoing journey. A strong and consistent ESG strategy could help differentiate an organization from its competitors. Focusing on the near term and sacrificing making necessary investments in the medium- to long-term to address risks or industry disruptors could leave organizations vulnerable.

> "ESG strategies and initiatives are still among CEOs' top priorities, even though some are postponing the rollout of their ESG initiatives. Looking at the whole 2022 CEO Outlook survey, we can conclude that most CEOs understand that, in the near future, the ESG agenda will be a differentiator among competitors."
>
> **Franceli Jodas**
> Global Power & Utilities Sector Leader
> KPMG in Brazil

Energy CEO priorities

The KPMG 2022 CEO Outlook highlights long-term optimism in CEOs despite short-term challenges brought on by geopolitical concerns and a potential recession. Prepared to weather economic difficulties, CEOs are confident in their companies' resilience and growth prospects.

Energy price spikes, driven by demand far outpacing supply, have fueled a conversation that diversification is more important than ever. The past year has also highlighted the need for more energy production to fuel broader economic growth.

Many energy companies will have started planning or implementing their decarbonization plans, focusing on the energy transition. Business leaders should act now as they eye investments in technology and talent and communicate their ESG performance to stakeholders.

Technology

- While using technology during the transformation journey, deploy sufficient cybersecurity resources.
- Drive open innovation by engaging closely with digital platforms, ecosystems and startups. These partnerships would serve as key enablers for enterprise transformation strategies.
- Enhance focus on customer engagement, loyalty, digitization and the customer experience. Given the megatrends in the sector, these would be core pillars of business model transformation.

Talent

- Building on and furthering skill sets and empowering the workforce is key to retaining talent for a sustainable business.
- Build, don't follow: Organizations and their employees are changing, and leaders need to reinvent the enterprise workforce. The old talent management playbooks are outdated, and the challenge is that there aren't new ones to replace them. The way forward involves strategies that include reinventing the workforce, focusing on the social side of ESG, leveraging analytics and designing a nurturing experience

ESG

- Innovation is a big part of the ESG journey — be open to embracing change.
- Organizations should make strenuous efforts in ESG investing and articulate a clearly defined energy transition roadmap to its stakeholders. This will require significant capital investments, especially in some of the emerging technologies. For this strategy to be successful, organizations must link increased ESG investing and value creation.

About KPMG's CEO Outlook

The 8th edition of KPMG CEO Outlook, conducted with 1,325 CEOs between 12 July and 24 August 2022, provides unique insight into the mindset, strategies and planning tactics of CEOs not only comparable to pre-pandemic to today, but also from KPMG's CEO Pulse Survey conducted with 500 CEOs between 12 January and 9 February 2022, before the Russian government's invasion of Ukraine.

All respondents have annual revenues over US$500M and a third of the companies surveyed have more than US$10B in annual revenue. The survey included leaders from 11 markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, UK and US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications).

NOTE: some figures may not add up to 100 percent due to rounding.

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