Grant Thornton

Energy executives reveal industry priorities

Survey provides insights to current concerns

With the market instability resulting from Russia's invasion of Ukraine, overall prices on the rise due to inflation, and the COVID-19 pandemic's continuing impact on employment and materials, energy companies are juggling a host of challenges for the second half of 2022.

Grant Thornton surveyed finance executives and CEOs of energy companies — ranging from oil and gas exploration to utilities to renewables to energy transportation — to hear their biggest concerns for the next six months. The survey, conducted in spring of 2022, drew responses from 167 company leaders. Of those who responded to the Grant Thornton poll, 38% were CEOs, and 44% were senior finance executives.

Inflation is a big issue for the majority of them. Commodity prices top the list, as 34.7% of the executives cite that as the top risk they face. Inflation and the economy are a close second, with 27.5% identifying them as their primary concerns.

And they don't expect those problems to disappear quickly. Sixty-five percent think inflation will have an impact on their business for more than a year while another 17.4% anticipate that inflation will continue to hound their industry for the next six to 12 months. Only 2.4% say inflation will not affect their business.

Geopolitics is the largest risk facing energy companies, according to 21% of the respondents, while 9% are most concerned about cybersecurity, and nearly 8% view natural disasters as their biggest risk. Beyond those overriding risks to their industry, energy company executives say they anticipate supply chain delays and staffing to be the stickiest challenges for their companies during the second half of the year.

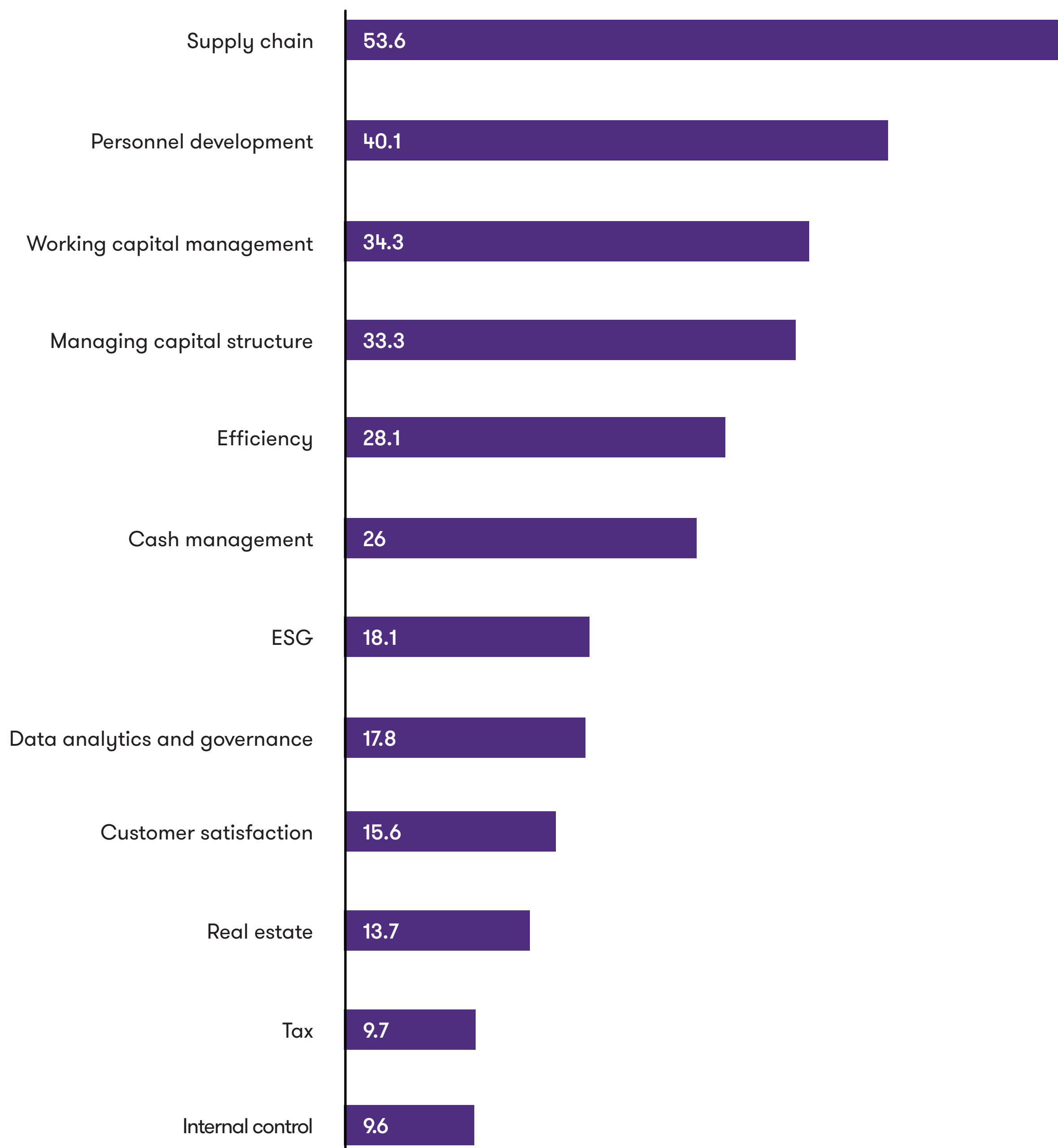
Survey respondents were asked to select five of 12 potential challenges and rank those choices. The results, assuming a perfect score of 100, are shown next page.

In this question, respondents ranked the following issues as their No. 1 challenge:

- Supply chain: 31.1%
- Personnel development and retention: 14.4%
- Cash management: 9.6%
- Working capital management: 8.4%
- Efficiency: 6.0%

Nearly half of the respondents (45%) view supply chain problems as either their first or second toughest situation to handle for the rest of 2022.

As a finance leader, which of the following are the top 5 biggest challenges your business will be facing in the second half of 2022? (Respondents ranked five choices 1st through 5th)



*Scoring assigned 5 points to 1st, 4 points to 2nd, and so on to 1 point for 5th. Responses are ranked compared to a highest possible score set at 100.

Control the effects of supply chain disruptions

Not only is the supply chain disruption seen as the top challenge for energy company leaders, but they expect it to last into 2023. Forty-four percent think they will continue to struggle with a lack of access to equipment or supplies for more than 12 months; another 28.7% say they think the difficulties will linger for six to 12 months. Less than 7% say the supply chain will have no impact on their business.

Only 9% are extremely confident they can meet their company's supply chain needs while one in four of the executives who responded have some level of doubt about achieving those goals.

Jonathan Eaton, a principal in Transformation at Grant Thornton, said he "was surprised more energy executives didn't list supply chain issues as their top challenge." The unfortunate reality, Eaton said, "is that supply chain problems have lasted for more than two years because they are not easy to fix."

Eaton identified five forces that are disrupting supply chains in the energy industry.

- Rising costs to produce and serve markets
- Growing complexity and within the supply chain operating model
- Inability of trading partners to deliver
- Increased M&A activity
- Labor shortages

How long, if at all, do you anticipate supply chain issues to have an impact on your business?

Response	Percentage
No impact	6.59%
0-3 months	10.18%
3-6 months	10.18%
6-12 months	28.74%
More than 12 months	44.31%

Companies in all energy industry sectors are paying more to produce and have been negatively impacted by cost increases across the board to serve their customers. Shortages of transportation assets, rising transportation costs, increased wages, and legislative changes are all drivers of rising costs to produce and serve markets.

As for complexity, Eaton said, “All companies know the names and locations of their primary suppliers, but they rarely know the other companies within their expanded supplier ecosystem. This introduces unknown and unmitigated risk to the supply chain operating model, and it negatively impacts many companies. Disruptions in trade routes, cybersecurity failures, extended supplier performance, etc., are prime examples.”

As for trading partners failing to deliver, Eaton said, “I regularly talk to companies that tell me, ‘We know what we need but often cannot get it on time or at all from our supplies or trading partners.” Their inability to deliver in some cases is because they were also hurt by the same supply chain disruptions, often have labor issues, and, on occasion, have liquidity issues. The reality is that without a holistic view of the supplier ecosystem and sufficient third-party supplier risk profiles, and a well-designed business continuity plan to support supply chain resiliency, many companies are faced with the daunting task of finding alternative sources of supply. In this market, those alternative sources of supply are scarce and will not come without a premium.

“The M&A market has been hot lately,” Eaton said, “and though that is an overall positive, that activity can put pressure on supply chains operating models to be more responsive.” The resources and time it takes for proper integration or separation is also far more complicated given some of the other issues previously discussed.

Finally, the general lack of available labor and high job turnover of the Great Resignation also has created supply chain issues for all companies regardless of the industry sector.

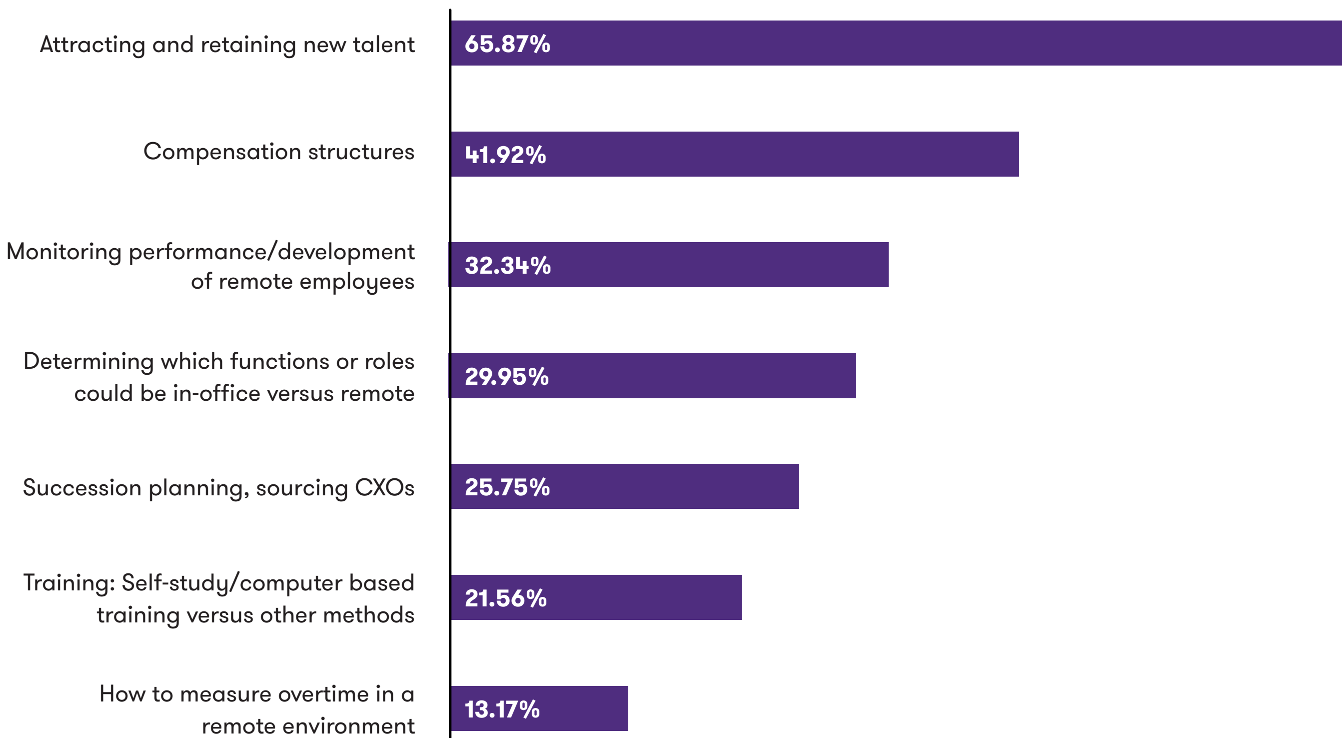
“If you don’t have employees, it’s hard to execute and ensure you have assets in the right place and maintain them for optimal production,” Eaton said. To retain employees, companies are paying far more, and that impacts costs.

Though many of the factors creating supply chain issues for energy companies cannot be solved by the companies themselves, Eaton emphasizes that companies are not powerless. Until supply chain issues work themselves out, companies can take a number of actions, recalibrating their strategy and supply chain operating model to focus on stability. Improving collaboration with trading partners and achieving greater visibility of the supplier ecosystem are essential actions to improve resiliency.

“Another action companies can take is to quantify their supply chain costs to serve and to know it by customer,” Eaton said.

Bring the best workforce to your company

What are your biggest challenges regarding talent? (Respondents could select up to 3)



Workforce problems is the top concern of nearly one-third (31%) of the respondents. Even executives who point to other issues as their most pressing concern say they are having a hard time maintaining staffing levels. Identifying the three most challenging personnel issues, nearly two-thirds (65.9%) say attracting and retaining new talent is difficult. In addition, 41.9% cite compensation structures and 32.3% say they struggle with the complications of monitoring performance and development of employees who work from remote locations.

Tim Glowa, principal of Human Capital Services at Grant Thornton, said, “Recent research by Grant Thornton into the motivations of America’s workforce can give some insights into how best to attract and retain workers in the energy field.” By asking why people stay in jobs, why the leave, why they accept some offers but refuse others, some common themes emerge. Base pay is the prime reason why people leave a company and why they accept work elsewhere. But it’s not the only factor.

When asked why they didn't accept job offers, a surprising number said that the company took too long to make an offer. "This is a self-inflicted wound," Glowa said. Companies can benefit by identifying and correcting delays in their hiring processes.

At the other end of an employee lifecycle, companies can benefit by quality offboarding processes that help ensure an employee leaves a company with a positive attitude. This matters because employee "alumni" not only are a prime source of new talent through referrals, but often return to the company themselves. Research indicates that 40% of all people who leave a job would consider being rehired by that company.

Addressing life stressors through effective rewards programs can be another way to create a defensible "value proposition" that can distinguish their company from competitors.

Even with these challenges, finance managers and CEOs of energy companies said they were optimistic they will be able to hold onto their employees. Sixty-one percent have some degree of confidence that they will retain their staff; 15% were neutral; and 24% are less confident that their employees will stay with the company.

Manage your capital structure for growth

Which of the following is of greatest concern regarding working capital management?

Obtaining better terms from suppliers

Improving days sales outstanding

Tools for reducing inventory and carrying costs

Invoice tracking

Discounts for prompt payments

Factoring arrangements

Among their concerns about working capital management, getting better terms from suppliers is the most important — 32.3% cite that as an issue. Twenty percent say reducing the length of time it takes to get paid by customers is a key concern, while 15% target tools for reducing inventory and carrying costs.

Some respondents said that while considering how to manage the financials that fuel their company's operations, they pay the most attention to the best way to finance growth (48.5%), financial forecasting (43.1%), and which capital market avenues are available and beneficial (37.1%).

The survey found that the biggest challenges for a company's treasury are with forecasting and managing cash (60.5%). Another 32.3% are concerned about access to debt and equity markets, and 26.4% say a hedging strategy is a significant issue for them.

"It's not uncommon to find a considerable amount of debt in the capital structure in the energy industry," said Bryan Benoit, national managing partner of Energy for Grant Thornton. "The reason is the industry is capital-intensive with significant tangible assets and large balance sheets. However, this leaves companies vulnerable to bankruptcy in economic downturns and sharp declines in commodity prices." It happens with regularity and price volatility makes forecasting and managing cash among top concerns for energy executives.

Recent efforts by the Federal Reserve to curb inflation by raising interest rates may also have a negative effect, as the cost of capital increases, and debt in particular becomes more expensive and less attractive. Complying with environmental, sustainability and governance (ESG) requirements also has an outsized effect on the energy industry, as so often its products are targets of regulations.

M&A activity remains top of mind for energy executives. Our survey asked what was most important about funding growth, and they rated factors and insights regarding acquisitions highest (44.3%), followed by the latest trends on the capital market (43.1%).

"Many companies are looking at not just organic growth from within but diversifying," said Frances Nwachuku, a director in the Global Public Sector practice at Grant Thornton. On that point, energy executives must decide if they want to develop, say, a renewables business by organically opening their own division or purchasing an existing renewables company. The high percentage ranking of acquisitions in the survey seems to indicate the latter.

Ensuring consistent cash flow

What areas are you targeting for temporary and permanent cost reductions?

	Temporary cost reduction	Permanent cost reduction	No cost reduction
Compensation	23.35%	7.78%	68.86%
Real estate	19.16%	31.74%	49.10%
Process automation	18.56%	42.51%	38.92%
Insurance	22.75%	22.75%	54.49%
Suppliers	40.12%	15.57%	44.31%
Other	14.97%	16.17%	68.86%

As a result of financial pressures, quite a few of the survey respondents say they are looking to cut costs, through either temporary or permanent reductions:

- **Temporary:** 40% plan decreases in supplier expenses while 23.4% will reduce compensation payments.
- **Permanent:** 42.5% expect to shrink costs for process automation and 31.7% for real estate.
- **No reduction:** 68.9% say they will not cut employee pay and 54.5% will leave insurance costs untouched.

Benoit said, “Whether a company is considering the acquisition of oil and gas properties or investing in new process automation technologies, strategic long-term planning is required.” Larger investments which are often planned for may be deferred or permanently cut. The move to consider real estate cuts ties directly to the growth of remote working embraced by companies during the pandemic. More than one of every four survey respondents (26%) plan to reduce the amount of office space by more than 50% in reaction to the new work arrangements brought on by COVID-19.

In addition, nearly half (46.7%) of the executives are weighing their employees’ wishes about working from home or in the office, and a similar number (44.9%) are taking a close look at which positions need to operate in the office rather than from a remote location. This ties directly into our findings that flexible work arrangements are almost “table stakes” when hiring new employees these days.

Taking the right action

Energy company executives are well aware of the supply chain, workforce, capital management and cash flow issues that will continue to present challenges to their companies' growth and sustainability. Our survey results indicate that executives are most in need of direction in planning ways to address each of these issues.

As discussed above, there are actions companies can take to alleviate problems that seem beyond the control of a business. Energy companies can't control supply chain issues, or workforce turnover, or commodity price fluctuations or inflation. But they can take steps to minimize the economic impacts of those challenges, and even turn some into unexpected opportunities, by making sound planning decisions that allow a company to reduce risks while seeking opportunities for growth.

Finally, when evaluating future business actions, the best decisions are made when a company uses the right data and the right approach for gathering it. Often, an outside advisor specialized in the industry may have the insight to know where best to start that evaluation and what methods of inquiry and data assessment lead to quality decisions.

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