

## WHEN INNOVATION BECOMES MISSION-CRITICAL

### Les Gombik, Managing Partner of Caldwell Partners, Explores How the Technological Evolution Impacts the Industrial Sector



*Technological evolution continues to reshape the world as we know it, making billionaires out of overnight start-ups and some titans of industry almost obsolete. This type of evolution can hit any industry and, in fact, it's hitting the energy sector right now. Les Gombik, managing partner of Caldwell Partners' Calgary office, believes the "perfect storm" has been created in this sector where radical changes come together, making innovation within the sector not just advisable, but critical for survival.*

*With more than 20 years of executive search and human resources experience, Mr. Gombik has a broad perspective on the most pressing talent issues in executive management today. His particular focus is on board and senior executive positions for public and private equity-backed companies*

*within the energy, retail, industrial and financial services sectors. Prior to joining Caldwell, Mr. Gombik was a principal at Aon Hewitt, where he engaged with hundreds of organizations to help them address their employee attraction, retention and engagement issues. Previous to that, he worked in the financial services sector providing solutions to many of Canada's largest employers.*

Just a few short years ago, Kodak was king of its sector - so much so that the phrase "a Kodak moment" was synonymous with an image that practically begged to be captured on camera. Meanwhile, taxi companies operated without the specter of Uber looming over them, big-name hotel chains were unintimidated by Airbnb and, after overthrowing Nokia, BlackBerry was unconcerned about the threat posed by Apple. They were so dominant that many people referred to their devices as a 'CrackBerry.' Ride-hailing, consumer electronics and hospitality are three very different industries, but they all have one thing in common. When change began to happen in their sectors, the prevailing industry titans underestimated the shifting sands as little more than a passing trend - a miscalculation for which they paid dearly. They were eventually forced to acknowledge this innovation as more than just a flash in the pan, but the revelation came too little, too late.

This type of evolution can hit any industry and, in fact, it's hitting the energy sector right now. Technological innovation is impacting not just oil and gas companies, but the broader energy infrastructure industry as a whole. The \$4.5 billion acquisition of Canadian Oil Sands by Suncor Energy is a powerful illustration of how severely the North American energy sector has been impacted over the past several years. Before the recent drop in oil prices, (in large part due to the influx of supply brought on by new technologies), Canadian Oil sands was worth 3 times that value and at its peak before many of these new technologies came to light, their value was over 15 times that.

#### A Perfect Storm

So, why is the North American energy sector in this predicament? There is no single factor to point to as the prevailing reason for the industry's current circumstances. Rather, a "perfect storm" of radical changes came together, making innovation within the sector not just advisable but critical for survival.

First, it is important to note that although the oil and gas industry is known for its booms and busts, these good and bad periods have historically been due to lower demand. This time around, a supply-side issue is the driving cause - namely that there is an overabundance of resources, as opposed to a reduction in demand, although demand-side issues do also play a part. In 2008, when many pundits were predicting Peak Oil, prices shot up to 5 times the price of what it is today. With the new fracking technologies becoming mainstream shortly thereafter, the industry was turned on its head and Peak Oil seems to be a distant memory. Because the predominant reason at the root of the latest slump is different, the "it'll bounce back" attitude that ended up ringing true during previous bust periods likely does not apply in this case.

Second, demand is shifting over time. Cars are debuting on the market that require less fuel - and, in some cases, do not operate using traditional fuel at all, such as Tesla's electric offerings. Driverless cars and the more efficient carpooling methods offered by ride-hailing services such as Uber and Lyft are an additional example of shifting demand.

Indeed, the World Economic Forum's Global Agenda Council on the Future of Software and Society predicted in a September 2015 report titled "Deep Shift: Technology Tipping Points and Societal Impact" that there is a 78.2 percent likelihood of driverless cars composing 10 percent of all cars on America's roads by 2025.

The public's evolving perception of fossil fuel consumption and what this means for the environment is another aspect that should be taken into account. Climate change is a contemporary hot-button issue, and the rise of environmental awareness and "green consumerism" has led some people to modify their energy usage as a result.

Along with the oversupply created by new technologies, the demand related issues outlined above have combined to form a perfect storm.

### **Weathering The Storm**

"Historically, companies would have said, 'We're just going to weather the storm,' but this storm isn't just going to go away," said Les Gombik, managing partner in Caldwell Partners' industrial practice. "There aren't going to be sunny skies for a very long time. Companies have to be able to get through to the other side, and to make it there, they're going to have to operate very differently."

ARC Financial's chief energy economist, Peter Tertzakian, has said that, "In the oil and gas industry we are seeing the biggest changes in 100 years, the most since the industry migrated to rotary drilling technologies in the early 1900s." He believes that, "The situation is Darwinian; the fittest survive by innovating and operating differently. In the end the strong will get stronger."

But what does operating differently within the oil and gas space actually mean? First, it's critical to understand that the energy industry is founded upon dissimilar principles to those of most sectors. In the majority of industries, companies must offer the best product or service to come out on top. In oil and gas, however, an enterprise must be able to produce energy for less than the going price in order to make a profit - and, provided it can do that, there will usually be buyers in the wings. With new technology keeping energy prices down, companies are struggling to sustain themselves, and the unlikelihood of a rebound to

prior heights any time soon means out-of-the-box thinking is required to ensure survival in times of adversity.

At Caldwell Partners, we believe survival will involve shifts in corporate culture, mindset and leadership, along with an understanding that innovation is not always about inventing something new - sometimes, it simply boils down to revamping existing attitudes and processes to transform operations.

Andrew Swart, partner at Monitor Deloitte agrees: "Companies often get trapped into thinking that innovation is just about technology and R&D. In fact there are multiple ways in which organizations can innovate including their business models, networks, processes, organizations and how they engage with stakeholders to name a few. Serial innovators innovate in multiple areas and put the organizational systems and resources in place to make this culture of innovation sustainable."

### **Purpose And Urgency**

At Caldwell Partners, we assess companies' teams to determine whether they have the right people in the right roles. For enterprises in the oil and gas sector in particular, this means gauging whether they are in an optimal position to weather the storm, personnel-wise - and, if they are not, bringing in executives who can truly innovate and create a new reality during times of adversity.

Of course, many energy companies - particularly those that were over-leveraged with debt before prices began to fall - are currently in survival mode. In short, this means they are too focused on getting through the next couple of weeks or months to have the ability to think long-term. When assisting enterprises in this situation, Caldwell Partners takes a two-pronged approach by first helping to figure out a way to prolong survival (often by bringing in a new CFO to make emergency cuts), then shifting the focus to creating a more long-term plan once the week-to-week instability has lessened. Meanwhile, for companies in a more stable position, Caldwell jumps straight into finding innovators who can take these enterprises to the next level through innovative thinking and a departure from the norm.

Innovation is often associated with risk-taking, and this connection can spook executives who operate within

risk-averse sectors such as the energy space. The idea of avoiding risk at all costs is just one of the “old reality” ways of thinking that does not have a place in the future of the industry. Rather than shying away from risk altogether, companies should create cultures of calculated risk-taking in which failure should be accepted and not punished. After all, there is usually something to be learned from failed initiatives, and these may even pave the way for success down the road. However, this success may never be realized if employees are too afraid to take risks, which is why nurturing a pro-innovation corporate culture is so important.

“This is not about how we used to do things, it’s about how we will do things in the future,” Mr. Gombik asserted. “It’s about moving with a sense of purpose and urgency - and, rather than going back to basics, it’s about creating new basics. As opposed to establishing a competitive advantage,

it’s about establishing a strategic advantage over your competitors. You can’t do that with the same people and the same way you’ve always thought about things. Often, innovation is about bringing in new people and new ways of thinking to change your way of doing things.”

Companies that play a part in the energy infrastructure of North America are either aware that their industry is in crisis or are burying their heads in the sand. Those that are willing to overhaul their cultures, mindsets and operations sooner rather than later will significantly buoy their chances of survival, while those that aren’t face an almost certain demise. For companies outside of the energy sector, it’s yet another reminder of the lasting impact – positive and negative – that technological evolution can have on an industry, and the importance of embracing innovation in every facet of their enterprise.