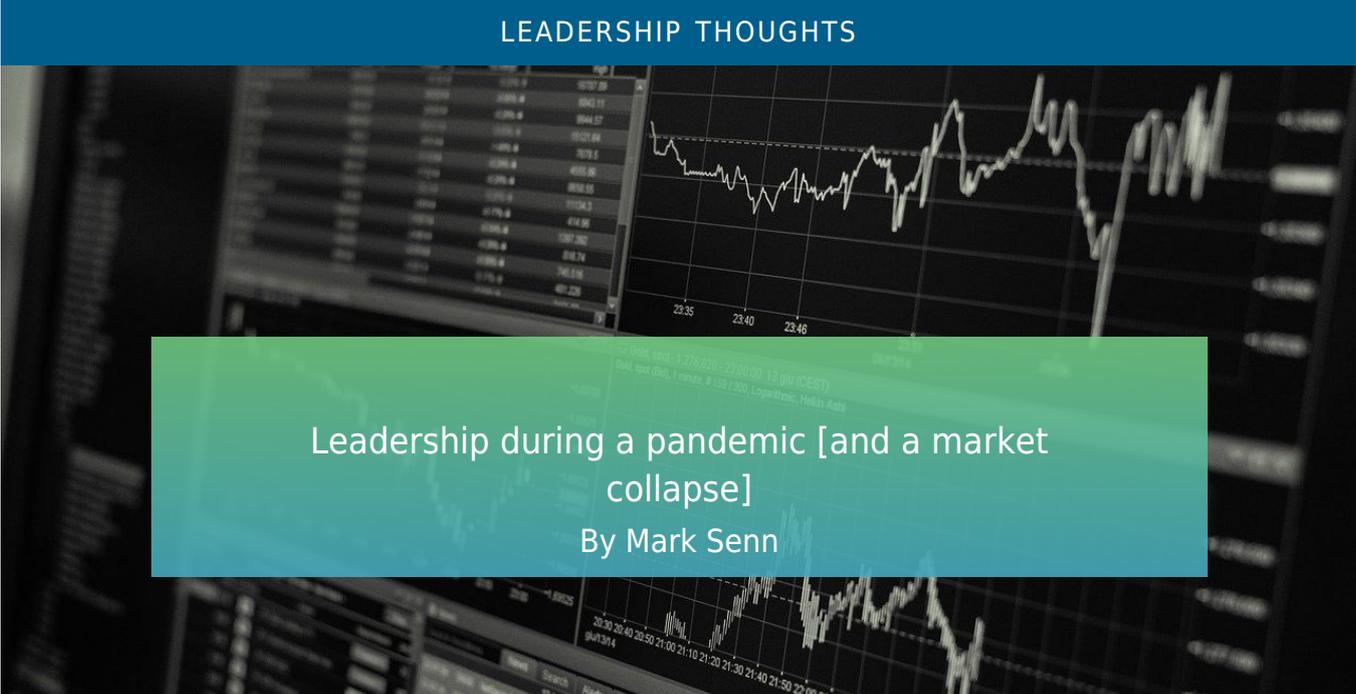


LEADERSHIP THOUGHTS



Leadership during a pandemic [and a market collapse]

By Mark Senn

Mark Senn recently returned to the United States after 4 years in Peru where he was the Chief Operating Officer of PBF (now Valero Peru). Previously, he spent 20+ years at BP in a variety of front line trading and senior leadership roles across crude oil and refined products. He has served on a number of business continuity planning committees and disaster preparedness teams across multiple business units. Here, he shares his take on leadership during these uncharted times.

Sitting at the kitchen table this morning watching Bloomberg News, as the S&P futures were prepared to open up limit down and with WTI and Brent both below \$30 a barrel, one thought kept repeating in my head, “We have seen this all before”.

Many publicly traded energy companies have seen significant valuation declines in just two weeks on the back of two events occurring simultaneously: the fast spreading pandemic Coronavirus and the lack of agreement between OPEC and Russia on production levels that led them both to turn on the taps.

With global responses to the pandemic ranging from panicked grocery shopping and social distancing to travel restrictions, borders closings and 15-day “lockdowns”, it is an extremely stressful time for energy leaders. But we truly have seen this all before. This is not the first pandemic to impact the sector (think bird flu and SARS), nor is it the first time the Saudis have increased production to gain market share (multiple times).

We will get through this but now, more than ever, organisations need leadership. While there is no silver bullet or magic wand, I believe there are three key areas leaders need to focus on in the weeks and months ahead:

- Pandemic response and business continuity
- Human impact and resource requirements

- Market opportunities ahead

Pandemic response and business continuity

At this point, it is difficult to say how long COVID-19 will impact the demand side. While it appears that China has slowed the rates of infection, Europe is just coming to terms with the spread of the disease. Here in the United States, the slow start on testing has impacted the ability to gauge the impact.

In that context, many organisations have already enacted their emergency response plans, pandemic plans and business continuity plans. A strong firm can many times “get ahead” of the problem and act in advance of government mandates. Unfortunately, trying to create these plans during a crisis is incredibly difficult – it is hard enough as a leader with a business to run to carve out the time in normal circumstances.

If response plans are not yet in place, here are some key areas to consider for your organisation:

- **Use of technology**: This is one of our greatest allies. As we distance ourselves to avoid the spread of the disease, technology can help organisations remain connected like never before. It is critical to understand how all the systems ranging from deal entry to exposure to invoicing can be accessed remotely and how they will perform with that remote activity. Also, it is critical that we take the steps to ensure that all recording requirements, document retention and legal holds will be met if employees are working remotely. The use of video conferencing should be explored to help teams remain “connected” if they are normally situated together.
- **Physical spaces**: Ramping up the protocols for cleaning and disinfecting common areas in the office should be a given at this point. Consider splitting teams into two distinct locations if working from home is not a possibility to lower the chances of infecting the entire organisation. If your organisation works in shifts, pay attention to shift changes as a time of increased risk for cross contamination.
- **Planning and simulating**: This is an invaluable area to address when the current crisis resolves. If the organisation is lacking plans, take the time to create them. One common mistake is to just draft plans and put them on the shelf. It is important to test them and simulate them on a periodic basis so that you are ready the next time around (because there will be a next time). Finally, it is essential that you capture the lessons learned from this crisis and develop an action plan for where things did not go as planned.



Human impact and resource requirements

This is an incredibly stressful time for all organisations but it is particularly amplified in the energy space given the current market conditions. It is crucial as leaders that we don't forget that everyone on the team is dealing with not only the challenges of the job but also with elderly parents, children out of school and even struggling to find toilet paper at the grocery store.

It is a challenge for us all to step up and provide flexibility to employees, as they not only navigate the tough work environment but a totally new social environment as well. If you provide health coverage, sending an update on some of the little-used aspects of health plans (e.g. "teledoctors"), or even just a simple update on where they can go for benefits, will be well received.

There is another key area to consider. As you navigate the current crisis, reflect upon whether you find any areas under (or over) resourced. Times such of these will really highlight the strong (and weak) areas of the organisation. Having the right people on the team can make a significant difference to how this and future storms are ultimately weathered.

Market opportunities ahead

History tells us that the market will rebound, but the million-dollar question is when. While I would like to have that crystal ball that gives the exact turning point, there are sensible actions that organisations can take to understand their existing risks while preparing to take advantages of the opportunities that will inevitably present

themselves at the end of this crisis.

Before the market turns, it is vital to understand the blind spots of the risk metrics employed by the firm. As a simple example, the working capital employed at sub-\$30 oil is significantly less than that employed just a couple of weeks ago. Using simple volumetric limits may not capture the risk of a rebound in market prices. Conversely, I would venture a guess that a lot of Market Value at Risk (MVAR) models are struggling with the current change in market volatility. Using a combination of market risk factors is advisable, as is having leaders that can understand the true underlying risks faced by the firm through a few lenses.

Ultimately, those firms that have the resources and capital to deploy will have several opportunities to acquire assets at attractive valuations. Being ready to evaluate these opportunities and having the financial and human resources available will dictate who succeeds in the next chapter of the energy markets. Further, those firms with the appropriate risk appetite will see trading opportunities in the volatile markets.

All the things happening in today's markets are things that we have seen before and will inevitably see again. As leaders, it is time for us all to step up and face the challenges ahead.



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