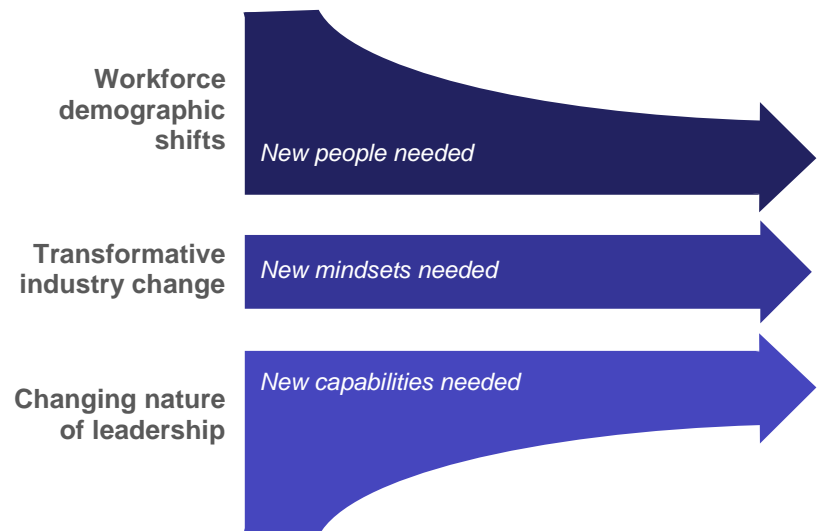# *Triple Convergence*:
Talent, Strategy, and Leadership Disruptions in a Changing Utility Industry

The utility sector is in a period of reinvention. In the coming decades, nearly the entire power generating fleet in the U.S. will have to be replaced (no small feat for a sector with approximately $1.5 trillion in assets). Almost as dramatic as this infrastructure turnover is the leadership challenge facing the industry: more than half of the workers in the sector will retire during the same time period. At the same time, industry changes are disrupting the utility business model and new ideas about leadership models are emerging. As these leadership disruptions loom, the question is: are utilities thinking about the workforce of the future in the right way?

The Strategic Challenge

It is no surprise to senior executives in the utility industry that demographics are reshaping the workforce. For the past decade or more, the industry has been inching toward an aging workforce demographic "cliff": roughly 30% of utility employees are expected to become retirement-eligible in the next five years. Retirement rates could be even higher in the industry's senior executive brackets. Without sufficient numbers of executives in middle management, companies are scrambling to create a talent pipeline and develop effective knowledge transfer systems to manage this transition.

Amidst this context, two additional forces are compounding the strategic challenge for utilities. First, the traditional utility business model is increasingly threatened. Between 2005 and 2015, the adoption of energy efficiency measures and growth in distributed generation (driven largely by a dramatic drop in solar PV prices) have led to flat-lining power consumption in the U.S. For the first time in U.S. history, we have seen a decoupling of energy usage and economic growth. Low natural gas prices, new competitors, new

Workforce demographic shifts — *New people needed*

Transformative industry change — *New mindsets needed*

Changing nature of leadership — *New capabilities needed*

The Strategic Challenge: Three major trends are converging right now to present the utility industry with a unique strategic challenge.

technologies, changing customer preferences, aging infrastructure, a regulatory environment in flux, and increased cyber and physical security threats are all putting pressure on the utility industry. "The future of the utility" is the topic on every executive's mind in the sector.

Perhaps less widely discussed is another trend: the very nature of leadership itself is changing. Many companies are eliminating hierarchies in favor of flatter organizational structures that provide greater adaptability and agility for the organization. Leaders find themselves managing more diverse, more technology-driven, and more matrixed teams. New leadership structures favor employee engagement and empowerment, rather than direct control, particularly as companies try to attract more millennial-generation employees. As thinking about leadership evolves, many companies—not just in the utility sector—struggle with how to train and develop employees, incentivize change, and shift corporate culture to adapt to new organizational models.

These issues are not unique to the utility industry, but the *convergence* of the three and the *pace* of change—accelerated by the workforce demographic shift—are presenting a "perfect storm" for many energy companies at this moment in time. Utility executives understand the trends and see the long-term implications, but still wrestle with how to reinvent their leadership and organizational structures during this time of change.

Meeting the Challenge

Duke University's Fuqua School of Business sits at the center of this conversation through its work in two academic centers: the Center for Energy, Development, and the Global Environment (EDGE) and the Coach K Center on Leadership and Ethics (COLE). In July 2016, the two centers jointly convened a group of senior utility industry executives, faculty experts, and management thought leaders to evaluate the challenges and opportunities of the converging forces impacting the sector.

By bringing this diverse group together, we assessed the strategic questions emerging at the intersection of the three trends. These questions include: what are the capabilities, individually and organizationally, that will be needed by the sector's future leadership? How can companies balance the need to preserve institutional memory while pivoting toward a very different future? Can the rapid transition in leadership and workforce help companies navigate toward a different path? The utility industry leaders that participated in this discussion noted the advantages of considering the interaction of the convergent themes (rather than in isolation) and the insights gained by exploring these challenges with leaders from other sectors who bring new ways of thinking to the discussion.

In our forum, we identified six key insights that can help guide utility companies as they rise to this strategic challenge.

- **Transformational leaders are necessary now.** Utility leaders can't wait for industry and regulatory developments to unfold before hiring the next generation of leaders; the transformation of corporate culture takes too much time and the pace of industry change is too rapid. Companies need to identify and empower transformational leaders now, and put in place a structure to support them. For some companies, this may look like a major shift in the makeup of the organization. Attracting and retaining the next generation of top talent will require many utilities to make significant shifts in corporate culture and organizational learning. Those changes must begin immediately.

- **Hire for tomorrow's utility, not today's.** The utility of the future is going to be more digital, more data-driven, more agile, and more customer-centric. This will require different skillsets and different mindsets. The definition of a "high potential" employee within the organization will look different than it has historically. At the same time, the business of today must continue. Utilities need to balance the capabilities and institutional knowledge required to execute today's business effectively, with the forward-thinking capabilities needed for the utility of the future.

- **The convergence of these issues requires that they be addressed together.** Utilities are already aware of, and responding to, each of these three issues—demographic shifts, industry changes, and changes in leadership models. However, many utilities are dealing with these issues from within separate silos. A VP of Strategic Workforce Planning might be working on workforce recruitment and development strategies, for instance, while in a separate department, a VP of Strategy is outlining new business approaches in response to the changing competitive landscape.

  It's the convergence of these three issues that necessitates a more strategic conversation. The issues can't be dealt with in silos but must be dealt with in close coordination with the Strategy, HR, and senior leadership teams. Companies need to assess the interactions of these three issues and develop a plan for organizational changes that integrates them. Further, by looking at these issues together, firms may be able to identify a broader set of levers to address them. For instance, a company might start seeing its workforce strategy as way of addressing strategic business model shifts. Or, it might begin to integrate the needs of changing leadership models into its talent pipeline strategy.

- **Diversity is a lynchpin to addressing this challenge.** Increasing workforce diversity—in age, gender, race, ethnicity, and work experience backgrounds—can help utilities address this challenge on multiple fronts. First, in order to meet the need for more workers, utilities are going to have to look farther and wider than they've looked before (witness the successful Troops to Energy Jobs initiative as an example of this).

  Secondly, as the utility business model evolves, perspectives from other industries can bring creativity and innovation to energy companies. Recruiting key executives who have experience working in other sectors like tech, consumer goods, or finance may bring new ideas and fresh thinking to the strategy dialogue. Duke management professors Rick Larrick, Jack Soll, and Jonathon Cummings have shown in their research that teams with cognitive diversity (e.g., different functional expertise, different work experiences) are "smarter" collectively than homogeneous ones. Having more perspectives in the room improves the outcomes of the entire group.

  Fostering diversity is not just about hiring different people but also, critically, about creating an organizational *culture* that values diversity. Creating opportunities for more voices to be heard, soliciting opinions from different parts of the organization, and recognizing and rewarding the input of a diverse group of employees are, for example, ways to create a culture that values diversity.

- **Flatter organizations will require more contextual leadership and more relational leadership.**
  Leaders face a particular challenge in guiding organizations and employees through times of strategic change. When addressing workforce demographic shift, for instance, leaders need to be able to relate effectively across not only generational divides, but also worldview divides, so these transitions do not turn into competitions but are instead more like smooth relay team handoffs. Similarly, during such transitions, it is unlikely that the members of any one constituency will truly understand the range of existing and emergent issues that need to be confronted and addressed.

  Under such conditions, leaders need to be sure to sustain strong trusting relationships with a stunningly diverse set of groups. Sometimes this involves helping foster culture change that implies shifting core values, beliefs, and practices—some of which may have been embedded in

the organization for decades. Building a shared understanding of the challenges and changing requirements is essential to forge inclusive identities and congruent values and practices both during the transition and for after the transition.

Under such conditions, the role of leaders in helping others to make sense of complex, rapid, and dramatic change requires excellent communication skills and a recognition that the "sense-making" role of leadership is perhaps the most important role. This is particularly challenging; research by Duke management and leadership professors Sim Sitkin and Allan Lind have found that the leader's sense-making function (what they call "contextual leadership") is in fact the area in which leaders perform the most poorly—across industries, management levels, and around the world. So, this most essential leadership skill as utilities navigate this triple convergence is also one that is most likely to be lacking.

▪ **More focus on these issues is needed by the C-suites and boards of utility companies.** Many utility companies are thinking about demographic challenges in their HR department. The convergence of these issues, though, has far-reaching consequences for the enterprise as a whole, and must be elevated to discussion at the CEO and board level. The triple convergence— workforce, business model, and leadership—will inform decisions that affect the future organizational culture, M&A strategy, and executive hiring.

Moving Forward

It's clear that this "triple convergence" presents one of the most critical strategic challenges that utilities will face in the coming decade. Just managing the transition of a retiring workforce will require utilities to act quickly to transform their workforce. At the same time, the response to these issues will have long-term impacts that will affect the organization for many years to come.

There is not a one-size-fits-all solution to managing this organizational challenge, but the above insights can give utility leaders a framework for how to approach these challenges in an integrated and deliberate way. By developing an integrated strategy for addressing these challenges simultaneously, utilities can reinvent themselves for the next millennium. Just like the power generation fleet, the utility workforce of the future will look very different than it does today.

Authors

Sim Sitkin, PhD is the Michael W. Krzyzewski University Professor and founding Faculty Director of the Fuqua/Coach K Center on Leadership and Ethics (COLE) at Duke University's Fuqua School of Business. COLE leverages the resources and experiences of leading academics and practitioners to respond to today's need for ethical leaders and their leadership development. For more, see https://centers.fuqua.duke.edu/cole/.

Dan Vermeer, PhD is Associate Professor of the Practice and executive director of the Center for Energy, Development, and the Global Environment (EDGE) at Duke's Fuqua School of Business. EDGE works to prepare current and future business leaders to understand and respond effectively to the interrelated global dynamics of energy, development, and the environment. For more, see https://centers.fuqua.duke.edu/edge/.

Katie Kross is managing director of EDGE.