McKinsey & Company

# The State of Energy Organizations 2024

# Contents

# Energy organizations in transition

Organizations in the energy sector are evolving in response to the energy quadrilemma. With critical choices and challenges on the horizon, making proactive moves now could determine future success.

*This article is a collaborative effort by Robert Belanger, Ignacio Fantaguzzi, Christopher Handscomb, Jesper Ludolph, and Phil Quadri, representing views from McKinsey's Global Energy & Materials and People & Organizational Performance Practices.*

The coming decade will be a defining moment for the global energy system. Institutional and public interest is at an all-time high, driven by the ever-increasing need for affordable, reliable, secure, and competitive energy. Companies must navigate the task of maintaining a strong, high-return "traditional" core, while building businesses in the fast-moving, high-growth space of renewables, low-carbon solutions, power, and retail. This challenge demands bold action and innovative solutions, as we work toward a sustainable energy future that benefits our planet and our economies.

For the world, solving this energy quadrilemma will require significant investment, technological advancements, and a favorable operating environment. However, at the heart of this journey are energy organizations and their leaders. Being fast, agile, and efficient will be essential as competition for talent intensifies, integration of mergers and acquisitions becomes crucial for value creation, and generative AI (gen AI) changes the workplace as we know it.

In this report, we build on our flagship cross-industry State of Organizations research and take a closer look at the State of Energy Organizations.[1] We identify and explore four key themes for energy companies in the coming year: operating models, leadership, talent, and mergers and acquisitions, with reflective questions for organizations to consider as they navigate through 2024 and beyond.

## Choices to define the next decade

Over the past 18 months we have seen several energy companies announce strategic adjustments that reemphasize the importance of their traditional core businesses. This reflects the growing importance of energy reliability and security, as well as slower than expected cash flows from new energy businesses. Against this backdrop, companies are recognizing that now is the time to maximize value creation in the traditional business, grow cash flows, and take advantage of the high returns. However, as this momentum grows, an old question has resurfaced: business unit- or function-first for the traditional core business?

### What primary axis should be used for the traditional core?

The choice between business unit (BU)—whether asset, regional, or value chain—or function-centric as the primary organizational axis has been a hot topic for several decades, with many companies switching between these models over time.

The choice of model essentially reflects a fundamental belief about how a company creates distinctive value: on the one hand, a functional model enables you to optimize across portfolios, and drive global scale, standardization, and functional excellence. On the other, anchoring ownership in the BU incentivizes local optimization, aiming to capture value in each and every facility, with the potential to move more quickly and unlock significant growth.

Over the past year, we have seen an increasing number of companies begin to revisit this choice and we expect this to be a growing theme through 2024. To contribute to this debate, we reviewed over 20 years of McKinsey proprietary performance datasets to draw insights linking asset performance with operating model choices. We found, on average, that BU or asset-centric models have the edge in terms of operational performance, but that they can compromise on consistency and produce a wider range of outcomes on both operating cost and production efficiency.

Irrespective of the choice made, companies can also go back to basics by focusing on some fundamental step changes across their operating model: radical simplification, value-backed technology deployment,

[1] *The state of organizations 2023:* Ten shifts transforming organizations, McKinsey, April 26, 2023.

delivery through agile teaming, and other efforts to close the productivity gap.

Additionally, we are observing a trend of companies going even deeper into their operating model—reimagining both technical and nontechnical support models. Naturally, gen AI and digital will play a leading role, however, many companies are rethinking their geographic footprint, tapping into large engineering talent markets, and revisiting their operating models for technology development and deployment to ride the next technology S-curve.

**Key questions to consider**

- Do you have the right tension between a BU- and function-centric organization to deliver your ambitions?
- What are the big unlocks in 2024 that would drive performance?
- How could changes to your geographic footprint or technology operating model enable stronger performance?

## Should new energy businesses be integrated in or independent from the core?

Most energy players have ambitions to grow new energy businesses alongside enjoying continued success in their existing core. These twin objectives require winning simultaneously in very different markets, with different drivers of success and, therefore, different operating model needs. As a result, we see energy companies around the world grappling with profound questions over how to set up their organization to win in both worlds.

First, the bad news. The data shows that most corporate new business builds are not a great success. Just 16 percent of all new business builds in Fortune 100 companies since 2000 have turned out to be blockbuster successes; the remainder were partial successes at best.[2]

Overcoming these odds will not be easy and the fundamental question is how to harness the advantages of being an incumbent while providing the freedom to deliver with the agility of a start-up.

The answer is not the same for all; however, purposeful decisions are needed sooner rather than later to deliver on the growth promised to investors.

**Key questions to consider**

- At the strategic level (including capital allocation) how autonomous should your new energy business be?
- What are the right key success factors that will enable your new energy business to grow?
- What are the right architecture, corporate functions, technical support, midstream gas or trading decisions that will set your new energy business up for success?

## What are the talent and leadership needs for a new era?

The focus over recent years has been to secure specialist engineering, digital, and commercial talent to develop new businesses and capabilities. This challenge remains alive, and competition for talent continues to be fierce.

However, a new challenge of equal proportion is bubbling under the surface: the need to retain and refresh the skill base to sustain the existing core business. This challenge will grow in prominence against a backdrop of significant retirements, with 400,000 oil and gas employees in the United States approaching retirement, and the increasingly negative perception of the traditional energy sector among younger workers in some parts of the world.[3]

[2] Matt Banholzer, Markus Berger-de León, Subu Narayanan, and Mark Patel, "How industrial incumbents can create new businesses," McKinsey, November 13, 2019.

[3] "Labor force statistics from the current population survey," U.S. Bureau of Labor Statistics, 2022.