

HR & TALENT ADVISORY

Toward Net Zero — People Enablement of the Energy Transition

KINCENTRIC A Spencer Stuart Company

Executive Summary



The Energy Transition entails a fundamental realignment of the global energy economy, driven by a shift in the mix from primarily hydrocarbon-based energy to zero-carbon, renewable energy. This transition will yield a massive reduction in carbon emissions over time, to support the realization of carbon net zero aspirations¹ and, in turn, aim to limit global warming to 1.5°C above pre-industrial temperatures.² The journey to net zero is arguably one of the most complex and far-reaching undertakings attempted by humankind thus far, requiring unprecedented investment and innovation across countless disciplines in a multitude of sectors. Ultimately, the Energy Transition is an innately human journey, and it is people who will enable the monumental task at hand. So, the crucial initial focus for organizations should be ensuring there is a common understanding of Energy Transition fundamentals; aligning on strategic aspirations and the people imperatives that will enable them; and deliberately shifting toward the right culture and mindset to catalyze high-impact, fit-for-purpose action.

¹ Yergin, p. 388. It should be noted that carbon net zero does not equate to zero carbon; instead, "net" means minimizing emissions and balancing remaining emissions through an "equivalent amount of carbon removal" through, for example, carbon capture from tree planting.

² While below 1.5°C remains the aim, there is now growing consensus that a compromise position of below 2.0°C, as per the Paris Agreement (IEA & IRENA, p. 5), may be a more feasible goal.

Energy Transitions in Context

Today's Energy Transition is certainly not the first. Since the Middle Ages, the world has seen several. The protracted transition from wood to coal started in Britain in the 1200s and lasted until the early 1900s, by which time coal finally supplied more than half of the world's energy. In the United States, as late as 1870, wood provided 70% of all energy, but this shifted to 70% coal by 1900.³ The next transition, from wood and coal to oil, took more than a century, from the Pennsylvania oil discovery in 1859 through the 1960s, when oil overtook coal as the world's leading energy source. In the United States, this involved a shift from 70% coal in 1900 to 70% oil and gas in 1960.⁴

The energy transition is undoubtedly the most complex and far-reaching that humankind has faced, charged by compelling climate change data and insights from recent decades, which are prompting an increasingly strong compulsion to act. Of course, the Energy Transition is far broader than just a climate change play, involving instead a rich interplay of not just environmental but also technological, political, economic, regulatory and social factors.

Since 1990, the Intergovernmental Panel on Climate Change (IPCC), a United Nations body, has been issuing assessment reports on climate change. Over the years, these reports have highlighted an increasingly stark outlook in relation to climate change. Of note in 2007, in the IPCC's fourth report, was a declaration that humankind was "very likely" responsible for climate change.⁵ In that same year, the IPCC and Al Gore were awarded the Nobel Peace Prize for their work on climate change and its implications for humankind, highlighting a "planetary emergency" that we were facing.⁶ The subsequent fifth report, in 2014, presented an even starker scenario. This served to energize the international community around the target outcomes of the 2015 Paris Climate Conference (COP21), which would result in the seminal international treaty on climate change, the Paris Climate Agreement, coming into

effect in 2016.⁷ Since Paris and beyond COP26 in Glasgow,⁸ we have seen dramatically increasing momentum around the need for change. At first it was believed the onus would fall on those in sectors that can most positively move the needle on carbon emissions, such as oil and gas exploration and production companies, but it has now become clear that this is a universal challenge, to be tackled by energy producers and consumers alike.



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The sustainability agenda has also been a significant catalyst for change. For example, in relation to investment strategy and the reallocation of capital, there has been increasing deliberateness – and indeed overt activism – around sustainability. A noteworthy case is the stance taken by BlackRock, the world's largest investment company with \$7.5 trillion under management. In recent years, they declared that moving forward they would prioritize sustainability above all else in their investment approach.⁹ This aligns with the growing significance of Environmental, Social and Governance (ESG) reporting,¹⁰ holding companies to account on a broad range of issues, such as carbon emissions, waste management, biodiversity, human rights, selling practices, business ethics, DE&I and culture.¹¹

3 O'Connor, p. 3.

4 *Ibid.*

5 Yergin, p. 377.

6 Australian Broadcasting Corporation.

7 United Nations, 2022. The signing ceremony took place on 22 April 2016.

8 Conference of the Parties 26, which took place in Glasgow, Scotland, in 2021.

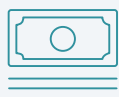
9 Yergin, p. 385.

10 Atkins, 2021.

11 Deloitte, 2021.

Implications of the Energy Transition

As we consider implications, there remains considerable debate regarding the time frame within which the Energy Transition needs to occur. Flagship 2021 publications from the International Renewable Energy Agency (IRENA)¹² and the International Energy Agency (IEA)¹³ present pathways to achieve carbon net zero by 2050. This time frame is based on various climate scenarios that require the achievement of carbon net zero by mid-century to stand a chance of achieving the 1.5°C limit, or at the very least 2°C. Accordingly, most countries have aligned to the 2050 time frame when submitting their emissions reduction targets and net zero pledges, which take the form of submissions of Nationally Determined Contributions (NDCs) to the United Nations Framework Convention on Climate Change (UNFCCC).¹⁴



The Energy Transition will require unprecedented investment across countless disciplines in a multitude of sectors.

Many commentators, including renowned energy specialist Daniel Yergin, now suggest that 2050 may be too far away, instead proposing acceleration of the transition to 2030 to make targets achievable.¹⁵ Others suggest that halving emissions this decade (by 2030) will be crucial to keeping 2050 net zero and 1.5°C aspirations in reach.¹⁶

The Energy Transition will require unprecedented investment across countless disciplines in a multitude of sectors.

McKinsey has estimated total required investment to deliver Energy Transition aspirations by 2050 at (USD) \$275 trillion. At an average of (USD) \$9.2 trillion per year, this represents (USD) \$3.5 trillion more than current expenditure on physical assets for energy and land-use systems. This expenditure is expected to be front loaded, peaking at 8.8% of global GDP between 2026 and 2030.¹⁷

The myriad additional implications include the creation of about 200 million jobs and loss of about 185 million jobs,¹⁸ of which 12.3 million jobs in the US alone are linked to the oil and gas industry;¹⁹ large-scale reskilling, upskilling and cross-skilling; growth in demand for resources such as lithium, cobalt, vanadium and others to aid decarbonization;²⁰ the need for significant innovation in enabling and emerging technologies;²¹ and opportunities to support the Energy Transition through, for example, decarbonizing products, processes, infrastructure or support services.

The implications of the Energy Transition will vary significantly by country, sector, industry and indeed organization, dependent on the unique context of each one. The experience of each will by no means be consistent nor equitable – fossil-fuel-rich countries, for example, will be required to undertake a far more extensive transition than those already leveraging effectively the surge in demand for renewables. Conversely, many developing countries continue to struggle with “energy poverty,”²² where net zero might be considered a remote, luxury problem. Additionally, various factors, such as the regulatory framework, speed of transition, access to investment, and availability of human and other resources, will determine the strategic imperatives to be embraced to facilitate the transition.

12 IRENA, 2021.

13 International Energy Agency (IEA), 2021.

14 *Ibid.*, p. 31.

15 Yergin, p. 391.

16 Arcadis, p. 2.

17 McKinsey 2022, p. viii. This covers the period from 2021 to 2050 inclusive.

18 *Ibid.*, p. viii.

19 Yergin, p. 392.

20 KPMG, p. 9.

21 Inter-American Development Bank, p. 5. “Emerging” can be seen to include electric mobility, battery, storage, energy efficiency, hydrogen, and demand management, to name a few.

22 Yergin, p. 407.

\$275 trillion (USD) estimated by McKinsey as the total level of investment required to deliver Energy Transition aspirations by 2050

McKinsey, 2022. *The Net-Zero Transition: What It Would Cost, What It Could Bring.*

\$9.2 trillion (USD) per year on average required to be taken out of global GDP to fund the Energy Transition

McKinsey, 2022. *The Net-Zero Transition: What It Would Cost, What It Could Bring.*

8.8% of global GDP as the peak of expenditure on Energy Transition, occurring between 2026 and 2030

McKinsey, 2022. *The Net-Zero Transition: What It Would Cost, What It Could Bring.*

200 million jobs globally to be created to resource the Energy Transition, many in new or evolving industries and disciplines

Yergin, D, 2020. *The New Map: Energy, Climate, and the Clash of Nations.*

50% increase in the world's total renewable-based power capacity estimated from 2019 to 2024

IEA, reported by SP Global.

22 gigatons (Gt) estimated by the OECD as likely global energy-related CO₂ emissions in 2050 despite existing net zero pledges

OECD & IEA, 2021. *Understanding Countries' Net-Zero Emissions Targets.*

3% global increase in energy efficiency per year targeted by countries, businesses and organizations in the Three Percent Club

United Nations, 2021. *Theme Report on Energy Transition.*

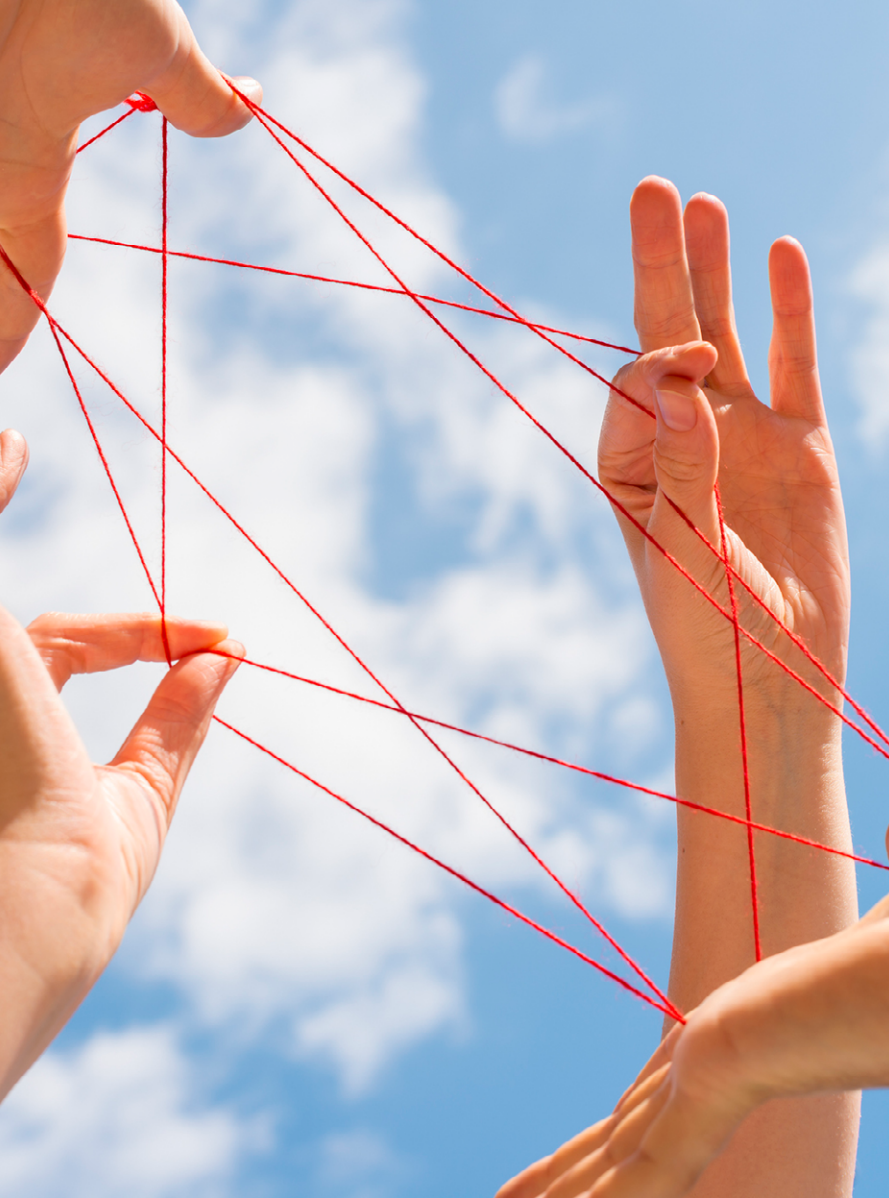
185 million jobs globally expected to be lost as a direct result of the Energy Transition

McKinsey, 2022. *The Net-Zero Transition: What It Would Cost, What It Could Bring.*

400 clear milestones developed by the IEA, spanning all sectors, on what needs to happen and when to deliver the Energy Transition

IEA, 2021. *Net Zero by 2050: A Roadmap for the Global Energy Sector.*

People Enablement at the Core



At Kincentric, we believe people enablement lies at the core of successfully navigating the Energy Transition from a position of differentiation. It is the very nature of the response to the Energy Transition that can see an organization within its own unique context either thrive, as it builds and leverages competitive advantage, or languish, as it faces seemingly insurmountable challenges. And, in an age of increasing social activism, employee activism, the “Talent Uprising”²³ and the “Great Resignation,” organizations need to be deliberate and positional in their response.

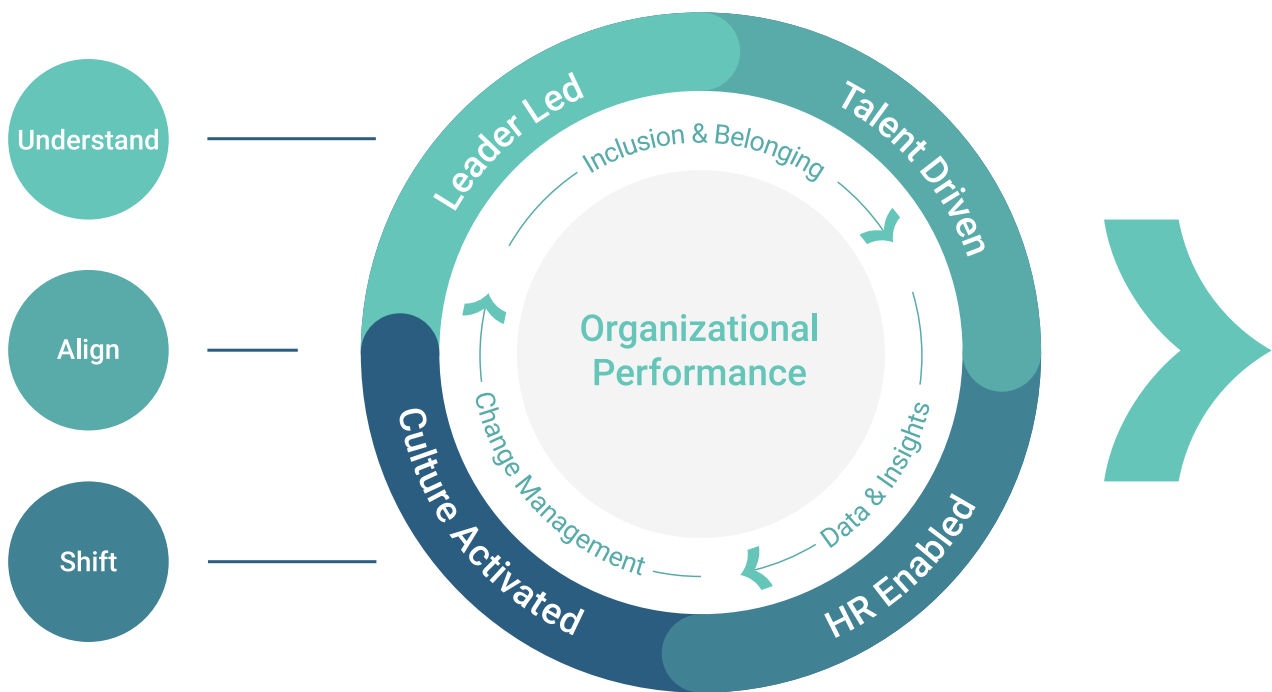
At a macro level, the Energy Transition entails a fundamental realignment of the global energy economy, while at an organizational level, the intricacies and complexities are more nuanced and contextual. At both levels, the transition requires a paradigm shift²⁴ with a new taxonomy, new language, new ways of conceiving the world and new ways of working. The other strategic people challenges include driving large-scale innovation at pace; incubating the right talent through upskilling, reskilling and cross-skilling; developing leaders with the right competencies and outlook; navigating complex change; optimizing employee experience and engagement in an increasingly competitive talent landscape; and so many more. Collectively, these represent an ecosystem of challenges to be viewed and addressed through a people enablement lens.

Ultimately, the Energy Transition is an innately human journey, and it is people who will enable the monumental task at hand.

23 MacArthur, 2021. In this article, it is argued that the pandemic “has led to a power shift and resulted in a ‘Talent Uprising,’ creating a world in which employees have a stronger hand in dictating the terms of employment, allowing them to demand more flexibility in how, when and where they work; increases in salary and benefits; and even changes in culture and progress in DE&I initiatives.”

24 Kuhn, 1962. This is Kuhn’s definitive work on paradigm shifts.

Our People Enablement of Net Zero (PENZ) Approach



To support organizations with navigating the Energy Transition, Kincentric has developed the People Enablement of Net Zero (PENZ) model. This model leverages our Integrated Solutions Framework and our DADA (Diagnose, Align, Design, Activate) consulting model, together with our deep expertise in People and Talent Strategy, Board and Executive Alignment, Leadership, Culture, and Diversity, Equity & Inclusion. The PENZ model includes, as the starting point, a deliberate and structured approach to ensuring people enablement fundamentals are addressed, tailored to an organization's unique context and progress thus far with the Journey to Net Zero.

The crucially important initial focus for organizations should be ensuring there is a common understanding of Energy Transition fundamentals; aligning on strategic aspirations and the people imperatives that will enable them; and deliberately shifting toward the right culture and mindset to catalyze high-impact, fit-for-purpose action.

Indicative activities, tailored to the organization's context, may include the following:

1 Understand the Energy Transition

- Undertake stakeholder mapping and consultation
- Run focus groups to hear employee perspectives and assess their understanding of Energy Transition fundamentals
- Segment the organization and build personas to localize and tailor messaging
- Agree on deliberate and coordinated language and messaging
- Communicate via appropriate channels, including via town halls down to more localized, smaller-scale forums as appropriate

2 Align leaders on Energy Transition aspirations and the people enablement agenda

- Align on corporate aspirations regarding the Energy Transition
- Align on people imperatives that will enable these aspirations
- Consider how people strategy, talent strategy and other elements of the people agenda need to evolve or transform
- Leverage leadership assessments and development interventions, including targeted microlearning and nudges within the context of an integrated leadership framework, to validate, drive and reinforce the right leadership behaviors and broader leadership alignment
- Ensure the HR function has the capabilities – and capacity – to partner with leaders across the organization to address the people implications of the Energy Transition agenda

3 Shift organizational culture and mindset

- Determine how the organizational culture needs to evolve from its current state to meet the challenges of the Energy Transition
- Determine the mindset shift that is needed within the context of the target culture, and to enable individuals to be future-ready
- Identify the support leaders and the business need for successful delivery of the Energy Transition, and use these insights to inform the change management strategy
- Undertake culture transformation to shift the organizational culture and mindset, and ultimately embed the new “Way” for the organization

Once people enablement fundamentals are addressed, attention should then turn to tackling broader people challenges through our Integrated Solutions Framework.

Key Takeaways

In closing, there are five key takeaways to feed further discussion on the topic and deliberations in relation to next steps:

1

The Energy Transition entails a fundamental realignment of the global energy economy.

2

It is one of the most complex and far-reaching undertakings ever attempted by humankind.

3

The myriad implications of the Energy Transition include an ecosystem of challenges to be addressed.

4

The Energy Transition is an innately human journey that will be enabled by people.

5

Understanding what the Energy Transition is; aligning leaders on Energy Transition aspirations and the enabling people agenda; and shifting organizational culture and mindset are crucial before other people challenges are tackled.

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Contact us to talk about how we can help.

About Kincentric

Kincentric, a Spencer Stuart company, helps organizations unlock the power of people and teams to ignite change and drive better business results. With decades of experience and specialist expertise in areas such as culture; employee engagement; leadership assessment and development; HR and talent advisory; and diversity, equity and inclusion, we use data-driven insights to architect solutions that add value, enhance agility and increase organizational effectiveness.

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