After Tough Year, Hess CEO Remains Focused

By Tom Fowler

It has been a rough 12 months for John Hess, chief executive of oil and gas company Hess Corp. A tangle with activist hedge fund Elliott Management Corp., which demanded a board shake-up and spinoff of Hess’s lucrative U.S. shale businesses—cost Mr. Hess the chairmanship of the company his father founded more than 80 years ago.

For the first time since taking the reins at Hess in 1995, he now finds himself facing a board nearly wiped clean of longtime allies.

Hess was once an international player with refineries and exploration projects around the globe, as well as hundreds of gasoline stations in the eastern U.S. But after selling off more than $7.8 billion in businesses over the past year, with more on the cutting block, it has become a much smaller company, with a $25 billion market capitalization. It is now focused on a few large oil and gas projects, including North Dakota’s Bakken Shale.

Last spring, the company’s vow to streamline sent shares climbing more than 60%, but prices have since drifted back down.

In his first interview since the board overhaul last May, the 59-year-old CEO was more eager to talk about oil production than about the proxy fight. He did offer advice for other executives facing activist investors and had recommendations for U.S. energy policy. Edited excerpts:

WSJ: Has it been difficult selling off parts of a business that your father built?
Mr. Hess: My father started driving a truck in 1933 and built a refining and marketing business. That was the right strategy for that time.

Since I have been CEO, we have been transforming our company to a pure-play exploration and production company, which is the right strategy for this time.

WSJ: You’ve said you hoped one of your three sons would take over the family business. Is that era over at Hess?
Mr. Hess: We are a public company, we work for shareholders and we’re going to do what’s right for those shareholders. In terms of our children, my wife and I have tried to instill values in them that say ‘pursue your passion and also work hard, and if you do both you’ll find happiness.’ If their passion happens to take them to Hess, they will have to compete on the same terms as anyone else, because we’re a public company.

WSJ: Do you feel more pressure to perform given the new board leadership?
Mr. Hess: It hasn’t changed. I’ve always had a sense of urgency and I will continue to have a sense of urgency.

WSJ: Were you ready for a strong, outside challenge to your management?
Mr. Hess: I think I learned some lessons in that regard. I was focused on our transformation to a pure-play exploration and production company, to running the business and making sure we executed our plan. I could have done a better job communicating our plan to our shareholders, engaging them and also soliciting their feedback.

As much as we had a sense of urgency about executing our plan, the events of 2013 gave us a laserlike focus on carrying out that plan. Our shareholders are benefiting from our plan and are generally pleased.

WSJ: But didn’t the company miss earnings expectations for the past two quarters?
Mr. Hess: As we have moved our company into a pure-play E&P, there’s a transition period. Expectations are set by Wall Street analysts, not the company, so there’s a transition period. Expectations will take some time.

WSJ: What’s your advice for other leaders facing activist investors?
Mr. Hess: Have the right strategic plan and make sure you have stress-tested it. It is also equally important to make sure you communicate your plan to your constituents, especially your shareholders, and make sure they understand it, that they have had the chance to give you feedback.

WSJ: You’ve been named to take part in a federal review of U.S. energy policy. What are your personal priorities?
Mr. Hess: We have a wonderful treasure of natural gas in the U.S., maybe 80 to 100 years’ worth. I think that maybe upward of 10% of our supply might be going to exports, and in addition another 10% incrementally to petrochemical projects. This will be great for our economy and great for jobs.

We have to allow crude oil exports. The U.S. crude oil price discount is not being passed to consumers at the pump. Gasoline prices in this country are trading at world gasoline price equivalents, partly because we have imports of oil and exports of refined products, so the gasoline price is a world price. If anything, by putting U.S. crude on the world market it would help bring crude prices down.

America has 5% of the world’s population but 20% of the energy consumption, so it really has a duty to lead in energy efficiency. How might this look? If we were to convert our cars to be more efficient and use gasoline-electric hybrids we would save 3 million barrels a day, or 30% of our gasoline usage. That’s a prize of about $100 billion a year that’s well worth fighting for.

A similar opportunity or prize exists in buildings and our stationary use of energy in terms of conservation. Energy policy shouldn’t just focus on supply but also on investing in energy efficiency.