flying higher in stormy weather

Developing the New Leaders for Aviation Success

EgonZehnder

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About the study

Few industries today command the attention and carry the clout on a global scale as the aviation industry. Not only is this legendary field exciting, challenging, and potentially lucrative, but it plays a critical role in the economy in terms of jobs, global connectedness, and commerce. Yet this proud industry is buffeted by the winds of change.

Today, the aviation industry faces an irreversible dynamic forcing every airline, large or small, new or established, local or global, to examine each aspect of its business at a fundamental level. The global airline industry is undergoing structural changes brought about by market volatility, deregulation, challenges from new entrants, and rising travel markets such as in Asia, Latin America or parts of Africa. Leadership is wrestling with fundamental questions concerning strategies, business models, and operational approach. While equilibriums are a long way off, those who are not keeping pace with these waves of change are likely to become extinct. To infuse innovation, creativity, and agility, substantial change programs are indispensable. This will require CEOs and leaders who can foster a culture of teamwork, proficiency, openness, and creativity.

Over the past year Egon Zehnder has conducted an extensive research project involving direct interviews with more than 25 CEOs of major airlines around the world, and with leading industry thinkers. In these in – person dialogues we explored the key challenges facing aviation leaders today. In parallel, together with the International Air Transport Association (IATA), we have also conducted an extensive survey with more than 100 HR executives from the industry.

Our findings speak to a new competitive landscape. In a time of great change, there is a strong consensus that new skills and approaches are essential in developing the talent needed to compete.

This paper outlines the key changes confronting the industry, presents approaches for companies to thrive in the new competitive landscape, describes the new leadership skills and competencies required for success, and details how winners will recognize the strategic role of talent and human resources as a catalyst of change.

Executive summary

Our findings speak to a *new competitive landscape.* The global airline industry is undergoing structural changes brought about by market volatility, deregulation, and challenges from new entrants. These great changes confront leadership with fundamental questions concerning strategies, business models, and operational approach. Success will depend on the ability of each company – new or established – to develop, articulate, and execute on a distinctive and disciplined business model.

We have identified *six belief systems* that are shaping the industry: the belief in scale, the niche approach, the networked approach, the consumer strategy, the low – cost proposition, and the integrated model (page 16). Fully adopting a new and complete business strategy means more than simple short – term fixes. This clear and disciplined strategic focus must be formed from the top down, be understood by every employee and stakeholder, and govern every detail of corporate action. Innovation, creativity and agility, and the alignment of the entire business according to a specific strategic purpose are keys to competitiveness.

Adopting and leading in this new climate will *force CEOs out of their comfort zones* as they will need to practice new skills and display new behaviors. This calls for new leaders with the ability to manage transformational change and to recruit and develop a new group of leaders to meet these various challenges. Future leaders will need to foster a culture of teamwork, proficiency, openness, and creativity. That's because successful airlines will be fueled by well – executed change at all levels.

The broader challenges and required skills discussed to date apply far beyond top leadership. Companies will have to prioritize the s*trategic development of new talent at all levels.* Even successful airlines will have to challenge the status quo and open up to new practices. Airlines will need to seek greater diversity in terms of experience, talent, and identity. They will need to pay more attention to the talent pipeline. And they must create a forward – looking succession plan. All these practices will produce long – term and systemic benefits.

1

Surveying the competitive landscape of the aviation industry

Drivers of change

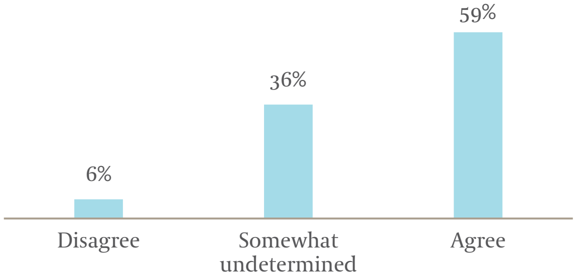
> "You need a clear strategy. You have to know where you're going. The answer is the ability to innovate, transform, change, and modernize. The next group of aviation managers will not be thinking about planes. They will be thinking about what customers want, and how to design a business around that. Airlines will become global brands participating well beyond their traditional home markets." Quote by participating CEO

In our interviews with CEOs of leading airlines the following key industry trends have been identified:

New rules of the airline game. A growing global trend towards deregulation continues to create new opportunities and risks, reshaping many basic assumptions that have guided successful airlines in the past. Deregulation of travel markets and the emergence of new growth markets have led to thriving low – cost competitors pursuing different approaches to established players. Many of these players are benefiting from highly local approaches tailored to their home field. (Table 1)

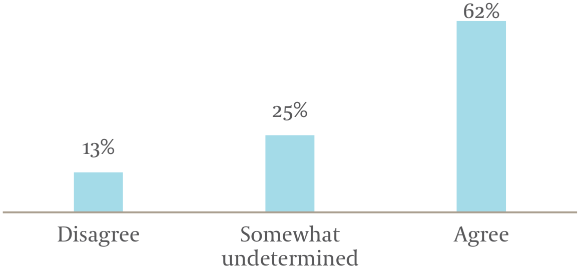
Challenges to existing global alliances and pressures for continued consolidation. Global alliances today are a constant in the worldwide travel industry and will continue to play an important role. Substantial overcapacity and structural cost issues of legacy carriers are creating pressures on existing airlines to consolidate as a way of benefiting from increasing scope and more rational use of resources. Having said this, global alliances are also suffering from increasingly fragmented and less proficient members, making it harder to deliver value for members. In fact, none of the three large global alliances (Skyteam, STAR Alliance, and OneWorld), though to different degrees, seem to be fully achieving their objectives. Large upfront and ongoing investment capital is becoming more difficult to justify. It does not come as a surprise that one can see an increasing number of bilateral agreements that deliver directly measurable value to partnering airlines. (Table 2)

“Deregulation will accelerate” (Table 1)



CEO study 2011/12

“New airline partnerships will arise” (Table 2)



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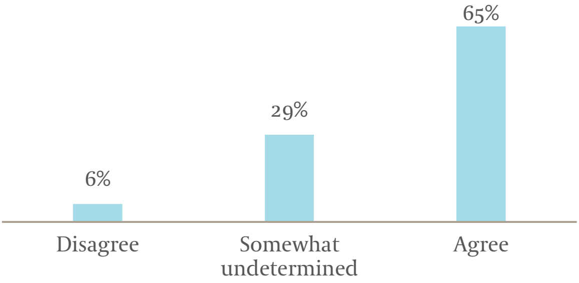
Greater use of financial engineering strategies to drive growth and performance. Increasingly, airline growth and success is based on the use of superior financial strategic thinking. In particular, capturing partial benefits from attractive travel markets through shareholding investments will become an important strategic thrust for an increasing number of international airlines. (Table 3)

While smart use of investment capital to build and maintain fleets, develop new markets, and execute strategy has always been important, growth opportunities of the past were more forgiving. Today's challenges have made financial sophistication a necessary factor merely to compete, with superior capital access to finance a potential advantage.

The growth of sustainability as an opportunity represents a potential differentiating factor for airlines. The topic of sustainability, as a cultural touch point as well as a series of operational constraints, has become an irreversible reality and will continue to create new challenges both large and small. In everything from the need for greater efficiency and a better approach to fuel costs, up to managing customer's perceptions about how an airline is tackling this topic, industry leaders will find a growing need to factor in sustainability concerns into every decision. We see this as a potential opportunity for those players who address the issue proactively and comprehensively. (Table 4)

Substantially new expectations from consumers. Most experienced consumers consider air travel to be a commodity service from which they have a wide selection among flight options to a myriad of destinations. The growth of information technologies puts control in the consumer's hands when finding the best fares or instantly broadcasting bad experience; new technologies also turbo – charge reward programs and make it easier for competitors to bundle other services to travelers. These are all reshaping expectations. As a result, airlines are finding that winning loyalty from informed customers is a costly game.

“Strategic M&A will increase as a means to strengthen market position” (Table 3)



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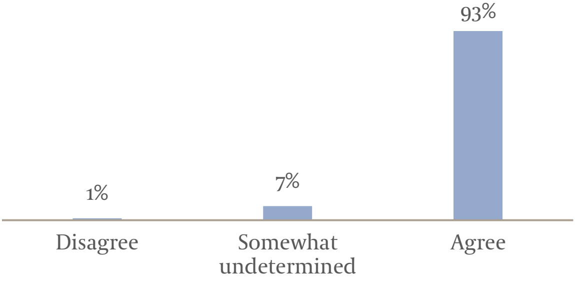
“The whole air transport sector needs to proactively drive a joint sustainability agenda” (Table 4)



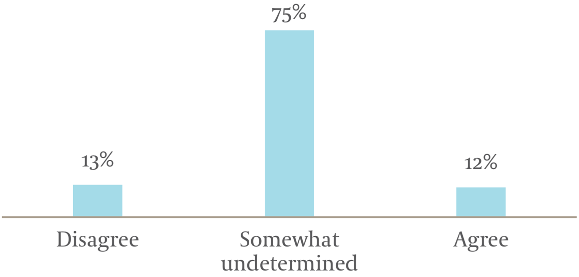
HR survey 2011

Similarly, customer service propositions are demanding for airlines in view of the myriad of variables that impact a “seamless” customer experience. Specifically, the service propositions of airlines typically lack a comprehensive end – to – end control when it comes to value chain partners such as security check – in, immigration control or baggage handling. Emotionally charged as a consumer experience, the overall image of airline travel tends to be rather negative. It appears that there is frustration around this image resulting in disillusioned inactivity or reactive behavior.

The answers to all these challenges must be found internally. There is skepticism among CEOs that the answers are to be found purely through political maneuvering, for instance. One can assume that this skepticism results from frustration learned over many years. It also shows that airlines might be well advised to select a more proactive versus defensive approach to developing their agenda. (Table 5)

“More powerful lobbying connecting the dots of the whole sector will help to switch from less proactive mode into driver seat”

(Table 5)



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Cumulatively these challenges combine for a new competitive landscape that is fundamentally different, and which will only grow more difficult as time goes on. Change is the new constant in this field, and leaders must accept that as a top responsibility.

Choosing a route when change is the new constant

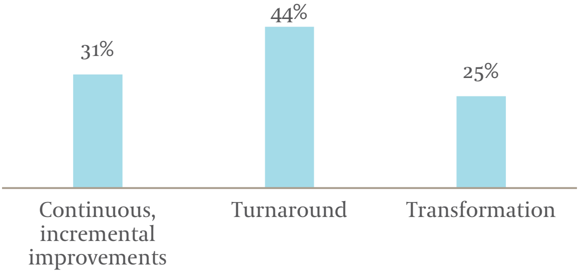
“In the airline industry scale does not matter per se–what matters are profit margins and the implementation of a model to yield them.”

Quote by participating CEO

These powerful global trends have enormous bearing on the role and responsibilities of top executives in aviation. Leaders must adjust to the new competitive landscape and respond proactively to the new requirements of aviation. Priorities include a complete revision of the strategy and existing business model, CEO approach, and use of human capital as components of the new business approach and as the vehicle for putting the new way into practice. Take heed: Current and future leaders must be willing to leave their comfort zones.

Among those we spoke with there was a surprising degree of consensus that the stakes today are so great that many of the traditional factors accounting for past success are now mere table stakes to play in the game, and that the changes in the industry we see today is only a foretaste of the tsunami that is to come. Every major aviation entity today must have excellent financial strength–in both a strong balance sheet and in access to capital. Every company must have operational excellence in terms of modern technology, modern aircraft, and appropriately sized fleets, lean operations, the rights to routes, and the ability to respond to regulations and customs. Every company must have a strategic vision and the people on board (at every level) to execute on it flawlessly. (Table 6)

“Scope of required change throughout the industry” (Table 6)



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One CEO puts it nicely:

“I think the aviation industry is ripe for structural change as it needs to evolve as other industries have where there is a clear and direct positioning: Are you going to be a premium brand that serves the premium customer segment or are you going to be a mass market brand?” Quote by participating CEO

So what accounts for competitive advantage and sustainable success? Above all, in our research with, and our findings from, numerous interviews with top aviation leaders, it becomes clear that success will depend on the ability of each company in the aviation industry today to develop, communicate, and execute on a distinctive business model. Determining the components of this approach, deploying it from top to bottom, and running it with the passion and imagination of the leadership team is not some strategic exercise or boardroom luxury. Picking and sticking to one approach is simply an entrance fee for all players to play in the global air game today.

Fully adopting such a complete business strategy means more than simple short – term fixes to pressing challenges like high and fluctuating fuel costs, unsustainable cost structures, and daunting regulatory or corporate barriers. This clear and disciplined strategic focus must be formed from the top down and understood by every employee and stakeholder, governing every action and detail of corporate activity. This starts with a fundamental understanding of each airline's focus customer segments, with a clear – eyed assessment of how well the company executes on this promise and builds a brand around it. But this goes beyond the customer segment and drills down into a basic reassessment of each company's True North. There is no one – size – fits – all approach guaranteeing future success. What is needed is a clear understanding of which viable model each airline is pursuing, coupled with a business approach that is animated and organized to realize this mission.

> "It's not the model – it's specifically how you execute. You can be presented with the same opportunity, take the example of Oasis HK and AirAsiaX, but the way it was executed, the culture in which it was executed was dramatically different. I am looking for people in FMCG, perhaps telco – type marketing where they face intense competition."
>
> Quote by participating CEO

We do not believe that there is one truly superior business model. Success depends on focus, efficiency, and flexibility. However, six business philosophies emerged from our studies and interviews with CEOs. We believe that these philosophies are driving the trends that are now shaping the industry:

The Belief in Scale Strategy: Airlines that pursue this strategy believe the future is won by scale. For them, networks and economies of scale will lead to both lower costs of operation and increased customer satisfaction. As one CEO noted, "We are in an industry where size matters, where the size of the network matters." According to many of those interviewed, large alliances such as Star and OneWorld have enabled participants to improve customer service delivery. Companies playing the scale strategy can boost their odds of owning and influencing landing slots, gaining entry rights to airports, and growing their hub strategy. More recent cases supporting this argument include mega – mergers and consolidations such as BA/Iberia with the formation of IAG, as well as KLM/Air France, the wider Lufthansa Group, the LAN/TAM merger or Continental/United.

The Niche Approach: These airlines focus on a particular segment of the market, which could be driven by price, demographics or geography. This affords them a greater ability to identify their core markets and understand their customers to then shape their business model to meet those needs. They are able to avoid the temptation of being the largest player in the world – and can thrive instead by being the largest within the niche they have chosen to focus on.
Such discipline makes them more able to shape their pricing propositions and manage costs.

The Networked Approach: An attractive alternative to the scale model that has both reaped benefits for the major airlines and enabled new entrants to grow quickly is the networked philosophy. This approach blends elements of scale with the nimbleness of a startup and the advantages of being niche. These airlines find success in one niche market and replicate this success quickly and nimbly across similar markets. This becomes a network of highly decentralized businesses that are linked together by a brand or overall leadership. This can range from the highly autonomous models of the Virgin Group to the more closely managed Jetstar businesses. These airlines are designed to capture the benefits of local markets and operate on smaller scale cost structures, while tapping into the benefits of a common heritage, a broader network, and the deeper resources of the group.

The Consumer Strategy: These airlines focus rigorously on the relentless approach to understanding and delivering customer value. They differentiate themselves by seeking to be closer to their customers than anyone else. Airlines that win with this approach are willing to challenge every assumption about existing practices. They are willing to reconfigure everything they do around a perfect customer experience, including their essential processes, their sales approaches, and everything that is bundled into what they deliver as a complete customer experience. They see mass customization as the “holy grail” of consumer experiences, leading to unparalleled loyalty and even passion. Realizing such an ambitious goal will require more than internal excellence.

The leaders in this field will be those who are able to form new alliances with suppliers beyond the industry. They will be able to revisit and address customer demand at a new and deeper level. This philosophy is not owned by the new entrants alone. Southwest has been combining strong customer service that is delivered by a relentless focus on how the business is structured to meet these expectations for a number of years.

The Low – cost Proposition: This approach is simple old plain vanilla lowcost. A low – cost cheap – fares strategy has worked, and still can work for established players in many developed markets. The winners with this approach over the long term can also create new strategic possibilities. Some companies that were perceived as low – cost competitors for many years were able, over the long term, to build on their market position and operational excellence to evolve into something more enduring. Consider how Honda was able to evolve in the United States market from a maker of low – cost motorcycles to an automotive powerhouse with successful luxury brands. One would expect only a small number of players to stay in this category for the longer term, such as Ryanair for example.

The Integrated Model: Players in this field can benefit in a number of new markets where air transport is considered a key priority for the whole economy. In these pockets of opportunity, government and industry players can work together in a coordinated fashion to enhance a national agenda. They can produce integrated models of infrastructure and aviation/logistics development, laying the groundwork for capacity upgrade that enables them to compete globally. Growing successfully by coordinating outcomes across the industry value chain requires both tremendous political will and the willingness of industry participants to advance a common agenda together. Such players benefiting from a more integrated model approach are for example Etihad, Qatar Airways or Turkish Airlines.

The CEO’s business agenda

> “In this industry, as a CEO, I do not take enough time to revisit our strategy and allow for out – of – the – box thinking. I am personally strongly involved in operational challenges, and the whole organization is absorbed by them.”
>
> Quote by participating CEO

So how does one get there from here? Who will lead and how will they do so? Such dramatic change can only be conceived and executed from the top. Thriving in this new competitive playing field will require leaders with a broad set of skills and competencies, not to mention extensive experience, a network of trusted advisors and colleagues, as well as a temperament suited for the wide – ranging challenges. Airlines are and always will be a complex, capital – intensive business subject to exogenous shocks, captive to a complex algorithm of short – and long – term investment and yield equations, all of which are buffeted by new challenges on a myriad of fronts.

At the top of each airline CEO’s agenda is a continuing focus on cost – effectively managing and extending its network and fleet. There is the need to create the right size and mix of the fleet as a means of optimizing capacity utilization, defining and implementing a profitable network strategy that optimizes it continuously, and being vigilant about continuously optimizing the operating platform and finding new ways to gain efficiencies. Strict and continuous cost control is clearly a priority: For many years, airlines have been focusing on operating under optimum conditions, but they will increasingly fight these battles in the face of uncertain fuel prices, structural costs, and rising environmental and other new fees.

What was interesting in the CEO business priorities survey was the difference in the way CEOs of legacy carriers and new entrants ranked. Naturally, some of the key challenges facing legacy carriers and newer competitors with a low – cost model are different – particularly in the area of prioritizing cost containment. Legacy carriers have more dramatic cost pressures regarding structural costs of unions, overhead, and many other areas, while newer entrants have more freedom to focus on customers and markets. Legacy carriers prioritize cost control, fleet, and network aspects more significantly, while acknowledging the need to capture new traffic and adjust products and services to meet customer tastes. Newer entrants prioritize the use of technology as a differentiator. Their business model places the highest value in taking advantage of the white space that exists in the market. These specific practices are part of a broader approach towards finding innovative ways to capture new demand, build customer loyalty, and innovate through new technologies and business approaches. (Table 7)

It is thus worth questioning whether legacy carriers' focus on their core issues might in fact be distracting them. Are they allowing their challengers to grow in their blind spots while losing the loyalty of customers at the same time?

The following chart details these findings, showing where CEOs rank their top business priorities.

Top CEO Business Priorities (Table 7)

Rank	Business priority	Examples	Share of total respondents stating this area as a top priority for their airline	Legacy	New players
1	Fleet size & mix	• Optimize capacity utilization • Refleet	50%	57%	43%
2	Network size & scope	• Define and implement a profitable network strategy • Continuously optimize network	43%	43%	43%
3	Cost of operations	• Continuously optimize operating platform • Implement benchmarking view to materialize efficiency gains	36%	71%	0%
4	Business model	• Challenge status quo of your company • Radically transform model and approach	36%	29%	43%
5	Ancillary revenues	• Tap business potential/additional revenue sources before/during/ after flight	36%	57%	14%
6	Capturing new travel demand	• Identify and address sources of latent demand • Capture attractive customer segments (e.g. religious traffic)	36%	43%	29%
7	Customer loyalty & brand	• Improve CRM/loyalty programs • Establish and manage your brand	29%	29%	29%
8	Technology	• Drive change with latest technologies as enabler • Differentiate through technology	29%	14%	43%
9	Cost of corporate overhead	• Create small, impactful corporate functions • Introduce "lean" as a concept and consistently implement outsourcing/shared services and models of industrialization	29%	43%	14%
10	Product & services	• Adjust product & services offering to customer expectations in line with brand positioning • Innovate product & services	14%	29%	0%
11	Cost of sales & distribution	• Reduce your costs through optimized channel distribution using technology • Gain cost savings through smart negotiation and new distribution models	14% 0% 100%	29%	0%

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The new leadership skills and competencies for success

“I am not looking for followers – I am looking for people who develop ideas, who challenge things.”

Quote by participating CEO

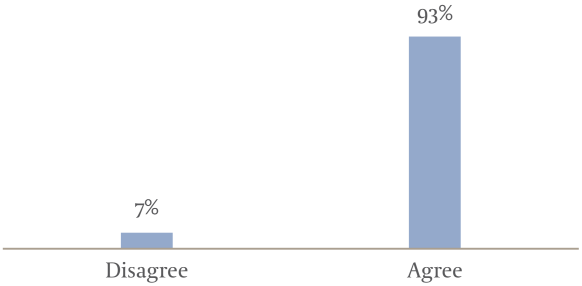
Survival and success in the new world of aviation is fraught with risks and opportunities. While no one knows what will win out in the end, what is clear is that participants need to be ready to compete in this fast – changing environment. Transformation is a key requirement for new leaders. (Table 8)

Both CEOs and HR executives in our survey agree, almost unanimously, on the key competencies required for those leaders and in their wider organizations to succeed, with the CEOs feeling much more acutely a wider gap in competencies that remains to be filled. (Table 9)

A handful of key leadership skills emerge as critical success factors for CEOs and leaders. They are:

Sophisticated analytic and strategic thinking regarding asset utilization and strategic focus. Participants defined the CEO’s key strategic task as defining the right network and assigning the right fleet capacity. This reflects a basic awareness that optimizing asset management is and will always be a critical factor in this industry. Leaders must be able to maximize utilization without compromising on yield potential. They must be able to formulate the proper mix of operation costs and investment capital that produces the optimal fleet flying the most profitable network. And they must be able to continuously optimize the operating platform, introduce new efficiencies, and build on business strengths.

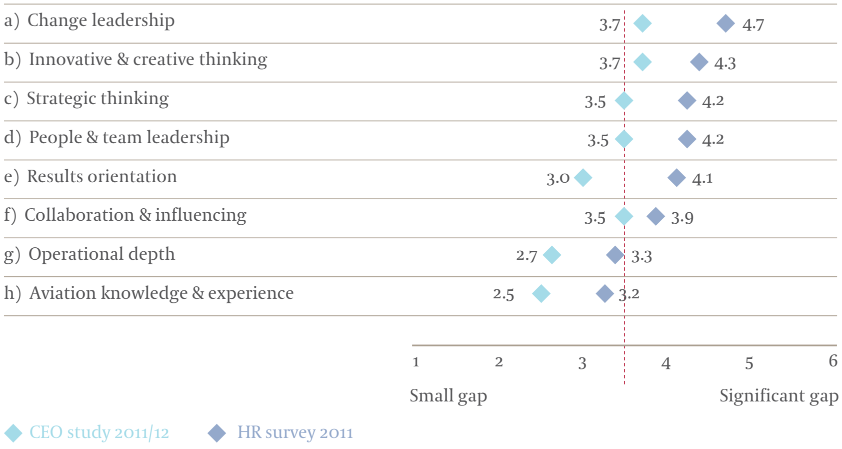
“New types of leaders are required in the light of accelerated change” (Table 8)



HR survey 2011

Today’s perceived competency gaps indicate specific areas of leadership capacities that need to be addressed. In this context, CEOs tend to identify larger competency gaps (Table 9)

Gap analysis by selective leadership competencies



A strong sense of customer – centeredness as a driver of all change and growth. While many airlines focus on reliability, cost, safety and security, and other features, we believe that the greatest driver of value moving forward is in delivering better customer value. Such an approach calls for CEOs who are willing to benchmark companies outside the industry. Running an airline has increasingly become a complex consumer business with features of retail, hospitality and leisure, and consumer packaged goods. Successful airlines are finding innovative ways to put the customer's end – to – end travel experience in the frontline of their commercial approach. Those who can benchmark everyone from Google to Amazon to Nordstrom have the edge in this regard.

Feeling comfortable with innovation, new technologies, and change. This means being willing – even eager – to view innovation as a process that goes beyond simply adapting new technologies. These leaders are comfortable and open to incorporating appropriate new technologies. More importantly, they recognize the urgency of transforming the entire commercial approach and are open to experimenting with new technologies. Above all, they take a more fundamental view of innovation, seeing it as more than tweaking of existing products and services and instead something that can mean a complete change in the business model. Many airlines today are deeply rooted in rules and technical procedures and hidebound by cultural biases. Breaking through and implementing new approaches requires leaders who bring different backgrounds, are comfortable with thinking creatively and experimenting, and are willing to lead others out of their comfort zone.

Strong political acumen. The ability to work with and influence key stakeholders across boundaries, including board members, competitors, regulators, existing workforce, and more. Being able to work with other people effectively may be the most important leadership skill of all, given the continued pace of new alliances, negotiations with various interest groups, the rise and fall of regulations, and the shifting landscape of boardrooms and networks as new companies evolve. This skill will be called into play not merely as a form of being effective but as a core skill enabling a true leader to listen to others and incorporate their wisdom appropriately.

Leaders must also be **results – oriented**, able to develop productive outcomes by leveraging cross – functional teams, and able to learn to lead effectively without authority though influence, persuasion, inspiration, even dialogue; a contrast to old – school models of bosses. All this must be balanced by a depth of operational knowledge and the need for vigilant attention on key performance indicators, an ability to step up performance metrics, and an orientation towards a sustainable performance culture.

Perhaps the most important skill set for the new leader is the **ability to manage transformational change and to recruit and develop a new group of leaders to meet these varied challenges.** And when we say managing change, this is not an abstract practice. This means having the ability to manage people through change. All of which requires a willingness, even a passion for trying new things. Successful strategies require more than one leader who formulates and articulates a new direction; successfully adapting a new approach requires change leaders and advocates at many levels in the organization. These leaders must be able to steer others through immediate shocks and challenges while orienting everyone toward the longer – term, business – wide view.

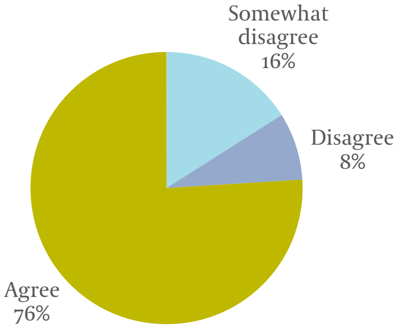
The CEO's central task is to **communicate a compelling change** (if not transformation) **story** both internally and externally and to create a strong sense of urgency amongst all stakeholders. This person must be able to push others to take risks and try new approaches. For many leaders this will mean being pushed out of their comfort zone, as well as confronting the comfort level of others and entrenched views. One of the biggest barriers to change in this industry is in fact cultural. There remain prevailing attitudes that only the biggest planes flying the longest routes are what counts. Old – school biases about where to invest, how to operate, and who makes decisions all stand in the way of the fundamental changes needed for prosperity. That's why we see new leaders with a broader set of skills, the most important of which is leading and developing the next generation of human capital for the industry.

Establishing the forces of focused collaboration

> "It's those silos in the airline industry. There are the technical guys that make sure the airplane flies, there are the cockpit guys, they make sure it takes off and lands safely, and there are the IT guys. They never were part of the commercial team, basically thinking commercial."
>
> Quote by participating CEO

Many CEOs and HR leaders outline the existing silo mentality in their organization that is slowing down decision – making and often resulting in suboptimal planning and execution. (Table 10)

"The approach to developing talent still supports silo functional careers more than in other industries" (Table 10)



HR survey 2011

In our discussions, CEOs outlined a strong need to overcome barriers to collaboration such as functional and divisional silos. This lack of a collaborative culture is hindering the pace, effectiveness, and accountability of decision – making and organizational agility to be responsive in times of dynamic change. In this context, establishing a culture of alignment along well – defined “process rivers” appears critical. A number of airlines deal with the issue of missing collaboration and the consequent lack of business – oriented solution design and effective delivery by introducing both permanent and temporary dedicated virtual, cross – functional “project organizations” such as focus groups, task forces or committees who work on business – critical issues on a continuous scale. The purpose here is to ensure a more integrated and cross – functional end – to – end view on how to steer and run core processes. As an example, for an airline, such a process could be E2E Customer Experience Delivery or E2E Network Planning (from Fleet strategy to Final Operations plan).

A roadmap to transformation

The need for dramatic change is both extensive and immediate, and creates pressure on the majority of CEOs to act quickly. As the CEO of a legacy carrier shared with us:

> "If we do not start transforming our organization today and in a comprehensive and bold enough manner, we will be out of business sooner than we might expect. There is no alternative for me as a CEO and I feel accountable for driving a substantial change program now. There is no wait – and – see option for us."

We distinguish this ambitious transformation mandate from a mere turnaround situation. Many airlines can quickly improve existing operations and performance by implementing short – to mid – term improvements that capture easy efficiencies and improvements, replace ill – equipped leaders with appropriate talent, and tweak strategy. Yet such a turnaround approach does little to effect sustained or substantial organizational change, and misses the holistic approach that is called for. Indeed, we believe that CEOs must recognize that the comprehensive transformation called for in this report requires a radical approach.

We believe that true change momentum can only be reached through a long – term, strategic, and above all, a radical approach. Top leadership must fully commit to a fundamental transformation that targets the establishment of a culture of continuous change management. If done properly, this would result in a strategic competitive advantage for high – performing airlines. Making this happen is no easy campaign. After analyzing and reflecting upon our CEO interviews, we have identified three distinct phases of such a transformational program. Table 11 details the core activities and key responsibilities of each phase (Table 11)

The first phase, “Creating a platform of transformation,” launches with a clear definition of the change story by the CEO. He needs clarity about the key cornerstones of the transformation/change story to communicate internally and externally. And he needs to understand how he will tell this story in a compelling manner that resonates deeply with change agents at every level of the organization to foster comprehensive buy – in. The CEO can lead this change effectively by creating a sense of urgency, generating wide emotional backing for this ambitious work.

Coupled with this work on the hearts and minds of employees is a detailed understanding of how everyone can make it happen. CEOs can help people see how to proceed by breaking down the change story into key “change themes” of a tailored change roadmap. These themes should emerge through widespread caucusing of individuals in every function of the airline, and be prioritized according to what is learned from this exploration. The proposed roadmap should also map out the leadership qualities and change talent required to drive the change process.

The second phase, “Creating a transformation powerhouse,” involves a thorough assessment of which managers can and will form the nucleus of change. Given the critical strategic role of human resources in this transformation, a keen eye on vetting talent that can integrate human dynamics and leadership chops with traditional operational/strategic skills is vital. Leaders should be open – minded to forming cross – functional teams and valuing diverse experience and skills. The role of Human Resources cannot be underestimated in this phase as key resources taking accountability for broad change and ensuring that the diverse and experienced senior talent required for success gets on board.

As phase two continues, leaders should explicitly support an ongoing culture of continuous change and innovation through tangible and visible measures. Task forces working on specific goals should be encouraged to renew their challenge with a fresh set of goals – and in fact recognize that their work will be more of a journey than a destination. And that this will be translated into ongoing forms of support to management and operations.

The third phase of "Cultural Change Management" is all about building an infrastructure for change as a constant, and as a core competence of the organization. Once again the vital role of the Human Resources function is underscored. HR needs to play a key role by co – developing a culture of increased openness towards diversity in thinking and experience as well as a more entrepreneurial agility towards business opportunities and risks. This means conducting such traditional activities as training, coaching, reviews, and much more, with an eye towards change management as a key value. Additionally, it means understanding the fundamental link between classic Human Resources with the ongoing operational, strategic, and financial health of the organization – HR as a true strategic force. Of course, the HR function also will need to ensure that the existing strengths – such as pride and passion, discipline and consistency, and professionalism – will be maintained and nurtured to the advantage of the airline. That is, transformation is not necessarily about ignoring the past and history. It is about blending the existing strengths with new ones in an appropriate manner. This is a continuous, long – lasting investment that requires breadth, engagement, and full support from the top executive team and Board.

Transformational Program – Key Phases (Table 11)

	Continuous change roadmap						
Core activities	Q1	Q2	Q3	Q4	Year 2	Year 3	Year n
Phase 1: Creating a change platform	■	■					
Define & communicate a change story							
Cluster key "change themes"							
Define cross-cutting "change forces"							
Derive people & leadership story							
Phase 2: Creating a change powerhouse		■	■	■			
Assess gaps in talent and leadership							
Identify today's change leaders as well as internal talents/future stars							
Identify gap areas in need of external hiring of expertise/leadership quality							
Define program for talent development and effective integration management							
Assign selected leaders and talents to key change teams ("task forces")							
Phase 3: Change management					■	■	■
Establish a culture of forward-looking talent management and leadership development							
Foster a culture of Diversity/Inclusiveness							
Actively manage "task forces"							

2

A strategic view of talent and HR as a catalyst of change

The broader challenges and required skills discussed so far apply far beyond top leadership. The scope of change needed in every aspect of aviation translates into nothing less than complete daily transformation. The only way for any company to make this happen is to place the strategic development of new talent at all levels. In short, the dramatic changes outlined so far mean that a high degree of transformational expertise is the most important source of enduring advantage.

This will mean recognizing the strategic role of HR as a driver of growth and the backbone of corporate robustness. CEOs as well as HR leaders themselves must learn to see HR as a key strategic function that supports and in fact drives continuous change. The HR leaders polled have identified key gaps to be filled in talent management, all of which support the argument for a greater emphasis on this area.

Developing a broader, more diverse view of talent

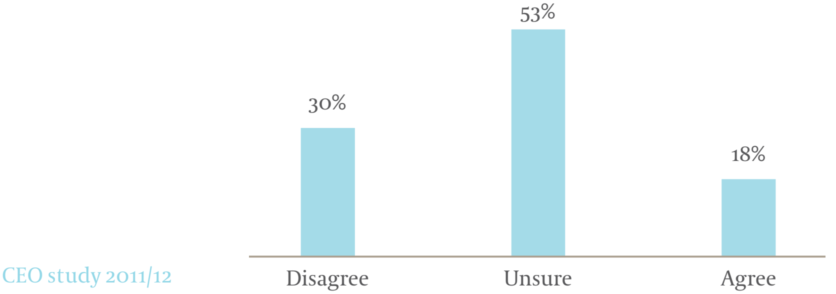
HR is now more than ever a catalyst and orchestrator of (cultural) change. The necessary transformation ahead will be demanding across every aspect of the organization's culture and prevailing ways of operating. So airlines will need to have enough widely varied and comprehensive expertise and leadership ability to drive that change in a persistent and sustainable manner.

> "I think part of the success in the management of human resources is to bring in external talent potential and to build it, nurture it, and develop it internally."
>
> Quote by participating CEO

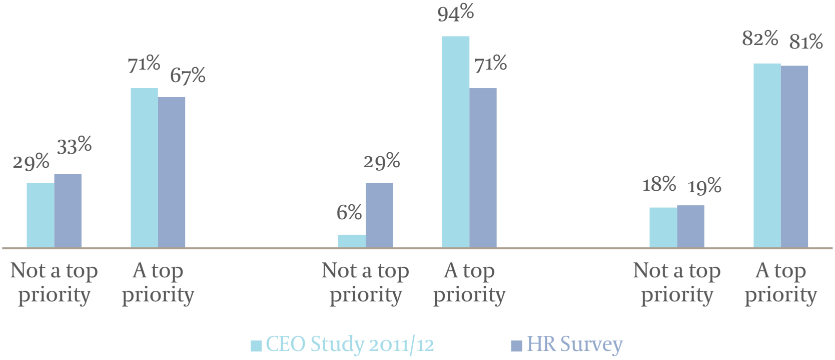
For many, this approach challenges industry lore. Airlines have been inconsistent in terms of developing transformational leadership. Most airlines today still nurture and develop leaders along silo – functional paths. This results in "experts" with strong inside views that are immune to new ideas and approaches, and who struggle outside of their comfort zones. As a result, airlines are often perceived as lacking in developing leaders with the broad set of skills and experience needed. Consistently, many CEOs tend to increasingly challenge the quality of leadership talent in the airline industry versus other industries. (Table 12)

Additionally, most airlines are marked by a monocultural environment that favors individuals who fit into traditional types. And while diversity is considered a priority among most airlines, few have managed to produce a workforce that is diverse in every sense of the word, i.e. in terms of gender, industry background, nationality, and other factors. (Table 13)

“The overall quality of talents in the airline industry is stronger than that outside the industry” (Table 12)



Gender diversity International/ cultural diversity Cross – industry/ professional diversity (Table 13)

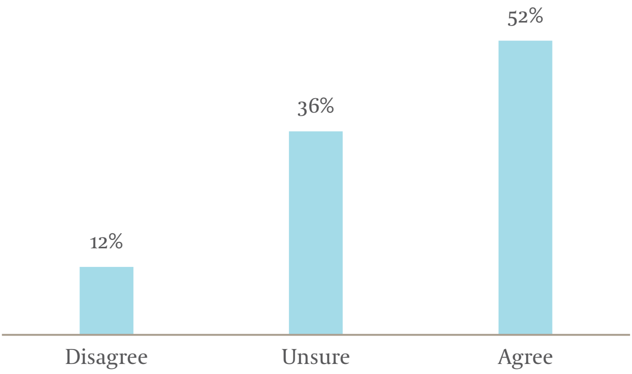


These are the challenges facing those leading the strategic use of HR today. And while they may seem daunting, we firmly believe that placing human capital development as a top priority will ultimately serve as an enduring source of corporate vitality. We believe – and many comments and responses from industry leaders support this view – that a complete and forward – looking approach towards human capital development represents one of the most powerful differentiators for success in the emerging new world of aviation.

The challenges outlined in this paper raise the stakes for strategic HR. Only a well – selected workforce can execute the new models that are required. The problem is that airlines all too often take the view that aviation experience is the most important criterion for success when assessing talent. As a result, they end up recycling human capital from within. While we are huge proponents of the policy of internal promotion, there is no substitute for bringing in a measured amount of specialized leaders if one is to make dramatic shifts in outcomes. Recruitment of such talent is essential because it can create the right change which goes to the heart of furthering one's competitive advantage. Our study confirms that there is now a majority view in this industry that greater external recruiting will be mandatory in the future. (Table 14)

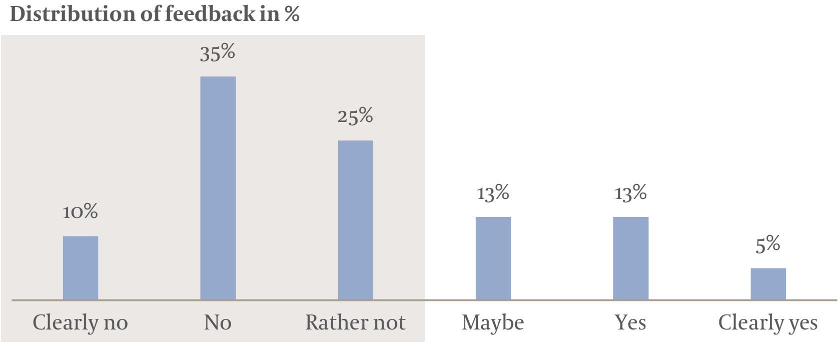
Moreover, shifting to this approach will require several new practices. We believe that airlines will need to seek greater diversity in terms of experience, talent, and identity. Furthermore, leadership needs to recognize that the benefits of this diversity are by no means superficial and that they foster stronger organizations with broader and more aligned competencies. Executing on this key agenda item will not be easy. Diversity and inclusion are considered a priority but the industry remains uneasy about accepting leaders from the outside. We see this as a huge missed opportunity. (Table 15)

"Airlines will increasingly depend on the influx of talents from outside of the industry to be successful" (Table 14)



CEO study 2011/12

“We are ready to accept industry outsiders in top leadership positions” (Table 15)



HR survey 2011

Predicting future needs and building the talent pipeline

"HR will need to take a leadership position in terms of identifying the specific challenges that will face leaders at every level during the transition. They will need to define the people and leadership gaps to realize new and ambitious goals and find ways to fill these gaps." Quote by Kokkong Chan

Boosting the strategic role of Human Resources will bring about other changes. This shift will require giving greater attention to the talent pipeline. Our findings revealed that only 30 percent of CEOs believe that the airline industry's ability to develop talent is strong. This perception, if true, needs to be dealt with effectively.

Another step forward on this path is predicting future needs and creating a forward – looking succession plan. Only a very limited number of airlines can claim to have strategic succession planning in place at all key managerial levels. In fact, most airlines still have no systematic succession plan at all – key decisions have been based on short – term problem – solving, pragmatic responses, and corporate politics. Rarely has strategy been factored in.

The benefits of a comprehensive and forward – looking succession plan extend beyond simply picking one top leader. Formalizing an explicit process for developing and selecting future leaders enables companies to identify current and future competency gaps. It enables companies to fuse strategy and HR development, and is key to creating a holistic talent cycle for both internal and externally hired talent.

This approach also goes beyond the niceties of talent development. Picking the right leaders for critical roles across an organization requires honest, objective, and accurate assessments. Not assessments against a set of generic values, but against well – defined capabilities that indicate whether an executive is going to deliver the results required in this turbulent environment. It needs to be sharp, not necessarily harsh; above all it needs finely honed judgment.

Building and leading effective teams

This highly challenging imperative to provide transformational leadership on strategic and operational levels simultaneously requires the building of effective leadership teams that are constantly kept fighting fit. The talent level of the individuals a company attracts to its team is of course just one of the factors that determine team success. Teams are and should be more than just the sum of the individuals, and how the team interacts is vital.

To be effective, teams must have the right skills and dynamic to ensure alignment and promote teamwork, innovation, proficiency, and openness. CEOs specifically will be valued as much for their ability to steer an effective team as for their strategic and transformational leadership capabilities. It is essential that airline teams stay attuned to changes in the marketplace, develop shared vision, and remain in touch with the ecosystems to which they belong, building – in inclusion by systematically connecting even with people beyond those who need to know what the team is doing.

In the context of inevitable change in the aviation industry, we believe leadership teams will need to pay attention to the following dimensions:

Alignment: Shared beliefs and goals are needed to effectively focus the actions of all members. For airlines, the team will need to be inspired around a vision for change that encompasses innovation, a performance culture, and shared accountability.

Efficiency: Teams will need to optimize resources to achieve results through calculated trade – offs and disciplined management processes.

Resilience: Mutual trust and respect will be needed to support constructive resolution of issues and help the team perform well under pressure. This includes a readiness and openness to adapt to constant change, with the courage to take difficult decisions, experiment, and step outside of comfort zones.

Energy: Teams will need to be energized by working together, being proactive, and sustaining momentum. This is particularly important in an environment of fast – paced change.

Openness: As airlines shape and execute strategy, the team needs to stay keenly attuned and responsive to the broader organization as well as to industry and geopolitical trends. Teams must share a commitment to initiate and develop cross – functional collaboration, shared learning, and feedback.

Balance: Within the team, diversity of relevant skills, styles, and perspectives from inside and outside the industry will need to be valued and effectively leveraged.

Elevating the strategic role and capability of the human resources Function

"Senior leadership teams must co-drive the cultural change required from the top. They must enable HR to soar in its new strategic role as catalyst and orchestrator of change by ensuring that it is effective, and empowered to drive the culture and people in ways that support core goals and values."

Quote by Christoph Wahl

Fully realizing the promise of this new strategic role of human capital will require upgrading the capabilities and visibility of HR, and providing HR roles with the appropriate level of authority. Like all the challenges laid out in this paper, adopting a more strategic HR approach will run up against many entrenched practices and ways of thinking. Indeed, few CEOs currently consider HR leadership to be fully aware of the strategic business requirements of their role. Even the HR community considers its own ability to predict the necessary skill set of managers to be insufficient. These challenges must be met. The Human Resources function will need to contribute in a far more innovative way than before. Their readiness to lead in this new environment will be key to success, but will also need to be assessed.

Finally, while HR remains a key contributor to delivering change in people and culture, the real owner of this is ultimately the CEO. There can be no doubting that the Chief Executive Officer must also be the Chief People Officer in any organization driving transformative change. Without strong leadership from the very top, change is not possible

Conclusion

Today there is no option of doing nothing in the aviation industry. The stakes are too high and the challenges too great. Continuing down the same runway will no longer ensure a successful flight. Our interviewees share with us a common belief: The winners in this new environment are those who are willing and able to transform themselves and their people to compete. All airlines and their leaders must change in a thorough, informed and purposeful manner. Innovation, creativity and agility, and aligning the entire business according to a specific strategic purpose are keys to competitiveness. This will require CEOs and leaders who can foster a results – oriented culture of teamwork, agility, openness, and creativity. The rewards are great for those who can cross this threshold.

Authors

We are very grateful to the many individuals who shared their thoughts and experiences with us during the interviews and thus contributed to the insightful findings of this survey.

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