

A guide for consumer boards and CEOs

Comfort with paradox

Leadership (and succession) in a time of radical transformation

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Most CEOs and boards name succession, both for the CEO and for business unit leaders, as their biggest strategic challenge. Finding people who have both the experience and the temperament to lead complex organizations is difficult regardless of the state of the economy, the cost of capital or the regulatory environment. While this leadership challenge exists for every industry, it is particularly acute in the consumer sector, where many of the successive waves of disruption first hit. Other industries can learn from the consumer sector's experience and hire its executives to help pilot those industries' transformations; the consumer sector, however, often must develop new types of leaders and organizational structures without a roadmap. In this paper, we present frameworks and strategies consumer boards and CEOs can use when thinking about the leadership development and succession process in this dynamic environment.

Succession planning is, at the end of the day, a bet on the ability of the chosen candidate to lead the organization into an unknown future. Seeing succession planning through this lens allows us to ask three fundamental questions. First, how different will tomorrow's challenges and opportunities be from those of today? Second, what type of leadership will be necessary in these conditions? Finally, what qualities will the right candidates possess?

The extent of change

For much of the last decade, the consumer industry has been roiled by dramatic change across multiple fronts:

- Digitalization and the ubiquity of mobile communication have thoroughly altered every aspect of reaching and retaining the customer, including marketing channels, information transparency, personalization and branding
- The global supply chain has opened up exciting possibilities for sourcing but has also brought to the fore issues of quality control, geopolitical risk and sustainability
- The rise of the millennial generation means that a critical mass of the market now has grown up with customer centricity hard-wired into their expectations
- A culture of continuous innovation has taken hold for both the products themselves and for the models, partnerships and assumptions of the underlying business

The overarching theme of these interacting forces is decentralization, which empowers both sophisticated consumers and agile producers. Change is thus rapid, unpredictable and continuous. E-commerce fuels the rise of Amazon and the decline of traditional booksellers, but then the desire for experience leads Amazon to open physical stores. The disappearance of dress codes eviscerates aspects of traditional retail while at the same time start-ups like Warby Parker create direct-to-consumer offerings that breathe life into tepid product categories. We thus live in a world of disruptive rather than incremental change, and this seems likely to be the case for the foreseeable future.

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None of this is news to consumer boards and CEOs – they grapple with these issues every day. But describing the extent of change is necessary to understand why current responses are often inadequate. Companies are racing to transform themselves, to make themselves more innovative and agile, at tremendous cost in terms of financial, reputational and human capital. But why do those transformations often fall short of their goal, if not fail outright?

The problem is that many organizations approach transformation as if it were a traditional initiative – implementing a new ERP system, say – but merely conducted on a larger scale. Transformation, however, must go deeper than that, resequencing the DNA of the enterprise so that it can adapt to uncertain, volatile times with new leadership styles, decision-making structures and stakeholder relationships. Traditional initiatives are typically driven from the top with linear implementation that lends itself to depiction in a Gantt chart. In successful transformation, on the other hand, company leadership sets change in motion but the entire organization takes ownership of the follow-through, which thus is messy and non-linear. The process is also more emotionally taxing, often requiring the organization to move outside its comfort zone and adopt a new mindset.

The five elements of transformational leadership

Our work with numerous organizations – both in the consumer sector and across other industries – suggests that leaders who

successfully enable sustained transformations do so by enhancing five critical aspects of the enterprise:

- **Mastering complexity.** Transformative organizations do not fear disruption but rather view it as an opportunity for growth. **Deckers Brands**, which includes high-profile footwear lines like UGG and Teva, responded to the rise in direct-to-consumer sales by transforming itself from transitional wholesaler to multichannel distributor. Adding both retail storefronts and e-commerce to its wholesale operations, the company brought in new leadership and structured its organization to be able to sell by both the pallet and the individual pair. “We dramatically changed our business model so we could stay ahead of both technological changes and customer expectations,” explained Dave Powers, Deckers’ CEO. “But the new business model also resulted in a new culture, making Deckers more engaged with the consumer and more competitive in the marketplace.”
- **Orchestrating creativity.** Innovation may be essential but it cannot be forced. Instead, leaders must create the conditions necessary for collaboration, trial and error and the testing and refinement of ideas – a process that reaches across functions, silos, and even out to other companies. **adidas**, for example, is creating hubs for innovation and customization, and partnering with BASF in creating new sport shoe materials. “Communication between all functions and regions is central to our company culture of collaboration, creativity and confidence,” says Eric Liedtke, who oversees adidas’ global brands. “This means we can spend less time

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aligning and have more time for making, shaping and doing.”

- **Leveraging emotional commitment.** Transformational organizations believe they are part of a story that is far larger than meeting quarterly targets. They are conscious of their history and trajectory and include emotional, intangible factors in decision-making. Returning to the belief that its products are a unique and powerful catalyst for a child’s play and development, the **Lego Group** rekindled over the past decade a shared passion and reinforced a culture that is highly collaborative and interdependent. Distributing corporate leadership across five global hubs solidified the global nature of the corporate community.

This transformation also required a broad rethinking of personnel requirements. As Lego Group CEO Jørgen Vig Knudstorp explains, “In the past, Lego was divided between those who believed fervently in our purpose – to make a difference in the life of every child on the planet by giving them wonderful play experiences – and ‘realists’ who saw this purely as a business. I wanted to combine the two in our team, so that we have people who could succeed in the marketplace while at the same time reflecting the spirit, purpose and energy of the company.”

- **Connecting with society.** An organization that engenders an emotional commitment from its members is in a strong position to deepen its connection with society by establishing those members as ambassadors to external stakeholders. **Patagonia**, the

outdoor products company, has created a brand identity based on serious engagement with and conservation of the environment. The company donates time, services and at least 1 percent of sales to hundreds of grassroots environmental groups all over the world, and unapologetically takes political positions on environmental issues. “Protecting and defending wilderness, taking tough, sometimes controversial stands on issues is at the heart of our brand,” says CEO Rose Marcario. “Our customers, our tribe, anyone who cares about the fate of our beautiful planet understands engagement in civil society is key to protecting what we love. We never shy away from tough fights.”

- **Building next-level leadership.** Transformative organizations understand that the leadership pipeline is essential for securing the culture of the enterprise. This is reinforced through experimentation with various leadership models, an ongoing reinvention of leadership frameworks and behaviors, and leadership training at multiple levels in the organization. When **Cablevision** realized that the internet was emerging as a competing media source, it reframed itself as a customer-centric organization so that it was adding value beyond simple access. The company brought in new management and built new teams through the organization. One key insight was to forego “pure-play” candidates who lacked experience in legacy organizations so that those leading the transformation understood not only where the company needed to go but where it was starting from and how much transformation it could absorb at any given time.

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A new leadership profile

A key characteristic of this transformation model is its indifference to the particulars of strategy. Instead, it focuses on instilling the organizational competencies that are necessary for transformation of any type to take place. Not surprisingly, this has implications for leadership development and succession planning. Traditional leadership development is centered on the ability to command increasingly large and complex organizations. But a command approach is ineffective when the organization must instill the creative tension necessary for innovation, foster agility in the face of disruption and empower employees to act as brand ambassadors. These and the other components of transformation require leaders who can relinquish a good measure of control while retaining responsibility for the outcome. Transformational leaders must thus be comfortable with the paradox of simultaneously harnessing and unleashing the organization as it moves towards a goal but

facilitating the process without the benefit of traditional command-and-control structures.

Comfort with paradox isn't always revealed in an executive's track record, education or credentials. Instead, it depends on certain personal qualities: taking a long-term view; valuing the path as well as the result; genuinely empathizing and connecting with others. Until now, these attributes have been seen as "nice to have"; increasingly, they will be regarded as "need to have." Organizations will have to adjust their talent management functions to reflect this shift, evaluating candidates by revised metrics and adding new elements to professional development strategies. Traditional competencies will continue to be important, but they will no longer define leadership in the way they once did. Organizations that can identify and develop this new breed of leaders will be able to increase the organization's capacity to transform – both now and for whatever unforeseen changes the future may bring.

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