

# Charting a New Path for Airline Leaders

Future airline trends are sparking a new wave of leadership imperatives to drive business, inspire, attract and retain top talent to thrive in a post pandemic reality.

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Airlines are finally rebounding from a crisis that spawned [\\$200 billion](#) in losses across the industry over the last couple of years. With recovery underway, leadership teams are switching gears from fighting for survival to ramping up their operational capacity. But as the industry rejoices about the upward trajectory, several operational and talent challenges remain against a backdrop of global uncertainty.

Egon Zehnder held several discussions with airline executives to understand how they've navigated this landscape so far, the lessons learned, and trends that lie ahead. An important takeaway: The true “winners” are the nimble airlines that find balance between short-term agility and efficiency while simultaneously focusing on longer-term customer needs. As travel restrictions loosen and travel ramps up, now is the time to invest in customer-centric capabilities, operations, and a renewed look at leadership.

Drawing from the work we do in the space and from executives' insights, this series examines the three key areas that will fundamentally shape the future of airlines and how leaders (including the board, the CEO, and the executive team) can adapt to thrive as they go from recovery to growth.

## Adaptability is Key to Succeed

Before we dive into the major trends shaping the industry, there's an underlying leadership imperative to succeed in today's landscape: the capacity to adapt in face of structural changes in customer needs and expectations; and the impact of further industry consolidation resulted from significant differences in unit cost, operational flexibility, and commercial models among the various players.

Responding to these evolving and unexpected challenges will require from boards and CEOs a culture of *agility* and a new *talent strategy* to identify leaders with potential to thrive and adapt when faced with these issues. As one airline CEO said, “This crisis has significantly unveiled who in my senior management team strikes me as a decision-maker and adaptable manager and who just cannot adjust to the immediate requirements.”

These efforts will entail a lot of experimentation with operating models and an intentional effort from senior management to instill a sense of purpose across the organization for positive outcomes. “I became somewhat overwhelmed by this crisis,” one airline CEO told us. “There are so many things to watch and opportunities to do things differently in the future. I have already ramped up a task force who is rethinking our company from scratch. There will be no exceptions: Our full business strategy is under review.”

## Three Big Bets and Their Leadership Imperatives

As airlines begin to recover after the pandemic-fueled crisis, everyone is looking to leaders to understand what the next challenges and opportunities are. From our conversations with these executives, we've identified three main areas we believe will reshape the industry and how leaders operate: **Environmental, Social and Governance (ESG)**, **Digital Acceleration**, and the development of a **Lean & Agile DNA**. Below, we dive into each one and discuss their leadership implications.

## 1. Environmental, Social & Governance

Sustainability in aviation has been typically driven by governments and environmental organizations calling for fuel efficiency and lower GHG emissions. While reducing a major operating cost was a key driver for change, few airlines effectively embraced sustainability as an integral part of their ethos and strategy. But things are changing as “next generation” travelers increasingly seek more sustainable air travel options, forcing key industry players to revisit their purpose and find new mechanisms to meet this demand.

Developing a sustainability strategy now will be a fundamental step for airlines to better position their brands and gain consumer trust compared to those that leave the issue on the sidelines. A big challenge for these companies—and across every industry—will be blending business goals with sustainability goals, as a recent Egon Zehnder [study](#) points out. In aviation, it will take commitment and an entire ecosystem shift, including the adoption of more efficient technology, but it’s worth it both from an environmental and business proposition standpoint.

Fortunately, airlines are taking action to address environmental concerns. Some measures include using Sustainable Aviation Fuels; reassessing supply chain; investing in carbon offsets; multimodal transportation for better flight planning; reforming air traffic management technologies with improved operations and procedures; reducing or eliminating single-use plastics, among others. United Airlines, for instance, pledged to eliminate greenhouse gas emissions by 2050; SAS is ending duty-free sales to reduce aircraft weight for lower fuel consumption and to reduce emissions; British Airways established a sustainable alcohol-to-fuel initiative; and Air New Zealand committed to reducing single-use plastic waste inflight and more.

Beyond sustainability, Diversity, Equity & Inclusion will also play a critical role in the race of battling and winning future crises, not only with the airlines’ employees but also with their brand perception vis-a-vis customers and partners. Industry players will prioritize their basic needs of adjusting to new working styles, resilience, growth, and productivity, but those taking bolder measures in creating equilibrium at the top-level will be better positioned.

### **Leadership Implications:**

Embracing ESG will require a shift in mindset and behavior from the top-down. Airline CEOs need to formalize their ESG plans by building a dedicated and empowered function. They will also need to hire and develop diverse talent that can drive the agenda consistently and embed meaningful cross-cutting KPIs to properly target, measure, and monitor ESG progress. Leadership from the top is key: The sustainability agenda should be driven simultaneously and consistently by the Executive Committee and the board of directors, with the CEO taking a personal commitment to drive, support and report on the airline’s sustainability progress. Airline leaders will need to craft a compelling, sincere, and inspiring ESG strategy, commit to its execution with clear initiatives, and turn the external pressures into actionable internal initiatives.

## 2. Digital Acceleration

The future of aviation is digital. To thrive, airlines will have no choice but to become agile and flexible businesses by investing in new software, latest technology, and digital solutions, along with attracting qualified talent.

Several airlines are currently grappling with digital distractions, including legacy systems, disparate technologies, poor infrastructure, and cybersecurity risks. These hurdles are putting a toll on technology departments that lack the proper resources to invest and acquire advanced solutions that drive growth, effectiveness, and efficiencies. For example, automation techniques (such as touchless check-ins, advanced self-service and biometrics for paperless process, automatic baggage solutions) could strongly support the industry as it bounces back. But accelerating technology will require airports and airlines to plan better (from back office to operations) and create a digital ecosystem well designed to serve a seamless passenger travel experience.

But where to start? Company leaders should take a holistic approach to digital transformation, always adopting a customer-first lens into the decision-making process. Leadership teams should also ensure cultural readiness across all parts of the business, not just IT, to embrace a long-term vision that may not even pay off in its early days, but rather support long-term outcomes for the business.

Several aviation companies, mostly flag carriers and airline groups, are now starting to outline their digitization strategies, improving their readiness to overinvest in strategic initiatives such as AI/ Machine learning, movement to Cloud & SaaS providers, and introducing intelligence analytics. Doing so has required the creation of entirely new departments dedicated to digital innovations or new roles in e-commerce, distribution, digital marketing, revenue management, and IT.

At the same time, investments in digital capabilities will support a better customer experience journey at several stages, such as strengthening health security measures at airports, accelerating the use of adaptive digital communication support, tailoring products and services based on customer and employee feedback, and offering a high quality free and unlimited internet connection. Customer data and analytics is another key component, which can be used to better understand and serve micro-segments of customers.

The real solution lies in understanding customer behaviors and preferences, and then using those insights to deliver a personalized, value-rich experience. Airlines can also significantly benefit from getting inspiration from leading customer-oriented industries, such as retail, which have succeeded in building true loyalty and providing tailored customer experiences and touch points that make each guest or consumer feel special and valued. A digital acceleration will also entail building close partnerships between airlines and their broader ecosystem (e.g., hospitality operators) to deliver a seamless experience while strengthening customer relationships.

### Leadership Implications:

Driving a digital agenda will require full attention from a digitally savvy Executive Committee, propelled and challenged under the leadership of a visionary CIO, CTO or CDO, with full support from the board and CEO. While a long-term digital vision will be key, leaders must ensure that quick wins get visibility to generate positive momentum in the organization. Moving to autonomous agile teams and adopting a servant leadership culture are some of the ways that technology leaders have signaled serious change in the IT function. Ultimately, a digital transformation must be embraced across the whole organization and cannot succeed if it remains an objective for the technology team alone.

Several airlines have taken bold measures in this area, such as creating a fully integrated product organization that connects the dots between business needs, digital innovation, and data & technology implementation. But they could only do that with the right talent—by embedding digital savviness as a key competence in the recruitment and assessment of critical business roles across the entire organization, not only in the technology function. So where is the talent? The airline industry could benefit from hiring professionals from industries and companies that have succeeded in building superior customer experience, such as hospitality loyalty programs or digitally-driven businesses such as health tech or e-commerce.

Additionally, successful customer experiences require the board and the CEO to re-wire the culture of the airline from a focus on being an operator under heavy regulatory scrutiny to a truly digital commercial business that thinks customer first. This could include cultivating the board agenda to mandate a discussion and review of digital metrics and customer insights in every meeting. Last, but not least, the board of directors must also evolve and ensure they have sufficient representation of expertise through directors who truly understand and embrace digital transformation and innovation.

### 3. Lean & Agile DNA

For many good or bad reasons, the airline industry still suffers from a triangle of anomalies: Significant over-supply of aircraft capacity; distorted number of less professionally managed, often state-owned legacy carriers or fantasizing privately held airline ventures; and an asymmetric margin distribution across the aviation value chain with the majority of suppliers dominating or bottlenecking airlines' performance health. One can assume that those unique industry conditions will not just go away. Even with a significant concerted future rise of air ticket prices as we are currently witnessing in 2022, such inflation will be mostly a pass-through to compensate for fuel costs and climate matters. If all this is true, there is no other option for airlines but setting themselves up for success through a radical lean approach to their business.



A successful formula many of today's successful low-cost airlines are implementing is to follow a nimble, flexible, detail-oriented approach to business. In short, developing mechanisms to challenge the status quo. Tactics airlines can undertake include running much more prudent cost optimization, renegotiating contracts with suppliers at eye level and with toughness (especially concerning aircraft financing & servicing) through the lens of win-win partnerships. Several ultra-low-cost airlines have gone a long way already to minimize their share of fixed cost by adhering to more flexible contracts, increasing the share of temporary and part-time workers across the whole organization, and variabilizing their fleet costs.

Regardless of size or positioning, all airlines will benefit from embedding a low-cost DNA into their organizations. This could require unbundling high-cost services (e.g., Emirates unbundling its business class offering to provide options with no seat booking or chauffeur drive at a lower cost) and switching to a variable cost model for most of their historically fixed expenses. Thus, low-cost is no longer a segment, but more of a business model imperative that should not hamper on customer experience.

At the same time, COVID-19 drove the need for more flexible, nimble, and speedy decision-making capabilities across several functional areas. For example, the pandemic has forced airline planners to make changes to their traditional thinking around airline scheduling. Earlier, with fairly predictable demand, airlines had visibility into future demand through advanced bookings, helping planners to forecast the required level of capacity. Currently, real-time demand changes are urging airlines to keep adapting their schedules continuously, which is a complex and time-consuming process, especially given the high volume of capacity changes happening worldwide. As a result, airlines will need to adapt to varying demand forecasts by further increasing the variability of their end-to-end cost structures, for example by implementing more flexible workforce management programs that can rapidly scale up or down manpower with minimal penalties.

From a fleet perspective, several players are reassessing their fleet planning, including their mix of owned and leased aircrafts, seeking new, regional, and high fuel-efficient jets. Opportunities for short-haul low-cost aircrafts are likely to surface more, though with risks of imposed limitations for environmental concerns. It is noteworthy to outline Airbus's aspiration to develop carbon-free future commercial airplanes in the longer run.

On the commercial side, resilience and agility from planning to execution matter strongly. Airlines' ability to respond to short-term market feedback and competitive moves by adjusting sales activities, fine-tuning marketing campaigns, and optimizing pricing across the various channels will be instrumental. Commercial agility will require a mental shift of leaders and teams in charge since it means making more decisions, taking more calculated risks, probing more changes, and allowing for immediate and more frequent correction of failures. Such entrepreneurial approach will require a proper tooling and upskilling through new forecasting methods, machine learning, process re-design, nimble themes, different level of position support, and injecting new sources of data to make decisions.

## Leadership Implications:

Airline CEOs would need to build a culture of lean thinking, attention to detail and challenging of the status quo. Being cost conscious will not be good enough—being low-cost obsessive is the way to go. CEOs need to lead this spirit from the top, and the board of directors needs to back such a fundamental shift of attention with endurance and clarity, while adopting a spirit of value creation similar to private equity philosophies. This requires learning of new practices, establishing new processes, training associates across all levels, and should run not only into the company operations but across the whole P&L. Some of this mindset shift could be achieved from internal talent, while in many cases we believe that both junior and senior level hiring from competition as well as outside of the airline industry (e.g., e-commerce retail, network logistics, automotive suppliers) will help to accelerate and enrich the path towards a lean airline culture.

Achieving strong levels of agility and resilience will also require organizations to delegate decision making with a shift toward simpler processes, spurring a culture of empowerment and delayering of the organization. It is a cultural transformation for most airlines to go through and make stick with the wider organization. This will foster psychological safety across organizational levels that they are part of decision making and solution design, that they are fully empowered to co-drive change through their own initiative and ideas. These practices are critical for airlines to weather future significant crises or pandemics.

Not surprisingly, beyond establishing an agile leadership culture, top-notch talent injection will certainly help to foster a more agile and resilient spirit of thinking and acting. Sourcing talent will require a look at entrepreneurial technology organizations (e.g., Uber, Google) that have mastered nimble commercial abilities and also at several businesses that have agile and flexible working models, combined with internal talent spotting.

Ultimately, modern airline CEOs will need to role model authentically and continuously what shared leadership and organizational empowerment really means and communicate regularly, and visibly, the positive impacts and successes yielding from such new culture.

## The Role of Boards

While aviation is one specific space often targeted with policy interventions, this crisis-induced attention will spark an even stronger role for companies' governing bodies. The backdrop is clear: As governments across several countries increasingly put more scrutiny over airline companies—including loan guarantees and equity add-ons, more workforce safety and environmental standards—market access to several players is limited, resulting in a growing concentration in the industry.

Airline boards will now need to take one step further and support their management teams, weathering this storm with the guidance and wisdom they have earned throughout the years. The job of boards will be not just to keep afloat, but to assess long-run prospects; balance short-term priorities and long-term objectives; and bestow the leadership with more trust for them to take immediate actions as situations arise.

## The Role of the Air Transport Ecosystem

There is no question that the airline industry is adjusting to a radically new normal where only the leanest, fittest, and most adaptable will fly in our skies. Accordingly, air industry players—airports, airlines, and aviation services companies—will increasingly explore partnerships to jointly address the challenges ahead. These alliances, co-operations and bilateral partnerships can be meaningful opportunities for airlines to maximize commercial value, for example through joint purchasing, revenue sharing or cross selling. Airlines could also leverage each other's differentiated capabilities in areas such as revenue management, route planning or customer experience.

Traditionally, partnerships were viewed as a risk of losing intellectual property or sharing a differentiated capability with a competitor. Instead, airlines could recognize the complementary strengths and synergies that they can bring to each other by moving away from static joint ventures and tactical alliances to more open bilateral agreements, where data sharing can support transfer of best practices and improved commercial understanding. However, these partnerships will require governments to let go of protectionist policies and allow airlines to operate as truly commercial entities.

## Never Waste an Airline Crisis

Airline CEOs have been piloting through stormy skies for the past couple of years, but they need to remember that this recent crisis has also driven major lessons and created opportunities for the longer term. Now is the perfect time for deep restructuring and true transformation. It is time also for evaluating and developing young and senior leaders to the top since these are the people who will endure and succeed as they rebuild their airline using smart leadership while heading up an agile and customer focused structure, organization, and culture. Taking an airline from recovery to sustainable growth will call for leaders who can adapt to evolving challenges, anticipate new ones, and understand talent needs, all while keeping the customer at the core of the business.



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