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Board leadership and governance for clear-sighted CEO succession at Air New Zealand

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This case was written with the cooperation of the Air New Zealand board solely for the purpose of stimulating class discussion. All data contained in the case are based on field research and public sources. The case is not intended to be used as illustration of either effective or ineffective handling of a managerial situation.

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John Palmer, board chair for Air New Zealand, felt positive about stepping down after 12 years. He was especially pleased to see former CEOs and the new CEO among the well-wishers at the farewell function following his final board meeting in March 2014, a heartfelt acknowledgement reflecting on the decisions made by the board in all three CEO appointments.

In 2002, Palmer and the board had set out to revitalise the troubled company, recognising the selection of a CEO required not only the best CEO—it demanded the "right" CEO for the flagship carrier at that time. Now, with his planned departure at hand, Palmer anticipated the board's CEO succession process would again reap the expected performance for this world top 40 airline group.

Airline Acquisition Fiasco and Bailout: 2000 - 2001

In 2001, Air New Zealand's 60-year history of practical, fast, and economic transport for people and goods was in jeopardy. Its aggressive acquisition of Australian-based Ansett Airlines in 2000 threatened to ground the carrier less than one year later. Faced with a loss of $1.4 billion in 2001, the biggest loss by a public company in the corporate history of New Zealand, Air New Zealand had exhausted its credit and its options. Trading in its shares was halted on the New Zealand Stock Exchange on 13 September 2001 due to the company's financial crisis[1]. In early October the Air New Zealand board, its major shareholders, and the New Zealand Government announced a proposal for a substantial capital injection. By December 2001, Air New Zealand shareholders had approved the proposal and accepted an $885 million equity rescue package from the New Zealand Treasury. Consequently, the government acquired 83% ownership of the company. Through necessity rather than by design, the airline became New Zealand's first stock exchange listed state-owned enterprise.

The Art of the Rebuild (2002)

A clean break amid crisis meant a new board and CEO—terms set by the Crown as part of its rescue package. Following a search, the responsible shareholding Minister identified and approved John Palmer as a board chair-designate and director. As an experienced board chairman, well-versed in leading turnarounds, he moved swiftly to exercise his leadership skills.

Palmer faced two urgent and major tasks at the outset—rebuilding the board and appointing a new CEO. He began the board rebuild by selecting independent directors with expertise in fields ranging from international business, finance, information technology, marketing, engineering, and labour relations gained outside of the airline industry. Palmer invited to the board two directors from the previous board, four new directors, and the acting CEO (who was also a board member). Palmer agreed with the majority shareholding Minister, prior to his appointment, that the Minister would have a veto right on any proposed director, but would have no part in the search process. Each hand-picked director was approved by the shareholding Minister and subsequently ratified at the annual general meeting. To preserve the board's independence, none of the initial directors was a government appointee despite the Crown being the largest shareholder.

Palmer was convinced that effective leadership from a governance perspective required him to address first the composition of the board of directors to bring vision and relevance to New Zealand's first publicly listed state-owned enterprise. The board received 'a flying start in a governance sense because we had a board purpose built for the job which had to be done', which included generating a steady sustainable stream of revenue. As one director explained, 'we were starting from behind zero, I can read all those due diligence files, what is it going to do for me? I just know what is ahead of us.' Good leadership by the board demanded a shared vision: Palmer did that. The directors on the board all shared a commitment to restoring the airline to its place of pride in New Zealand and the world. Unlike most boards, this newly formed board had limited experience in understanding the specific drivers and dynamics of the airline industry. Importantly, though, they had candour, commitment, and a wealth of domestic and international experience and knowledge to engage in the turnaround. Along with building a motivated board, Palmer tackled the pressing issue of finding a Chief Executive Officer. He understood that the next few months—and subsequent years—would demand a high quality CEO and ongoing board leadership.

Naming a chief executive officer. In early December 2001, the board appointed an international recruitment firm and constituted a new three-member CEO selection subcommittee, consisting of Palmer, a director reappointed from the previous board, and the acting CEO and deputy chairman. As the new search began, the ad hoc subcommittee soon confronted barriers. 'No one wanted to be the CEO of a company that had just lost $1.4 billion…also September 11 was very fresh and raw. New Zealand would have seemed miles

away to any off-shore resident. The CEO job did not have any appeal at all to any really good candidates'. Despite the tarnished reputation of the airline, two candidates applied.

Faced with mounting pressure to choose between the two applicants, the selection committee met in the Air New Zealand office and each director independently arrived at a similar conclusion. Palmer made the tough but courageous call: neither of the candidates was selected. He acknowledged, 'I did not know what we were going to do but I did have enough experience to know that when you are making key decisions if it does not feel right you should not make it'. His self-awareness and character came to the fore. He was 'prepared to walk away [from either candidate] because it was more than considering "who is the best person" without actually asking the question, "is this the right person" for the job?' The search would have to start over and the interim CEO and director might need to stay on for an additional six months.

Then the CEO search took an intriguing turn. To the surprise of his fellow directors, Ralph Norris, one of the directors on the subcommittee, decided that he would apply for the position of CEO. Following a discussion with the board, he was required to adhere to the same process as other candidates. He was fast-tracked through the psychological assessment and interviewed in only two days. The decision was now in the hands of Palmer and the interim CEO and director. Within a week, Norris received an offer and the board approved his appointment in February 2002. At a press conference, they announced the decision and Norris stepped into the role as CEO and Managing Director of Air New Zealand.

Norris's decision to 'throw his hat in the ring' for the position of CEO was not one he took lightly. When he joined the board in 2001, prior to the financial collapse of the airline, Norris had no intention of becoming its CEO. He had recently retired as CEO of ASB Bank, a bank owned by the Commonwealth Bank of Australia. However, as the paucity of qualified candidates for the airline's CEO role became apparent, he seriously considered his personal situation, the obstacles faced by the airline, and the strategy for the airline's future. Norris pointed out, 'At the high level, I had a good understanding of the business and the industry; when it got down to the operational areas I was obviously not as well equipped'. As an experienced CEO, Norris was acutely aware that 'the appointment of the chief executive is the most critical decision that any board makes. The company will thrive or wither on the quality of the performance of the chief executive and the team the chief executive builds around him or her so that is really critical'. On that basis, he applied—and was chosen—for the job.

The appointment of Ralph Norris was not without controversy. First, Norris had a reasonably tense relationship with the Labour government given his role as Chair of the Business Round Table, a conservative think tank[2]. Second, Palmer did not consult the responsible shareholding Ministry over the appointment. However, Palmer's primary concern of selecting a permanent CEO outweighed these concerns; 'the consequence was getting the right person. Norris ticked all the boxes that were really important; he has a very savvy business head. And having concluded that this was a people issue…if he could motivate this group of people and put them in the right direction, we had a good chance of saving the business.' Palmer demonstrated his knowledge that what Air New Zealand needed at that time was a CEO who could lead people, rather than just manage a business.

Defined departure. Over the next 36 months (2002-2005), Norris and the board focused on stabilising and then revitalising the company. Norris began his work with people described by one director as 'incredibly beaten up and bruised; [whose] confidence was non-existent'. In response, Norris invested in laying the foundation for a new culture—one that embraced innovation, technology, and customer service. 'We changed every aspect of the business,' Norris explained, 'from customer contact at the airport to experience on the aircraft, and in an integrated fashion.'[3] Initiating a cultural transformation was a daunting leadership challenge. They overhauled the business plan and reconfigured domestic operations with a strong emphasis on cost leadership.

In June 2003, Air New Zealand reported a profit of NZ$166 million—its first in four years. Critics of the bailout by government fell silent at the stabilisation of the company. The board and CEO had achieved their desired results: the hallmark of effective leadership. In 2004, the airline extensively refurbished the long haul market tying New Zealand to the rest of the world, investing in a new family of aircraft. It added new routes and product upgrades such as new seats with video screens and movies on demand. In a world's first, the relaunched airline loyalty programme allowed customers to use their points like cash to book a seat.

An outsider-inside. Midway through his tenure, his former employer, Commonwealth Bank, approached Norris with a plum position. Norris declined the offer, knowing if he left at this critical time, the airline could take a major step back in its financial recovery. He was also aware one of his biggest decisions to aid in the airline's turnaround was not which technology to invest

in, but which people. The board and Norris agreed his primary key performance indicator (KPI) during his last two years was to find, recruit, and mentor a potential successor. Once again, Norris demonstrated his leadership skills; persevering with his commitment to the airline, and working with people to accomplish results. He believed there was no future rising star among his senior executive team with the strength, talent, and character to lead the airline. Some did not have the strategic vision or the capability to implement strategy successfully. For others, integrity was in doubt, a leadership attribute that the company required in its CEO. No one offered the complete package. He needed an external prospect.

The directors recognised the need for a good cultural fit between any prospective CEO and the airline. As one director explained, a 'new CEO [who] gets off a plane—does not understand the culture and values—and begins making decisions' does not bring about the desired effect. Because they are not 'familiar with culture and values', it is 'very helpful to if you can embed a new CEO in the organisation in advance of the appointment'.

Norris tapped into his network and found two potential candidates. One of them was Rob Fyfe, whom Norris once tried to recruit for the ASB Bank. He approached Fyfe and by the end of their third meeting, Norris had offered Fyfe the role of Chief Information Officer—a new position created within the executive management team. Fyfe accepted the position with an upfront understanding he would be a contender for the CEO role.

Developing and field testing a candidate. Like Norris, Fyfe gained his experience in banking and telecommunications, although he had also worked for the Royal New Zealand Air Force. Norris explained that banking and aviation shared common traits - both were network, global, mass-customer businesses with a high reliance on information technology[4]. As part of his leadership development within the airline, Fyfe embarked on a deep immersion so that he could learn about the industry, the company, its people, and the issues.

Over the next 18 months, Fyfe engaged in a series of structured development opportunities. Fyfe led a strategic review of Air New Zealand's business in collaboration with the top 20 people from across the various business lines of the company. In weekly meetings, they framed a strategy, teased out options for the airline, and ultimately presented a strategy to the board. The outcome of the strategic review 'demonstrated Fyfe's ability to work with people and established his credibility across the organisation which was really important', stated Norris, as a desirable leadership trait of the prospective CEO. While this activity proceeded with a view to

getting Fyfe 'up the learning curve quickly as possible', of equal importance was the strategy the board was developing for the airline.

The Search for the Next CEO (2005)

With the announcement of Norris' departure, the board did not consider the appointment of Fyfe to the role of CEO a *fait accompli*. The board was committed to following a process that would validate their appointment of the "right" person. Fyfe would be expected to apply for the job like anyone else.

Selecting the next CEO and planning for succession were among the most important responsibilities among the board of directors. The board implemented an organised succession planning process. Palmer explained it 'involved a whole board process that started a long time in advance of the appointment of a CEO.' The board exercised its leadership by modelling a process that reflected the values of the airline. Succession planning involved establishing board ownership of the process with the whole board engaged in regular annual discussions of the plan, including updates on talented leaders within the company. Palmer relayed the questions the board wrestled with: 'firstly, how do we identify people inside the business? And how do we have discussions to work out whether there is enough capability in some people that with some assistance, that they can become genuine candidates?' In the absence of promising CEO talent among the executive members, what measures do we take 'to get some people inside the business to give them a feel for the airline that they can build on or [do we] run the risk of appointing the capability from outside?'

For a successful CEO transition, the board re-affirmed its need to agree on the requisite capabilities to lead the airline. Between 2005 and 2006, the company faced tough strategic, workforce, and workplace decisions. Layoffs ensued in the corporate office and among engineering because of the decision to outsource engine maintenance. These challenges were coupled with an unprecedented 44% rise in the price of jet fuel, which forced the company's profitability down 47%. Net profit after tax was $96 million for 2006. It was an apt time for the board to again exercise its leadership, set a vision, set future direction, and align the capabilities of the next CEO to achieve the airline's goals. The board, unaltered in its composition since originally selected by Palmer, 'had started to strategise much more about a little fast nimble airline that would be quick on its feet, would be a bit different, and would emphasise its New Zealand-ness'.

At a special directors-only meeting, they assessed the airline's current market position, the achievements realised in technology, customer service focus, and culture shift. Against the backdrop of the airline's successful early stage turnaround and new vision, the board next identified a constellation of qualities, characteristics, and experience for the next CEO. For some directors, the next CEO needed to be a *change agent*, *people-oriented*, *commercially astute* and bring a *strong customer service ethic*. Others sought a CEO with experience in *leading innovation* and *transformation*. Collectively, these attributes defined the corporate leadership needed by Air New Zealand for its next CEO. 'We were looking for fresh thinking and we were not even fixed on airline experience' stated one director. While the board debated and discussed the requirements and desired attributes, Palmer was, 'literally writing them on a whiteboard and then ticking the common ones so [the board] got a matrix'.

With the desired CEO profile in hand, a selection firm conducted a global search for the qualities sought by the board. Representatives of the search firm facilitated identification of potential external candidates when they 'really got inside the board's thinking and understood what we were trying to do and focused the search down so that the "fit" would be good'. They generated a list with international and domestic candidates sourced internally and externally.

To aid the process, the board convened an ad hoc sub-committee with two directors and the chairman, who developed a short list of three candidates—two external and one internal (Fyfe). The whole board interviewed the candidates with questions posed by the directors. Following the final interview, the board discussed the strengths and talents of each candidate. Each director assessed the relative risks connected with each potential appointment as Palmer posed a series of questions. One external candidate without airline experience was determined to be a high risk despite a demonstrated record of accomplishment leading change in large organisations. The other external candidate was a seasoned aviation professional, someone who could 'come in and run the airline, not a problem, but would he really transform it?' queried one director. And then there was Fyfe: he had gained 18 months' aviation experience under the mentorship of Norris. He knew the strategy, the desired culture, and the people. He was aware that 'we have got to try new things and if they don't work, adapt, adjust, withdraw and try something else'[5]. Although some directors initially expressed concern over his potential appointment, this concern was not shared by Norris. He recalled, 'When I left I made it very clear to the board, and it is never the chief executive's decision who will be chief executive, but I

did make it pretty clear to the chairman in my view Fyfe was the right candidate for the job.' Following robust discussion and considerable deliberation the board ultimately selected Fyfe. However, an additional six months passed before they announced him as the CEO. 'It was a great risk and great choice and he achieved far more than what the board thought' at the time, as one of the directors put it.

By the end of 2007, Fyfe was well underway with the airline's fleet renewal plan that kept the craft in top condition, fuel efficient, and low in maintenance cost. Fyfe cut the price of domestic travel, introduced fresh marketing schemes, and reorganised the Tasman and Pacific region flights. These efforts combined to create a net after-tax profit of $214 million, 123% up from the previous year. Despite the global financial crisis 2008 heralded new global recognition for the airline. Of the top 30 airlines identified by operating profitability, Air New Zealand jumped into 11th place. This was very different from the previous year, when it did not even make the top 30 cut[6]. Once again, the board and CEO demonstrated its leadership in achieving their desired results.

Beginning a Fresh Search for the Next CEO (2011)

By 2011, Fyfe had transformed Air New Zealand financially, operationally, and culturally[7]. He exemplified leadership that instilled the desired culture among employees, managers, and supply chain partners. He initiated and achieved open and lateral communication within the company; the absence of that communication had prevented cross-departmental collaboration in the past. He also developed a personal practice of working one day a month in roles such as baggage handler, service call operator, and food server aboard aircraft. Together with the chairman, they initiated a similar annual practice for all directors.

The relationship between Fyfe and the board was 'traditional with the boundaries between the role and management and the role of governance very well established'. Although Fyfe was offered the role of Managing Director, he declined. With this clear separation, Fyfe's interaction with the board was 'mature and professional'. The relationship with Fyfe and the board was 'about having a safe environment at the board table,' which grew and evolved over Fyfe's tenure. For the board, clarity of role and responsibility was vital to their collective leadership action. The contributions of board members and Palmer's leadership style enabled Fyfe to do his job—lead the company—'in a way that some other boards would not have probably been prepared to risk'. Fyfe and Palmer had a respectful professional relationship and Fyfe 'would never make

any significant decision without talking to the board about it, and making sure that [Palmer] was across things'.

Another defined departure. After seven years in the role, Fyfe notified the board of his desired departure by December 2012, providing the board with an 18-month timeline for transition. The board once again embarked on a recruitment process for the next CEO. The same recruitment firm initiated a search for prospective candidates internationally and domestically. This future orientation demonstrated the board's leadership thinking and awareness that the fate of the board and its future chosen CEO were intertwined.

A new outsider-inside. In May 2010, Christopher Luxon, then CEO of Unilever Canada and a New Zealander, attended a presentation in Toronto about non-executive directorship given by a global expert from a large international search firm. Luxon and the search expert chatted briefly about the country where they both grew up. Subsequently in December 2010, the search expert contacted Luxon and indicated that Air New Zealand was looking for new promising executive talent. He invited Luxon to meet Fyfe and learn about the cultural journey of Air New Zealand while Luxon was in New Zealand for his family holiday. Intrigued, Luxon accepted the invitation. He met Fyfe in Auckland in late December 2010 and promptly received another invitation—this time to meet with Palmer at the Nelson airport. Fascinated with the transformation of Air New Zealand and impressed by the chairman, Luxon left that meeting puzzled. 'It was not quite clear to me at that point whether there was actually a job at Air New Zealand. I was in the process of moving from Toronto to New York and we were going through schools, houses, and job transition,' he stated. Yet the idea of returning to New Zealand took hold; Luxon had found a fit between his values and the chairman's, relishing an opportunity to model good corporate leadership in his native country.

Informed by the success of the succession process the board had implemented with Norris in Fyfe's appointment, Fyfe, with the board's support, drew upon established board practice and identified and developed talented potential leaders as specified in his key performance indicators. Once again, the board adopted the attitude that effective leaders learn "on the job", and provided Luxon with the opportunity to prove himself. To this end, in 2011, Luxon became group general manager for the international division of Air New Zealand. With the understanding that the role of CEO was not pre-ordained, Luxon took the job but nurtured the hope that he would be a candidate for the top job.

Developing and field testing internal candidates. Luxon arrived in New Zealand in May 2011 to take up his new role. Luxon drew on his international experience with start-ups, turnarounds, and realignments gained through job rotations within Unilever. He was quick to acquire an understanding of 'the whole airline business and gain a sense of the agenda along with the challenges' faced by Air New Zealand. To facilitate Luxon's transition, Norm Thompson, a 46-year 'veteran' of the executive management team accompanied the new general manager. Between June and August, they made their way to all the ports and markets, looking at all of the different functions. Luxon met with employees on the front line as well as with management. By the beginning of August, Thompson, who had been doing double duty, stepped away. Luxon was now solely responsible for turning around the international division at a time when it was losing $2 million a week[8]. Luxon's focus paid off. The restructured long-haul services returned to the black for the first time in five years.

After these initial successes and with eight-months' experience gained at Air New Zealand, Luxon was well positioned as an inside candidate when Fyfe formally announced his resignation in late January 2012. Palmer met with Luxon and confirmed he was a candidate for the position. He joined a pool of two other internal candidates that Fyfe had identified in the six months prior to the individual interviews. All candidates received feedback on the areas needing enhancement and were mentored so that they could potentially succeed as CEO. Like Norris before him, Fyfe had identified and mentored potential CEOs for consideration by the board.

The Board's Formal Process

The faces around the boardroom table had been relatively consistent for the past seven years while Fyfe transformed the airline and its culture. In contrast to the board stability during the CEO selection process for Norris and Fyfe, a number of changes happened as directors reached the preferred nine-year term limit. Because the board initially emerged from a 'blank sheet of paper' in 2002, some directors were set to step down simultaneously. To refresh competencies and fill in gaps in expertise, Palmer provided a strong lead to the board by choosing prospective independent directors. The five new directors, approved by the shareholding Minister and formally appointed at shareholder meetings between 2006 and 2013, boosted competencies in finance, accounting, marketing, strategy, and tourism. In alignment with the airline's trans-Tasman strategy, an Australian became a director. All others were New Zealanders, consistent with the board's constitution. This considered process of selection again demonstrated

leadership: an awareness of the benefit of diversity of talent on a high performing board and the need to bring in directors in response to the organisational and business needs of the airline at the time.

The fresh appointments to the board reflected the journey of the airline. The success achieved to-date attracted directors intent on continuing the entrepreneurial spirit of sustainable business growth and value creation. As in previous appointments to the board, the new directors delivered a range of expertise gained outside of the airline industry. A formal independence between directors and managers was maintained following the resignation of Norris, although the constitution permitted the appointment of a managing director. Consistent with the board's initial composition, all directors were independent non-executive directors; the government chose none of them. Collectively, these features added expertise, youth, and internationalism while maintaining a core of financial, marketing, and general business experience.

Aligning desired capabilities with strategy. Although the composition of the board may have changed, the new and seasoned directors shared a commitment to find the right CEO. After all, 'it was the role of the board to make the CEO look good', the chairman explained about the dynamic in good board/CEO relationships. 'We are there for four hours once a month and the CEO is there day in, day out, on an operational level'. With that understanding, the board once again wanted to ensure transparency in the CEO selection process. Collectively, the directors decided the airline needed to enhance its profit-making capability, signalling a shift away from the cultural transformation focus of the past decade. After the directors agreed and committed to the strategic direction, the board recognised they needed a different type of candidate from the incumbent CEO. 'Understanding the distribution and sales channels and how to get that piece optimised, both in terms of its effectiveness in the marketplace and in terms of the value you got out of it, was quite important'. Directors agreed that it was not 'an area in the Airline's history [that] had ever been rigorously challenged and strategically packaged and thought about in a business that only makes two or three percent at the bottom line'.

Creating the CEO profile. The directors were given time to prepare for the selection process. Prior to any discussion of candidates, the board returned to the same white board exercise they had used in the past, beginning again with a blank slate. The chairman advised them, 'At the next board meeting we are going to talk about what we require with our new person, so please

have a good think about it and we will have a board-only session'. They first agreed that the new CEO was not to be a clone of Rob Fyfe, 'that was not going to work'. Directors canvassed all angles to determine the attributes and characteristics of the desired CEO. Ultimately, three top essential attributes and nine desirable qualities coalesced from robust discussion. Most board members agreed that the position demanded *emotional intelligence and agility*. Various directors of the board favoured as essential *people skills and team-builder skills* coupled with being *numbers- and value-driven*.

The right CEO required emotional, physical and mental stamina. This cluster translated into *resilience*. The board also recognised the importance of the right cultural fit between the airline and its future CEO through the qualities of *kiwi spirit and values*. A results-focus was described as being *deal and alliance savvy*. 'We were actually looking for different people management characteristics to give this harder commercial edge to the business now that the culture and technology had been really well developed', the board chair explained. *Industry and international experience*, *change management* and *customer understanding* made it onto the list along with *high energy*, *self-awareness*, and *flexibility*. These qualities were ranked as desirable but not essential. 'In an airline sense globally,' the chairman pointed out, the profile emerged from 'very unconventional thinking'. The list of attributes generated by the board was the desirable qualities of a highly effective CEO to lead Air New Zealand through the challenges it may face in the future.

The fresh CEO role profile was not to be geared to any specific individual. Otherwise an internal candidate (Luxon) might have been perceived as having an inside track. 'We certainly did not write this description around Luxon's capabilities—that did not come into it.' The point was to define the qualities of a "right" CEO so as to open the competition up to others who could demonstrate those qualities. It also ensured that, if Luxon did apply, he would have to meet those criteria to be successful.

Although less than a year had passed since the search that had brought Luxon to Air New Zealand, the board resolved that a search for the next CEO exclusively among the existing talent within the company would not suffice. As the chairman pointed out, 'We agreed that we would go back to the market and do an international scan to see whether we would unearth anything that we had not unearthed in the search that we had previously done'. The same consulting firm was re-engaged with a new brief to scan internationally and domestically.

Scanning widely and benchmarking candidates. The board established a small ad hoc CEO selection subcommittee with Palmer and a director. The aim was to have the best pool of prospective candidates for consideration given that the board was 'very clear sighted about the sort of person required for the role of CEO of the organisation at that time'. The search firm identified external candidates, and the subcommittee winnowed the list to a select few who best matched the CEO profile.

The board reviewed external prospects against the three internal candidates and set the outsiders aside. Ultimately, board members observed the external applicants 'were simply not as strong as the internal candidates' and their focus shifted exclusively to the internal candidates. While board members were well-acquainted with the candidates through their quarterly presentations to the board, visits made by directors to site specific operations, and participation at strategy sessions, Palmer and Fyfe ensured the board had 'visibility' of all inside contenders. Candidates were encouraged to participate in the Audit, Safety, and People Remuneration and Diversity standing committees to gain experience and so that the board 'could see the development of these guys as well'. This process by the board demonstrated its leadership through their commitment to fairness, transparency, and merit in the selection process as well as their ability to model these attributes for the whole company.

Managing the internal competition. All internal candidates completed the assessment administered by the selection firm. Subsequently, one of the candidates withdrew. Two candidates, including Luxon, remained in the running. Managing potentially destructive competition between them was essential. This time was an economically difficult period for the airline and it could ill-afford unwanted tensions within the business. The carrier earlier that year had announced plans to reduce its staff of 11,500 by 440 after recording a 71% plunge in half-year profit. The airline cited a weak global economy and the high cost of jet fuel[9].

In this context, the two contenders sat down and talked about how they wanted to carry themselves through the process. Luxon pointed out, 'transitions are really dangerous times…we had to keep business as usual. It was not personal; whatever the board decided would be their call and what that would mean for each of us, we would deal with that down the road'. By placing the needs of the airline first and personal considerations second, both candidates demonstrated leadership.

Considering the candidates. Both candidates made a presentation to the full board, explaining why they wanted the job and what they would do if they got it. Each defined the vision and growth strategy for the airline. The board convened in a meeting room at an offsite office complex. It was a full day for the board; the morning dedicated to one candidate and the afternoon to another. Following each presentation, individual board members posed questions about the value drivers needing to be sharpened, changed, and created for the next phase of the airline's growth. Luxon pointed out, 'The business did need to move forward; it could not just keep looking in the rear vision mirror saying, "Aren't we great?" It needed to actually look out of the front windscreen and think about a vision for where we were trying to get to and how much better we could be'. Along with exploring the business imperative, the board also sought assurance that each candidate understood the culture and values that needed to be maintained. As one director explained, the airline had differentiated its business through 'nimbleness, agility and kiwi-ness'. During the break between the two presentations, the directors were discouraged from talking with each other about the presentations. Each director was to make an initial personal decision about who was the ideal candidate.

Selecting the successor. The board reconvened later that same day. Three short questions were posed by the chairman. Palmer went around the table and asked each director, 'Are either of the candidates worthy of appointment, yes or no'? All confirmed 'Yes, we have an appointable candidate'. He followed up with his second question, 'Is there a preferred candidate, yes or no?' There was an unequivocal affirmative response from the directors. Finally, he proceeded around the table one last time and asked each director for the name of their preferred candidate. It was Luxon.

Unencumbered by the need to finalise reference checks because Luxon was an inside-outsider, the board moved swiftly to finalise the appointment. A few days later, on a Sunday evening via conference call, the board confirmed its decision. The chairman contacted Luxon and offered him the position of CEO of Air New Zealand.

Presenting a transition recommendation. At a subsequent meeting, the board discussed the timing of Fyfe's departure and the nature of the "passing of the baton" to Luxon. The chairman proposed a six-month transition. The board was not unanimous about the six months: it was 'quite a tense subject around the board as to how it should be run' explained one director.

Given the tremendous confidence the board had in selecting Luxon as the next CEO, several directors queried the rationale for the delay. These directors were uneasy about the effect within the company and the implications for governance by the board. They were keen to avoid confusion and political gamesmanship with an incumbent and a named successor. They preferred a clean sharp break so that 'there was no confusion about the line of command for people'. It risked fostering uncertainty, rumours, and politicisation of employees with loyalty to the outgoing CEO while the new CEO-designate led a corporate restructuring process.

These directors also thought about the role of the chairman in this transition. According to one director, the nature of the risk required Palmer to 'keep his nose right in there to make sure it was not creating issues below'. Such operational involvement ran counter to the clearly defined roles for the board and management.

Other directors had no reservations about the transition period. One director described the proposal as 'conventionally unconventional'. As directors, they were familiar with the personalities of the outgoing and incoming CEO and believed the two would make it work. Fyfe was an ardent advocate for Luxon and agreed it was important for the incoming CEO to get a bigger view of the business. According to Palmer, 'You can only run that process with certain people characteristics, so you need to be sure that the chemistry between the two and the personalities allow that to happen effectively and one or the other is not going to react badly in that process'. Following two meetings of vigorous and open debate about the transition, the board was ready to move forward. To mollify the concerns of some, Palmer made it clear there was only one CEO: the incumbent Fyfe. As one director stated, 'We had only one CEO and we were absolutely adamant about that'. Accountability for business performance and delivery of the key performance indicators resided with Fyfe during the transition. The board met monthly with Fyfe. They also met with Luxon on specific projects, including his plan for restructuring the company. The acceptance of dissent within the board, constructively handled, and the ability to grow from it, showed the leadership strength of both the chairman and the board itself.

Designing and implementing the transition. The extended transition period allowed Luxon to continue to gather data and develop a new organisational structure. Having persuasively shared his strategy for achieving profit with the board at his interview, Luxon initiated the restructuring of the airline as CEO-designate with the support of Fyfe. He moved the airline

from a divisional structure previously implemented by Fyfe to a functional structure. It was the first major restructuring of the company in seven years. While he used the restructuring to gain the opportunities of scale and synergies, he also set out to develop his senior executive team. Luxon had had contact with all management in his previous role and discussed his recommendations for change with the incumbent CEO. This included a position on the executive management team for the other CEO candidate. Luxon also brought a Chief People Officer from outside of the industry along with a dozen general managers from overseas to round out his executive team and form the top 80 leaders for the airline.

During the transition, Fyfe and Luxon met with Air New Zealand partner organisations, such as the CEOs of Star Alliance, and began to transition Fyfe's relationships to the incoming CEO. With the internal restructuring completed and new executive team appointments made within the first five months by the CEO-designate, 'the day Luxon started as CEO he was going 100%'. According to the chairman, 'Businesses lose traction, sometimes lose focus, and in many cases lose value in the transition of CEO because there is a hiatus while the new CEO either changes things or comes up to speed. Both can be very damaging. I think the way we did it has shown that there would have been concern in the market and in the public of saying, "How are you going to replace Rob Fyfe, very high profile, very successful CEO?" Well, the reality is the business never missed a beat'.

By 2013, Air New Zealand began to realise the returns on an investment and strategy that has been several years in the making by initiating its five-year 'Go Beyond Plan'. As an industry analyst explained, 'With an eye to a virtuous circle of continuous cost cutting and improving sales performance driving reinvestment, combined with few apparent head winds, Air New Zealand should however be well placed to deliver on its objective of doubling its 10-year average underlying earnings - and with it further driving a share price that for the time being still looks cheap.'[10] This constant willingness to adjust and alter its vision and operations to respond to external circumstances showed the leadership capability of the whole board and CEO.

Celebrating 75 Years of Aviation and CEO Succession

CEO succession is about the future. A director pointed out, 'while we have been successful in appointing three great CEOs, we made our own success. With Norris we got a little lucky probably. But in the case of Fyfe and in the case of Luxon we made our own luck; that is not to

say we could not have got it wrong but we did not because we had taken a lot of time to think clearly about the skill sets and attributes that we wanted for the CEO at that point in the Airline's evolution'. The chairman echoed succession planning as a competitive advantage for the company. According to Palmer, a wise board appoints 'the right person, not the best person, and gives them the tools and the capability to deliver what they promised'.

The challenge for the board in the future will be to ensure the planned, repeatable, and regular process of CEO succession continues to be undertaken by the board to identify and develop the next CEO, regardless if the candidate is an outside-insider, an internal prospect, or an external applicant.

Exhibits

Exhibit 1 Aviation Industry in New Zealand

- Airlines registered in New Zealand carry 12 million passengers and 120 thousand tonnes of freight to, from and within New Zealand[11]
- Airlines registered in New Zealand directly employ 13,000 people locally and through their supply chains support an additional 23,000 jobs. A further 24,000 jobs are supported through the household spending of those employed by airlines and their supply chain[12].
- Airlines contribute $5.8 billion NZD to the economy[13]
- Air New Zealand operates a network of 51 destinations, half of them domestic routes. London Heathrow is the furthest point operated from the carrier's Auckland base and the only long-haul destination beyond the Pacific[14].

Exhibit 2 Global Context: Recent Industry Evolution (2000 – 2013)

More than a decade of change substantially transformed aviation. Airlines were now leaner, greener, safer and stronger than any time in their history[15]. A globalizing world provided the incentive; the industry grew rapidly to meet the need. The industry added new customers, new competitors, new connections, and additional frequencies. Between 2001 and 2011, annual freight shipments expanded by 17 million tonnes to 46 million. In the same period, air travel became accessible to a billion more travelers a year: 2.8 billion people were expected to fly in 2011[16].

Costs fell significantly as enabling technologies improved and efficiencies were gained through more sophisticated operational management. Direct value was created for consumers, employees, and some suppliers. Indirect value for the broader economy delivered catalytic benefits to the overall economic growth of nations, including international trade and tourism. The decade also saw industry revenues double to $598 billion[17]. But industry profits were much less impressive. In 2010, the best year of the last decade, the industry's $18 billion profit was equal to a slim margin of just 3.2%, despite many new efficiencies[18]. This has not been for a lack of initiatives: operational costs were streamlined through outsourced maintenance and ground handling services considered non-core dropped, more sophisticated management was implemented, aircraft utilisation rates dramatically increased, added additional revenue streams were introduced, wide-ranging customer loyalty programs were employed, and alliances with global reach established[19].

Partial deregulation created fierce competition among the airlines but without commensurate "normal" freedom to do business[20]. Governments recognised air transport as vital infrastructure and continued to "own" their airspace and regulate it heavily. Prohibitions on full cross-border mergers between airlines prevented complete integration of airline services, but where granted by governments, alliances allowed cooperation and integration[21]. By the middle of 2011, the three major alliances (Star Alliance[22], SkyTeam and oneworld) coordinated travel globally and provided over 80% of capacity across the Atlantic and Pacific and just under 80% between Europe and Asia[23].

Exhibit 3 Air New Zealand's Vision

We will strive to be number one in every market we serve by creating a workplace where teams are committed to our customers in a distinctively New Zealand way, resulting in superior industry returns.

Exhibit 4 Air New Zealand's Guiding Principles

- We will be the customers' airline of choice when travelling to, from and within New Zealand.
- We will build competitive advantage in all our businesses through the creativity and innovation of our people.
- We will work together as a great team committed to the growth and vitality of our company and New Zealand.
- Our workplaces will be fun, energising and where everyone can make a difference.

Exhibit 5 Timeline for Air New Zealand CEOs

Ralph Norris appointed 13 February 2002 – resigned effective 30 August 2005
Rob Fyfe appointed 14 October 2005 – resigned effective 31 December 2012
Christopher Luxon appointed 1 January 2013 – present

Exhibit 6 Biographies of Chief Executive Officers at Time of Appointment: 2002 – 2013

Sir Ralph Norris joined Air New Zealand as Managing Director and Chief Executive Officer in February 2002, having served on the company's Board of Directors for three years.

Formerly he was the Managing Director and Chief Executive Officer of ASB Bank, the Commonwealth Bank's New Zealand subsidiary, from 1991 and retired from that position in September 2001.

As a former Lynfield College student, Norris joined Mobil Oil as a cadet. He later joined ASB Bank in 1969 in the IT department and performed a number of roles for the bank's digital upgrade. In 1986, he was appointed as General Manager Information Services and joined the Bank's executive team. He became the bank's first Chief Information Officer with the introduction of ATMs.

Rob Fyfe served as the Chief Executive Officer of Air New Zealand from October 2005 to December 2012. He was the airline's Chief Information Officer, and Group General Manager Airlines, and had been with the company since 2003.

Mr Fyfe was born and raised in New Zealand, and graduated from Canterbury University in Christchurch with a Bachelor of Engineering degree. He started his working career in the Royal New Zealand Air Force in 1979.

Prior to joining the airline, he held positions in banking in New Zealand and Australia between 1988 and 1997. He returned in 1998 as General Manager, Consumer Markets for New Zealand's Telecom Corporation. In 2000, Mr Fyfe moved to London to serve as Chief Operating Officer and then Managing Director of ITV Digital.

Christopher Luxon was appointed Group General Manager International Airline at Air New Zealand in May 2011 and took over the role of Chief Executive Officer in January 2013.

Prior to joining Air New Zealand, he was President and Chief Executive Officer at Unilever Canada. This was one of several senior leadership roles Mr Luxon held during an 18 year career at Unilever where he worked in New Zealand, Australia, Asia, Europe and North America.

Christopher has a Master of Commerce in Business Administration from the University of Canterbury.

Exhibit 7 Select Awards for Air New Zealand: 2003 – 2013

2013 World Travel and Tourism Council Tourism for Tomorrow Awards	Global Tourism Business Award
2012 Air Transport World Global Aviation Awards	Airline of the Year
2011 Skytrax World Airline Awards	Best Airline Australia / Pacific
2010 Air Transport World Global Aviation Awards	Airline of the Year
2009, 2010, 2011, 2012 World Travel Awards	Australasia's Leading Airline
2008 Air Transport World	Best Passenger Service Award
2007 Business Traveller magazine	Best Airline to the South Pacific, Australia and New Zealand
2004 Air Transport World	Phoenix Award for a commercial rebirth through life-changing transformation
2003 British Banker magazine	New Zealand Corporate of the Year

Exhibit 8 Air New Zealand Board of Directors: 1998 – 2013

John Palmer, Chairman (2001 – 2013, director to 2014)

Roger France (2001 – present)

Sir Ralph Norris (1998 – 2005)

Sir Ron Carter (1998 – 2007)

Ken Douglas (2002 –2008)

Jane Freeman (2002 –2008)

Warren Larsen (2002 – 2013)

John McDonald (2002 – 2011)

James Fox (2006 – present)

Paul Bingham (2008 – present)

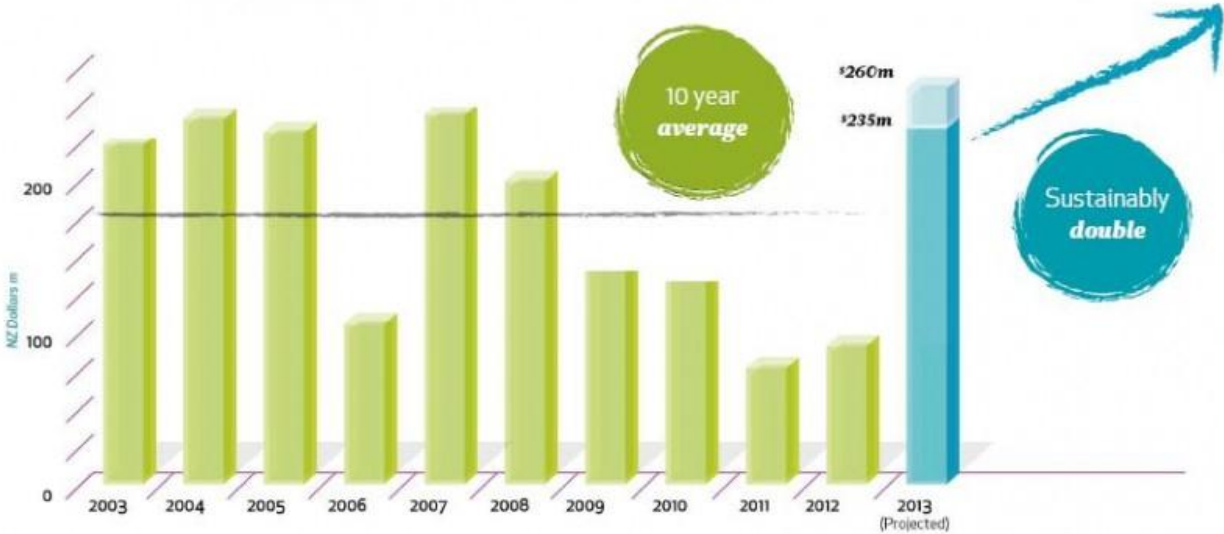
Antony Carter, Chairman effective 2013 (2010 – present)

Janice Dawson (2011 – present)

Rob Jager (2013 – present)

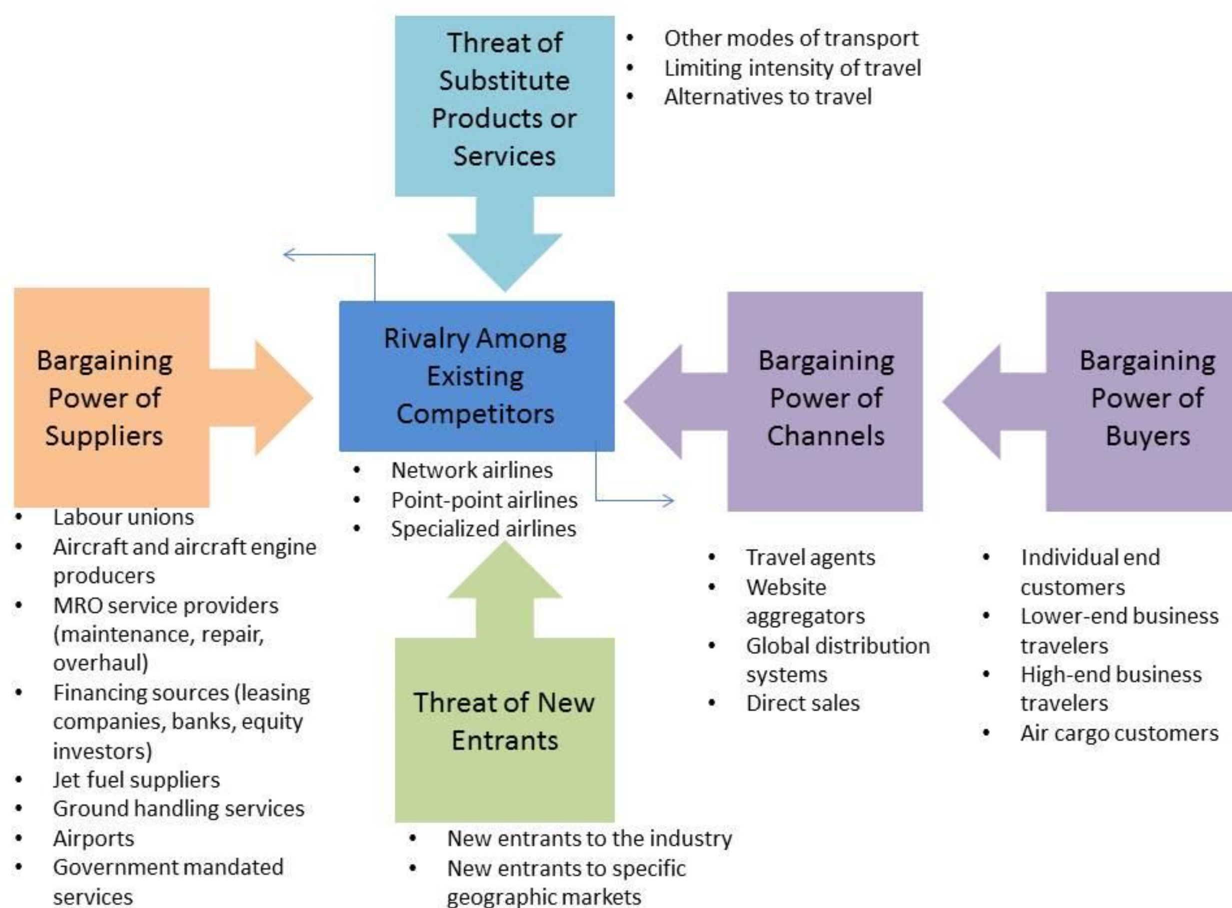
Exhibit 9 Air New Zealand Route Map

Exhibit 10 Air New Zealand Normalised Earnings Before Tax



Source: Air New Zealand, CAPA, 16 June 2013

Exhibit 11 Determinants of Airline Industry Profitability



Source: Porter, M. (2011) in Vision 2050, International Air Transport Association

[1] Ansett Airlines Group entered into voluntary administration in September 2001. Its losses reached $1.3 million per day. Ansett was the single largest corporate collapse in Australian history. Retrieved from http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/online/ansettchronPartA

[2] The New Zealand Business Roundtable emerged in 1985 as a private sector advocate of pro-economic reform.

[3] Knibb, D. (2004, May). Ralph Norris: Down to business. *Airline Business*, *20*(5), 34.

[4] ibid.

[5] Le Pla, R. (2006, September). Blue sky thinking behind the clouds. *New Zealand Management Magazine*. *53*(8) Retrieved from http://www.questia.com/magazine/1G1-151713228/rob-fyfe-blue-sky-thinking-behind-the-clouds-air

[6] IATA (2010, February). *Airline Profitability Size and Business Model Economic Briefing.* Retrieved from http://www.iata.org/whatwedo/Documents/economics/Airline_2008_Profits_Feb2010.pdf. Air New Zealand was in 35th position in 2007.

[7] CAPA (2012, August 31). Rob Fyfe bows out of Air New Zealand with projection for profits to double in 2013. Retrieved from http://centreforaviation.com/analysis/rob-fyfe-bows-out-of-air-new-zealand-with-projection-for-profits-to-double-in-2013-81549

[8] CAPA (2013, February 28) Air New Zealand reports NZD136 million 1HFY2013 profit, up 300%: A generally favourable outlook. Retrieved from http://centreforaviation.com/analysis/air-new-zealand-reports-nzd136-million-1hfy2013-profit-up-300-a-generally-favourable-outlook-99427. The restructured long haul services returned to the black for the first time in five years, reflecting the redeployment of Asian capacity to markets with stronger demand, particularly North America.

[9] Perry, N. (2012, June 19). Air NZ's new CEO Christopher Luxon sees growth opportunities in Asia, US. Retrieved from http://globalnews.ca/news/257764/ap-interview-air-nzs-new-ceo-christopher-luxon-sees-growth-opportunities-in-asia-us/

[10] CAPA (2013, June 16). Air New Zealand, the little airline that can, triples its FY2012 profit and 10 year average earnings. Retrieved from http://centreforaviation.com/analysis/air-new-zealand-the-little-airline-that-can-triples-its-fy2012-profit-and-10-year-average-earnings-114193

[11] Oxford Economics (2011). *Economic Benefits from Air Transport in New Zealand*. Retrieved from http://www.benefitsofaviation.aero/Documents/Benefits-of-Aviation-New-Zealand-2011.pdf

[12] ibid.

[13] ibid.

[14] CAPA Centre for Aviation (2013). New Zealand. World Aviation Yearbook: South Pacific. Retrieved from http://centreforaviation.com/about-capa/updates/capa-world-aviation-yearbook-2013-country-airline-data-in-a-comprehensive-1000-page-report-109509

[15] Bisignani, G. (2011). Foreword. *Vision 2050 Report.* International Air Transport Association. Retrieved from http://www.iata.org/pressroom/facts_figures/Documents/vision-2050.pdf

[16] ibid.

[17] ibid.

[18] ibid.

[19] Porter, M., & Pearce, B. (2011). Structuring for profitability. *Vision 2050 Report*. International Air Transport Association. Retrieved from http://www.iata.org/pressroom/facts_figures/Documents/vision-2050.pdf

[20] ibid. Deregulation opened markets first in the US (1970s), later in Europe (1980s), and then extended inconsistently to other regions.

[21] Pearce, B., & Doernhoefer, G. (2011). *The Economic Benefits Generated by Alliances and Joint Ventures.* International Air Transport Association. Retrieved from http://www.iata.org/whatwedo/Documents/economics/ Economics%20of%20JVs_Jan2012L.pdf

[22] Air New Zealand became a member of Star Alliance in 1999

[23] Pearce, B., & Doernhoefer, G., op cit.