

The Future of Retail Leadership:

Why retailers need to invest in future leaders more than ever



The demands on retail leaders are evolving amid a rapidly changing business world. Organizations across industries are facing pressures from an impending economic recession, the demands of stakeholder management and an unprecedented degree of complexity. And retailers are experiencing these challenges alongside rapidly changing consumer behavior, an increased desire for convenience, the demand for digital innovation and a reimaging of business models. Meeting these mandates requires a new sort of retail leader, one with a broad skill set and knowledge base and the ability to move quickly on strategic initiatives.

Finding this kind of leader, however, is proving difficult. The profile of CEOs and other leadership roles is hard to pin down; what is needed for someone to succeed in this climate is likely to change in even a few years. But one thing is clear: the retailers best positioned to win in the

future will be those that invest in leadership development and succession planning now. Doing so can establish a more robust, and diverse, internal pipeline of qualified leaders.

As a 2023 World Retail Congress partner, Spencer Stuart is invested in this year's theme, "retail leadership for extraordinary times." We surveyed top HR leaders from retailers around the world to understand what they are doing to develop future leaders equipped to handle the challenges of the industry and the business world at large. We also drew on our daily conversations with retail CEOs and other executives about how they see the demands on leaders changing and how they motivate and engage future leaders and build a more diverse talent pipeline (for more, see "About the research"). These insights provide guidance on how retailers can invest in future leaders.

About the research

Spencer Stuart surveyed 49 HR and people leaders overseeing leadership development and succession at retail organizations. Respondents represent companies based in the Americas, Europe, Asia-Pacific, and the Middle East and Africa. The annual revenues of companies surveyed ranged from less than \$1 billion to more than \$10 billion. And the size of the leadership teams varied as well, with most teams (51 percent) comprising seven to 10 members.

Retailers need to develop a long-term vision for leadership

In the next several years, retailers expect to face significant leadership turnover. Thirty-three percent of survey respondents said that in the next year, they expect 25 to 49 percent of CEO and direct reports to transition out of their roles. That number increased to 57 percent when the team was asked to consider a five-year time horizon. More than 26 percent of HR leaders surveyed indicated that up to three-quarters of the top leadership team could transition out of their roles in five years. In some cases, leaders are retiring, but in others, they may be making lateral moves in the company or leaving the organization altogether.

In this context, many HR executives are apprehensive about their organization's ability to fill executive roles with internal candidates. And that uncertainty increases when asked to consider a successor for the CEO: 43 percent felt somewhat or very uncertain about being able to fill the role internally compared with 27 percent for direct reports.

When asked to expand on their lack of confidence about the internal pipeline, several HR leaders cited limited succession planning and concerns around developmental gaps. One respondent said that none of the CEO's direct reports had the skill sets needed to step into that role. Combined, an increase in leadership turnover, the evolving demands on leaders and the risks of insufficient succession planning increase the urgency for retailers to rethink and reinvest in leadership development.



After years of stability, we are facing a time that will be different. Now is the hour of innovation, which is actively shaping the change of tomorrow."

FRANK SCHUMANN
CEO, KAUF LAND

Developmental gaps and competing priorities are the biggest risks to succession planning

Historically, many retail leaders gained experience in brick-and-mortar stores and worked their way up to CEO and other executive-level roles. They built deep knowledge of sales, customers and distribution. But now, to succeed in the industry, top leaders need to deftly navigate complex supply chains and technology and answer to a broader set of stakeholders. And those are just the skills needed at this moment.



The new requirement for retail leaders will be more than retail experience. A digital mindset and practice will also be of great value.”

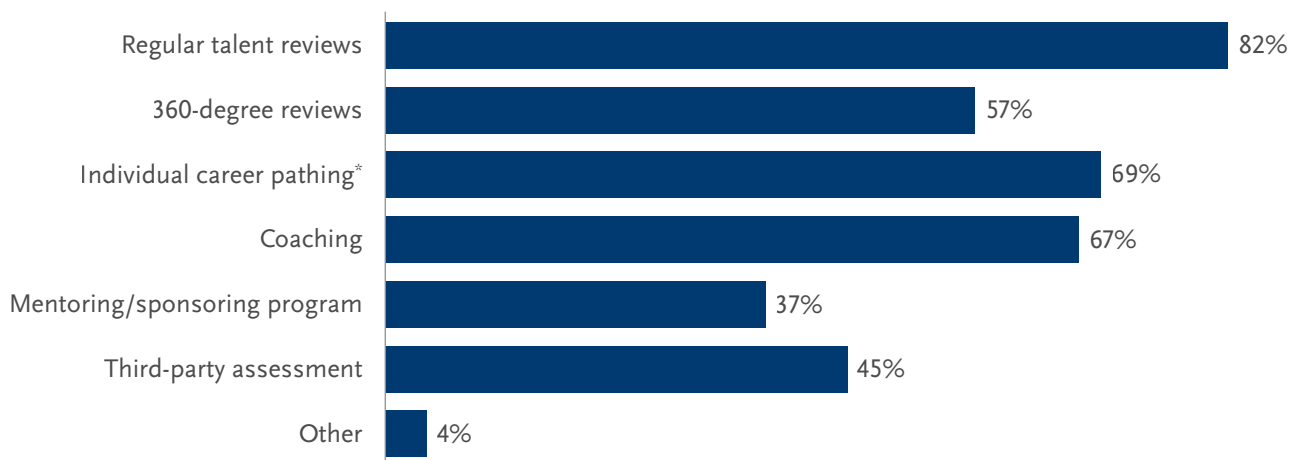
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As one survey respondent pointed out, even if an internal succession candidate has the right skill set now, those skills may be outdated by the time the opportunity for promotion arrives. Herein lies the challenge with addressing gaps in development. According to survey respondents, their biggest risks to succession plans are the inability to address developmental gaps (29 percent) and too many competing priorities (29 percent). In the words of one respondent, “building a succession pipeline and peer interactions always show up as the greatest gaps in development centers.” For these reasons, some retail companies expect to look externally when hiring for executive roles.

Because it is impossible to predict all the experiences future leaders will need to have, it will be more important for leaders to be agile in adjusting to new challenges and different environments. Potential is an important indicator of C-suite performance in times of uncertainty and rapid change. Leaders with traits such as flexibility, appreciation of diverse perspectives and learning agility can better weather uncertainty and unexpected challenges.

HR leaders are not complacent when it comes to addressing development gaps. As Figure 1 shows, respondents employ a variety of tools when developing individuals for the CEO or direct report roles, including regular talent reviews (82 percent), individual career pathing (69 percent), coaching (67 percent) and 360-degree reviews (57 percent). In the words of one respondent, “Feedback is essential for building awareness, with coaching [being] crucial for closing development opportunities. Career pathing is essential for those with aspiration and talent to understand where they are going and how they might get there.”

FIGURE 1: RETAILERS USE SEVERAL TOOLS TO DEVELOP FUTURE C-SUITE LEADERS



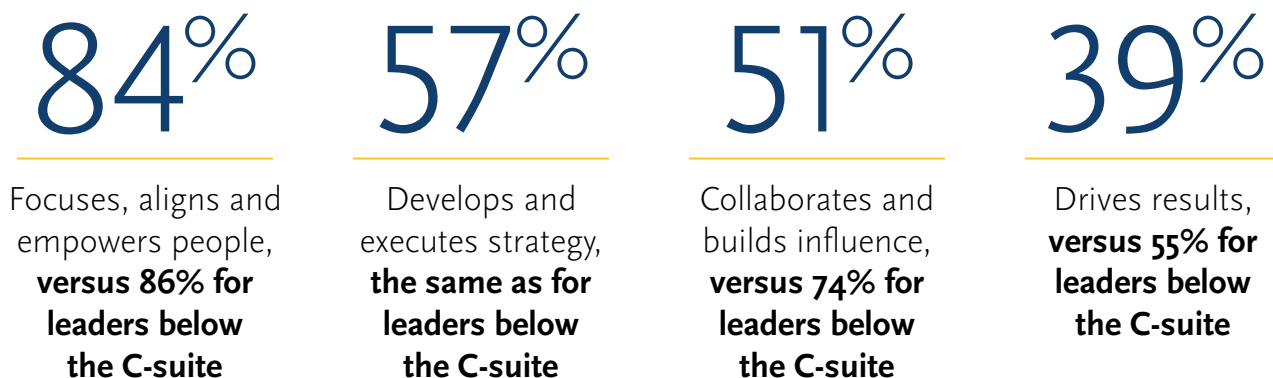
* Planned job moves or assignments for development.

Q: What are the main elements of leadership development and succession planning for the CEO and CEO's direct report roles? Check all that apply.

Retail leaders need a diverse set of leadership and functional capabilities

To meet new industry mandates, future leaders will need to expand their leadership capabilities and functional skill sets in every area (Figure 2). Skills such as “leading people and empowering individuals and teams” (84 percent), “developing and operationalizing strategy” (57 percent) and “collaborating effectively and building influence with peers” (51 percent) will be more important for CEOs and their direct reports than three years ago. According to one respondent, “...the last few years have highlighted the criticality of people leadership, leading with empathy and effective collaboration in an environment of hybrid working, high levels of change, burnout, etc. while driving business outcomes, growth and change.”

FIGURE 2: LEADING PEOPLE AND EMPOWERING INDIVIDUALS IS A TOP CAPABILITY FOR FUTURE LEADERS



Q: Which capabilities will be more important than three years ago?

Looking at leaders two or three levels below the C-suite, collaborating and influencing will be especially important; 74 percent of respondents thought collaborating effectively would be more important for leaders lower down in an organization compared with 51 percent for the C-suite. Success in leadership team roles increasingly requires collaboration with peers, especially in support of innovation and change. “Driving results and impact” is also considered more important for roles several levels below the C-suite (55 percent) compared with 39 percent for CEOs and their direct reports.

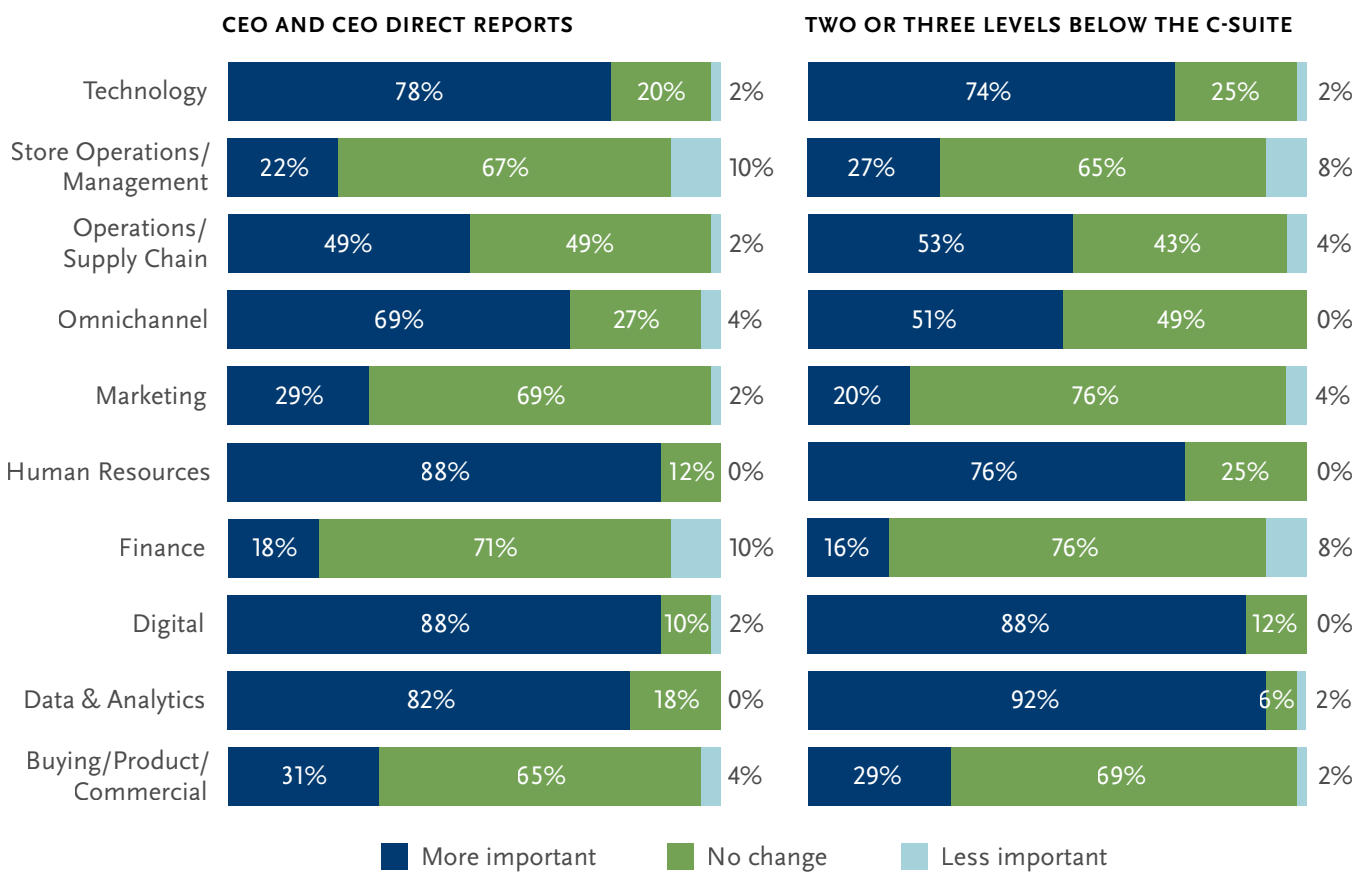
As they look ahead, HR leaders see the biggest developmental gaps in future leaders (those two or three levels below the C-suite) in a few key areas (Figure 3): aligning people and organization around change (69 percent), building talent and developing high-performing individuals over the long term (63 percent), and developing and operationalizing strategy (55 percent). These insights highlight significant opportunity to improve development and succession planning.

FIGURE 3: ONE OF THE BIGGEST GAPS BETWEEN DESIRED AND ACTUAL DEGREE OF CAPABILITIES IS IN ALIGNING PEOPLE AND THE ORGANIZATION AROUND CHANGE

Aligns people and organization around change	69%
Builds talent; develops high-performing individuals over the long term	63%
Develops and operationalizes strategy; thinks strategically	55%
Leads people; focuses, aligns and empowers individuals and teams	47%
Collaborates effectively and builds influence with peers and others	27%
Drives results and improves performance	18%

Q: Where do you see the biggest gaps between the desired and actual degrees of ability in these areas among leaders two or three levels (e.g. direct report to CFO) below the C-suite? Select up to three.

Future leaders also will need a broader set of functional skills, the survey found. Most notably, digital (88 percent), human resources (88 percent), data and analytics (82 percent), technology (78 percent) and omnichannel (69 percent) are all expected to be more important for the CEO and their direct reports over the next three years (Figure 4).

FIGURE 4: C-SUITE LEADERS NEED BROAD FUNCTIONAL SKILLS

Q: As you look to the challenges and opportunities facing the company in the future, which functional skills will be more or less important than three years ago for the CEO and CEO's direct reports?

Q: Which functional skills will be more or less important than three years ago for leaders two or three levels (e.g. direct report to CFO) below the C-suite?



Expectations for individuals two or three levels below the CEO are about the same with some nuances. Specifically, data and analytics expertise is expected to be slightly more important for roles lower in the leadership pipeline. Even with these variations, however, future retail leaders at all levels will need a broad set of cross-functional skills to succeed.

What retailers can do now to prepare for the future

Ideally, [strategic succession planning](#) should take place five years or more before C-suite transitions, giving companies time to double down on development. For many companies, that means putting plans in place now. Three actions can help retailers address development and succession challenges.

Pursue dynamic scenario planning

Identifying one “right” succession plan for future leadership is like finding a needle in a haystack. Leading organizations plan most effectively by considering different succession scenarios based on turnover, timelines and business aspirations. Armed with that information, boards can then create different leadership profiles based on those contexts. Naturally, some elements of leadership profiles are static, such as having strong decision-making skills and sound judgment, while others depend on the company’s strategic vision. As business needs change — and they will — retailers can adjust their role profiles accordingly. We recommend revisiting succession scenarios yearly.

Questions to ask

- » What are the evergreen capabilities required for a C-suite role?
- » What are our company’s biggest strategic opportunities and challenges?
- » What is our company’s future aspiration and how might that affect leadership roles?





Leading people and empowering individuals, developing and operationalising strategy and collaborating and influencing effectively have always been important. But over the next three years, what is important for our leaders is driving change and transformation in growth, the art of communication and being solution orientated. In M&S we're leading a major cultural change; traditionally we were seen as slow and bureaucratic, but we want to be more efficient, more effective, more action-oriented."

STUART MACHIN

CEO, MARKS & SPENCER, AND ADVISORY
BOARD MEMBER, WORLD RETAIL CONGRESS

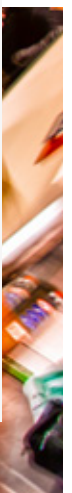
Start development early to build a deeper and more diverse talent bench

To increase the pipeline of future C-suite leaders, cast a wider net to identify potential successors. This might mean considering people beyond the obvious candidates and include individuals earlier in their career or those two or three levels below the C-suite. When retailers start early, contenders for top roles have more time to close development gaps through new roles, special projects, coaching or cross-business initiatives. Starting this process early also increases the odds that retailers will have a more diverse set of candidates to choose from when the time comes.

Many executives benefit from having a coach who can help them develop new capabilities and enhance their overall effectiveness. An experienced coach can help identify specific objectives and actions to help leaders achieve their goals, aligning developmental needs with the ability to create value for the organization. Change takes time, especially when it comes to developing people skills, so working with a coach should be viewed as practice, with the coach providing guidance and reinforcing behaviors over time.

Questions to ask

- » How can we adjust our formal assessment process to identify a diverse set of leadership contenders?
- » What are the most significant capability gaps in our talent pipeline?
- » How can we overcome barriers preventing promising leaders from getting the developmental opportunities they need?



Consider potential when assessing leadership candidates

While relevant experience is important when assessing future leaders, when it comes to the CEO and other C-suite roles, companies are more likely to hire people who will be serving in that role for the first time. Research shows that [84 percent of newly appointed CEOs for S&P 500 companies](#) have no prior experience in that position. And with the increased need for retail leaders who have broad cross-functional skill sets in areas ranging from digital and data and analytics to HR and omnichannel, it is unlikely that companies will find candidates who check every box. Thus, it is critical that retailers heavily weigh potential when evaluating candidates. Leaders who are agile and hungry to learn will adjust quickly to new expectations.

Spencer Stuart research finds that the ability to adapt, adjust and learn is vital for all CEOs, whether they have prior experience or not. Leaders who are agile, humble and resilient are more likely to be comfortable with ambiguity and make decisions amid rapid change and complex circumstances. And as the business world continues to evolve and yield more uncertainty, leaders will continue to face new situations and expectations, underlining the increased importance of these traits to leadership success. While assessing candidates for potential is challenging, retailers can consider working with an external partner that has assessment tools that target potential.

Questions to ask

- » Who, in lower levels of the organization, has the potential/adaptability to stretch beyond their current role?
- » What did we learn in the pandemic about leadership that we can apply to succession planning?
- » How well do we develop and reward nontraditional leadership attributes, such as self-awareness and cultural dexterity?



Current leaders have a responsibility to embrace and model a forward-looking approach to leadership development and succession planning that starts early, goes deeper and prepares for multiple scenarios.



A common adage in business is that transformation starts at the top. The saying also applies when companies are pursuing large-scale changes to how they approach succession planning and leadership development — and talent development more broadly.

Current leaders have a responsibility to embrace and model a forward-looking approach to leadership development and succession planning that starts early, goes deeper and prepares for multiple scenarios. To get the broadest and most diverse base of talent, leaders must also establish inclusive cultures that look for excellence outside of the typical channels. By creating development pathways for diverse high-potential talent to succeed, organizations can feel confident that they are hiring future leaders best suited for the job.



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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 70 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness. For more information on Spencer Stuart, please visit www.spencerstuart.com.

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