# Continuity in Turnover

With companies conducting CEO searches more often, strategic alignment has become even more vital.

BY DOUG RAYMOND

The primary obligation of the board is to oversee the management of the corporation's business in the best interests of the shareholders (or, as provided by the corporation law of some jurisdictions, in the best interests of the corporation). In general, the board has the flexibility to decide the time horizon over which it will consider that best interest, whether it is measured in months, years or even decades. Although the focus on short-term quarterly earnings is well documented, there is a confluence of current trends that is driving shorter-and-shorter horizons on the board's perspective. Thoughtful directors need to be aware of these pressures and decide the extent to which they will allow them to shorten the board's planning horizon.

In addition to the challenges brought by the economy, global trade, the political situation, the growing ubiquity of generative AI and the calls to adopt more proactive ESG measures, the population is in the middle of a seismic shift as the Baby Boomer generation leaves the workforce. These trends layer on top of the board's need to manage the everyday requirements of the business, which frequently present significant challenges of their own.

This current landscape requires extraordinary efforts and new skills on the part of directors and management, simply to keep up, let alone prosper. And the need for a responsive strategy and the ability to adapt that strategy as the circumstances change have never been more important. No wonder surveys

consistently report that CEO turnover has been increasing for both public and private companies, as well as educational and health care institutions and other nonprofits. While long-tenured CEOs still exist, the mean tenure today is five to seven years, and roughly a third of new CEOs will leave their positions within three years. A noteworthy aspect of today's environment is that the turnover rate for CEOs of public companies who have faced a campaign by activist shareholders to elect a nonincumbent slate of directors is markedly higher than the general trend, win or lose (although, not surprisingly, higher when the activists gain board representation). While many explanations have been proffered for this phenomenon, it is likely that, in most cases where activists have mounted election campaigns, the corporation's stock price has been lagging its peers, signaling the market's discontent with the corporation's performance. And while the board may have more patience with that than the activists and more insights into the reasons for underperformance, the attention drawn by the election contest inevitably shines a light on the corporation's performance and on the board's and CEO's roles in that. Even when the activist is not successful, the election contest will have drawn attention to the corporation's performance, which inevitably creates tension between the board and management.

Particularly in an environment with declining CEO tenure, boards must be confident not only in their choice of the CEO, but also with how long they will give the new player to learn the ropes, set or modify the strategy and produce results. This reality can create difficult governance issues for the board that is considering hiring or replacing a CEO, especially against the backdrop of the increasing pace of change in the business and general economic environment.

In practice, is it possible for the board to set a planning horizon beyond the anticipated sell-by date of the current CEO? The board must focus on how the interplay among these conflicting pressures impacts their responsibilities to manage the business and the corporation's CEO. It must also balance the increasing importance of a nimble strategy and its effective execution with the shortening of average CEO tenure and the likelihood that a new CEO will want to modify the corporate strategy or at least how it is implemented. In an ideal world, the board would follow a "built to last" approach and the CEO and the core strategy would rarely change. And even if the person sitting in the CEO's chair does change more frequently than the board might prefer, the board can take steps to keep the turnover from impacting the corporate strategy and its implementation.

In this landscape, board members should seek continuity in corporate vision while adapting to the realities of modern CEO turnover. Boards should actively embed strategic priorities into CEO hiring and onboarding decisions. Selecting a new CEO is not just about identifying the right qualifications; it is essential to identify candidates who will buy into and carry forward the company's long-term goals, not alter or revise them. By closely aligning the recruiting process with the corporation's established strategy, boards can facilitate a transition that minimizes disruption and keeps the strategic course steady.

This approach to governance — one that values both the durability of corporate strategy and the agility to pivot as needed — may well be one of the most critical components of success for corporations in the coming decade. ■

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