

The Evolving Talent Landscape

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The tenure of CEOs has been steadily decreasing, reflecting a shift in the dynamics of executive leadership. This trend, driven by technological disruption and rapid market changes, requires organisations to adopt a learning culture and invest in developing the right talent to adapt to new business models.

Technological disruption has reshaped business models and shortened strategic cycles, necessitating organisations to continuously evolve and adapt. According to a 2023 study by Equilar, CEO tenures have shortened, with the median tenure among S&P 500 companies declining 20 per cent from six years in 2013 to 4.8 years in 2022.

Today's CEOs face greater social responsibilities, shifting worker expectations, rapid technological advances and volatile macroeconomic conditions.

Russell Reynolds reports a spike in CEO turnover in early 2024, with failed appointments (under two years) now accounting for 15.1 per cent of turnover, up from 9.6 per cent since 2019.

Some argue that aligning CEO tenure with the organisation's strategic cycle is logical, as a CEO who excels in one business model may struggle to transition to another. Others see the high CEO turnover as an indication of the board's readiness to swiftly address CEO underperformance.

The nominating committee's role

Boards have to double down on succession planning and nurture potential leaders with the skills, aptitude and vision to lead the organisation through continuous change. Consequently, the role of the nominating committee (NC) in CEO succession planning has become more critical and complex.

Starting early is essential as identifying and cultivating a successor can take years. Additionally, the board should work with the incumbent CEO to plan their next role to leave behind a positive legacy.

Boards should work with their NCs and consider the following.

1. **Continuous process.** CEO succession planning is a continuous process, not a one-time event. This process should be an integral part of the board agenda. Identifying and hiring the right CEO has a long-term and strategic impact on the company, as the CEO is key to performance and the board's primary means of influencing the business.
2. **Adaptable leadership.** The CEO role is not permanent but akin to a "project". The profile of the CEO evolves with changes in business requirements and future strategy. Therefore, matching the CEO tenure to the organisation's strategic cycle is a practical guiding principle. Ongoing candid discussions with the incumbent CEO about succession planning should start early to allow sufficient time to groom a successor.
3. **Internal candidates.** Studies show well-prepared internal candidates stay longer and perform better than external ones. Therefore, establishing a structured leadership development programme is crucial to creating a pipeline of high-calibre general managers and potential CEOs. However, companies should also collaborate with search firms to benchmark external candidates against internal talent, ensuring the best possible leadership for evolving business needs.
4. **External candidates.** While internal candidates are often preferred for their familiarity with company culture and operations, external candidates can be pivotal for business turnarounds and strategic shifts. Boards should remain open to external candidates, including those from different industries, to bring fresh perspectives and innovative approaches. This openness is essential for challenging the status quo and addressing new market opportunities and threats.
5. **Defining leadership profile.** Selecting the right CEO starts with the board having clarity on the evolving CEO leadership profile needed for future pivots, taking into consideration internal challenges, competitive landscape, industry evolution and business trends. While the board may seek input from the incumbent CEO, it is crucial to define, align and decide on the top capabilities and attributes critical to the new CEO's success before starting the search process. The final decision on CEO selection rests with the board.

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Effective CEO succession planning is paramount. The right CEO significantly shapes the company's long-term strategy, success trajectory and impacts operational outcomes and performance. A well-executed succession plan showcases the board's strategic foresight and ability to influence business outcomes through leadership decisions.

A robust succession plan ensures a smooth transition, enabling the incumbent CEO to leave a lasting legacy while empowering the successor to build upon achievements and effectively tackle future challenges.

The NC plays a key role in taking a strategic and proactive approach to succession planning. By continuously assessing potential candidates, aligning with strategic goals and embracing innovation, the NC can navigate challenges and seize opportunities amidst the dynamic business landscape. ●