Redefining the CEO's Role for the Next Generation

By Frank Carris and Bob Romanchek

MORE THAN 1,800 US CEOS DEPARTED THEIR ROLES IN 2024, according to Challenger, Gray & Christmas, which was the highest annual amount since the firm started keeping such records. Although the average tenure of the CEOs who departed in 2024 was approximately 12 years, the average tenure of active CEOs is slightly more than 5 years, signaling that a generational change is occurring at the top.

Generational shifts in the modern business world pose opportunities and risks for companies as a new generation of executives takes the reins. The experiential and societal gap between older and younger leaders may materially change the way companies are run. These differences may influence decision-making and redefine the path to executive positions. The question now is how to bridge this experiential and social divide and enable up-and-coming executives to successfully lead major corporations into the future.

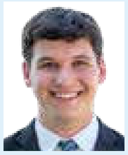
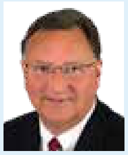
Historically, executives in the United States had their leadership styles molded by a dynamic world. An economic depression, world wars, and an ever-volatile financial market instilled a sense of resilience and discipline into older generations, and they remained laser-focused to provide value to their companies. Their leadership style was born from a world in which technology was limited and decision-making was often done face-to-face. As a result, these executives remained loyal to their organizations as it was seen as a way to succeed, and most promotions came from within the organization. Ultimately, this group capitalized on hard work and long-tenured loyalty to reach high-level leadership positions.

As time went on, the dawn of technology provided employees with global business connectivity. Now, communication is instant and decision-making is driven by an abundance of readily accessible data and sophisticated analytics, rather than by intuition. This provides companies with a fresh set of advantages, largely shaped by increased comfort with technology and communication on a global scale. Similarly, growing up in an increasingly globalized world enables younger leaders to take on an international approach to decision-making, allowing for broadened company operations.

However, young leaders may pose new challenges to organizations due to the generational gap in experience. Executive transitions have become quicker and more common and employee tenure within a single organization has dramatically declined. Employees are more likely to move to new employers to receive quicker promotions. Through the rise of professional social platforms, it is much easier for companies and employees to communicate and seek each other, even if opportunities exist within another industry or country. There is a perception that younger leaders strive for instant gratification due to the quick-result nature of their life experiences; consequently, younger employees may leave their organizations for various reasons prior to achieving the company's strategic goals.

The generational shift has transformed the way younger executives make decisions, and it has, in part, changed the way executives are compensated. Many companies have identified executive retention, along with the achievements of financial goals, as a primary means to achieve strategic goals and have shifted to a heavy focus on long-term performance-based equity compensation with time-based vesting provisions. Equity compensation has become the most material pay component to align the interests of top executives with those of shareholders.

Ultimately, the generational divide has resulted in changes across many aspects of corporate leadership. Technology continues to advance at exponential speeds, with shorter executive tenure and an expectation of fast-paced strategic goal achievement, incentivized by a heavy performance-based equity compensation focus in conjunction with time-based vesting provisions. As the younger generation looks to enter executive leadership roles, their path to get there may be quicker and less linear than it once was. Boards will want to revisit executive incentives and the leadership pipeline with the experiences of this new generation in mind.

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