

# Long-tenured CEOs and firm performance: too much of a good thing? Evidence from New Zealand

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## Abstract

**Purpose** – This study aims to investigate the association between chief executive officer (CEO) tenure and firm performance. Extended CEO tenure offers the potential for organizational stability, sustained operational coherence and heightened insights into business intricacies. However, longer tenure concurrently fosters complacency and impedes innovation by engendering resistance to change and a deficiency in novel perspectives. The authors' inquiry seeks to discern the prevailing influence between these contrasting perspectives.

**Design/methodology/approach** – This study uses unbalanced panel data for a unique hand-collected dataset from listed firms in New Zealand (2000–2020) – a country that adopts the principles-based corporate governance regime. The authors perform ordinary least squares, two-stage least squares and propensity score matching tests to examine the relationship between CEO tenure and firm performance.

**Findings** – The authors document a significant positive impact of CEO tenure on firm performance, implying the benefits of long tenure. However, this study further reveals a significant inverted U-shaped relationship between CEO tenure and firm performance, suggesting that such a positive impact can hold up to a certain threshold; after that, long CEO tenure can hinder firm performance. The finding is robust to alternative measures and endogeneity tests and offers important implications for corporate governance policies and practices.

**Practical implications** – The findings highlight the importance of balancing the benefits of long CEO tenure. Practically, firms should prioritize regular evaluation of CEO performance and tenure, emphasize succession planning and foster a culture of innovation to sustain organizational success in the long term.

**Originality/value** – This research offers valuable insights by examining the intricate relationship between CEO tenure and firm performance within the distinct setting of New Zealand. By uncovering both the benefits and drawbacks of long CEO tenure, this study contributes to a nuanced understanding of corporate governance dynamics.

**Keywords** CEO tenure, Firm performance, New Zealand

**Paper type** Research paper

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## 1. Introduction

We examine the association between chief executive officer (CEO) tenure and firm performance, a topic of considerable interest among scholars and industry practitioners worldwide. Among top managers in a firm, the CEO, the key decision-maker with the “*least restrictive oversight*”, tends to have more discretion to exhibit personal preferences in the firm’s behaviours, potentially changing firm outcomes (Hambrick and Gregory, 1991). This research line has long been established in the literature as informed by two prominent theories: the agency theory (Jensen and Meckling, 1976) and the upper echelons theory (Hambrick and Mason, 1984). CEO tenure, defined as “the time a person spends in the CEO position” (Darouichi *et al.*, 2021, p. 661), is considered a central characteristic that can predict both the behaviours and givens of CEOs (Hambrick and Mason, 1984). How does CEO tenure affect firm performance? Should CEOs stay long in the office? Addressing these questions enhances our comprehension of CEO tenure’s nature and ramifications on firm performance and offers valuable insights into corporate governance policies and practices (Brochet *et al.*, 2021; Darouichi *et al.*, 2021).

Theoretically, long-tenured CEOs tend to understand the firm better, learn more relevant knowledge and skills and develop long-term relationships with shareholders, reducing agency conflicts and adding more value to the firm (Eisenhardt, 1989; Hambrick and Gregory, 1991). However, staying too long in the office can make CEOs more powerful and resist shareholder requests, creating more conflicts of interest and hindering firm performance (Cao *et al.*, 2021; Hambrick and Gregory, 1991; Miller, 1991). The empirical evidence is inconclusive, given the two competing views (Cao *et al.*, 2021; Darouichi *et al.*, 2021). Studies have documented a mixed linear relationship between CEO tenure and firm performance (Miller, 1991; Salancik and Pfeffer, 1980). Others show evidence of a curvilinear impact (Brochet *et al.*, 2021).

Moreover, most past research focuses on the US market (Brochet *et al.*, 2021), and very few studies investigate smaller countries with unique institutional settings, such as New Zealand (Prevost *et al.*, 2002). In their recent study, Burns *et al.* (2023) find that cultural, legal, regulatory and governance differences across countries are significantly related to CEO contracts with the firm. Aguilera and Jackson (2003) also argue that due to distinct institutional environments, corporate governance practices become more similar within a country but different across countries (Aguilera and Jackson, 2003). Consequently, it is insufficient to fully comprehend the dynamics of CEO tenure and its effect on firm performance by depending only on US-based research. Investigating the New Zealand setting may broaden our perspective of corporate governance dynamics and acquire a more nuanced understanding of how CEO tenure functions within various institutional contexts.

We selected New Zealand as our research setting to explore our inquiry, distinguishing our approach from prevalent empirical research that predominantly focuses on the association between CEO tenure and firm performance within the context of US firms. Our research motivation is grounded in contextualizing the New Zealand business environment and differentiating our study from prior research findings in several key aspects. New Zealand diverges from the USA in fundamental ways. First, the corporate governance regime in New Zealand is principles-based, as opposed to the rule-based regime in the USA (Wu *et al.*, 2022). In countries with principles-based corporate governance, instead of governance rules, firms use commonly respected principles and norms (Sama and Shoaf, 2005). Indeed, in New Zealand, corporate governance guidelines are not compulsory (Sharma *et al.*, 2021), thus, CEOs may be under less pressure and oversight than their peers in the USA or other rule-based countries. Second, New Zealand’s cultural values are also different from those in the USA. For example, compared to the US culture, the New Zealand culture is characterized

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by lower individualism [1]. [Burns et al. \(2023\)](#) document that low individualism is associated with lower CEO turnover, which may contribute to longer CEO tenure or influence the CEO tenure–firm performance relationship. Third, from a regulatory perspective, we also observe significant differences between the two countries, particularly in the legal standards towards protecting shareholders, which can influence CEO contracts and the link between CEO and firm performance ([Burns et al., 2023](#)). Notably, New Zealand has a higher (revised) anti-directors rights index (ADRI) index than the USA ([Spamann, 2010](#)), suggesting more shareholder protections in the country. Fourth, the CEO labour market in New Zealand is relatively smaller than that of the USA, as highlighted by [Reddy et al. \(2015\)](#). In addition, [Ward \(2014\)](#) provides evidence suggesting that CEO turnover in New Zealand firms is significantly shorter than in their US counterparts. Consequently, caution should be exercised when generalising US-based research findings in New Zealand. Finally, US firm characteristics are also significantly different from those in New Zealand, which are shown to influence corporate governance structure ([Monem, 2013](#)). For example, firms in the US market are usually much larger than those in New Zealand ([La Porta et al., 1998](#)). In sum, such differences suggest that extant findings about CEO tenure and its relationship with firm performance in the USA or other countries may not be generalizable to New Zealand.

In this paper, we use a rich hand-collected data set from the New Zealand market over 20 years (2000–2020) to examine the relationship between CEO tenure and firm performance. We find supporting evidence for a significantly positive relationship between CEO tenure and firm performance measured by Tobin’s Q, including additional proxies such as ROA and basic earning power (BEP). To address potential endogeneity problems, for example, CEO tenure and firm performance may be correlated with some omitted variables (omitted variable bias) or the sample selection biases which can arise from our manual data collection, we conduct several additional tests, including lagged variables, firm fixed effects and change analysis, the propensity score matching (PSM) and Heckman selection analyses ([Hill et al., 2020](#)). Our findings remain valid. Furthermore, informed by the theoretical work of Hambrick and colleagues ([Hambrick and Gregory, 1991](#)) and recent empirical evidence ([Brochet et al., 2021](#); [Huang and Hilary, 2018](#)), we also test if there is a curvilinear relationship between CEO tenure and firm performance. CEOs can learn and enhance their skills and knowledge over time, positively contributing to the firm performance up to a certain threshold. After that, staying too long in the office can make the CEOs more powerful and less motivated to learn or engage, becoming detrimental to the firm performance ([Hambrick and Gregory, 1991](#)). Indeed, our study reveals an inverted U-shaped relationship between CEO tenure and various firm performance measures.

Our study contributes to the literature in several ways. Using a unique hand-collected data set from a country that follows a principles-based corporate governance regime, we offer novel empirical evidence on the relationship between CEO tenure and firm performance. This is important given that most relevant research focuses on the US market, which follows a rules-based corporate governance approach. Our study thus contributes to the debate about the two different governance approaches adopted by many countries worldwide ([Nakpodia et al., 2018](#); [Sama and Shoaf, 2005](#)). Although we document a consistent result with prior studies in the US market ([Brochet et al., 2021](#)), we further show that CEO tenure significantly influences both accounting-based and market-based performance, not just firm value, as evidenced by [Brochet et al. \(2021\)](#). We also extend their study to investigate how the CEO tenure–firm performance relationship varies across different levels of product market competition, audit quality, firm age and life cycle. The positive relationship between CEO tenure and firm performance suggests CEOs can learn more knowledge and skills over

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time, making value-enhancing strategic decisions. Our results further reveal a curvilinear relationship (inverted U-shaped curve) between CEO tenure and firm performance, implying that CEO tenure can improve firm performance up to a certain point and then become detrimental. Hence, our findings can shed light on CEO research and corporate finance practices in countries with institutional backgrounds and similar corporate governance practices in New Zealand.

Our findings suggest that CEO tenure positively impacts firm performance, but this effect narrows over time. Specifically, our results indicate that extended tenure can benefit such as accumulated knowledge, strategic consistency and firm-specific expertise. However, prolonged tenure may also introduce challenges, including the risk of entrenchment and reduced adaptability. Given New Zealand's principles-based corporate governance system, we recommend that boards of directors and policymakers implement periodic performance evaluation and strategic alignment reviews to ensure that long-tenured CEOs continue to drive value. In addition, firms could establish structured succession planning and leadership development initiatives to balance stability and innovation. While the ideal tenure length may vary across firms and industries, our findings offer valuable insights for refining CEO tenure policies in public-listed firms.

The remainder of this paper is organized as follows. We review relevant literature and propose relevant hypotheses in Section 2. Section 3 discusses the research design and model specification. We present and discuss the main results in Section 4. Finally, Section 5 concludes our study with limitations and areas for future research.

## 2. Literature review and hypothesis development

Agency theory (Jensen and Meckling, 1976) posits that the relationship between principals (shareholders) and agents (managers) is characterized by an inherent conflict of interest stemming from the delegation of decision-making authority by principals to agents. With this framework, CEO tenure emerges as a critical determinant of firm performance, as it directly influences the alignment of managerial actions with shareholder interest. As CEOs navigate the complexities of corporate decision-making, their tenure becomes intertwined with the evolution of the firm's strategic decision and operational resilience. Prolonged CEO tenure offers opportunities for the establishment of enduring relationships with stakeholders, fostering trust and confidence in the leadership's ability to steer the organization towards sustainable growth. Conversely, extended CEO tenure may also harbour risks, such as managerial complacency and resistance to change, which can impede innovation and responsiveness to dynamic market conditions. Thus, CEOs, occupying the apex of the organizational hierarchy, wield substantial discretion in shaping strategic decisions and operational policies. Consequently, the duration of CEO tenure reflects the extent of managerial entrenchment and agency costs and serves as a proxy for managerial experience and expertise.

Research on CEO tenure has yielded diverse findings across regions and firm sizes. For large US firms, Bushman *et al.* (2010) report an average CEO tenure of approximately 10 years for turnover firms within the S&P 1000, while Coates and Kraakman (2010) find a shorter average tenure of seven years for CEOs in Fortune 500 firms. These differences suggest that CEOs in smaller firms may enjoy longer tenures. In New Zealand, studies provide a more focused analysis of CEO tenure and its implications. Prevost *et al.* (2002) report that CEO tenure ranged from 5.65 to 6.5 years over firm-year observations from 1991 to 1995. More recent research by Li and Roberts (2018) find an average CEO tenure of 6.3 years, with no significant relationship between CEO tenure and compensation. Conversely, Lont *et al.* (2020) document a positive association between CEO tenure and CEO compensation, while Sun and Cahan (2012) report a negative relationship between

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CEO tenure and the quality of the compensation committee. Burns *et al.* (2023), analyzing data from 2004 to 2016, estimate an average CEO tenure of 6 years, aligning with earlier findings. For a deeper exploration of CEO tenure and related board tenure research, we refer readers to Burns *et al.* (2023) and Sun and Bhuiyan (2020). These studies provide further insights into the dynamics of tenure and governance.

Abdullah *et al.* (2025) and Abdullah and Tursoy (2021) investigate the relationships between financial variables and firm value/performance. Abdullah *et al.* (2025) focus on the impact of dividend policy on firm value in Turkey's financial sector, finding a positive relationship that strengthened after IFRS adoption and the abolishment of the mandatory dividend payment policy in 2009. Similarly, Abdullah and Tursoy (2021) examine the link between firm performance and capital structure for German non-financial firms, finding a positive relationship driven by the benefits of debt financing, with IFRS adoption improving firm performance but weakening the connection between capital structure and performance. Both studies highlight the importance of external factors such as IFRS adoption and policy changes in influencing firm value and performance. However, neither considers the role of CEO characteristics or tenure in moderating these relationships, thus we extend and contribute to the existing literature.

### 2.1 CEO tenure

CEO tenure refers to “the time a person spends in the CEO position” in a given organization (Darouichi *et al.*, 2021, p. 661). CEO tenure is considered a central characteristic that can predict both the behaviours and givens of the CEOs (Hambrick and Mason, 1984), which in turn influences firms' performance as CEOs make the most critical strategic decisions in firms. Given the importance and observability of CEO tenure, there has been a considerable amount of research on this CEO characteristic from different disciplines, from accounting or finance to management, which is mainly built upon the agency and upper-echelon theories (Hambrick and Gregory, 1991; Hambrick and Mason, 1984; Jensen and Meckling, 1976). Reviewing relevant literature, Darouichi *et al.* (2021) outline five critical themes in CEO tenure research: (1) CEO tenure and motivations focusing on CEO incentives and short-termism, (2) CEO tenure and power focusing on CEO discretion and entrenchment, (3) CEO tenure and social capital focusing on CEO ties with internal and external stakeholders, (4) CEO tenure and human capital focusing on CEO abilities and contingencies, and finally (5) CEO tenure and stakeholder perception focusing on the fit of the CEO from different stakeholder perspectives. Extant studies also examine the impact of CEO tenure on various firm outcomes, both financial and non-financial outcomes (Ali and Zhang, 2015; Brochet *et al.*, 2021; Chen *et al.*, 2019). However, empirical evidence is inconclusive (Cao *et al.*, 2021; Darouichi *et al.*, 2021). The following section will review relevant research on the relationship between CEO tenure and firm performance, from which we propose two main hypotheses to be tested in this paper.

### 2.2 CEO tenure and firm performance

According to the agency theory, the potential conflict of interest between the CEO and shareholders can lead to opportunistic behaviours from the CEO, especially when shareholders are unable to monitor the CEO due to information asymmetric problems effectively (Cao *et al.*, 2021; Jensen and Meckling, 1976). As tenure enhances, CEOs tend to develop long-term relationships with shareholders, which reduces the conflicts of interest between the two parties (Eisenhardt, 1989). Moreover, over time, shareholders know more about the CEOs' behaviour and thus can monitor them effectively (Eisenhardt, 1989). Long-tenured CEOs are also claimed to accumulate more relevant knowledge and skills, leading to more effective strategic decisions and enhanced firm performance (Darouichi *et al.*, 2021; Graf-Vlachy *et al.*, 2020; Li and Patel, 2019).

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Long-tenured CEOs are more experienced in handling strategic risks (Simsek, 2007). Li and Patel (2019) show that longer tenure helps CEOs enhance domain-specific learning and knowledge about the organization. Similarly, Graf-Vlachy *et al.* (2020) find that CEOs' cognitive complexity increases significantly as their tenure advances, and they gain more role-specific knowledge over time.

Resource dependence theory (RDT) and dynamic capabilities theory enhance the analysis of CEO tenure and firm performance. RDT suggests that organizations depend on external resources and relationships for growth (Pfeffer and Salancik, 2015). Having built valuable external connections, long-tenured CEOs can secure resources like financing and strategic partnerships, improving firm performance. Dynamic capabilities theory highlights how CEOs, through accumulated experience, develop the ability to adapt strategies, drive innovation and respond to market changes, fostering sustained competitive advantage (Teece *et al.*, 1997). Together, these theories illustrate how long-tenured CEOs leverage internal knowledge and external relationships to enhance firm performance.

Empirical research further evidence that CEO tenure is associated with trust and credibility among investors, leading to higher stock prices and increased market capitalization. CEOs are pivotal in shaping organizational culture, fostering alignment with strategic goals and enhancing employee engagement. In addition, strategic relationships and partnerships established by long-tenured CEOs often result in synergies and market positioning. Furthermore, CEOs with longer tenure are likely to be committed to innovation, which drives continuous improvement and the firm's competitive advantage. Consequently, we posit that CEO tenure can improve firm performance:

*H1.* CEO tenure is positively associated with firm performance.

However, an alternative perspective suggests that CEO tenure can exacerbate the misalignment of interest between CEOs and shareholders. As CEOs spend more time in the office, their motivations and priorities may evolve, potentially diverging from the firm's overarching goals. Empirical research evidence that longer-tenured CEOs tend to allocate resources to serve their interests as they perceive that the benefits they receive from the firm are limited by their tenures (Barker and Mueller, 2002; Cassell *et al.*, 2013; Darouichi *et al.*, 2021). For example, Barker and Mueller (2002) show that over time, rather than align with the firm's goals, CEOs tend to shift the R&D spending towards their personal preferences, worsening the agency problems. Research also shows that tenure increases CEO power (DeBoskey *et al.*, 2019; Muttakin *et al.*, 2018). Over time, the CEO can gain more negotiating power (Hermalin and Weisbach, 1998) and is more likely to resist shareholder requests, thus creating more conflicts of interest and adversely affecting firm performance (Cao *et al.*, 2021; Hambrick and Gregory, 1991; Miller, 1991).

Compromising these two competing views, Hambrick and Gregory (1991) in their seminal work on CEO tenure, which is based on the upper echelons theory (Hambrick and Mason, 1984), argue for a dynamic model of CEO tenure. More specifically, they propose five seasons during the CEOs time at the office: (1) response to the mandate, (2) experimentation, (3) selection of an enduring theme, (4) convergence, and finally (5) dysfunction. More specifically, CEOs tend to be highly interested in the task despite having low (but rapidly increasing) task-specific knowledge and skills at the early stage of their job. Their power is relatively low in this period as well. However, Hambrick and Mason (1984) argue over time that while the task knowledge is high and CEO power is very high, the CEOs task interest becomes low and diminishing. As a result of these dynamic phases in the CEO tenure, the relationship between CEO tenure and firm performance is not likely to be straightforward and linear.

Recent literature reviews show evidence of the curvilinear impact of CEO tenure on firm performance. It should be noted that a majority of such research is US-based. For example, [Brochet et al. \(2021\)](#) examined S&P 1500 companies (1992–2017) and documented an inverted U-shaped curve between CEO tenure and firm value measured by Total Q. Their results imply that CEO tenure initially improves firm value as consistent with our argument regarding the accumulated knowledge and interest that the CEO has at the early stage of their tenure. However, as tenure advances, the CEO may lose that engagement and motivation and gain much more power, worsening the agency conflicts of interest with the shareholders. As a result, up to a certain point, CEO tenure then will adversely affect firm value. In another study, [Huang and Hilary \(2018\)](#) also find an inverted U-shaped relationship between board tenure and firm performance for US firms. The intuition is also similar, that is, directors can learn more about the company and related things over time, supporting their strategic decision-making and thus enhancing firm value. However, up to a certain point when CEO tenure leads to more power and entrenchment that overweigh the benefits mentioned above, long CEO tenure becomes detrimental to firm value. Following that, we also hypothesize in our paper that:

*H2.* A curvilinear (inverted U-shaped) relationship exists between CEO tenure and firm performance.

### 3. Data and method

#### 3.1 Data

Our sample comprises publicly listed companies on the NZX. We obtained financial accounting data from Thomson Reuters Eikon and manually collected corporate governance information spanning the period from 2000 to 2020. The selection of 2000 as the initial year is based on the limited availability of annual reports in the NZX Research Centre before this date (<https://companyresearch.nzx.com>). To ensure data consistency, we concluded our sample in 2020. This decision aligns with the fact that, during our data collection period, the most recent annual reports were accessible up to 2020. Furthermore, we justify this endpoint in light of the economic uncertainties introduced by the COVID-19 pandemic, which potentially impacted stock market volatility and, consequently, firm valuation. Limiting the study to 2020 helps mitigate macroeconomic biases in our research. Our initial sample encompassed 1687 firm-year observations with non-missing CEO tenure data from 2000 to 2020, consisting of 114 firms. Subsequently, we excluded 142 firm-year observations related to regulated industries. In addition, during the manual data collection process, we encountered challenges that resulted in the loss of 23 firm-year observations due to unavailable annual reports and undisclosed information regarding CEO tenure, age, and gender. Finally, our study sample consists of 1,522 firm-year observations across 109 firms. To ensure data quality, we used winsorization to address outliers, setting the boundaries at the 1<sup>st</sup> and 99th percentiles. [Table 1](#) reports the sample selection process.

#### 3.2 Model specification and variable measurement

We use the following basic regression specification for the firm  $i$  and period  $t$  to examine our developed *H1* and *H2*:

$$\begin{aligned}
 TOBINSQ_t = & \varnothing_0 + \varnothing_1 CEO\_TENURE_t + \varnothing_2 CEO\_AGE_t + \varnothing_3 CEO\_GENDER_t \\
 & + \varnothing_4 CEO\_FOUNDER_t + \varnothing_5 CEO\_DUAL_t + \varnothing_6 SIZE_t + \varnothing_7 LEV_t \quad (1) \\
 & + \varnothing_8 LOSS_t + YearFE + IndustryFE + \varepsilon_t
 \end{aligned}$$

**Table 1.** Sample selection

Firm-year observation with non-missing CEO tenure data from 2000 to 2020	1,687
Less: regulated industries	(142)
Less: missing variables	(23)
Final sample	1,522
<b>Source(s):</b> Authors' calculation	

$$\begin{aligned}
TOBINSQ_t = & \partial_0 + \partial_1 CEO\_TENURE_t^2 + \partial_2 CEO\_TENURE_t + \partial_3 CEO\_AGE_t \\
& + \partial_4 CEO\_GENDER_t + \partial_5 CEO\_FOUNDER_t + \partial_6 CEO\_DUAL_t \quad (2) \\
& + \partial_7 SIZE_t + \partial_8 LEV_t + \partial_9 LOSS_t + YearFE + IndustryFE + \varepsilon_t
\end{aligned}$$

where *TOBINSQ* is the proxy for firm performance measures, it is the sum of the market value of equity plus the book value of total debt scaled by total assets. Our primary variable of interest in  $H_1$  is CEO tenure measured in the coefficient  $\partial_1 CEO\_TENURE_t$ . We use two measures for CEO tenure, CEO\_TENURE and Ln(CEO\_TENURE). CEO\_TENURE is measured as the number of years the CEO has been serving as the firm CEO. Ln(CEO\_TENURE) is measured as the natural logarithm of CEO tenure years. A positive coefficient on CEO\_TENURE signifies that higher CEO tenure is associated with an increase in firm performance, while a negative coefficient indicates the opposite, suggesting that longer CEO tenure leads to a decrease in firm performance. In  $H_2$ , our primary variable of interest is  $\partial_1 CEO\_TENURE_t^2$ . Predicting a non-linear relationship between CEO\_TENURE and firm performance, we include the square term of CEO\_TENURE, measured as  $\partial_1 CEO\_TENURE_t^2$  in the regression model, [equation \(2\)](#).

Consistent with the existing corporate governance literature, we include several control variables. CEO\_AGE is measured as the firm CEO age in years. CEO\_GENDER is a dummy variable assigned a value of 1 if the CEO is female, 0 otherwise. CEO\_FOUNDER is a dummy variable equal to 1 if the CEO is a founder CEO, 0 otherwise. Also, CEO\_DUAL is a dummy variable equal to 1 if the CEO is also the Chairman of the board and 0 otherwise. SIZE is the proxy for firm size measure as the natural logarithm of firm total assets. Leverage (LEV) is estimated as the ratio of firm debt scaled by total assets. Loss (LOSS) is an indicator variable that equals 1 if the firm reported loss and 0 otherwise to measure the profitability. We also control firm and year fixed effect. All variable definitions/measurements are available in [Appendix](#).

## 4. Empirical results

### 4.1 Descriptive statistics

[Table 2](#) Panel A reports the sample characteristics. Over the 2000–2020 period, the mean (standard deviation) Tobin's Q value is 1.84 (2.09) and the mean (standard deviation) CEO tenure value is 5.80 (5.62). Also, the median of CEO tenure is four years, suggesting that half of the CEOs in the sample period serve four years or less, meaning shorter tenures of CEOs are more common in New Zealand. Therefore, a long-tenure in this context might be considered above 4 years of CEO tenure. Compared with [Brochet et al. \(2021\)](#) US CEO sample, CEOs in New Zealand have several different characteristics. First, they tend to have a shorter tenure on average (5.8 years) compared to [Brochet et al. \(2021\)](#) sample firms (7.3 years). CEOs in our sample have an average age of 50.83, relatively lower than those in

**Table 2.** Summary statistics

Variable(s)	Mean	Median	SD	P25	P75
<i>Panel A: Descriptive statistics</i>					
TOBINSQ	1.8436	1.1740	2.0993	0.9123	1.8919
CEO_TENURE	5.8004	4.0000	5.6217	1.6561	8.0192
Ln(CEO_TENURE)	1.1852	1.3893	1.2552	0.5045	2.0818
CEO_AGE	50.8303	51.0000	7.5475	46.0000	56.0000
CEO_GENDER	0.0492	0.0000	0.2163	0.0000	0.0000
CEO_FOUNDER	0.1115	0.0000	0.3149	0.0000	0.0000
CEO_DUAL	0.1300	0.0000	0.3364	0.0000	0.0000
SIZE	19.0117	13.2162	2.2524	17.6591	20.5866
LEV	0.2309	0.2121	0.1988	0.0425	0.3433
LOSS	0.1113	0.1000	0.1859	0.0000	1.000

*Panel B: Correlation matrix*

Variables(s)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
[1] TOBINSQ	1								
[2] CEO_TENURE	0.08***	1							
[3] CEO_AGE	0.05**	0.28***	1						
[4] CEO_GENDER	-0.06**	0.08***	-0.04*	1					
[5] CEO_FOUNDER	0.08***	0.34***	0.08***	0.22***	1				
[6] CEO_DUAL	-0.03	0.06***	0.10***	0.03	0.15***	1			
[7] SIZE	-0.36***	-0.03	0.04*	-0.03	-0.17***	-0.00	1		
[8] LEV	-0.18***	-0.02	-0.03	-0.10***	-0.01	0.04	0.21***	1	
[9] LOSS	-0.03	-0.04*	0.01	-0.03	-0.02	-0.01	-0.11***	0.17***	1

**Note(s):** Panel (A) All variable definitions are in [Appendix](#); Panel (B) All variable definitions are in [Appendix](#). \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests)

**Source(s):** Authors' calculation

[Brochet et al. \(2021\)](#) sample firms (55.56). We also observe that the New Zealand sample firms have a slightly higher ratio of female CEOs (mean value of 0.05 vs 0.03 in [Brochet et al.](#)'s sample) and a significantly lower ratio of CEO duality (mean value of 0.13 vs 0.55 in [Brochet et al.](#)'s sample) compared to those in the USA. However, there is a comparable percentage of CEO founders in both studies.

#### 4.2 Correlation analysis

**Table 2** Panel B reports the correlation matrix among the variables used in our research model. In line with our research hypothesis, we have observed a statistically significant and positive correlation between CEO tenure (CEO\_TENURE) and firm value, as measured by Tobin's Q (TOBINSQ). Our findings are statistically significant at a 1 % level. This finding suggests that longer CEO tenures are associated with an increase in firm value. Furthermore, our analysis consistently reveals a positive correlation between CEO age (CEO\_AGE) and Tobin's Q, indicating that as CEO age increases, there is a positive influence on firm value. Furthermore, our analysis reveals noteworthy associations between CEO tenure (CEO\_TENURE) and several key variables, including CEO age (CEO\_AGE), CEO gender (CEO\_GENDER), CEO founder status (CEO\_FOUNDER) and CEO duality (CEO\_DUAL). These findings suggest that firms with older CEOs, female CEOs, founder CEOs and CEOs holding duality positions tend to have longer CEO tenures. Our findings show that firm performance (TOBINSQ) tends to decrease as firm size (SIZE) and firm leverage (LEV)

increase. In other words, larger and more highly leveraged firms generally have lower firm performance. In addition, we find a positive relationship between firm size (SIZE) and firm leverage (LEV), indicating that larger firms are more likely to use debt financing. Importantly, these relationships are statistically significant at the 1% level, underscoring their robustness. This finding implies that higher CEO tenures are associated with improved firm performance, reflecting the impact of CEO experience and leadership on the firm financial success.

#### 4.3 Baseline regression results

Table 3 reports the findings of OLS regression. Model 1 reports the findings of  $H1$ , in which we examine the association between CEO tenure and firm performance. The coefficient (0.0194\*\*,  $t = 2.03$ ) for CEO\_TENURE is positive and statistically significant at the 5% level. Our results suggest that this positive coefficient signifies a meaningful association between CEO tenure and firm performance, confirming our  $H1$ . In terms of economic significance measured as  $[(\partial_1 \text{CEO\_TENURE} * \delta \text{CEO\_TENURE}) / \delta \text{TOBINSQ}]$  is considered to test the importance of CEO\_TENURE. In terms of the economic significance of the CEO\_TENURE is  $[(0.0194 * 5.6217) / 2.0993] = 0.0520$ , which can be interpreted as a 1% increase in the CEO\_TENURE leads to about 5.20% increase in firm performance which implies meaningful effect. To provide economic context regarding the firm total assets, 5.20% of the improvement of firm performance is equivalent to a total of (mean of SIZE  $\$180,582,807 * 0.0520$ ) =  $\$9,390,306$  of total assets.

Model 2 reports the findings of  $H_2$ , and our variable of interest is  $\partial_1 \text{CEO\_TENURE}_t^2$ , squared term of CEO\_TENURE. We find the coefficient for  $\text{CEO\_TENURE}_t^2$  is negative ( $-0.0028^{***}$ ,  $t = -5.22$ ) and significant at a 1% level, supporting our  $H2$  of a non-linear (inverted U-shaped) relationship between CEO tenure and firm value. Directors can enhance

**Table 3.** CEO tenure and firm performance – baseline results

Variable(s)	DEP = TOBINSQ		
	Model 1 Coefficient (t-value)	Model 2 Coefficient (t-value)	Model 3 Coefficient (t-value)
CEO_TENURE	0.0194** (2.03)	0.0411*** (5.92)	
CEO_TENURE <sup>2</sup>		-0.0028*** (-5.22)	
Ln(CEO_TENURE)			0.1211*** (3.31)
CEO_AGE	0.3781 (0.72)	0.4143 (0.72)	0.4021 (0.55)
CEO_GENDER	-0.8504*** (-4.12)	-0.8854*** (-5.01)	-0.8674*** (-4.22)
CEO_FOUNDER	0.1211 (0.62)	0.1193 (0.87)	0.1345 (0.63)
CEO_DUAL	-0.1231 (-0.92)	-0.1196 (-0.97)	-0.1310 (-0.89)
SIZE	-0.2532*** (-8.92)	-0.2124*** (-6.12)	-0.2175*** (-8.22)
LEV	-0.2598*** (-4.17)	-0.2723*** (-3.96)	-0.2872*** (-3.92)
LOSS	-0.0034 (-1.21)	-0.0039 (-1.09)	-0.0032 (-1.13)
Constant	4.9324*** (3.11)	4.1232*** (2.88)	3.9234*** (3.11)
YEAR_FE	Yes	Yes	Yes
INDUSTRY_FE	Yes	Yes	Yes
Adj R <sup>2</sup>	0.1912	0.2011	0.1988
N	1,522	1,522	1,522

**Note(s):** Table 3 reports the regression results testing the relationship between CEO tenure and firm performance. All variable definitions are in Appendix. \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests)

**Source(s):** Authors' calculation

firm value through their accumulated knowledge and skills in their early tenure. However, up to a certain point when long tenure can lead to more power and entrenchment that outweigh the aforementioned benefits, long CEO tenure becomes detrimental to firm value. Our findings indicate that the square term of CEO\_TENURE has significantly decremental explanatory power for the variation of firm performance. Noteworthy to mention that the coefficient for CEO\_TENURE ( $\partial_2 CEO\_TENURE_t$ ) is positive and statistically significant at a 1% level.

Model 3 examines the alternative measures for CEO tenure, Ln(CEO\_TENURE). Our findings consistently show that the coefficient of Ln(CEO\_TENURE) is positive [0.1211\*\*\*,  $t = 3.31$ ] and statistically significant at a 1% level. Regarding the control variables, the negative coefficient on female CEOs (CEO\_GENDER) suggests that firms led by female CEOs tend to exhibit lower firm performance. This finding may reflect underlying structural or industry-specific factors rather than inherent differences in leadership effectiveness. In addition, we observe that larger firms (SIZE) and firms with higher leverage (LEV) are associated with lower firm performance, possibly due to increased complexity, bureaucratic inefficiencies, or financial constraints arising from higher debt burdens. Finally, the adjusted  $R^2$  varies between 19.12 and 20.11, reflecting our regression model's goodness of fit.

#### 4.4 Additional analysis

We have also performed several additional tests. As we use a market-based performance measure (Tobin's Q) in our baseline models, we use two alternative accounting-based measures of firm performance: ROA and BEP (Papangkorn *et al.*, 2021) and conduct the analysis. Table 4 shows the results for ROA which are consistent with our baseline results.

**Table 4.** CEO tenure and firm performance – additional analysis

Variable(s)	DEP = ROA		
	Model 1 Coefficient (t-value)	Model 2 Coefficient (t-value)	Model 3 Coefficient (t-value)
CEO_TENURE	0.0216*** (4.92)	0.0105*** (6.98)	
CEO_TENURE <sup>2</sup>		-0.0038*** (-4.22)	
Ln(CEO_TENURE)			0.0039*** (2.86)
CEO_AGE	0.1765*** (4.28)	0.1813*** (4.23)	0.1974*** (2.87)
CEO_GENDER	-0.0092 (-0.71)	-0.0087 (-0.76)	-0.0086*** (-3.23)
CEO_FOUNDER	0.0272*** (2.71)	0.0319*** (3.09)	0.0587*** (2.99)
CEO_DUAL	-0.0357*** (-3.25)	-0.0407*** (-3.12)	-0.0511*** (-2.72)
SIZE	-0.0132*** (-4.11)	-0.0221*** (-4.99)	-0.0399*** (-6.11)
LEV	-0.2309*** (-5.11)	-0.2763*** (-8.33)	-0.2677*** (-6.11)
LOSS	-0.0039 (-1.09)	-0.0021 (-0.97)	-0.0014 (-0.54)
Constant	1.1976* (1.79)	1.4423* (1.79)	1.3301* (1.86)
YEAR_FE	Yes	Yes	Yes
INDUSTRY_FE	Yes	Yes	Yes
Adj $R^2$	0.6011	0.6321	0.6511
N	1,522	1,522	1,522

**Note(s):** Table 4 reports the regression results testing the relationship between CEO tenure and firm performance using the alternative proxy for firm performance ROA. All variable definitions are in Appendix. \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests)

**Source(s):** Authors' calculation

Particularly, the coefficient for CEO\_TENURE (0.0216\*\*\*,  $t = 4.92$ ) is positive and statistically significant at a 1% level (Table 4, Model 1). The coefficient (-0.0038\*\*\*,  $t = -4.22$ ) for  $CEO\_TENURE_t^2$  is also negative and statistically significant at a 1% level (Table 4, Model 2). Furthermore, when we use a logarithmic value of CEO\_TENURE, we still observe a similar result of a significantly positive relationship between CEO\_TENURE and ROA (0.0039\*\*\*,  $t = 2.86$ ). The relationships between control variables and firm performance are also consistent with those in our baseline models.

Table 5 shows the results for the basic earnings power (BEP) computed as the ratio of earnings before interest and tax (EBIT) to total assets reported in a given financial year. Our results still hold. The coefficient (0.0014\*\*\*,  $t = 3.49$ ) for CEO\_TENURE is positive and statistically significant at a 1% level (Table 5, Model 1). The coefficient (-0.0020\*\*\*,  $t = -3.31$ ) for  $CEO\_TENURE_t^2$  is also negative and statistically significant at a 1% level (Table 5, Model 2). Model 3 also shows a consistent result of a significantly positive relationship between  $\ln(CEO\_TENURE)$  and BEP (0.0032\*\*\*,  $t = 3.11$ ).

#### 4.5 Cross-sectional analysis

**4.5.1 The role of product market competition.** Empirical research evidence that product market competition can significantly affect firm value (Chang and Jo, 2019; Sheikh, 2018). In highly competitive markets, firms face pressure to innovate and differentiate their products to maintain market share, positively impacting firm value through enhanced revenue and profitability. However, this competition can lead to lower profit margins and increased operating costs. Conversely, in less competitive markets with high barriers to entry, firms may enjoy greater pricing power and higher profit margins, positively affecting firm value. Yet, reduced competition may foster complacency, diminishing incentives for innovation and efficiency improvement and potentially limiting long-term value creation. Therefore, we examine whether our findings remain consistent across high and low-competition markets. Following prior studies, we measure firm competitiveness using the Lerner Index (Babar and Habib, 2022; Lerner, 1934). We also use the Herfindahl-Hirschman index (HHI) as an alternative measure (Jiang et al., 2015). We report the findings in Table 6 Panel A.

We find a significant positive association between CEO tenure and firm value in highly competitive markets characterised by intense rivalry and rapid innovation. Our findings suggest that CEOs with longer tenures are better positioned to navigate competitive pressures, develop effective strategies, and capitalize on market opportunities, ultimately driving firm value. However, in less competitive markets where barriers to entry are higher, and competition is less intense, the relationship between CEO tenure and firm value may be less pronounced and statistically insignificant. Interestingly, our analysis reveals a negative association between the  $CEO\_TENURE^2$  and firm value across varying degrees of market competition. This suggests that while initial increases in CEO tenure may positively impact firm value in competitive markets, there may be diminishing returns or adverse effects on value creation as CEO tenure continues to increase. These findings highlight the nuanced interplay between CEO tenure, market competition, and firm value, emphasizing the importance of considering competitive dynamics when evaluating the impact of CEO tenure on organizational performance.

**4.5.2 The role of audit quality.** Our baseline models show that long-tenured CEOs enhance firm performance. However, we also find a significant inverted U-shaped relationship between CEO tenure and firm performance, suggesting that such a positive impact can hold up to a certain threshold; after that, long CEO tenure can hinder firm performance. This could be because of the conflicts of interests between CEOs and

**Table 5.** CEO tenure and firm performance – additional analysis

Variable(s)	DEP = BEP		
	Model 1 Coefficient (t-value)	Model 2 Coefficient (t-value)	Model 3 Coefficient (t-value)
CEO_TENURE	0.0014*** (3.49)	0.0054*** (5.25)	
CEO_TENURE <sup>2</sup>		-0.0020*** (-3.31)	
Ln(CEO_TENURE)			0.0032*** (3.11)
CEO_AGE	0.0899*** (2.99)	0.1188*** (3.11)	0.1288*** (3.69)
CEO_GENDER	-0.0111 (-1.22)	-0.0146* (-1.72)	-0.0152*** (-4.22)
CEO_FOUNDER	0.0196** (2.76)	0.0214*** (2.88)	0.0254*** (2.94)
CEO_DUAL	-0.0233*** (-3.77)	-0.0267*** (-3.98)	-0.0700*** (-3.68)
SIZE	-0.0111*** (-6.11)	-0.0088*** (-5.22)	-0.0018*** (-4.97)
LEV	-0.1233*** (-8.11)	-0.1574*** (-8.99)	-0.1955*** (-6.42)
LOSS	-0.0034 (-0.84)	-0.0011 (-0.44)	-0.0010 (-0.37)
Constant	-0.0813 (-1.23)	-0.2345 (-0.37)	-0.0975 (-0.63)
YEAR_FE	Yes	Yes	Yes
INDUSTRY_FE	Yes	Yes	Yes
Adj R <sup>2</sup>	0.6755	0.6988	0.6975
N	1,522	1,522	1,522

**Note(s):** Table 5 reports the regression results of testing the relationship between CEO tenure and firm performance using the alternative proxy for firm performance BEP. All variable definitions are in Appendix. \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests)

**Source(s):** Authors' calculation

shareholders, that is, longer-tenured CEOs can perceive that the benefits they receive from the firm are limited by their tenures, so they tend to allocate resources to serve their interests (Barker and Mueller, 2002; Cassell *et al.*, 2013; Darouichi *et al.*, 2021). Research has shown that audit quality helps alleviate agency problems and increase firm value (Francis, 2004; Khan *et al.*, 2016). For example, audit quality is found to be associated with improved earning quality (Francis, 2004). Similarly, there has been evidence showing that firms with top auditors have lower cost of equity capital than their counterparts (Chen *et al.*, 2011; Khurana and Raman, 2004). Following that, firms with high audit quality tend to have lower agency problems and a better information environment, thus strengthening the positive impact of CEO tenure on firm value. To investigate if the CEO tenure-firm value relationship is affected by audit quality, we divide our sample into two subsamples: (1) firms that are audited by Big4 firms (high audit quality) and (2) firms that are not and conduct our analysis. Results (Table 6, Panel B) show consistent findings with those in our baseline models in our Big4 subsample, suggesting that audit quality reinforces the positive impact of CEO tenure on firm value (TOBINSQ). On the other hand, we find no significant relationships between CEO tenure and firm value in the non-Big4 subsample.

**4.5.3 The role of firm age.** Older firms may have accumulated more resources, including financial capital, intellectual property and human capital. These resources can give older firms a competitive advantage and increase firm value (Bank and Insam, 2021; Chay *et al.*, 2015). Conversely, younger firms may face resource access challenges, impacting their growth prospects and firm value. Therefore, the association between CEO tenure and firm value is likely moderated by firm age, as older and younger firms exhibit distinct dynamics in their relationship with CEO tenure. A long-tenured CEO can provide stability, experience, and industry knowledge in younger firms, enhancing firm value by driving innovation,

**Table 6.** Cross-sectional determinants of CEO tenure and firm performance

Variable(s)	DEP = TOBINSQ					
	High competition		Low competition			
	Model 1 Coefficient (t-value)	Model 2 Coefficient (t-value)	Model 1 Coefficient (t-value)	Model 2 Coefficient (t-value)	Model 3 Coefficient (t-value)	Model 3 Coefficient (t-value)
<i>Panel A – product market competition</i>						
CEO_TENURE	0.0344** (2.32)	0.1265** (3.63)	-0.0068 (-0.89)	-0.0245 (-1.33)		
CEO_TENURE <sup>2</sup>		-0.0047*** (-3.23)		0.0010 (0.93)		
Ln(CEO_TENURE)			0.1598*** (2.67)			-0.0155 (-0.49)
Controls	CEO_AGE, CEO_GENDER, CEO_FOUNDER, CEO_DUAL, SIZE, LEV and LOSS					
Constant	4.6543** (2.31)	5.7123** (2.19)	4.9876** (2.29)	-0.2545 (-0.77)	-0.1976 (-0.09)	-0.0045 (-0.04)
YEAR_FE	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY_FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj R <sup>2</sup>	0.2578	0.2602	0.2770	0.4986	0.4501	0.4576
N	579	579	579	611	611	611
<i>Panel B – audit quality</i>						
DEP = TOBINSQ						
Big4 = 1						
CEO_TENURE	0.0188* (1.92)	0.0591*** (2.79)	Big4 = 0	0.0171 (1.29)	0.0512 (1.26)	
CEO_TENURE <sup>2</sup>		-0.0022** (-2.44)			-0.0016 (-1.16)	
Ln(CEO_TENURE)		0.1003*** (2.67)			0.0599 (0.96)	
Controls	CEO_AGE, CEO_GENDER, CEO_FOUNDER, CEO_DUAL, SIZE, LEV and LOSS					
Constant	5.1012** (2.54)	4.9091** (2.34)	5.1004** (2.48)	5.1123 (1.19)	5.1125 (1.19)	5.2111 (1.14)
YEAR_FE	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY_FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj R <sup>2</sup>	0.1759	0.1801	0.1671	0.3210	0.3201	0.3109
N	1106	1106	1106	362	362	362

(continued)



**Table 6.** Continued

Variable(s)	DEP = TOBINSQ					
	High competition		Low competition			
	Model 1 Coefficient (t-value)	Model 2 Coefficient (t-value)	Model 3 Coefficient (t-value)	Model 1 Coefficient (t-value)	Model 2 Coefficient (t-value)	Model 3 Coefficient (t-value)
Controls	CEO_AGE, CEO_GENDER, CEO_FOUNDER, CEO_DUAL, SIZE, LEV and LOSS					
Constant	5.1911* (1.76)	5.1121* (1.70)	5.5871* (1.72)	11.2415*** (2.92)	12.2450** (2.32)	10.1670** (2.11)
YEAR_FE	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY_FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj R <sup>2</sup>	0.2095	0.2214	0.2064	0.5095	0.5254	0.5301
N	765	765	765	108	108	108

**Note(s):** Panel A reports the regression results testing the relationship between CEO tenure and firm performance in the context of firm product market competition. All variable definitions are in [Appendix](#). \*\*\*, \*\*, \* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests); Panel B reports the regression results of testing the relationship between CEO tenure and firm performance in the context of audit quality. All variable definitions are in [Appendix](#). \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests); Panel C reports the regression results of testing the relationship between CEO tenure and firm performance in the context of firm age. All variable definitions are in [Appendix](#). \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests); Panel D reports the regression results of testing the relationship between CEO tenure and firm performance in the context of the firm life cycle. All variable definitions are in [Appendix](#). \*\*\*, \*\*, \* and \* represent statistical significance at the 1%, 5% and 10% levels, respectively (two-tailed tests)

**Source(s):** Authors' calculation

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strategic planning, and effective decision-making. Therefore, we categorize the sample into two groups based on the firm age to examine our conjecture: new firm (lower than mean firm age) and old firm (greater than mean firm age). Mean firm age of our sample is 17.43 years. Our findings are reported in [Table 6](#) Panel C.

Our study reveals a significant positive association between CEO tenure (CEO\_TENURE) and firm value (TOBINSQ) within the cohort of new firms, demonstrating statistical significance at the 1% level. However, no statistically significant association was observed within the group of older firms. Intriguingly, the relationship between CEO tenure (CEO\_TENURE<sup>2</sup>) and firm value exhibited a negative association for both new and old firm cohorts, indicating a reduction in firm value for both categories when CEO tenure (CEO\_TENURE<sup>2</sup>) increases, thereby suggesting a non-linear relationship. Our findings imply that as CEO tenure increases but beyond a certain point, the firm value starts to decrease, indicating a non-linear relationship between CEO tenure and firm value. These findings align with our preliminary results, thereby reinforcing the robustness of our findings.

*4.5.4 The role of life cycle.* Every firm goes through different life cycles, which are shown to have significant impacts on financial policies, corporate governance and financial performance ([Dickinson, 2011](#); [Habib and Hasan, 2019](#); [Houqe et al., 2023](#)). For example, [Loderer et al. \(2017\)](#) find that mature firms tend to invest less and hence experience a decrease in firm value. However, these firms are also believed to possess more assets in place and face less uncertainty in their operations than their immature counterparts, so they are likely to perform better ([Habib and Hasan, 2019](#)). Firm life cycle also affects various corporate governance issues such as board structure ([Habib et al., 2018](#)) and CEO compensation ([Kanagaretnam et al., 2009](#)). Such evidence suggests that the impact of CEO tenure on firm performance can be moderated by the firm life cycle. To test the moderation role of the firm life cycle, we follow [DeAngelo et al.'s \(2006\)](#) approach to classify firms into mature firms and firms that do not belong to the mature firm group (growth firm) and to perform the analysis with the two subsamples. We report our findings in [Table 6](#), Panel D. Results reveal consistent findings for growth firms. Particularly, for growth firms, CEO tenure enhances firm value. However, the positive impact holds up to a certain threshold and then decreases over time (inverted U-shaped curve). Interestingly, this is not the case for mature firms. We find no significant relationships in the mature subsample, suggesting that CEO may not exhibit significant influence on mature firms given their unique characteristics in this life cycle.

#### *4.6 Robustness and endogeneity tests*

Although our results are held after controlling for various CEO characteristics and firm-level variables and with alternative measures, they can still be subject to potential endogeneity problems. Particularly, unobservable firm-specific factors can affect firm performance while also correlated with CEO tenure, leading to omitted variable biases. As we manually collect the data, our sample may not be random and may be subject to sample selection biases. Thus, we further use various tests to check the robustness of our findings and address the endogenous problems. We regress firm performance (Tobin's Q) on one-year lagged values of CEO tenure and control variables to mitigate potential reverse causation. We consistently find a significantly positive relationship between CEO\_TENURE and firm performance (0.0901\*\*\*,  $t = 2.70$ ) at a 1% level ([Table 7](#), Model 1). We also include firm fixed effects to further control for any unobserved firm-specific factors that do not usually change over time. Our result of a positive link between CEO\_TENURE and firm performance remains valid (0.1067\*\*,  $t = 2.11$ ) ([Table 7](#), Model 2). Following [Hasan et al. \(2020\)](#), we further conduct a

**Table 7.** CEO tenure and firm performance – robustness tests

Variable(s)	One year lagged effects	Firm fixed effects	Change analysis
	Model 1	Model 2	Model 3
	Coefficient (t-value)	Coefficient (t-value)	Coefficient (t-value)
CEO_TENURE	0.0901*** (2.71)	0.1067** (2.11)	0.0118** (2.41)
CEO_AGE	0.5491 (0.72)	0.3511 (0.62)	0.4012 (0.71)
CEO_GENDER	-0.6199*** (-2.98)	-0.8411** (-2.11)	-0.1159 (-1.29)
CEO_FOUNDER	0.0410 (0.25)	0.0911 (0.48)	-0.1125 (-0.59)
CEO_DUAL	-0.0695 (-0.39)	-0.1592 (-0.59)	0.0288 (0.17)
SIZE	-0.2619*** (-7.11)	-0.2568*** (-3.79)	-0.0489 (-1.59)
LEV	-0.5641*** (-3.11)	-0.5891*** (-2.92)	-0.2721 (-1.39)
LOSS	-0.0035 (-0.24)	-0.0031 (-0.27)	-0.0011 (-0.01)
Constant	1.0678** (2.62)	1.2789*** (2.72)	0.9912*** (4.11)
YEAR_FE	Yes	Yes	Yes
INDUSTRY_FE	Yes	Yes	Yes
FIRM FE	No	Yes	Yes
Adj R <sup>2</sup>	0.1951	0.2014	0.0912
N	1,420	1,522	1522

**Note(s):** Table 7 reports the regression results testing the relationship between CEO tenure and firm performance using a change (and lag effect) analysis and firm fixed effect regression. All variable definitions are in Appendix. \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests)

**Source(s):** Authors' calculation

change analysis to mitigate potential biases from time-invariant unobserved effects. The intuition is that if CEO tenure influences firm performance, then a change in CEO tenure should also significantly affect changes in firm performance. We regress annual changes in firm performance on changes in CEO tenure and control variables and find a consistent result. Particularly, the coefficient for changes in CEO\_TENURE is positive (0.0118\*\*,  $t = 2.41$ ) and significant at a 5% level (Table 7, Model 3).

Following prior studies (Hasan *et al.*, 2020; Smith, 2016), we conduct the PSM method to control for observable differences in CEOs characteristics associated with firm performance. We define the treatment (control) group as CEO tenure above the median and control firms for others. We then stratify our data to match the treatment firms with control firms based on the nearest matching point method. To test the quality of our PSM, we conduct  $t$ -tests to compare the mean differences among the variables between the treatment and control groups (Table 8, Panel A). Only the difference in firm performance (TOBINSQ) is statistically significant (0.3547\*\*,  $t = 2.19$ ), while all other differences in observable CEO and firm characteristics are insignificant, suggesting the balances in our covariates between the groups. Finally, we rerun the baseline model based on the PSM estimates. Table 8 (Panel B) consistently shows a significantly positive relationship between CEO tenure and firm performance (0.1601\*\*,  $t = 2.24$ ).

Finally, we conduct Heckman two-stage selection analysis to mitigate sample selection biases due to our manual data collection (Alsaadi, 2021; Heckman, 1979; Hill *et al.*, 2020). Following prior studies (Bui *et al.*, 2021), we regress CEO tenure on all the control variables in the first stage. We regress firm performance (TOBINSQ) in the second stage on the inverse Mills ratio obtained from the first stage and all control variables as in our baseline model. Table 9 shows Heckman two-stage selection approach results. We document a significantly

**Table 8.** CEO tenure and firm performance – propensity score matching (PSM) analysis

Variable(s)	Treatment firms	Control firms	Difference	t-stat
<i>Panel A: Quality of propensity score matching (PSM)</i>				
<i>Dependent variable</i>				
TOBINSQ	1.9881	1.6334	0.3547	2.19**
<i>Control variable(s)</i>				
CEO_AGE	2.7315	2.7232	-0.0083	-0.31
CEO_GENDER	0.1045	0.1143	-0.0098	-0.39
CEO_FOUNDER	0.2647	0.2516	0.0131	0.37
CEO_DUAL	0.1470	0.1797	-0.0327	-1.09
SIZE	19.1230	19.2030	-0.0800	-0.51
LEV	0.2133	0.2290	-0.0157	-0.92
LOSS	0.1012	0.1112	-0.0100	-0.17
<i>Panel B: CEO tenure and firm performance using PSM regressions</i>				
Variable(s)	Model 1			
	Coefficient (t-value)			
CEO_TENURE	0.1601** (2.24)			
CEO_AGE	-0.6911 (-0.45)			
CEO_GENDER	-1.1912*** (-3.89)			
CEO_FOUNDER	0.2512 (1.19)			
CEO_DUAL	-0.4892** (-2.23)			
SIZE	-0.2611*** (-4.87)			
LEV	-1.9910*** (-4.27)			
LOSS	-0.0082 (-1.12)			
Constant	8.5328* (1.84)			
YEAR_FE	Yes			
INDUSTRY_FE	Yes			
Adj R <sup>2</sup>	0.1598			
N	532			

**Note(s):** Table 8 reports the regression results testing the relationship between CEO tenure and firm performance following the propensity score matching approach. All variable definitions are in Appendix. \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests)

**Source(s):** Authors' calculation

positive relationship between CEO tenure and firm performance (0.0231\*\*\*,  $t = 2.92$ ), supporting our main result.

## 5. Conclusion

This study investigates the impact of CEO tenure on firm performance and delves deeper into the potential presence of a curvilinear relationship between CEO tenure and firm performance. While conventional wisdom supports that longer CEO tenure enhances firm performance through heightened experience and organizational familiarity, another body of research presents contrasting findings, suggesting that extended CEO tenure could diminish firm value. Given the conflicting evidence, this study aims to investigate this relationship in the context of New Zealand. The New Zealand business context stands out as unique when compared to other countries like the US. According to Ward (2014), the average CEO tenure in New Zealand is notably shorter than that in the USA. Consequently, findings derived from studies conducted in the US may not be directly applicable or generalizable to other countries, including New Zealand. We employ a rich hand-collected data set of listed firms in

**Table 9.** CEO tenure and firm performance – Heckman selection analysis

Variable(s)	First stage Coefficient (t-value)	Second stage Coefficient (t-value)
DEP = CEO_TENURE	DEP = TOBINSQ	
CEO_TENURE	–	0.0231*** (2.92)
CEO_AGE	4.1911*** (6.27)	–6.8897** (–2.48)
CEO_GENDER	0.4426*** (2.69)	–1.2531*** (–4.88)
CEO_FOUNDER	1.1711*** (8.11)	–1.7912** (–2.47)
CEO_DUAL	–0.0569 (–0.65)	–0.0511 (–0.39)
SIZE	–0.0412 (–1.52)	–0.1825*** (–5.71)
LEV	0.0511 (0.29)	–0.6518*** (–5.29)
LOSS	–1.0029 (–0.29)	–0.0036 (–0.19)
Inverse mill ratio		–2.112** (–2.49)
Constant	–16.2519*** (–7.19)	31.7641*** (2.88)
YEAR_FE	Yes	Yes
INDUSTRY_FE	Yes	Yes
Pseudo R <sup>2</sup> /Adj R <sup>2</sup>	0.1800	0.1803
N	1,522	1,522

**Note(s):** Table 9 reports the regression results testing the relationship between CEO tenure and firm performance following the Heckman selection analysis. All variable definitions are in Appendix. \*\*\*, \*\* and \* represent statistical significance at the 1, 5 and 10% levels, respectively (two-tailed tests)

**Source(s):** Authors' calculation

New Zealand over 20 years (2000–2020) to investigate the relationship between CEO tenure and firm performance.

We find that long-tenured CEOs link with firm performance measured by various market-based and accounting-based proxies. We have also conducted relevant tests to mitigate potential endogeneity concerns, including lagged variables, controlling for firm-fixed effects, change analysis, PSM and Heckman two-stage selection. Our finding remains valid across these tests. Importantly, we document that although a long-tenured CEO tends to improve firm performance, which can be attributed to their increasing commitment, accumulating skills and knowledge about the firm over time (Brochet *et al.*, 2021), having a too long-tenured CEO can be harmful to the firm. Indeed, we find an inverted U-shaped curve between CEO tenure and firm performance, consistent with the theoretical work of Hambrick and colleagues (Hambrick and Gregory, 1991) and several studies mainly in the USA (Brochet *et al.*, 2021; Huang and Hilary, 2018). This could be because staying too long in the firm may provide such CEOs with more power and entrenchment that can create more conflicts of interest which overweighs the benefits of the long tenure (Cao *et al.*, 2021; Hambrick and Gregory, 1991; Hermalin and Weisbach, 1998; Miller, 1991).

Our study can offer important practical implications regarding corporate governance policies and practices. First, we provide empirical evidence of the positive link between CEO tenure and firm performance, indicating the benefits of long tenure. As CEOs tend to become more committed to the firm and accumulate relevant knowledge and skills which advance their strategic decision-making over time, firms/boards of directors should have appropriate strategies to improve their CEOs tenure. Second, we also find that long-tenured CEOs no longer add value to firms up to a particular threshold. Instead, such long-tenured CEOs prioritize their self-interest and exercise their entrenchment. Thus, firms should have appropriate corporate governance to closely monitor such CEOs to mitigate potential problems such as entrenchment or conflicts of interest. This is particularly important for New

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Zealand or similar countries where the corporate governance regime is more principles-based, and thus, there are no compulsory corporate governance guidelines (Sharma *et al.*, 2021; Wu *et al.*, 2022). As a result, CEOs may be under less pressure and oversight than their peers in the USA or other rule-based countries.

It is also important to acknowledge certain limitations of our study, which can be investigated further in future research. First, as the focus of our paper is on the relationship between CEO tenure and firm performance and due to the limitation of our hand-collected database, we do not examine the potential channels through which the impact can happen. Future research can further explore such mechanisms as improved knowledge and skills, or propensity to take risks as channels underlying the positive impact or overconfidence as channels underlying the negative impact of CEO power (Brochet *et al.*, 2021; Kaplan *et al.*, 2022; Simsek, 2007). Understanding the mechanisms can provide deeper insights into the relationship. However, as informed from prior studies, these factors are usually measured by collecting primary data from surveys or interviews, which are beyond the scope of this study. Consequently, we acknowledge this as a limitation of our study. Second, although we have controlled for various CEO characteristics such as age, gender, founder and duality as following prior studies, there can be other characteristics that can affect the CEO tenure-firm performance relationship, such as their relevant skill set (generalist versus specialist CEOs) (Custódio *et al.*, 2013; Li and Patel, 2019). Due to data limitations, we cannot control such factors in our models, and therefore, we encourage future studies to take these factors into account better to understand the relationship between CEO tenure and firm performance.

Our findings should be interpreted with caution when applied to different geographic regions and regulatory regimes. For instance, the presence of business groups or family firms could potentially influence the relationship between CEO tenure and firm performance. Kim and Kiyamaz (2023) highlight that in India, nearly 48.8% of CEOs are founders within business groups, and they report a positive relationship between founder CEOs and firm performance, particularly in such contexts. This suggests that CEO tenure may have different implications in business groups, especially when the CEO is a founder, compared to non-founder CEOs. These differences in the role of the CEO, as well as variations in governance frameworks, are likely to influence how CEO tenure impacts firm performance. Our study focuses on the New Zealand context, which has distinct governance practices, but future research could expand on this by exploring how the tenure-performance relationship varies between founder and non-founder CEOs, especially across different governance environments and business contexts. Understanding these dynamics could provide a more nuanced view of how CEO tenure affects firm performance in diverse settings.

#### Note

1. [www.hofstede-insights.com/country-comparison-tool?countries=new+zealand%2Cunited+states](http://www.hofstede-insights.com/country-comparison-tool?countries=new+zealand%2Cunited+states)

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**Table A1.** Variable definitions

Variable(s)	Label	Description	Source
<i>Dependent variable</i>			
Firm performance	TOBINSQ	The sum of the market value of equity plus the book value of total debt scaled by total assets	Thomson Reuters Eikon (and calculated)
<i>Independent variable(s):</i>			
CEO tenure	CEO_TENURE	Number of years the CEO has been serving as the firm's CEO	Annual reports (hand collected)
	Ln (CEO_TENURE)		Annual reports (and calculated)
<i>Control variables</i>			
CEO age	CEO_AGE	Firm CEO's age measured in years	Annual reports (hand collected)
CEO gender	CEO_GENDER	Indicator variable that equals 1 if the CEO's gender is female and 0 otherwise	Annual reports (hand collected)
CEO founder	CEO_FOUNDER	Indicator variable that equals 1 if the CEO is the founder of the company and 0 otherwise	Annual reports (hand collected)
CEO duality	CEO_DUAL	Indicator variable that equals 1 if the CEO is also the Chairman of the board and 0 otherwise	Annual reports (hand collected)
Firm size	SIZE	Natural logarithm of total assets	Thomson Reuters Eikon (and calculated)
Leverage	LEV	Total debt divided by total assets	Thomson Reuters Eikon (and calculated)
Profitability	LOSS	Indicator variable that equals 1 if the firm reported loss and 0 otherwise	Thomson Reuters Eikon (and calculated)
Year fixed effects	YEAR_FE	A vector of dummy variables indicating year	Thomson Reuters Eikon
Industry fixed effects	INDUSTRY_FE	A vector of dummy variables indicating industry	Thomson Reuters Eikon

*(continued)*

**Table A1.** Continued

Variable(s)	Label	Description	Source
<i>Additional test variables:</i>			
Return on assets	ROA	Net income divided by total assets	Thomson Reuters Eikon (and calculated)
Basic earning power ratio	BEP	The ratio of earnings before interest and tax (EBIT) to total assets reported in a financial year	Thomson Reuters Eikon (and calculated)
Market competition	HHI	A proxy of market competition based on the Herfindahl-Hirschman Index and the value range between 0 and 100	Thomson Reuters Eikon (and calculated)
Audit quality	BIG4	An Indicator variable that equals 1 if the firm is audited by BIG4, and 0 otherwise	Thomson Reuters Eikon and annual report (and calculated)
Firm age	New/OLD	Number of years since the company is founded. We categorize firms into two groups – new and old – based on the mean age of firms in the sample	Thomson Reuters Eikon and annual report (and calculated)
Firm life cycle	MATURE	Firm Life Cycle is measured as a ratio of retained earnings (RE) scaled by total assets (TA). A value greater than 1 is a mature firm, 0 otherwise	Thomson Reuters Eikon (and calculated)
<b>Source(s):</b> Authors' calculation			