

At what point in their tenure do CEOs steer firms out of distress fastest?

Firms bounce back fastest around a CEO's eleventh year, and risk appetite reshapes the curve.

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Every firm meets a bad patch eventually. What separates the survivors is often how long they stay in it, since the odds of bankruptcy climb with every extra year spent in financial distress. Most research on corporate resilience looks at what organisations have: cash buffers, routines, networks, flexible structures. Far less attention goes to the person making the calls.

A new study puts the chief executive at the centre. It asks whether the time a CEO has spent in office affects how quickly the firm climbs out of distress, and whether the CEO's appetite for risk changes that relationship. The answers suggest boards should treat tenure as a variable with a sweet spot, and treat risk-taking as something to govern rather than simply contain.

WHAT WE STUDIED

The researchers tracked every non-financial company listed on Euronext Milan between 2013 and 2023. Starting from 2,596 firm-year observations, they removed banks, insurers and incomplete records, then kept only the episodes in which a firm fell into financial distress and later recovered. That left 573 firm-year observations.

Distress was defined with the Altman Z-score, a long-standing bankruptcy predictor built from working capital, retained earnings, operating profit, market value and sales. A firm entered distress when its score dropped below 1.81 and counted as recovered once it climbed back above that line. Resilience is the number of years in between. Shorter means more resilient.

CEO tenure was measured in years in office. Risk-taking was captured through a single factor combining

the firm's long-term debt, capital expenditure and R&D spending, the kind of commitments a chief executive signs off on. Data came from the AIDA database, corporate governance reports and Consob ownership filings, much of it collected by hand. Because the outcome is a duration, the team used a Cox proportional hazards model, the survival-analysis tool familiar from medical research, which estimates how likely a firm is to exit distress at any given moment. The models controlled for firm age, size, leverage and profitability, board size and independence, and the CEO's age, ownership stake, founder status, dual role as chair, and any change of CEO during the distress period.

Italy was a deliberate choice. Its listed companies keep CEOs for a long time: average tenure in the sample is 11 years, with some running past 30. One in five CEOs founded the company, and nearly a quarter also chair the board.

KEY INSIGHTS

Recovery is fastest around year eleven

The relationship between tenure and time to recovery is U-shaped. Firms led by newly appointed CEOs take longer to exit distress. Recovery speeds up as the CEO builds firm-specific knowledge and reaches its quickest point at roughly 11 years in office. Then it slows again. For the longest-serving CEOs, it slows sharply.

The authors ran the formal tests needed to show this is a genuine U rather than a statistical artefact. The slope is significantly negative at the short end of the tenure range and significantly positive at the long end, and the turning point sits well inside the data. Its 95% confidence interval runs from about four to 17 years. That width matters: the sweet spot is a broad middle

stretch, and no board should read "eleven years" as a precise target.

The explanation draws on Hambrick and Fukutomi's well-known "seasons" of a CEO's tenure. A new leader is still learning the business and building legitimacy with the board and managers, which slows decisive action. In the middle years, knowledge and authority peak together. Later, routines that once worked harden into habits, commitment to the status quo grows, and the CEO reads a changing environment more slowly.

Risk appetite changes the shape of the curve

On its own, the risk-taking measure had no significant effect on recovery time. Its influence appears only in combination with tenure. There it is substantial.

Among CEOs with low risk propensity, the long-tenure penalty is severe. Among high risk-takers, the U disappears: the model-implied time to recovery keeps falling as tenure lengthens, so the longest-serving risk-takers recover fastest of all. Early in a tenure the picture flips. Newly appointed risk-takers are slightly slower than their more cautious peers.

This is the most useful finding in the paper, and it is easy to miss. Risk-taking appears to be what stops a veteran CEO from going stale. A continued willingness to borrow, invest and fund R&D under pressure seems to offset the inertia that otherwise sets in after a decade or more in the job.

A new CEO is not an automatic fix

Swapping the CEO did not help. A change of chief executive during a distress episode had no significant effect on recovery time. Combined with the slow start of newly appointed leaders, this casts doubt on the reflex to replace the chief executive the moment results turn.

TAKEAWAYS

Weigh tenure before changing the leader

Boards in crisis often reach for a new CEO. That instinct deserves scrutiny. The evidence here suggests a mid-tenure incumbent may be the faster route out, and that a newcomer needs time and support before the firm benefits from fresh eyes.

Back new CEOs with structure

- A recovery committee or dedicated board support to compensate for thin firm-specific knowledge
- Early access to people who know the firm's history, lenders and key suppliers
- A pre-agreed crisis playbook, so a new leader is not designing the response from scratch

Watch for entrenchment in long-serving CEOs

After ten years or more, ask whether the CEO still takes calculated bets. In this study, a long-tenured leader who has turned defensive is the profile most associated with slow recovery.

Govern risk-taking rather than suppress it

The authors are careful here, and readers should be too. Bold moves in distress can also mean overinvestment, excessive leverage or escalating commitment to a failing course. Risk-taking helps when it is selective, financially sustainable and matched to the firm's resources, which calls for boards that let CEOs act decisively while keeping a close eye on debt capacity.

What this may mean for business families

The study does not separate family from non-family firms. Its logic still travels, though. Family CEOs can serve well beyond the 11-year turning point, and for owning families the findings offer a useful frame for discussing late-tenure leadership: the more revealing question is whether a long-serving CEO still takes calculated risks.

IMPACT

The study connects two research streams that rarely meet: work on corporate resilience, which has mostly examined organisational resources and capabilities, and upper echelons research on how executives' characteristics shape outcomes. By treating resilience as time to recovery, it shows that the pace of recovery depends in part on who is in charge and how long they have been there.

The limits are real. The sample covers listed Italian firms only, a context with unusually long tenures and low CEO turnover. Distress is measured financially, with no distinction between shocks generated inside the firm and those imposed from outside, such as a pandemic or a war. And the risk measure reflects firm-level borrowing and spending attributed to the CEO, not the CEO's personal attitudes. Testing the pattern in private companies and other countries is the obvious next step.

RECOMMENDATIONS

1. Map where your CEO sits on the tenure curve before a crisis forces the question.
2. Pause before replacing the CEO mid-crisis; a change of leader did not shorten recovery in this study.
3. Give newly appointed CEOs a recovery plan, an experienced board sponsor and fast access to institutional knowledge.

4. For CEOs in office beyond roughly 15 years, review whether investment and R&D decisions still show an appetite for calculated risk.
5. Place recovery strategies inside a formal risk-management framework, with clear limits on leverage and investment during distress.
6. Track time spent in distress as a board metric, alongside whether the firm survives.

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