Three essays on firm age and performance

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Old captains at the helm: Chairman age and firm performance

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This paper examines whether chairmen of the boards (COBs) impose their life cycles on the firms over which they preside. Using a large sample of unlisted firms, we find a robust negative relation between COB age and firm performance. COBs age much like 'ordinary' people. Their cognitive abilities deteriorate, and they experience significant shifts in motivation. Deteriorating cognitive abilities are the main driver of the performance effect that we observe. The results imply that succession planning problems in unlisted firms are real. Mandatory retirement age clauses cannot solve these problems because aging is a gradual process that sets in relatively early.

International Corporate Aging

This paper examines whether firms internationally age as US firms do (Loderer, Stulz, and Wälchli, 2013). Using a large panel, I find that Tobin's Q monotonically falls with firm age across the nineteen countries under investigation. The decrease varies across countries but is generally extremely robust and economically significant. Operating profitability, sales growth, and market share decrease over a firm's lifetime in most countries as well. Furthermore, older firms reduce their capital expenditures and R&D outlays. Instead, they distribute more cash to their shareholders. Overall, the results suggest that corporate aging is not confined to the US but is a genuine phenomenon that affects listed firms worldwide. This evidence supports the hypothesis that corporate aging is driven by managers who optimally focus on managing their assets in place and neglect the development of growth opportunities. I finally ask whether shareholders induce this apparently myopic behavior because they focus on current earnings and short-term stock price changes (Edmans (2009) and Graham, Harvey, and Rajgopal (2005)). Consistent with that, I find that firms age faster in countries where shareholder rights are better protected.

Is employment protection a fountain of corporate youth?

This paper documents that stronger employment protection spurs innovation and slows down the process of corporate aging. Acharya, Baghai, and Subramanian (2012) and Manso (2011) document that employment protection motivates innovation by limiting the ability of firms to hold up innovating employees and by providing a mechanism for firms to credibly commit to tolerating short run failures. If so, employment protection should help firms preserve their ability to innovate and thus slow down the process of corporate aging. Using the natural experiment created by the staggered passage of changes in employment protection legislation across seventeen countries, I find robust evidence that these changes do indeed reduce the speed of corporate aging. The effect is stronger in innovative industries and weaker if employment protection is more vigorous.