

# Performance of elderly small business managers and the effects of succession\*

Daisuke Tsuruta<sup>†</sup>

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## Abstract

We investigate the effects of succession from an elderly to a nonelderly small business manager using firm-level data of small businesses in Japan. The number of elderly small business managers has increased in Japan recently; therefore, succession to new managers is an important policy issue. First, we investigate the empirical relationship between firm performance and small business managers' age. Using a quantile regression, firm performance (in terms of profitability and sales growth) is lower if the manager is aged 60 years or older. These effects are larger for the third quantile of proxies of firm performance. Second, we estimate the determinants of succession in firms with elderly small business managers, showing that larger firms are more likely to replace elderly small business managers. Unlike studies using listed firms, profitability has insignificant effects on succession. Third, we examine postsuccession performance using the propensity score matching method. Succession from elderly managers has positive effects on sales, assets, employment growth, working capital investment, and cash holdings. These results imply that succession improves firm growth in firms with elderly managers. Furthermore, the successors are risk averse because they prefer cash holdings, instead of using cash for investment. The positive effects of succession were weak during the global financial crisis.

**Keyword:** succession, small business, manager age, firm growth, firm performance  
**JEL classification:**G34; L25; L26; M21

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<sup>†</sup>Address.: 1-3-2 Misaki-cho, Chiyoda-ku, Tokyo 102-8360, Japan.; Tel.: +81-3-3219-3606.; Fax: +81-3-3219-3606.; *E-mail address:* tsuruta.daisuke@nihon-u.ac.jp