6-7-2014

FIRM AGE AND GROWTH PERSISTENCE (INTERACTIVE PAPER)

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Recommended Citation
Coad, Alex; Daunfeldt, Sven-Olov; and Halvarsson, Daniel (2014) "FIRM AGE AND GROWTH PERSISTENCE (INTERACTIVE PAPER)," Frontiers of Entrepreneurship Research: Vol. 34 : Iss. 14 , Article 16.
Available at: https://digitalknowledge.babson.edu/fer/vol34/iss14/16

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Principal Topic

A number of studies have indicated that firm age is an important determinant of firm growth. However, we still lack knowledge on how firm age influences the persistence of firm growth rates. On the one hand, we may expect that young firms face a liability of newness. Learning-by-doing models also suggest that older firms may benefit from their greater business experience, and therefore have a higher degree of growth persistence than younger firms. On the other hand, older firms might have problems adapting their strategies to changing business conditions as well as increasing inertia and organizational rigidities. Young firms might also seek to achieve Minimum Efficient Scale as they struggle to overcome their ‘liability of newness’ and achieve economies of scale.

Method

There is little empirical work on how growth autocorrelation varies over firm age, which can be explained by two data-related issues. First, there is limited availability of data on firm age. Second, it is very difficult to obtain representative data on very young firms. We use the PAR-dataset, which comprises all Swedish limited liability firms during 1997-2010. This is an ideal dataset for analyzing how growth autocorrelation varies over firm age, since it covers all young firms and also includes information on the registered start year. Growth persistence was estimated using cross-tabulations, transition matrices, contour plots, and standard regressions. Quantile regression models with age dummies were also estimated to investigate whether the relationship between firm age and growth persistence differed across the growth rate distribution.

Results and Implications

Our results indicate that young high-growth firms are characterized by positive growth autocorrelation, whereas the results for older high-growth firms are not significantly different from zero. Nascent ventures, therefore, enjoy a positive persistence – a sort of ‘success-breeds-success’ dynamic – which lasts for fewer than ten years, until persistence becomes negligible for older firms. We can thus reject the hypothesis that older firms should have a high degree of growth persistence due to learning effects. Instead our results support theories arguing that old firms might have problems in adapting their strategies to changing market conditions, whereas new firms need to grow in order to achieve a minimum efficient scale.

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