Fit, Style, and the Portability of Managerial Talent

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Abstract. How portable are top management skills? Should (and do) firms care about firm-manager fit when they hire new managers? How is fit related to managerial “style”? We hypothesize that if firms and managers are matched with each other on the basis of fit on multiple dimensions, then firms that employ the same manager at adjacent points of time should have similar characteristics. We construct a measure of distance between firm characteristics and find that, for a wide range of firm characteristics, the distance between the two firms hiring the same manager is strikingly close, even during periods that are outside the manager’s tenure. Furthermore, the pre-turnover characteristics of the new firm can explain the post-turnover characteristics of the old firm. Our empirical design ensures that these results are not explained by managerial style, or by moves among firms of similar size, or within the same industry. We find that a worse fit leads to less positive stock price reaction to the announcement of managerial appointments, lower managerial pay, and shorter tenure for the manager, suggesting that management skills do not necessarily transfer from one firm environment to another. We also find evidence that when the firm and the manager do not fit well, managers influence several firm-specific variables, consistent with managerial style.

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