ABSTRACT

Asymmetric information is a fundamental friction that results in mismatches and productivity losses in the labor market. In this paper, we posit that enhanced financial disclosure from a CEO candidate’s prior employer can help the hiring firm better assess the possible fit between the candidate’s skill set and its needs. Using a mandatory segment reporting reform in the U.S. (SFAS 131) as an exogenous positive shock to disclosure, we find a significant increase in the match quality in external CEO hiring in which the hiring firm has access to more disaggregated segment information about the candidate’s past employment pursuant to SFAS 131. Further, the improvement in firm-CEO matching is larger when the candidate previously holds a higher rank, when there is a larger local CEO labor market, and when the candidate’s prior employer is informationally more opaque. On the other hand, we observe a more moderate effect of financial disclosure on firm-CEO matching when informal social network is available as an alternative information source, and when the candidate moves from a relatively small business to a much larger firm. These findings reveal a novel labor market benefit of disclosure via alleviating pre-hiring information deficiencies and facilitating efficient allocation of CEO talent across firms.

(Copies of the paper are available in the AOIS Department offices)