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April M. Franco: “Birds of a Feather Flock Together: Two-Sided Incomplete Information and Human Capital Composition over the Firm Lifecycle”



Rotman School of Management, University of Toronto

<http://www.rotman.utoronto.ca/facbios/viewFac.asp?facultyID=April.Franco>

Abstract

Based on the premise that there is incomplete information on the true quality of both young workers and young firms, we posit that human capital composition in a firm will vary over its lifecycle. When firms are new and young, we hypothesize that senior managers will be unwilling to hire younger workers, because the unknown quality of young workers may increase the risks associated with firm viability and short term needs to combat the liability of newness. This results in younger firms having more homogeneous work forces. As both worker and firm quality are revealed over time, we hypothesize that the heterogeneity in human capital composition will increase, given that the resolution of firm level uncertainty permits managers to seek benefits of complementarities between junior and senior workers. We find support for our hypotheses using employee-employer linked microdata from the legal services industry.