

In this paper, we examine how reliance on external labor markets for managerial talent is linked to the degree of decentralization (or centralization) of decision-making authority within organizations. As our main argument, we propose that the degree of decentralization within organizations depends upon whether firms choose to acquire managerial human capital from external labor markets, and that capturing value from externally hired managers requires the appropriate allocation of decision-making authority in firms. Specifically, we argue that reliance on external hiring to obtain managerial human capital leads to greater decision-making authority being allocated to the managerial level of the organization. We find that greater alignment between external managerial hiring and decision-making authority allocation leads to more innovations produced by firms.