Managerial Style and Attention.

Wouter Dessein          Tano Santos
Columbia University      Columbia University
September 30, 2014

Abstract

A large empirical literature has shown how firm behavior is correlated with the background and expertise of its managers. But managerial knowledge and expertise are largely endogenous. We analyze a model in which a manager selectively allocates attention to learn about two strategic choices, each pertaining to a different task or function (e.g. operations and marketing). The manager then communicates about the chosen strategies to an organization, who must implement them. Both the manager and the organization have limited attention. We show that in order to facilitate implementation, the manager often communicates about only one of the two strategic choices. In turn, if managerial attention is constrained, this induces the manager to only focus on one task or function when gathering information. This is true even when both tasks are equally important and the manager is a generalist who is equally adept at learning about either task. Ex post, it appears as if managers are (arbitrarily and inefficiently) biased towards one particular task. Finally, firm owners (e.g. boards) often prefer managers with task-specific expertise rather than generalist managers, even when they themselves have no preference for a particular strategy.