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(How) Does discretion change over time? A contribution toward a dynamic view of managerial discretion

Thomas Hutzschenreuter^{*}, Ingo Kleindienst¹

WHU – Otto Beisheim School of Management, Burgplatz 2, 56179 Vallendar, Germany

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Dynamic model;
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Awareness

Summary A quarter of a century ago Hambrick and Finkelstein (1987) called for work on the dynamics of managerial discretion. The present paper aims at developing ideas of such a dynamic view by integrating insights from research on cognition and learning into discretion theory, complementing established research on the role of context with a view that focuses on the manager as the driving force of discretion. We conceptualize discretion as the scope of options a manager may choose from. Accordingly, the cognitive concepts of awareness and attention are central building blocks. We argue that a manager may intentionally influence the degree of discretion by purposefully choosing the set of issues and options to be included in his or her strategic issue array. However, though it is the manager him- or herself who ultimately decides upon the allocation of his or her scarce attentional resources, we argue that this decision and, by that, the degree of managerial discretion is substantially affected by personal, relational, and situational factors. Understanding how these factors affect a manager's allocation of attention over time is imperative to understand the dynamics of managerial discretion.

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Introduced to scholars of strategic organization by Hambrick and Finkelstein (1987) a quarter of a century ago, managerial discretion theory has helped to bridge two polar views of strategic action in organizations. Over the past two decades managerial discretion theory has proven to be very appealing conceptually and has widely been cited in leading management journals. Thereby, the concept has helped to explain organizational phenomena such as executive compensation (Cho & Shen, 2007; Finkelstein & Boyd, 1998), executive

tenure and turnover (Finkelstein & Hambrick, 1990; Shen & Cho, 2005), environmental commitment (Aragon-Correa, Matias-Reche, & Senise-Barrio, 2004), and strategic orientation (Rajagopalan, 1997; Rajagopalan & Finkelstein, 1992). However, as Keegan and Kabanoff (2008) have pointed out, managerial discretion theory has had far less impact on the management literature to date than it should have. This assessment is supported by Boyd and Gove's (2006) review, according to which only 16 studies have empirically explored managerial discretion theory.

The reason for this is likely to be twofold. First, since its introduction to the literature, scholars have focused on the application of the original concept. Less attention has been paid to its refinement and/or extension. Only recently, Finkelstein and Peteraf (2007) provided an excellent conceptual piece of work aimed at further developing manage-

^{*} Corresponding author. Tel.: +49 261 6509 200; fax: +49 261 6509 209.

E-mail addresses: th@whu.edu (T. Hutzschenreuter), ingo.kleindienst@whu.edu (I. Kleindienst).

¹ Tel.: +49 261 6509 204; fax: +49 261 6509 209.

rial discretion theory. While their extension to managerial activities is important in its own right, their work has also to be applauded for reemphasizing the role of the manager. Although Hambrick and Finkelstein (1987) argued that discretion originates from the manager's awareness of options, to date research has mainly explored the role of context in determining managerial discretion (Li & Tang, 2010). In contrast, important individual factors that affect managerial discretion such as cognition and learning have, by and large, been neglected.

Second, little attention has been given to the idea that a manager's discretion may vary over time, despite the fact that Hambrick and Finkelstein (1987) called for the development of a dynamic view of managerial discretion. But, as Finkelstein and Peteraf (2007, p. 244) have argued, the question of how discretion changes over time is "an important question, not only because the effects of discretion have found to be substantial in subsequent research, but also for the more general reason that much theory on strategic organization implicitly assumes a static model of the world, even though it is quite evident that change is endemic to strategy."

Therefore, the objective of our paper is twofold. We aim to complement established research on managerial discretion by (i) focusing on the manager as the driving force of discretion and (ii) devise ideas for the development of a dynamic view of managerial discretion. To do so, we will reconsider Hambrick and Finkelstein's (1987) original article and define managerial discretion as *the number of options a manager is aware of*. We follow Finkelstein and Peteraf (2007), according to which any development of a dynamic view must depart from the manager him- or herself, and contribute to the individual-level base of discretion, which Finkelstein, Hambrick, and Cannella (2009, p. 33) have assessed a critically important arena for investigation.

In particular, we integrate recent insights on cognition and learning to explore how a manager's allocation of attention and, by that, his or her degree of discretion changes over time. We argue that while a manager may intentionally influence the degree of discretion by purposefully choosing the set of issues and options to be included in his or her strategic issue array, the decision to allocate attentional resources to the respective issues and options is substantially affected by personal, relational, and situational factors. Thus, understanding how these factors affect a manager's allocation of attention over time is imperative to understand the dynamics of managerial discretion.

The remainder of the paper is structured as follows. Subsequently, in Section "Reconsidering the concept of managerial discretion", we reconsider the original article and highlight the implications of the original concept for a dynamic view. In doing so, we identify the cognitive concepts of awareness and attention (Koch & Tsuchiya, 2006; Wickens & McCarley, 2008) as crucial building blocks. Section "Linking attention to the dynamics of managerial discretion" provides a detailed discussion of managerial attention. Next, in Section "Toward a dynamic view of managerial discretion", we seize on Hambrick and Finkelstein's (1987) call for the development of a dynamic view of managerial discretion. In particular, we explore how a manager's attention to strategic issues over time, and, by that, the manager's discretion, is affected by personal, relational, and situational

characteristics. We end the paper with a conclusion in Section "Conclusion".

Reconsidering the concept of managerial discretion

The manager – the neglected part in managerial discretion theory

To clarify why it is important to reemphasize the role of the manager in managerial discretion theory, we will subsequently provide an in-depth analysis of Hambrick and Finkelstein's (1987) original conceptualization of discretion. At the outset of their work, Hambrick and Finkelstein (1987, p. 372) introduced *potential actions* or *options* as the basic building block of their concept. Subsequently, they elaborated that managerial discretion resides in part within the manager rather than being determined solely by contextual forces and conclude that a "*chief executive who is aware of multiple courses of action that lie within the zone of acceptance of powerful parties is said to have discretion*" (Hambrick & Finkelstein, 1987, p. 378, italics in the original). Postponing for a moment what is meant by awareness, it is important to comment on the fact that managerial discretion is at the intersection of two independent sets of options: one being the options of which the manager is aware of (what we will label MA), and the other made up of the options that would meet the approval of powerful stakeholders, that is, that are contained within the zone of acceptance (ZoA). Consequently, discretion may formally be expressed as:

$$\text{Managerial discretion} = \text{MA} \cap \text{ZoA}$$

Hence, as depicted in Fig. 1, managerial discretion may best be understood as a continuum (Kleindienst & Hutzschenreuter, 2010). At the one extreme, albeit this is likely to be rather a theoretical than a practical possibility, the manager may face no discretion at all (Alternative A). This is the case, whenever the intersection between MA and ZoA is the empty set, which may be due to two reasons: first, it may be that the manager is unaware of a single option. Second although the manager is aware of a multitude of options, it may be that all of these options fall outside the ZoA. At the other extreme, it may be that the manager faces the maximum degree of discretion (Alternative C). This is the case, whenever all of the options the manager is aware of, are contained within the ZoA, that is, whenever MA is a subset of ZoA. In this case, the manager would face no constraints for his or her actions and would be able to act upon every single option he or she is aware of. It is important to note, however, that the manager's degree of discretion would not increase even if the ZoA would allow for additional options to be acted on. This is to say that options the manager is not aware of, do not contribute to his or her discretion. In between these two extreme positions, the intersection of MA and ZoA reflects the manager's actual degree of discretion (Alternative B). In this case, the manager may be aware of a variety of options, however, only those options that fall within the ZoA contribute to the manager's level of discretion. This may also include complex and uncertain options, which are hard to observe by powerful parties and are therefore not constrained when acted upon (Finkelstein & Peteraf, 2007).

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