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Managerial Myopia, Financial Expertise, and Executive-Firm Matching*

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Abstract

Existing literature emphasizes skills-based explanations for executive-firm matching, namely in the context of financial expertise. In contrast, our paper argues that informational concerns may also be relevant. We model a public firm with a project opportunity of uncertain quality, where long-run shareholders choose between hiring an operational manager or a financial expert. These managers are equally myopic, however financial experts are also privy to stock-market beliefs. Financial experts invest sub-optimally due to catering incentives, while operational managers tend to engage in signaling-driven overinvestment. We show that operational managers are preferred for low-NPV projects or when stock markets are well informed.

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JEL classification: D82, G14, G31.

Keywords: managerial myopia, catering, financial expertise, executive-firm matching.

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