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Is focused attention always best? New study reveals when it's not

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In the early 1980s, the dental care company Colgate decided to pursue the flourishing readymade meals market and debut its own line of frozen entrees. Yet rather than broaden Colgate's market share, the strategy backfired and led to reduced revenues and poor net income.

According to Michael Mannor, the John F. O'Shaughnessy Associate Professor of Family Enterprise at the University of Notre Dame, Colgate's misstep is a classic example of a company going against the standard expert advice to favor acute focus over broad pursuits.

"For 50 years or more, business consultants and scholars have been encouraging ambitious CEOs to focus, focus, focus," said Mannor, a professor at the Mendoza College of Business who has spent 15 years researching how organizational structures can either create challenges for or support CEOs. "But these are people who have done very well in their organizations—they're captains of industry—who tend to have big plans for corporate growth and were selected by boards of directors for their ability to drive growth."

Mannor wanted to study the tension between the prevailing emphasis on focus and the typical CEO's tendency toward ambition. He detailed his findings in the paper "Keep Your Eye on the Ball or on the Field? Exploring the Performance Implications of Executive Strategic Attention," published in the *Academy of Management Journal* by Mannor and co-author John Eklund of the University of Southern California.

"We wanted to think about how CEOs manage focus versus breadth of opportunity," said Mannor. "When CEOs focus on just a few issues do they perform better? Or, for CEOs who do not follow that advice, do their organizations end up essentially chasing squirrels?"

Acknowledging that there are no absolutes, Mannor and Eklund theorized that executives should adjust the breadth of strategic attention based on the quantity and quality of opportunities available and how effectively their firm has previously performed in the current opportunity landscape. They suspected that when there are fewer low-quality opportunities, executives should cast a wider net to find potential growth options. Alternatively, if a firm is already using its resources efficiently, then leadership should opt for a wider breadth of strategic attention.

To test this theory, the researchers approached a variety of top consulting agencies and asked them to characterize and categorize the different types of activities that organizations tend to focus on. They also consulted academic journals and the leading practitioner journals that CEOs often read to determine how those journals characterized strategic opportunities. Upon pulling all the data together, they then asked top professors across different business schools from Europe and North America to evaluate the results. In the end, they determined there were 13 categories that represented the range of strategic attention that CEOs might focus on. These strategic categories included topics such as joint ventures, customer experience, stakeholder management, risk management, and mergers and acquisitions.

To measure how much executives focus on each category, Mannor and Eklund used software to analyze the transcripts of quarterly earnings calls for language that aligned with each of the 13 categories. They drew the transcripts from a random sample of half the companies on the S&P 500.

"We wanted to have a representative sample of large public companies in part because these are the organizations that are leaders in their industry and have a disproportionate influence on the success and failure of industries as well as consumer welfare," said Mannor.

The analysis confirmed that focus is indeed the best strategy for a large number of organizations. However, that advice should not be applied universally.

"If a CEO is facing a market where there's not a lot of opportunities, focus doesn't work as well and they need to branch out," said Mannor. "Same goes for a firm that has struggled to convert opportunities into results. So if in the last couple of years they've struggled to take their value proposition and make it work effectively, those organizations can benefit from broader strategic attention."

Likewise, if a firm is very efficient at using its resources, then broader focus can still be very effective. Meanwhile, a firm that struggles to efficiently use its resources should limit its focus.

"It's a bit counterintuitive because you would think that if there's a strong market with a lot of opportunities out there, it would make sense to go out and try to grab those," said Mannor. "But we find in the data that CEOs end up destroying more value when they try to chase those opportunities. That's because there's a tension with cognitive overload. When CEOs and organizations pursue too many things, they end up not doing as well at anything. So you spread yourself too thin."

Mannor, who teaches a version of this paper in his graduate courses in order to expose students to how academic research methods are developed, believes this study can benefit organizations that are struggling to create value in their market. "Broader attention could be very helpful for moving into new spaces," he said.

Additionally, investors can use this information to evaluate businesses. "Most people have a 401(k) or do some degree of stock investing," said Mannor. "This gives you a way to look at the strategies of an organization in a deeper way and to think about to what extent this company has their attention divided versus what are their areas of core focus. It also provides some discipline to the average kind of person who's buying and selling stocks to not just prioritize innovators who seem like they're going out and pursuing lots of opportunities, because oftentimes those companies will underperform those that focus on delivering core value."

More information: John C. Eklund et al, Keep Your Eye on the Ball or on the Field? Exploring the Performance Implications of Executive Strategic Attention, *Academy of Management Journal* (2020). DOI: 10.5465/amj.2019.0156

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