

Managerial Attention and Worker Engagement

Marina Halac* Andrea Prat†

December 6, 2013

PRELIMINARY AND INCOMPLETE – DO NOT CIRCULATE

Abstract

We study a dynamic agency problem with two-sided moral hazard: the worker chooses whether to exert effort or shirk; the manager chooses whether to invest in paying attention to the worker's performance. In equilibrium the worker uses past recognition to infer managerial attention. An engagement trap arises: absent recent recognition, both worker effort and managerial investment decrease, making a return to high productivity less likely as time passes. In a sample of ex-ante identical firms, firm performance, managerial quality, and worker engagement display heterogeneity across firms, positive correlation, and persistence over time.

*Columbia University and University of Warwick. Email: mhalac@columbia.edu.

†Columbia University. Email: andrea.prat@columbia.edu.