

Cheap Talk Communication in Group Decision Making

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Abstract

This paper provides the incomplete contract model of adaptation and coordination with strategic communication for multi divisional organizations. Each division manager must be responsive to one local market and he has privately informed about the true local state. A leader adopts bottom-up approach by gathering information about each local state via cheap talk and makes group decision to coordinate the global complementary activity among divisions. I compare communication efficiency and organization performance among two simple bottom-up decision making systems; ex-ante coordination where a leader decides before managers' decision or ex-post coordination where a leader decides after managers' decision. I show that quality of communication is worse in ex-ante coordination thus group decision is biased but it eliminates managers' self-serving incentive. As a result, ex-ante coordination is superior when coordination need is high and the threshold increase in ex-ante conflict among managers. Moreover, when there is severe ex-ante conflict among managers, a leader is needed to adopt partial top-down approach for group decision before communication, even if a leader has no information about local market conditions.

Keywords : Adaptation and Coordination, Cheap talk, Group decision, Leadership

JEL classifications : D23,D83,L25

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