Economics and Leadership

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Introduction

The concept of leadership is quite complicated and encompass different types of leaders and leadership styles. The idea of leadership has been well researched and has a substantial literature history extending through many of the social science fields. However, the topic of leadership as an element of economics is a relatively new subfield where research is still in the early stages of development. Most economics research focuses on formal and or contractual relationships and neglects the roles of leaders and players in the organization (Hermalin, 1997). According to Zehnder, Herz, and Bonardi (2016), in order to gain a better understanding of the role leadership play in economics, researchers have turned to the parallels and links between psychology/management and economics. This paper will further bill upon these concepts while identifying the principles of economics and finance and the bearing they have on leadership.

Principles of Economics and Leadership

Leadership styles depend on the purpose of the leader, the followers and the environment. Geno Prussakov (2009), identify that all leadership fits in two forms; assigned or emergent leadership. Assigned leadership refers to being appointed to a position within the organizational structure. For example, A company is launching a new jobs program and the lead operator is assigned based on experience in the field. An emergent leader according to Prussakov (2009), does not rely on formal assignment but, emerges by staying informed, getting involved, volunteering, initiating new ideas and seeking other assistance and opinions. Emergent leaders take the initiative to help others better complete their task and demonstrate substantially more empath and understanding for workers than assigned counterparts (Johnston,n.d.).

Zehnder et al., (2016), identify three concepts which drive a leaders decision-making including preference, beliefs, and outcomes. A leader's preference can be further broken down to include their taste or likes and dislikes. Beliefs reflect the leader's expectations, regarding the behaviors of other people. Based on the decision-making process as expressed by Zehnder et al., (2016), leaders can shape the behaviors of followers by influencing the follower's beliefs, outcomes, and preferences. This concept is the economic framework which makes the assumption that the behavior of people is driven by their need or desire to maximize their utility or well-being. As a means of maximizing well-being, some leaders turn to transactional methods of leadership such as direct control and monetary incentives which often works excellent in a simple environment to motivate followers. In complex environments, leaders have to motivate followers through shared visions, missions, and organizational culture, which allow for a unique sense of identity and buy in.

Joseph Wallis and Brian Dollery (2002), builds upon the idea of buy-in as they discuss the ability of a nonprofit organization to inspire and motivate stakeholders in reducing agency cost. According to Wallis and Dollery (2002), the quality of an organization's leadership such as the president, executive director or the CEO significantly determine the performance of the nonprofit organization. Quality leaders in high positions have the ability to influence followers and change the followers' preferences to create a buying-in mentality. This buying-in mentality according to Susan Rose-Ackerman is when inside and outside stakeholders, "Feel that they deserve to feel good about the charitable program only if they have made some marginal contribution to it" (Rose-Ackerman, 1996, 713). Effective leaders can motivate and inspire marginal contributions in the form of volunteering man hours or leveraging donor's resources according to Wallis and Dollery (2002).

Benjamin Hermalin also built on the limited information about economics and leadership with his model of the economic theory of leadership: leading by example. When a leader is leading by example they first actively work on the initiative, then they publicize the initiative, which convinces volunteers that the activity is worthwhile engaging in (Hermalin, 1997). The leader's level of work effort allows other workers to form opinions about the value of the leader's information. Akerlof and Dickens' second proposition of the theory of cognitive dissonance states that based on the given information people form beliefs and have a level of control over that belief, given them the ability to manipulate those beliefs to confirm their preferences and maintain consistency of their beliefs (Akerlof and Dickens, 2000). Leading by example is a means of influencing the commitment of stakeholders to an organizational mission while reducing employee cost without sacrificing product or quality control (Wallis and Dollery, 2002; Hermalin, 1997). In reality the harder the leader work, the harder the followers will also work. The fundamental concept of economically constructed leadership is that "Leaders have followers and following is voluntary activity" (Hermalin, 1997, p.32).

Conclusion

The principle of economics and leadership is relatively new, but research shows examining economics from a leadership perceptive has the ability to revolutionize the organizational effectiveness of a company. Quality organizational leaders can create and shape organizational cultures comprise of hope, inspiration, and motivation for employee and stakeholders. Furthermore, leaders hire managers and employees with their shared mission and vision to maintain the organizational culture and structure. Leaders use transactional methods of leadership such as monetary incentives, direct control, leading by example and creating a buying-in mentality to reduce agency cost.

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