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Leaders as role models and ‘belief managers’ in social dilemmas

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ABSTRACT

We investigate the link between leadership, beliefs and pro-social behavior in social dilemmas. This link is interesting because field evidence suggests that people's behavior in domains like charitable giving, tax evasion, corporate culture and corruption is influenced by leaders (CEOs, politicians) and beliefs about others' behavior. Our framework is a repeated experimental public goods game with and without a leader who makes a contribution to the public good before others (the followers). We find that leaders strongly shape their followers' initial beliefs and contributions. In later rounds, followers put more weight on other followers' past behavior than on the leader's current action. This creates a path dependency the leader can hardly correct. We discuss the implications for understanding belief effects in naturally occurring situations.

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1. Introduction

“Once you as a CEO go over the line, then people think it's okay to go over the line themselves.”

Lawrence Weinbach, Head of Unisys. (quoted after *The Economist*, July 27, 2002, p.58)

“... the most common argument legitimizing tax evasion among Swedes is that those in leading positions in society violate the social norms.”

Hammar et al. (2009, p. 239)

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Field evidence on charitable giving, tax evasion, the abuse of the welfare state, criminal behavior, corruption, and corporate culture, suggests that people's own behavior in these domains depends strongly on their beliefs about how others will behave.¹ Leaders – politicians, government officials, and managers – may serve as role models for what is considered appropriate and may thus shape their followers' beliefs about the behavior of others. For instance, leaders who behave too selfishly, evade taxes, consume unwarranted privileges, accept bribes, etc. may induce people to do the same (as suggested by our opening quotes) *and* may nurture people's beliefs that other people will do the same. This may exacerbate the problem to the extent that people's behavior is not only shaped by the leader's example but also by their beliefs about other people's actions. Of course, if the leader behaves as a positive role model, the opposite conclusions may hold.

Our main contribution is testing this intuition. More generally, we aim to contribute to a better understanding how leaders shape the beliefs of a group of people and their actual pro-social behavior. The framework for our analysis is the public goods game, which is a well-known social dilemma that pits collective welfare against self-interest. We chose a public goods context because the real-life problems that have inspired our research – tax morale, no corruption, high corporate culture etc. – have features of a public good, which is undermined by selfish acts of evading taxes, paying and accepting bribes, and egotistic behavior at the workplace.

Our specific setup is as follows. Four players, who form a stable group for ten rounds, make contributions to a linear public good. Since we are interested in the link between beliefs and behavior we elicit beliefs of all players about how much others will contribute. We will look at belief effects in two basic variations of the public goods game. In one version (the 'leader treatment'), one randomly chosen player is assigned to be the 'leader' who decides first how much to contribute to the public good.^{2,3} The other players are 'followers' who decide simultaneously how much to contribute after they observe the leader's contribution. A leader-follower framework has the advantage that we can observe how the leader's action influences followers' beliefs. We contrast the leader treatment with a "no-leader treatment" in which all group members decide simultaneously.⁴

How can leaders influence followers? There are two possible channels, which both rest on many people being conditional cooperators who cooperate if others do so too (for evidence see the next section). The first channel is a direct channel according to which conditionally cooperative followers will match the leader's contribution, at least to some degree. The second channel opened up by conditional cooperation is via followers matching the beliefs about other followers' contributions, and these beliefs are likely influenced by the leader's contribution and the followers' previous contributions. To investigate these channels, we estimate a belief-formation process that is inspired by [Fischbacher and Gächter \(2010\)](#) and then we explain follower contributions as a function of follower beliefs and leader contributions. Our approach in the no-leader treatment is analogous.

Our main results are as follows. Leaders strongly shape their followers' beliefs. In this sense, leaders are 'role models' and 'belief managers'. While this holds in all periods, it is particularly important in early periods. In later periods, we find that the followers' beliefs in a given period are not only determined by what the leader did in the present period but also by what other followers did in the past. Moreover, when forming beliefs for the current period, followers put more weight on average on the other followers' past behavior than on the leader's current behavior. This leads to a strong path dependency: the leader's initial behavior shapes the followers' initial behavior and in later periods the followers' behavior is not only determined by the leader's current contribution but also – and even more strongly – it is shaped by the other followers' past behavior. Thus, if a leader initially contributed little, then this will have a long-lasting effect on the beliefs of followers that is not easily corrected later on.

Path dependency effects also exist in the no-leader treatment. Groups that start at high contribution levels have on average higher overall contribution levels than groups that start out low. An explanation for this observation is that in teams with no leader beliefs are shaped initially by the group members' intuitive ('homegrown') beliefs and later on by the followers' past behavior. More importantly, contributions, for a *given* belief, are the same in both treatments: the same belief triggers the same behavior. Yet, in the leader treatment it is in the hand of the leader to shape beliefs.

We make three contributions to the literature. First, our two treatments provide simple frameworks for understanding belief effects in reality: In some situations, beliefs are shaped by role models such as politicians, top officials, managers, or even celebrities, whereas in the absence of leaders the behavior of the relevant group members influences beliefs. As we will show in the next section, there is plenty of field evidence that is consistent with belief effects. Yet, causal inferences of beliefs on behavior are hardly feasible in the field. Our experimental approach allows the observation of beliefs and how leaders influence them. Thus, our experimental data provide a behavioral micro-foundation for field observations that

¹ We will discuss the relevant evidence in the next section.

² We deliberately selected the leader randomly and anonymously, because we did not want to confound leader-induced belief effects with leader attributes, like status, persuasion, charisma, ability, superior information, power etc. These leader attributes certainly can matter strongly in reality. Our stripped-down leader-follower game measures only one aspect of leadership – leading by example. An investigation of other aspects of leadership or the impact of leader attributes requires different designs. For examples see [Güth et al. \(2007\)](#), [Van Vugt and Ahuja \(2010\)](#), [Arbak and Villevall \(2013\)](#) and [Bruttel and Fischbacher \(2013\)](#).

³ We focus on the role of leaders for *cooperation*. Of course, leaders are also important for coordinating behavior (e.g., [Foss, 2001](#); [Van Vugt and De Cremer, 2002](#) and [Weber et al., 2001](#)). Leaders are also often in a position to shape incentives in teamwork (e.g., [Drouvelis et al., 2017](#)).

⁴ As we will see below, we are in particular interested in how leaders shape beliefs and action at the beginning of the leader-follower relationship. In a standard public goods game, players decide simultaneously about how much to contribute initially and they can thereby only rely on their homegrown beliefs.

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