Leaders, Followers, and the Logic of Collective Action:

Leadership as a Public Good

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This essay attempts to formulate an economic theory of leadership. In the framework that will be developed, leadership is viewed as a relationship between leader and followers, a relationship that results in the creation of public goods. This phenomenon will be described and analyzed in several stages. First, and after a brief review of the relevant leadership literature, leadership will be defined in terms of public good creation, with benefits and costs of the public good noted. Then, there will be some discussion of the short and long run factors that sustain leadership, with emphasis on the central role of followership. Finally, the developed framework will be used to analyze the differences between private sector and public sector leadership.

A Brief Review

The assumption in this essay is that leadership is a relationship between leader and followers. In the past, many writers have commented on this connection (Kouzes & Posner, 1993; chapter 1, Gardner, 1990; chapter3, & Greenleaf, 1995) and have also noted the importance of followers to this relationship. Yet these same writers, as well as others, have not explored the ramifications of this phenomenon. Instead, there has been continuous discussion on the meaning of leadership, with traits, contingencies, etc., being used as defining variables. This has resulted in an endless series of debates about the definition of leadership and the best leadership style and whether public and private sector leadership are different.

The approach taken in this paper will be decidedly different. Following Wittgenstein (1953), the view taken here is that the meaning of leadership lies in its use, or, more appropriately, that the essence of leadership can be found in what it produces. In taking this position, it is recognized that leaders are typically managers that work within organizations. For these managers, moreover, the task is very clear. In the modern world, specialization and division of labor characterize large organizations. While this is responsible for large increases in productivity and output, it does present problems of coordination. Managers, then, resolve the conflicts that result from this required differentiation by performing tasks that integrate the various production processes.

But managers only take this so far, an observation that has been made by other writers. Gardner (chapters 9 & 10) writes about fragmentation, pluralism, the common good, and "knitting together," with the presumption that it takes leaders to super integrate organizations within the larger community. Other writers have been even more vague in describing this super integrative function, for they have used words like visionary, far seeing, courageous, as well as other honorific adjectives, to describe what leaders do. Schein (1985), however, gives this more explicit formulation when he argues that this knitting together occurs when leaders create, change, or modify the culture within their organizations in order to achieve wider goals. The leader, in this view, is thus a shaper and *producer* of organizational culture.

From this, it seems clear that leaders do something that managers do not, and that it occurs in a boundary specific setting. This difference, too, has even been noted and labeled as a distinction between having transactional and transformational qualities (Burns, 1978). In this framework, managers engage in transactional activities, while leaders perform more transformational tasks. Yet it is also true that this distinction has not been fully understood and developed within a more comprehensive model (Van Wart, 2003). To this task we now turn.

Leadership as the Production of Public Goods

As we have seen from the previous section, leadership is made up of several salient characteristics. First, it is a relational concept, for leadership must of necessity involve followers as well. This means that followership is an integral part of the leadership concept, for one cannot exist without the other. Second, the leadership dynamic is usually bounded in the sense that it operates within a particular setting. While this setting could be a country, an organization (either public or private), or even a small, informal group, it is only sufficient to point out that boundaryless leadership is perhaps nonsensical, for leadership normally seems to be organization or group specific, a quality which may change the nature of leadership if these boundaries are crossed by the leader. And, finally, leadership is made up of transactional and transformational elements, components whose interaction and integration is little understood.

Definition. We can think of an organization, or even an informal group, as a small economy which is characterized by boundaries that, while porous, clearly distinguish this economy from others in the wider milieu (Radner, 1992). But unlike a pure market economy, which is held together and sustained by private property and relative price allocation schemata, our internal economy is guided and coordinated by management within a clearly prescribed hierarchy that specifies responsibility, authority, and accountability (Coase, 1937). Both types of economies, moreover, can also be described by production functions, in which inputs (the factors of production) are linked to subsequent outputs in the form of goods and services.

But our small, internal economy (our organization or group) can also sometimes produce a *public good* which occurs as a result of the interaction between followers (subordinates, underlings, acolytes, postulants, etc.,) and some managers. When this happens, these managers can properly be called leaders. Leadership, then, is a relational concept that has the capacity to produce public goods within a clearly circumscribed internal economy that can be thought of as a country, an organization, a firm, or even an informal group. Seen in this light, leadership may be regarded as another, yet tentative, factor of production (in addition to land, labor and capital) that may sometimes arise out of the relationship between managers and subordinates. And when this happens, public goods are created that can benefit the organization and perhaps those outside it.

There are several aspects of this definition that are worth exploring in detail. First, there is the nature of the public good that leadership generates. At least within the organization, the "leadership public good" (LPG) appears to share some of the nonexclusive and non rival characteristics that make up the public good genre (Holcombe, 1988; Nicholson, 1989).[1] While this may be complicated by group boundaries, it seems clear that the benefits of leadership within the group structure have strong public good qualities, for nearly everyone in the organization appears to benefit when effective leadership is present.

Second, the LPG has resulted from a relational dynamic between followers and some managers. In this sense, the production of LPGs is largely independent of capital and land, making the LPG distinctively different from other public goods such as education, national defense, or a park. Although capital and land are imbued with coercive qualities that a manager can use to promote leadership, the essence of leadership lies in its ability to generate public goods, an ability that ultimately relies on the relational or transactional (Commons, 1974)[2] connections between some managers and their followers. In the simplest form, there is a manager with positional authority, an authority that is limited within the boundaries of the organization. And when leadership occurs, a public good is created whose impact is largely felt within the confines of the organization.

Of course, it is *a priori* possible for some non-managers to achieve leadership status as well. And it is also *a priori* possible that this leadership could exist in a boundary less setting, even though you normally lead something somewhere. But for our purposes, it is easier to think of leadership as occurring between managers and subordinates when a public good is created that benefits the members of the group within the organization. These latter conditions help to ensure that the public good is easily identifiable and sustained, even though some individuals outside the organization may experience benefits from the production of the public good.

Benefits and Costs of Leadership Public Goods (LPGs). Writers that describe the benefits associated with LPGs frequently use such phrases as "vision," "improved employee morale," and greater teamwork.[3] We can, however, break down the benefits of leadership into two main categories. First, when LPGs are produced, it results in greater trust, credibility, and competency in both the managers that become leaders and the followers that support them. This climate or ethos generates more effective delegation and decision making that results in (1) lower internal transaction costs and (2) greater output gains from more effective use of specialized labor (Holcombe, p.93).

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[1] A good is non rival (sometimes referred to as a collective consumption good) if consumption by one person does not decrease the quantity of the good available for someone else. A good is non excludable if it is difficult to prevent another person from benefiting from it.

[2] The unit of analysis for Commons was the transaction that involved five people.

[3] There are utility and production benefits associated with leadership. Improved morale can be thought of as a state in which utility functions are heightened and perhaps made interdependent. Team work occurs when marginal product functions are increased and also made more interdependent. It is presumed that the net effect of this greater organizational output (however defined) results in greater monetary and non monetary rewards for group members.

Second, the production of LPGs may dramatically reduce the inefficiencies (moral hazard, adverse selection) that are found in principal-agent relationships that make up nearly all hierarchical organizations (Radner, pp. 1404-1409). In most principal-agent models, this typically occurs by having the principal (the manager) be neutral towards risk, while the agent (the follower, the employee) be averse to risk. (As an example, an employee is given a fixed income instead of being paid on a commission basis, the hope being that the employee will take the job, be grateful and loyal, and thus be highly motivated since the risk of nonperformance is borne by the manager or company.)

If LPGs are produced, however, this dynamic may dramatically change. A truly effective manager might heighten his transactional managerial skills by promoting risk through strategies that reduce risk consequences for individual employees, where risk is defined as a state of knowledge where the probability of the outcome is known (Knight, 1971; Obrinsky, 1983). But when LPGs are produced, this is taken a large and qualitatively different step further, for the leader transforms the principal-agent relationship by actively promoting uncertainty (a state of knowledge in which the probability of the outcome is not known) as a *challenge* that everyone in the organization should welcome and accept (Javidan & Waldman, 2003). Thus, the leader, by shouldering the cost of uncertainty, creates a climate that enables employees to perform in uncharted waters. In effect, the possibility of leadership public goods being produced occurs when an organization and its members both welcome and accept the challenge of uncertainty. While effective managers perform their traditional tasks by encouraging risk, it is only leaders that qualitatively move an organization by the creation of public goods. And these public goods can only come about when uncertainty is welcomed and accepted. When this challenge, moreover, is accepted by the followers, the leader and his organization are said to be visionary and endowed with supernal attributes that make up much of the popular, anecdotal, literature on leadership (Bennis, 1989).[4]

But the benefits associated with the production of LPGs are not dispensed without cost. For one, there is a free rider problem. Simply put, some followers can enjoy the benefits associated with the LPG without actually paying for it in terms of providing an adequate amount of followership. This free rider problem, moreover, is heightened as the size of the group increases, resulting in a less than optimal amount of the public good being provided (Olson, 1971; pp.34-35). In effect, as the size of the group becomes larger, followers become more individualistic, more calculating, and less morally and emotionally involved with the group (Williamson, 1975; p.128), resulting in the leader not only having less followers, but less committed followers as well. This weakening of the leader-follower relationship must of necessity reduce the amount of the LPG provided. It also means that the remaining followers must assume ever larger "followership burdens" if an adequate amount of the public good is to be maintained (Olson, p.29).

In addition to the free rider problem, it is also highly probable that the cost of providing LPGs is subject to the law of diminishing returns, meaning that marginal and average

[4] Charismatic leadership typically occurs when a leader (a prophet) convinces his subordinates to accept the uncertainties of this life (including death) in exchange for a better future.

costs will eventually rise. Beyond a certain point (where MC=ATC), the cost of providing LPGs will soon prove burdensome to both leaders and followers, thus exacerbating the free rider problem previously noted. While the most efficient (least unit cost) amount of LPGs is not known, a similar problem (high unit cost) arises if LPGs are under produced. In this vein, it should be noted that most of the popular literature on leadership focuses on this "crisis" of leadership underproduction, while virtually ignoring the possibility that overproduction could occur just as well.[5]

Finally, there are costs associated with LPGs that arise from the fact that no property rights are ascribed to these public goods. In this "common pool" problem (Holcombe, pp. 76-77), we can see a variation of "The Tragedy of the Commons" (Hardin, 1968). In such a setting, overuse of the LPG is possible, meaning that some LPGs may not be pure collective consumption goods. At least in the short run, while my consumption of the LPG does not decrease another individual's consumption, it may, in the long run, and in the aggregate, reduce the quality and extent of the LPG if it is overused to such an extent that it becomes trite and meaningless. This is especially so since the LPG is based on relations between leaders and followers, that is, relations that are built on trust and credibility, and *not* on such factors of production as capital and land. So, if there is such a "Tragedy of Leadership" today, it may very well be the result of this overuse.

Notwithstanding the issue of overuse and under use, all of this is simply to say that the foundations of leadership occur in a hierarchical, clearly circumscribed setting that involves managers and subordinates. And it is from this relational milieu that we ascribe to management the transactional qualities that attempt to resolve the differentiation and integration conflicts that are inherent in every modern organization that is characterized by division of labor and specialization. But sometimes this relational concept becomes transformational, and when this happens leaders are produced that generate public goods. *The production of these public goods is the distinguishing characteristic of the leader archetype.*

The Dynamics of Leadership Sustenance: A Problem of Followership

Because leadership is a relational concept, the would be leader must tend to the behavioral dynamics that shape and mold follower behavior. In particular, the leader must be sensitive to the parameters that guide followers. At a minimum, the leader must understand the free rider problem and its relationship to the size of the group. Then, too, the leader must be cognizant of the costs that are associated with providing LPGs, for these goods, like any others, are subject to rising unit costs.

This being said, the cultivation of followers must recognize that self-interest and other calculating behavior are not absent in the follower's choice. For potential followers, the choice to follow a leader will only occur when the marginal benefit of followership (MBF) exceeds the marginal cost of followership (MCF). For a follower, the benefits are both intangible (intrinsic) and tangible (extrinsic) and would range from heightened self-

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[5] In a competitive environment, the force of competition might reward firms that generated the optimum amount of LPGs. Where consumption is absent (as in the public sector), we might be more inclined to see under and over production of these goods, resulting in outcomes that are not allocatively efficient.

esteem and a sense of purpose to greater monetary benefits. On the cost side, this might range from a loss of freedom and autonomy to stricter accountability and higher expectations for improved job performance. For the follower, then, it seems clear that choice is embedded within utility functions that go beyond the simple decision to provide labor by giving up leisure (what is sometimes called the disutility of labor.)

Given this framework, the function of the leader, in the short run, is to shift the MBF/MCF calculus so as to promote followership. In effect, this means creating conditions that will increase MBF (shifting the curve outward and to the right) while reducing the MCF (shifting this curve outward and to the right also) in order to increase the quantity of followership. This is the first and necessary condition for the creation of additional public goods; it is what distinguishes dynamic from static leadership. As a practical matter, most "how to" textbooks on leadership (Kouzes & Posner, 2002) attempt to do this, albeit not in the framework described in this essay.

The leader can take several steps to modify this calculus in a positive (increased quantity of followership) fashion. First, and as Olson has pointed out (pp. 35, 45), free rider effects can be mitigated by having group members with different degrees of interest in the LPG. This means that some group members will have disproportionate followership burdens. On a wider level, this also means that leadership can be sustained, and the LPGs increased, when inequality in the followership ranks is promoted and encouraged. In a strange way, then, the advent of strong, effective leadership almost always requires a trend of inequality in followership. From this, it appears that leadership and equality are indeed antithetical in nature, creating a possible tension and clash with democratic and egalitarian values.

Inequality aside, coercion is yet another method that the leader can use (Olson, p.44; Hechter, 1987) to promote followership. Because coercion can raise the cost of not following, it can increase the quantity of followership and so help to mitigate free rider effects. For coercion to work, it need not be administered widely or even fairly to be effective; in fact, the inequality of coercive dispensation may be just as effective as the inequality of reward dispensation in minimizing free rider problems. It is only necessary that the threat of coercion be visible and present for it to be effective at increasing the quantity of followership.

At least some of the foundations of leadership, then, rest on promoting inequality and on using coercion. Given this, an organizational environment characterized by strong leadership seems almost prone to create a culture in which democratic and progressive values are absent or weak. Yet this also ignores the way the leader views his position and the time dimension under which this view is formed. As McGuire and Olson (1996) have shown, leaders that feel secure in their positions, and/or have long tenure, will generally work to provide public goods that serve the entire organization. Thus, long leadership longevity can help to mitigate the coercive and non-egalitarian aspects of strong leadership. The leader in this position (long tenure, or the expectation of long tenure) will, while acting in his self-interest, reduce the negative aspects of coercion and inequality by adopting policies that are best described as paternalistic. This "velvet glove" approach thus turns the darker side of leadership into a benevolent autocracy.

In doing this, the leader builds trust, credibility, dependency, and loyalty with his followers. So it is no surprise that leaders with long years of service are thought to be more effective (Ingstrup & Crookall, 1998; p.10), for the long term leader will act to shift the MBF function outward through paternalistic conduct. On a more micro level, long leadership tenure may thus help to merge the differences between leader and follower outcomes, thus lessening the need for coercive mechanisms (de Vries, Roe, & Taillieu, 2002).

Coercion, inequality, and tenure are variables that are independent of organization and group size. Yet organizational size is a relevant leadership factor, for it affects the distance that separates leaders from followers, even affecting such larger dynamics as organizational development (Steele, 1973). While this distance could be purely physical (measured in feet), it could just as well be a social configuration, or even one based on task interaction frequency. However it is measured, though, it seems obvious that the leader-follower relationship is affected by distance (Antonakis & Atwater, 2002). But for our purposes, it is *how* the leader handles this distance that is of importance. Because the leader is striving to promote the quantity of followership, the tools that the leader uses to influence the MBF/MCF calculus may change as the leader-follower distance widens. When the distance is small, the leader may encourage follower dependency by using gift, barter exchange, peer pressure, and other highly personalized techniques; as the distance widens, however, money and formal discipline may be more frequently used (Petrowsky, 1992).

The various factors (inequality, coercion, longevity, and distance) all impact the MBF/MCF calculus. But in the long run, and as the size of the group or organization grows, free rider and rising marginal costs pose a threat to the existing leadership function. Diseconomies of scale to the LPGs thus generate a serious problem for leaders of large and growing organizations. Should this occur, there are only two avenues open. First, if the existing leadership wants to sustain its transformational essence, it must then create conditions that result in "leadership economies of scale" that can stave off free rider and rising cost problems. This is only to say that the nature of the LPG must undergo dramatic changes that create new production functions (products, services, processes, etc.) that dramatically alter the MBF-MCF calculus. Seen in this light, sustained transformational leadership closely parallels Schumpeter's (1934) entrepreneur in terms of the qualitative changes that it generates.

If transformational leadership does not occur, however, and if serious problems persist as a result of leadership decline, then the door may be open to revolutionary change. A small but determined group, independent of any free riders, may move to overthrow the leader and replace him/her with a leader that generates LPGs more in tune with the followers' calculus of benefits and costs (Hardin, 1982; Oliver & Marwell, 1988). The small group that performs this function, and the leaders that arise out of it, go beyond transformational leadership, for they are imbued with revolutionary qualities (Lenin, 1969) that sets them apart from other followers. A new organization, a new country, and even a new society are thus born out of long run LPG decline.[6]

[6] From this standpoint, the "great man" and economic determinism models of historic change thus merge into one.

Public (Governmental) versus Private Sector Leadership

The analysis developed in this paper can be applied to leadership in any setting, although it is perhaps most fruitful to examine some of the differences between public and private sector leadership. As a starting point, it is postulated that the size and breadth of the LPG is what distinguishes private sector from public sector leadership. In addition, while the LPG in the public sector is more visible, it is also more fragile, tenuous, and volatile for reasons (that we previously noted) stem from the absence of competition.

But the lack of competition is not the only reason for this difference. There are other factors as well. First, there is less inequality in public sector employment in terms of salary and other benefits. As we saw earlier, inequality promotes the development of LPGs because it acts to minimize free rider effects. But it is also known that civil service regulations tend to narrow wage and benefit differentials when compared to the private sector. Greater equality in this area would thus be likely to increase free rider effects, making it more difficult for leadership to increase followership and thus the quantity of LPGs relative to the private sector.

Then, too, civil service regulations guarantee, or at least protect, employment through due process provisions that seriously weaken at will employment. This means that a top manager - a would be leader - has less means to exert coercion on marginal or wayward followers. The cost of non followership is thus lessened, decreasing the amount of followership available to the leader. As a result, there is a possible diminution in the amount of the LPG provided and a related increase in the number of free riders. LPGs in the public sector, then, are probably produced in a sub-optimal amount that is far less than that found in the private sector, leaving aside the leavening absence of competition.

Leadership longevity is also another factor that impacts the quantity of followership and the magnitude of the resultant LPG. Because the tenure of public sector top management is often brief and tenuous, leaders in this environment have more of an incentive to conduct short-term strategies that promote their narrow self-interest. This means that these leaders will attempt to use their office in ways that probably maximize their personal goals to the detriment of followers. In this setting, the accompanying cynicism on the part of followers would reduce the quantity of followership and the subsequent amount of LPGs. Then, too, followers will rationally expect that the short term leader's coercive powers would be limited because it takes time to terminate employment in a civil service organization. Thus, the weakening of this coercive power would also reduce followership and the LPG quantity.

As was previously pointed out, group size increases the free rider phenomenon. While private sector organizations can be just as large as their private sector counterparts, it seems likely that public sector organizations have a larger number and variety of stakeholders that are in and outside of the organization's boundaries. This complexity probably increases free rider effects, making followership more difficult to obtain. In addition, some governmental activities, such as regulations, have coercive outcomes that can turn some outside stakeholders into adversaries. These "anti-followers" can seriously weaken the leader-follower relationship, thus generating a less than optimal amount of LPGs.

This last point highlights the importance of boundaries to the success of leadership and to the creation of LPGs. In the public sector, the boundaries of the organization are more permeable. The distinction between "we" and "they" is more diffuse (government belongs to everyone), creating LPG spillovers that go outside the agency's boundaries. To the extent that this happens, LPGs become generalized, making it more difficult for organization-specific followers to see any direct benefits of the LPG to them. One consequence of this is that the MBF curve will shift leftward, the shift amount depending on just how diffuse the boundaries are in the public sector organization. This will of necessity reduce the amount of followership, creating a sub optimal amount of the LPG greater than what we would find in the private sector where private property rights circumscribe the firm's boundaries.

Boundaries and private property rights are thus closely related in terms of followership and leadership public goods, which brings us back to the tragedy of the commons. In effect, the lack of clearly defined boundaries may also exacerbate the common pool problem previously discussed, creating conditions in which the small (less than optimal) amount of the LPG is overused in and outside the organization. In more vernacular terms, conditions are generated in which public sector leadership promises too much and delivers too little. The paradox of public sector leadership is thus an enigma built on permeable boundaries and poorly defined property rights.

In summary, and for these reasons, and perhaps others, the relationship between leaders and followers in the public sector is weaker and less certain. The provision of LPGs is thus less than optimal and probably more erratic, ebbing with the currents in the political fabric. The challenge for public sector leadership is to recognize these constraints and to develop new institutions that will allow the relational aspects of leadership to grow and prosper. If this were to occur, we might just witness a flowering of leadership public goods that would dramatically alter the way we view the governmental sector.

Conclusion

This essay has examined leadership as a phenomenon that occurs as a result of a relationship between subordinates and managers, a relationship that generates "public goods" that are largely experienced within the organization's boundaries. In using this analysis, an attempt has been made to provide a framework that reveals the differences between leaders and managers, between transactional and transformational behavior, and between public and private sector leadership. The framework has also been used to show the benefits and costs of providing leadership public goods as well as the difficulties and challenges that face all leaders. Short and long run considerations have also been discussed within this framework, with the latter time horizon being seen as the avenue through which sustained transformational leadership and even revolutionary change is exhibited.

From this, a number of promising conclusions can be drawn. First, the transactional - transformational distinction may be operationalized by using risk and uncertainty variables. Second, because the distinguishing characteristic of leadership is its ability to generate public goods, the presence or absence of these goods will necessarily define the presence or absence of leadership. This means that leadership research might usefully focus on the output side of leadership instead of such customary inputs as traits and other antecedent variables. Third, the short run tactical strategy for a leader is to increase followership, so popular "how to" books might be more productive if they moved in the direction along some of the lines (inequality, coercion, longevity) indicated in this essay. And, finally, the sustained long-term provision of leadership public goods may require Schumpeterian entrepreneurs, so a merging of leadership and entrepreneurial research seems in order.

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