The Contribution of Social Preferences to Relational Social Constructionist Leadership:
Reciprocal Fairness and Incentive Systems

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Abstract

What is the optimal motivational system resulting from the interaction dynamics among heterogeneous individuals? This conceptual article wishes to convey practical relevance to the Relational Social Constructionist view of Leadership (RSCL) by emphasizing the role of the manager's strategic choice in handling the conditioning exerted by the personal dimension in leadership processes. Acknowledging the relevance of the personal constructs as an essential situational factor from which the leader-follower relationship arises, the article points out that the optimal incentive system is not independent of the interaction mechanisms between self-interested and inequity-averse individuals. At the same time, it also shows that the strategic environment evoked by the incentive systems, in turn, is able to affect individual preferences and their interaction. The underlying purpose is to assess how reciprocal fairness is able to affect the context dynamics in which, according to RSCL, leadership processes are embedded and occur. Therefore, this contribution is intended for all scholars and practitioners who require to understand what the theoretical and practical value of including the influence flows emerging from social construction processes actually is. In particular, by taking a view that aims to increase awareness about the effect of social preferences in relationship dynamics, the presented findings may have the potential to widen the meaning of management theory and practice.

Keywords: Relational Social Constructionist Leadership, Heterogeneous Preferences, Reciprocal Fairness, Incentive Systems, Strategic Interaction.

1. INTRODUCTION

Managing the personal dimension has always been a relevant issue within the managerial studies. In fact, «while standing as a formal organization, which is rationally differentiated and structured, the focused enterprise does not escape the permanent dynamic interaction among its internal sub-units, first of all the dynamics generated by its human resources in the performance of their functions» (Cafferata, 2016, p. 8). Nonetheless, the human capital is both the development engine of any social organization and the main cause of the enterprise system's imperfections (Katz and Kahn, 1966). In other words, while it is true that organizations need knowledgeable employee and brilliant individuals, on the other hand it should be noted that the human nature is also influenced by individual emotions, bounded rationality, and opportunism (Simon, 1947; Cristofaro, 2019; 2020; Paniccia et al., 2020). Consequently, the importance of the personal dimension within the integrative function performed through leadership processes emerges (Cafferata, 2016; 2018). On the one hand, the integrative function coordinates the differentiated systemic parts preventing them, partly as a result of their interrelationships, from following objectives that are inconsistent with the organization's general goal. On the other hand, the integrative function controls that people do not dissipate their efforts and become unproductive (Cafferata, 2018). Thereby, leadership can be defined as a process of social influence such that individuals are willing to engage with enthusiasm and dedication in productive activities. Thus, in order to optimize business results, people must be encouraged to develop

ardor, intensity, and professionalism in the fulfillment of work performance. Not without reasons, Preko and Adjetey (2013) even consider employee engagement and employee loyalty as independent factors, which have significant level of correlation with performances. Likewise, these scholars argue that the leadership phenomenon is the main source of motivation for workers. Through leadership processes, indeed, employees should be stimulated to stay with their employers, to engage in their tasks and to defend the interests of the organization (Preko and Adjetey, 2013). In this way, leadership processes are instrumental to the achievement of organizational objectives by attaining the maximum expression of personal and team capabilities. For these reasons, leadership processes and personal motivation are closely interconnected.

In view of this premise, this article focuses on the Relational Social Constructionist view of Leadership (henceforth, RSCL) that started to gain attention from management scholars when studying people as self-contained individuals decreased in terms of reliability. Indeed, RSCL is part of the relational leadership studies which, broadly speaking, investigate the quality of relationships among individuals who are involved in leadership activities. The RSCL strand, more specifically, emphasizes the contextually embedded social influence processes that result from interactions among individuals (Endres and Weibler, 2016). In other words, RSCL states that the leadership manifestation is potentially produced through social construction processes (Berger and Luckmann, 1966; Weick, 1995). Accordingly, RSCL is related to the motivational systems and is important for managers who take into account both the situation and the *interaction mechanisms* when designing a functional environment for performance optimization (Carroll et al., 2008). Above all, by avoiding overlapping leadership with supervision, RSCL wishes to explore the phenomenon not simply as an abstract recipe to be adhered to, but in terms of substance. Especially, by studying the leadership manifestation as a process embedded in the context dynamics in which it occurs, the RSCL field has the potential to grasp the reality of leadership more comprehensively – as well as from a more practice-oriented perspective (Knights and Willmott, 1992; Endres and Weibler, 2016). However, the complexity in capturing the deeper features of the human nature and social interaction risks diluting the meaning of RSCL. Therefore, the RSCL studies need both to cope with a conceptualization of the relationship mechanisms among heterogeneous individuals (Fitzsimons, 2012) and to consider the social influence processes in terms of a practical leadership manifestation (Endres and Weibler, 2016). Filling this literature gap, in turn, contributes to prevent the RSCL approaches from becoming a mere ideology (Denis et al., 2012).

In light of the above, the following research question is advanced: "What is the optimal motivational system resulting from the interaction dynamics among heterogeneous individuals?". Most notably, by addressing the stated question, this contribution aims to convey practical relevance to the RSCL approaches (Knights and Willmott, 1992; Denis et al., 2012). As a result, this conceptual article is intended for all scholars and practitioners who require to understand what the theoretical and practical value of including the influence flows emerging from social construction processes actually is.

In order to fill the identified literature gap, this paper suggests conceptualizing the interaction mechanisms among heterogeneous individuals by using the social preferences approach (e.g., Becker, 1974; Rabin, 1993; Fehr and Schmidt, 1999) and behavioral game theory (Camerer and Thaler, 1995; Camerer, 2003). In this way, the role of the personal constructs is recognized as a central situational factor from which the leader-follower relationship arises (Duck, 1973; Alvesson, 2019). At the same time, the value of the manager's strategic decision-making (e.g., Jarzabkowski and Spee, 2009; Vaara and Whittington, 2012) is acknowledged as a system designed to handle the conditioning exerted by the personal dimension within the leadership processes (Child, 1972). In order to include the social influence processes, instead, this article is intended to focus on the value of motivational systems – based on specific and material incentives (Barnard, 1938) – as a part of the implementation of leadership processes. Hence, starting from the experimental study performed by Fehr et al. (2001) and acknowledging the distinctiveness of RSCL, the optimal incentive system based on the influence flows emerging from the strategic interaction among heterogeneous individuals is investigated. From this point of

view, this contribution underlines the need to use a model (Fehr and Schmidt, 1999) which attempts to synthesize the complex human nature while ensuring a kind of uniformity in the description of the individual behavior.

By adopting this approach, the article shows that the simultaneous presence in the population of self-interested and fair-minded agents has interesting implications in the strategic interaction field (Zannoni, 2022). The underlying purpose is to assess how reciprocal fairness social preferences affect the context dynamics in which, according to RSCL, leadership processes are embedded and occur. More specifically, this paper highlights that the optimal incentive system is not independent of the interaction mechanisms among heterogeneous individuals. At the same time, it also shows that the strategic environment evoked by the incentive systems, in turn, is able to affect individual preferences and their interaction. Especially, being aimed at understanding specific «attributes, processes, behaviors, and outcomes within and between individual, interpersonal, group, and organizational levels of analysis» (Academy of Management, 2020), this article aims to provide a contribution within the Organizational Behavior research area (Cristofaro et al., 2021). For instance, studying the interaction dynamics among heterogeneous individual in the context of designing optimal incentive systems can be very useful in improving the comprehension of the «employees' affective and cognitive reactions to compensation, including benefit» (Markova and Jones, 2011, p. 45). Indeed, Markova and Jones (2011) note that incorporating perceptions and subjective norms into the design of benefit plans (i.e., into the design of strategies based on material incentives) can lead to better organizational practices. In other words, to maximize the usefulness of the benefit plan, more attention should be devoted to the analysis of individual needs and preferences (Markova and Jones, 2011). From this point of view, moving beyond the self-interest paradigm, the present study can help to improve the profitability of the benefit plan by explicitly considering the role of social preferences in the strategic design of incentive schemes. In summary, by noting the distribution of preferences that prevails in the experimental reality and appropriately considering the relationship dynamics, it is possible to examine how people make decisions and what stimuli are able to trigger virtuous behavior in the performance of productive activities. Following this perspective, the presented results have the potential to inspire further research addressing issues that are the pillars of broad classes of managerial practices (such as incentive misalignment, motivation, mutual trust, cooperation, and the emergence of non-bureaucratic arrangements in the enterprise).

The reminder of this article is as follows. In order to guide the reader through the subsequent analysis presented, Section 2 introduces key concepts related to RSCL and summarizes those criteria which support the adoption of the social preferences approach and of behavioral game theory. Section 3 introduces the role of reciprocal fairness in the strategic interaction and Section 4 illustrates and comments on the underlying developments in the optimal design of incentive systems. While Section 3 and 4 cover their content by analyzing the model by Fehr and Schmidt (1999) and the experimental study performed by Fehr et al. (2001), Section 5 emphasizes my contribution within the RSCL framework through explaining what the theoretical and practical value of including the influence flows emerging from social construction processes actually is. Finally, Section 6 concludes the article by summarizing, on the one hand, the main limitations of the approach pursued and, on the other hand, the fundamental implications for research and managerial practice.

2. LITERATURE BACKGROUND
2.1 Relational Social Constructionist Leadership
As a system of differentiated and structured relationships, the enterprise needs to deal with the dynamism of the human capital in order to achieve its objectives. People embody different cultures, interests, and spheres of rationality (Simon, 1947; Cristofaro, 2019; 2020; Paniccia et al., 2020); therefore, the plurality of individuals acting in the enterprise causes pervasive uncertainty about how to interpret the evolution of intra-organizational and interpersonal relationships. Within the business system, indeed, different types of disfunction may emerge (e.g., conflicts, asymmetric information, lack of communication and opportunistic behavior); such disorders, in turn, require appropriate harmonization intervention (Williamson, 1986; Cafferata,

2018). In particular, managing the personal dimension in the enterprise refers to the ability to integrate the human variables, the most difficult to govern, and direct them toward the achievement of the business purpose. In this perspective, the integration function performed through leadership processes is essentially aimed at the sensible guidance of all relationships (Cafferata, 2016; 2018).

With this in mind, extensive research points out the unsustainability of a universally valid model of leadership. In other words, the leadership phenomenon should be investigated according to the situation, in terms of environmental context and/or followers' features. Especially, the study of contextual variables has gained attention by the scholars when exploring leadership as a mere attribution or cognitive structure began to be inaccurate (e.g., Northhouse, 1997; Carroll and Levy, 2010). As a result, the situational or contingency approaches to leadership investigate the leadership reality as a function of the variables characterizing a specific situation as well as a function of the group members' values and behaviors (French, 1949; Stodgill, 1950).

In light of the above, RSCL fits into the debate by attaching importance to both contextual dynamics and the interaction mechanisms among people. In other words, according to RSCL, people not only act as self-contained individuals, but they also behave in relation to others embedded in the same context (Endres and Weibler, 2016). More specifically, like many cutting-edge research domains, RSCL derives from a multidisciplinary approach. On the one hand, RSCL includes studies that emphasize the functioning of leadership processes, rather than the leader's personal traits (e.g., Bresnen, 1995; Crevani et al., 2010). On the other hand, this view is anchored in sociology by means of the social constructionist theory. According to this theory, social realities are shaped through the interaction among individuals and in relation to the context dynamics (Berger and Luckmann, 1966). In other words, social constructionists focus on relationality and investigate the meaning-making as an interactive process (Weick, 1995). Consequently, these scholars emphasize the importance of developing theories and models centered on social interaction that, at the same time, deepen the role of environmental dynamics as a breeding ground for emerging social phenomena (e.g., leadership processes). In summary, RSCL states that leadership is potentially produced through social construction processes (e.g., Carroll and Levy, 2010).

However, in addressing the RSCL topic, clearer boundaries with other forms of relational leadership need to be defined. In fact, while it is true that the relational leadership field devotes importance to the interaction and relationship dynamics among individuals; on the other hand, within the leadership studies the concept of relation is used to explain quite different perspectives. Some scholars, for instance, investigate the collective dimension of leadership phenomena (e.g., Huxham and Vangen, 2000; Denis et al., 2010; Bolden, 2011), including the value of sharing leadership among individuals engaged in teamwork (e.g., Pearce and Conger, 2003; Nicolaides et al., 2014; Wang et al., 2014). Other strands of thought, instead, emphasize the importance of high-quality leadership relations (e.g., Graen and Uhl-Bien, 1995; Dutton, 2003; Carmeli et al., 2012). In this regard, the contribution by Endres and Weibler (2016) is pivotal. These scholars, especially, shows that RSCL is distinguished from other forms of relational leadership because of the dynamic intersection of three specific elements. The first element is social construction; that is, the process of creating social realities through ongoing interaction mechanisms. The second element are relationships, understood as «all the visible and invisible threads that connect people» (Endres and Weibler, 2016, p. 3). The third element, finally, are the emerging flows of influence, both at the interpersonal and collective levels of interaction. Most notably, according to Endres and Weibler (2016), the third element is essential to differentiate leadership processes from other general forms of relationships. The three-component model of RSCL (Endres and Weibler, 2016), hence, is crucial to make RSCL less abstract and to wade through the numerous studies that fall within the relational leadership field *latu sensu*.

Although the three-component model contributes to prevent the RSCL studies from diluting the distinctiveness of the leadership phenomenon and becoming a pure ideology (Denis et al., 2012), the need to assess the theoretical and practical value of including the influence flows emerging

from social construction processes is asserted (Endres and Weibler, 2016). In other words, stemming from the three-component model of RSCL, it seems necessary to delves into the context-sensitive social influence processes resulting from the interaction among individuals (DeRue, 2011). For instance, Jian (2022) conceptualizes the influence flows emerging from social construction processes by addressing the role of empathy in the leader-follower relationship. This scholar argues that empathy does not simply take place in the leader's mind; instead, the practice of empathic leadership can be studied through a social constructionist approach to empathy. Therefore, by even integrating philosophical and communication disciplines, Jian (2022) contributes to show that the RSCL strand can actually advance our understanding within the relational leadership field.

Based on these premises, four intertwined issues guided the development of this article. First, arising around the notion of decentralizing the individual, RSCL tends to focus exclusively on the interaction and relationship mechanisms (Gergen, 2009; 2011). Second, which is an implication, it does not appear clear how the individual, her/his role, and inherent characteristics, are conceptualized within RSCL (Fitzsimons, 2012). Third, RSCL does not explicitly consider the role of individual heterogeneity in the relational dynamics. Fourth, according to Endres and Weibler, (2016), it is necessary that RSCL expressly takes social influence mechanisms into account.

Thus, as its main contribution, this article attempts to give practical relevance to the RSCL insights by focusing on the optimal incentive systems resulting from the interaction among heterogeneous individuals (i.e., from social construction processes). In this way, by considering the role of the incentive systems, the mechanisms of social influence can be made explicit. Notably, in order to arrange an efficient incentive system, strategic decision-making processes need to be undertaken; as a result, the game theory implementation is predictable. However, since it is so important to reflect on the human complexity and relational aspects, the adoption of standard game theory is ruled out. In fact, standard game theory assumes that economic agents are purely homogeneous and self-interested. For these reasons, with the purpose of pointing out some individuals' intrinsic characteristics in the relationship dynamics, this analysis exploits the social preferences approach and behavioral game theory (Camerer and Thaler, 1995; Camerer, 2003). Within this framework, it becomes possible to conceptualize the strategic interaction mechanisms among heterogeneous individuals.

In line with RSCL, then, this paper aims to emphasize that the design of an efficient strategic environment (i.e., the leadership content) is not independent of relational mechanisms. At the same time, the interpersonal relations may be shaped by the strategic environment in which people are operating. Particularly, as the environmental context is the breeding ground for emerging social phenomena, the article argues that – through encouraging the follower's commitment and enthusiasm in the performance of tasks – the strategic design of a suitable motivational environment may be essential to effectively implement leadership processes (Barnard, 1938; Markova and Jones, 2011; Preko and Adjetey, 2013).

2.2   Social Preferences and Behavioral Game Theory

According to the RSCL framework, it seems essential to make leadership studies more dynamic and methodologically rich (Carroll et al., 2008) so that the reality of leadership is not only understood and researched as a mere attribution or cognitive structure, but also as a practice (Knights and Willmott, 1992; Carroll and Simpson 2012). As mentioned above, in order to add practical relevance to RSCL, it is necessary both to make explicit the ways in which the influence process might manifest itself and to take into account the intricate nature of human perception (Simon, 1947; Fitzsimons, 2012; Endres and Weibler, 2016). Accordingly, by stressing certain psychological and sociological dynamics in the leader-follower relationship, this article focuses on the role of motivational systems, based on specific and material incentives, in the implementation of leadership processes. More specifically, along the lines of RSCL, this contribution explores the optimal incentive systems based on the influence flows resulting from the interaction among heterogeneous individuals. Indeed, comprehending motivational dynamics, along with appropriately considering their interaction mechanisms, can be crucial to strategically designing a

stimulating and functional work environment for optimizing performance (Child, 1972; McGregor, 1966). To achieve these purposes, however, the need to theoretically and empirically explain the economic agents' behavior within the strategic interaction framework is asserted.

In this regard, social preferences models (e.g., Becker, 1974; Rabin, 1993; Fehr and Schmidt, 1999) and behavioral game theory (Camerer and Thaler, 1995; Camerer, 2003) stem from the latest insights of behavioral economics (Thaler, 2015). Both these perspectives aspire to provide an interpretation of the interaction mechanisms more accurate than that provided by the classical economic paradigm centered on the rational, individualistic instinct of *homo oeconomicus* (e.g., Roth et al., 1981; Güth et al., 1982). In particular, behavioral economists aim to contribute to a better understanding of several real-world phenomena by studying what shape the individual utility function argument may take when people are facing a specific decision problem (e.g., choosing to behave more or less virtuously in performing their work). Social preferences models, therefore, go beyond the restrictive interpretation according to which, naturally oriented toward maximizing a certain objective function, individuals are always and exclusively interested in their own material gain (e.g., Smith, 1759; Becker, 1974; Samuelson, 1993). In other words, social preferences models predict that decision makers may be also concerned with social comparisons (e.g., Blount, 1995; Clark and Oswald, 1995). For this reason, introducing social preferences into the economic agents' objective function has startling implications, especially in the strategic interaction field. Consequently, this paper argues that, starting from social preferences models and using a behavioral game theory approach, it is possible to delve into influence processes; namely, those processes in which the target modifies her/his own behavior in relation to the other's behavior (so-called "source" or "agent" of influence) (Mucchi Faina, 1996). Indeed, since the final outcome of the influence process depends on the actions taken by (at least) two agents, the behavioral game theory approach may be functional to understand what stimuli can trigger high-quality relationships in the leader-follower dyad.

3. HETEROGENEOUS PREFERENCES AND INEQUITY AVERSION MODELS

According to RSCL, leadership processes are shaped through the interaction among individuals and in relation to the context dynamics. However, it remains unclear how people and their inherent characteristics are conceptualized within the RSCL framework (Fitzsimons, 2012). In general, this kind of literature gap often stems from the implicit adoption of standard economic theory (Kirchhoff, 1991; Nelson, 1995). As is well known, through simplifying the human complexity and seeking a sort of homogeneity in individual preferences, standard theory traces all behaviors back to the *homo oeconomicus* archetype. Consequently, the long-standing dominance of the neoclassical paradigm within the economic sciences often makes its direct explication avoidable. Several scholars even argue that «the theoretical foundation of this theory has shaped the development of knowledge» (Dean et al., 2017, p. 20) in many economic domains.

However, by integrating the logic of self-interest with assumptions more relating to concrete human behaviors, this contribution to RSCL aims to consider individual heterogeneity while at the same time ensuring a streamlined and uniform modeling of reality. Precisely, to capture the complexity of interaction mechanisms among heterogeneous individuals, behavioral economics acknowledges that people can *also* be guided in their choices by other-regarding preferences; thus, the concepts of altruism, trust, fairness, and reciprocity emerge (Becker, 1976; Kahneman et al., 1986a; Cox, 2004). In particular, the perspective adopted in this article explores the value of mechanisms of reciprocal fairness in the interaction dynamics (i.e., in the social construction processes).

The term reciprocal fairness is defined in Rabin's work (1993). Rabin presumes that people respond to kind actions with equal friendliness and, in parallel, want to retaliate against hostile and unfair behaviors. More specifically, in order to analyze the influence flows emerging from the interaction among heterogeneous individuals (Endres and Weibler, 2016), this contribution provides an examination of the fairness, reciprocity, and distributive justice considerations in the optimal design of incentive systems within a moral hazard context (Fehr et al., 1997; 2001). In other words, the article studies the case where individual preferences are affected by the

allocation of gains among economic agents (i.e., the case where the impact on preferences, of mechanisms of reciprocal fairness, is hinged on resources distribution). For example, by ranking monetary allocations both on the basis of her/his own outcome, and of the absolute difference with other-players' material payoff, an inequity-averse individual will be envious [i] if her/his own earning is lower than a certain fair reference point (i.e., in the case of disadvantageous inequality); therefore, this individual will manifest negative reciprocity. On the contrary, by manifesting positive reciprocity, she/he will behave altruistically [ii] if her/his own earning is higher than a certain fair reference point (i.e., in the case of advantageous inequality) (Fehr and Schmidt, 1999). Although the reference point and the reference group may depend on numerous variables (such as the social and institutional conditions, the role of personal desires or expectations, and the social proximity), within laboratory experiments people tend toward a quite steady perception of the context. In fact, the individuals' position within the experimental environment is randomly selected and no one knows the others' socio-economic characteristics and personality. Thus, in line with the behavioral economics approach, this article refers to the situations prevailing in the empirical reality. With this in mind, it is appropriate to assume that the reference outcome is given by the egalitarian payoff, and that the reference group is given by the set of individuals playing against each other (Fehr and Schmidt, 1999).

Accordingly, this contribution recognizes that fairness motivations, understood as inequity aversion, are able to affect the economic agents' behavior in the strategic interaction field (Camerer, 2003; Fehr and Schmidt, 2003). In conformity with the RSCL insights, therefore, leadership processes could be significantly shaped by the presence, in the reference environment, of individuals who exhibit reciprocal fairness social preferences. Particularly, in the view of strategic design of motivational systems based on specific and material incentives, the fairness perception depends critically on the outcomes distribution. Not surprisingly, a wide range of experimental evidence confirms that several individuals are interested not only in the amount of their own monetary payoff, but also in the relative payoff (i.e., they are also influenced by how their own earnings appear in relation to others). Consequently, by incorporating social preferences (such as relative payoff, inequity-aversion, envy, and altruism) into the individual utility function, several insights can be obtained; these insights, in turn, are exploitable in various economic domains (e.g., Kahneman et al., 1986b; Agell and Lundborg, 1995; Fehr et al., 1997).

It is noteworthy that, despite dealing with issues that are pillars of broad classes of managerial practice (such as incentive misalignment, motivation, trust, and cooperation), standard contract theory does not include the implications of reciprocal fairness for the optimal incentives provision; in fact, it assumes that the contractual parties are always and exclusively concerned with their own material results. For these reasons, this article intends to delve into some specific behavioral economics models. In this way, in fact, it is also possible to investigate a range of organizational behaviors by explicitly considering the role of the heterogeneous preferences in the relationship mechanisms. In particular, through including the social comparison into the psychological dynamics, the inequity-aversion model by Fehr and Schmidt (1999) takes into account the heterogeneity concerning selfish and fair-minded individuals, and the interaction between the distribution of preferences and the strategic environment as well.

In light of the above, this contribution attempts to give practical prominence to the social construction processes within the RSCL framework by exploiting the inequity-aversion model properties. As mentioned, the main assumption by Fehr and Schmidt (1999) is the heterogeneity of preferences. Specifically, these scholars hypothesize that, within a population characterized by self-interested agents, there exists a fraction of individuals who are also concerned with fairness motivations – understood as inequity aversion. Most notably, they «model fairness as self-centered inequity aversion» (Fehr and Schmidt, 1999, p. 819). In their analysis, thereby, people do not care about inequity as a widespread social phenomenon. Instead, fairness fits into the agents' utility function to the extent that individuals are interested in evaluating the justice of their material outcome in comparison with the others' outcome. This approach, in other words, implies that individuals are indifferent to the inequality that exists among all other people.

What clarified above can result particularly useful to provide a consistent interpretation for the complexity of the experimental results (e.g., Kahneman et al., 1986b; Güth et al., 1997). As a matter of fact, the simultaneous presence, in the population, of self-interested and fair-minded agents, is able to explain the part of evidence in which individual behavior appears to be in line with the self-interested model. Furthermore, it also results able to explain that part in which agents are guided, in their choices, by fairness considerations. More precisely, through the analysis of the experimental evidence, a fundamental interaction between preferences heterogeneity and the environmental variable is intuited. In practice, the economic environment is able to influence individual behavior, because it may lead to the emergence of differences in preference types; understanding these differences, in turn, results key to capture the prevailing behavior in equilibrium (Fehr and Schmidt, 1999). Indeed, if people were all the same and behaved statically, it would be difficult to explain*: i)* why, in certain scenarios, fairness motivations do not produce significant effects on the equilibrium behavior; *ii)* and why, in other environments, individuals oppose unfair outcomes although it is a dominant strategy, for a selfish agent, not to do so. Accordingly, by showing the importance of the interaction between preferences heterogeneity and the strategic environment, Fehr and Schmidt (1999) aim to provide an acceptable interpretation of both these situations.

In summary, since the distribution of preferences in the reference environment is so important for understanding the economic agents' prevailing behavior within the interaction dynamics, it seems relevant for RSCL to take into account the behavioral economics models. In this way, in fact, the evolution of intra-organizational and interpersonal relationships may be better interpreted while enhancing the ability to integrate human variables within the business system.

4. IMPLICATIONS OF RECIPROCAL FAIRNESS FOR THE OPTIMAL DESIGNOF INCENTIVE SYSTEMS

As mentioned, although dealing with a range of multifaceted organizational behaviors, standard contract theory neglects the impact of fairness on incentives provision because it assumes that contractual parties are always and exclusively concerned with their own material gains. Therefore, in order to delve into the influence flows emerging from the interaction among heterogeneous individuals (Endres and Weibler, 2016), it seems important to introduce fairness and reciprocity considerations into the design of incentive systems. Specifically, by applying the inequity-aversion model by Fehr and Schmidt (1999) to some moral hazard problems, Fehr et al. (2001) show that a contractual setting optimal from the standard theory perspective loses efficiency when there are also fair-minded players. In parallel, Fehr et al. (2001) verify that very incomplete contracts, doomed to fail when there are only selfish actors, become the most profitable option if a certain fraction of the population is concerned about fairness. In order to support the theoretical predictions, these scholars apply a simple experimental design, based on the principal-agent paradigm, in which the principal can choose whether to offer a rather "complete" or an incomplete contract. The experimental results not only confirm that at least some individuals are interested in reciprocal fairness motivations, but also that a highly incomplete contract is strongly preferred to a more complete one. Most notably, within the scenario considered the principal aims to optimize the level of effort resulting from the agent's work performance – under the assumption of a deterministic relationship between the principal's gross profit and the agent's effort. Nonetheless, in accordance with the premise that followers, by changing their work effort, may directly affect the firm's performance (e.g., Preko and Adjetey 2013), the following part of the article is intended to discuss the entire Section 4 from the RSCL perspective.

4.1. Incentive Systems

Within the scenario presented [iii], Fehr et al. (2001) distinguish three different contracts. On the one hand, the "punishment contract" represents the most complete contract; on the other hand, the "trust contract" and the "reward contract" represent the incomplete contracts. The punishment contract, basically, fines the agent for unsatisfactory performance through the potential court intervention. Therefore, this contract stipulates a requested effort level (e^*), a wage (w), and a fine (f) to be paid only in case of verifiable shirking. Specifically, the application of the

punishment contract requires that the principal invests in a control system and incurs the associated cost (k). As a consequence, by assuming that the agent's effort can be verified with a certain probability $p \in (0;1)$, any disturbances within the control procedure are also taken into account. Finally, for the level of effort actually implemented (e), with $e_{min} \leq e \leq e_{max}$, the agent incurs a private cost $c(e)$. In particular, it is assumed that $c(e_{min}) = c'(e_{min}) = 0$ and $c'(e) > 0$, $c''(e) > 0$ with $e > e_{min}$; according to a strictly increasing and convex cost schedule. In parallel, the principal's gross profit is assumed to be $v(e) = 10e$. Ultimately, the punishment contract, given its characteristics, is able to credibly tie compensation to the agent's work performance. Nevertheless, it should be noted that the applicable fine provides for a maximum amount such that the principal is unable to induce the agent to employ the optimal effort in performing the activity. In other words, it is assumed that $pf_{max} < c(e_{max})$, i.e., $e^* < e_{max}$. In view of the above, the punishment contract implies the following (expected) material payoffs – attributable to the principal (x_p) and the agent (x_a) respectively.

$$x_p = \begin{cases} 10e - w - k & if \quad e \geq e^* \\ 10e - w + pf - k & if \quad e < e^* \end{cases} \tag{1}$$

with $w \geq c(e)$

$$x_a = \begin{cases} w - c(e) & if \quad e \geq e^* \\ w - c(e) - pf & if \quad e < e^* \end{cases} \tag{2}$$

with $w \geq c(e)$

As an alternative to the punishment contract, the principal may simply ask the agent to employ more than minimum effort ($e > e_{min}$) and promise a wage premium in return. According to Fehr et al. (2001), this alternative is formalized in two different contracts: the trust contract and the reward contract. The trust contract involves that the agent's total compensation is fixed *ex-ante* in a binding manner. Precisely, the principal agrees to pay a generous salary so as to inspire the agent's desire to reciprocate. In this respect, it should be noted that the functioning of trust-based mechanisms is captured through explication in monetary terms. This analysis, therefore, has the advantage of allowing an appropriate measurement of the results deriving from the application of strategies based on mutual trust. Furthermore, the trust contract has a degree of contractual incompleteness compared to the punishment contract. Indeed, on the one hand, through the trust contract the agent is free to choose the level of effort to be spent but, on the other hand, the principal remains bound to pay a generous wage even if the agent's effort will be minimal. As a result, the trust contract implies the following (expected) material payoffs:

$$x_p = 10e - w \tag{3}$$

with $w > c(e)$

$$x_a = w - c(e) \tag{4}$$

with $w > c(e)$

The reward contract, instead, specifies a desired level of effort ($e > e_{min}$), a wage (w), and a bonus payment (b) that the principal will assign if the agent's effort is adequate. Consequently, only the basic wage can be claimed by the agent, whereas the bonus payment is a principal's option; then again, the principal cannot force the agent to perform the required effort. In other words, the reward contract is highly incomplete compared to both the punishment and the trust contract. Indeed, the reward contract binds neither the agent's decision nor the principal's behavior, who remains free to choose the size of the bonus payment. Hence, the reward contract implies the following (expected) material payoffs:

$$x_p = 10e - w - b$$

(5)

$$\text{with} w \geq c(e)$$

$$x_a = w - c(e) + b$$

(6)

$$\text{with} w \geq c(e)$$

4.2. Incentive Systems and Heterogeneous Preferences

In consideration of the three incentive systems described above, this article aims to contribute to RSCL by answering the following research question: "What is the optimal motivational system resulting from the interaction dynamics among heterogeneous individuals?". In order to answer this question, a behavioral game theory approach needs to be pursued. In other words, by exploiting the properties of the inequity-aversion model (Fehr and Schmidt, 1999), the present contribution focuses on the strategic interaction mechanisms between selfish and fair-minded individuals. Nonetheless, before examining the role of reciprocal fairness in the optimal design of incentive systems, it is necessary to refute the predictions of standard game theory which, instead, assumes that all players behave in a self-interested manner.

According to the self-interested paradigm, both the trust contract and the reward contract cannot be effective in motivating the agent to exert the required level of effort ($e > e_{min}$). In fact, in the trust contract, faced with a generous fixed wage, a selfish agent always chooses $e = e_{min}$. Similarly, in the reward contract, a selfish principal never grants the bonus payment; thus, anticipating this behavior, a rational agent has no incentive to provide an extra effort and again chooses $e = e_{min}$. Conversely, by the punishment contract implementation, the principal sets the maximum applicable fine so that selfish agents have a reasonable incentive to provide the effort required in the contract. Indeed, whenever less effort than agreed upon is detected, the agent will have to pay the fine which is quite costly compared to the benefit deriving from the opportunistic behavior. However, since both contractual parties are only interested in maximizing their own material gain, Fehr et al. (2001) are concerned with showing that the punishment contract leads to a perfectly unfair distribution of the total surplus (S) resulting from the transaction (i.e., $S = v(e) - c(e)$). Basically, this unfair distribution is due to the wage paid by the selfish principal. In fact, a self-interested principal tends to offer a wage which is barely sufficient to offset the effort cost incurred by the agent in performing the activity (i.e., $w = c(e^*)$)[iv]. With this in mind, when choosing between the punishment contract, the trust contract, and the reward contract, the principal always offers the punishment contract. In other words, according to standard theory, the optimal incentive system should exhibit the distinctive features of the punishment contract.

Nevertheless, by introducing fairness and reciprocity motivations into the analysis, Fehr et al. (2001) observe that the trust contract and reward contract could also be effective. Indeed, if both parties are interested in fairness, the trust contract can work because the agent is concerned with reciprocating the trust. Similarly, when offering the reward contract, a fair-minded principal intends to pay the bonus; at the same time, by stimulating positive reciprocity behaviors, the agent provides the required level of effort. Of course, the punishment contract also remains a worthwhile alternative. In the latter case, however, a fair-minded principal offers a wage that allows for an egalitarian distribution of the total surplus resulting from the agent's performance. In this way, the principal not only provides explicit material incentives, but also appeals to the agent's reciprocal fairness preferences. Thus, the presence of individuals who exhibit fairness preferences makes all the incentive systems under consideration potentially effective. Nevertheless, by considering the interaction dynamics between selfish and fair-minded individuals, the outcome of the influence process may significantly change in relation to the preferences distribution prevailing in the reference environment. For this reason, in order to answer the research question presented above, it is necessary to provide an assessment regarding the distribution of preferences. In particular, through applying the inequity-aversion model (Fehr and Schmidt, 1999) [v] to these moral hazard problems, Fehr et al. (2001) assume that 60% of the population are selfish individuals, while the remaining 40% are also concerned

with reciprocal fairness considerations. Specifically, the distribution of preferences considered is mainly based on the combination of numerous empirical results related to the "*ultimatum* game" and the "dictator game". Ultimately, based on the postulated distribution of preferences, it is possible to define what the optimal incentive system resulting from the interaction between selfish and fair-minded individuals actually is.

First of all, the implications for the trust contract should be analyzed. Given the distribution of preferences, the trust contract cannot work because, on average, the increase in effort by inequity-averse agents is not sufficient to compensate, in terms of profitability, the principal who establishes a wage increase. In other words, although fair-minded agents, by providing a level of effort that equalizes gains between the parties (i.e., $e : x_a = x_p$), adopt positive reciprocity; at the same time, offering a generous wage does not optimize the principal's expected outcome because 60% of agents are selfish and they always choose to employ $e = e_{min}$. However, it can also be shown that the trust contract will be profitable if the fair agents represent at least two-thirds of the population (Fehr et al., 2001).

Regarding the punishment contract, it is important to recall that if both parties are bent on maximizing their own self-interest, on the one hand, it is possible to achieve e^* but, on the other hand, the agent comes to be in a condition of disadvantageous inequality due to the unfair wage paid by the principal. Consequently, inequity-averse agents may adopt punitive strategies against a selfish principal. For instance, they may shirk the effort required by the contract. Indeed, in order to punish the unfair principal, an agent concerned with distributive justice considerations may be willing to face the expected fine. This is because the inequity-averse agent's utility function does not depend exclusively on material gain. For this reason, compared to the utopian state designated by standard economic theory, the punishment contract loses efficiency when part of the population is made up of fair-minded agents. However, on the basis of the considered distribution of preferences, Fehr et al. (2001) demonstrate that the application of the punishment contract overall leads to a higher level of expected effort than the trust contract. In fact, it is essentially to note that the trust contract expresses its greatest power only if the population is largely composed of individuals interested in reciprocal fairness.

Finally, according to the postulated distribution of preferences, the implications for the reward contract are summarized. As seen above, a selfish principal always pays a bonus $b = 0$. In contrast, an inequity-averse principal pays a fair bonus (i.e., $b : x_a = x_p$) whenever a higher than minimal level of effort is detected. Because of the coexistence of selfish and fair principals, hence, the average bonus payment grows as the level of effort implemented by the agents increases. By extension, being oriented toward maximizing their own monetary payoff, selfish agents calculate the level of effort to be spent as a function of the expected bonus payment. Thus, if a 40% probability of meeting a fair principal exists, Fehr et al. (2001) demonstrate that selfish agents are motivated to implement a higher level of effort compared to the level resulting from the implementation of the punishment contract – in which the expected effort is merely tied to the application of a predetermined fine. However, unlike selfish agents are exclusively interested in maximizing their own material gain, the inequity-averse individuals' utility function includes reciprocal fairness social preferences. Therefore, unlike the selfish, fair agents feel a certain "suffering" if they actually meet a principal who does not pay the bonus. In other words, while the self-interested only account for the expected bonus payment, fair agents measure the level of effort to be spent according to distributive justice considerations. Consequently, if a 60% probability of meeting an unfair principal exists, Fehr et al. (2001) analytically show that a fair-minded agent prefers to implement a lower effort compared to the optimal level for a selfish agent. In summary, in choosing the optimal effort to adopt, inequality-averse agents wish to avoid the disutility resulting from disadvantageous inequality if the bonus is not paid. Anyway, keeping in mind the distribution of preferences, Fehr et al. (2001) also prove that the reward contract allows for an increase in selfish agents' effort which is widely sufficient to offset the fair agents' behavior.

In view of the above, the optimal incentive system should exhibit the distinctive features of the reward contract. Indeed, according to the distribution of preferences, both types of principals under consideration strictly prefer the reward contract to the punishment contract (as well as to the trust contract). Given the articulation of the reward contract, on the one hand, fair principals can exploit the reciprocity mechanisms as a powerful incentive for effort provision; on the other hand, selfish principals can enjoy the generous effort although they do not actually pay the bonus. Clearly, such a prediction in not consistent with standard game theory (i.e., with the self-interested paradigm), in which the punishment contract is always the optimal choice in terms of efficiency.

In conclusion, given the distribution of preferences that prevail in the empirical reality, in choosing between the punishment contract and the trust contract the predictions of the standard model are generally consistent – although fair-minded agents make the punishment contract less efficient. In the reward contract, then again, «the presence of fair principals induces selfish agents choose high effort levels while the presence of selfish principals induces the fair agents to provide low effort levels» (Fehr et al., 2001, p. 13). Hence, it is precisely because of the interaction mechanisms between fair and selfish individuals that the reward contract comes to be collectively preferred to the punishment contract (as well as to the trust contract). This theoretical analysis, therefore, shows that the optimal incentive system is not independent of the relational dynamics among heterogeneous individuals.

4.3. Incentive systems and experimental context

So far, the behavioral game theory framework within the optimal design of incentive systems has been explored; however, its drawback is as follows. The predictions made are based on the assumption that people are perfectly rational and have full knowledge about the distribution of preferences among the population. Nevertheless, it is surprising to find that the experimental results are quite aligned with the theoretical insights. In other words, the average behavior implemented by the parties within the experiments meets the predictions of the inequality aversion model. Therefore, while it is true that behavioral game theory is able to attach formal value to the influence processes that emerge from social interaction, the experimental evidence fit into the RSCL framework from a substantial point of view.

Specifically, Fehr et al. (2001) organized two main experimental sessions; in turn, each session was structured into ten rounds. Within the first session, each principal could choose between offering the punishment contract or the trust contract. Within the second session, instead, the choice was between the punishment contract and the reward contract. At the beginning of each session all participants received an initial monetary endowment. Afterwards, at the beginning of each round, each principal was matched with an anonymous and randomly selected agent. At the end of the period, therefore, the subjects computed both their own payoff and the payoff of their counterpart (see equations (1)-(6)).

Overall, within the first session the punishment contract is the choice adopted in the majority of cases. From the summary of the ten rounds, indeed, the 69% of the 195 contracts offered are punishment contracts, whereas only 31% are trust contracts. Nonetheless, the share of punishment contracts rapidly increases during the session. In fact, in the last three rounds, about 80% of all contracts offered are punishment contracts. Moreover, although 71% of the principals choose the trust contract at least once, only 33% make this choice for more than three periods. Thus, although most principals are willing to pay generous wages in order to achieve high effort levels, in 64% of cases where the trust contract is implemented agents choose to employ $e = e_{min}$. As a result, on average, the principals offering the trust contract suffer important losses. This explains the increase in the share of punishment contracts during the first session of the experiments. In summary, within the first session, the punishment contract is much more profitable for the principals; conversely, to elicit the agent's sense of reciprocity, offering a generous wage is unsuccessful.

Regarding the second session, the reward contract is more preferred than the punishment contract from the beginning. Overall, it accounts for about 90% of all contract choices. Notably, although 57% of the principals choose the punishment contract at least once, only 4% make this choice for more than three periods. Therefore, since the principals strongly prefer the reward contract to the punishment contract, the experimental results also disprove the self-interest model. Indeed, the evidence confirm that the average effort implemented by the agents (i.e., the principals' average payoff), is much higher in the reward contract than in the punishment contract. This implies that, on average, the principals adopt positive reciprocity with respect to the agents' virtuous behaviors. In fact, even the agents earn a higher payoff than the payoff resulting from the application of the punishment contract.

In light of this experimental results, it is very important to point out that the reward contract is more efficient than the punishment contract because it gives to the principals the opportunity to reward the agents' virtuous behaviors. As a result, agents are encouraged to provide higher effort levels. For these reasons, Fehr et al. (2001) infer that the reward contract works better because of its incompleteness. More specifically, within this strategic environment, the parties strongly feel the reciprocal fairness preferences; indeed, by applying the reward contract, the principal has the opportunity to reward (punish) the agent who provide a high (low) level of effort in the performance of the activity. Ultimately, contractual incompleteness can make fairness and reciprocity preferences particularly relevant for people; even more so for individuals, neither purely selfish nor purely inequity-averse, who adapt their behavior according to the situation. Consequently, not only the preferences distribution prevailing in the context and relational mechanisms shape the optimal incentive system but, in turn, the strategic environment is also able to affect individual preferences and their interaction. In other words, the reported theoretical and empirical framework suggests that there exists an interaction between heterogeneous preferences and strategic environment (Fehr and Schmidt, 1999; Fehr et al., 2001). In line with the RSCL insights, then, it seems that the leadership manifestation may be practically analyzed as a social construction process; that is, leadership processes may be actually shaped through the interaction among individuals and in relation to the context dynamics (see Figure 1).

In conclusion, considering that the reward contract is strongly preferred to the punishment contract, experimental evidence confirms that a high degree of contractual incompleteness may allow significant increases in the total surplus in comparison with contracts that tightly bind the parties. Above all, since the self-interested paradigm states that the punishment contract is always the best option in terms of profitability, the power of the contractual incompleteness basically stems from the presence of inequity-averse individuals within the population. Nevertheless, according to the distribution of preferences considered, the trust contract cannot work – even though it is quite incomplete compared to the punishment contract. In other words, given the share of fair people, the trust contract is not incomplete enough to ensure significant increases in performance. What is more important, the trust contract represents a special case of reward contract. In point of fact, by applying the trust contract, the principal sets a generous wage in advance; in this way, she/he will not pay any bonus *ex-post*. Therefore, by including the bonus payment into the initial wage, the principal, unlike the reward contract, chooses to trust agent. Nevertheless, in this case, the reciprocity mechanisms are not influential enough; hence, if most agents behave in a self-interested manner, the adoption of a trust-based incentive system cannot be efficient. In this regard, within the second session of the experiment, principals who chose the reward contract had the opportunity to include the reward payment within the basic wage, that is, they could offer a classic trust contract. However, Fehr et al. (2001) note that no one took advantage of this offer. This confirms that, by choosing the reward contract, people acknowledge the value of reciprocity mechanisms in planning their strategy. In the final analysis, according to this contribution to RSCL, the design of an optimal incentive system should properly consider both the individual heterogeneity and the strategic environment in which people are interacting.

5. DISCUSSION
The perspective addressed in this article is anchored to the socio-constructionist underpinning as it represents a theoretical and practical case in support of the idea that leadership processes

could be the result of the interaction between contextual dynamics (e.g., the prevailing distribution of preferences as well as the strategic environment set by the leader) and relationship mechanisms among people. Especially, in order to convey practical relevance to RSCL, the strategic interaction between fair-minded and self-interested individuals is considered. In this direction, the main proposition is that the influence processes can be actively triggered through the strategic design of incentive systems; the strategic environment related to the incentive systems application, hence, denotes the leadership content. Accordingly, this contribution shows that the interpersonal relationships significantly affect the leadership content. For instance, while it is true the reward-based incentive system is able to trigger leadership processes, the efficiency of the reward contract (i.e., the positive outcome of the influence process) depends on the interaction among heterogeneous individuals, that is, on distribution of preferences. At the same time, this article also indicates that the leadership content may affect individual preferences and their interrelations. For instance, by attaching a key role to the reciprocity mechanisms (i.e., by encouraging the manifestation of reciprocal fairness preferences), the strategic environment evoked by the reward contract may influence the distribution of preferences, that is, the interaction among heterogeneous individuals. In line with RSCL, then, the leadership manifestation may be practically represented as a social construction process; in other words, leadership processes may be actually shaped through the interaction among individuals and in relation to the context dynamics. Figure 1 summarizes my contribution in the RSCL framework.
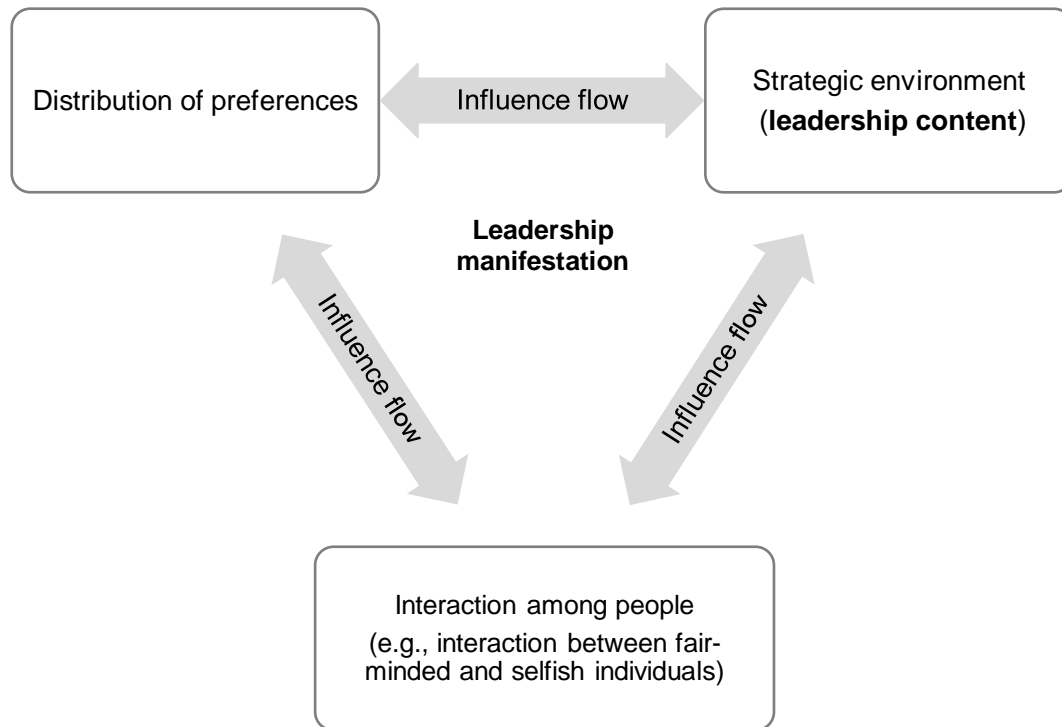

FIGURE 1: Leadership as a social construction process.
Source: personal elaboration.

In light of the above, this section aims to discuss three main open questions about RSCL (Endres and Weibler, 2016) in order to understand what the theoretical and practical value of including the influence flows emerging from social construction processes actually is.

First, this contribution provides an opportunity to discuss the collaborative dynamics by considering the role of incentive systems based on the influence flows emerging from the interaction among heterogeneous individuals. In point of fact, being an essential lever for encouraging desired behaviors, the incentive schemes can also be instrumental in improving the

cooperative mechanisms (e.g., Berger et al., 2011). Not without reason, by assuming that each individual is purely selfish, standard theory predicts a tragic equilibrium in collaborations aimed at maximizing the commons as meaning that it opens the door to the free-riding phenomenon in group dynamics (Dawes and Thaler, 1988; Frank et al., 1993). In other words, in the absence of material incentives, selfish individuals tend to minimize the level of effort to be expended in collaborations because each is motivated to contribute less for achieving greater private benefit. In this case, in order to solve the moral hazard problem in group dynamics, the proposed theoretical model suggests that it may be effective to set up a punishment-oriented incentive system. Then again, having regard to human diversity, this analysis emphasizes that the optimal incentive system depends on the distribution of preferences, that is, on the interaction between heterogeneous individuals. Indeed, by deeply analyzing the mechanisms through which individuals make decisions and interact it is possible to understand what stimuli can promote cooperative and collaborative behavior, both within and outside the firm (e.g., Abatecola, 2014; Paniccia and Baiocco, 2018; Abatecola, et al., 2020; Gilles et al., 2022).

Second, this article is intended to be a contribution aimed at investigating and quantifying the relationship between the leadership processes and outcomes, with appropriate reference to the potential negative outcomes of the influence processes. In fact, by assuming that leadership processes can be practically reinforced through the design of an effective incentive system (Barnard, 1938; Likert, 1961), theoretical and empirical results suggest that an incentive scheme based on the promise of a reward (so-called, "reward contract") allows for an increase in total surplus and performance compared to the application of a punishment-oriented incentive mechanism (so-called, "punishment contract"). Particularly, due to the interaction between heterogeneous individuals, the theoretical framework shows that the application of the reward contract leads to a higher level of expected effort than the application of the punishment contract (Fehr et al., 2001). As a consequence, by consider the distribution of preferences that most closely matches the empirical reality, the punishment contract (when compared to the reward contract) leads to a negative outcome of the influence process. Similarly, both compared to the application of the punishment contract and the reward contract, a trust-based incentive scheme (so-called, "trust contract") leads to a negative outcome of the influence process. In fact, findings suggest that the share of followers who adopt positive reciprocity in return for the trust placed by the leader is not sufficient to enable the outcomes optimization.

Third, according to the RSCL insights, this contribution aims to assess what type of leadership may emerge, what features it may take on, and what makes it manifest. On this basis, indeed, it is possible to investigate potentially emerging outcomes in certain contexts. From this point of view, the reported findings are generally consistent with the emergence of transactional leadership. In the case in point, by taking into account the distribution of preferences, the leader clarifies organizational roles and applies the optimal transaction (based on rewards, punishments, or other exchanges) in order to stimulate the followers' commitment. Indeed, to ensure greater efficiency in business activities, transactional leaders tend to work on the characteristics of the followers' objective function (Burns, 1978). Accordingly, this contribution helps to clarify what the optimal transaction resulting from the interaction among heterogeneous individuals actually is.

Specifically, in the case of interaction among purely selfish individuals, the proposed theoretical framework suggests the emergence of a typically autocratic leadership style in which the leader gains authority and power through expressly provided and enforceable norms, rules, threats, and punishments (Likert, 1961; Cafferata, 2018). Consequently, the leader's strategic behavior can be supported by the levers proper to transactional leadership in the form of a punishment-oriented incentive system (e.g., "punishment contract"). In fact, the standard theory perspective rules out that a transactional leader can take advantage of the reward contract. In light with the game theory approach, if 100% of the actors behave according to the *homo oeconomicus* paradigm, the leader her/himself has no incentive to pay the promised reward to the virtuous followers (so-called, cheap-talk). Indeed, the selfish leader is primarily oriented toward maximizing the total surplus resulting from the businesses. Hence, by anticipating this behavior, followers have no incentive to provide an extra-effort in performing the tasks. In other words, within an environment

made up of purely self-interested individuals, the emergence of an autocratic leadership style conjugated with a punishment-oriented incentive system is predictable. This is because the transaction based on the promise of an unenforceable reward represents a non-credible strategy. Of course, on account of the moral hazard phenomenon, standard theory also rules out that a transactional leader can take advantage of the trust contract.

In contrast, following the prevailing distribution of preferences and behavioral dynamics in the experimental reality (where a certain fraction of individuals manifests fairness and reciprocity preferences) both theoretical and empirical results show a loss of efficiency of the punishment-based incentive system (Fehr et al., 2001). At the same time, however, the principals who offer the trust contract suffer important losses. In sum, due to the interaction mechanisms between self-interested and fair-minded individuals, the predominance of the incentive system based on the promise of an unenforceable reward emerges. More specifically, the provision of implicit and unenforceable incentives has a twofold value. First, being the incompleteness of the reward contract a peculiar feature of the reported analysis, this article points out that the reward contract is more efficient than the punishment contract «because it is less complete and thus gives more freedom to the parties to reciprocate» (Fehr et al., 2001, p. 3). Thus, the provision of implicit and unenforceable incentives may give greater weight to the reciprocal fairness preferences. As a result, in light of the interaction between heterogeneous preferences and the strategic environment (Fehr and Schmidt, 1999; Fehr et al., 2001), the reward contract itself is able to foster the manifestation of reciprocal fairness preferences in individuals who exhibit ambiguity in the characteristics of their objective function (i.e., in individuals neither purely selfish nor purely inequity-averse, who adapt their behavior according to the situation). Second, providing express and enforceable incentives may be inefficient if people have to engage in multiple tasks and if some of these tasks cannot be expressly contracted (Fehr et al., 2001). As a matter of fact, giving explicit and enforceable incentives for the contractible tasks may induce followers to neglect the non-contractible tasks which can be very unproductive. In other words, an incentive system based on the promise of an unenforceable reward (i.e., the application of a very incomplete transaction) can avoid the inefficient allocation of efforts among tasks because the bonus actually paid may depend on the followers' performance in all tasks. In view of the above, in order to properly motivate heterogeneous followers, the leader should define a transaction based on the properties of the reward contract.

Finally, this research implies a positive relationship between contractual incompleteness and performance which basically stems from the presence of inequity-averse individuals within the population (Fehr et al., 2001). Given the observed distribution of preferences, this relationship is emphasized in choosing the optimal transaction in the transactional leadership perspective. In this regard, it is important to recall that the transaction based on the punishment contract is more complete than the transaction based on the promise of an unenforceable reward. Indeed, the punishment contract is the only contract that credibly associates the follower's compensation with her/his work performance. Conversely, the reward contract allows for discretion to both the leader (in terms of choosing to grant the reward) and the follower (in terms of choosing the effort to be adopted in performing the task).

However, it seems relevant to note that the aforementioned relationship could also be effective by referring the notion of contractual incompleteness to the characteristics of leadership styles in terms of degree of formalization (bureaucratization) in the leader-follower relationships. From this point of view, it is reasonable to assume that the autocratic leadership style has a greater degree of formalization (i.e., "degree of completeness") than the participative or democratic leadership style. In the former case, indeed, the leader restricts the followers' choice through commands and rules; in the latter, instead, the leader involves the followers in decision-making processes and encourages their participation and creativity (Likert, 1961; Cafferata, 2018; Leoni et al., 2022). Therefore, by extending the theoretical and empirical findings, this contribution suggests that the success and superiority of leadership styles with a low degree of formalization in the leader-follower relationships (Tannenbaum and Schmidt, 1958; McGregor, 1960; Likert, 1961; Argyris, 1971) is due to the presence of fair-minded individuals within the population. Not surprisingly, the

involvement of followers in decision-making processes is a strategy that may not be effective if the population is exclusively composed of purely self-interested individuals. Indeed, taking responsibility and using creativity are events that require an extra-effort from followers. Thus, in the absence of explicit and enforceable material incentives, selfish followers tend to minimize their participation. In contrast, by evaluating the level of effort to be spent according to distributive justice considerations, fair-minded individuals may wish to reciprocate the trust placed by the leader. In other words, if the compensation and the perceived satisfaction are consistent with the effort required, the fair followers will be proportionately motivated to participate in decision-making processes. For these reasons, this article argues that the participative or democratic leadership style is more efficient than the autocratic style because it «may rely on fairness and reciprocity as an enforcement device» (Fehr et al., 2001, p. 3). Consequently, as the share of the inequity-averse individuals increases, not only a participative leadership style, but also a *laissez-faire* style may emerge and be optimal. Not without reason, both participative and *laissez-faire* leadership style require a high degree of trust in the leader-follower relationship (Tannenbaum and Schmidt, 1958; Likert, 1961). In this direction, it is also important to recall that assuming a distribution of preferences in which at least two-thirds of the actors are purely inequity-averse, the proposed theoretical model suggests that the trust-based strategies (generally risky if the presence of selfish agents prevails, because of the moral hazard phenomenon) may be the optimal solution and prove successful in the leader-follower relationships. This is because the commitment on the part of the fair-minded players may be widely sufficient to offset, in terms of efficiency, for a leader who places trust in followers.

6. IMPLICATIONS, LIMITATIONS,AND CONCLUSIONS

Within the situational or contingency approaches to leadership, the leadership reality is investigated as a function of the variables characterizing a specific situation as well as a function of the group members' values and behaviors (French, 1949; Stodgill, 1950). This path gained attractive momentum when researching leadership as a mere attribution or cognitive structure began to be inaccurate (Northhouse, 1997; Carroll and Levy, 2010). The RSCL strand, more specifically, emphasizes the contextually embedded social influence processes that result from interactions among individuals. In other words, RSCL is related to the motivational systems and is important for scholars and practitioners who take into account both the situation and the interaction mechanisms in understanding the leadership phenomenon. In fact, RSCL states that the leadership manifestation is potentially produced through social construction processes.

However, a core issue in RSCL studies concerns the need to define what to investigate in terms of relational leadership (Endres and Weibler, 2016), while trying to maintain a perspective which sets aside a predefinition of leadership – because this would clearly be in contrast with the notion of social construction (Crevani et al., 2010). As a result, this article is intended to contribute to the RSCL studies by examine the strategic interaction mechanisms among heterogeneous individuals in the context of designing optimal incentive systems. Indeed, on the one hand, RSCL attaches importance to the influence processes emerging from the interaction among individuals (Endres and Weibler, 2016) but, on the other hand, this view does not explicitly consider the role of human heterogeneity. In summary, the following research question is advanced: "What is the optimal motivational system resulting from the interaction dynamics among heterogeneous individuals?".

Specifically, by exploiting the model of Fehr and Schmidt (1999), this article aims to derive the influence flows emerging from the interaction between self-interested and fair-minded individuals. In fact, it is important to note that, although representing a necessary simplification of the human complexity, the distribution of preferences considered in the model seems to fit quite well with the experimental evidence (Fehr and Schmidt, 1999; Fehr et al., 2001). By studying the role of social preferences in the strategic interaction, hence, findings suggest that leadership processes should take into account the relational dynamics between selfish individuals (i.e., those who, being exclusively oriented toward maximizing their own material well-being, tend to adopt opportunistic behaviors in performing the activities) and fair-minded individuals (i.e., those who, manifesting social preferences, choose the level of effort in carrying out the tasks according to distributive

justice considerations).In other words, considering that people tend to maximize different objective functions, it seems crucial to study the resulting implications in both relational and decision-making processes (Kahneman et al., 1986a; Kahneman et al., 1986b; Angner, 2012). In particular, by considering the role of heterogeneous preferences in the relational processes, the article shows that it is possible to strategically designing a stimulating and functional work environment for optimizing performance. In summary, being practically used in supporting leadership processes (Barnard, 1938; Likert, 1961), an efficient incentive system should capture the complexity of the interaction among individuals. In line with RSCL, therefore, a practical approach which sets aside a predefinition of leadership is provided.

Most importantly, this contribution aims to understand what the theoretical and practical value of including the influence flows emerging from social construction processes actually is. Regarding the implications for theory, the present study basically addresses three main open questions about RSCL (Endres and Weibler, 2016). First of all, by investigating the incentive systems within the RSCL perspective, it is possible to realize what stimuli are able to engage heterogeneous individuals in collective action – which is often instrumental in creating value for business and society (Frank et al., 1993; Frank and Cartwright, 2020; Carroll and Simpson, 2012). Furthermore, by focusing on the optimal incentive system, this article is intended to be a contribution aimed at exploring and quantifying the relationship between the leadership processes and emerging outcomes, with appropriate reference to the potential negative outcomes of the influence processes. Finally, there ported findings are generally consistent with the emergence of transactional leadership, in which leaders tend to work on the characteristics of the followers' objective function to ensure greater efficiency in business activities (Burns, 1978). Therefore, in contributing to the RSCL studies, this paper even assess what type of leadership emerges, what features it may take on, and what makes it manifest. Along these lines, it becomes possible to look into potentially emerging outcomes in certain contexts.

In light of the above, by exploiting the behavioral economics insights, this paper acknowledges that the presence of individuals interested in reciprocal fairness considerations is able to affect the environmental dynamics in which, according to the RSCL, leadership processes are embedded and occur (Endres and Weibler, 2016). As a main result, theoretical and empirical evidence shows that the interaction between self-interested and inequity-averse individuals generates flows of influence such that the most efficient incentive system is based on the promise of an unenforceable reward. Basically, this is because the strategic environment evoked by the reward contract attaches a key role to the reciprocity mechanisms (Fehr et al., 1997; 2001; Camerer and Thaler, 1995; Camerer, 2003). Nonetheless, although reflecting the experimental reality, this result may not be universally applicable. Thus, in order to design an optimal incentive system and extend these insights to any specific managerial setting, managers should analyze the interaction between the preferences distribution prevailing in the organizational context and the strategic environment in which people are operating (Fehr and Schmidt, 1999; Fehr et al., 2001). Accordingly, this contribution can be useful in strategically managing workforce diversity. On the one hand, managers can effectively avoid the employee theft and the labor shirking phenomenon; on the other hand, they can increase the workers' general morale. In other words, managers can better fulfill the integrative function performed through leadership processes (Cafferata, 2018) and significantly affect employee loyalty and engagement (Preko and Adjetey, 2013). In summary, through an optimal incentive system, managers can concretely foster: *i)* the cooperation among human resources; *ii)* the workers' participation in decision-making processes; *iii)* the individual inclusion in the corporate system.

Hence, these considerations are useful to better understand the «employees' affective and cognitive reactions to compensation, including benefit» (Markova and Jones, 2011, p. 45). Particularly, in addition to using information policies to reinforce employees' beliefs and satisfaction about benefits (Markova and Jones, 2011), benefit providers – due to individual heterogeneity – should be mindful of reciprocity mechanisms when designing incentive plans. For instance, if benefits are provided according to the contractual setting inherent in the "trust contract", theoretical and empirical framework indicates the inefficiency of the incentive plan for

the purpose of performance maximization. In other words, following the prevailing distribution of preferences and behavioral dynamics in the experimental reality, if benefits are explicit and enforceable, the interaction between selfish and fair individuals makes it impossible to maximize the usefulness of the benefit plan.

Moreover, this article underlines an interesting positive relationship between contractual incompleteness and performance (Fehr et al., 2001). The power of this relationship, in turn, is related to the interaction dynamics between self-interested and inequity-averse individuals. By implication, not only the efficiency of incentive systems, but also the success of non-hierarchical and non-bureaucratic organizational contexts (e.g., those with a low degree of formalization or "completeness" in the relationships among actors) could be a function of the share of fair-minded individuals within the population. As a further implication, while it is true that concertive-based organizational structures attach key value to trust and reciprocity mechanisms, even the success of the participative and *laissez-faire* leadership styles could critically depend on the distribution of preferences that prevails in the reference context. Therefore, by taking into account this extensive result, further research could deepen what personal intrinsic factors lead the organizational structures with a low degree of bureaucratization to optimal outcomes. For instance, the aforementioned relationship could theoretically integrate the qualitative studies that verify the greater efficiency of concertive control systems, in the form of self-managing teams, compared to hierarchical and bureaucratic control systems (Barker, 1993; Gill, 2019).

Another pattern is based on an interesting study performed by Andreoni and Vesterlund (2001). These scholars point out a thought-provoking relationship between gender and fairness preferences. In particular, they find that women tend to be more egalitarian and prefer more fair sharing than men. By contrast, they note that men tend to be either completely selfish or completely unselfish. As a consequence, while it is true that less bureaucratic and more participative environments may be associated with the presence of fair-minded agents, further investigations could delve into the role of specific intrinsic characteristics of the gender variable within both RSCL and the relationship between leadership styles and performance (Eagly et al., 2003; Mari and Poggesi, 2020; Mari et al., 2021). According to the previous considerations, it goes without saying that an incentive system perfectly efficient within an environment mostly populated by women may not be optimal if the environment is mostly populated by men.

The proposed investigation, although relevant theoretically and experimentally, has two main limitations. First, being based on the model by Fehr and Schmidt (1999), this analysis presumes that there exclusively exist two categories of individuals (i.e., the purely selfish and the inequity-averse individuals). Clearly, this distribution may appear rather extreme in the real word. In effect, the human behavior has many complex facets that are impossible to capture through a single economic model. However, going beyond the utopian *homo economicus* archetype, an alternative paradigm can be effectively exploited to provide an acceptable explanation for numerous real phenomena (Kahneman et al., 1986b; Agell and Lundborg, 1995; Fehr et al., 1997). Especially, this article is intended to clarify the fairness and reciprocity concepts by actively studying their effect in the human behavior and social interactions. Second, it should be noted that the motivational systems considered in this work are exclusively relevant for the provision of specific and material incentives. Therefore, this analysis does not include additional aspects, such as the influence mechanisms based on the moral gratification. Basically, the moral gratification refers to the organizations' capability to satisfy personal ideals pertaining to non-material, future, or altruistic relationships (Barnard, 1938). For instance, the moral gratification could be felt by people in terms of self-satisfaction (i.e., whenever they are proud of their abilities), or as result of an altruistic mission in favor of the family. Nevertheless, focusing on specific and material incentives can still be very effective. As a matter of fact, although human nature is characterized by bounded rationality (Simon, 1947; Cristofaro, 2017), it does not completely escape the logical-mathematical rigor; accordingly, people are inclined to quantitatively measure the achieved or potentially achievable results. In other words, even if complex and imperfect, the human beings often need material calculation to assess their own job satisfaction. Of course, personal satisfaction may depend on numerous intrinsic factors (e.g., Fisher, 2010), such as attaining

important positions within the organization or being assigned to a role of greater responsibility. Correspondingly, Authayarat and Umemuro (2012) show that «people who perceive better opportunities for personal development tend to develop more drive and enthusiasm at work, feeling more motivated and rewarded» (Authayarat and Umemuro, 2012, p. 310). Nonetheless, also individuals oriented toward an intrinsic job satisfaction (Herzberg, 1966) are "rational" agents; thus, they are naturally inclined to evaluate their professional and personal growth in a quantitative manner. Not without reason, job promotions are usually measurable in monetary terms. Besides, it is worth recalling that the analytical approach based on social preferences models (Fehr and Schmidt, 1999; Fehr et al., 2001) was essential to derive an acceptable relationship between leadership processes and outcomes, with appropriate reference to the potential negative or positive outcomes of the influence processes (Endres and Weibler, 2016).

In conclusion, the presented findings aim to meet the need for exploratory studies that prioritize an understanding of the interaction dynamics and practices as they occur in a specific context, rather than embracing the leadership phenomenon as a generic and abstract recipe to be pursued (Van Maanen, 1979). At the same time, by studying the effect of social preferences in the interaction mechanisms, this research is intended to support the managers' strategic choice in handling the personal and environmental dimensions within leadership processes.

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[i] The envious person's usefulness increases when others' results worsen and vice versa.

[ii] It should be specified that a sense of reciprocal altruism is implied here.

[iii] Here, the special features of the considered experimental design are merely commented. For an analytical and more detailed explanation, refer to the original study by Fehr et al. (2001).

[iv] See also equation 2. Note that if $e = e^*$ and $w = c(e^*)$ then $x_a = 0$ so that the *entire* surplus resulting from the transaction is absorbed by the principal.

[v] Most likely, the application of other reciprocal fairness models (e.g., Rabin, 1993) may lead to similar findings.