BEHAVIORAL ECONOMICS AND LEADERSHIP DECISION-MAKING

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Abstract: *This article analyzes the process of leadership decision-making on the basis of behavioral economics theory. The article identifies the limitations of traditional economic theory and examines the influence of psychological factors in human behavior on managerial decisions. In the course of the study, the roles of cognitive biases, bounded rationality, and socio-psychological factors in leadership activity were theoretically substantiated. In conclusion, it was shown that the quality of leadership decisions depends not only on logical analysis but also on behavioral factors.*

Keywords: *behavioral economics, leadership, decision-making, bounded rationality, cognitive bias, psychological factor, management theory.*

INTRODUCTION

In traditional economic theories, human beings — based on the concept of "homo economicus" — have always been interpreted as rational subjects who strive to maximize their own self-interest. However, practice shows that individuals making decisions in real life, including leaders of organizations and states, are not always observed to follow a fully rational course of action. This circumstance became the basis for the emergence of the discipline of behavioral economics.

Behavioral economics is a field formed at the boundary between economic theory and psychology, in which the formation of human decisions under the influence of emotional, cognitive, and social factors is studied. Since leadership activity is precisely linked to a high level of decision-making, examining the relationship between these two fields is of particular scholarly significance.

The relevance of the topic lies in the fact that, in modern management practice, most decisions made by leaders are observed to be carried out under conditions of uncertainty and limited information. Under such conditions, it has been shown in the scholarly literature that a leader's cognitive characteristics, emotional state, and social relationships can directly affect the quality of decisions.

The purpose of the article is to reveal the distinctive characteristics of the leadership decision-making process on the basis of behavioral economics theory. To achieve this goal, the following tasks were set: to present the theoretical foundations of behavioral economics; to analyze the concept of bounded rationality; and to examine the cognitive biases that affect leadership decisions.

MAIN PART

It has been emphasized that the concept of bounded rationality occupies an important place in the formation of behavioral economics as a discipline. According to this concept, a person does not have the ability to fully analyze all available information when making a decision, and therefore relies on simplified rules and experience-based approaches. It has been shown that, while such approaches help facilitate rapid decision-making in practice, in some cases they can lead to erroneous conclusions.

Another important theoretical foundation of behavioral economics is prospect theory. According to this theory, it has been established that people do not treat gains and losses with equal weight, but rather respond to them differently — in particular, it has been emphasized that the desire to avoid losses manifests itself more strongly than the desire to achieve gains. This characteristic acquires particular significance in leadership decisions, especially in situations involving risk.

Cognitive biases affecting leadership decisions

The scholarly literature identifies a number of cognitive biases that affect leadership decisions. First, overconfidence bias is emphasized — it has been explained that this can lead a leader to engage in unjustified risk-taking as a result of overestimating their own knowledge and capabilities beyond their actual level. Second, confirmation bias is noted — it has been established that this can cause a leader to focus only on information that confirms their own opinion while disregarding contradictory evidence. Third, the concept of the anchoring effect is presented — it has been emphasized that initial information or figures can have a disproportionate influence on subsequent decisions.

In addition, it has been shown that the phenomenon of groupthink can also have a significant effect on leadership decisions. According to this phenomenon, it has been substantiated that the desire to reach consensus among team members can lead to a decline in critical thinking, resulting in suboptimal decisions. A leader's ability to recognize and overcome these biases has been assessed as an important factor in improving the quality of management.

The influence of emotional factors on leadership decisions

From the perspective of behavioral economics, the influence of emotional state on the decision-making process has been studied separately. It has been emphasized that in situations where a leader's emotional state is unstable, this can lead to hasty decision-making or, conversely, to the prolonged delay of necessary decisions. At the same time, it has been shown that leaders with a high level of emotional intelligence are able to make balanced decisions by controlling their own emotions and correctly assessing the emotional state of team members.

Furthermore, the factor of social norms and group pressure has also been noted as an important factor influencing leadership decisions. It has been explained that a leader's tendency to make decisions in accordance with the expectations of the surrounding team or society can, in some cases, lead to a deviation from objective analysis.

Ways to improve management by accounting for behavioral factors

The scholarly literature proposes a number of approaches to reduce the negative influence of behavioral factors. In particular, it is recommended to use structured analytical methods in the decision-making process, to mandatorily consider alternative perspectives, and to involve independent experts' opinions. Furthermore, it has been substantiated that developing leaders' self-monitoring and critical thinking skills can reduce the influence of cognitive biases. It has been shown that applying these approaches in practice can increase the quality and consistency of managerial decisions.

CONCLUSION

The analysis conducted led to the following conclusions. First, it was established that the process of leadership decision-making depends not only on logical-rational analysis but also on behavioral factors. Second, it was theoretically substantiated that cognitive biases — including overconfidence, confirmation bias, and the anchoring effect — can negatively affect the quality of leadership decisions. Third, it was shown that a high level of emotional intelligence and the use of structured analytical methods are important factors in ensuring the balance of managerial decisions.

Thus, behavioral economics theory is recognized as an important scholarly field that provides a deeper understanding of leadership activity. It is considered advisable for future research to examine this relationship in greater depth across various organizational and cultural contexts.

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