

Political Capital

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Abstract

An organization must make a binary choice in each of two periods. The optimal choice depends on an unknown state of nature. The leader of the organization has a stock of political capital and observes a private signal of the state. The leader faces an inter-temporal choice problem. She may choose to spend (some of) her political capital to increase the probability that the choice is not the one that would otherwise be made. Her political capital increases if the decision is correct ex post. We characterize the optimal use of political capital by the leader and how it evolves over time. We identify different leadership styles that depend on the initial stock of capital of the leader, the precision of her information, and the importance of the issue to her. We study how differing leadership styles determine the evolution of power within the organization. Finally, we consider issues of optimal organizational design that structure the allocation of power to a leader.