

Effective Leadership Selection in Complementary Teams

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Abstract

This paper considers effective leadership selection in a simple two-person team production model with heterogeneous agents. We demonstrate *leadership success through synergy* by showing that the existence of synergy makes effort complementary, implying that the leader devote more effort than the follower and that a team with a leader yields greater production than a team without a leader. We also show that, to elicit greater team production, a principal should appoint the agent with higher (lower) opportunity cost as the leader (follower). Even if the agents' opportunity costs are unobservable to the principal, the principal can select a better leader by proposing a larger position allowance for the leader. The results may explain why many organizations indeed favor leadership styles and why real-world leaders receive higher compensation than followers.

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Keywords: Team production; Leadership selection; Synergy effect; Complementary team.

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