One subject that has received an increased amount of attention in the business world is 'leadership'. Although it is widely recognized that leadership is an important component of making an organisation successful, formal models and empirical analyses of leadership are rare.

The basic motivation pushed here is that leaders are better at making decisions and setting directions than their peers. The more they demonstrate this, the more followers they acquire and the higher they rise in leadership hierarchy. Building on this view, the analysis produces three main results, the last two of which are testable with the data at hand and borne out. First, ability and number of contacts per period, are complements. The more able seek visibility. Second, the most able leaders are in the highest variance industries. Talent has the highest payoff in industries in which outcomes vary greatly. Third, leaders are generalists, not technical specialists.

General skills are particularly valuable for entrepreneurs, a specific type of leader, because a business can be torpedoed from any of a large number of possible directions. In an extreme manifestation of the generalist view, there is a ‘weakest link’ aspect to this activity. A leader who is a good technician but poor ‘people person’ may sink his business because he cannot deal with the interpersonal relations that are key to making things run. Empirical analysis using a unique data set backs up the predictions.

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