The Risky Business of Hiring Stars

(Based on research conducted by Boris Groysberg, Ashish Nanda, and Nitin Nohria)
Research Setting & Data Set

- 1,052 star stock analysts who worked for 78 investment banks in the United States from 1988 through 1996
  - Star = *Institutional Investor* ranking
    - Ranked analysts generate more accurate and more frequent forecasts, and their reports have a bigger impact on stock prices
    - In 1996, less than 5% of all the analysts in the United States were ranked analysts
  - Why focus on star analysts?
    - Stock analysts suffer few distractions when they change companies
    - Most companies and executives believe that the performance of analysts, especially that of stars, depends on their talent
Impact of Move on Star’s Performance

- The star’s performance fell sharply and stayed well below his old achievement levels
  - Stars that moved significantly underperformed stars that stayed in the year after the move
  - Performance didn’t climb back to that of non-movers even five years later
- Stars that moved don’t stay with their new firms for long
  - Turnover rate of stars that moved in the past was significantly greater (36% within 36 months, another 29% in the next 24 months) than for star that didn’t
Impact of Star Move on Hiring Firm

- Each time the firms announced that they had hired a star
  - Stock prices of the investment banks we studied fell by 0.74%, on average
  - Investors lost an average of $24 million
  - Why?
    - Winner’s curse
    - Performance of star hires declined post-move
    - Performance of other professionals in the group hiring the star declines
    - Star’s recruitment was a signal of the hiring company’s weakness
Drivers of Star Performance

An analyst’s performance is driven by:

- the analyst’s ability and
- the platform the firm provides the star

Platform matters:

- Performance drop was most pronounced and extended over five years after a star analyst moved from bulge bracket to smaller firm
- When stars hopped between companies with similar capabilities, their performance dipped for only two years
- The performance of analysts who migrated from smaller to bigger firms did not dip significantly
- Stars who brought with them teams of research analysts, salespeople, and traders performed better than stars who moved solo
How Firms Grow Stars

Three approaches:

1. Hire people, don’t do much to develop or retain them, but focus on retaining the high-level stars developed and brought in from outside.
2. Recruit smart people and develop some into stars, knowing that they may be lost to rivals.
3. Recruit bright people, develop them into stars, and do everything possible to retain them.

The third approach:

1. leads most frequently to long-term success
2. develops more stars, faster

Example: Between 1988 and 1996, Sanford Bernstein made a star out of one in five analysts; Merrill Lynch’s rate was one in 30; it took analysts at Merrill Lynch 12 years, on average, to climb to star status; at Sanford Bernstein it took 4 years.
The Challenge of Hiring Stars

- Should companies ever hire stars?
- From 1988 to 1996, only three of the 24 investment banks we studied in depth were able to integrate star analysts into their organizations
- Stars are hired to:
  - Enter new businesses (37%)
  - Strengthen existing research teams (17%)
    - Performance declined most acutely
  - Replace star analysts who had left (27%)
  - Replace non-star analysts who had left (20%)
  - Performance did not decline
On balance, the war for talent is won not by hiring stars but by systematically growing them.