Introduction

Many knowledge-based firms view their employees as their most valuable resource. At such companies, where it is virtually an article of faith that settling for "B" players is a recipe for mediocrity, managers work hard to attract the best and the brightest. When companies do find first-rate talent, they're often willing to offer those stars huge salaries, signing bonuses, stock options—in short, whatever it takes. The value of stars is a powerful idea, one that numerous books and management gurus have popularized over the past decade by invoking a so-called war for talent. This assumption is the cornerstone of many companies' people-management strategies. On its face, the star hypothesis makes sense. After all, a firm can sustain a competitive advantage only if its strategic resources are valuable, rare, lacking substitutes, and difficult to duplicate.[1]

But reliance on stars is a highly speculative managerial policy because we don't really know very much about what drives outstanding individual performance. Little clear-cut evidence supports or refutes prevailing beliefs about why some people excel. Both stars and their employers often assume that outstanding performance is the result of a combination of innate talent and good educational preparation. But is this the entire story? And if not, what is missing?

Another hazard of an unexamined reliance on stars is that the portability of talent—or, more accurately, the prevailing belief in such portability—cuts two ways. A prize-winning scientist may be a unique resource, for instance,

but unless he or she is deeply embedded and loyal, the attractiveness of his or her talents makes that scientist an unreliable source of sustainable competitive advantage.[2] And there is also a risk for the firm that lures that star scientist away: instead of continuing to excel, he or she might turn out to resemble a comet, quickly fading out in a new setting.

The extent to which skills are portable is also a compelling question for individual knowledge workers whose stock-in-trade is information and intellectual activity, whether or not they are stars in their fields. Knowledge workers are encouraged by popular career-guidance literature to think of themselves as resourceful free agents with portable stores of knowledge and skills. Determining whether the skills of knowledge workers are in fact portable from one firm to another—or to what degree and under what circumstances they are portable—can potentially shed light on the accuracy of this formulation and the wisdom of building one's career on it.

Almost fifty years ago, human-capital theory posed a challenge to the free-agent thesis by suggesting that a part of individual performance is specific to a particular workplace and not readily transferable elsewhere. Though this is not a new idea, it has gained very little traction, or even recognition, beyond the confines of academia. For one thing, its proponents until recently concentrated on manual labor. Also, human-capital theory has not yet generated the texture and nuance necessary to make it usefully applicable to the practical world of work: it has remained largely abstract and ideological, and the question of whether human capital is primarily generalizable or firm-specific is still being debated as if there were only two possible answers. Nor has the human-capital literature thoroughly explored the impact of firms' capabilities on individual performance.

Thus, the question of portability continues to offer a promising point of entry into the longstanding debate about the fundamental nature of exceptional performance. If we can determine whether stars' performance is indeed portable from one employer to another, we may learn something fundamental about the origins and drivers of such performance. Are those who excel in the workplace mobile free agents with highly portable skills, or is their performance primarily driven by adept use of the resources of the organization in which they thrive? An answer to this question, even an answer less cut-and-dried than popular wisdom or theoretical formulations, could shed new light on pressing managerial questions about how to hire, develop, compensate, and retain talent.

Though this is a book about a specific profession, it presents evidence drawn from other positions and professions, ranging from CEOs to football

players, to maximize the applicability of its findings. And though the book addresses a longstanding academic debate about human capital, it is also intended for practitioners on the corporate front lines and for individual professionals with a personal stake in questions about career management and workplace success.

Finding a Population to Study

Chasing Stars began with an effort to identify a suitable labor market in which to compare the performance of exceptional workers before and after a move to a new employer. If conducted rigorously, a study of this kind could reveal a good deal about the portability of talent and even about talent itself. But such a labor market would have to fulfill several requirements.

The first such requirement, and the hardest to meet, was shared, objective, and publicly available criteria for measuring performance. Very few professions outside of individual sports pit their members against each other in a systematic and public way. Who is to say whether a brain surgeon in Albuquerque is more or less skilled than her counterpart in Cleveland? How would we go about comparing physicists or litigators or software engineers or even basketball coaches? We systematically considered a number of professions, including academics, accountants, advertising creatives, architects, athletes, consultants, engineers, inventors, lawyers, money managers, and programmers. Some professions proved unsuitable because of a lack of reliable mobility and performance data, or because jobs that sound comparable actually differ. Two lawyers or two accountants with identical job titles, for instance, may perform very different jobs. Creatives in advertising are rated competitively by their clients, but their jobs are not strictly comparable; also, some ratings reward creativity while others emphasize an ad's effectiveness. Athletes were an appealing population because of the wealth of statistics on their performance, but they are not a good proxy for knowledge workers. Academics were also attractive from the perspective of data, but the long interval between completing research and publishing it (during which a job change would make it tricky to decide which university to credit for contributing to an individual's success) and the impact of tenure on publication both represent confounding factors.

We finally found a suitable labor market on Wall Street. For a handful of reasons that we will explore more fully in chapter 2, investment banks' research departments turned out to be a near ideal real-world laboratory for assessing

the portability of talent. Wall Street equity analysts, who follow companies and stocks in particular industries and share their insights with their firms' institutional clients, are assessed annually according to standardized measures. Since 1972 a respected trade journal, *Institutional Investor*, has compiled and published an annual ranking of the best stock analysts in each industry. *Institutional Investor* awards its rankings by asking hundreds of institutional investors to rank the analysts on whose research they have relied in the preceding year. These rankings are viewed on Wall Street and by academics as a reliable proxy for performance. Research departments collect voluminous data of other kinds about their analysts, as do information intermediaries like Thomson Financial, allowing for simultaneous examination of the impact of various variables on performance. Detailed data on moves between employers is also readily available for top-rated analysts.

Furthermore, the labor market for analysts, though large enough to produce valid and reliable observations, is small and concentrated enough to lend itself well to study. It is remarkably compact compared to professions like law, medicine, biochemistry, or information technology: to be specific, many top stock analysts work in Manhattan. This geographic concentration eliminates complicating factors, like family upheaval, in job changes; analysts who change employers typically move across the street or down the block. When analysts move, furthermore, both their clients and the content of their work typically remain unchanged, eliminating further potentially confounding factors.

Finally, belief that individual talent is the prime determinant of performance is deeply entrenched among research analysts and others on Wall Street. Fully 85 percent of the individuals we interviewed asserted that analysts' performance is independent of the companies they work for and thus highly portable. The prevailing belief in innate talent has generated an enormous expenditure of effort on the part of research departments to identify the traits of exceptional analysts.

For all these reasons, Wall Street equity analysts appeared to be an excellent test case. We believe that the labor market for research analysts offers an extremely rigorous test of nonportability of performance. Thus if outstanding performance on the part of stock analysts turns out not to be portable, performance in most other knowledge-based professions is unlikely to prove otherwise.

Our research sample consisted of over 1,000 star analysts (that is, those ranked by *Institutional Investor*) at 78 investment banks. For comparative purposes, we also employed data on about 20,000 non-star analysts at ap-

proximately 400 investment banks. To flesh out our findings and shed light on both the mechanics and the culture of the profession, we conducted in-depth interviews with more than 200 stock analysts; with research directors, traders, salespeople, investment bankers, and executives at 37 investment banks; and with the institutional investors who are analysts' clients. This book draws liberally on these frank and detailed interviews to supplement our hard data with enlightening accounts of the inner workings of research departments and the experiential dimensions of mobility and performance. (Some chapters also draw on previously published papers; the quantitative findings in particular have been reported elsewhere. For reasons of space, certain previously published statistical methodologies, endogeneity and robustness checks, regressions, and exhibits are not included; these materials are included in the endnotes to each chapter.)

The investment-banking landscape of 2010, when this book was finished, looks very different than it did in 1988–96, the years of our study. During the most recent financial crisis, several large firms collapsed or were acquired as this manuscript moved toward publication. These tumultuous events do not undermine our findings. The period of our study represents an optimal time to examine equities research. The *Institutional Investor* rankings, initiated in 1972, had had sufficient time to permeate the industry and shape practices. Equity analysts' involvement in investment-banking deals was also rarer than it became later in the 1990s. (The practice ultimately led to a 2003 agreement among ten investment banks and regulators, called the Global Research Analyst Settlement, to eliminate conflicts of interest by insulating research from investment banking. However, recent research questioned this agreement. In fact, the government might have punished the wrong banks.)[3] If anything, the shifting fortunes of the industry make the book's findings more deserving of attention. The more turbulent the business landscape, the more crucial it becomes to think strategically about performance and talent management.

Nor is this book merely a study of star analysts' performance and the degree to which it is portable. It is also an extended examination of the management of high-performance knowledge workers. As subjects of study, Wall Street research departments are in their way as rewarding as the analysts they employ: their competitive mission and market-driven budgets make many research directors zealous about building strong departments. The relatively self-contained nature of their departments gives them the maneuverability and agility to put their points of view into practice. And their varied approaches to hiring, training, retention, evaluation, compensation, and other fundamentals of human-resource management offer rich material for insight.

No prior study has empirically examined the simultaneous effects of individual, departmental, firm-specific, and market-performance variables on mobility and performance. *Chasing Stars* draws on several disciplines—human resource management, organizational behavior, and strategy—to analyze the effects of these variables thoroughly and multidimensionally, and to spell out the possible implications of our findings for other professions.

The Flow of the Book

Chasing Stars is in three parts. Part 1 presents the basic building blocks of our study: prior work on the question of portability, the population we examined, and our central findings about the effects of job changes on individual performance and on the destination firm.

Chapter 1 traces the meteoric career of Josie Esquivel, a star apparel-and-textiles analyst on Wall Street, and uses Esquivel's story to introduce the profession and the book's basic concepts. The chapter discusses the idea of knowledge workers as free agents and human-capital theory's alternative hypotheses, and surveys unresolved controversies about the nature of exceptional performance, the sources of human capital, and the portability of job performance.

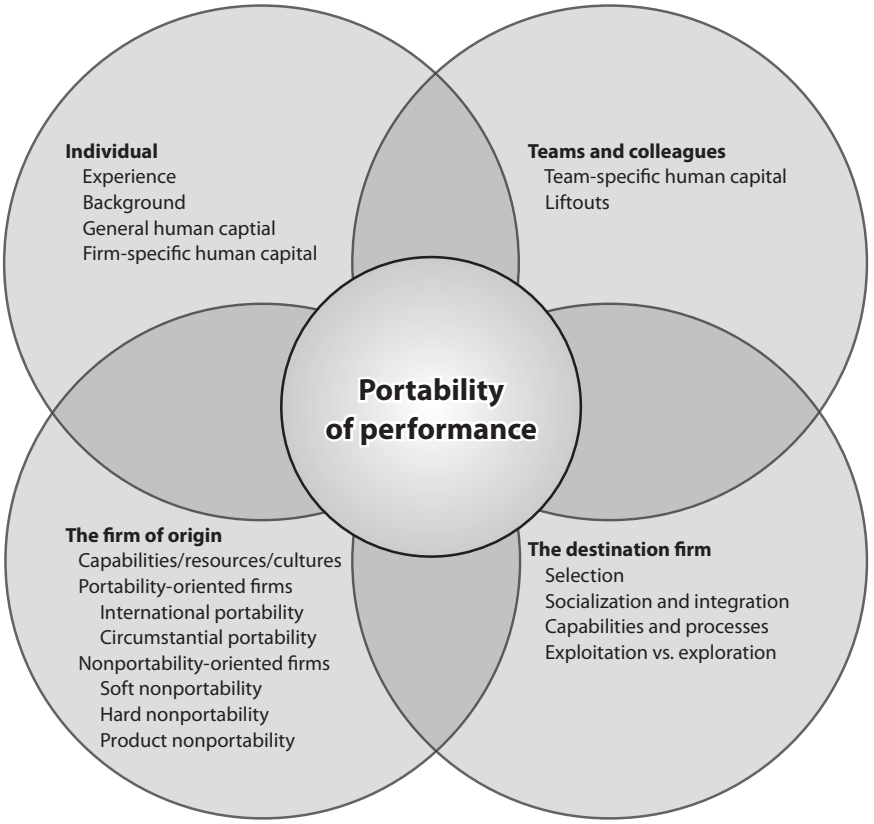
Chapter 2 explains the world of Wall Street equity analysts, describing their work and outlining the structural characteristics of the profession that make its practitioners an ideal population among whom to explore questions about the portability of job performance.

Chapter 3 presents our most central and global finding about the effects of changing employers on star analysts' performance: in short, exceptional performance is far less portable than is widely believed. Mobile stars experienced an immediate degradation in performance. Even after five years at a new firm, star analysts who changed employers underperformed comparable star analysts who stayed put. Thus the tests we performed captured performance differences (delta) between "switchers" and "stayers" (i.e., the control group). Our tests also controlled for a range of factors including individual, firm, sector, and macroeconomic. The appendix explains our research approach, data, variables, model specifications, robustness checks, endogeneity analysis, and results. The endnotes provide references to our published articles for readers interested in more detailed information behind our tests and results. Thus the exceptional performance of stars at their prior employer appears to have been more firm-specific—more dependent

on the firm's resources and capabilities—than is generally appreciated. This is a finding with many implications and nuances, which part 2 explores. "Can you take it with you?" turns out to be an insufficiently nuanced question; more productive formulations might be "Under what conditions can you take it with you?" or "Should you try to take it with you?" Chapter 3 also describes the experiential aspects of changing employers—what is lost when an individual changes employers and what the newcomer experiences at the new firm. Finally, the chapter looks at the effect on post-move performance of the relative quality (that is, the capabilities) of both the firm of origin and the new employer.

Chapter 4 examines whether or not firms benefit by hiring stars. In doing so, a firm risks paying more than the individual turns out to be worth to the firm. The chapter describes the dynamics and operation of the labor

Figure I.1. A conceptual overview of the contents of parts 1 and 2.



market for stars and the effects on the acquiring company's stock price of hiring a star.

Part 2 examines our findings in a more fine-grained way, devoting a chapter to each of the factors we found to contribute to variance in performance portability. The sequence begins with firm-specific factors (at both origin and destination firms) followed by team-specific and individual factors. Figure I.1 is a conceptual overview of the contents of parts 1 and 2.

Chapter 5 profiles research departments, some whose star analysts' post-exit performance proved portable and others that successfully fostered non-portability. These profiles depict the range of ways in which departmental cultures and resources shape the subsequent portability of their employees. The chapter looks in detail at four firms—Goldman Sachs, Merrill Lynch, Sanford C. Bernstein, and Lehman Brothers—as illustrations of specific types of nonportability: *hard nonportability* (dependent on proprietary information systems and the like), *product-related nonportability* (linked to a unique product), and *soft nonportability* (relational and cultural). The chapter also looks longitudinally at several research departments' efforts to foster nonportability in the form of a unique culture, loyalty, collaboration, and a firm-specific training program.

Chapter 6 turns to the destination firm, examining the effects of organized efforts at socialization and integration by comparing the records of star analysts hired into different situations: to exploit (reinforce existing activities) and to explore (initiate new activities). Stars hired to exploit were less likely to suffer performance shortfalls because the firm resources and capabilities to support them were already in place. Stars hired to explore were in a vulnerable position and far more likely to fail. We also examined how various kinds of hiring and integration capabilities affect the portability of stars' performance.

Chapter 7 looks at the phenomenon of hiring entire teams, known colloquially on Wall Street as "block trading in people" or "liftouts." Compared to stars who moved alone, those who moved in teams did not suffer a performance decline, suggesting that team-specific skills have a marked effect on performance. The loss of firm-specific human capital inevitable in a move can apparently be recouped to some degree by taking valuable colleagues along. This chapter also examines the four stages of a successful team move, which our findings suggest must be meticulously managed: courtship, leadership integration, operational integration, and cultural integration.

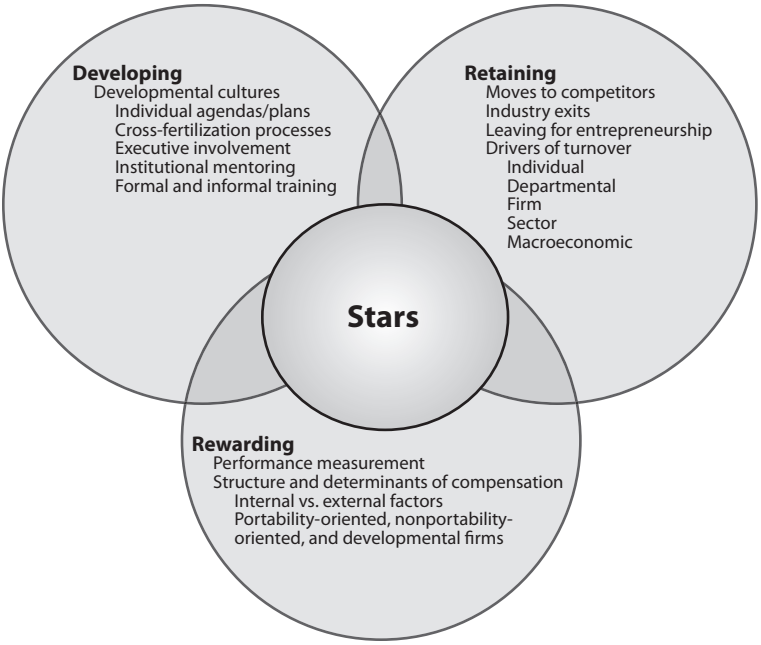
Chapter 8 looks at portability of performance in individual terms by examining the role of gender. Our data produced an unexpected finding:

star women's skills were more portable than those of their male counterparts. Women in a male-dominated profession appeared to nurture stronger external (and therefore portable) professional relationships in the face of institutional barriers to creating strong in-house relationships. When they moved, therefore, they could take their outside (not firm-specific) network with them. They suffered less from the loss of firm-specific relationships that never developed in the first place. Also, women were apparently more strategic than men about changing jobs: acutely aware that Wall Street culture was not a particularly female-friendly environment, women tended to do far more rigorous due diligence on a company before accepting an offer. Female stars have developed these strategies in response to structural conditions, but their approach (external relationships and intensive research) could also benefit men who wish to protect their own portability.

With part 3 the book's focus broadens to examine what firms can do to effectively develop, retain, and leverage their best and brightest. It also explores the applicability of our findings to other labor markets. Figure I.2 is a conceptual overview of the contents of part 3.

Chapter 9 looks in detail at the efforts of several Wall Street research departments to develop homegrown stars using a variety of approaches to

Figure I.2. A conceptual overview of the contents of part 3.



mentoring and training. To capture the methods and flavor of differing types and intensities of mentoring, the chapter draws heavily on interviews. It then describes a legendary training program used at three investment banks in succession, as well as alternative approaches to formal training employed successfully at other firms. We found that firms with what we call developmental cultures were far more successful than other firms at producing and retaining stars. The chapter also quantifies the effects of developmental cultures on performance, turnover, and compensation.

Chapter 10 looks at the question of whether stardom promotes turnover. One school of thought predicts high turnover because stars are highly visible; another asserts that stars are less apt to change jobs because they are well matched with their firms and have accumulated abundant firm-specific human capital. We found stars less likely than their more ordinary colleagues to change employers, but turnover rates differed markedly from firm to firm. We looked at factors at every level from individual to macroeconomic and at possible drivers of turnover by destination (moving to a competitor or leaving the industry).

Chapter 11 looks at entrepreneurship as a special case of turnover. The chapter examines the success records of analysts who left investment banks to strike out on their own. We found that stars were more likely than other analysts to choose entrepreneurship and more likely to succeed at it. The transition to entrepreneurship differs strikingly from a conventional move to a competitor. This chapter also looks at some factors affecting analysts' success at creating their own firms.

Chapter 12 examines performance evaluation and compensation. When it comes to evaluating analysts' performance, the *Institutional Investor* rankings are just the beginning; the industry employs multiple mechanisms for external evaluation of analysts, and research directors also generate voluminous internal data about their employees' activities. The chapter looks at how internal evaluation is performed, and its purposes. The chapter also examines several different approaches to determining individual compensation. We found that being ranked by *Institutional Investor* was the strongest predictor of compensation.

Chapter 13 surveys several studies of other professions—from corporate general managers to inventors, from surgeons to football players—that extend the conclusions suggested by our findings and thus their potential reach. The chapter ends with a discussion of the applicability of our findings to other professions and labor markets, and practical guidelines for employers and individual professionals about how to use our findings about the nature of exceptional professional performance and the crucial importance of context and fit.