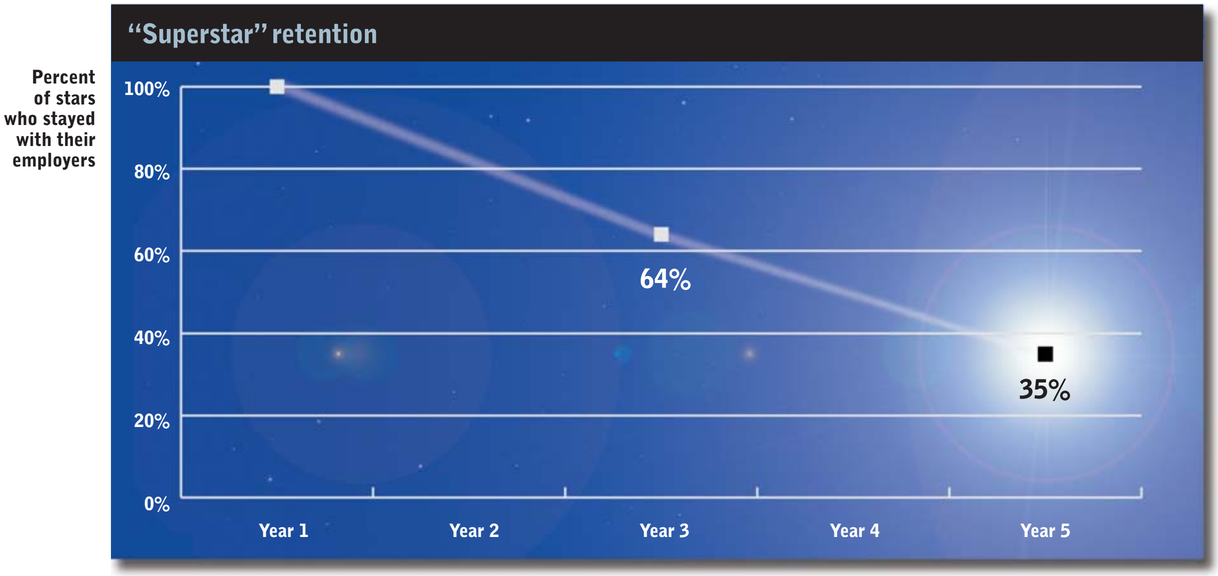
Hiring "superstars" — Does it always lead to bright results?

Marketing Insights
from 5MetaCom

Many companies spend time and money trying to recruit and hire "superstars." Maybe for an executive position. Or sales rep. Sometimes it's for a product manager. Why seek out stars? Maybe it seems easy. Or companies think stars can put them on the fast track. Perhaps relying on stars mimics how the company got to where it is today.

From a practical point of view, "superstars" seem attractive in the hopes that they'll require little to no training. They often have a proven track record. It's easy to imagine "superstars" making a significant positive impact on the companies they work for. But do they?

A Harvard Business School study suggests explicitly seeking out "superstars" doesn't offer the best way for companies to get to the next level. Harvard researchers followed the careers of 1,052 star stock analysts ranked best in their field. They found star status can quickly fade. Nearly half the analysts (46%) had waning job performance one year after joining leading U.S. investment banks.[1] And star analysts didn't stay put — 65% switched jobs within five years.[1]



The Harvard study notes five years after being hired away from a competing firm, only 35% of star analysts still worked for the same investment bank.[1]

About the study

Harvard researchers defined "superstars" as superior performers who had been ranked by *Institutional Investor* (a designation fewer than 5% of U.S. analysts held) from 1988-1996. Using this ranking, researchers evaluated how the analysts' performance changed each time they changed jobs. On top of that, they conducted 167 hours of interviews with 86 analysts and their supervisors in 24 investment banks.

Executive Summary

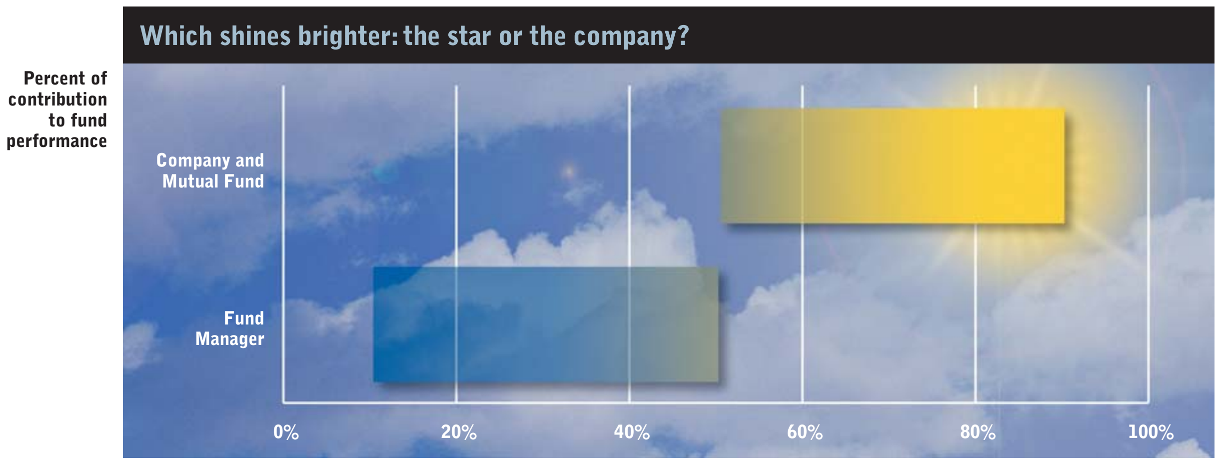
- A team of Harvard researchers suggests hiring "superstars" doesn't offer companies the most efficient and cost-effective way to gain top performance.
- Their study of 1,052 stock analysts concluded nearly half (46%) the "superstars" had waning job performance one year after being hired away from a competitor.[1] And 65% switched jobs again within five years.
- The Harvard work suggests it takes a combination of personal qualities and other factors (listed on the back) specific to the employing company to create a "superstar."
- As an alternative to hiring stars, Harvard researchers suggest growing the skilled, talented people already working for you to become stars.

What makes stars shine?

"Superstar" performance tends to be thought of as being synonymous with individual talent. It's all about the person. Their experience and ambition. And their abilities and education. Some people think that's all it takes to become a star.

But the Harvard study found otherwise. This work suggests it takes a combination of these personal qualities and other factors specific to the employing company to create "superstars." Other factors include:

- Access to company resources
- Organizational systems and processes
- Leadership and mentoring from supervisors and management
- Internal peer networks in multiple disciplines and functions
- Support, training and skills development



Another study of 2,086 mutual fund managers suggests the individual's impact on fund performance (10-50%) has less significance than the role of the company and the fund itself (50-90%).[2]

Creating your own stars

If the risks of hiring "superstars" have you looking for an alternative, what can you do? Harvard researchers suggest making your own stars, but not quite from scratch. How? By bringing skilled, talented people already working for you up through your system. The Harvard study suggests this offers a more efficient, cost-effective way to garner top performance.

So how can you create a star? A few ideas from the Harvard work include:

- **Hire only the right people.** The Harvard team cited examples of investment firms spending up to two years to recruit an analyst. When they couldn't find a good candidate, the firms left the position open.
- **Create an environment where people can become stars.** How? By offering the right mix of training, support and public recognition of the star's performance and contributions to the company.
- **Retain stars as they grow.** Time and money spent growing stars doesn't pay off if they leave for another company. Several investment firms rewarded top performers with higher salaries, advancement opportunities and on-the-job training.

[1] Groysberg, Boris; Nanda, Ashish; Nohria, Nitin. The Risky Business of Hiring Stars, *Harvard Business Review,* May 2004.
[2] Baks, Klaas P. *On the Performance of Mutual Fund Managers,* Emory University, June 2003.