THE BEST ORGANIZATIONS DON'T HIRE SUPERSTARS – THEY BUILD THEM

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If you want your organization to win,
don't hire superstars.
Build them.

Or so that was the finding in a landmark 2004 study by the Harvard Business Review. After analyzing the performance of companies who hired "stars", the study concluded that many of these star performers didn't meet expectations at their new company, didn't stay around particularly long, hurt the morale of the people on their team and ultimately lowered the valuation of their company by $24 million each, on average. Twenty-four million dollars each!

Conversely, what the study found was that most successful companies didn't make a habit of hiring stars. Instead, they focused on developing the people they hired into stars, who turned out to be more loyal and ultimately more productive.

"Companies cannot gain a competitive advantage by hiring stars from outside the business," the study read. "Instead, they should focus on growing talent within the organization and do everything possible to retain the stars they create."

The negative effects of hiring stars: disappointing performance and lower morale.
For the study, HBR researchers focused on 1,052 "star" stock analysts over an eight-year period, most of whom were based in New York City. Star analysts were defined as analysts who were ranked in the top four in their industry by *Institutional Investor*magazine between 1988 and 1996 (for those of you questioning the legitimacy of a magazine's ranking, *Institutional Investor* uses a plethora of data to make those rankings based off analysts' performance, and their rankings are widely respected).
You would think a great analyst moving from one New York City firm to another, to do essentially the same role, would be a relatively easy transition. And yet, researchers found the exact opposite to be true.

Specifically, here's what happened when star performers changed jobs from one company to another:
- **The star analyst's performance dipped:** The study found that a star analyst's performance dropped by 20 percent, on average, after they switched companies.
- **Star analysts often didn't stay around long:** Overall, 36 percent of star analysts who changed companies changed companies again within a year of being hired, and another 29 percent quit in the following 24 months. That attrition rate was far above the Wall Street average during that period.
- **The team that the star was hired into saw a drop in performance and morale:** The study found that a star being hired to a team demoralized the rest of the team. The reason was the hiring of the star led the other people on to team to believe that "they must look outside the organization if they want to grow to occupy leadership positions," according to the study.
- **The company's valuation dropped:** All those negatives had a real impact on the business's bottom line. The study found that for each "star" a company hired, it would chip off $24 million of the company's overall valuation.

- **Stars were particularly damaging to low-performing teams:** Often, star hires were brought in to bring underperforming teams up to their level. Most of the time, the opposite happened – the team continued to underperform, and brought the star down with them.

Why didn't the performance of a star performer carry over to another company? The study's researchers conducted over 160 hours of interviews, and discovered this: People become top performers not solely because of their own talent, but because their skillset thrives in the environment they exist in. If that environment changes, their performance will change as well.

"Although most companies overlook this fact, an executive's performance depends on both her personal competencies and the capabilities, such as systems and processes, of the organization she works for," the study reads. "When she leaves, she cannot take the firm-specific resources that contributed to her achievements."

What top-performing organizations do: build stars, instead of buying them.
Instead, the study concluded that the best way to approach talent was to "recruit bright people, develop them into stars, and do everything possible to retain them." Specifically, top-performing companies did two things:

- **They had intensive hiring processes:** The study found that the highest performing companies often had the most intensive hiring processes, especially for entry-level positions. The idea was that they wanted to bring in people who could eventually become stars.
- **They relentlessly taught their people and encouraged them to move up the corporate ladder:** Confident that they hired talented people, the highest-performing companies would relentlessly develop them – both through teaching and mentoring – and encouraged them to move up the corporate ladder.

Those two processes – smart hiring and relentless development – led to top-performing companies consistently producing star analysts. And the study found these homegrown star analysts were far more loyal than an outside star analyst who was recruited to a company, largely because top-performing companies retained them with opportunities to advance their career and learn new skills.

"The compensation they offered was competitive, but retaining stars requires more than salaries," the study reads, referring to top-performing companies. "Aware that stars wanted to broaden their skill bases, the firms encouraged them to do so."
Ironically enough, these top-performing companies were also the ones best suited to hire stars. The study found that star analysts did far better if they were hired into companies that were already outstanding.

What this all means to you
The biggest takeaway from the study is simple: There is no substitute to bringing in people with talent and then developing them yourself over time. Underperforming organizations that try to throw money at the problem by hiring star performers for big dollars tend to see those stars fade and the rest of their employees lose interest.
This lesson is particularly insightful for underperforming teams. The gut reaction often is to just bring in a great person who can turn things around, but the study suggests that simply won't happen. Instead, the only way to truly fix an underperforming team or an underperforming organization is to fix its fundamental systems, i.e. the way it hires and develops its people.
This study should also compel any leader at any organization to ask themselves these two questions – are you truly hiring the best people? And, are you truly doing everything you can to develop them into stars, both through teaching and career opportunity?

Hopefully, the answer is yes. If not, it might be time to rethink things a bit.

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