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Recruitment of a Star

Stephen Connor, director of research at the New York investment banking firm of Rubin, Stern, and Hertz (RSH), was in a bind. His star semiconductor analyst, Peter Thompson, had abruptly announced his resignation; he had received an offer from one of RSH's competitors. But Peter was not only a star analyst, he was also RSH's *only* semiconductor analyst. This was certainly not a role that could be left vacant for long and, right now, RSH particularly needed strong coverage of the semiconductor industry because of an upcoming deal with the PowerChip company. (See **Exhibit 1**.)

Stephen examined how much money Peter generated for the firm and saw that he could legitimately raise Peter's compensation. Then he devised a backup plan: to split Peter's team by encouraging Peter's junior analyst, Rina Shea, to stay at RSH. Peter ended up leaving the firm and Stephen promoted Rina to senior analyst, assigning her to cover PowerChip and the rest of the semiconductor industry, at least temporarily, while he decided whether to offer her the position permanently or hire someone from outside the firm.

Now Stephen faced the task of finding a permanent replacement for Peter. Should he make Rina a permanent offer or hire from outside?

RSH Research Department

RSH's corporate culture was especially strong in its research division. Senior research analysts often began as junior analysts and remained at the firm long after the research director gave them their own franchises. Instead of competing with each other, most analysts at the firm supported one another; many had open-door policies and encouraged less-experienced analysts to consult them if they had questions. Each analyst strove to become ranked by *Institutional Investor* magazine (*II*), but many considered the success of the research department as a whole equally if not more important. Analysts at RSH worked long days, spending copious amounts of time researching companies in their sectors. It was common for RSH analysts to develop contrarian views on stocks. Quite a few of these analysts were recognized as industry experts.

Many considered RSH's culture one of its prime competitive advantages. Teamwork led to superior company coverage. As an additional incentive to teamwork, the director of research tied analysts' bonuses not only to individual success but also to the success of the group. At the department's semiannual off-site retreat, analysts could work on analytical and writing skills in focused workshops and participate in exercises aimed at fostering communication, trust, and

Professor Boris Groysberg, Stephen Balog (Cedar Creek Management LLC), and Research Associate Jennifer Haimson prepared this case. All names, places, and companies have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

commitment to the firm. Senior analysts mentored junior analysts and there was a formal training program to mold promising analysts into superstars. It was not uncommon for analysts to reject offers of 15–20% pay increases at other firms because they liked the camaraderie and teamwork encouraged at RSH. Furthermore, the firm's low turnover rate enabled Stephen Connor, the research director, to be selective when hiring new analysts: It was essential both to be a first-rate analyst and to fit in well with the firm's culture. RSH was dedicated to its employees and expected similar dedication in return. In all of the firm's divisions, it was common for people to remain for the bulk of their careers. The turnover rate was so low that it stung when anyone resigned.

Engaging a Recruiter

Though distressed over Peter's departure, Stephen now had a crucial position to fill. He was glad he had persuaded Rina to remain at RSH for the time being. At worst, she was a good stopgap, but she might not be the right choice on a permanent basis. Stephen's first phone call had to be to Craig Robertson, headhunter. Craig worked for Superior Staffing Services, familiarly known as "Triple S." Its team of executive recruiters constantly surveyed the marketplace, gathering information from all possible sources—including buy-side analysts and portfolio managers (analysts' clients)—to identify the best candidates. Stephen had worked with Triple S for seven years; during his four years at RSH, he had worked specifically with Craig Robertson, who had always come through for him. *Craig and his associates understand my needs by now—the culture at RSH, our team approach, and all that,* Stephen thought. *They'll know the type of analysts to target.*

Stephen punched Craig's cell-phone number on his speed dial. "Craig, this is Stephen Connor. I've got a bit of a problem. Peter Thompson just quit without any notice. He was covering PowerChip and we have this big deal with them coming up in a couple of months. I need a senior person in here right away—someone *II*-ranked, if possible. Can you do a quick search and give me names of likely candidates as soon as possible?"

"That could be more difficult than you're anticipating, Stephen," Craig said. "The highest-profile people have been shuffling around lately. I don't know who'd be willing to move at this point."

"I've even considered promoting a junior a couple of years early just to continue coverage of the industry."

Craig laughed. "Let's set up a time to meet. I can certainly deliver candidates, but what you want are the *best* candidates—not junior analysts with slow learning curves."

Stephen had always been impressed by Craig's inside knowledge of the analyst market; that alone was worth his retainer fee. They agreed to meet on Wednesday. "Until then," Stephen said, "try working a bit of your magic."

Stephen reflected on his decision to retain Craig Robertson. It wasn't that he didn't know who the major players in the field were: *I can pull data from the* II *rankings and Greenwich Associates* (another provider of market intelligence and rankings for the research industry) *and make phone calls myself, but all that takes time—one thing I have precious little of. Besides, I'm treading murky water right now, and that calls for caution. If I started making calls, word would fly all over the Street within minutes that RSH has lost its top semiconductor analyst. That would place this department in a very vulnerable position. Other firms could start trying to entice away more of my senior analysts—losing one just opens the door for others to try. And losing more analysts could have a big impact on the firm's trading-commission revenue. I've done a bit of recruiting in the past, but in a situation like this, it's definitely wise to use an intermediary like Craig.*

A Conversation with a Leading Analyst

Stephen decided to get input from another analyst in his department. He placed a call to Tom Walters, a senior telecommunications analyst who had been at RSH more than ten years and had assisted with the hiring of another analyst. Tom was also an informal leader in the department; the analysts trusted him and he tended to know what was going beneath the surface. Two months earlier, in fact, Tom had warned Stephen that he had heard Peter was looking for a new job. Stephen hoped to convey to Tom that he was willing to hire another star analyst, a message that should reassure Tom and others that the department was willing and able to attract the very best. Stephen didn't want anyone else to follow Peter's example.

"Tom, this is Stephen. I'm not going to beat around the bush. You knew a couple of months ago that Peter Thompson was thinking of resigning and you must know by now that he's given notice. I considered countering for a while, but simply didn't think it was a good idea."

"News travels fast here, Stephen," Tom said. "What's up?"

"I need to hire a senior person to cover semiconductors quickly. Craig Robertson's working on it, but I want to run some ideas by you. I might not be able replace Peter with another star, and that has me concerned."

As Stephen began to discuss the kinds of candidates he might find for the position, it became clearer that there would be no single correct decision. "My first choice," he told Craig, "is to replace Peter with another star, even though we'd have to pay him or her star-level compensation. But realistically, we might not find a top-tier analyst, and it will take time just to perform the search. So let me quickly explain the situation I've set up with Rina Shea, Peter's junior. She's staying on, with a promotion to senior analyst, and will maintain coverage on PowerChip and the rest of the semiconductor industry for the time being. So we don't need to panic right away. I'm considering making her semiconductor analyst position permanent, but I'm not sure I'll give it to her. I might just give her some smaller technology industry—I'll have to see.

"My second option is to hire a senior person from a regional firm. But that often means relocation, which can take more time, and you can never be sure someone like that will succeed in a large firm. We have more resources, but the analysts need to establish more relationships and please more people than at smaller firms—not to mention working with more clients and traveling more globally. A lot of analysts from regional firms can't make the adjustment. "

"Sometimes people freeze when they move to a large Wall Street firm," Tom agreed. "What's your other option?"

"We could bring over someone from one of the buy-side firms," Stephen said. "They follow the same stocks as our analysts and they perform detailed analyses and write internal research reports. Many of them interact with their portfolio manager just like you guys."

"No, no!" Tom exclaimed. "Buy-siders don't have the sales skills! Some of them are very smart, but a lot of them can't give a decent presentation. Also, some of them simply get their knowledge from the presentations that sell-siders make, so they *appear* brilliant when all the creative work has been done by someone else. No, you simply can't bring in a buy-sider!"

I really respect Tom's opinion, Stephen thought. *He knows the technology industry and its players very well. If he can't give me good advice on this matter, no one can*. Aloud, Stephen said, "Tom, you're being no help at all. You're just confirming my worst fears about who's out there."

"Happy to oblige," Tom said. Stephen could almost see Tom grinning over the phone. "Let's hope there's some really good analyst out there—a star—who's looking to move. If you can't bring in a highly ranked person, my money's on someone from a regional firm. If Craig does his job well, he'll have pre-screened the candidates enough for you to have a decent pool to choose from. There's also something to be said for hiring up-and-comers and helping them develop their careers."

"Thanks for your input, Tom," Stephen said.

A Meeting with the Headhunter

Stephen met Craig Robertson in a small conference room near his office. Craig got right down to business:

"I have some fresh information on the marketplace, Stephen, because one of my partners just did a search project for another firm. But if you're determined to replace Peter with an established star, it's not going to be easy. (See **Exhibit 2**.) I came up with five established analysts, but only two would even talk to us. Like I told you, it's been crazy how many people have been moving around this past year. No one wants to move again. One person told me his wife would kill him if he moved again. So that's the situation we're up against. I'm not saying it's impossible; I'm just saying it will be challenging."

Challenging is better than "Forget it, no way," Stephen thought. "OK, instead of concentrating on how bleak the situation is, let's go over what I need and what you might be able to deliver so we're sure to interview all viable candidates."

"Sure. First, your department is known for its team approach," Craig replied. "If you hire a well-established senior analyst, are you prepared to take on his junior if he or she is amenable to moving?"

"I guess we'd kind of have to. It usually works out better that way—providing the junior truly is a help to the senior and has worked at least a few years with him or her."

Craig made a notation on his laptop. "OK, now I need a sense of the characteristics you're looking for in Peter's replacement. In an ideal world, you'd want someone with the best of Peter's qualities and none of his worst ones. If you tell me more about him, I can get a handle on the kind of candidates to target—their personality types, what motivates them, things you'd never dig up just by relying on *II* data."

Stephen thought for a minute, then said, "Peter was incredibly intelligent and his analytical skills were superior. You'd expect that in any star analyst. And he'd always been an achiever—a real go-getter. He often took on additional projects. Early on, it didn't seem that he was just out for the extra money. He was quite driven—obsessive at times—but in a good way; you knew his work was as precise as he could make it. On the downside, he was extremely competitive and that sometimes made others uncomfortable. We're trying to build a cooperative teamwork-oriented culture here. Several people had been distancing themselves from him lately. Also, over the years, money became more and more of a motivator to him. It seemed like he didn't care whom he stepped on to get involved in projects that would earn him extra cash. Some analysts started viewing him as a conniving negotiator rather than a good analyst—which is unfortunate because, despite his shenanigans, his skills really are superior. In general, I'd say that the market values analysts who have industry knowledge, are good writers, are client-oriented, and have access to upper management at companies. Lastly, good stock-pickers are rare, but that's a definite plus." (See **Exhibit 3**.)

Craig was furiously typing on his laptop. "That's a really good profile, Stephen." He finished typing and continued, "OK, this is the plan. I'm going to do my very best to find established, ranked analysts for you. That's priority number one. As I said before, it'll be challenging to find stars, but I don't think it's impossible. But just so I know, how prepared are you to bring in a more junior person, someone from a regional firm or a boutique or even from the buy side? Are you prepared to get someone up to speed? Or is it a must that this candidate can walk in the door and immediately start covering companies and making a zillion phone calls to clients?"

Stephen thought for a minute. *I need a truly experienced semiconductor analyst; otherwise I might as well hand the job over to Rina Shea, since she's already with the firm. And when I discussed pulling in someone from buy-side with Tom Walters, whose opinion I value, he made a decent argument against it. Still, I can't afford to be too demanding in my specifications.*

Stephen finally said, "I'm going to give you fairly free range on this one, Craig. If you can scrounge up two or three highly ranked stars, I'll be extremely pleased. But search your pool of regional firms and local boutiques as well. And if there's an up-and-comer out there, I'd like to see his or her résumé. A rising analyst could improve a lot on our platform, but he or she would have to have the right ingredients already."

"Sounds like we have a plan," Craig said. "I'll get started right away."

News from the Headhunter

Over the next few weeks, business normalized in the research department. But Stephen was anxious to replace Peter with someone more high-powered than Rina Shea. *Rina still sometimes relies on the advice of the more senior analysts in the technology group,* he thought. *She has made some improvements and I'm happy with her work overall, but I've heard mixed reviews about her. Some of the sales force thinks she has to be more assertive when she presents her reports, but others have commented that she's very knowledgeable about the industry. I'd sure like to hear from Craig Robertson, so we can get the recruitment process moving*.

At the end of the month, Craig called with some preliminary information: "I did a complete survey of the marketplace and came up with 12 semiconductor analysts. My initial hunch was right: Practically no one wants to change firms right now. However, I did find two ranked senior analysts. I've met with both of them. They're completely dissimilar but they're both intelligent, savvy analysts. Both seem very interested in the position. I also found three candidates from boutiques and a regional firm who are definitely worth considering. Fortunately, all of them have covered the PowerChip company in one capacity or another."

"Can you give me a brief rundown on all of them?" Stephen asked.

"First we have a star by the name of David Hughes (see **Exhibit 4**), a well-seasoned analyst from Spenser's who's been ranked in *II* for the past 15 years," Craig said. "His rankings bounce around a bit—you know how competitive the semiconductor analyst field is. He's currently listed as a second-teamer."

"I definitely want to bring him in for an interview," Stephen said. "And the other star candidate?"

"It's a man by the name of Gerald Baum. (See **Exhibit 5**.) "He just placed first and second in *II* for the electronics and electrical-connectors industries respectively. He'd been ranked runner-up a couple of times in the mid-1990s, but wasn't ranked again until this past year. I believe he's definitely making a comeback. The reason I think he'd make a great candidate is because he's been covering the semiconductor industry for only 18 months and he's already in 11th place in analyst rankings while he was highly ranked in the two other industries he was covering. I think he's interested in making a leap over to solely covering the semiconductor industry. He's currently with Gotz and Loeb, but I have a strong feeling he isn't happy there—there are some stories about him firing his junior—and while he wasn't actively looking to change jobs, he was quite pleased to hear from me."

"From second-tier firms, I found Andrew Katz working in a boutique in Manhattan and Harry Freight at a regional firm in Dallas. Neither has ever made it to *II*. Lastly, there's Sonia Meetha (see **Exhibit 6**), who lives New York but has been making a reverse commute to a boutique in Stamford, Connecticut, called Welsh, Harrison, and Smith. *II* has actually recognized Sonia as an 'up-and-comer.' I believe all three have the potential to become highly ranked if they get the opportunity to work on the right platform. RSH could really help drive their success."

"That's great, Craig. We scored some hits, it appears." Stephen was excited at the prospect of hiring a new analyst quickly.

"What I'll do, as always," Craig said, "is send over their résumés with a letter of introduction that describes in more detail the information I gathered on them. If you want to go ahead and meet with any of them, let me know and I'll arrange interviews."

Initial Review of the Candidates

Early Monday morning, Stephen heard the whine of his fax machine. Craig had sent the résumés that Stephen had been eagerly awaiting. *Not bad, not bad,* he thought, as he leafed through the pages. *A few check out quite well, at least on paper*. He decided to read the packages on the two star candidates first.

Hmm . . . David Hughes is older than I expected. I suppose that's what Craig meant when he called him "well-seasoned." That's not necessarily a problem—we hire people of all ages—but this job tends to burn out analysts by 45 or 50 unless they have incredible stamina. Still, David has fantastic credentials.

Gerald Baum also shows promise, though he seems to have jumped around for a while before he landed his current position. It was rumored that he had almost left Gotz and Loeb last year and used outside offers to negotiate a better deal with them. Again, that's not always problematic—it takes some people a while to decide what kind of firm they'll be happy at—but sometimes frequent job changes mean a person cares more about landing the best compensation deal than anything else. Also, considering the cyclical nature of the semiconductor industry, we could always switch him to report the electronics and electrical-connectors industries where we don't have very strong coverage. Both David and Gerald seem to be excellent candidates and deserve interviews.

Next he examined the résumés of the analysts from what Craig had called "second-tier firms." He ruled out two of the candidates fairly quickly, but he felt that Sonia Meetha looked promising. *Craig notes that she has both technical and sales backgrounds, is an excellent writer, and is responsive to her clients. She's also involved in some kind of global effort at her firm, though I can't quite tell what her role is. She must be doing a stellar job at her current firm—receiving even an "up-and-coming" mention from* II *is no small feat while working at a boutique. But would she be able to succeed at a large firm like RSH? She seems to have a much better command of the industry than Andrew Katz and she's dedicated enough to juggle her career and raising two children. I admire that. I'm going to put her into the pool of candidates.*

Satisfied with the candidates Craig had produced, Stephen outlined his next steps. He needed to start interviewing as soon as possible, but it was prudent to do a bit of preliminary screening of the candidates before inviting them for interviews, so that no one's time was wasted. With luck, he would find people who knew the candidates, or at least knew the firms where they worked.

An Unexpected Phone Call

As Stephen was paging through his list of contacts, his phone rang. "My name is Anita Armstrong and I'm with Clifford Associates," the caller said. "We're an executive recruiting firm in midtown. I hear you have an opening for a semiconductor analyst."

"That's correct," Stephen said. "I guess word had to get out sooner or later. Can I assume you might know someone who would be a good fit here?"

"As a matter of fact, I do, Mr. Connor. Have you heard of Seth Horkum at Jefferson Brothers?" (See **Exhibit 7**.)

"I think I've heard the name tossed around. He's been doing fairly well lately, hasn't he?"

"He just had a great year and showed in *Institutional Investor* as a runner-up. I'm also aware that the PowerChip deal is coming up and not only has Seth been covering this company, but he has some very close contacts at the firm, including some mid- and high-level management. Seth admires the work being done at RSH, Mr. Connor. He's headed for an *II* slot next year and he told me he'd love to be working for your firm when he does it."

The guy is clearly actively job-hunting, Stephen thought, *and he's trying to go through Anita Armstrong to get into a top Wall Street firm. What's the angle on Seth Horkum? Does his runner-up ranking mean he's firmly headed for stardom? Will I kick myself if I don't interview him and then he places as a teamer in* II *next year? Is he worth adding to the pool of candidates? If Seth Horkum is truly worthwhile, why didn't Craig include him on the short list?*

"Why don't you fax me his résumé and any other pertinent information," Stephen replied. "I can't promise anything, but I'll take a look at it."

Within an hour, Stephen received Seth Horkum's résumé and a lengthy letter of introduction from Anita Armstrong.

Seth Horkum looks quite good. Ms. Armstrong said he's a great stock-picker; she listed all of his stock picks that worked out last year (though she may have left out his bombs). He most likely got his II *runner-up ranking because his stocks did so well. He seems to have very strong contacts at PowerChip, but she also wrote that he wants to improve his access to other companies, which is important to place well in* II*. He also needs to write more reports and express himself more clearly. We can help him with that. He has a solid background, and his negative qualities seem to boil down to being eager to please—a trait I can deal with. He's definitely worth considering.*

Pre-Screening the Candidates

Most of the candidates seem reasonable, thought Stephen, *but I need a bit more information before I bring them in. Who do I know who can give me some feedback on these analysts and their firms? I think one of my senior software analysts, Jon Davidson, used to work for Gotz and Loeb. He and Gerald Baum would have been in different groups, but he would know what the firm is like, the culture that Baum is accustomed to.*

Stephen dialed Jon's extension. "Jon, I need to speak with you confidentially. Do you happen to remember someone by the name of Gerald Baum from your old firm? He covered electronics. Can you tell me about the firm? Gerald is a candidate for the vacant semiconductor position, and minimally I'd like to get a sense of the culture he'd be coming from."

Jon replied: "For Peter's job? I'm glad some candidates are surfacing. Gotz and Loeb didn't operate under the kind of team approach we have here. And it was a really competitive environment, which is one of the reasons I left; too many people simply interested in making as much money as they could. And the firm wasn't dedicated enough to developing their talent—the head of research talked about a training-and-development program for analysts, but he never delivered."

Stephen thanked Jon and hung up. *Well, that's one down. Next I'll call Beth Tuck. She's only a junior analyst, but we recently hired her from Spenser's*. He dialed her extension.

"Hi, Beth. What I'm about to discuss needs to remain in the strictest confidence. Understood?"

"Certainly," she replied.

"One of the candidates for Peter's position is an analyst by the name of David Hughes. You must remember him from Spenser's."

"Of course. He supervised one of my friends there."

"I need to find out what kind of person he is. How is he with his peers? What kind of researcher is he? Is he a team player? Anything you can give me would be helpful."

"I think he'd probably be an OK choice, Mr. Connor," Beth said. "He's incredibly bright and articulate. His research is technically quite good, and he seems to have a great command of the semiconductor industry—though you could fool me, an auto analyst. . . ." She paused. "And of course everyone knows him, and name recognition can count for a lot in this business."

"What was he like for your friend to work under?" Stephen asked.

"He's a fantastic mentor—he's enthusiastic about developing the next generation of analysts. He was a perfectionist about my friend's work. She had to make sure all her I's were dotted and T's were crossed. But everyone at Spenser's seems to be like that. My friend has told me how rigidly the analysts follow the firm's procedures—down to the formatting of reports. Sometimes David wasn't as precise about his own work, though his research associate proofread everything for him. He can be old-fashioned at times, not using the state-of-the-art technology that the firm supplied, but you'd almost expect someone his age to be less interested in learning the intricacies of database programs. Again, that problem is easily solved since he'd have his junior staff to rely on. Overall, I think he's a good candidate and definitely worth considering."

Stephen thanked Beth and hung up, thinking: *It's tedious, but it's definitely a good idea to pick up additional information on the candidates. I don't know anyone at Jefferson, so I won't be able to learn anything extra about Seth Horkum. And I don't know anyone at Welsh, Harrison, and Smith, where Sonia Meetha works, but I'm sure I've heard her name before. Maybe from someone at a buy-side firm. Clients always know.*

Stephen looked up the numbers of buy-side analysts at a few firms. He had no luck at the first two firms finding anyone who had dealt with Sonia directly, but at the third he found a buy-side research director who knew Sonia's work well.

After an exchange of pleasantries, Stephen said, "I need a favor. I'm rounding up candidates to fill our senior semiconductor position. Your assistant told me that you've dealt with Sonia Meetha from WHS. Can you tell me anything about her?"

"Sure," replied the research director. "We've always been quite satisfied with Mrs. Meetha's work. She does her homework and we rely on her work. We can't possibly cover each company in as much detail as you do on the sell side, so it's important to work with a sell-side analyst who provides solid, insightful research. I've heard from some companies out West, though, that she's not keen on traveling. That's understandable, since she has two young children, but I'd imagine it's hard to keep your clients happy if you can't spend time with them when they want you. She manages to placate them by arranging conference calls, during which she explains her research reports in exquisite detail. She also arranges company conferences in Connecticut and New York, inviting both clients and firms to meet and greet. The companies present information about their firms to familiarize the clients with the industry. It seems to work. After all, you have to give her a lot of credit: She's covering her franchise by herself. WHS is a small firm without many resources, so she doesn't even have a junior to assist with the workload—which, as you must know, can be tremendous at times."

Stephen expressed his gratitude and hung up. Almost immediately, he received two new e-mails: one from his counterpart in trading and the other from the head of sales. Both asked if Stephen had found a "true" replacement for Peter yet, by which they meant that he shouldn't seriously consider appointing Rina. Even his boss, John McMair, was getting impatient. Last week John had questioned whether Stephen had made the right choice by letting Peter go. John believed in keeping stars at any cost. He had little faith in development. "You either got it or not," he'd say. In fact, John hadn't been supportive of the development-and-training programs Stephen had initiated a couple of years ago, considering them a waste of time and resources. He did not condone promoting Rina Shea, Peter's former junior, to fill the semiconductor slot even on a temporary basis. In John's eyes, there was no real senior analyst covering semiconductors. Stephen's management philosophy differed from John's, but Stephen was beginning to feel the pressure to find a replacement.

A Brief Conversation with Rina Shea

Regarding Rina, Stephen thought, *I need to let her know I've found some candidates—that while she's covering semiconductors now, there's a chance I'll find someone else to fill the position on a permanent basis.* Stephen found Rina at work on a spreadsheet.

"Hi, Stephen," she said, clearly fearing bad news. "Everything's under control. I'm fully up to date on PowerChip and have some pretty good research on several of the other companies as well."

"Great, Rina," he said. "Listen, there's something you need to know."

Here it comes, Rina thought. *He's hired someone*.

"I wanted to let you know that I've found four potential candidates for the semiconductor position," Stephen said. "I'll be bringing them in for interviews. But as I promised, if I don't find someone more senior than you who I think will work, I'll give you the permanent position. I appreciate all the hard work you're doing—don't think it's going unrecognized. If I do fill the position with one of these four candidates, you'll still get your own group to cover—perhaps a segment of software."

It could be worse, Rina thought. *I know he has to look for other candidates. Still, I love this field and would hate to have to give it up*. "Sure, Stephen, I understand," Rina said. "Please keep me posted."

Rina had worked at RSH for a little over three years. Her career had begun at Win412, a top technology firm in California. The environment at Win412 was extremely relaxed. Although the firm was very successful, its top employees came and went as they pleased. Rina, something of an introvert, had a difficult time fitting in with her coworkers and often kept her distance from them. Even so, her obvious talent and hard work made her well-known throughout the firm.

After attending a conference in New York, she realized the potential of combining her technological skills with her natural business savvy and decided to move to New York in order to earn an MBA at Columbia's business school. Upon graduation, all the big firms had come courting her and she had received offers from several places. Rina chose RSH because of its consistently high ratings in *II* magazine.

A Round of Interviews

Stephen asked Triple S to set up meetings with three of the candidates: Gerald Baum, David Hughes, and Sonia Meetha. He also called Anita Armstrong to set up a meeting with Seth Horkum. Stephen then spent an afternoon telephoning clients to ask about their satisfaction with the candidates' work, their confidence in these analysts' abilities, and how the candidates had helped them make money the previous year. Meanwhile, Craig had arranged a breakfast meeting with Gerald, lunch with David the next day, and lunch with Sonia the following week. Anita Armstrong had arranged a lunch with Seth.

Interview with Gerald Baum

Stephen arrived at the restaurant and waited 15 minutes before Gerald Baum arrived, completely unapologetic for his tardiness. After some initial conversation, Stephen told Gerald about Peter's decision to leave the firm and the resulting opening for a senior analyst covering semiconductors. "I assume since you're here today, Gerald, that you're interested in the position."

"Definitely," Gerald said.

"OK, we know why I'm here. Why are you here?" Stephen asked, grinning. But he was only partially joking. He wanted to understand Gerald's motivation fully.

Gerald smiled and answered, "It's not as though I hate my boss or something. He's tried to do well by me, though there are always those little things we disagree on. But there are several things I'm not happy with—ways things are being run. I don't have enough support staff. I have one inept junior and share an assistant. Plus there are other annoyances, like the fact that the copier keeps breaking down and nobody seems to care enough to have it serviced properly or replaced. Also, Gotz and Loeb have been known for truly innovative research, but recently it seems as if that kind of drive is diminishing. Maybe that's true everywhere since the technology bubble burst, but I'm itching to cover more exciting industries."

Stephen nodded, thinking: *I could see his point if his junior is not up to par, but the copier thing is a bit infantile. In my experience, if a prospective employee expresses too much negativity about his current workplace, it usually indicates that he's a negative person who's likely to find his new company distasteful, too. But if an employee is too fond of his old company, it can be tough to move him except with a huge offer. It's often beneficial to employers if job candidates have mixed feelings about their current jobs. This guy may be moveable. The question is: Do we want him?* Stephen wanted to investigate more regarding Craig's comment about Gerald:

"I heard that you fired a junior analyst?"

"In the middle of a client presentation, in fact!" laughed Gerald. "I feel you have to deal with incompetence decisively," he added. "Casualties of my great work, I say!"

Although Stephen was surprised by this corroboration, he continued the interview. He wanted to explore how Gerald operated, how he performed research, how he viewed his current group, what his favorite stocks were and why, and the like. He asked how Gerald kept in touch with clients and was pleased to hear that he maintained an active travel schedule and answered e-mails and voicemails promptly. "Now," Stephen said, "is there anything you want to ask me?"

"I do have some questions," Gerald said. "What's the average compensation for seniors at RSH? Do you give guaranteed bonuses? And I'd like to know what kind of stock option plan you have."

A bit taken aback, Stephen replied, "Wow! Compensation is not an art of statistical averages and standard deviations. We pay the individual for their impact, and of course that partially depends on what sector you cover. We are very competitive. Starting out, senior analysts receive $100,000 in our equity option plan, and that grows to $300,000 after four years with the firm. It's unusual for us to offer guaranteed compensation for more than one year—we did more five or six years ago. Do you have other questions?"

"Yes," Gerald said. "If I were to make the move, I'd like to be able to hire a couple of junior analysts. I'm not very happy with the junior analyst I have working for me now, but I'd like to hit the ground running at RSH."

"Actually, we have a lot of great support staff already at the firm. Considering they're already familiar with the ins and outs of RSH, I prefer that you select your new crew, should it be warranted, from that resource pool. That makes more sense to me."

"I have one more question, Gerald," he added. "I'm going to be blunt here. If you were to come to RSH, it would be your third position in approximately six years. Many of our analysts, Peter Thompson aside, stay at the firm for many years, if not for most of their careers. We really seek dedicated employees who want to stay with the team. What kind of guarantee would I have that you would display such commitment?"

"Personally, I don't think anyone can truly guarantee anything," Gerald said with a grin. "But I believe I would fit in quite well at RSH. I enjoy working at large institutions. Also, I'm not interested in switching firms all the time—it's too disruptive. I have the feeling that RSH could be my final company; you certainly have enough interesting work to keep me busy for a lifetime."

"OK, then," Stephen said. "I appreciate your coming to meet me, Gerald. It's been a pleasure talking with you. I'll be getting back to you soon." He rose and reached for his jacket.

Although Stephen had spoken with Jon Davidson about Gerald, he felt he needed more information about him to get a full picture. Gerald's work seemed exceptional, yet there seemed to be "attitude and quirks"—and not good ones. So Stephen decided to contact two of Gotz and Loeb's top 10 clients. In his conversations with them, he found what he was searching for: Both clients confirmed that Gerald treated his staff terribly, but they would move with him without a doubt for his work and exceptional client service. Indeed, it seemed Gerald was one of those rare candidates who excelled at all the skills the clients considered most important, such as industry knowledge, service, stock-picking, services provided, and report writing. His superior intelligence was clear in the fact that he had only been covering the industry for 18 months and had already climbed to the 11th position out of over 100 analysts, some of whom had been in the industry for over 15 years.

Interview with David Hughes

David and Stephen arrived at the restaurant simultaneously. *That's good*, Stephen thought. *I like promptness. He does look his age. I wonder if the job has worn him out. Will he still have the energy—the spark—to continue working at a top level? He's come highly recommended and still ranks well in* II. *And David has a lot of name recognition—that's certainly important to almost any client, though I hope the buy side hasn't started to view him as an ancient relic. It'll be interesting talking to him—the man is practically a celebrity on the Street*. "Mr. Hughes, I'm Stephen Connor. I've heard a lot about you but it's a pleasure to finally meet you in person."

"Please—it's David. It's a pleasure for me as well," David said. Soon the two men were settled in a corner booth. It was evident to Stephen that David was a regular as he ordered without looking at the menu and the waitress seemed to pay extra attention to him.

"So may I ask *you* why you'd want to leave your firm?" Stephen was always genuinely interested in understanding candidates' reasons for wanting to move. Plus the information would help him pry David out, if it came to that.

"As for the reasons why I'd like to make this move," David said, "I'm looking for a new challenge."

"You've been there over 15 years, haven't you?" Stephen said, curious why a change in firms would be a new challenge.

"Yes, I started back in 1988. It's time for a change. Also, I'm looking to find a research director who's a bit more flexible so I can have more input into how I structure my job, and so that I'm paid what I deserve. I've heard some really good things about you, Stephen, and I feel that we would work well together."

Stephen was uneasy with how the interview was proceeding. *Is David interviewing me or am I interviewing him?* To regain control of the conversation, he asked, "What is it about our firm that attracts you most?"

"At this point in my life," David said, "I want to focus on stocks that I like and think are exciting. And I believe I can do that better at RSH than at Spenser's. I'm in a rut, covering the same old big names, and haven't been allowed to pick up some of the growth companies."

"Sounds reasonable," Stephen said. "I have to tell you I'm impressed with your record, your *II* rankings. You've had quite a career so far. We're dedicated to producing quality research at RSH. Can I assume you'd be willing to assist junior members of the department if you were to come to RSH? They could certainly learn a lot from a veteran."

"Of course," David said. "I'd be happy to. I have a few tricks up my sleeve that I like to share with my juniors. We can certainly expand that audience at your firm."

When Stephen raised the question of compensation, David was unspecific. But Stephen sensed that he wanted a contract guaranteeing his compensation for at least two years. This could be tricky, as the semiconductor business had been cyclical from its inception. It tended to have two strong growth years (up to 20% growth annually), followed by one year of slow growth, and then one year of flat or declining growth. Although presently at one of its peaks, business would be declining in 12-18 months. There were a lot of semiconductor analysts but few were stars. Stephen had to be careful about agreeing to long-term contracts because the high-growth part of the industry's cycle could be over before the contract expired.

The two men chatted a bit about their favorite stocks and what they expected the market to do. David mentioned that he would like to bring along his two junior analysts and his assistant, to which Stephen agreed wholeheartedly.

Stephen then asked David about a rumor he had heard. Apparently, David had been on vacation with his kids and there had been a breaking news story about the semiconductor industry, but David had refused to cut his vacation short. Instead, he had let his junior analysts handle the matter, causing some clients to become very unhappy that he was unavailable. *We're like doctors,* thought Stephen. *The expectation of the industry is that you're* always *on call*.

"Nonsense," David laughed. "First of all, they were my *grand*children. But seriously, the whole thing was smoothed out when I got back. Don't forget, happy clients are a big part of the reason I got ranked as a second-teamer in the semiconductor industry."

Finally Stephen checked his watch, paid the bill, thanked David Hughes, and said he would be in touch. Stephen was glad he'd have a break before the final two interviews the following week.

Interview with Sonia Meetha

Stephen looked forward all weekend to his interview with Sonia Meetha. He was curious about a candidate who had begun to receive *II* recognition but was doing it all by herself, with few resources at her present firm. Stephen reflected: *Even though Sonia's working at a boutique, I suspect she's actually on the fast track. Her performance ratings have grown over the past three years. I talked with some of her clients; they all agree that Sonia's a true up-and-comer and could very well become one of the best analysts on Wall Street if she were on a better platform. They also said she's built good networks and has connections with the CEOs of some major companies. What intrigues me even more is that Sonia seems to know some divisional managers and staffs at the forefront of some companies. In my opinion, they sometimes have a stronger finger on the pulse of the business than the higher-level management does. Still, she has no experience at a large firm where the pace is ten times faster than what she's used to. She might not shine as brightly here. They all say she's personable, but she'd have to build alliances almost immediately with a big sales force and trading department, so that they'd do the best job possible of promoting her product. Based on what I know so far, I can see both pros and cons to hiring Sonia Meetha.*

Stephen found Sonia waiting outside the restaurant, speaking enthusiastically into her cell phone while taking notes with a SpongeBob pen. When she saw him, she quickly ended the call. They entered the restaurant together and were seated at a quiet spot. Soon they were deep in conversation about her research and her investment approach, her reasons for leaving a small firm for Wall Street, and her interest in the global economy. Stephen asked her reasons for wanting to move to RSH.

"One of the biggest reasons," Sonia answered, "is that I'd be able to cover major corporate clients. And you have state-of-the-art technology for research. Also, RSH must have a better support staff than WHS. From the little I know, you seem to have numerous well-trained juniors and a dedicated administrative staff. Lastly, global reach is important to me and I like the fact that RSH has branches in Europe and Asia."

"You're right about all that, Sonia. We could provide you with substantial assistance. In fact, for most of our sectors—and certainly for semiconductors—every senior analyst has his or her own junior analyst and an assistant."

"You have no idea how much I could leverage that," Sonia replied. "At WHS, three of us share two junior analysts and my assistant supports four other people."

"What are some skills that you've developed at Welsh, Harrison, and Smith that you feel will transfer to RSH?" Stephen asked.

Sonia did not hesitate: "I've led the way for Welsh, Harrison, and Smith to begin to get an international perspective by writing reports on two main semiconductor companies whose bases are not in the U.S. The reports were quite successful and well received by our clients. I understand you're really committed to global work at RSH and I would love to bring my international focus to your company."

"Very interesting points," Stephen said. He couldn't help thinking, *Is it possible that Sonia can handle the globalization of the semiconductor industry without much traveling? On average, Peter used to spend one day a week traveling and, according to him, that's how he gained many of his insights about the* *industry. I'll have to find out more about Sonia's reports.* "Is there anything you want to ask me about RSH?" he asked Sonia.

"Actually, I have a series of questions," she said. "I'd like to learn more about the culture of the firm. How do the analysts at RSH perform their jobs: Is it team-based or do people basically work alone? How much intellectual freedom is there when your analysts write their research reports? Do they have a lot of open rein, or is the process mainly scripted?"

"We definitely have a team-oriented approach at RSH. We realize that some sectors overlap to some degree, and in a sector as large, complex, and interrelated as technology, many analysts coordinate efforts—we encourage that throughout development programs."

"Great. My next questions concern female analysts. RSH is known for hiring many women as analysts, but how do they perform? Are they successful? Would it be possible for me to interview with some senior female analysts at the firm?"

Stephen thought for a moment. "I honestly never broke down performance by gender, Sonia. But the women at RSH, like the men, are extremely driven. If you want to know more, I can arrange for you to meet with some of them. Let's set that up right away."

"I'd appreciate that, Stephen," Sonia said. "I just have a few more questions. First, how flexible can this position be? Would I be able to work from home at times and be in charge of arranging my own travel schedule? And regarding performance reviews, do you rely mainly on subjective or objective measures? Finally, were I to move to RSH, would anyone mentor me and help me build relationships with the traders and salespeople? If so, would it be possible to meet with people who might play that role?"

Wow, she's really focused on organizational culture, Stephen thought. *I can't think of many people I've interviewed who've asked these questions. And not one question about compensation yet.* Aloud, he said: "There will definitely be times when it will be essential for our new semiconductor analyst to work on-site. We have meetings scattered throughout the week and the month, and it would be essential that you be present for those. Also, I believe it's easier and faster to develop rapport with others at the firm—colleagues in research, sales, trading—if you make your presence known. On the other hand, we recognize that firms need to become more flexible to meet the demands of a diverse workforce. So were you to come to RSH, we could develop a plan that allows you to work from home at times—and all analysts are already in charge of their own travel schedules.

"As for performance reviews, we have our analysts develop specific business plans at the beginning of the year, or when they first start at RSH, and then I evaluate them on specific metrics at the end of the year. I've tried to make the process as objective as possible. Finally, many senior analysts at RSH mentor junior analysts. It's really quite useful to form such relationships and I strongly encourage them. Also, there is a formal training program to help develop talented analysts into superstars."

Sonia nodded, pleased with Stephen's answers. "I have just one last question. I really haven't kept up with compensation on Wall Street. What are senior analysts on the Street making now?"

"There are so many variables that it's hard to give exact figures," Stephen said. "Whether you're consistently ranked matters. And for star analysts there's huge variation, because it depends largely on how popular your industry is at the time. Currently, star analysts make anywhere from $700,000 all the way up to a couple of million."

"I had no idea it was that high," Sonia said. Suddenly she felt severely underpaid.

"I know, it's unbelievable," Stephen said. He wondered if she was putting him on. "Well, I think I have enough information for now. I'll phone you soon so you're not left wondering."

They left the restaurant. During the ride to the office he thought: *What's Sonia Meetha doing stuck in a small firm in Stamford? I guess she made all her connections out in California and, when she came East, she had a difficult time landing a position with a top firm. In fact, she said she interviewed with five large investment banks and didn't get an offer. She's certainly done well for herself so far, even if WHS doesn't have the sales muscle to launch her squarely onto* II*. The RSH platform could make her, or anyone with "the right stuff," a recognized high-impact star.*

Interview with Seth Horkum

Seth was at the restaurant when Stephen arrived. As Stephen approached the table, he thought: *This is going to be interesting. Seth Horkum is the mystery candidate—the one I wasn't able to gather any extra information about.*

"I'm Stephen Connor."

"It's a pleasure to meet you, Mr. Connor."

"Please call me Stephen—we don't have to be too formal," Stephen told him.

"Of course, Stephen. It's much more pleasant being on a first-name basis," Seth said.

"Let me tell you about the position. Our star semiconductor analyst resigned and I want to fill his position as quickly as possible." Stephen said. "You'd be in charge of covering some of the largest and most important semiconductor companies. Superior coverage of PowerChip is most essential. I have someone covering them, but I literally just promoted her. She seems to be performing quite well, but I'd be more comfortable with someone more senior in the position.

"I've covered the major stocks at Jefferson," Seth said. "I'm 100% dedicated to my work. Being a superior analyst is my top priority. I'm extremely thorough in my research. In fact, I brought something." Seth rummaged in his briefcase and handed Stephen a package of testimonials from clients, praising Seth for providing superior coverage of the companies in his sector. "I use these mainly for performance reviews. Currently I only show as an *II* runner-up, but if you take these into account, you can tell I'm on the way up."

Though grateful for the extra information, Stephen thought it slightly odd that Seth had compiled the packet. *Still,* he thought, *everyone seems to regard Seth extremely highly. They're especially pleased with how Seth treats them: He's open to explaining the intricacies of his research and he includes his buy-side counterparts in many of his meetings with companies, giving them access to CEOs that they otherwise wouldn't have.*

"These are great, Seth," Stephen said. "I have a couple of questions for you. First, why are you interested in this position?"

"I'm starting to make a name for myself in the semiconductor sector. A substantial percentage of the commissions Jefferson received this year was through my work," Seth said. "But, perhaps because it's the firm where I began my career, management seems unwilling to see me as the rising star I am. I have to share my junior analyst with someone else and my assistant supports *three* of us. I don't feel my compensation reflects the gains I've made. And in truth, I don't think Jefferson Brothers has enough of a reputation to help me remain a star."

Stephen said: "You were just ranked in *II* as a runner-up. How do you intend to work your way to the top?" Seth thought for a minute. "First, I need to move to a better platform—RSH is ideal. Once I'm better situated, I'll follow as many semiconductor companies as I can so I get a broader view. As you may be aware, I have some very close contacts at PowerChip, for example. After that, it's a matter of networking with sales and trading to promote my franchise. I'd spend a lot of time with both divisions so they fully appreciate my product and can promote it effectively. Also, I'd maintain close contact with the buy side and the companies I'm covering, since networking skills are paramount to being successful on *II*."

That's an ambitious plan, Stephen thought. *But Seth seems extremely intelligent, and no one could question his dedication to his work. On a better platform, he might very well achieve the recognition he craves. His eagerness to please is disconcerting—he creates a situation in which people could misuse him—but it's also refreshing to see someone so interested in his work.*

"I just have one more question," Stephen said. "You're job-hunting immediately after receiving the runner-up ranking in *II*. If you start moving up in the rankings, will you think you should change firms again to continue to improve your chance at getting that first-teamer slot?"

"I think you might have the wrong impression," Seth said. I'm not switching firms lightly; I've been with Jefferson Brothers for 15 years. I strongly believe in loyalty. But I no longer feel that Jefferson is dedicated to *me*. If I land this position at your firm, I'm confident that, with RSH's resources, I'll achieve higher rankings. We all know that RSH supports its employees as much as possible. I'd return such dedication with an equal commitment to the firm."

I can't argue with that kind of fervor, Stephen thought. "Sounds great," he said. "Do you have any questions for me?"

"What's the atmosphere like at RSH? Is there much pressure to coordinate efforts with sales and trading, or are the analysts more independent of those divisions? Do people work in teams, or are they in charge of their own success?"

"We encourage teamwork," Stephen said. "RSH has a family-like atmosphere. We have a team-oriented approach and a low turnover rate. The semiconductor analyst is, of course, within our technology group, and all technology analysts meet regularly to discuss the specifics of their franchises. Often there's enough overlap that several analysts cover different aspects of the same company. Similarly, we've grouped our salespeople and traders into specific industries so that they can specialize just as the analysts do. Our research analysts work with them closely, so that each side can benefit from the information the other has gathered. We have an active morning meeting at which the research staff presents its ideas to the sales force and traders, and we have mandatory weekly and monthly meetings in which we can discuss everything in more detail. Does that answer your questions?'

Seth was pleased to hear all this. "I'm all set. Thanks so much for this opportunity to interview with you." As they rose to leave, Stephen promised to be in touch through Anita Armstrong.

Second Interviews

Stephen was unsure how to proceed. He could see pluses and minuses to hiring any of the candidates. *The best approach,* he thought, *is probably to bring all four of them into RSH and run them through the firm's interview circuit. Have them meet with the heads of sales and trading, search for anything that we don't quite like—the usual drill. And since Sonia expresses so much interest in global factors, I can even set up a conference call for her with some people in our Hong Kong or Tokyo departments*.

Stephen called Craig Robertson. He briefed the headhunter on his impressions of Triple S's candidates and asked Craig to arrange second interviews for all three analysts with other people at RSH. He also contacted Anita Armstrong to arrange a second interview with Seth Horkum. Stephen urged both headhunters to ask their candidates to bring their juniors and assistants with them; he wanted to interview them as well.

Each of the four candidates spent two days meeting with other analysts in the department, Stephen's boss, and the heads of trading and sales. Gerald Baum had been asked by Stephen to bring along his junior analyst and his assistant. Both had refused to appear as they were not willing to move along with Gerald. He indicated that he shared his assistant with another analyst and believed she favored the software analyst over him. Positive and negative comments trickled in from Gerald's interviews with others in the firm: "Gerald Baum seems extremely intelligent." "Mr. Baum has an uncanny native sense when it comes to stock-picking." "A real pleasant young man—he'll go far." "Gerald Baum seems a bit too cocky." "I think Mr. Baum is counting on a sizeable compensation package." "Is he really making a comeback? Will changing firms bring his performance down, as it did the other times he changed firms?"

Seth Horkum, the next candidate to come in, was so pleased to have made it to the next level that he could hardly contain his excitement. After the second day of interviews, Stephen heard the following feedback: "Seth Horkum's enthusiasm for research is contagious—I loved talking with him!" "I have to admit I'm a bit concerned about him. Seth has been with the same firm for 15 years. Why is he suddenly rushing to switch firms now?" "Seth's congenial personality should help him build up a larger client base were he to move to RSH." "I think RSH's sales force could really promote his product." "I'm impressed with the quality of his work." "He just got ranked for the first time. Was he just lucky?"

Stephen was relieved that, overall, the firm was responding positively to his candidates.

He arranged for Sonia Meetha to arrive very early to participate in a conference call with the Tokyo office. Then she began a round of in-person meetings. Comments started filtering back to Stephen: "Sonia knows what she's talking about and can communicate it clearly." "Mrs. Meetha has a long-range vision for the global franchises that will make them among the most competitive in the marketplace." "Sonia has keen insight into what the next technology boom might be." Some comments were less glowing; there was worry, as always, that a candidate from a small firm might not be able to make the transition to RSH. "Mrs. Meetha might have worked at a boutique so long that moving to a large Wall Street firm may be almost impossible. Were we to hire her, she'd have to build up contacts everywhere immediately." Some of the older analysts were uneasy hiring a mother of two small children for a position as prominent as the senior semiconductor slot. "Sonia asks about the possibility of some flexibility in her schedule. Can she possibly be as productive on the days she works from home?" "Being a mother of two young children, Sonia does not seem overly enthusiastic about traveling. Does she realize the position is a 24-hour/7-day-a-week job that requires a great deal of traveling?" Most of these concerns were squelched by Sonia's poise and remarkable fund of knowledge about technology stocks.

David Hughes arrived at RSH determined to impress the firm with his vast experience. Many of the people with whom he interviewed were amazed by the sheer number of his contacts—on Wall Street and throughout the industry—and by his command of detail about the movement of technology stocks over decades. "Mr. Hughes's brain is like a computer itself; it's unbelievable how many facts he's got stored in there." "David Hughes has almost legendary status on the Street—everyone knows his name." "Mr. Hughes is incredibly intelligent; I, for one, would listen to his stock advice." But a sizeable contingent suggested that David Hughes was past his prime. "I don't want to appear ageist. But Mr. Hughes seems tired, as if he's been pushing himself too much." "I'm afraid that because of his age, David Hughes might not be able to compete with his counterparts at some of our competitors." But many believed he was a superb candidate and that switching firms would rejuvenate him.

Time for a Decision

The interviews were over. Feedback from colleagues had provided the final pieces of information Stephen needed. On Friday morning, two days after David Hughes's second interview, Stephen laid out all the information he had collected about the four candidates and their firms, reviewed each analyst's strengths and weaknesses, and compared the cultures of their current firms to that of RSH. (See **Exhibits 4-7**.) All that remained was to select the candidate he wanted to hire. On Monday morning, as he glanced through the trade papers, his assistant knocked on his door and handed him four phone messages—two from his boss and one each from his counterparts in sales and trading. Their gist was identical: You're done with your interviews. Now hire someone as expeditiously as you can.

Stephen opened his folders on each candidate. *Are any of these candidates what I'm looking for? How much would each of them cost the firm? What are their strengths and weaknesses? Who's the best fit? At what price? And what about Rina? She's been doing a decent job so far. Should she be considered? With all the twists and turns this process has taken since Peter resigned, I've been on a roller-coaster ride. At least this particular ride seems to be heading for an end.*

Exhibit 1 The Role of Research in the Investing Process

The Function of "Sell-Side" Analysts versus "Buy-Side" Analysts

On Wall Street, a general distinction is made between brokerage houses (investment banks), which make money both through their underwriting business and trading conducted at their firms, and money management firms, which seek to invest their clients' money by purchasing stocks for their portfolios. The former is referred to as the "sell-side" of the investment process, and the latter is referred to as the "buy-side." Both sides employ research analysts who follow companies and their stocks in specific industry sectors or investment specialties, which enables their clients to make sound investment decisions.

The ultimate purpose of research at an investment bank is to help move securities. Sell-side research analysts spend a great deal of time researching their particular industry and developing hypotheses concerning the economic future of the specific companies they cover. On average, sell-side analysts cover anywhere from 10 to 18 companies within their industry. Based on their research, analysts write in-depth reports on these companies and issue recommendations as to whether potential investors should buy or sell the companies' securities, or merely hold on to stocks already in their portfolios. Their reports are distributed to their brokerage's clients and, in many cases, are publicly disseminated to the financial community at large. The comprehensive research reports produced by sell-side analysts also serve as one source of information for buy-side analysts.

The function of buy-side analysts is essentially the same as that of their sell-side counterparts—to gain information both about their industry and the particular companies they cover in order to form investment strategies. They also publish their own research reports for their firms. However, buy-side analysts tend to cover a wider spectrum of companies within their industries, sometimes focusing on as many as 30 companies at a time. Such coverage provides them with breadth of information but limits the amount of time they can spend performing in-depth analyses on any one company. Thus, buy-side analysts spend a significant amount of time interacting with sell-side analysts in order to learn enough information to make specific stock recommendations to their portfolio managers.

"No Man Is an Island": Cooperation at Investment Banks

The success of sell-side research analysts is highly dependent on other functions within the investment bank. Their performance depends not only on their own intelligence and actions but also on the quality of the sales force and the traders within their firms. In order to succeed, analysts must gain as much exposure for their research ideas as possible; however, at best, they can only handle approximately 20 to 30 calls per day. They rely on the sales force at their firm to market their ideas to a wider audience of clients or potential clients. Through their contacts with institutional clients, the sales force provides the analysts with information regarding the specific needs of their clients. A top-quality salesperson acts as a conduit between clients and research analysts, not only selling the analyst's specific recommendations but also filtering the information to clients—interpreting whether the analysts' research signifies good news or bad news for the stock and the company in question.

In addition to relying on the sales force to market their ideas, sell-side analysts depend on the traders at their firms to synthesize their research and translate it into commission-generating transactions. Traders aid analysts by receiving and passing on firsthand knowledge from the trading floor about which stocks are being traded most heavily. Analysts can use such information to guide them in making their short-term action reports. In return, the analysts' research helps traders, since analysts can inform them about upcoming changes in stocks, the companies, and the industry as a whole. In addition, analysts pass on information they learn through discussions with their clients, alerting the traders to potential transactions clients are anticipating.

Thus, the success of a sell-side research analyst depends on the interrelationship among different functions at his or her firm. In order to foster communication among the divisions, both salespeople and traders often attend research meetings with the analysts so that the three departments can share their information and work together as a team to help secure commission dollars for their firm. The most important meeting is held first thing in the morning. At "morning meetings," analysts present their most significant research findings to the sales force and traders so that they can assist more effectively in the analysts' research strategies.

Research Is Passed On to the Buy-Side

Once the institutional salespeople have learned about the analysts' recommendations, it is their job to spread the information to as many institutional clients as possible. Thus, the sales force presents this information to money management firms on the buy-side of the investing process. Buy-side analysts at these firms then evaluate the quality of the research and, together with their own research findings, pass on their recommendations to the head of the buy-side organization—the portfolio manager. Portfolio managers make the final stock-investment decisions. They synthesize the information garnered from research presented by sell-side salespeople, from buy-side analysts within their own research groups, and from the sell-side analysts themselves. Portfolio managers also spend time listening to and assessing the needs of their own clients. Armed with this information, they develop investment strategies and subsequently make specific investment decisions. Not only do they need to determine which securities to buy, but they also must decide the quantity to purchase.

How Research Gets Funded

While the buy-side analysts use research to guide their investment strategies, investment firms do not sell the research itself directly to investors. Therefore, firms must fund the research they provide through other means (i.e., from trading commissions). When institutional investors use investment banks to trade their securities, the firms earn a certain amount of money (around three cents per share) in commission and then use part of the money generated to help fund their research products. This process consists of portfolio managers and buy-side analysts voting once, twice, or four times a year (depending on the firm) for the sell-side investment firms with which they wish to do business. Hence, the quality of a sell-side analyst's research is crucial to the investment firm because portfolio managers direct their traders to purchase stocks based on the recommendations they receive from these analysts. From these trades, investment firms also learn which of their analysts' research led to the transactions and, thus, can roughly determine how much commission money that the firm earned is due to each analyst. Analysts who help bring in more revenue to their firm receive greater compensation.

Institutional Investor *Rankings*

Before *Institutional Investor (II)* magazine began ranking Wall Street research analysts in 1972, there had been no benchmarking mechanism to determine who the best analysts in the field were. Every year since 1972, in mid-October, *II* has published an "All-America Research Team" list that ranks research analysts by sector at four levels: first, second, third, and runner-up. The editor's letter asks voters to rank the analysts who "have been most helpful to you and your institution in researching U.S. equities over the past twelve months."[a] *II* keeps the identities of the survey respondents and the institutions they work for confidential. The magazine asks institutional clients to evaluate analysts using six criteria: earnings forecasts, industry knowledge, overall service, accessibility and responsiveness, stock selection, and written reports. Survey respondents give one overall numerical score to every research analyst in each industry sector. The votes are cumulated using weights based on the size of the voting institution. An analyst can be ranked in more than one sector; however, only a small percentage of analysts achieve rankings in multiple sectors.

Ranked analysts then become known as "stars," and stardom status greatly affects the compensation an analyst will receive, effectively splitting the market into the "haves" and "have nots." Investment firms take out full-page ads, proudly announcing that their analysts have been ranked. This, in turn, can lead to an increase in profits for the firm since it can drive up trading commissions and bring in additional investment banking business. According to a research director, it is "by no means perfect that the number four analyst is better than the number six one, but it has added transparency and efficiency to the system. No question." However, recruiter Richard Lipstein wisely notes, "The rise of *II* made stars of people quickly and threw compensation out of whack. These stars also became targets for other firms to try to hire."

Prior to the *II* polls, it was simply the firm that the analyst worked at that gave the analyst his credibility. As a former research director noted: "If you put just about anyone in a chair at Goldman Sachs, people are going to listen to him, but *II* added transparency and peer pressure: 'He's the number one analyst. I've never heard of him, but maybe I should pay attention.'" Thus, it was partially the influence of *II*, which divides analysts into stars and non-stars, that led to the rise of the sell-side analysts' power and the huge compensation they subsequently demanded.

Source: This section draws heavily on the research paper, "Anatomy of the Wall Street Research Department" (Boris Groysberg © 2004).

[a]Provided by Denise Murrell (e-mail), managing editor, *Institutional Investor*, September 22, 1999.

Exhibit 2 Analyst Rankings in the Semiconductor Industry (October 2003) and Movement (November 2003 through June 2004)

II Rank	Name	Brokerage Firm	Overall Score in 2003[a]
1(1T)	Richard Palmer	Firm A	18.54
2 (2T)	David Hughes	Spenser's and Company	14.03
3 (3T)	Peter Thompson	Rubin, Stern, and Hertz	7.43
4 (RU)	Kirsten Coltons	Firm D	7.25
5 (RU)	Seth Horkum	Jefferson Brothers	7.24
6 (RU)	Peter Pratt	Firm F	6.88
7	Rodger Antrim	Left Firm G and current affiliation unknown	6.83
8	Sonia Meetha	Welsh, Harrison, and Smith	6.56
9	Robert Whittaker	Retired from Firm I	6.01
10	Kenji Proustanta	Left Firm J for Firm N	5.78
11	Gerald Baum	Gotz and Loeb	2.03
12	Nilesh Singh	Left Firm L and founded a new company	1.92
13	Victor Brunsky	Firm M	0.91
14	Nathan Thomas	Retired from Firm N	0.76
15	Laura Simmons	Firm O	0.75
16	Theresa Brady	Firm P	0.74
17	Lynda Preston	Left Firm Q and current affiliation unknown	0.71
18	Jake Gitelman	Left Firm R and joined a company in the industry	0.67
19	Mary Crabtree	Firm S	0.63
20	Barry Kensington	Firm T	0.63
21	Trevor Wretz	Firm U	0.63
22	Larry Millbank	Firm V	0.49
23	Bernard Fox	Firm W	0.48
24	Joel Orka	Firm ×	0.39
25	David Kendal	Firm Y	0.39
26	Natalie Ping	Firm Z	0.32
27	Justin Brown	Firm AA	0.31
28	Douglas Zimms	Left Firm AB and joined a company in the industry	0.23
29	Christine Chang	Firm AC	0.23
30	Boris Tanbleen	Firm AD	0.23
31	Martin Bell	Firm AE	HM
32	Dan Lynch	Firm AF	HM
33	Mark Rousseau	Firm AG	HM
34	Louis Smith	Left Firm AH and research industry	HM
35	Joseph Pode	Firm AI	HM
36	Josiah Walker	Firm AJ	HM
37	Thomas Manh	Firm AK	HM
38	Gail Radan	Left Firm AL and current affiliation unknown	HM
39	Ben Dinsmore	Left Firm AM and current affiliation unknown	HM
40	Mark Garvey	Firm AN	HM
41	Paul Li	Firm AO	HM
42	Robin Quinn	Firm AP	HM
43	Joyce Yantz	Left Firm AQ and research industry	HM
44	Neil Fox	Firm AR	HM
45	Avishi Plowberg	Firm AS	HM
46	Emily Vise	Firm AT	HM
47	Stephen Truax	Left Firm AU and research industry	HM
48	James Doyle	Firm AV	HM
49	Anshuman Sheikh	Firm AW	HM
50	Gerald Lewy	Firm AX	HM

Source: Adapted and disguised based on *Institutional Investor* rankings.

HM=Honorable Mention (received fewer than five votes). Analysts that received zero votes are not included in this table. As per published rankings: 1T=1st Team; 2T=2nd Team; 3T=3rd Team; RU=Runner-up. In its October issue, *Institutional Investor* magazine publishes names and pictures of ranked analysts (1T, 2T, 3T, and RUs). Brokerage firms buy the rest of the rankings (below runner-ups). Data on unranked analysts are available to investment banks only.

[a]Numbers in this column must total 100.

Exhibit 3 Important Factors Shaping the Perception of Sell-Side Research for 2003 (Tables A–C)

Table A Sell-Side/Buy-Side View of Important Factors Shaping the Perceptions of Sell-Side Research for 2003

	Buy-Side View			**Sell-Side View**	
	Score	**Rank**		**Score**	**Rank**
Industry Knowledge	9.11	1		9.35	1
Integrity / Professionalism	8.57	2		8.96	2
Accessibility / Responsiveness	8.46	3		8.71	3
Useful & Timely Calls & Visits	7.68	4		8.15	5
Management Access	7.56	5		7.33	6
Special Services (e.g., co. visits, etc.)	7.53	6		6.74	10
Written Reports	7.26	7		6.69	11
Independence from Corporate Finance	7.24	8		7.18	7
Communication Skills	7.12	9		8.65	4
Financial Models	6.94	10		6.90	8
Stock Selection	6.48	11		6.78	9
Earnings Estimates	6.28	12		5.79	12
Quality of Sales Force	6.21	13		NA	NA
Market Making / Execution	5.65	14		NA	NA
Primary Market Services	4.61	15		NA	NA

Source: "U.S. Equities: The Market Report," *Institutional Investor* Research Group, November 2003, © 2003, p. 6.

NA = not applicable.

Table B Sell-Side Firm Selection Factors for U.S. Equities

	Buy-Side View	
Firm selection factors	**Score**	**Rank**
Research and Ideas	9.13	1
Quality and Access to Company Contacts	7.99	2
Execution Capability / Access to Stocks	7.41	3
Quality of Generalist Sales Force	6.54	4
Quality of Specialist Sales Force	6.05	5
Quality of Settlement	5.53	6
Quality of Investment Banking Deals	3.75	7
Counterparty Risk	3.69	8
Attractiveness of Investment Banking Deals	3.34	9
Quality of Client Account Reviews	3.33	10
Derivatives Capability	3.18	11

Table C Factors When Allocating Commissions

	Buy-Side View	
Allocation factors	**Score**	**Rank**
Quality and Accessibility of Analysts	8.28	1
Quality of Investment Ideas	8.03	2
Access to Company Management	7.83	3
Depth and Breadth of Company Coverage	7.47	4
Written Research	7.12	5
Execution Capability / Access to Stocks	7.11	6
Generalist Sales	5.86	7
Economics and Strategy	5.11	8
Settlement	4.87	9
Specialist Sales	4.84	10

Source: "U.S. Equities: The Market Report," *Institutional Investor* Research Group, November 2003, © 2003, p. 3.

Exhibit 4 Profile of David Hughes

David Hughes attended Rutgers, where he experimented with several majors before settling on electrical engineering. After graduation, he spent a year as a research associate at a small research boutique. David entered MIT's Sloan School of Management in 1974. When companies came to campus to recruit, he was flooded with interviews. He joined the Wall Street firm Buck and Associates as a junior analyst in the semiconductor industry in 1976.

At Buck, he worked closely with his mentor, one of *II*'s newly ranked semiconductor analysts, and learned the importance of maintaining close relations with clients, providing in-depth coverage of his industry, and writing quality reports. After four years, David replaced his mentor as senior semiconductor analyst. Three years later he was an *II* runner-up. By 1988, however, not having risen in the *II* rankings, he moved to Spenser's and Company, hoping the larger firm's name would increase his recognition. Though he had to learn to work with large sales and trading divisions and to service large corporate clients, it was a strategic move. At Spenser's, David ranked first four times and second five times; in other years he received either a third place or runner-up ranking. He developed a reputation for a razor-sharp mind, vast industry knowledge, and rare interpersonal skills that generated a large client base. According to some clients, though, he had started to slow down lately. His travel schedule was less intense, though his work was still superior. Some felt he was winding down his career; others argued that he was still going strong but growing bored at Spenser's.

Spenser's and Company

Spenser's and Company was a traditional full-service Wall Street investment bank with an elaborate organizational structure. Over the years, it had become evident that the firm's formal managerial style and standardized procedures contributed to its success. Some analysts shied away from its formalized protocols, but others thrived under the discipline. The firm was among the first on the Street to expand its operations globally and many analysts realized that connections at the international companies they covered would aid their professional development. In sum, the benefit of working at a prestigious firm with extensive global reach often outweighed distaste for institutional procedures; many analysts remained at Spenser's for several years.

The management of the research division took this same view and believed that explicit procedures and regulations would cushion their analysts against uncertainty: Analysts merely had to follow the protocol to be successful. The head of research required analysts to submit reports in a specified format and to meet with the Investment Committee before announcing rating changes on the stocks they covered. New analysts took a formal 10-week training course and the head of research encouraged senior analysts to participate in monthly career-development programs.

The head of research also initiated a rigorous analyst-review process, requiring all senior analysts to submit business plans for the upcoming year and to write progress reports in time for mid-year and year-end reviews. Analysts' compensation was partly based on whether they met the goals outlined in their plans. Biannual performance reviews kept the head of research on top of his department: If one of his analysts was having difficulties, he could address the problem early.

Source: Casewriters.

Exhibit 5 Profile of Gerald Baum

Gerald Baum was born to be a technology analyst. His mother was a professor of mechanical engineering and his father was a senior portfolio manager at a prestigious Boston mutual fund company. As a child, Gerald demonstrated prowess in both technology and business: he built a short-wave radio, for instance, and also led the stock market club at his high school. At MIT, Gerald received a B.S. in computer science with honors in 1988. He spent the next year as a research assistant in his college advisor's lab under a National Science Foundation fellowship and grew to love the investigative aspect of research.

Gerald worked for two years in the sales department of a small but growing Boston computer company, then for another year as an associate at a consulting firm. In 1991, he entered the Yale School of Management. Upon graduating, Gerald immediately found a job as a junior analyst with a Wall Street investment firm that had recently ranked among the top five in *II*. Thanks to the research department's superb development program, *II* ranked Gerald as a runner-up after only two years with the firm and as a third-teamer the next year. Convinced that his compensation did not reflect his success, Gerald moved to another large Wall Street firm in 1996 and finally settled at Gotz and Loeb in 1998. Neither move was beneficial: Gerald's ranking dropped to runner-up after his first move and he lost his *II* recognition completely the year he moved to Gotz and Loeb. Confident, nevertheless, that he could recapture his ranking and appreciative of Gotz and Loeb's relaxed atmosphere and the opportunity to cover cutting-edge companies, Gerald seemed happy to remain there. By leveraging the firm's reputation and persevering, he achieved ranking in *II* again in 2003. But then he became frustrated because, despite his success, his compensation had leveled off. He was also covering fewer new companies and the novelty of his work was diminishing. He now welcomed overtures from recruiters.

Gotz and Loeb

Although Gotz and Loeb was a full-service investment firm that covered several industries, it was widely viewed as specializing in technology companies. Specifically, the firm dealt with relatively unknown companies which blossomed after Gotz and Loeb assisted them with their initial public offerings. Gotz and Loeb preferred to manage fairly informally. In addition, the firm was famous for innovative products. In the early 1990s, before business embraced the Web, Gotz and Loeb provided its clients with preliminary electronic versions of research reports and stock recommendations.

The research division attracted young employees who disdained the formal business culture of many older Wall Street firms but who were bright, ambitious, competitive, and eager to earn money. Gotz and Loeb especially attracted individuals who had worked at technology companies. These analysts were grateful to work in a stimulating environment at a Wall Street firm, covering companies whose products they valued and had once worked on as engineers and programmers. Many analysts covered relatively unknown companies which later exploded in popularity, bringing large returns to investors who had heeded their recommendations and generating lavish commissions for Gotz and Loeb and generous bonuses for the analysts. Given their competitive bent, many analysts liked to work by themselves; teamwork was rare at Gotz and Loeb. These young and ambitious colleagues drove one another to ever-higher levels of performance. However, the atmosphere at Gotz and Loeb also lent itself to above-average employee turnover.

Source: Casewriters.

Exhibit 6 Profile of Sonia Meetha

Sonia Meetha grew up in California and had only lived on the East Coast for five years. She had majored in engineering at Cal Tech, but had always wanted a career in business. Upon graduating in 1985, she spent several years in engineering, first as a design engineer at a small computer-graphics firm and then as a sales agent at a distributor of semiconductors and electronic components.

Sonia then attended business school at Stanford. After receiving an MBA in 1991, she found her calling as a research analyst in technology stocks. She began her new career as a junior analyst in the San Francisco branch of a prominent investment firm. She married and probably would have stayed in California, but her parents died in a car crash shortly after her marriage in 1997. To get away from painful memories, Sonia accepted a senior position at Welsh, Harrison, and Smith (WHS), a small firm in Stamford, Connecticut.

But after working for a small boutique for five years, Sonia was restless. Her financial models were elegant and her clients appreciated her insights. But though she initially welcomed the oversight of the research director, she now found the environment stifling and inimical to her creativity. Moreover, the firm had recently hired a new research director, who praised the timing of Sonia's research reports and the accuracy of her stock-picking, but was pressuring her to travel more. Instead, she demonstrated her value to the firm by pushing it toward globalization. Her reports on two non-U.S. semiconductor firms were well received by clients and quite successful. By now, she was thinking of pursuing a more lucrative position on Wall Street. But even though *II* had mentioned her as an "up-and-comer" a couple of years earlier, large Wall Street firms barely noticed her and she seldom received an interview.

Welsh, Harrison, and Smith

Welsh, Harrison, and Smith was a research boutique on the outskirts of Stamford, Connecticut. Working there appealed to many analysts. The pace was a bit slower than at a large Wall Street firm and one could live in the suburbs and not have to commute. But because of its size, WHS lacked the resources to compete with large Wall Street firms. To economize, WHS maintained a minimal managerial staff and covered only certain industries. Consequently, senior analysts at WHS had to perform mundane work that on Wall Street would have fallen to an administrative assistant.

The atmosphere at WHS lent itself to supervisory micromanagement. All major decisions, from determination of bonuses to the pros and cons of opening an office overseas, were made strictly at the executive level. Once young analysts landed at WHS, they found that there was no official training-and-development program. WHS analysts were essentially autonomous entities. Without formal guidance, some struggled to build a solid client base and a noteworthy reputation. Others welcomed the prospect of building their franchises with little oversight and thrived on their freedom to conduct innovative research.

Consequently, WHS attracted analysts with particular reasons for joining the firm. Many had other commitments and preferred to work at a firm with a simplified business arrangement. Notably, WHS offered very small salaries—analysts were expected to earn the rest of their compensation through bonuses. The firm linked compensation to the amount of commission money employees generated. Leading analysts could earn a total compensation package of $500,000, only $200,000 of which was salary. But most never earned such sizeable bonuses. Aware that they could readily take their skills to other firms, many analysts welcomed calls from recruiters or actively searched for new positions.

Source: Casewriters.

Exhibit 7 Profile of Seth Horkum

Seth Horkum grew up in a lower-middle-class household and, thanks to his family's savings, work-study jobs, and a hefty scholarship, he attended Harvard. He graduated *summa cum laude* in economics in 1982. In 1989 he graduated from Columbia's business school with an MBA and quickly found work as a sell-side analyst at Jefferson Brothers. Always eager to please his director of research, he worked 12–16-hour days and took on assignments that other junior analysts did not want. His long hours at work resulted in the breakup of his eight-year marriage. His ex-wife then moved, along with their twin sons, to Washington, D.C. To add insult to injury, his research director never seemed to regard him as among the top analysts in her department. However, his clients praised the quality of his research reports and remarked that he was a brilliant stock-picker. They also appreciated his accessibility and responsiveness—Seth answered their phone calls and e-mails promptly and was willing to travel on short notice. Seth believed he deserved more recognition; each year he was bitterly disappointed. Worse yet, public recognition was a significant factor in compensation at Jefferson and his compensation reflected the fact that he had not been ranked.

This year, *II* had finally recognized Seth as a runner-up. He hoped this ranking would be a springboard to higher rankings, but was disappointed when Jefferson still did not increase his bonus much. He was worried that Jefferson already had him pegged as someone who would never be a star. Convinced that he would not achieve true success there, Seth began looking for a better platform where he could become the best semiconductor analyst on Wall Street.

Jefferson Brothers

Jefferson Brothers had become quite profitable by specializing in the coverage of medium-sized companies rather than competing with larger firms for the business of major corporations. Jefferson lured up-and-coming analysts with the promise of independence and retained them with generous bonuses and shares of the company's stock. The firm held regular training sessions and monthly best-practices seminars, at which the more successful senior analysts shared their experiences. Confident that intrinsic motivation would drive the analysts, the research director exercised minimal managerial authority. She welcomed questions, but essentially left it to each analyst to develop a first-rate product.

Thanks to large investments in information technology support, Jefferson had systems that could prepackage financial information for each analyst. The systems also allowed the firm to be very thorough in collecting information on analysts; each analyst had his or her own profit-and-loss statement and management knew exactly how much each analyst was bringing in. The research department linked the analysts' compensation to their performance. The research director conducted yearly performance reviews, evaluating analysts on tangible factors such as the amount of revenue in commissions they generated, the number of reports they wrote, the number of client calls they made, how frequently they visited companies, and their *II* rankings. She also gathered information on her analysts from surveys of salespeople and traders. These factors were weighted on their overall importance to the research department and the firm. She placed great weight on the analysts' rankings because many companies banked with Jefferson on the strength of its top-ranked analysts. Since star analysts supplied the research department with a strong foundation and were vital to the firm, Jefferson reserved most of its bonus pool for these high performers, leaving its non-star analysts with far lower compensation. Thus, star analysts greatly enjoyed working at Jefferson but analysts who were not ranked found the firm's culture more problematic.

Source: Casewriters.