Too Many Cooks Spoil the Broth: How High-Status Individuals Decrease Group Effectiveness

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Can groups become effective simply by assembling high-status individual performers? Though an affirmative answer may seem straightforward on the surface, this answer becomes more complicated when group members benefit from collaborating on interdependent tasks. Examining Wall Street sell-side equity research analysts who work in an industry in which individuals strive for status, we find that groups benefited—up to a point—from having high-status members, controlling for individual performance. With higher proportions of individual stars, however, the marginal benefit decreased before the slope of this curvilinear pattern became negative. This curvilinear pattern was especially strong when stars were concentrated in a small number of sectors, likely reflecting suboptimal integration among analysts with similar areas of expertise. Control variables ensured that these effects were not the spurious result of individual performance, department size or specialization, or firm prestige. We discuss the theoretical implications of these results for the literatures on status and groups, along with practical implications for strategic human resource management.

Key words: group effectiveness; group dynamics; individual performance; individual status; stars

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High-status individual performers are often in demand by organizations seeking to gain a competitive edge. It is easy to understand the intuition that more stars must be better when it comes to performance, given the potential task contributions and enhanced prestige that high-status stars bring to their groups. This intuition is apparently widespread given the bidding wars for star individual players by groups in many domains, including consulting firms, sports teams, academic departments, boards of directors, start-up businesses, and investment banks. Advocates of this approach devote their attention to assembling the best possible collection of top-notch individual performers, assuming that the group is well on its way to succeeding once the best and brightest are on board (Boynton and Fischer 2005). This approach undoubtedly has merit; when group effectiveness is partly a function of individual contributions, it should help to have highly talented individuals (West 1994). Beyond contributing to the group’s task performance, individual stars may also directly enhance the group’s perceived standing in the eyes of external constituents (Goode 1978). For groups that work on tasks with subjective and ambiguous effectiveness criteria, success often depends on the perceptions of customers, clients, bosses, lenders, shareholders, governmental agencies, and other external stakeholders (Hackman 2002).

On the surface, the “more is better” approach to assembling high-status performers sounds eminently reasonable. Yet, some people question the headlong rush to acquire more stars by groups striving to outperform their competitors (O’Reilly and Pfeffer 2000). In contexts where people need to collaborate to some degree to perform interdependent tasks, a major concern is that high-status individuals may have trouble working together (Overbeck et al. 2005, Tiedens and Fragale 2003). Stars have expectations and egos that may impede their willingness to share information, cooperate, make joint decisions, and engage in related integrative behaviors that help them perform interdependent tasks (Hambrick 1994). From this viewpoint, the perceived effectiveness of a group of high-status, interdependent stars may sometimes be less than the sum of its parts. An additional worry is the possibility that once a group has some stars, there will be decreasing returns to adding more stars, making the premium compensation demanded by stars a poor investment for the group. This decreasing return could apply to performance on some group tasks as well as the enhanced prestige that stars bring to groups.

The purpose of this study is to formulate and test hypotheses about the efficacy of assembling star individual performers in the hopes of increasing group effectiveness. In the next sections, we theoretically situate the current study and then develop specific hypotheses about how group composition in terms of members’ status influences perceived group effectiveness. In doing so,
we draw connections between the literatures on individual status and group functioning that have been largely overlooked. We test these hypotheses on a sample of analysts belonging to Wall Street equity research departments, contributing empirical evidence that supports our hypotheses.

**Theoretical Background**

Our first order of business in theoretically situating this study is to employ a relatively broad construal of what constitutes a group, defining it as a social aggregate in which members are mutually aware of their shared membership and of their potential for interaction (McGrath 1984). We draw on Hackman’s (2002, p. 23) widely used definition of group effectiveness, which holds as its first criterion that “the productive output of the team (that is, its product, service, or decision) meets or exceeds the standards of quantity, quality, and timeliness of the team’s clients—the people who receive, review, or use the output.” In the groups we study, as in many groups, members produce both individual and joint output, as we describe in the next section. Rather than restrict our study solely to groups with high levels of task interdependence, we make use of naturally occurring variation in interdependence and group composition to test how these factors contribute to group effectiveness, as perceived by the clients who use the group’s output.

Interdependence among the members of a group can vary by type and amount. One important dimension is task interdependence, which Thompson (1967) characterized as either pooled (members perform task components separately and in any sequence), sequential (members perform task components separately but in a specific sequence), or reciprocal (members perform task components that depend on inputs from other members, and vice versa). Others have modified and added to these types, but most definitions and typologies are in agreement that the greater the task interdependence among group members, the greater the need for members to integrate their work, and the greater the potential for the group to benefit from collaboration (Wageman 2001).

When task components are interdependent, it is important to consider the collaborative behaviors that contribute to accomplishing those tasks. In formulating our hypotheses, we employ the theoretical concept of “behavioral integration,” which is “the degree to which the group engages in mutual and collective interaction” (Hambrick 1994, p. 171). Hambrick (1994) argued that even groups that are not highly cohesive, tight-knit “teams”—such as many top management groups or, in the present case, groups of research analysts—still have the potential to benefit from engaging in rich, timely, and accurate information exchange, collaborative behavior, and joint decision making.

For groups that perform interdependent tasks, the composition of group members can influence their ability to integrate their work. Researchers have conducted numerous studies of group composition, including some that examine group members’ individual skills and abilities (West and Allen 1997) along with others that test the consequences of functional and demographic diversity (Williams and O’Reilly 1998). Missing from this literature, however, is research on how the status of individual members—an integral dimension of group composition— influences perceived group effectiveness. This is a particularly striking omission given the importance placed on individual status by those in organizations (Ridgeway and Erickson 2000). Our study attempts to fill this gap.

Fortunately, many researchers have studied the antecedents and consequences of individual status, giving us an abundance of work on which to build our hypotheses. Indeed, scholars in this domain consider the striving for status to be a universal motive (Hogan and Hogan 1991). We define individual status as “the amount of respect, influence, and prominence” people enjoy in the eyes of others (Anderson et al. 2001, p. 117). Researchers have investigated the antecedents of high individual status, such as individual performance, personality, and attractiveness (Anderson et al. 2001), and the individual-level consequences of high status, including personal well-being and control over resources (e.g., Adler et al. 2000). A distinction has been drawn between global and local status, whereby people’s global status ranking in a larger collective, such as an industry or field, may differ from their local status ranking in a smaller, embedded group, such as an organization or department (Magee and Galinsky 2008, Blau 1964). Global status is likely to be widely known by a broad range of people compared to local status, which is often of greatest concern only to those in the local group. Another important distinction is that status hierarchies can be explicitly demarcated and governed by clear rules, so that the status ranking is consensually understood (Blau and Scott 1962) or implicitly constructed and defined by people’s subjective interpretations (Schmid Mast and Hall 2004).

When individuals join a group, they tend to be concerned with their local status relative to their fellow members (Bendersky and Hays 2010), causing group members to strive to organize themselves, explicitly or implicitly, into a local status hierarchy that is influenced in part by members’ standing on dimensions of global status (Berger et al. 1972, Magee and Galinsky 2008, Ridgeway and Erickson 2000).

We develop theoretical logic to predict how the composition of a group, in terms of the global status held by individual members, should influence perceived group effectiveness. To do so, we focus conceptually on two mechanisms through which the global status of the individuals who comprise a group should have an impact.
We first draw on sociological research to acknowledge the well-established role of visibility in linking individual global status to perceived group effectiveness (Hypotheses 1 and 2). More provocatively, we then theorize about how individuals with high global status may compete with each other for local status within their group, interfering with behavioral integration to the detriment of perceived group effectiveness (H3). We expect this detrimental effect to be especially pronounced in groups whose members possess overlapping areas of expertise, which heightens the competition for local status (H4).

**Hypotheses**

Most scholars of group effectiveness agree that, all else equal, groups with more talented individual members should outperform groups with less talented members (Tziner and Eden 1985). Those who assemble groups should first diagnose the tasks of the group and then consider technical capability for performing these tasks as a key criterion for selecting individual group members (Stevens and Campion 1994, West and Allen 1997, Mohrman et al. 1995). The benefits to group performance of assembling talented individuals extend beyond the simple aggregation of their separate contributions, however. Individuals often benefit from working with talented colleagues, particularly in knowledge-intensive positions (Cummings and Oldham 1997). In studies of academic scientists, the motivation to maintain informal esteem among highly productive colleagues enhanced productivity (Zuckerman 1967). Also in the scientific realm, close contact with talented peers provided ideas that stimulated scientists’ individual productivity (Allison and Long 1990). Because most of their development and training occurs at work, knowledge workers also depend on their peers for suggestions and guidance (McCall 1998). Working with capable colleagues allows knowledge workers to broaden their range of skills and competencies, enhancing their contributions to their group.

Talented coworkers also help to provide a range of developmental functions, such as coaching, counseling, role modeling, sponsorship, exposure, protection, confirmation, and friendship (Kram 1988), and thereby increase the performance of their departmental colleagues (Shapero 1985, Jain and Triandis 1990). Because the output of some professionals is also the input into the work of others (Maister 1993, Thompson 1967), individuals can benefit from being surrounded by talented and productive peers. For example, Jacob et al. (1999) found that as the percentage of equity analysts who follow the same industry increases, analysts’ forecast accuracy improves. The analysts following the same industry make use of each other’s work. Moreover, certain individuals play a consolidating role, integrating the work of their colleagues into a final product. For example, relationship managers at investment banks coordinate interaction between the different functions of the investment bank, the product units, and the client (Eccles and Crane 1988). The more talented the people in these roles, the greater the performance of the group should be. For all of these reasons, strong individual performers should boost the effectiveness of their groups. Given this expectation, in the hypotheses that follow we theorize about the consequences of status only after accounting for the effects of individual performance on perceived group effectiveness.

High-performing individuals typically (but not invariably) are accorded high status by those around them, both implicitly and explicitly, both locally and globally. High status confers a variety of benefits to those individuals who possess it and to the groups to which those individuals belong. If an individual is “prominent…in the eyes of others” (Anderson et al. 2001, p. 116) and others associate the individual with a particular group, then the group should be more prominent and visible by virtue of this association. Individual prominence should be highest when it stems from status that is global, and therefore known by a wide range of actors (versus local status, which is less likely to be known outside a small circle of colleagues), and when status is explicitly defined and therefore widely agreed upon (versus implicit status, which actors may construe very differently). Accordingly, in our hypotheses about group composition, we focus on status that is global and explicit and therefore most likely to be desired by groups seeking to heighten their visibility and effectiveness. Many domains provide examples of global, explicit status rankings, such as all-star teams, gold medals, most valuable player awards, and various forms of recognition and awards granted by industry associations. In the Methods section, we discuss the issue of operationalizing global status in our particular empirical setting.

The prominence of the group should increase the group’s access to resources that help it succeed, such as funding or new members or customers. This enhanced access should promote perceived group effectiveness, particularly in contexts in which the group must compete with similar groups for resources. As Goode (1978, p. 75) noted, “In both a psychological and a temporal sense, people do not possess sufficient time and energy—enough ‘shelf space’—to focus on any but the top competitors” in a particular domain. Therefore, adding a high-status individual may push a group into the realm of top competitors.

Supporting this logic, students or top scientists who achieve high levels of recognition tend to enhance the prestige of their universities (Cole and Cole 1973, Goode 1978). In turn, this greater visibility is likely to improve opportunities for tangible resources such as research grant funding and consulting. Podolny (1993) demonstrated how the high status of a group, in turn, increases
future perceived group performance (see also Benjamin and Podolny 1999). In effect, the visibility of an individual star serves as free advertising for the individual’s group (Podolny 1993), enhancing the group’s ability to secure resources and therefore be more effective.

HYPOTHESIS 1 (H1). Holding constant group members’ level of individual performance, groups with more individuals with high global status will be perceived as more effective than groups with fewer individuals with high global status.

Following this line of reasoning, the first bona fide star in a group is likely to vault the visibility of the group to a new level. As more stars join, however, the group’s visibility may reach such a high level that it begins to plateau. For a star-studded group that is already highly visible to most stakeholders in its domain, adding an additional star may add only a negligible increment of visibility to the group. This suggests that each additional star joining a group could have a marginally decreasing benefit to perceived group effectiveness. Although additional stars do add further visibility, they do not put a group on the map in the way that the first stars can. To the extent that individual stars advertise their group, beyond some level the advertising by the group’s other stars has already saturated the audience.

HYPOTHESIS 2 (H2). Holding constant group members’ individual performance, more individuals with high global status will have a decreasing marginal benefit on perceived group effectiveness.

Hypotheses 1 and 2 hinge on whether individual stars increase the visibility of the group to external stakeholders, a conceptual mechanism that occurs outside the group. Although this external pathway may have a powerful effect, our theorizing to this point paints an incomplete picture because we have not yet considered how the global status of the individuals in a group might influence dynamics within the group. After all, perceived group effectiveness is a function not only of members’ individual talents but also of their ability to work together to integrate their efforts, especially when the task components for which they are responsible are interdependent (Wageman 2001). Interdependent tasks require members to make joint decisions, work collaboratively, share information in a timely and efficient manner, and otherwise integrate their efforts (Hambrick 1994). For group tasks that require such behavioral integration, it is important that members possess interpersonal skills alongside their technical expertise (LaFasto and Larson 2001; Hackman 2002). Unfortunately, those with the best technical expertise and high global status do not always exhibit the best collaborative skills with their local colleagues.

Recent evidence suggests that individuals prefer to be differentiated rather than similar in status relative to their peers. Tiedens and Fragale (2003) demonstrated not only a systematic preference for such hierarchical differentiation, but also that status differentiation appeared to be functional. Analyzing behaviors known to be associated with dominance and submission, they found healthier dynamics among dyads with complementary rather than similar levels of dominance. Some of the benefits of status differentiation flow from the clarity it brings to social interactions among people of different status levels (Sutton and Hargadon 1996). High-status individuals, because they tend to have more power, are able to resolve differences of opinion about work tasks and related activities among those with lower status. Drawing on an evolutionary perspective, Overbeck et al. (2005) argued that hierarchical differentiation tends to enhance the survival of groups by ensuring that members are accountable for task accomplishment and that resources within the group are distributed appropriately. These advantages help to explain the prevalence of status hierarchies within groups of all types (Mazur 1985).

The preference for a clear status hierarchy presents a problem in a group composed of multiple members with high global status but no preestablished local status hierarchy. Although the designation of local status internally within a group is often influenced by the global status accorded to individuals outside of the group (Berger et al. 1972), by no means is the conversion of global status into local status always direct or straightforward (Magee and Galinsky 2008). This conversion can be especially troublesome when global status is granted explicitly but local status can be gained implicitly through interpersonal machinations and internal political maneuvering. Indeed, group members may be eager to maximize their own local status if they are jealous, envious, or distrustful of colleagues who have high global status. At the same time, people with high global status may exaggerate their own local status, reducing the likelihood of being accepted by their group members (Anderson et al. 2006). These dynamics, driven by competition for local status, help to explain how group members can be reviled locally even as they are revered globally.

In the absence of an agreed-upon local status hierarchy, people of equal global status may find their disputes more difficult to settle and more disruptive to their work. Such disruptions are likely to be greatest when they occur between people of equally high (versus equally low) status because there is no one above them to help to resolve their differences and because their decisions are likely to have a greater impact on group functioning. Furthermore, equally high-status members may compete with each other for positions of leadership. In the case of top management groups, Hambrick (1994) argued that excessive similarity between group members could risk the prospect of head-on rivalries for CEO succession that drives group members apart and reduces their quality of
information exchange and collaboration. Taken together, these dynamics suggest that groups consisting of a high proportion of members accorded high global status are likely to be interpersonally uncomfortable, lacking the beneficial status differentiation that people seek.

Adding fuel to the fire, experts with high global status may have their identities and egos intertwined with their status and expertise (Polzer and Caruso 2008, Polzer et al. 2002), causing task-related conflict to escalate into relationship conflict in which participants’ egos are at stake (Jehn and Mannix 2001). When such forces take hold, individuals may deploy competitive tactics aimed at winning the dispute rather than engage in objective debate aimed at distilling the best task solutions for the group as a whole (Eisenhardt et al. 1997).

Because of these and related interpersonal dynamics, groups with too high a proportion of individual stars may become a breeding ground for dysfunctional, counterproductive, and even vindictive behavior, the antithesis of the behavioral integration necessary for achieving high perceived group effectiveness. Indeed, Overbeck et al. (2005) demonstrated that teams with too many individuals seeking high local status did not work together as smoothly as teams composed of members with more varied status-seeking tendencies. Although hierarchies ultimately developed within all teams, in some teams this differentiation required members with high aspirations to be pushed begrudgingly into low-status positions. Taken together, these dynamics may reduce perceived effectiveness in groups with a high proportion of individual stars holding high global status.

**Hypothesis 3 (H3).** *Holding constant group members’ individual performance, more individuals with high global status will have a decreasing marginal benefit on perceived group effectiveness up to a point, beyond which the slope is negative and more individuals with high global status will decrease perceived group effectiveness.*

We have described how competition for local status can cause group members to engage in a variety of dysfunctional behaviors that decrease group effectiveness. Such competition may be especially acute and disruptive in some groups, whereas members of other groups—including stars—may not spar for local status in ways that disrupt group effectiveness. One contingency that may explain this variation is the extent to which group members possess overlapping areas of expertise or, conversely, relatively independent areas of expertise, a factor that should moderate the effect described in H3. This factor is important because status differentiation is inherently based on the process of interpersonal comparison, and some group members are more comparable than others for the purpose of determining local status.

Group members can compare themselves to one another along many different dimensions to sort out relative local status, but task-based expertise is an especially prominent source of status for members of organizational workgroups (Barley 1986, Owens and Sutton 2002, Berger et al. 1998). In such groups, competition for status often takes the form of debates or arguments about whose expertise should prevail when making task-relevant decisions, solving problems, and the like. When group members possess expertise in the same domain, their interaction can be especially contentious because one person’s claim to expertise potentially threatens another person’s status, leading to spirals of aggressive behavior or avoidance (Porath et al. 2008). When group members possess expertise in different domains, however, they can proclaim their expertise to their heart’s content without threatening or challenging the expertise of others. When stars can each claim local status in their own distinct domains, the salience of interpersonal comparisons should be lower, reducing the need to compete for status. Group members who can rule over their own local domains, or territories (Brown et al. 2005), can receive strong and clear verification of their expertise while they fulfill their separate responsibilities unimpeded by their colleagues’ status strivings in other, independent domains.

Our theorizing builds on the work of scholars who have described similar dynamics. Thibaut and Kelley (1959), for example, identified several conditions that are likely to invite status comparisons and, therefore, incite rivalry among members of a group. Group members with similar expertise, compared to their counterparts with unrelated expertise, frequently meet these conditions, such as working within a similar domain, often in subgroups, and engaging in frequent face-to-face interaction (Thibaut and Kelley 1959). Frank (1985, p. 51) also anticipated our logic by noting that when “co-workers perform their tasks largely independently of one another, one’s rank among one’s co-workers should matter less than it does [when] interactions among co-workers are more extensive,” as is the case among group members with similar expertise. Similarly, Hambrick (1994, pp. 190–191) noted how group members who have “more specialized, distinct, and clear domains of activity” direct their attention away from “multiway interchange” and toward their own nonoverlapping spheres, which should reduce status competition.

Group members who possess similar expertise may often integrate their work through frequent interaction. If each interaction episode becomes a competition for local status, however, this is likely to impede the information sharing and cooperation that are the hallmarks of behavioral integration, harming perceived group effectiveness. Of course, individuals with high global status may choose to avoid one another rather than engage in such competitive behavior, but this tactic is also likely to reduce integration and, therefore, hurt perceived group effectiveness. Conversely, when group members possess different areas
of expertise they should be less likely to compete for local status, suffer low levels of behavioral integration, and consequently harm perceived group effectiveness.

**Hypothesis 4 (H4).** Holding constant group members’ individual performance, the effect of more high-status individuals on perceived group effectiveness will vary based on expertise similarity. In particular, the curve will become negative at a lower proportion of stars in groups with more similar expertise, and at a higher proportion of stars in groups with more heterogeneous expertise.

**Methods**

**Research Setting**

To test our hypotheses, we examined the “sell-side” equity research analysts who work in investment banks on Wall Street. Security analysts analyze companies in a particular industry sector (e.g., telecommunications, pharmaceuticals, food and beverages) or investment specialty. Their products include earnings forecasts, stock recommendations, and detailed company research reports. On average, each year an equity analyst writes 53.1 company-specific research reports of at least two pages on 13.6 companies under coverage. Sell-side analysts’ customers are large-scale institutional investors, including money management firms, mutual funds, hedge funds, and pension funds. It is not unusual for more than 800 institutional clients to receive analysts’ research reports.

Although research analysts generally gain their greatest fame and rewards for producing individually written reports, in actuality their work involves varying levels of interdependence and behavioral integration with their departmental colleagues, making the boundary around the research department meaningful for analysts within the group and for clients who use the output of those in the group. In terms of interdependence, analysts regularly pool their individual outputs into department-level products, for example to produce lists of best and worst stocks for the next year and other overall investment recommendations. Sequential interdependence also takes place among analysts covering the same or related industries. For example, analysts covering the oil industry may detect trends in industrial and consumer demand that affect the forecasts of analysts working in the auto industry whose predictions, in turn, influence analysts working in the steel industry. Examples also abound of reciprocal interdependence. First, large-scale industry and macroeconomic trends can affect multiple companies and industries whose forecasts mutually influence each other, and each of which are covered by different securities analysts. Second, analysts may work side by side on the analysis of large-scale business ventures, such as when the company Amgen licensed medical applications to Johnson and Johnson. It is customary for research departments to produce quarterly and annual reports combining and integrating research by multiple analysts covering different firms that are either in the same industry or sensitive to similar trends such as interest rates or currency strength. Taken as a whole, the level of task interdependence in a given department depends on the constellation of industries and companies covered by the analysts in that department (as well as the managerial style and priorities of the research director), but is sufficiently high to make the group boundary meaningful.

Analysts also exhibit varying degrees of behavioral integration. Some analysts engage in regular information exchange to share their methods for performing financial-metrics calculations or their research and forecasts on particular companies, industries, and regions. They sometimes read each other’s reports to provide critique and suggestions for improving the work, and to learn about techniques they can use in their own work. Analysts also collaborate on specific projects as well as on professional development activities. For example, some departments hold conferences and off-sites for their analysts to discuss specific job skills such as analytical tools, general skills such as working with clients, work–life balance issues such as stress management, and other topics. Analysts are also responsible for joint decision making when they fulfill hiring and general administrative functions. These examples of integrative behaviors hold the potential for analysts to improve their collective performance on tasks for which they must share their expertise with each other or, conversely, to miss opportunities for improvement because of dysfunctional behavior.

Finally, concerns about status run deep among equity research analysts. An individual analyst’s reputation and remuneration can rise or fall with changes in the recognition they receive from external constituents. Since 1972, Institutional Investor magazine has annually ranked sell-side analysts in what it describes as its All-America Research Team. For instance, in October of 1996, Institutional Investor magazine ranked the top analysts in each of 80 equity industry groups and investment specialties. In each of these subsectors, there are four levels of awards: first place, second place, third place, and runner-up (we describe the procedure used to produce these rankings in the section to follow). In 1996, for example, less than 3% of all U.S. analysts were ranked.

When Institutional Investor magazine publishes the names of the ranked analysts, they embellish the report with pictures of the first-place analysts and clients’ comments on why the second- and third-place analysts were chosen. With their names published as top experts on their particular industry, the stars enjoy great visibility, respect, and media coverage, and large-scale investors follow closely their forecasts and reports. Media commentators seek out star analysts’ opinions on the best...
and worst stocks in their sectors. Brokerage firms boast of their ranked analysts in full-page newspaper ads. Top-ranked analysts can easily earn from $2 million to $5 million per year at the major investment banks (Dorfman 1991, Laderman 1998, Securities Week 1994). During mergers, the merged firm generally keeps the highest-ranked analysts (Schack 1997).

Researchers have treated public status and private levels of effectiveness as a single construct because of the inability to separate knowledgeable raters’ privately held beliefs from those beliefs accessible to the public. The analyst industry allows us to move beyond previous research by empirically distinguishing analysts’ public status from private ratings of perceived effectiveness. The Institutional Investor rankings of the top four or five analysts per subsector are published in a magazine to wide acclaim and are eagerly anticipated as a source of public status. These public rankings are based on underlying continuous measures of client ratings that are not published, and in fact are intentionally kept out of the public eye, such that they cannot be used as a source of public status from those analysts whose ratings fall just short of the top four or five top spots and therefore are never publicly acknowledged for their performance. In his seminal work on prestige, Goode (1978, p. 66) anticipated the impact of such a system: “Those few who are viewed as leaders in any given field seem to receive a large part of whatever public prestige payments are made, and the winners in various kinds of competition, even when they are marked off from the losers by minute differences in performance . . . seem to be given far greater amounts of prestige than those differences would appear to justify.” This ranking system used in the analyst industry sharpens the distinction between public status and actual effectiveness. At the same time, two caveats must be made. The first is that because the Institutional Investor rankings are based on clients’ perceptions of analysts’ performance, the perception is, to a great degree, the reality. The other is that perceived performance may influence actual performance through a halo effect, or self-fulfilling prophecy.

The equity analyst industry provides an ideal environment for testing our hypotheses. First, as described above, individual status is of crucial concern both to analysts and their clients. Analysts produce reports that others use to guide multimillion dollar decisions, yet their financial forecasts—like any predictions—are inherently uncertain. Consumers who cannot be certain of the quality of a product are particularly sensitive to the seller’s status (Carroll and Swaminathan 2000, Han 1994, Shapiro 1983, Kollock 1994, Podolny 1994, Stuart et al. 1999), making this an ideal context for detecting the effects of analysts’ status and performance.

Furthermore, unlike other industries, there are few barriers preventing all customers from consuming the highest-status product. For example, high price and scarcity make it impossible for all consumers to drive the highest-status automobile or live in the highest-status neighborhood. Status often corresponds to a level of exclusivity, so that higher-status producers cannot increase concentration beyond a certain point to dominate the market (Podolny 1993). The reports produced by equity research analysts, however, are scalable and can achieve wide distribution without any dilution of real or perceived quality, so that large-scale investors have no such constraint on demanding reports from the highest-status analysts. Likewise, it does not cost more for a journalist to call a star rather than an unrated analyst for an interview.

Concerns about status have real potential to disrupt integration among analysts within this context. On one hand, stars within the same sector can each receive a first-place ranking from Institutional Investor if each star works in a distinct subsector (also known as an industry group), so from this perspective they are not competing against one another for this source of global status. On the other hand, however, analysts within and across different subsectors may compete for internal resources such as departmental budget allocations for research, travel, compensation, and bonuses, or for more symbolic resources like a corner office. Such internal competition for resources and local status markers is more likely between analysts within sectors than across sectors, in part because analysts within sectors possess overlapping areas of expertise and are more likely to encounter one another, in formal meetings and informal day-to-day interactions, than analysts across sectors. Taken together, these factors make the equity research industry a valuable setting in which to test hypotheses regarding individual global status and perceived group effectiveness.

Sample

Our sample consists of analysts in the Institutional Broker Estimates System (IBES) database during the period January 1996 to December 2001. IBES Incorporated is a firm that compiles and archives quarterly earnings estimates from security analysts who follow U.S. corporations. IBES makes it possible to track a large number of individual and firm characteristics each time an analyst files an earnings estimate for a company under coverage, which occurs about 40 times a year for the median analyst. For each analyst in the database during this period, we gathered the analyst name and total experience, the brokerage house that employed the analyst, and the sectors in which the analyst specialized. Descriptive statistics for all variables appear in Table 1.
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Table 1  Means, Standard Deviations, and Correlations Among Variables

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<tr>
<td>5</td>
<td>Control</td>
<td>Group experience</td>
<td>231</td>
<td>19.879</td>
<td>5.648</td>
<td>2</td>
<td>37.833</td>
<td>0.274</td>
<td>0.281</td>
<td>0.101</td>
<td>0.1503</td>
<td></td>
<td></td>
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<tr>
<td>6</td>
<td>Moderator</td>
<td>Expertise similarity</td>
<td>233</td>
<td>0.305</td>
<td>0.266</td>
<td>0.101</td>
<td>1.000</td>
<td>−0.426</td>
<td>−0.478</td>
<td>−0.508</td>
<td>−0.274</td>
<td>−0.468</td>
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<td>7</td>
<td>Control</td>
<td>Analyst forecast accuracy</td>
<td>224</td>
<td>54.960</td>
<td>5.244</td>
<td>35</td>
<td>100</td>
<td>0.136</td>
<td>0.097</td>
<td>0.14</td>
<td>0.1252</td>
<td>−0.1</td>
<td>−0.03</td>
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<td></td>
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<td>8</td>
<td>Control</td>
<td>Analyst subjective effectiveness</td>
<td>246</td>
<td>4.466</td>
<td>3.621</td>
<td>0</td>
<td>19.320</td>
<td>0.832</td>
<td>0.804</td>
<td>0.607</td>
<td>0.5805</td>
<td>0.179</td>
<td>−0.33</td>
<td>0.0452</td>
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<tr>
<td>9</td>
<td>Independent</td>
<td>Group percentage of stars</td>
<td>246</td>
<td>0.112</td>
<td>0.172</td>
<td>0</td>
<td>0.805</td>
<td>0.833</td>
<td>0.792</td>
<td>0.409</td>
<td>0.5361</td>
<td>0.298</td>
<td>−0.36</td>
<td>0.1055</td>
<td>0.7784</td>
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</table>

Notes. Correlations in bold are significant at p < 0.05. No data are available for 13 group-year observations for expertise similarity, 15 group-year observations for group experience, and 22 group-year observations for aggregate analyst objective effectiveness.

**Dependent Variable**

Along with individual analysts, research departments as a whole are also the focus of intense scrutiny by industry stakeholders. Greenwich Associates is a company that generates yearly rankings of the best equity research departments. Every year, they publish their poll of buy-side analysts on “their primary sources of equity research.” Approximately 3,000 investment professionals (mostly different respondents than the *Institutional Investor* survey, according to employees of both companies) are interviewed to produce the Greenwich Associates Institutional Research Services rankings. Buy-side professionals are asked to name the top 10 specific research departments that are their best sources for investment ideas. They are also asked about subjects such as service, products, knowledge, and the performance of brokerage houses’ sales representatives. These ratings of research department’s effectiveness by clients incorporate several factors, including productivity (number of reports, actual quality of reports), visibility, and client service levels. Because the Greenwich Associates rankings are based on the total number of responses for each firm given by the survey respondents, this favors larger staffs with broader coverage, and we control for department size in our analyses below. Greenwich Associates ratings are intended to include the entire industry of firms that share a similar institutional customer base, and we include this entire population in our analysis.

For the six-year period from 1996 through 2001, we identified a total of 66 unique research departments that comprised a total of 246 department-year combinations. Each firm has only one equity research department. *Client-rated group effectiveness* is the percentage of institutional clients who rated the *i* research department as being one of the best ten research departments in year *t* (clients’ perceived group effectiveness). Both *Institutional Investor* magazine and Greenwich Associates told us that their response rates vary between 80 and 90%. The average *client-rated group effectiveness* score in our sample was 0.136 (13.6%), representing the percentage of institutional clients who rated the average research department as being one of the best 10 research departments in year *t*. *Client-rated group effectiveness* varies considerably, however (standard deviation (SD) = 0.164).

**Independent Variable**

_Aналyst Global Status_. We operationalized analyst global status using the annual public ranking of the top four to six (first, second, third, and runners-up) analysts per subsector as determined and published by *Institutional Investor* magazine. We counted the number of publicly ranked analysts in each research department in each year. The percentage of stars in the department, *group percentage of stars* is the ratio of ranked equity analysts (analysts who were ranked in more than one subsector were counted once) to total equity analysts in research department *i* in year *t*.7 On average, 11.2% of analysts in a research department were ranked.8 This measure varied considerably across research departments, however. Given that proportions are bounded between 0 and 1, for the *analyst global status* variable we used a logistic transformation as per convention (Fleiss 1981).

**Moderator Variable**

_Expertise Similarity_. Utilizing the IBES database, we identified each analyst’s specialization within 12 major sectors: basic industries, capital goods, consumer durables, consumer nondurables, consumer services, energy, finance, health care, miscellaneous/undesignated, public utilities, technology, and transportation. We assumed that analysts within the same sector possessed more similar expertise, on average, than analysts in different sectors. For example, a variety of analysts in the energy sector might cover companies in international oil, domestic oil, exploration oil, and gas subsectors. Because they cover related companies within the same sector, the areas of expertise of these analysts are relatively similar (and could benefit from integrative behaviors such as sharing information about the effects of changing oil
prices or exchanging opinions about industry trends). By using analysts’ sectors (same versus different) as a proxy for the similarity of their expertise (high versus low), we were able to calculate a measure of the degree of expertise similarity among the analysts in each research department.

To capture the extent to which analysts in a department were clustered together in the same sectors (and therefore more similar in expertise), we used Blau’s (1977) heterogeneity index to measure dispersion across categories, in our case treating sectors as the categories across which analysts were dispersed (for a discussion of heterogeneity indices, see Harrison and Klein 2007). We computed the Blau index in research department \( i \) in year \( t \), resulting in an index that has larger scores when analysts are more dispersed across a large number of sectors (i.e., less clustering and less similarity). We then computed expertise similarity \( \delta_{i,t} \), by reverse coding the Blau index (using one minus the Blau index), so that higher scores on the expertise similarity measure represented more clustering within sectors and thus higher similarity in expertise.

**Control Variables**

The structure of the equity research industry provides for hypothesis tests that are unusually robust against potential confounds and alternative explanations. Empirical analyses of the impact of individual status on group or firm effectiveness have been particularly challenging because the data used in many studies are (1) fragmented among workers in the same firm, job, and industry; (2) rarely observed; and (3) unable to distinguish between workers’ status and underlying performance. Data on firms, workers, and worker–firm combinations are necessary to distinguish among the effects of individual status on individual, department, and firm effectiveness. Moreover, a direct test of the accumulation of status requires longitudinal data with detailed histories of workers and firms. This measurement of status is particularly robust if the study is conducted in a labor market in which a worker’s status is observable not only to his or her own firm but to other firms as well, to attenuate the potential impact of adverse selection.

All of these criteria are satisfied in the analyst labor market. In particular, an analyst’s global status is observable to his or her own firm and to other firms in the labor market and, thus, the effects of information asymmetries are attenuated. The authoritative nature of the Institutional Investor rankings also prevents any idiosyncratic interpretation of analyst global status. Moreover, it is possible to collect data on research departments and their corresponding firms in this labor market, allowing us to control for several variables as follows.

**Analyst Subjective Effectiveness.** Institutional Investor magazine conducts an annual poll of institutional investors. In 1996, these firms represented approximately 68% of the 300 largest institutional investors in the United States. The editor’s letter asks institutional investors to rank the analysts who “have been most helpful to you and your institution in researching U.S. equities over the past twelve months.” The identities of the survey respondents and their institutional affiliations are kept confidential. To determine the overall ranking within investment subsector on the ballot, Institutional Investor sums the number of votes awarded to each individual analyst after weighted the votes based on the size of the respondent’s firm and the rank of the vote. Institutional Investor uses this continuous measure of analyst ratings, which they do not publish in the magazine, to determine the analyst rankings and awards described above that they do publish.

From the detailed database of the Institutional Investor Research Group, we accumulated the unpublished underlying ratings of all ranked and unranked equity analysts (4,912 unique analysts). The Institutional Investor report containing these ratings did not include unranked analysts who received fewer than five votes. We assigned a value of zero to analysts who, according to IBES, belonged to one of the research departments in our sample but who were not included in the Institutional Investor report. Thus, we have analysts ranging from those who scored 0 to one analyst who scored as high as 56.19. We computed the variable analyst subjective effectiveness \( \tau_{i,t} \) as the average of the ratings of analysts in research department \( i \) in year \( t \). In the few cases where analysts were rated in more than one subsector, the highest score was chosen and the other score was dropped. The average analyst subjective effectiveness across research departments was 4.47. This measure ranged from a low of 0 to a high of 19.32.

**Analyst Forecast Accuracy.** We estimated analysts’ average earnings forecast accuracy during the sample period using the same measure of relative forecast accuracy as Hong et al. (2000) and Hong and Kubik (2003). For each company and quarter that an analyst issued an earnings forecast, we ranked the analyst on forecast accuracy relative to all other IBES analysts covering the same company and quarter. We selected the latest forecast for the same company-quarter to estimate forecast accuracy ranking. Percentile ranks range from a low of 0% for the least accurate analyst to 100% for the most accurate analyst, and they were constructed as follows:

\[
\text{percentile rank}_{hjq} = 100 - \left\{ \frac{\text{rank}_{hjq} - 1}{\text{company coverage}_{jq} - 1} \right\} \times 100,
\]

where \( \text{rank}_{hjq} \) is analyst \( h \)’s forecast accuracy rank for firm \( j \) in quarter \( q \), and company coverage \( \text{company coverage}_{jq} \) is the number of analysts issuing forecasts for firm \( j \) in quarter \( q \). The percentile rank is an average measure of individual relative forecast accuracy across firms and quarters covered by the analyst. We computed the variable analyst
forecast accuracy\(_{i,t}\) by averaging the relative forecast accuracy across all analysts in research department \(i\) in year \(t\).

Across all research departments, the mean analyst forecast accuracy was 54.96 (by design, it would have been 50.00 if all brokerage houses from IBES could have been included in the analysis), but this score varied (SD = 5.24).

**Analyst Experience.** Prior studies have shown that more experienced analysts perform better than their less experienced counterparts (Clement 1999, Jacob et al. 1999). We defined an analyst’s total experience to be the number of quarters elapsed between the analyst’s first forecast in the IBES database and the latest forecast observation in year \(t\). To control for the potential effects of analysts’ experience on client-rated group effectiveness, we computed the variable group experience\(_{i,t}\), defined as the average number of quarters of experience for analysts in the \(i\) research department in year \(t\). Analysts at an average research department have 19.88 quarters of experience.

**Group Size.** Prior studies have shown that analysts employed by larger firms tend to be, on average, better forecasters (Clement 1999, Jacob et al. 1999). Larger research departments also have better distribution capabilities for their research. We therefore expected larger groups to be more effective. From the IBES database, we collected information on the number of equity analysts in each research department for each of the six years in our data set. On average, a research department employed 45.29 equity analysts in a given year. Group size\(_{i,t}\) is the total number of equity analysts in the \(i\) research department in year \(t\).

**Firm-Level Status.** Departments may benefit from their firm’s overall status. Analysts who are affiliated with prominent firms have better access to important information and resources. A good firm’s reputation increases customer confidence in the company’s products and services, as well as in its employees’ abilities. Customers use firm reputation as an information signal to predict the quality of its professionals.

We use the “bulge bracket” distinction to differentiate our sample of firms by status. A bulge bracket firm is an investment-banking firm that leads the bulk of securities underwritten in the United States (Eccles and Crane 1988). Historically, the six bulge firms were Credit Suisse First Boston, Goldman Sachs, Lehman Brothers, Merrill Lynch, Morgan Stanley, and Salomon Brothers. In investment banking, platform, capabilities, and resources give bulge bracket investment banks and their employees a competitive edge (Eccles and Crane 1988). To reflect these effects, the bulge status\(_i\), categorical variable is coded as 1 if a research department belongs to a bulge investment bank, and 0 if not.

**Year.** Finally, to control for intertemporal changes across the period 1996–2001, we include dummy variables for each year in our sample.

**Model Specification**

We tested our hypotheses with the following logistic regression model, which we used because the continuous dependent variable, client-rated group effectiveness, was bounded between 0 and 1 (Greene 2000):

\[
\text{Log(} \text{client-rated group effectiveness}_{i,t} \text{)} \\
/1 - \text{client-rated group effectiveness}_{i,t}
= \alpha + \beta_1 \times \text{group experience}_{i,t} + \beta_2 \times \text{group size}_{i,t} \\
+ \beta_3 \times \text{expertise similarity}_{i,t} + \beta_4 \times \text{bulge status}_{i,t} \\
+ \beta_5 \times \text{analyst forecast accuracy}_{i,t} \\
+ \beta_6 \times \text{analyst subjective effectiveness}_{i,t} \\
+ \beta_7 \times \text{group percentage of stars}_{i,t} \\
+ \beta_8 \times \text{group percentage of stars squared}_{i,t} \\
+ \beta_9 \times \text{group percentage of stars}_{i,t} \\
\times \text{expertise similarity}_{i,t} + \beta_{10} \times \text{year dummies}_{i,t}
\]

This equation is estimated using panel data on research departments for the six-year period 1996–2001. We use the random-effects specification to correct for dependence across years within departments (Greene 2000). We interpreted the interaction effect that tested H4 using a simple slope analysis (Aiken and West 1991). The simple slope is the derivative of the outcome variable with respect to one of the explanatory variables. In our model, this is the derivative of \(\text{Log(} \text{client-rated group effectiveness} / 1 - \text{client-rated group effectiveness})\) with respect to group percentage of stars.

**Results**

Table 1 presents the univariate descriptive statistics and correlations between variables. Group size is highly correlated with bulge status, indicating that bulge firms tend to have large departments. Group size is also highly correlated with analyst subjective effectiveness, indicating that large departments tend to employ better analysts and have more analysts who were rated highly by Institutional Investor. Analyst subjective effectiveness is highly correlated with group percentage of stars, indicating a logical correspondence between star status and the underlying performance rankings on which star status is determined.

Table 2 reports the results of five regression models. In Model 1, we examined the direct effects of all control variables on groups’ client-rated effectiveness. Consistent with prior research, group size was
positively associated with a group’s client-rated effectiveness ($p < 0.01$). The estimated coefficient for group experience was positive and significant ($p < 0.05$). Higher average experience of the department’s analysts was associated with greater effectiveness. The effect of the status of the firm, bulge status, on the group’s effectiveness was also positive and significant ($p < 0.01$). The control variables are included in all remaining models.

Model 2 examined the effects of the two measures of analyst effectiveness on client-rated group effectiveness. This model revealed positive and significant effects for analyst subjective effectiveness ($p < 0.01$) and analyst forecast accuracy ($p < 0.05$) on client-rated group effectiveness. Client-rated group effectiveness was higher when the analysts in the group were more effective individual performers.

In Model 3, we examined the effect of percentage of stars on client-rated group effectiveness, controlling for all variables in Model 2, including the individual effectiveness of the department’s analysts. The group percentage of stars coefficient was positive and significant ($p < 0.01$). As predicted by H1, the percentage of stars in the group had a significant positive effect on client-rated group effectiveness. Next, in Model 4, we tested whether the percentage of stars in the group had a decreasing marginal benefit on client-rated group effectiveness (H2) and whether the relationship between client-rated group effectiveness and the percentage of stars beyond a certain point was negative (H3). We found that the coefficient of group percentage of stars remained positive ($p < 0.01$), whereas the square of group percentage of stars was negative ($p < 0.01$). Client-rated group effectiveness was at its maximum for a group composed of 65.1% star analysts, as displayed in Figure 1. Both H2 and H3 are supported in that the slope of this effect exhibits decreasing marginal returns up to 65.1% star analysts and a downward slope when greater than 65.1% of analysts were stars. The value 65.1% corresponds to the client-rated group effectiveness score of 0.33 (transformed from the logistic model).

Finally, Model 5 tested whether expertise similarity moderated the curvilinear relationship between the group percentage of stars and client-rated group effectiveness. As predicted by H4, the interaction between group percentage of stars and expertise similarity was negative and significant ($p < 0.05$). Figure 2 shows the predicted values of $\log(\text{client-rated group effectiveness}_{i,t}/(1 - \text{client-rated group effectiveness}_{i,t}))$ as a function of proportion of star analysts. The curve for high expertise similarity corresponds to one standard deviation above the mean on our expertise similarity measure; low expertise similarity corresponds to one standard deviation below the mean. All other variables are set to their mean.

In Figure 2, the slope for the high expertise similarity groups exhibits decreasing marginal returns up to 44.6% star analysts and a downward slope when greater
of analysts were stars. The value 44.6% corresponds to the \textit{client-rated group effectiveness} score of 0.12 (transformed from the logistic model). In contrast, the slope for groups low in expertise similarity shows decreasing marginal returns up to 69.9% star analysts and a downward slope when greater than 69.9% of analysts were stars. The value 69.9% corresponds to the \textit{client-rated group effectiveness} score of 0.44. Following Aiken and West (1991), we also computed slopes at different levels of the moderator variable at 5% changes in percentage of stars to illustrate the curvilinear effects for the three curves displayed in Figures 1 and 2. Table 3 reports the results of these tests. We also conducted a significance test for the difference in slopes between high and low expertise similarity. The difference in slopes is significant. In particular, the difference in slopes is constant (2.92 for +1 SD to −1 SD), and the significance level is also constant and identical to the \textit{p}-value reported for the interaction variable in the regression output (\textit{z}-statistic = 2.24, \textit{p} < 0.025). This pattern supports H4 by showing that the effect of the percentage of stars on \textit{client-rated group effectiveness} becomes negative at a lower percentage of stars (44.6%) when similarity is high than when similarity is low (69.9%).

**Discussion**

This study developed and tested hypotheses concerning the effect of individual status among Wall Street equity research analysts on client-rated group effectiveness. We examined this question empirically in an industry context in which global status is important and explicit, in which perceptions of individual and client-rated group effectiveness are quantitatively measured, and in which control variables were available to separate these effects from potential confounding factors. Questioning a “more is better” approach to assembling groups consisting of stars, we found that research groups benefited from having a greater percentage of individual star analysts only up to a point, beyond which the slope of this curvilinear pattern became negative. Groups with high proportions of individual stars were especially troubled when those stars possessed similar areas of expertise and were concentrated in a small number of sectors, bolstering the interpretation that this negative slope reflected dysfunctional group processes in departments with “too many cooks.”

**Theoretical Implications**

We interpret our findings in light of two theoretical mechanisms. First, these findings add to the research literature on group composition. Past investigations have conceptualized composition in terms of similarity of demographic and personality characteristics, and

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**Table 3 Results of Slope Tests for the Group Percentage of Stars Variable**

<table>
<thead>
<tr>
<th>Group percentage of stars (%)</th>
<th>Overall (Figure 1)</th>
<th>Low expertise similarity (Figure 2)</th>
<th>High expertise similarity (Figure 2)</th>
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<tr>
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<td>(z)</td>
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education and job training, but not in terms of individual status. Status is qualitatively different from these other factors in the sense that it is entirely a matter of social construction (Ridgeway and Erickson 2000), distinguishing it from internal characteristics such as personality or externally observable demographic attributes. Furthermore, individuals appear motivated to create local status heterogeneity within their groups, regardless of its initial distribution, and such heterogeneity, once established, can be a beneficial force that makes interpersonal interactions smoother and more predictable (e.g., Overbeck et al. 2005, Tiedens and Fragale 2003). The process of establishing a stable heterogeneous status distribution, however, may be disruptive.

More generally, individual status as an aspect of group composition may have the potential to help integrate the often fragmented study of diversity in groups. By analyzing the typical diversity dimensions studied by group researchers in terms of their influence on the group’s local status hierarchy, researchers could account for contextual differences across a wide variety of diversity dimensions (e.g., sex, race, nationality). Importantly, status as a unifying construct could account for the complexity of diversity while maintaining theoretical parsimony (e.g., see Polzer and Caruso 2008).

In theorizing about the consequences of a high proportion of star performers, we propose that behavioral integration (Hambrick 1994) plays an important conceptual role. A higher proportion of stars can have a negative impact on perceived group effectiveness, presumably because group members’ attempts to gain local status disrupt information sharing and related integrative activities. Consistent with the logic underlying the proposed mechanism of behavioral integration, expertise similarity moderated the effect of the group percentage of stars on perceived group effectiveness. By spreading out performers with high global status over a range of areas of expertise, as reflected in the industry sectors covered by analysts, research departments attenuated the otherwise harmful effect of having a high percentage of stars. By highlighting these consequences of status, this study complements the point made by Overbeck et al. (2005) that clarity about the local status hierarchy can be considered a resource for workgroups, in that hierarchical differentiation helps to ensure that members are accountable for task accomplishment and that resources within the group are distributed appropriately.

The current findings contribute to the individual status literature by documenting an impact of global status in a research setting that accounts for many alternative explanations. Notably, economists often argue that status can serve as a proxy for performance, even though the two can be loosely coupled (e.g., Allen 1984, Shapiro 1983). Equity research is a field in which many observers exert Herculean efforts to uncover and report the underlying performance of individuals and departments. Yet even so, we found that individuals’ global status predicted department rankings over and above the underlying ratings of individual performance. This adds to evidence that public visibility, and the resulting social construction of reputation, is an important factor impacting market transactions and relationships, beyond that of private beliefs regarding the past performance of actors (Podolny 1993).

Limitations
This empirical study has limitations that are important to address in future research. For example, although we assessed similarity in expertise among star individual performers in terms of the concentration of industry specialties within each group, a more precise test of the proposed mechanisms for our findings would include a direct measure of behavior in terms of the amount and quality of time spent working together or other assessments of participants’ interpersonal interaction. Finer-grained measures of local status, including more focus on group members’ internal status hierarchies, could also illuminate more of the microprocesses that underlie the effects we found in this study. Experimental research in which status is assigned to participants could test the underlying causal mechanisms that were not measured in this study. In addition, because we examined the equity research sector with its unusual focus on the status of individuals, it is not clear how these results would generalize to contexts in which individual global status is either less explicit or less important, despite claims about the universal nature of status strivings. In many other environments, self-serving biases could lead individuals to focus on the performance metrics on which they excel, thus leaving many group members to see themselves as high in local status within the group. Furthermore, the relationships we found may vary in other environments in which global status is not as visible and closely tracked.

A critic of these findings might argue that our performance rating of research departments is merely a group-level aggregation of individual-level contributions, or that it represents only visibility and not group performance per se. Our empirical setting and findings help to assuage such concerns. Conceptually, the operational definition of our dependent measure follows closely from Hackman’s (2002) widely used definition of group effectiveness, which focuses on the usefulness of the group product as rated by the product’s primary consumers. Thus, we argue that our measure of client-rated group effectiveness truly captures effectiveness and not merely visibility. In support of this assertion, we note that if this dependent measure captured only external visibility, there would be no logical basis for a negative slope at high concentrations of stars when aggregating individual-level status to the group level.

Finally, skeptics might express concern with our examination of research departments, which are groups
of individuals whose work involves varying levels of interdependence and behavioral integration, but which are not necessarily teams. We argue that having a certain level of competition built into the work of securities analysts makes this research setting a conservative choice for studying the influence of group composition on performance, and, indeed, one might find greater collective-level effects in other settings. Moreover, if integration of work activities were unimportant in our empirical setting, we would have difficulty explaining our pattern of results. This gives us confidence in extending our findings to other social aggregates, including classically defined teams.

Managerial Implications

The current findings have important practical implications for strategic human resource management. Put simply, sometimes “less can be more.” For those assembling groups, the blind pursuit of a “more is better” approach to hiring stars can lead to unintended collective consequences. Our findings imply that managers attempting to build high-performance groups sometimes overspend to recruit high-status individuals. Past the point of establishing that a group is high in prestige, additional star performers have very expensive salaries yet may not bring a correspondingly high return. Each successive star contributes less to a group than the previous star when the additional expertise and visibility is partially redundant with that of existing group members.

Furthermore, high global status can contribute to a big ego, and at some point these group members can contribute to dysfunctional dynamics at the same time they earn high salaries. By analyzing the similarity in expertise among group members, managers can better determine the appropriate mix of star and conventional members. Managers can assess the right proportion in their particular work setting based on their group members’ global status levels, motivations to attain high local status, expertise similarity, and task interdependence. Greater numbers of high-status individuals can continue to contribute to group performance the less that they must work collaboratively to achieve results. For groups with large numbers of star performers, managers and coaches should be aware of the potential dysfunctions of clashing egos and should be alert to the need to intervene to help high-status individuals collaborate. One step is to establish formalized processes for making decisions and assigning decision rights that minimize reliance on individuals of equally high status making ad hoc attempts at interpersonal influence. This is particularly worthwhile given the lack of authority above such stars to mediate disputes and the lack of a clear status hierarchy to determine whose opinion prevails. Establishing such processes can help groups composed of high-status members avoid the pitfalls of too many stars that we found among equity analysts.

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Endnotes

1Throughout this paper, we use the term “star” to indicate an individual with high global status.
2The longitudinal data sample on which this paper is based are from 1996 to 2001, so the subsequent economic crisis—and collapse of many of the former top investment banks—appeared at a later date.
3This was calculated from “Nelson’s Top 25 U.S. Research Firms—Ranked by Total Number of U.S. Companies Covered.” Numbers are not adjusted for mergers. Source: Nelson’s Catalog of Institutional Research Reports, 1988–1996.
4Analysts allocate about 90% of their time to institutional investors and only 10% of their time to retail investors.
5The terms “ranked analyst” and “star analyst” are used interchangeably throughout this paper and refer to sell-side analysts who are ranked by Institutional Investor magazine and therefore have high global status.
6Although investment banks can purchase from Institutional Investor the underlying ratings of their own analysts, they are contractually prohibited from revealing these data to anyone outside their firm.
7In fact, Institutional Investor magazine measures the strength of the research department as the ratio of ranked equity analysts to total equity analysts employed.
8Although about 11.2% of the analysts in our sample were ranked relative to the entire security industry, this proportion would be much smaller, because the analysts in smaller firms tend to be primarily unranked.
9IBES forecast data begin in 1983. However, this is not a serious problem; only 2% of our sample analysts were listed on IBES in 1983.
10The difference in slopes is constant for different values of percentage of stars, and its standard error is ABS (high heterogeneity – low heterogeneity) times the standard error of the regression coefficient. Because the value is constant and the standard error is constant, the z-statistic and p-value are constant. (See Equation 5.12 in Aiken and West 1991, p. 80, for the formula for the slope in this kind of model.)

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