

Chasing Stars: Big Disappointment on High Expectation?

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Organizations often recruit exceptional performers, i.e., a 'star' from outside the organization but subsequently find that the 'stars' performs much worse for the new organization than his or her previous employer (Groysberg, Nanda, & Nohria, 2004). Past research has attributed the performance decline to lack of effort, the difficulty of transferring the context, systems, and processes that made the high performance possible in the prior organization, and to the fact that managers in the new organization envy stars' high pay and cooperate little with the star.

We argue that the negative association between hiring stars — e.g., Chief Executive Officers (CEOs) — and performance — e.g., the stock price of the stars' companies — may largely due to people's unwarranted expectations on how 'leaders' could overwhelm the adversity and lead the companies to higher performance (Denrell & Liu, 2012). Such a collective irrational expectation may be reflected by the soar of the stock price of the companies who recently hire star CEOs. We predict that the sharper the increase in the stock price when companies chasing stars, the stronger the effect of regression to the mean afterwards, leading to huge disappointments. Such fluctuation on stock prices could have serious negative impacts on companies' governance, culture, morale, and subsequent performance.

The primary goal of this miniproject is to examine our argument empirically using 'Big Data' building on research by one of the supervisors (Preis, Reith, & Stanley, 2010) which demonstrates that changes in query volumes for company names mirror changes in current volumes of stock market transactions. Firstly, the project requires to retrieve data of a set of CEOs (e.g., [the top 100 CEOs published by Harvard business Review](#)) and the number of their names being searched on Google Trends (www.google.com/trends). Secondly, the methods will be applied to analyse correlations between our measure for collective attention and stock price fluctuations. The analysis can be extended to other contexts, e.g., how financial analysts' reports attract investors' attention and how that influences firms' performances.

Previous preliminary experience in the following three areas is of advantage to complete this miniproject: (1) basic programming skills and experience with automated data download; (2) time series analyses; (3) writing reports for an academic audience which could, e.g., lead to a journal publication.

This miniproject can be the basis for a PhD project. One possible direction is to extend the analysis to a larger scale and examine similar association in other contexts, such as in voting behaviours in political arena.

More information about research interests of both supervisors can be found here:

<http://www.wbs.ac.uk/about/person/tobias-preis/>

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Please do not hesitate to contact us if you have questions about this miniproject.

Denrell, J., & Liu, C. (2012). Top performers are not the most impressive when extreme performance indicates unreliability. *Proceedings of the National Academy of Sciences*, 109(24), 9331-9336.

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