How Important Are Relationships for Investment Banking?

Daniel Bradley  
University of South Florida  
dbradley@coba.usf.edu  
813.974.6326

Hyung-Suk Choi  
Hongik University  
hyungsuk.choi@hongik.ac.kr  
822.320.1749

Jonathan Clarke  
Georgia Institute of Technology  
Jonathan.clarke@mgt.gatech.edu  
404.894.4929

May, 2009

We thank Samuel Bulmash, Jack Cooney, Tyler Henry, Delroy Hunter, Bill Johnson, Beverly Marshall, Rajesh Narayanan, Jeff Netter, Jay Ritter, Ninon Sutton, Larry Wall, Lei Wedge, Donghang Zhang and seminar participants at the 2008 Financial Management Association and 2008 Eastern Finance Association conferences, the University of Georgia, Virginia Tech, and the University of South Florida for helpful comments. We are responsible for all remaining errors.
How Important Are Relationships for Investment Banking?
This paper examines the impact of investment banker job changes on the M&A and equity market shares of investment banks. Using a unique sample of job changes between 1998 and 2004, we find, on average, that the bank losing the banker experiences a negative and significant decrease in its industry market share while the gaining bank’s market share doesn’t change significantly. However, after controlling for deal and bank-level characteristics, hiring a banker from an investment bank with a more prominent industry presence has a positive impact on both equity and M&A market share for the gaining bank and a negative impact on the losing bank’s M&A market share. After the banker switches firms, we find a significant amount of business follows the banker from the losing bank to the gaining bank. Pooled and paired wealth effects around the announcement of a switch for gaining and losing banks are positive and significant, suggesting the market views banker additions as value increasing. Overall, our results suggest human capital is a critical component of investment banking deal flow.
How Important Are Relationships for Investment Banking?

1. Introduction

What influences the decision makers at firms to choose a particular investment bank? Since investment banking is a commodity business and competition to win mandates is fierce, reputation and relationships are critical. Reputation can stem from the investment bank itself (name brand recognition) or from the human capital that it employs.¹

Much of the academic literature has focused on the reputational capital of investment banks and the certification role that it plays in the pricing of securities.² Significantly less attention has been given to the role of human capital in the investment banking business. A few exceptions exist. Dunbar (2000) finds that for established banks, an increase in the quality of the bank’s analysts has a positive impact on market share. Clarke, Khorana, Patel, and Rau (2007) investigate the impact of Institutional Investor all-star analyst job switches on market share and investment banking deal flow to the banks affected by the switch. They find that the bank gaining the all-star analyst increases its market share for equity transactions, but find no such evidence for M&A or bond transactions. In the context of examining the impact of analyst following on a bank’s likelihood to win an underwriting mandate, Ljungqvist, Marston, and Wilhelm (2006) control for the departure and arrival of key investment bankers. Suprisingly, they find that the movement of key bankers has little impact on the probability of winning an equity mandate.

In this paper, we attempt to quantify the impact of key investment bankers by following a similar approach to Clarke et al. (2007). That is, we examine the effect of investment banker job changes on a bank’s deal flow using a hand-collected dataset of 249

---

¹ See Anand and Goletoric (2000) for a theoretical analysis of investment bank competition when deal information is possessed by a key banker, rather than the firm.
² See, for example, Carter and Manaster (1990), Megginson and Weiss (1991), Carter, Dark, and Singh (1998), and Loughran and Ritter (2004).
investment banker switches over the August 1998 to December 2004 period. We examine three main issues. First, we examine the market share changes to the investment banks affected by the switch (the gaining and losing banks) and examine the cross-sectional determinants of these market share changes. Next, we examine the deal flow of the investment banks after the switch to determine if clients follow their banker to the new bank. Finally, we investigate wealth effects upon the announcement of the job change.

We document three main empirical findings. First, we find that, on average, the bank gaining the banker experiences an insignificant increase in its industry-level market share. The losing bank however, experiences an economically and statistically significant decrease in its industry-level market share of approximately -0.65%. This loss is driven primarily by a decline in M&A business. However, in the cross-section, we find the ability to hire an investment banker from a rival firm that has a greater industry presence than the hiring firm is positively related to the gaining bank’s market share and negatively related to the losing bank’s market share. For instance, depending on the model specification and type of transaction (equity or M&A), hiring a prominent rival increases market share anywhere from 0.7 percent to 2.9 percent. It corresponds to approximately a 2.5 percent decline in M&A market share for the bank losing the investment banker. This effect is distinct from the overall reputation of the investment bank.

Second, we find evidence that a significant amount of business follows the investment banker from their old bank to their new bank. The gaining bank generates a significantly greater percentage of business from the losing bank’s previous clients compared to the losing bank’s percentage of the gaining bank’s clients. This result holds for both equity and M&A transactions. We examine the likelihood of a firm following the banker to his new
employer and find that this is positively related to the industry presence of the switching banker’s old employer.

Finally, we find significant wealth transfers upon the announcement of banker job switches. The difference in market adjusted returns between the gaining bank and the losing bank is approximately 2 percent, which is both statistically and economically meaningful, indicating the market views job switches positively. Collectively, our evidence indicates that human capital is a vital component of an investment banks’ ability to generate business.

The rest of this paper will proceed as follows. Section 2 provides the motivation of this paper and a discussion of the related literature. Section 3 explains the data and empirical methods, while Section 4 reports our empirical results. Finally, section 5 concludes.

2. Motivation

Our paper is most closely related to two strands of literature. The first strand examines the turnover of key personnel within a firm and the second examines the competition for investment banking deal flow. The latter papers generally focus on the impact of past performance, pricing and analyst coverage on future deal flow. We briefly discuss this literature below and highlight our contribution.

Investment banking is characterized by on-going relationships rather than arms-length transactions. For example, Corwin and Schultz (2005) note that approximately 70 percent of firms stay with their initial underwriters from their IPO to their subsequent equity offers. Drucker and Puri (2005) examine lending by banks and its influence on future business. They find that concurrent lending as well as prior lending by the underwriter to the firm significantly affects firm–underwriter pairings and the pricing of underwriting services.3

3 Though not directly related to this paper, Hochberg, Ljungqvist, and Lu (2007) show the importance of networks in the venture capital industry. They find VC firms that are better networked have better fund
Dunbar (2000) directly examines deal and issuer characteristics that influence market share for banks that participate in IPOs between 1984 and 1993. He finds a positive association between long-run performance and market share. Banks that underprice too much, limit their industry presence, and are associated with withdrawn IPOs lose market share. Rau (2000) focuses on M&A deal flow and finds that market share is unrelated to subsequent post-acquisition performance, but the percentage of deals completed in the past. He notes that the contingent fee structure common in M&A deals forces banks to focus on completing deals.

Krigman, Shaw, and Womack (2001) examine firms that switch underwriters from their IPO to SEO. They find that an important determinant of switching is to graduate to more prestigious underwriters with better research coverage. Their findings are corroborated with survey results from CFOs of companies that ultimately switched underwriters. Interestingly, they find that underpricing is not an important factor in the switch decision.

Much of the evidence on the role of individual talent in generating deal flow focuses on security analysts. Cliff and Denis (2004) argue that issuing firms pay for research coverage through underpricing. Since the lead underwriter controls the allocation of shares, they will choose to allocate hot IPOs to favored clients and reap quid pro quo profits. Consistent with their arguments, they find that lead underwriters with Institutional Investor All-Star analysts are significantly more underpriced. Loughran and Ritter (2004) also attribute part of the large rise in underpricing through time, particularly during the 1999-2000 internet frenzy, performance and portfolio firms are more likely to have a successful exit with a better networked-positioned VC.

The practice of “spinning,” allocating shares to firm-level decision makers as a bribe for future deal flow and “laddering,” allocating shares to institutions who pay abnormally high commission rates are now explicitly banned. See Hao (2007) and Nimalendran, Ritter, and Zhang (2007) for further details on laddering and Liu and Ritter (2007) for further information on spinning.
to “analyst lust.” That is, firms were willing to leave large amounts of money on the table for favorable research coverage from all-star analysts.

Clarke et al. (2007) try to measure the impact of all-star analysts on investment banking business. They investigate the effects of job switches of all-star analysts on market share and investment banking deal flow. By focusing on career changes, they isolate the impact of key personnel. They find some evidence that the bank gaining the all-star analyst increases its equity market share. In a related paper, Clarke, Dunbar, and Kahle (2006) find no evidence that the gain or loss of an all-star analyst impacts the pricing or performance of initial public offerings.

Groysberg, Lee, and Nanda (2007) also examine star analysts who switch employers, but focus on whether or not they maintain their star status after the switch. They document an immediate decline in their ability to maintain their current status level, which persists for up to 5 years. This decline in performance is not as severe for analysts that switch to banks with greater capabilities or switch with other team members. They interpret their results to suggest that the firm’s capabilities and skills both influence an analysts’ performance. Further, they find banks that hire from more reputable firms experience more negative stock market reactions suggesting that hiring stars is a value destroying move, on average.

Ljungqvist, Marston, and Wilhelm (2006) examine the impact of analyst recommendations on winning investment banking mandates. While the focus of their paper is on the relationship between aggressive analyst recommendations and the likelihood of winning investment banking business, they do control for investment banker job changes in their models. They find that such changes are not related to winning equity mandates. Nor do they find that aggressive analyst recommendations attract banking clients.
The above papers suggest that analysts may play some role in generating investment banking business for their employer. It seems reasonable to conjecture that prominent investment bankers have a more direct impact on market share, but other than the control used in Ljungqvist, Marston, and Wilhelm (2006), we are aware of no other study that empirically investigates this idea.

We hypothesize that the human capital of bankers plays a critical role in generating deal flow. Thus, when bankers defect to a competing firm, the banks gaining (losing) such prominent bankers should see an increase (decline) in market share as their ability to attract and retain clients is strengthened (diminished). Any such changes should be related to the quality of the banker. If job switches are meaningful, the market should respond favorably upon the announcement of a hire and negatively to the departure for the gaining and losing banks, respectively. Finally, if relationships are important, we should observe clients following their banker to their new firm.

3. Data and methods

3.1 Sample Description

We hand-collect our sample of investment bankers switching firms from *Investment Dealer’s Digest* (IDD). *IDD* is published on a weekly basis and has been used as a data source in a number of academic studies including Carhart (1997). The sample is compiled from the “Out Takes” section of the magazine, which discusses movement of key personnel within the investment community. From this section, we are able to compile a list of investment bankers who moved from one investment bank to another over the period August 1998 to December 2004.\(^5\) In addition to the name of the banker and the investment banks switched to and from, the magazine also identifies the banker’s title (i.e., Global Head, Managing

\(^5\) Our sample begins in August of 1998 because this is when the data first becomes available online.
Director, etc.). We restrict our analysis to only those cases where we can identify an industry of specialization for the banker. Our search yields 249 cases of prominent bankers switching firms, which is significantly larger than the 169 observations in Ljungqvist, Marston, and Wilhelm (2006). For each banker, we also searched the Who’s Who directory, performed Google searches, and collected biographical information provided on IDD to obtain information on the banker’s experience. We find information on experience for 159 of the 249 observations, or approximately 64% of the sample.6

***Insert Table 1 about here***

Panel A of Table 1 shows the frequency of banker turnover by year. The highest incidence of banker turnover occurs in 2000, when there were 56 cases, or about 22.5 percent of the sample. Panel B reports the titles of the bankers that switched. The majority of the reported cases occurred at the Managing Director level or higher. Only 49 of our 249 observations were at the director level or lower.7,8

While Clarke et al. (2007) classify analysts switching employers into one of 59 GICS (Global Industry Classification Standard) industries; it appears that investment bankers specialize in broader industries. Therefore, we classify bankers into one of 9 GICS sectors.9

---

6 We also collected individual information on each banker including undergraduate and graduate institutions attended, whether or not they hold the CFA designation, and number of prior employers they had. This information is available for a much smaller portion of the sample. In unreported regression results, these variables are not significantly related to market share changes.

7 Our results are qualitatively similar if we consider only managing directors or higher.

8 We acknowledge that IDD does not contain the full population of banker switches and therefore sample selection bias may be a concern. For completeness, we also did an exhaustive search on Lexis Nexus for banker defections using various search parameters. This did yield several more banker changes that were not reported in IDD. However, the information contained for each announcement was not uniform and in most cases significantly lacking, particularly for the industry classification. Our analysis suggests that IDD reports on key personnel changes, which also explains the lack of observations at the director level or lower. Thus, our sample likely contains bankers that have the most important impact on the bank’s deal flow.

9 We use GICS codes in preference to other classification schemes used in the literature (such as Standardized Industry Classification System (SIC) codes, North American Industry Classification System (NAICS) codes or the Fama-French (1997) industry groupings (FF)) since Bhojraj, Lee and Oler (2003) show that GICS classifications are significantly better at explaining stock return co-movements, as well as cross-sectional variations in valuation-multiples, forecasted growth rates, and key financial ratios.
Panel C shows that over half of the observations are classified into one of the following industries: Information Technology, Financials, Consumer Discretionary, or Health Care sectors.

In unreported results, we find that approximately 36 percent of the switching bankers moved to investment banks with a similar industry reputation, while 49 percent of the bankers moved to investment banks with a lesser industry presence. The remaining moved to a higher rated bank.

3.2 Market share calculations

The key variable of interest throughout much of this paper is market share.\(^{10}\) We calculate market share using gross proceeds as in Dunbar (2000).\(^{11}\) Specifically, we compile a comprehensive database of investment banking deals (equity issues and mergers and acquisitions) between 1996 and 2006 from Thompson Financial Securities New Issues and Mergers and Acquisitions databases.\(^{12}\) Equity issues include 5,367 SEOs and 4,257 IPOs. Mergers and acquisitions include all U.S. merger and acquisitions where the deal value and advisor(s) were disclosed during our sample period. In all, we consider 23,466 transactions counting acquirers and targets separately.

From the new issues database, we obtain the following information for every initial public offering and seasoned equity offering: the issuer name and cusip; the filing, and the issue or withdrawn date; the identity of the investment bank retained by the issuer; the size of the deal; and the fee structure. From the mergers and acquisitions database, we obtain

\(^{10}\) Eccles and Crane (1988) argue that market share is highly correlated with bank profit.  
\(^{11}\) Calculating market share based on number of deals yields qualitatively similar conclusions.  
\(^{12}\) We focus on equity and M&A advising, because these deals generate the highest fees. Nonetheless, we examine the impact of banker job changes on bond underwriting market share. We find no evidence that banker switches influence the bond market share of either the gaining or losing bank. To conserve space, we do not report these results.
information on the identity of the target and acquirer, the announcement and effective or withdrawn dates of the transaction, the size of the deal, and the advisors to both sides of the transaction. We use the above databases to calculate industry market share for the bank the banker is switching from (the losing bank) and the bank the banker is switching to (the gaining bank). Industry market share is calculated as the gross proceeds raised by an investment bank in a particular GICS sector divided by total gross proceeds of all deals completed in that particular sector. We calculate market share using two years of data prior to and after the switch.

For those bankers that are active in multiple sectors, we add up their gross proceeds across all industries to compute market share. In the case of multiple advisors, we credit each advisor with a 1/N portion of the deal. Our sample is characterized by a number of large mergers between investment banks. We follow Ljungqvist, Marston, and Wilhelm (2006) to adjust for these mergers.

3.3 Measuring Bank Reputation

In our empirical tests, we distinguish between the reputation of the investment bank as a whole and the investment bank’s reputation in an industry. Some investment banks tend to specialize in a particular industry. Therefore, their aggregate market share may be relatively small, but they could have a substantial presence in their niche market. For example, Thomas Weisel Partners had an aggregate M&A market share of only 1.1 percent in the two years prior to losing a technology banker to First Union Securities in October 2000. However, their market share in the technology sector was 8.8 percent over the same period.

In order to measure an investment bank’s overall reputation, we use the bank’s Carter-Manaster ranking as updated by Loughran and Ritter (2004). The ranking ranges from
1 to 9, with 9 representing the highest possible prestige ranking. We measure a bank’s reputation in a given GICS sector by examining their market share within that sector over the two years prior to the banker’s job change.

4. Results

4.1 Market share changes surrounding banker turnover

In this section, we examine the impact of a banker job change on the gaining and losing bank’s market share. We investigate market share changes for equity underwriting deals (initial public offerings and seasoned equity offerings) and merger and acquisition transactions in the banker’s primary industry of specialization.

Although our sample has 249 cases of banker job changes, several of these cases involve teams of bankers switching. For purposes of examining market share changes, we condense these cases into a single observation. For example, three bankers (a Managing Director and two senior VPs) covering the Financial Sector departed Goldman Sachs for Lehman Brothers on March 1st, 1999. Rather than treating this as three independent observations, we compress it into a single observation. In some cases, a bank hires a number of bankers from different banks on the same date. For example, Goldman Sachs hired two VPs covering the Health Care Sector from Lehman Brothers and Morgan Stanley on August 4th, 2003. We condense observations like these into a single observation for the gaining bank, but treat it as two distinct observations for the losing bank. After making this adjustment we are left with 194 gaining bank observations and 203 losing bank observations.

***Insert Table 2 about here***

---

13 One could argue that team switches should not be counted as individual events. If we treat team movements as individual moves, our results are qualitatively unchanged. As another test we simply control for team movements using an indicator variable in our regressions if the observation involved a team switch. In all models, this variable is not statistically significant.
We report univariate market share results for both the bank gaining and losing the banker at and the industry-level in Table 2. We separate stock offerings and M&A in the first several columns, and combine them in the last two columns under investment banking. Panel A of Table 2 reports the results for all investment bankers in our sample. For stock offerings, the gaining bank increases its market share by an insignificant 24 basis points, while the losing bank loses and insignificant 13 basis points. For M&A, the gaining bank increases its market share by an insignificant 22 basis points while the losing bank loses a significant 72 basis points. The combined investment banking results (equity and M&A) are, not surprisingly, similar to the M&A results since M&A deals are more frequent and typically much larger than equity deals. 14

In Panel B of Table 2, we report market share for only those cases in which the bank losing the banker had a positive industry market share in the two years prior to the switch. Our intent with this filter is to focus on the subset of banks that have a track record of generating investment banking deal flow over the past two years. This restriction eliminates banks that don’t generate underwriting business on a consistent basis. We term this the “restricted” sample. The findings are qualitatively similar to those presented in the full sample.

The results in Table 2 indicate that the losing bank experiences a significant decline in M&A market share following the switch, while the gaining bank does not suffer a statistically significant decrease. Let’s consider the economic impact of such changes. In a typical year, the average bank does about $10 billion of gross proceeds in industry-level equity business. A 0.22 percent increase equates to approximately $22 million in incremental proceeds. If we assume that the average spread is 5 percent, this suggests that the gaining

14 We also examine one-year market share changes and find similar results.
bank increases its industry-level fee revenue by $1 million. The losing bank would experience a similar reduction in fee revenue, but again, neither is statistically significant. For M&A, the typical bank does $135 billion in deal value. This implies the gaining bank increases its market share by about $130 million, while the losing bank sees a loss of $1.8 billion in deal value. Assuming a fee of 0.9 percent of deal value (Walter, Yawson, and Yeung (2005)), the gaining bank increases its banking revenue by about $1.2 million whereas the losing bank loses about $1.2 billion in deal value equating to about $10.8 million in fee revenue.

Are the numbers above realistic? Consider Morgan Stanley who employed approximately 300 investment bankers at the Managing Director level in 2006. According to Morgan Stanley’s annual report, they did $4.76 billion in investment banking revenue in 2006. If we assume that Managing Directors were solely responsible for this revenue, this implies average revenue of approximately $16 million per Managing Director. Of course, Heads and higher (which are significantly less numerous than Managing Directors) and lower-level investment bankers are not included in this estimation, but it provides an upper bound as to their impact on banking revenue. Given that bonuses for Managing Directors at large banks are typically in the multi-million dollar range, this indeed seems reasonable.

The results in this subsection suggest that the loss of a key investment banker has a particularly large negative impact on the M&A market share of the losing bank, but not much of an impact for equity deals. It’s important to note that these results do not take into account cross-sectional variation in banker characteristics nor prior deal characteristics. In the next section, we examine this issue in greater detail.

4.2 Determinants of market share changes

---

15 See Landon (2005).
In this section, we examine banker and bank-related characteristics that may influence changes in market share at the industry-level. We first define four banker-related variables. We capture whether the banker moves from a more reputable bank (*Higher Bank Reputation*) based on the Carter and Manaster (1990) rankings updated by Loughran and Ritter (2004). This is a dichotomous variable that takes on a value of one if the banker moves to a more reputable bank, zero otherwise. Though we include it as a control, the effect is ambiguous. Less prestigious banks may have more difficulty in generating deal flow. For instance, Fernando, Gatchev, and Spindt (2005) argue that high quality issuers naturally pair with high quality underwriters. Thus, holding all else constant, a banker may simply be more successful at a more reputable firm. On the other hand, hiring a banker from a more reputable firm might allow a smaller firm to significantly increase its market share by tapping into the banker’s established network. We include a variable to measure whether the banker comes from a bank with a more established industry market share, *Higher Industry Reputation*. This variable takes the value of one if the bank losing the banker has a higher industry market share than the gaining bank, and zero otherwise. As mentioned earlier, some banks have niche investment banking departments. In these cases, the bank’s reputation within a particular industry may differ significantly from that of the bank as a whole. We define *Managing Director* to take the value of one if the switching banker is a Managing Director or higher. The assumption is that more senior bankers should have a larger impact on market share changes. Finally, we include the variable *High Experience* which is a dummy variable equal to one if the banker has 25 years or more experience (upper 75\textsuperscript{th} percentile of experience), zero otherwise. Like bankers with the Managing Director or higher title, more experience should be positively related to market share changes. Our findings are robust to other definitions of high experience.
We next consider firm and deal-level characteristics. *Trend* takes the value of one if the percentage market share at the new bank increases relative to that at the original bank between year -2 and year -1, and zero otherwise. This is to control for banks that either trying to beef up or shave off their banking business.\textsuperscript{16} Dunbar (2000) examines market share changes in the U.S. IPO market and finds that abnormal underpricing, stock price performance, fees, and percentage of withdrawn deals are related to market share changes for reputable banks. Therefore, we include measures for both IPOs and SEOs in our regression models. These variables are estimated at the industry-level following the approach in Dunbar (2000).\textsuperscript{17} **Abnormal IPO fees** and **Abnormal SEO fees** gauge the relative pricing structure of banks. Banks that offer lower fees may see an increase in their business. **Abnormal IPO 1-year return** and **Abnormal SEO 1-year return** measure the 1-year performance of each type of security offering by the underwriter. Investment banks that have positive abnormal performance might see an increase in market share if their deals perform well post-issuance. **Abnormal IPO First day return** and **Abnormal SEO First day return** is a relative measure of how much money is left on the table. Leaving too much money on the table may cause banks to lose market share. Finally, **Fraction Withdrawn IPO** and **Fraction Withdrawn SEO** are the percentage of deals that get filed, but ultimately get withdrawn. Dunbar (2000) finds that banks that have a high percentage of deals that get withdrawn lose market share.

Similar to equity transactions, a number of deal characteristics of mergers and acquisitions are also considered. To measure the announcement effects of M&As, abnormal

\textsuperscript{16} In unreported results, we also include two separate indicator variables for whether the gaining bank or losing bank experienced a merger surrounding the banker switch. Neither of the coefficients are significant.

\textsuperscript{17} To estimate abnormal spreads for IPOs, for example, we pool all IPOs that occurred in the banker's industry in the two years prior to the switch. For each IPO, we regress the spread on gross proceeds and the logarithm of gross proceeds, using IPOs from three years before the offer through the year of the offer. The residual from this regression is taken to be a proxy for the abnormal spread. We average the abnormal spread for each IPO where the banker's firm acted as the underwriter. We follow a similar approach to estimate the abnormal spread for SEOs.
announcement day returns are calculated. Abnormal Target Announcement Day Return is the actual minus predicted announcement day return. Predicted values are taken from the regression model, \( \text{Percentage Target Announcement-day return} = \text{Gross deal values} + \log(\text{gross deal values}) \), using target deals advised by the bank from four years before the deal through the year of the deal. Abnormal Acquirer Announcement Day Return is the actual minus predicted announcement day return. Predicted values are taken from the regression model, \( \text{Percentage Acquirer Announcement-day return} = \text{Gross deal values} + \log(\text{gross deal values}) \), using acquirer deals advised by the bank from four years before the deal through the year of the deal. Fraction Withdrawn Target is the value of deals the advisor participated in on the target side that were unsuccessful over the two-year period before the banker switch, measured at the expected target deal value divided by the value of withdrawn deals plus successful deals. Fraction Withdrawn Acquirer is the value of deals the advisor participated on the acquirer side that were unsuccessful over the two-year period before the banker switch, measured at the expected acquirer deal value divided by the value of withdrawn deals plus successful deals.

***Insert Table 3 about here***

Panel A of Table 3 examines changes in market share for equity deals. For both the gaining and losing banks, we run separate models for the restricted and unrestricted cases, but because they are qualitatively similar, only report the restricted case. The first specification includes each of the deal and banker characteristics, except for banker experience. Since inclusion of this variable results in a non-trivial reduction in sample size due to missing observations, we estimate a separate regression with this variable.

In the first model, which examines market share changes for the gaining bank, we find that Higher Industry Reputation is highly significant whereas the rest of the banker-related
variables are not. Trend is also insignificant, suggesting that bankers are not simply following momentum. That is, bankers are not switching to better performing banks. Charging high IPO fees reduces market share (Abnormal IPO fees), but charging high SEO fees increases market share. The aftermarket performance of equity deals completed by underwriters is not related to market share. Neither IPO underpricing nor SEO underpricing are related to market share changes, but the fraction of withdrawn IPOs are negatively related to changes in market share and the fraction of withdrawn SEOs is positively related to market share. The latter result is puzzling.

In the second specification, the high experience indicator variable is insignificant indicating that hiring a more experienced banker does not increase market share for the gaining bank. The remaining variables are essentially unchanged. In particular, Higher Industry Reputation remains highly significant. Holding all else constant, the coefficient suggests that hiring a banker from an investment bank with a stronger industry presence leads to a 3 (model 1) to 5 (model 2) percent increase in market share.

For the losing bank in the last four columns, in the first specification, each of the banker-related variables are insignificant. This suggests that losing a prominent banker does not have a significant impact on the equity market share of the losing bank. In the second specification, losing a banker from a more reputable bank is related to a loss in market share, but losing a more experienced banker is associated with an increase in market share. This latter result is at odds with our expectations.

In Panel B, we examine M&A deals. We introduce M&A-related controls previously discussed into the regressions. Higher Industry Reputation is highly significant with a coefficient of approximately 0.01 percent implying an increase in market share of 1 percent to the bank that hires a banker from a rival investment bank with a more prominent industry IB
department. In the second model, High Experience is not significant, but Higher Industry Reputation remains economically and statistically important.

For the bank losing the banker, Higher Industry Reputation is negative and significant in both models. The coefficient ranges from -0.02 percent to -0.04 percent suggesting that, ceteris paribus, losing a banker to a weaker industry IB department ultimately negatively impacts the losing bank’s market share from between 2 percent to 4 percent based on our estimates. In the first model, we also find that advisors to the target firm whose deals fall apart lose market share.

Overall, the results from Table 3 suggest that the most important determinant of market share gains and losses is the ability to hire an investment banker from a rival in a more industry-dominant position. In the next subsection, we try to determine if business follows the banker from the old firm to the new firm.

4.4 Does business switch with the banker?

Thus far, we have demonstrated that significant market share losses at the industry-level for the losing bank, but hiring a more influential industry-level banker is strongly related to market share changes for both gaining and losing banks. In this section, we examine deal flow to isolate the source of the market share changes. We assume that business is generated in one of three ways. First, business can come from existing clients. Such repeat business is most likely due to preexisting relationships the firm had before the banker made the switch. Second, business can come from entirely new clients. A third category, which is a subset of new clients, is business that is stolen away from the banker’s old firm.
For this analysis, we define an existing client to be one that did a deal with the bank in the two years prior to the switch. If a firm did not have a transaction two years before an investment banker switched, but did participate in a deal two years afterwards, we assume that the bank receiving the mandate is a new client of the bank.

In order to test if some business follows the investment banker from one firm to the other, we need an appropriate benchmark. For example, suppose a banker left Credit Suisse for Goldman Sachs. Cliff and Denis (2004) and others suggest that about 35 percent of IPO issuers switch underwriters from their IPO to SEO. Assuming that this percentage is in the correct ballpark for our sample, then a substantial number of clients will leave Credit Suisse. If a switch occurs at random, Goldman Sachs will likely receive some of Credit Suisse’s former clients due to chance. Thus, it would not be appropriate to use 0 percent market share as a benchmark. Instead, in this example, we compare the percentage of business Goldman Sachs receives from Credit Suisse’s former clients and vice versa (the percentage of business Credit Suisse receives from Goldman Sachs).

Although we present all three categories of client type for the reader’s interest, the one that is of particular interest is the last row, Rival. This is the percentage of business that switched from the gaining to losing bank and vice versa. For equity deals, 3.9 percent of the gaining bank’s equity business switched from the losing bank. In comparison, 0.7 percent of the losing bank’s equity business switched from the gaining bank. This difference of 3.2 percent is economically and statistically significant.

Likewise, for M&A transactions, 3.6 percent of the gaining bank’s M&A business switched from the losing bank. This compares to 1.4 percent of the losing bank’s M&A
business that switched from the gaining bank. This difference of 2.2 percent is also economically and statistically meaningful. The total investment banking results are similar.  

4.5 Model of switching

The results in Table 4 indicate that bankers bring deal flow from their old firms. In this section, we expand on the literature investigating the determinants of switching investment banks by introducing banker-related attributes. In order to be considered in this analysis, the firm must have completed either an equity or M&A deal in the two years before and the two years after the banker switch. Similar to Krigman, Shaw, and Womack (2001) and Cliff and Denis (2004), the dependent variable takes on a value of 1 if the firm switches underwriters. We run separate logistic regressions for equity and M&A deals. We use the same set of explanatory variables as in Table 4, with the exception of high experience. Since inclusion of this variable diminishes the sample size, we drop it from consideration in these regressions.

The results are presented in Table 5. For equity deals, we find no evidence that banker related characteristics are a significant determinant of switching underwriters. For example, hiring a banker from a bank with a greater industry reputation is not a significantly associated with the decision to switch. This result suggests that the gains in equity market share documented in the Table 3 regressions are likely driven by new business. Among deal characteristics, we find a positive relation between IPO first year performance and the decision to switch. No other deal characteristics are significant.

---

18 A point worth mentioning is that many investment bankers are forced to sign non-compete and non-solicit agreements, which typically are in place up to 18 months once they leave their firm. However, there is debate about the enforceability of these contracts. In all of our analyses, the post-transaction period lasts for two years and thus the banker may not legally be allowed to solicit former clients during most of our post-switch period. This has the effect of biasing against our findings.
For M&A deals, there is evidence that banker characteristics are important. Consistent with earlier results, we find that firms are more likely to switch business to the new firm if the banker is from a bank with a high industry reputation. The coefficient is significant at the 1% level. None of the deal characteristics are statistically significant.

4.6 Event study results

If market participants view investment banker job changes as important events, the returns surrounding the announcement of the change should be positive for banks hiring a banker and negative for the bank losing the banker. Our market analysis is limited to investment banks in our sample that are publicly traded, reducing our sample size to 139 observations for the bank losing the banker and 102 observations for the bank gaining the banker.

We calculate market adjusted returns using the date the job change was reported in *Investment Dealer's Digest* as the event date. Since *IDD* is published on a weekly basis, the announcement date could be off by several days. Therefore, we perform a *Lexis-Nexis* search for each of the bankers in our sample in an effort to find a more accurate departure date. We are able to match approximately 1/3 of our sample using this additional source. In the reported results, we use the earlier of the *Lexis-Nexis* date or the *IDD* publication date as the event date. We calculate market adjusted returns using the value-weighted index.

***Insert Table 6 about here***

In Panel A, we examine all banks in our sample that have data available. Both the gaining bank and losing bank experience significantly positive returns several months before

---

19 We obtain qualitatively similar results using a market-adjusted return specification with either the value-weighted or equally-weighted index.
the switch. The (-180, -31) and (-30,-6) returns for the gaining bank are 9.2 percent and 1.2 percent, respectively, and the corresponding returns for the losing bank are 10.7 percent and 1.2 percent. This finding is consistent with Fee and Hadlock (2003) who find that CEOs switch firms after their firm experiences positive performance. However, the relative performance of the two banks is not significantly different in the months preceding the switch (-1.47 percent).

The announcement period return is significantly positive (1.7 percent) for the gaining bank and insignificant, but negative for the losing bank (-0.32 percent). The relative pooled difference between the two banks is 2.0 percent, which is significant at the 1 percent level. Thus, the market perceives the hiring of an investment banker as wealth increasing. This is contradictory to the negative wealth effect found by Groysberg, Lee and Nanda (2007) for banks gaining all-star analysts. In contrast, our results suggest that hiring a prominent banker is not a value destroying activity. Finally, there are no significant abnormal returns in the period following the switch for either the gaining or losing banks.

In Panel B, we provide a paired t-test where we have stock return data available for both the gaining and losing bank. This reduces our sample size to 79 observations (a reduction of 23 for the gaining bank and 60 for the losing bank). The results in Panel B are quantitatively similar to those in Panel A.

4.6 Robustness checks

Our interpretation of the results to this point has been that investment banker job changes cause changes in market share. These changes may not only be the result of the human capital of the banker, but related to externalities associated with the switch such as boosting (lowering) morale and productivity of fellow colleagues or signaling an increase
(decline) in perceived quality to prospective clients for the gaining (losing) banks. Of course, these externalities are not measurable, but are at least indirectly tied to the banker switch.

An alternative explanation for our results is that prominent bankers are adept at timing the market and switch from banks that are on a downward trajectory to those that are on an upward trajectory. Oyer (2008) finds that market conditions strongly influence the career paths of newly minted MBAs on Wall Street. MBA students are likely to time the market and go directly into investment banking during a bull market when there is high demand for bankers. If seasoned bankers time the market also, this could possibly give the appearance of a causal relation between banker turnover and market share when none is present. On the other hand, Fee and Hadlock (2003) examine executives who move to the CEO position at another employer. They find that these executives experience above average stock price performance at their previous employer prior to the switch. In other words, they are not merely jumping to a better performing company.

First, we indeed find that the prior stock price performance was significantly positive for movers several months before the switch. However, the bank losing the banker had better relative performance than the gaining bank albeit the difference is not significant. Thus, our results partially agree with Fee and Hadlock (2003) that bankers move when market conditions are favorable. However, our results do not indicate that they are moving to a better performing bank.

If switches are voluntary during bull markets, but involuntary during bear markets, we might expect differential effects on market share during these periods. Thus, we split our sample into two periods: 1998-2000 and 2001-2004, which coincided with a bull market followed by a bear market. Our results are similar regardless of the period examined.
Finally, note that we included the control variable *Trend* which measures the relative market share changes in the year preceding the switch. If bankers were moving to better performing firms, this variable should be significant. We find it is not. Thus, we believe these findings should mitigate concerns about reverse causality.

Another concern is that it is likely that our events overlap and we thus violate the independence assumption. Thus, we examine a “clean” sample of non-overlapping events in the two-year prior switch period. Although our sample size is reduced our results are qualitatively unchanged.

A final concern is that teams of investment bankers and analysts switch banks simultaneously. Thus, it could be that star analysts are driving our results and not investment bankers. We examine cases of analyst and banker switching and find only 5 instances where an analyst follows a banker to the same bank during a year period beginning six months before the banker switches. We rerun our analyses and find that these 5 cases do not influence our results. Another possibility is that the gaining (losing) bank also adds (loses) a star analyst from (to) another firm. There are 27 (35) of these cases. We create a dummy variable equal to one in each of these instances where a bank hires a star analyst from another firm and rerun our regressions in Table 4. We find that this has no impact on our results.\(^\text{20}\)

5. Conclusions

Our paper adds to the growing literature on the determinants of investment banking deal flow by showing that human capital is an important factor. In particular, we examine the

\(^{20}\) We also note that the findings in Clarke et al. (2007) suggest that all-star job changes have only a small impact on equity market share. Our evidence is strongest for M&A transactions suggesting all-star switching and banker switching are independent events.
impact on investment banks in cases where a prominent banker switches from one firm to another. We find that the bank losing the banker experiences a decrease in their industry-level market share. This effect is statistically and economically important and driven primarily by a decline in M&A activity. We find that the ability to hire an investment banker from a bank with a higher industry reputation is the most important determinant of market share changes for both equity and M&A transactions. We find a significant positive wealth transfer to the hiring bank suggesting the market favorably views hiring a banker. Finally, we find a significant number of clients follow the banker to the new bank from the old bank. Collectively, our evidence indicates that human capital is a critical component of investment banking deal flow.
References


Table 1. Sample descriptive statistics

This table presents various descriptive statistics for our sample of 249 investment bankers who switched investment banks between August 1998 and December 2004. The sample is compiled from the weekly “Out Takes” section published in *Investment Dealers Digest*. Industry classifications are based on the GICS Sector Classifications.

**Panel A: Distribution by year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of observations (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>3 (1.20)</td>
</tr>
<tr>
<td>1999</td>
<td>31 (12.45)</td>
</tr>
<tr>
<td>2000</td>
<td>56 (22.49)</td>
</tr>
<tr>
<td>2001</td>
<td>27 (10.84)</td>
</tr>
<tr>
<td>2002</td>
<td>36 (14.46)</td>
</tr>
<tr>
<td>2003</td>
<td>54 (21.69)</td>
</tr>
<tr>
<td>2004</td>
<td>42 (16.87)</td>
</tr>
<tr>
<td>Total</td>
<td>249 (100.0)</td>
</tr>
</tbody>
</table>

**Panel B: Distribution by title**

<table>
<thead>
<tr>
<th>Title</th>
<th>Number of Observations (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VP</td>
<td>19 (7.63)</td>
</tr>
<tr>
<td>Director</td>
<td>30 (12.05)</td>
</tr>
<tr>
<td>Managing Director</td>
<td>156 (62.65)</td>
</tr>
<tr>
<td>Head or higher</td>
<td>44 (17.67)</td>
</tr>
<tr>
<td>Total</td>
<td>249 (100.0)</td>
</tr>
</tbody>
</table>

**Panel C: Distribution by industry**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Observations (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>56 (15.8)</td>
</tr>
<tr>
<td>Financials</td>
<td>49 (13.8)</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>43 (12.1)</td>
</tr>
<tr>
<td>Health Care</td>
<td>38 (10.7)</td>
</tr>
<tr>
<td>Industrials</td>
<td>27 (7.6)</td>
</tr>
<tr>
<td>Energy</td>
<td>18 (5.1)</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>14 (4.0)</td>
</tr>
<tr>
<td>Materials</td>
<td>3 (0.8)</td>
</tr>
<tr>
<td>Utilities</td>
<td>1 (0.3)</td>
</tr>
<tr>
<td>Total</td>
<td>249 (100.0)</td>
</tr>
</tbody>
</table>
Table 2. Industry level market share surrounding the switch

This table shows the change in average bank industry market share from the two years prior to the switch of the investment banker (Pre) to two years after the switch (Post). Panel A presents results for the full sample and Panel B presents “Restricted” results where the bank losing the banker had a positive market share in the two years preceding the switch. Market share is calculated using deal proceeds for IPO, SEO and M&A transactions. In the case of multiple advisors on a particular deal, we give each advisor a $1/n$ share of the deal, where $n$ is the number of advisors.

### Panel A: All observations

<table>
<thead>
<tr>
<th>Market share</th>
<th>Equity offering</th>
<th>M&amp;A</th>
<th>Investment banking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gaining bank</td>
<td>Losing bank</td>
<td>Gaining bank</td>
</tr>
<tr>
<td>Pre</td>
<td>2.33%</td>
<td>5.88%</td>
<td>2.35%</td>
</tr>
<tr>
<td>Post</td>
<td>2.57</td>
<td>5.75</td>
<td>2.57</td>
</tr>
<tr>
<td>Pre - Post</td>
<td>0.24</td>
<td>-0.13</td>
<td>0.22</td>
</tr>
<tr>
<td>($p$-value)</td>
<td>(0.41)</td>
<td>(0.75)</td>
<td>(0.27)</td>
</tr>
<tr>
<td>N</td>
<td>194</td>
<td>203</td>
<td>194</td>
</tr>
</tbody>
</table>

### Panel B: Restricted case

<table>
<thead>
<tr>
<th>Market share</th>
<th>Equity offering</th>
<th>M&amp;A</th>
<th>Investment banking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gaining bank</td>
<td>Losing bank</td>
<td>Gaining bank</td>
</tr>
<tr>
<td>Pre</td>
<td>2.51%</td>
<td>7.51%</td>
<td>2.46%</td>
</tr>
<tr>
<td>Post</td>
<td>2.73</td>
<td>7.26</td>
<td>2.54</td>
</tr>
<tr>
<td>Pre - Post</td>
<td>0.22</td>
<td>-0.25</td>
<td>0.08</td>
</tr>
<tr>
<td>($p$-value)</td>
<td>(0.53)</td>
<td>(0.64)</td>
<td>(0.72)</td>
</tr>
<tr>
<td>N</td>
<td>153</td>
<td>159</td>
<td>170</td>
</tr>
</tbody>
</table>
Table 3. Regression analysis of industry market share changes

This table presents results from OLS regressions where the dependent variable is the change in industry market share from the two years prior to the switch to two years after the switch. Panel A presents equity results and Panel B presents M&A results. We measure the change in market share at the industry-level for both the bank gaining the banker and the bank losing the banker. Industry classifications are based on 9 GICS sectors. Higher Bank Reputation takes the value of one if the bank losing the banker had a higher Carter-Manaster ranking than the bank gaining the banker. Higher Industry Reputation takes the value of one if the bank losing the banker had a higher industry market share prior to the switch than the bank gaining the banker. Managing Director is an indicator variable that takes the value of one if the banker was a Managing Director or higher. High Experience is a dummy variable equal to one if the banker has 25 years of more experience. Trend takes the value of one if the market share at the new bank increases relative to that at the original bank between year -2 and year -1, and zero otherwise. Measures of abnormal performance, fees and withdrawn deals are estimated as in Dunbar (2000). See the text for a more detailed description. P-values are reported in parentheses.

<table>
<thead>
<tr>
<th>Panel A: Equity deals</th>
<th>Gaining bank</th>
<th>Losing bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-0.03</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.28)</td>
</tr>
<tr>
<td>Higher Bank</td>
<td>0.00</td>
<td>-0.01</td>
</tr>
<tr>
<td></td>
<td>(0.98)</td>
<td>(0.30)</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.03</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.05)</td>
<td>(0.49)</td>
</tr>
<tr>
<td>Higher Industry</td>
<td>0.00</td>
<td>-0.02</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.26)</td>
</tr>
<tr>
<td>Managing Director</td>
<td>-0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.79)</td>
<td>(0.87)</td>
</tr>
<tr>
<td>High Experience</td>
<td>0.01</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>(0.50)</td>
<td>(0.04)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm characteristics</th>
<th>Gaining bank</th>
<th>Losing bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trend</td>
<td>-0.01</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.47)</td>
<td>(0.51)</td>
</tr>
<tr>
<td>Abnormal IPO Fees</td>
<td>-0.02</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.65)</td>
</tr>
<tr>
<td>Abnormal SEO Fees</td>
<td>0.04</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
<td>(0.18)</td>
</tr>
<tr>
<td>Abnormal IPO 1-yr</td>
<td>0.10</td>
<td>-0.04</td>
</tr>
<tr>
<td></td>
<td>(0.35)</td>
<td>(0.80)</td>
</tr>
<tr>
<td>Abnormal SEO 1-yr</td>
<td>-0.03</td>
<td>-0.29</td>
</tr>
<tr>
<td></td>
<td>(0.74)</td>
<td>(0.21)</td>
</tr>
<tr>
<td>Return</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.40)</td>
<td>(0.56)</td>
</tr>
<tr>
<td>Abnormal IPO First day return</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Abnormal SEO First day return</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.38)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Fraction Withdrawn IPO</td>
<td>-0.01</td>
<td>-0.05</td>
</tr>
<tr>
<td></td>
<td>(0.10)</td>
<td>(0.37)</td>
</tr>
<tr>
<td>Fraction Withdrawn SEO</td>
<td>0.04</td>
<td>-0.03</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.24)</td>
</tr>
</tbody>
</table>

<p>| # of observations | 147          | 147          |
| Adj R²             | 0.05         | -0.01        |
|                    | 0.20         | -0.02        |</p>
<table>
<thead>
<tr>
<th>Panel B: M&amp;A deals</th>
<th>Gaining bank</th>
<th>Losing bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intercept</strong></td>
<td>-0.01</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.08)</td>
<td>(0.589)</td>
</tr>
<tr>
<td><strong>Banker characteristics</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher Bank Reputation</td>
<td>-0.00</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.79)</td>
<td>(0.61)</td>
</tr>
<tr>
<td>Higher Industry Reputation</td>
<td>0.01</td>
<td>-0.02</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Managing Director</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.41)</td>
<td>(0.69)</td>
</tr>
<tr>
<td>High Experience</td>
<td>0.00</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.51)</td>
<td>(0.69)</td>
</tr>
<tr>
<td><strong>Firm characteristics</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trend</td>
<td>-0.00</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.78)</td>
<td>(0.50)</td>
</tr>
<tr>
<td>Abnormal Target</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.97)</td>
<td>(0.66)</td>
</tr>
<tr>
<td>Announcement Day</td>
<td>0.00</td>
<td>-0.00</td>
</tr>
<tr>
<td>Return</td>
<td>(0.00)</td>
<td>(0.31)</td>
</tr>
<tr>
<td>Abnormal Acquirer</td>
<td>-0.00</td>
<td>-0.06</td>
</tr>
<tr>
<td>Announcement Day</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Return</td>
<td>(0.74)</td>
<td>(0.98)</td>
</tr>
<tr>
<td>Fraction Withdrawn Target</td>
<td>-0.01</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>(0.54)</td>
<td>(0.98)</td>
</tr>
<tr>
<td>Fraction Withdrawn Acquirer</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.74)</td>
<td>(0.73)</td>
</tr>
<tr>
<td># of observations</td>
<td>167</td>
<td>167</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.13</td>
<td>0.02</td>
</tr>
</tbody>
</table>
Table 4. Where does business come from after the switch?

This table examines the gross proceeds for over 30,000 equity and M&A transactions in the two years following the banker job change. For each bank, we calculate the percentage of business coming from new clients (New), existing clients (Existing), and a subset of new clients which are clients that switched to the gaining and losing banks (Rival).

<table>
<thead>
<tr>
<th>Client type</th>
<th>Equity</th>
<th>M&amp;A</th>
<th>Investment banking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gaining</td>
<td>Losing</td>
<td>$p$-value</td>
</tr>
<tr>
<td>New</td>
<td>83.9%</td>
<td>88.1%</td>
<td>0.10</td>
</tr>
<tr>
<td>Existing</td>
<td>12.2</td>
<td>11.2</td>
<td>0.67</td>
</tr>
<tr>
<td>Rival</td>
<td>3.9</td>
<td>0.7</td>
<td>0.01</td>
</tr>
</tbody>
</table>
Table 5. Likelihood of switching business

This table examines the likelihood of switching underwriters. The sample includes only those firms that did a deal at the old bank in the two years prior to the banker switching and returned to the market for a deal in the two-year post turnover period. The dependent variable takes the value of one if the firm switched to the new bankers firm and zero otherwise. Managing Director is an indicator variable that takes the value of one if the banker was a Managing Director or higher. Higher Bank Reputation takes the value of one if the bank losing the banker had a higher Carter-Manaster ranking than the bank gaining the banker. Higher Industry Reputation takes the value of one if the bank losing the banker had a higher industry market share prior to the switch than the bank gaining the banker. Measures of abnormal performance, fees, and withdrawn deals are estimated as in Dunbar (2000). See the text for a more detailed description. For each of these abnormal measures, we take the difference between the gaining and losing bank. P-values are reported in parentheses.

<table>
<thead>
<tr>
<th></th>
<th>Equity Deals</th>
<th>M&amp;A Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-5.25</td>
<td>-4.59</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Banker characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher Bank Reputation</td>
<td>0.06</td>
<td>-1.38</td>
</tr>
<tr>
<td></td>
<td>(0.91)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Higher Industry Reputation</td>
<td>0.18</td>
<td>1.58</td>
</tr>
<tr>
<td></td>
<td>(0.78)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Managing Director</td>
<td>1.25</td>
<td>0.32</td>
</tr>
<tr>
<td></td>
<td>(0.23)</td>
<td>(0.52)</td>
</tr>
<tr>
<td>Trend</td>
<td>-0.01</td>
<td>-0.25</td>
</tr>
<tr>
<td></td>
<td>(0.98)</td>
<td>(0.43)</td>
</tr>
<tr>
<td>Equity Characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference in Abnormal IPO Fees</td>
<td>0.63</td>
<td>0.006</td>
</tr>
<tr>
<td></td>
<td>(0.55)</td>
<td></td>
</tr>
<tr>
<td>Difference in Abnormal SEO Fees</td>
<td>-0.34</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>(0.43)</td>
<td></td>
</tr>
<tr>
<td>Difference in Abnormal IPO 1-yr Return</td>
<td>0.02</td>
<td>0.91</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td></td>
</tr>
<tr>
<td>Difference in Abnormal SEO 1-yr Return</td>
<td>-0.05</td>
<td>0.58</td>
</tr>
<tr>
<td></td>
<td>(0.24)</td>
<td></td>
</tr>
<tr>
<td>Difference in Abnormal IPO First day return</td>
<td>7.05</td>
<td>0.44</td>
</tr>
<tr>
<td></td>
<td>(0.14)</td>
<td></td>
</tr>
<tr>
<td>Difference in Abnormal SEO First day return</td>
<td>-7.17</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.27)</td>
<td></td>
</tr>
<tr>
<td>Difference in Fraction Withdrawn IPO</td>
<td>-0.35</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.65)</td>
<td></td>
</tr>
<tr>
<td>Difference in Fraction Withdrawn SEO</td>
<td>-1.47</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.35)</td>
<td></td>
</tr>
<tr>
<td>M&amp;A Characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference in Abnormal Target Announcement Day Returns</td>
<td>0.006</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.51)</td>
<td></td>
</tr>
<tr>
<td>Difference in Abnormal Acquirer Announcement day returns</td>
<td>0.04</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.31)</td>
<td></td>
</tr>
<tr>
<td>Difference in Fraction Withdrawn Target</td>
<td>0.91</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.19)</td>
<td></td>
</tr>
<tr>
<td>Difference in Fraction Withdrawn Acquirer</td>
<td>0.58</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.44)</td>
<td></td>
</tr>
<tr>
<td># of observations</td>
<td>1,011</td>
<td>1,913</td>
</tr>
<tr>
<td>Pr&gt;ChiSq</td>
<td>0.26</td>
<td>0.00</td>
</tr>
</tbody>
</table>
Table 6. Wealth effects of gaining or losing a banker

In this table, we examine the wealth effects to the bank gaining or losing a banker. Our sample consists of only those cases where the gaining bank or losing bank are publicly traded and have available data on CRSP. Panel A provides results for the entire sample of gainers and losers that meet this criteria and provides a pooled t-test. Panel B restricts the sample to where both the gaining and losing bank have available data and provides a paired t-test. The announcement date is the earlier of the date that the switch was reported in *Investment Dealers Digest* or *Lexis-Nexis*. Market adjusted abnormal returns are reported over various windows. *P*-values are reported in parentheses.

<table>
<thead>
<tr>
<th>Panel A: Pooled T-tests</th>
<th>Event Window</th>
<th>Bank gaining the Banker (N=102)</th>
<th>Bank losing the banker (N=139)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>(-180, -31)</td>
<td>9.23%</td>
<td>10.70%</td>
<td>1.47%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.60)</td>
<td></td>
</tr>
<tr>
<td>(-30, -6)</td>
<td>1.20%</td>
<td>1.19%</td>
<td>0.01%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.13)</td>
<td>(0.09)</td>
<td>(0.99)</td>
<td></td>
</tr>
<tr>
<td>(-5, +5)</td>
<td>1.71%</td>
<td>-0.32%</td>
<td>2.03%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.53)</td>
<td>(0.01)</td>
<td></td>
</tr>
<tr>
<td>(+6, +30)</td>
<td>0.55%</td>
<td>1.09%</td>
<td>0.54%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.57)</td>
<td>(0.14)</td>
<td>(0.65)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B: Paired T-test (N=79)</th>
<th>Event Window</th>
<th>Bank gaining the Banker</th>
<th>Bank losing the banker</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>(-180, -31)</td>
<td>7.24%</td>
<td>9.46%</td>
<td>-2.22%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.00)</td>
<td>(0.48)</td>
<td></td>
</tr>
<tr>
<td>(-30, -6)</td>
<td>0.38%</td>
<td>1.23%</td>
<td>-0.89%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.69)</td>
<td>(0.22)</td>
<td>(0.43)</td>
<td></td>
</tr>
<tr>
<td>(-5, +5)</td>
<td>1.83%</td>
<td>-0.47%</td>
<td>2.30%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.49)</td>
<td>(0.01)</td>
<td></td>
</tr>
<tr>
<td>(+6, +30)</td>
<td>0.06%</td>
<td>1.52%</td>
<td>-1.46%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.96)</td>
<td>(0.16)</td>
<td>(0.22)</td>
<td></td>
</tr>
</tbody>
</table>