Human Capital Portability and Worker Career Choices:
Evidence from M&A Bankers
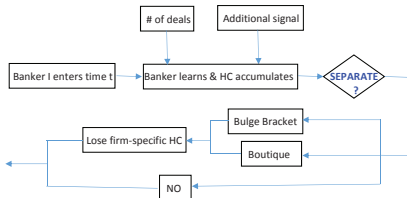
ASSA

Janet Gao, Wenyu Wang, Yufeng Wu

Indiana, Indiana, UIUC

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Motivation: Firms Have Become More Human Capital-intensive

▶ Human capital portability/non-exclusiveness on firm pricing/decisions: Eisfeldt and Papanikolaou (2006), Hartman-Glaser, Lustig, and Xiaolan (2019)...

  HC portability: to what degree HC accumulated on a specific position can be used/productive on other employments.

  — difficult to quantify (endogeneity of firm-level shocks)...

1. We build a dynamic model that endogenizes:
   — how human capital is accumulated and ported;
   — workers' job switch decisions.

2. Estimated using a new data set that contains granular data:
   — quantify "non-portability" of human capital (12% − 44%).

3. The estimated degree of HC portability matters
   — for individual works and the composition of the M&A advisory industry

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Overview: A Discrete Choice Dynamic Programming Model

Time: 1, 2, 3, 4 ...

▶ M&A advisory industry: bulge bracket and boutique
▶ "Production" happens when a banker (advisor) is matched with a bank; productivity of a pair depends on three things:
   1. the sector: bulge bracket v.s. boutique, s (known);
   2. match quality, μ (unobservable);
      — learned over time in a Bayesian fashion
   3. total human capital of the employee, H (observable).
      — non-portable (h_N) + portable (h_P)
      — depreciates over time
      — accumulates through learning-by-doing

▶ Bankers can choose to switch job if the pair-specific productivity is low

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Timeline

We Estimate Our Model by Matching the Following Datasets:

▶ Mergermarket:
   — Information on lead investment bankers in charge of an M&A deal (distinguishing feature from other conventional M&A databases).
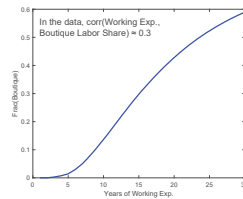
FINANCE · INVESTMENT BANKS
These Are the Two Big Winners From the Microsoft LinkedIn Deal

By Reuters   June 14, 2016

people_id	first_name	last_name	ann_date	complete_date	bank_id	bank
126829	Drew	Guevara	13-Jun-16	8-Dec-16	3222	Morgan Stanley
611236	Marc	Vu	13-Jun-16	8-Dec-16	362246	Qatalyst Group
91810	Jona	Turner	13-Jun-16	8-Dec-16	362246	Qatalyst Group
854844	Ian	Smith	13-Jun-16	8-Dec-16	2708	Allen & Company LLC
21038	Mich	Wyatt	13-Jun-16	8-Dec-16	3222	Morgan Stanley
1754	Geor	Boutros	13-Jun-16	8-Dec-16	362246	Qatalyst Group
8901	Fran	Quattro	13-Jun-16	8-Dec-16	362246	Qatalyst Group

▶ FINRA + Wall Street Oasis.

What Happens in A Job Transition?

— Match quality improves on average;
— Human capital takes a hot sue to non-portability
— Joint effect (that determines change in deal number) can go in either direction; portability is 88% in bulge v.s. 56% in boutique.

HC Non-portability and Worker Heterogeneity:

▶ We create a measure collaboration intensity: how many deals you have co-advised with your current colleagues:

Dep. Var.: $\Delta n_{i,t}$	(1)	(2)
Exit × High Collaboration Intensity	-0.1744**	-0.1629**
	(0.071)	(0.072)
Exit	Yes	Yes
Bank Sector × High Collaboration Intensity FE	Yes	No
Bank × High Collaboration Intensity FE	No	Yes
Next Bank Sector × High Collaboration Intensity FE	Yes	Yes
Year × High Collaboration Intensity FE	Yes	Yes
Observations	16,859	17,783
Adjusted R^2	0.074	0.086

▶ In the literature, HC specificity is associated with "tasks" ...
▶ Our previous result: HC is not perfectly portable even across similar tasks
▶ This exercise provides a plausible explanation—due to relationship!

HC (non-)portability & Workers' Life-cycle Career Choice

In the data, corr(Working Exp., Boutique Labor Share) ≈ 0.3

"More and more seasoned Wall Street bankers are abandoning bulge-bracket investment houses for advisory boutiques..... The lure: a more entrepreneurial ethos, less bureaucracy, fewer conflicts of interest and, not to be discounted, more money and power."
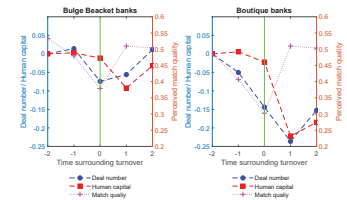
— *Institutional Investor Magazine*

How Does HC (non-)portability Influence Sectoral Dynamics?

— starting point: the fraction of boutique banks is exogenous at 10% (matches the share prior to 2000)
— simulate under with counterfactual HC gap (baseline: 88%-56%=32%).