

# RESEARCH

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# FOR THE WORLD

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## Superstar firms and below-average wages: the pitfalls of wanting a career at a top firm

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**Dr Dong Lou** is Associate Professor of Finance in the Department of Finance at LSE. His research interests include empirical asset pricing and behavioural finance.

What to study at university is a key decision, and one that can be influenced by the desire to work in a specific firm on graduation. But aiming to work at a superstar firm may not bring the wealth one might imagine, finds research by **Dr Dong Lou**.

For many young people, choosing what to study at university is one of the biggest decisions of their lives. Many students' choices about their studies are influenced by how they view their job prospects in certain sectors, with some particularly hoping to carve out a career at a "superstar" firm – one of a small number of high profile and extremely successful firms such as Facebook or Microsoft. But are their expectations realistic?

Dr Dong Lou has been investigating the journeys of people who have followed such career paths. His new paper, **Superstar Firms and College Major Choice**, reveals that there may be pitfalls in being too focused on employment at a particular firm. He cautions that those who follow such firms don't necessarily have the best career outcomes.

Dr Lou recalls many conversations with students stating that big tech firms' multi-billion-dollar stock market flotations were an obvious factor in influencing their major, or choice of academic studies. He says: "When students look at someone like Mark Zuckerberg, who co-founded Facebook, and the wider tech industry, they might think that this is a great industry to get into. Students might assume that the industry pays really well and it's a sector they can be extremely successful in.

"I found it's common for students to follow extremely successful firms or high-achieving individuals when they are deciding their course choice. The problem with this approach, which I explored in my paper, is that many people in the same cohort are thinking the exact same thing."



Firms like Facebook might get much attention, but they are not representative of their industry. And by taking up so much oxygen, it's easy to overlook the wider economy. ”

### **Employment at a superstar firm like Facebook or Microsoft could mean a less than superstar salary**

In order to understand what impact this might have on graduates' experiences as they enter the workforce and beyond, Dr Lou monitored media coverage of the stock-market performance of "superstar" companies, such as Microsoft and Facebook. He found that intense coverage and strong market performance tended to be followed by a sharp rise in the number of college students choosing to major in related fields.

By tracking these students for around 20 years after they leave college, Dr Lou found those who were attracted by "superstar" firms experienced lower real wages in entry-level jobs, and lower average wages throughout their careers in the subsequent decades.

Dr Lou ascribes this to competition; if students are attracted to an industry in which they think they can be successful, they can be certain that many of their peers will be doing the same thing. Entering a crowded jobs marketplace in these sectors drives down wages by increasing competition for highly desirable roles, meaning that a number of students will not achieve the career progression they might expect.

### **How does the US university system differ from the UK?**

To help students, Dr Lou believes that greater flexibility to change course is important. "In the UK and places like China, students declare a major before they put in their college application. This means that a decision that students make when they are 17 or 18 becomes hugely significant."

He compares this system with the US, where students have more flexibility to switch a major in the second year, which allows students to change their minds.



Try to strike a balance between job prospects, what excites you, and the kind of competition you'll face when you graduate. ”

### **Some advice when career-planning: think long-term and try to avoid media influence**

He is keen to stress that money should not be the only factor when we make life choices: "If I was advising a student, I would say it's important to follow your



interests. I think it's good to go choose a course that really excites you. But I'd also say that you need to be aware of the fact that other students will be doing exactly the same thing as you, so try to strike a balance between job prospects, what excites you, and the kind of competition you'll face when you graduate."

Dr Lou also advises university applicants to try to take a long-term view of potential careers, and not to be influenced by media coverage, which will often focus on the companies that tend to be exceptional cases. He concedes this is extremely difficult in practice; our decision-making processes are influenced by salience, prioritising the latest and most prominent information we are exposed to.

"The media will always want to report exciting news, so it's not surprising they will focus more on the big success stories. But what students should consider is that firms like Facebook might get much attention, but they are not representative of their industry. And by taking up so much oxygen, it's easy to overlook the wider economy.

"So when university staff speak to their students, we should always emphasise that this is just one firm within one industry. There are many successful companies in different sectors that can offer great career prospects too." ■

***Superstar Firms and College Major***

***Choice*** is by Darwin Choi, Dong Lou and Abhiroop Mukherjee.

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