Can the Immobile Stop the Mobile?

By Olivier Godechot

CNRS – Centre Maurice Halbwachs and LSQ – CREST, Paris
Olivier.Godechot@ens.fr

In their pioneering book *The new spirit of capitalism* (2006) Luc Boltanski and Eve Chiapello explain how a new form of capitalism – network capitalism – produces a new form of exploitation. For this aim, they reformulate analytically the concept of exploitation as a reversal of the classical redistribution formula whereby *the fortune of the great men makes the fortune of the little people* that prevails in polities governed by rules of justice. Exploitation is where the *misfortune of the little people makes the fortune of the great men* (Boltanski/Chiapello 2006: 375). In a network world mobile workers exploit immobile workers in a sense that *some people's immobility is necessary for other people's mobility* (Boltanski/Chiapello 2006: 362). A mobile employee acquires this position by threatening the immobile employees with moving or disconnecting them and manipulates the immobile to serve his/her ends.

Our study of mobility in the financial industry can be seen both as a test and an extension of Boltanski's and Chiapello's characterization of exploitation in network capitalism. We have shown in a detailed case-study how a head of equity derivatives trading-room and his deputy were respectively granted 10 and 7 million euros in bonuses for the year 2000. They were threatening their bank by warning that if it did not match a rival offer, they would move their teams very shortly to a rival bank. Finally, under urgent pressure, the bank applied the conditions of the rival bank, which led both of them, at the end of a great year on the market, to earn such unusual bonuses (Godechot 2008). In this case, the mobile (the two heads of room) extract a larger share of the rent at the expense of the immobile, that is not only the firm as a collective actor, but all its stakeholders, classical shareholders, and moreover the more immobile finance workers like traditional banking and back-office staff. Moreover, the differential of mobility becomes a key as Boltanski and Chiapello stated it only if we take into account the fact that the mobile move more than their single person: they can move both productive assets (knowledge, know-how, routines, algorithms, clients, etc.) and workforce (teams). Moreover, we have shown on the basis of an internet survey, that financial mobile workers that could move assets or teams during their last move were granted wage increase at the moment of their recruitment and earned higher salaries at the moment of the survey (Godechot 2010).

Nevertheless a question remains pending. Do the immobile try to stop the mobile, in order to prevent such form of exploitation? This question can be related to a classical debate in economics on the possibility of *hold-ups* in labor contractual relations. While neoclassical economists claim that it is possible to prevent such *hold-ups* with binding – complete or almost complete – contracts (Nöldeke/Schmidt 1995), transaction costs economists following Williamson (1975, 1985) consider that such contracts, demanding a complete nomenclature of the future states of the world, are far too complex and out of reach (Malcomson 1997). Moreover, the legal enforceability of some common contractual solutions viewed as possible solutions (Edlin/Reichelstein 1996), like non-compete clauses, is questionable under many labor legislations that prioritize work freedom over contractual freedom. Finally, this debate focuses mainly on the feasibility of binding contracts and misses an important issue, the willingness of firm actors to adopt and enforce those contractual solutions. As firm are not blocks and perfect alignments of interests is impossible, this issue becomes determinant. Some immobile workers might favor conserving the link with mobile rather then stopping them efficiently.

Our 2008 internet survey on job change in French financial industry offers the possibility of exploring this issue (Godechot 2010). It describes with a fair amount of details the last job change. It collects elements both on the job change (contacts involved, wage increase) but also on barriers to mobility (retainment devices), renegotiation with previous firm and contacts kept within the firm. This data enables to see concretely if the immobile really tried to stop the mobile. After a brief description of data and main variables, we will offer a more detailed answer to this question.

Data and variables

The survey is based on collaboration between the author and *eFinancialCareers.fr*, the French branch of *eFinancialCareers.com*, the leading global career-site network for

professionals working in the financial sectors. The questionnaire, launched in September and October 2008, is divided into three parts. The first twenty questions focus on the last move in finance for those who changed job at least once within that industry. The next dozen questions concern the desire to move, but only for those that had never changed job within finance. The questionnaire was accessible to people both through the website and by email to *eFinancialCareers.fr*-registered contacts.

995 persons answered the first question. After the first question on the number of job changes in finance, 22% of the sample stopped answering. Only 66% of the 995 continued to the end of the poll. Therefore we can rely on 454 complete and 78 incomplete questionnaires for those who did change job, and 209 complete and 28 incomplete questionnaires for those who never changed job.

Due to the fact that there is no random sampling here, it is important to know to what extent our data is representative of the financial industry beyond the fact we can expect that it represents merely the visitors of *eFinancialCareers.fr*. The respondents are mainly working in Paris (66%), 12% work in the rest of France, 5% in London, 5% in the rest of Europe, the rest elsewhere. They work mainly for banks (47%), for other financial firms – asset management, brokerage – (16%), or for insurance firms (4%). 22% work in a business that serves the financial industry such as law, consulting or IT firms and 10% among other types of firms.

The comparison with data from a leading bank that we were able to gather during our fieldwork (Godechot 2007, 2010) shows that our sample provides a fairly accurate representation of the financial industry at large. The biggest bias of our sample (which may account for the above discrepancies) is that of age.

In order to capture the abstract idea of moveable assets, we've used multiple choice questions on the elements that were at stake during the recruitment process. While the first two items, replacing someone (27%), or reinforcing a team (55%), were considered as ordinary factors of recruitment, we have interpreted the four last answers, bringing new techniques (21%), bringing new clients (7%), providing new clients (7%) and providing new strategies (11%), as a proxy of the assets held by the employees. If the issue of the recruitment was to bring something "new" to their employer, should it be "new techniques", "new clients", "new strategies" or a "new business", it is most likely that those assets were based on assets acquired

during the career in finance. In order to rely on a robust measure of key moveable assets, we construct an index adding the four standardized last items.

In order to measure collective moves, we rely mainly on four questions: Knowing former colleagues (22%) or former business partners (13%) in the service where one was hired, having moved in teams at least once in the career (15%), hiring former colleagues (14%). Those cases reveal situations where a financial worker has a certain propensity to take part to a team move. As previously for assets, we construct an index of moveable workforce as an addition of the standardized minimum number of people involved in a team move, the standardized minimum number of the former colleagues hired and the number of types of professional contacts known in the service where one was hired.

Results

The Mobile are not just persons that like moving according to some kind of "Wanderlust" (Anderson 1923) but are more entrepreneurs in the sense of Ronald Burt (1992, 2005) that manage their connections or their social capital in order to maximize diverse type of wealth (Bourdieu 1986). Moving is all the more profitable when you can move the most profitable elements, like productive assets or teams. Team moves begin to be documented in immaterial services, like law firms (Lazega 2001) or financial industry (Groysberg 2008; Godechot 2007, 2010). Such moves are dangerous for the firm since they deprive it of key assets and collaborative teams that it financed. Since formal hierarchy is not sufficient – contrary to the claims of the first versions of transaction costs economics (Williamson 1975) – we can therefore expect firms, as far as they are conscious of this danger, to protect their assets from transfers or hold-ups through contractual devices (Williamson 1985; Edlin/Reichelstein 1996).

In order to measure this phenomenon, we asked, if – before their move – people were subject to conditions that could hamper it. 8% said they were subject to differed bonuses, 13% to non-compete clauses, 10% to long notice of departure and 4% to "other" devices. Altogether 28% were subject to at least one retainment device, i.e. 21% to one device and 7% to two and more devices.

As transaction costs theory predicts, people susceptible of moving key assets or productive teams are generally more subject to retainment devices than other workers (table 1). This result applies in particular in the case of differed bonuses and long notices of departure, but does not apply in

the case of non-compete clauses. One reason for the comparative scarcity of non-compete clauses at the core of financial markets is that they are not very efficient. In France, as in many countries, non-compete clauses must not prevent the freedom of work. In order to be legally enforceable, they cannot prevent from having the same job elsewhere, their scope must be limited in time and in space. The usual space limitation is not broader than for instance of a few French departments. Therefore people subject to a non-compete clause in Paris will still be able to work with the same assets, the same team and the same customers in London, which is why the clauses will not prove very effective.

See appendix, table 1: Assets and team protection through retainment devices

Table 1 seems to indicate that firms try to manage as best they can the threat of departure by using available contractual devices. Among those devices, differed bonuses seem the most efficient. Table 1 shows that this device appears designed to prevent people who can move teams to move. Moreover if we compare people who moved with people who did not, we can see that for the latter differed bonuses are twice as common as for the former (16% against 8%), a differential that turns into a factor of three in a logistic regression when we control for sector, function, experience in finance, age, sex and diploma, suggesting that differed bonus did prevent part of the turn-over.

However, our survey suggests also that in practice the efficacy of those retainment devices is undermined by workers' capacity for renegotiating their removal. Non-compete clauses, long notices of departures and not paying differed bonuses to those who resign are not only legally fragile and highly susceptible to being overturned in the courts but also because, even without any trial or threat of trials, firms can simply exempt the departing worker from respecting the contractual clauses or agree nevertheless to pay him/her the accumulated differed bonuses.

Employees are aware of this fragility and of the possible removal of those devices through renegotiations. Among those transferring to new jobs and subject to such retainments, 42% successfully negotiated their removal, 21% renegotiated unsuccessfully and 37% did not renegotiate. Among the workers who did not move, 40% think that it is possible to obtain the removal of the retainment devices, 54% find those devices somewhat annoying but not

enough to prevent departure, and only 4% think that they really inhibit mobility.

Long notices of departure are quite easy to remove (we estimate that the rate of successful removal is 60%) and it is quite common in the financial industry to exempt the worker from respecting his/her notice of departure once he/she finds a job elsewhere. The firm is often concerned that employees serving their notice might actually be working in advance for the interests of a future employer. But non-compete clauses and differed bonuses do not represent a significant hurdle, with 35% of successful renegotiation.

Although the holders of moveable workforce and moveable assets are the people that the firm will try the hardest to retain, by various means, we can expect those people to be the most successful in circumventing retention devices. Renegotiation with the firm is not a highly abstract process. It is generally a renegotiation with the supervisor and sometimes with the latter's line-manager. Someone departing with assets and collaborative ties could be for many of his contacts a person worth following in his new firm immediately, worth doing business with in the future or worth collaborating with again a few years later thanks to another reconfiguration of industry through turnover. Far from being a scapegoat that everyone will try to punish, the employee leaving with assets is an attractor to whom everybody wants to remain connected.

See appendix, table 2: How collaborative ties smooth transfers on the labor market

In the first three columns of table 2, we estimate the impact of moveable workforce and of moveable assets on the probability of successfully renegotiating the removal of retainment devices. Moving workforce or moving assets or even a combination thereof increases the likelihood of success. As we do the regression on the full mobile sample and not conditionally on the subjection to retainment devices, we can suspect that we capture only the probability of being subject to retainment devices. This is not only the case since the regression parameters are higher and more significant than in table 1. Furthermore, when we estimate a regression on the probability of not renegotiating or having no success renegotiating on the same sample, the parameters for moving assets and moving workforce index are very close to zero and not significant at all. In the second column we do the same regression but only on the sample of people subject to retainment devices. The parameters are positive, but probably due to the small size of

the sample (n=129) and the important number of control variables (k=17), parameters are not significant. It is worth noting that without those control variables, correlation between successful renegotiation and our indexes of moveable workforce and of moveable assets is positive and significant (regressions III, table 2).

Removing retainment is not the only way of smoothing transfers that moving assets or moving workforce permits. They enable staying in the same firm with a better wage should the job change fail or if does not seem sufficiently profitable. Column IV shows that moving workforce and notably moving assets favors wage renegotiation in the firm in order to avoid resignation. Being an attractor leads many people to help you in order to benefit from your social capital or from the productive assets you carry with you. Column V shows that, in such cases, contacts in the new firm are indeed willing to help to hire and play a key role. It is also much easier to name some referrals that can corroborate the achievements claimed during the hiring process (regressions VI, table 2), both because, thanks to collaboration ties potentially involved in team moves, referrals are easier to propose, and because referrals are probably more inclined to support the recruitment through their testimony in order to remain in contact with the quitting financial worker. Although those moves might hurt the team and the firm left, people leaving with productive assets and social capital do not suffer from any kind of informal punishment or social exclusion. On the contrary, compared with other employees moving on they are more likely to maintain good relations with the colleagues they leave, since those good relations are crucial for both sides in order either to follow that person or to bring to the new firm colleagues left behind (column VII).

Concluding remarks

This statistical demonstration knows some limitations. As in many studies, we did not identify any evident exogenous instrumental variable, and our result can still be due to some unobserved heterogeneity. Nevertheless, although empirical demonstration is not perfect and although it needs further work, confirmation of our results – even when we control for a detailed human capital nomenclature and for position within the firm – pleads in favor of the robustness of our argument.

While the firm tries through contractual devices to protect itself against dangerous departures, employees moving assets or workforce are successful in circumventing those

limitations. We have here a situation where the immobile – for instance people in the support departments – will contribute to the assets that the most mobile appropriate and move elsewhere, and in order try to remain connected to the mobile will serve their interest even in the mobility episode. Developing the analysis of Boltanski and Chiapello (2006) we document how mobility, moveable assets and moveable workforce are linked and produce such inequalities. Hence, exploitation in a network world is not orthogonal to the issue of property as they claim in their argument, as long as we can consider mobile property, such as social and technical moveable assets.

Hence, we would like to discuss the way we should view firms and market in the financial market. In the financial industry, mobile workers leaving the firm in order to start to work for a competitor enjoy a rather unusual fate. In a war situation, someone so doing would be considered a traitor and would risk death row. In a political situation, switching from one party to another may be seen as a mere sign of opportunism and remains suspect. In traditional oligopolistic industry, quitting for a competitor may not be officially condemned, but rumors can spread in the abandoned firm about the lack of loyalty of the ex-employee. Here the situation is different. The mobile worker, moving assets and workforce, far from being condemned, is an attractor whose environment is willing to help, either to follow him/her quickly or to remain in contact with – in hope of future collaborations.

Finally, the importance of turn-over and the attractiveness of mobile workers also challenge our view of the firm and of competition. Since mobile employees can move a bundle of assets and people and deprive the firm and the stakeholders of a significant fraction of the capital, this obliges us to reconsider the frontier of the firm (Zingales 2000). Shareholders do not really own the firm as they own classical industrial firms. It is not only human capital that falls out of their perimeter, as explained by Zingales, but also social capital, with its multiplicative capacity, through collaboration ties, to bundle all sorts of assets as knowledge, know-how, software and customers. Not only do the firms not belong totally to their shareholder but we should also reconsider their locus. First, we can identify the teams moving from one firm to another as the real micro-firms. Moreover, considering the intensity of turn-over and the fact that the frontier of a team remains fuzzy and is renewed by old or new collaborations across firms, we might see the real firm between nominal firms in the networks of past and present collaboration ties that can at

any time coagulate into a new productive and moveable team. This direction challenges our vision of competition on the market. A universe where one competitor is a former colleague that may also become a future colleague or even a future supervisor is likely to be less competitive than a universe where clearly separated rivals compete. Although financial competition over exchange opportunities remains stark, several studies find evidence that competition on prices is somehow tempered (Christie/Schultz 1994), and this is probably related to the network of collaboration ties. The study of this latter phenomenon could therefore help to explain part of the wage rent in the financial industry.

Olivier Godechot is researcher at the CNRS-Centre Maurice Halbwachs and member of LSQ-CREST. He is located at the ENS/Paris. He has published a series of articles on sociology, economic sociology and sociology of finance. He has published the monographs Les traders *(2005),* Working rich *(2007).*

Endnotes

1Although it would have been a better methodology to ask the questions on the desire to move to the full sample, *eFinancialCareers.fr* was very concerned that the questionnaire would as a result become too long for an internet survey. As we will see further, this concern was wise. It must therefore be noted that when we analyze the desire to move, there might be a selection bias due to the fact it deals with those who never moved (and who therefore are maybe less inclined to move).

2For team moves (*Team_move* variable), the values are 0 if the respondent never moved in teams, 1 if he/she moved with one or two other colleagues and 3 if he/she moved with more than three colleagues. For hiring colleagues (*Hire_coll*), the variable is given a value of 0 if the respondent did not try to hire former colleagues, 0.5, if he/she tried but with no success, 1 if he/she helped to hire 1 or 2 former colleagues, and 3 when he/she helped to hire 3 or more former colleagues. The professional contacts (*Pro_Cont*) has a value of 0 if the respondent knew neither former colleagues nor business partners in the service where he/she was hired, 1 if he/she did know either former colleagues or business partners, 2 if both types are known.

3We must remain cautious in our interpretation. The question on the retainment devices concerned the current job in fall 2008 for employees who never moved and the previous job at the time they quit for those who did move. Information on the differed bonuses for the latter is on average three years earlier (on median two years earlier) than that for the former. The financial crisis led to discussions on the possible impact of compensation on global turmoil and to recommendations in favor of differed bonuses. It is possible that the more frequent presence of retainment devices among those who did not move is also the result of the recent modification of compensation practices.

References

Anderson, Nels, 1923: *The hobo. The sociology of the homeless man.* Chicago: University Of Chicago Press.

Boltanski, Luc/Eve Chiapello, 2006: *The new spirit of capitalism.* London: Verso.

Bourdieu, Pierre, 1986: The forms of capital. In: John Richardson (ed.), *Handbook of theory and research for the sociology of education.* New York: Greenwood, 241-258.

Burt, Ronald, 1992: *Structural holes. The social structure of competition.* Cambridge: Harvard University Press.

Burt, Ronald, 2005: *Brokerage and closure: An introduction to social capital.* Oxford: Oxford University Press.

Christie, William G./Paul Schultz, 1994: Why do NASDAQ market makers avoid odd-eighth quotes? In: *The Journal of Finance 49(5)*, 1813-1840.

Edlin, Aaron/Stefan Reichelstein, 1996: Holdups, standard breach remedies and investment. In: *American Economic Review 86(3)*, 478-501.

Godechot, Olivier, 2007: *Working rich. Salaires, bonus et appropriation des profits dans l'industrie financière.* Paris: La Découverte.

Godechot, Olivier, 2008: Hold-up's in finance: the conditions of possibility for high bonuses in the financial industry. In: *Revue française de sociologie 49* (Annual English Edition), 95-123.

Godechot, Olivier, 2010: *Getting a job in finance. The strength of collaboration ties.* Document de travail du Crest, n°2010-42.

Groysberg, Boris/Linda-Eling Lee/Ashish Nanda, 2008: Can they take it with them? The portability of star knowledge workers' performance: Myth or reality. In: *Management Science 54(7)*, 1213-1230.

Lazega, Emmanuel, 2001: *The collegial phenomenon. The social mechanisms of cooperation among peers in a corporate law partnership.* Oxford: Oxford University Press.

Malcomson, James, 1997: Contracts, hold-up, and labor markets. In: *Journal of Economic Literature 35(4)*, 1916-1957.

Nöldeke, Georg/Klaus Schmidt, 1995: Option contracts and renegotiation: A solution to the hold-up problem. In: *The Rand Journal of Economics 26(2)*, 163-179.

Williamson, Olivier E., 1975: *Markets and hierarchies. Analysis and antitrust implications.* New York. Macmillan.

Williamson, Olivier E., 1985: *The economic institutions of capitalism.* New York: Free Press.

Zingales, Luigi, 2000: In search of new foundations. In: *Journal of Finance 55(4)*, 1623-1653.

Appendix

Table 1. Assets and team protection through retainment devices

Model specification	Variables	Differed bonuses	Non compete clauses	Long notice of departure	At least one type of retainment device	Number of types of retainment device
a)	Moving workforce index	0.41 ** (0.15)	0.078 (0.15)	0.35 * (0.15)	0.23 * (0.11)	0.093 ** (0.032)
b)	Moving assets index	0.39 * (0.16)	-0.10 (0.16)	0.33 * (0.15)	0.18 (0.11)	0.066 * (0.032)
c)	Moving workforce index	0.34 * (0.16)	0.10 (0.15)	0.29 * (0.15)	0.20 * (0.12)	0.083 * (0.033)
c)	Moving assets index	0.31 * (0.16)	-0.12 (0.16)	0.26 * (0.16)	0.14 (0.12)	0.048 (0.033)
d)	Combined index (a+b)	0.51 *** (0.16)	-0.01 (0.16)	0.44 ** (0.15)	0.27* (0.12)	0.10** (0.03)
pseudo R^2 or R^2 for d) models		12%	11%	9%	15%	7%
All models	Controls	Yes	Yes	Yes	Yes	Yes
N		441	441	441	441	441

Note: Each a, b, c, d cells correspond to a different regression. All 20 models contain the following control variables: sector, function, experience in finance, age, sex and diploma. Standard errors are in parenthesis. In the first four columns, logistic regressions are performed while in the last column we use OLS regressions. We computed likelihood pseudo-R^2 for the d type models (or the classical R^2 for the last column). *p <0.1, **p <0.01, ***p <0.001 (two-tailed tests).

Table 2. How collaborative ties smooth transfers on the labor market

Model specifi-cation	Variables	I. Success-fully renego-tiate retain-ments	II. Success-fully renego-tiate retain-ments/ subject to retainments	III. Success-fully renego-tiate retain-ments/ subject to differed bonuses or non com-pete clauses	IV. Negotia-tion of a wage in-crease in order not to quit	V. Contacts played a key role/ People had contact	VI. Supplying references	VII. Keeping good rela-tions with former colleagues
a)	Moving workforce index	0.24 * (0.13)	0.083 (0.180)	0.32 * (0.18)	0.23 * (0.12)	0.27 * (0.14)	0.24 * (0.13)	0.25 * (0.12)
b)	Moving assets index	0.27* (0.14)	0.16 (0.22)	0.36 * (0.21)	0.54 *** (0.12)	0.17 (0.15)	0.28 * (0.13)	0.17 (0.11)
c)	Moving workforce index	0.19 (0.14)	0.053 (0.185)	0.19 (0.21)	0.11 (0.12)	0.25 * (0.15)	0.20 (0.13)	0.22 * (0.12)
	Moving assets index	0.22 (0.14)	0.15 (0.23)	0.41 (0.27)	0.52 *** (0.12)	0.12 (0.15)	0.25 * (0.13)	0.13 (0.11)
d)	Combined index (a+b)	0.33 * (0.14)	0.15 (0.20)	0.44 * (0.21)	0.50 *** (0.12)	0.30 * (0.15)	0.36 ** (0.14)	0.28 * (0.12)
pseudo R^2 for d) models		26%	18%	8%	14%	27%	19%	12%
All models	Controls	Yes	Yes	No	Yes	Yes	Yes	Yes
N		441	129	92	441	242	441	441

Note: Each a, b, c, d cells correspond to a different regression. All 28 models contain the following control variables: sector, function, experience in finance, age, sex and diploma except the four models in column 3 that are estimated with no control variables. All models are logistic regressions. Standard errors are in parenthesis.

We computed likelihood pseudo-R^2 for the d type models.

*p <0.1, **p <0.01, ***p <0.001 (two-tailed tests).