

Lecture 10.  
Markets and Economy  
*Les marchés et l'économie*

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# Outline

## I. The social structure of economic exchange

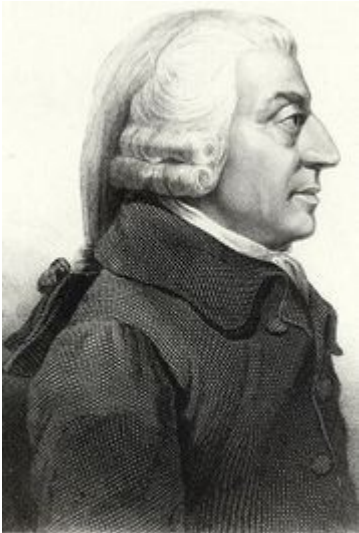
1. Perfect markets in a nutshell
2. Embedded exchange. Anthropological insights
3. A disembedded market economy?

## II. Forms of market embeddedness

1. Relational embeddedness
2. Cultural embeddedness
3. Institutional embeddedness
4. Performativity: Economy's embeddedness in economics

## III. Studying financial labor markets as an example of economic sociology

# Markets as an alternative coordination mechanism

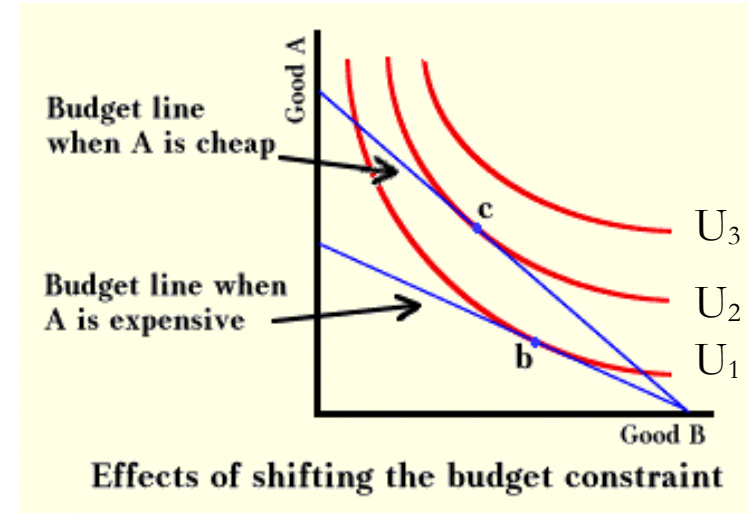


Adam Smith

- Primacy of self interest
  - “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages” (Smith, 1776)
  - *“Ce n’est pas de la bienveillance du boucher, du brasseur ou du boulanger que nous attendons notre dîner, mais plutôt du soin qu’ils apportent à la recherche de leur propre intérêt. Nous ne nous en remettons pas à leur humanité, mais à leur égoïsme ; et ce n’est jamais de nos besoins que nous leur parlons, c’est toujours de leur avantage.”*
- Laissez-passer - Laissez-faire
  - “In general, if any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so.”
- → Market as an “invisible hand”: Coordination alternative to norms, culture, values, etc.!

# Perfectly rational actors

- Marginalist revolution (19<sup>th</sup> century, Marshall, Walras, Jevons)
  - Utility curve → Representation of a system of preferences
    - Transitive
    - Convexity (combination of goods better than good alone)
  - Mathematical capacity to solve an optimization problem.
    - Possibility to derive demand (supply) functions when relative prices change

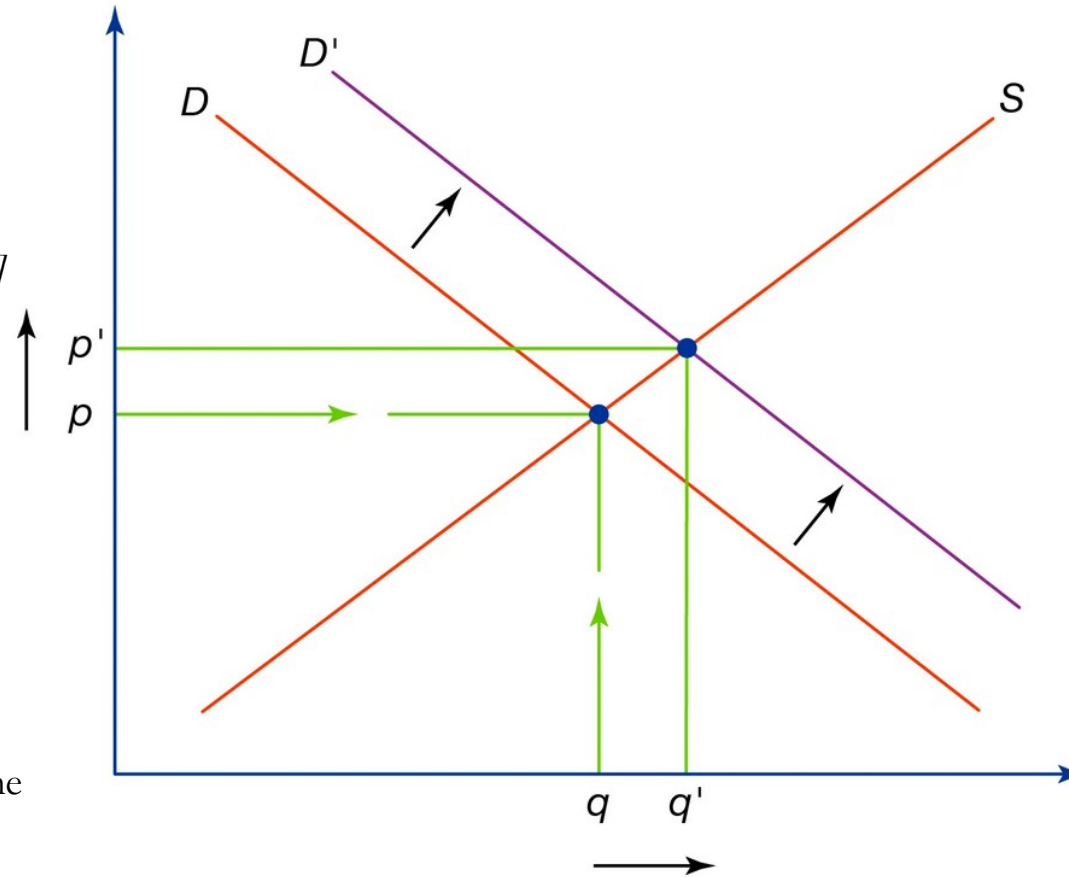


<http://ingrimayne.com/econ/MaximizingBeha/DerivingDemand.html>

## A shift in demand

# Perfect markets

- Producer hypotheses
  - Decreasing return to scale [*Rendements décroissants*]
- Perfect market hypotheses
  - Atomicity
  - Product homogeneity
  - Free entry
  - Perfect information
  - Free circulation of production factors
- Laws of supply and demand
  - Price equilibrium exist for all markets at the same time (Arrow, Debreu, 1954)



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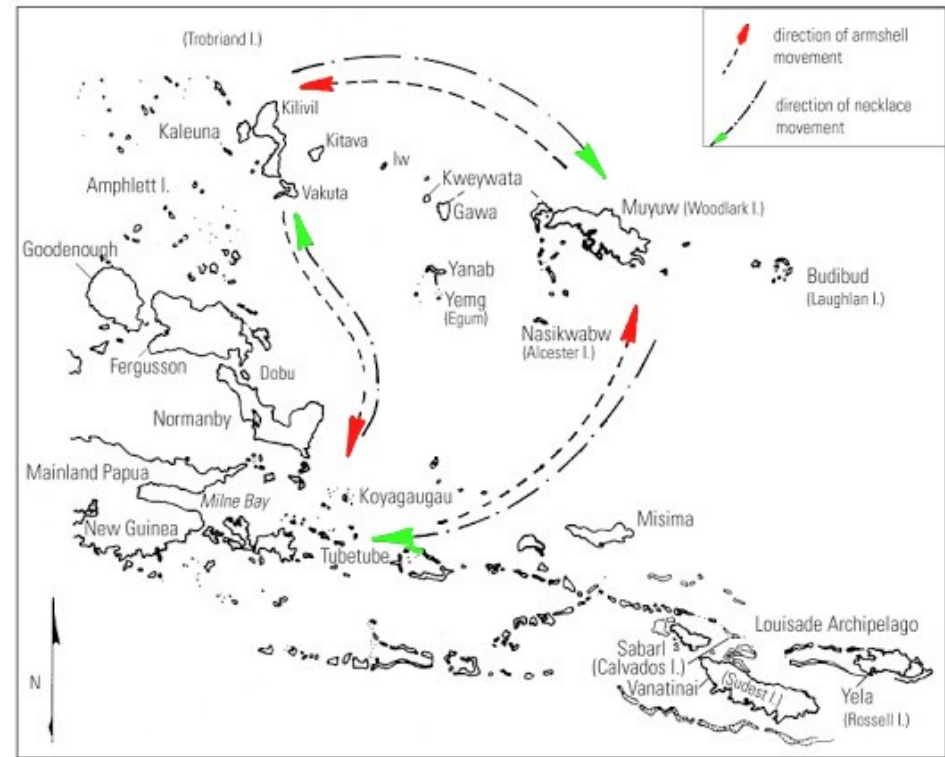
# Tension around rational/market models

- Restrictive assumptions → removed one by one in (mainstream) economics
  - Imperfect competition, bounded rationality, etc.
- This is not enough. Call for a different economics
  - German historic school (Max Weber). Capitalism rooted in history
  - Heterodox economics
- From Parsonian Pax: (Economics study price. Sociology study values)
  - To economic imperialism (Becker)
  - And defense mechanism: development of an economic sociology

# The Kula

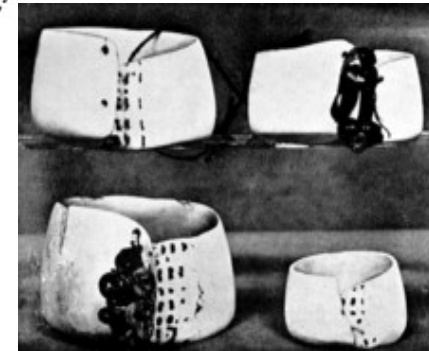
(Malinowski, 1922)

- Long and dangerous canoe trip
  - *Kula*: Ritual gift giving of necklaces (clockwise) and armbands (counterclockwise)
  - Source of power and prestige
  - *Gimwali*: casual barter.
- Exchange as culturally constructed. Rooted in culture and norms.
- Traditional economy similar to that of modern economy? Debate in anthropology between substantivists and formalists



Veigun: necklace

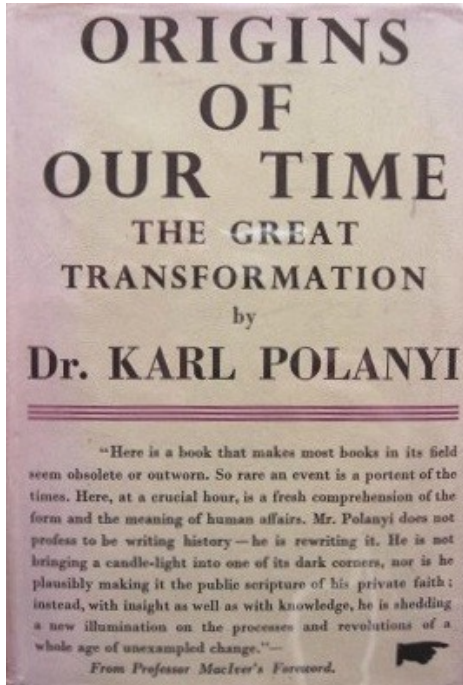
Mwali: shell armbands



*Economy*

# The Great Transformation

(Polanyi, 1944)



- Traditional society: economic exchange embedded in society
  - 3 modes of exchange: reciprocity, redistribution and householding
- Market society: Market as the central institution
  - Marketization of three fictitious commodities: land, money and labor
  - Economy disembedded
  - Destruction of social ties/communities
  - Counter movements and reaction of societies against brutality of marketization → Appeal to the state: Fascism / Communism



# Embeddedness revisited

(Granovetter, 1985)

- With and against Polanyi. Embeddedness/disembeddedness
  - Traditional societies embedded
  - Modern market societies disembedded
- Hobbes's Leviathan problem: How coordination among agent is possible?
- Uses of D. Wrong categories: Under-socialization and Over-socialization in social science. Between disciplines
  - Neoclassical Economics → Under-socialized
  - Sociology → Over-socialized

# The right level of embeddedness

- An opposition within disciplines
  - Sociology : Parsons versus rational action theory
  - Economics: market approach versus social influence in institutional economics (Piore, Bowles & Gintis, even G. Becker)
- An opposition within a theory. Williamson transaction costs theory
  - Williamson theory Opportunism leads to transaction costs on the market that firm (hierarchy can avoid)
  - Williamson Firms => over-socialized
  - Williamson Markets=> under-socialized
- A program for sociology
  - Holism / Individualism → solved by the study of concrete networks

# Not just network embeddedness

- Network embeddedness
- Cultural embeddedness
- Institutional embeddedness
- Embeddedness of the economy in economics

# The strength of weak ties

(Granovetter 1973)

- Classical emphasis on strong ties
  - Family – Friendship
  - Strong ties → emotional support
- Weak ties over-looked
  - Weak ties, professional, school, neighborhood acquaintances
  - Connection between two strong ties is very likely
  - → Weak ties provide more novel information than strong ties
- Helps to get a job and other outcomes

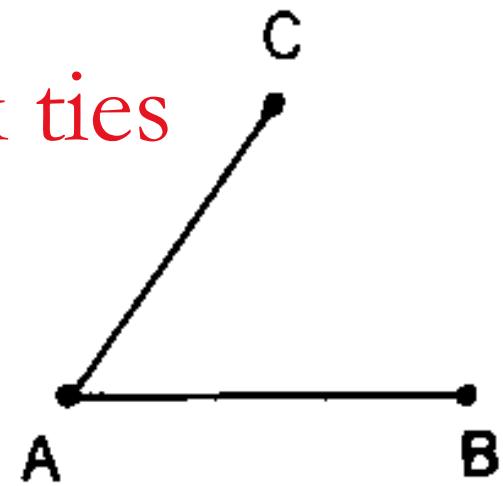


FIG. 1.—Forbidden triad

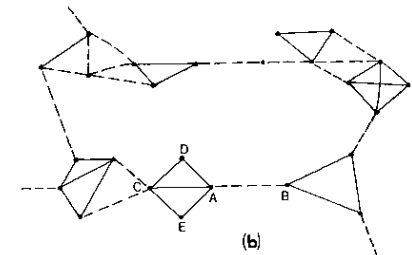
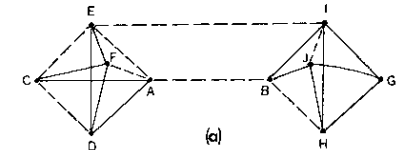


FIG. 2.—Local bridges. a, Degree 3; b, Degree 13. — = strong tie; - - - = weak tie.

# Original support for weak ties is weak

- A loose proof:
  - “I have used the following categories for frequency of contact: often = at least twice a week; occasionally = more than once a year but less than twice a week; rarely once a year or less. Of those finding a job through contacts, 16.7% reported that they saw their contact often at the time, 55.6% said occasionally, and 27.8% rarely (N=54). The skew is clearly to the weak end of the continuum, suggesting the primacy of structure over motivation.” (1973)
- A stylized fact: work ties
  - 31% of the contacts coded “family-social” and 69% work relations, among which we find 21% of former teachers, 36% of former employers or supervisors, and 33% of former colleagues (1974, p. 46) .
  - “In many cases, the contact was someone only marginally included in the current network of contacts, such as an old college friend or a former workmate or employer, with whom sporadic contact had been maintained (Granovetter 1970, pp. 76-80). Usually such ties had not even been very strong when first forged. For work-related ties, respondents almost invariably said that they never saw the person in a nonwork context” (1973)

# Weak ties are higher up in the hierarchy

- Lin, Ensel, Vaughn (*ASR*, 1981)
- Mobilizing powerful ties → ties higher up in the hierarchy
- Tie is more likely to be weak

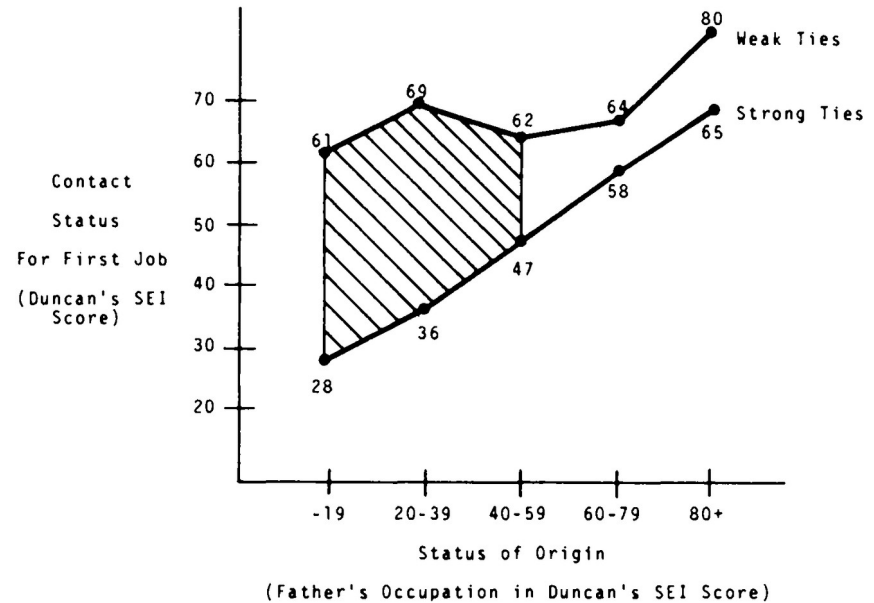


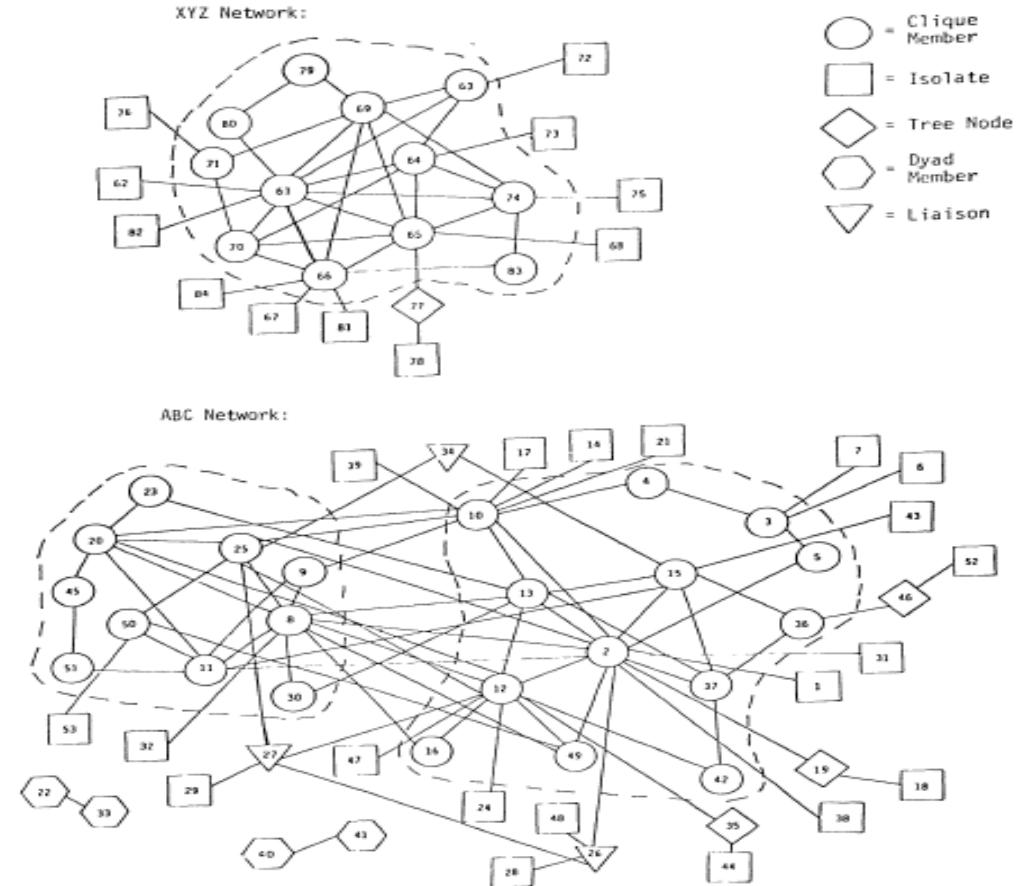
Figure 3. Relations Between the Status of Origin and the Contact Status Through Weak and Strong Ties (Shaded area indicates significant statistical differences.)

# Networks and prices

- Baker (*AJS*, 1984). Study of prices at the stock exchange
  - Data on prices and transactions
  - Two open-outcry trading pits:
    - Options on ABC corporation
    - Options on XYZ corporation
  - 3 2-hour trading period during 10 random days
    - 60 networks
- H0: Neoclassical model of behavior
  - Perfect information
  - Perfect calculation
  - Legalism: people don't cheat
    - => Large markets more efficient
- H1: Sociological model of behavior
  - Bounded rationality (imperfect information, imperfect calculation)
  - Opportunism (Williamson inspired) & social norms (sanctions)
  - Physical constraints: noise, time constraints, physical constraints
    - => Fragmentation of large markets. Less efficient

# Networks impact price quality

- XYZ: small pit
  - More cohesive than ABC
  - Price volatility decreases with density
    - 1 standard deviation increase in density decreases option volatility by 0.569 standard deviation
- ABC: large pit
  - More cliques than in XYZ
  - Price volatility increases with number of links
    - 1 standard deviation in total links increases options volatility by 0.471 standard deviation



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FIG. 3.—Empirical examples of XYZ and ABC market networks (graphic representations of actual networks of trading in XYZ and ABC marketplaces during the same afternoon period).



# Cultural embeddedness

- Cultural meaning of economic transaction matters
- Zelizer, *The social meaning of money* (1994)
  - Challenges the idea of money fungibility (“A dollar is a dollar”)
  - Earmarking of money
- 19<sup>th</sup> century household money for women: Pin money, egg money, butter money
- Money for gifts
- Cash transfers for poor
  - Only for specific uses



# National culture shape economic institutions

- Beckert, 2007. Comparison of the “longue-duree” of inheritance laws
- Cultural sociology tradition, country comparison
  - Tocqueville, Lamont, Dobbin, Fourcade
- USA → Freedom and taxation
- Germany → Family
- France → Equality within families
  - (PS: entail → fr: *substitution héréditaire/majorat*. Inheritance you can't sell)

	Dominant discursive framing	Institutional characteristics		
Country		Testamentary freedom	Abolition of entails	Inheritance taxation
<b>USA</b>	Defence of unlimited property rights. Equality of opportunity (input oriented). Prevention of dynastic wealth concentration to protect democracy. Concern about the endangerment of the work-oriented (Protestant) values of children.	Emphasis on testamentary freedom. Possibility to disinherit children.	Abolition of entails after the revolution. Few conflicts. Almost unanimous rejection.	Federal estate tax introduced in 1916. Estate tax implies that there is no differentiation in progression rates according to kinship relation. By far the highest progression rate of all three countries until early 1980s.
<b>Germany</b>	Primacy of family over individual property rights. Position that defends individual property rights strongly contested. Normative orientation toward social justice (outcome oriented).	Principle of testamentary freedom. But forced share provided for direct descendants and spouse (50% from share according to intestacy law).	Abolition only after the revolution in 1918. Very controversial issue throughout nineteenth century. Parts of bourgeoisie defended entails.	Federal inheritance tax since 1906. Low progression rates. No redistributive intentions. Close family members (spouse and children) not taxed for long periods. Today still taxed at low rate and with high exemptions.
<b>France</b>	Notion of equality as expression of fight against privileges. State can interfere in family relations but must do so by maintaining strict neutrality with regard to particularistic interests. Endangerment of individual freedom and family through equality. Demographic concerns.	Strong limitation of testamentary freedom. Estate is transferred in equal parts to children of deceased. Testator has possibility to distribute <i>quotité disponible</i> by will. If the deceased has children this part is 50% or less.	Abolition in 1792. Re-installment under Napoleon (1806) and Charles X (1826), final abolition after Revolution of 1848. Conflict between Republicans and Restoration forces.	Progressive inheritance tax since 1901. Still strong elements of proportionality. Low maximum progression rate but during time of intense crisis in 1920s. Originally no exemption for spouse. Demographic element until 1950s.

# Institutional embeddedness

- Market competition embedded in fields (Bourdieu, Fligstein)
  - Firms often structured by distinct material success & symbolic prestige (Bourdieu) → cf. Cultural field
  - Firms observe one another (White, 1981)
- Tendency to isomorphism [similarity] (DiMaggio & Powell, 1983)
  - Not only/anymore due to competition
  - 3 sources of institutional isomorphic change
    - Coercive isomorphism (political constraints)
    - Mimetic isomorphism
    - Normative isomorphism (due to professionalization)



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# Performativity

- Origins of the concept of *performativity* as an intersection of
  - Linguistics
  - Reflexive social sciences
  - Science studies
- Three theories of finance that changed finance
  - Portfolio selection, efficient market, option pricing
- Option pricing as a case of performativity

# How to do things with words

(Austin, 1962)

Challenges formalist and positivist approaches to language (Whitehead, Russell) based on logics

- Language is used to make descriptive or constative statements on the world
- Utterances can be judged in terms of degree of adequacy. True or False
- Limits: hard to decide for many utterances
- Performative utterances
  - “I do” uttered during a wedding ceremony
  - “I name this ship the *Queen Elizabeth*”
  - “I give and bequeath my watch to my brother” as occurring in a will
  - “I bet you six pence it will rain tomorrow”
- Difficult to see those utterances as “self-descriptive”
  - Resemble constative utterances
  - But the adequacy to the world can not be judged → changes the world

# How to do things with words (2)

- Performativity is not only in language but requires specific conditions
  - “Suppose, for example, I see a vessel on the stocks, walk up and smash the bottle hung at the stem, proclaim “I name this ship the Mr. Stalin” and for good measure kick away the chocks : but the trouble is, I was not the person chosen to name it”
- Difficult to decide the limits between performative and constative
  - “I apologize” (performative) versus “I am sorry” (mixed)
- Normative, imperative and performative
  - Distinction between “Go !” (implicitly performative) and “I order you to go !” (explicitly performative)
  - What is performed is the order. Not the result (action of the person).

# Bourdieu (1982) and performativity : criticism of pure linguistic performance

- Social conditions for performativity
  - Challenges not so much Austin than the followers restricting performativity to a linguistic phenomenon
    - “The real source of the magic of performative utterances lies in the mystery of ministry, i.e. the delegation by virtue of which an individual (...) is mandated to speak and act on behalf of a group, thus constituted in him and by him”

## ... to theory effect

- “In short, social science must include in its theory of the social world a theory of the theory effect which, by helping to impose a more or less authorized way of seeing the social world, helps to construct the reality of that world” (p. 106)
- Analyzes further the relation between “description” and “prescription”
  - “This means that science is destined to exert a theory effect, but one which takes a very particular form: by expressing in a coherent and empirically valid discourse what was previously ignored, i.e. what was (according to the case in question) implicit or repressed, it transforms the representation of the social world as well as simultaneously transforming the social world itself, at least to the extent that it renders possible practices that conform to this transformed representation.” (p. 133)



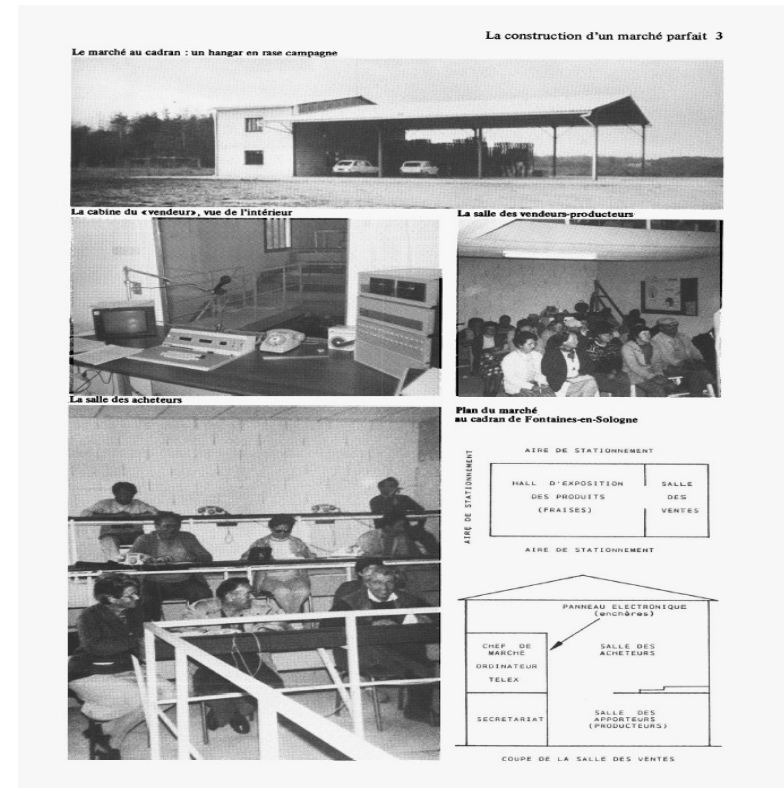
## ... theory effect (2)

- Marxism as the example of performativity
  - “Even the most strictly constative scientific description is always open to the possibility of functioning in a prescriptive way, capable of contributing to its own verification by exercising a theory effect through which it helps to bring about that which it declares. Like the phrase, ‘the meeting is open’, the thesis, ‘there are two classes’, may be understood as a constative utterance or a performative utterance.” (p. 134)
- In brief
  - Performativity of language
    - Works if social conditions (legitimacy) are met
  - Can be extended to (social) science
    - To the extent again that social conditions are met

# Applying Walras to strawberries

(Garcia, 1986, ARSS)

- Strawberry market organized as a perfect market
  - Decreasing price auction
  - Standardization of quality
  - Separation of buyers and sellers
- Why and how?
  - Settling a social dispute between sellers (growers) and buyers (brokers and shippers). Breaking forms of dependency.
  - Role of a young advisor of the Agriculture chamber, diploma in agronomy, law and biology. Classes in economics.
    - “Have competition work again”
  - Theory effect



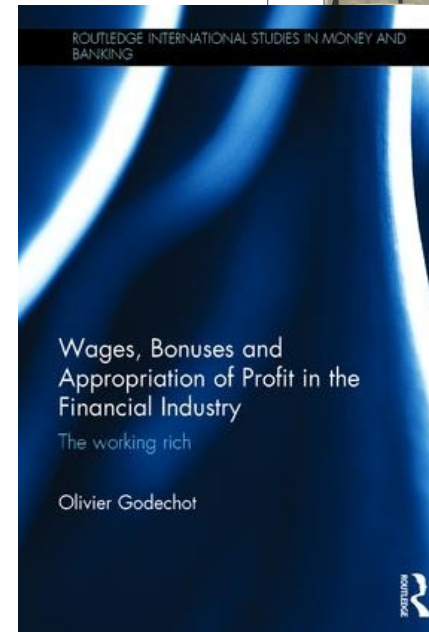
# The performativity of economics

(Callon, 1998)

- Economics is performative
  - Based mainly on Garcia 1986
    - Emphasis on the role of economic theory
    - The group struggle is overlooked
  - “the economy is embedded not in society but in economics” (p. 2)
  - “economics . . . performs, shapes and formats the economy, rather than observing how it functions” (p. 2)
- Homo-economicus is not a fiction that sociology must complain about
  - “Yes, homo-economicus really does exist. (...) Of course, he exists in the form of many species and his lineage is multiple and ramified. But if he exists he is obviously not be found in a natural state – this expression has little meaning. He is formatted, framed and equipped with prostheses which help him in his calculations and which are, for the most part, produced by economics” (p. 51)

# Inequality generated by resource appropriation. The case of financial wages

*Economy*



éditions la découverte  
textes à l'appui

olivier godechot

working rich

salaires, bonus  
et appropriation du profit  
dans l'industrie financière

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# Limits of classical interpretation of high wages in finance

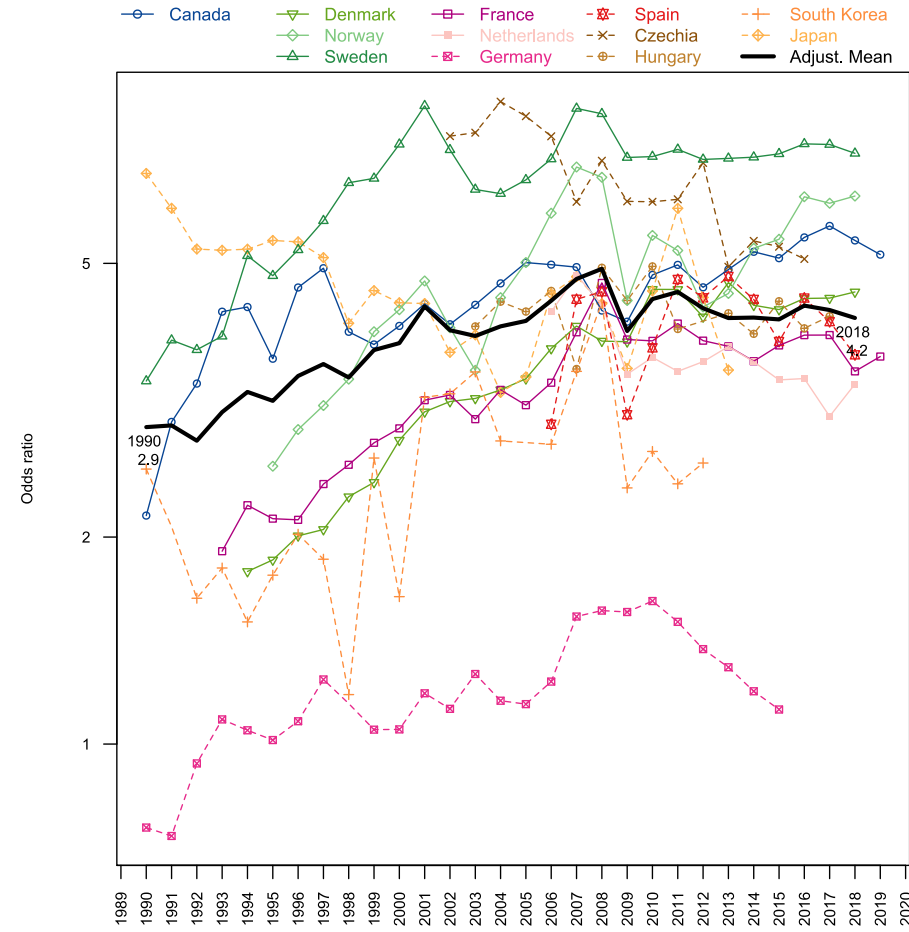
- Work intensity
  - Other sectors with similar work intensity
- Human capital
  - High diploma also in other sectors / Wages depend a lot on the position within the bank
- Incentives
  - Incentives not very efficient.
    - High bonus expectation comes with high fixed salary
    - Tied to observable luck
- Productivity
  - Reasons for higher productivity in Finance

# Finance's contribution to increase in inequality

(Godechot et al., 2023)

Country	Pre-financial crisis inequality upswing					
	Time-Period	Earliest year top 1% (%)	Latest year top 1% (%)	Annual increase of top 1% (%)	Annual increase of top 1% of financiers (%)	Finance contribution (%)
Japan	1997–2007	3.27	3.71	0.04	0.00	–10
Denmark	1994–2008	3.59	4.24	0.05	0.02	39
Spain	2006–2007	7.05	7.10	0.05	0.31	625
Germany	1992–2008	3.08	3.90	0.05	0.01	19
Sweden	1990–2007	3.49	4.67	0.07	0.03	50
South Korea	1995–2008	3.25	4.50	0.10	0.06	61
Norway	1996–2007	3.49	4.59	0.10	0.05	53
France	1993–2007	5.37	6.99	0.12	0.05	43
Netherlands	2006–2007	6.62	6.80	0.19	0.28	152
Czechia	2003–2008	5.66	6.62	0.19	0.01	4
Canada	1992–2006	6.01	10.41	0.31	0.09	30
Hungary	2003–2005	7.72	8.36	0.32	0.26	83
Average (year-weighted)	11.8 pre-crisis years			0.11	0.05	45
USA <sup>a</sup> (Bakija <i>et al.</i> , 2010)	1993–2005	12.7	17.0	0.35	0.10	29
UK (Bell and Van Reenen, 2014)	1999–2008	7.1	8.9	0.20	0.16	78

*Economy*



# Appropriation and hold-up

- Workers in finance can extract rents.
- How do they extract rent on labor markets ?
  - Framework inspired by Marx, Bourdieu, Boltanski & Chiapello (1999), and Williamson (1985)
  - Marx / Bourdieu Linking the relation of exploitation/domination on property rights
    - Informal property rights on key assets of the firm (customers, knowledge, know-how, social capital)
  - Boltanski & Chiapello 1999
    - Acquiring legitimacy on fruits through property rights
    - If legitimacy is not established. Trials of force.
  - Williamson and the Hold-up mechanism.
    - Threatening of Moving the key assets they have appropriate

# Creating legitimacy: informal property rights and appropriation of assets



# Informal property rights in the firm

- Division of labor attributes domains of action that can be considered as property rights
  - Financial activity strongly partitioned
  - Trader are granted a strictly delimited set of portfolio on a given perimeter
  - Characteristics
    - Latitude of action on the assets.
    - Freedom of disposal.
    - Protection and surveillance of the frontiers.
    - Durability.
    - Exclusivity.
    - Partial transferability.
    - Intentionality and responsibility of the holder
  - Similar to a property right. More an ancient regime one than a roman one

# A transfer of rights...

- “**This is mine** [the portfolio, the models]. **It belongs to me**, because **everything existed before he arrived**. For now, this year, he conducts research . It's like me the first year I was doing research and **it belonged to the other guy**. The idea is that if he works well in research this year, that is to say, it really helps me, he finds important ideas on models, interesting stuff, the next year **I will give him a backyard** where he can do his model and I will help him to launch it. So we did not set where it would be, if it is an existing model that is going to die, a new idea or something a little in a different country. But we agreed on the concept that is the real reward of his success this year is not so much the bonus but the right to launch his own model next year. [...] It is quite strategic [ to determine what needs to be allocated ] but in fact as the markets are very dynamic , we can not predict a year in advance . You can have a number of commitments as an honest man , I will not fuck you because ... I will not **give you such an itty bitty thing** that there is no profitability”. (Trader, translated from French)

# Making profit mine

- Profit as a masterless property
  - Labor contract does not transfer property right on the “fruits” of the work
- Rousseauist situation.
  - “The first man who, having fenced in a piece of land, said *“This is mine”*”
  - Several ways of saying “This is mine” / “This is of me”. “I won / I made the firm win”
  - In those claims, a grammatical determination of the profit. Linking I / Me and a masterless profit.
  - Organization of activity in profit center, accounting favor this first link.
- Elementary logics of appropriation

# Elementary logic of appropriation of profit

- Accession logic
  - Profits of MY portfolio are MY profits.
- Shared claims on the same profit
  - Engineers, traders, salespeople, heads of , operations
- More elementary forms of appropriation
  - First will
    - Will is potentially appropriating
    - Asymmetry between gains and losses. Gains are voluntary
  - First action
    - Lockian framework Work creates property in.
    - Head of rooms seen as “Exploiters”
    - But subordinate work is less creative of property rights
  - First idea
    - Intellectual property rights

# Position in the organization and appropriation

- Useful ownership
  - Traders, salespersons.
- Eminent ownership
  - Heads of desks or of rooms.  
Concession of what they own.
  - “What I need is to have guys who know very well what I ask them”
- Authors and inventors
  - Engineers
  - Position a little distant from the profit.
  - Ambiguity of the will (solving problems or making profit).
- Lease of work
  - Middle and back office jobs.
  - Position always secondary to the irruption of profit.

# Holdups: enforcing property rights on profit

# A case of hold-up

- 17 millions for a head of trading room and his deputy at Neptune Bank in early 2001.
- A contract
  - Resignation of the 2 for a German rival bank
  - 48 hours given to their bank to match the rival offer
  - Formula  $8,5\% + 6,5\%$  of the bonus pool
  - On the eve of a major Securities Transaction
- A great year in 2000

# A well done negotiation

- *Timing*
  - Exploiting the feeling of urgency linked to the Securities Transaction.
- *Choice of the bank*
  - Secret
  - Not involved yet in Equity Derivatives
  - Credibility.
- *Percentage*
  - Benefiting from the growth of money invested without being affected by the growth of headcount
  - Rate used in the formula would probably be applied on very different pools.
  - Remains acceptable for the bank (short term profit not diminished)
- *Overall context*
  - Very good economic conditions for the following year. But probable reversal.
  - Leveraging the frenzy of *last-movers*
  - Without taking the risk of going with *last-movers*



# Moving the plant!

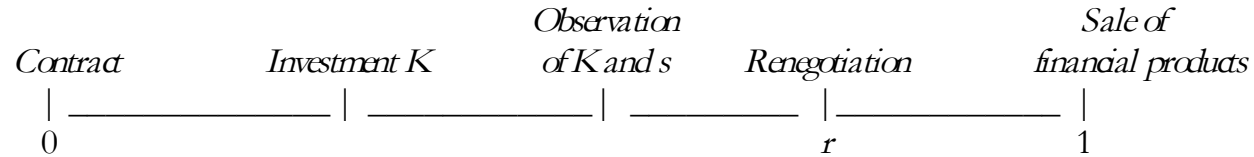
- Not just a sense of *kairos*.
- *Resigning together*
  - Resignation : signal of determination
  - Collective. Difficult to replace
  - Social Capital. Credible threat to take their whole team with them

# The mechanics of hold-up

- Appropriation of the firm's key assets
  - The “talent” of the financial worker is not innate.
  - Progressive accumulation of “talent” through the accumulation of financial experience
  - Financial experience. Appropriation of key assets collectively produced
    - Knowledge
    - Know-how
    - Customer Relations
    - Team work
- From appropriation towards the test of strength
  - Legitimization : Forgetting the collective origin and claim for profit
  - Taking advantage of an external offer in order to renegotiate
  - Credible threat of moving part of key assets and part of the activity

# Hold-up in a nutshell

- Contract between a firm and a salesman who is building links with clients to whom he is selling financial products



- Once he observes  $K$  and  $s$ , the sales can move
  - He brings  $\gamma \cdot \text{Activity}(K, s)$  to a rival firm.
  - The firm keeps  $\beta \cdot \text{Activity}(K, s)$

# Renegotiation

- Renegotiation
  - If renegotiation fails
    - Worker (elsewhere) :  $\gamma \cdot \text{Activity} + \text{wage}$
    - Firm :  $\beta \cdot \text{Activity}$
  - Rational to renegotiate
  - Possible to model in an economist manner with a Nash Equilibrium.
  - Result
  - $\text{Renegotiation wage} = f(\gamma \cdot \text{Activity}, (1 - \beta) \text{Activity}, \text{wage}, \text{transaction costs})$   
+                    +                    +                    -
- Renegotiation wage increases with
  - Volume of activity that is moved
  - Damage done to the firm's activity
  - Original wage
  - Bargaining power in the Nash Equilibrium
- It decreases with transaction cost

# Types of collective moveable assets

- Physical capital
  - Computers
  - Software
  - Documentation
- Human capital
  - Knowledge (Traders, sales)
  - Know-how (traders)
  - Financial secrets (arbitrage techniques, etc.)
- Social capital
  - Client relationships (especially sales, M&A, Private equity)
  - Reputation (financial analysts, M&A)
  - Teams (head of...)

# 4. Some elements of statistical confirmation

# Moving assets is an important issue of all recruitment

- Survey with efinancialcareers.fr on French Financial industry in sept. 2008. (Godechot, 2014)
  - 995 answers at the first question
  - 500 useable questionnaires
  - 2/3 had already changed job in Finance.
  - Representative of financial industry in a broad sense but rather junior.
- Issue of the hiring :
  - Bringing new assets is an issue for 45%
    - Bringing new technologies 21%
    - New clients 7%
    - New strategies 11%
    - New activities 25%
  - In front offices more important
    - 58% move activities in front offices
    - 42% in other jobs
  - The importance of new assets raises to
    - 50% if a contact is involved
    - 53% if it's a former colleague
    - 74% if it's a business partner

# Moving together is quite common

- Role of contacts
  - 54% knew someone in the team where they were hired
  - Those contacts played
    - An Essential role: 41%
    - A secondary role: 34%
    - No role: 25%
- Those who already changed of job
  - 14% helped to hire a former colleague.
  - 15% already moved with colleagues to another firm and 10% have already tried
  - In trading and portfolio management, the percentage is up to 25%
- Those who never changed jobs
  - 15% would follow their boss with no hesitations.
  - 67% would do it if conditions are attractive enough



# A problem noticed by CEO

“The problem with having innovation and ideas at the center of your business as opposed to, say, automobiles, is that your capital is made up of people rather than physical inventory. **Your assets walk out the door at the end of every day.** And there is **no copyright or patent protection** available to ensure that employees cannot take their ideas and talents to another firm and start competing with you. This is especially easy on Wall Street because changing jobs often doesn't mean uprooting your family and leaving your friends. It simply means walking across the street” (Sanford 1996, Bankers Trust CEO).

# Team movers testify

- “We were making a lot of money, and the ECU really took off – it was astounding... Then we were approached by another firm. Somebody I’d known before, somebody came out to me and said... “Come and work with us and do ECU!” So there were the four of us, there was the guy called Burny, there was Dave, my best friend in the market, and Angus... We had lunch together and talked things over. It would double our wages! It would get us really nice cars, and a chance to travel in Europe. So yeah, we took it in the end, and the four of us went. And at that time, I was on about 17 or 18 thousand pounds a year... And they offered me about 40 thousand pounds to join them. (Steve, ECU salesperson in the 1980s in London, Godechot 2017, 185)

# Moving people

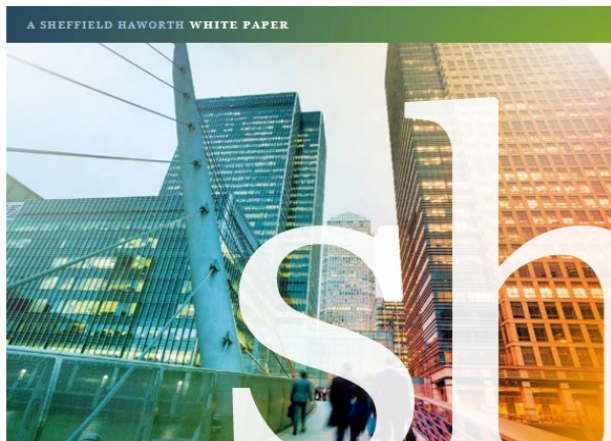
- Moving in group is more valuable than moving separately
  - Keeping intact the value of team work (collective routines, hierarchy, etc.)
- Coordination necessary to move people.
  - The boss is in a key position in order to move people.

# Executive search firms advertise on lift outs

sheffield haworth

## 'Team Moves' For Investment Management Firms

Using Lift Outs for Rapid, Strategic Product Growth



*“Many key teams that move often bring with them some of their existing, long-term institutional clients. When a team departs a firm, and there is no longer a capacity at that firm to continue to manage a client’s assets in a similar strategy, institutional clients are faced with a choice: Go out to bid for a new firm and relationship or follow their old relationship to a new home.”*

- Traditional Methods for growth
  - Internal promotion
    - But value only through time
  - External talents
    - Firms
      - Cutting non-core parts
    - Individuals
      - Cultural merge
- Team moves as hybrid approach
  - “The Best Of Both Worlds”
  - Even for small firms

# Poaching

- Mid 1990's Deutsche Morgan Grenfell hired 60 people from SG Warburg, 50 from Merrill Lynch and another team from ING Barrings
- Private Equity : Franck Quattrone
  - Working for Morgan Stanley
  - In 1996 moved with his team to Deutsche Morgan Grenfell (a 8 persons team)
  - In 1998 moved with his team, Boutros and Brady teams to CSFB ( more than 100 persons)
- August 2009: Barclays is hiring Todd Edgar and his team of four commodity traders from JP Morgan for 30 millions pounds.
- 2009 Sept. 16 (Bloomberg) – 30 former Societe Generale SA bankers including Arie Assayag have started their own hedge fund, Nexar Capital Group LLC, the new firm said.

Questions	Items	Freq.	Net impact of front office positions on variables A to G (n=441)	Net impact of variables A to G on current total pay (n=429)
A. What was at stake during your last recruitment? (n=489)	1. Replacing someone	27%	×1.1	-10%
	2. Strengthening a team	55%	×0.8	4%
	3. Bringing new techniques	21%	×1.8*	3%
	4. Bringing new clients	7%	×3.7***	+17%(*)
	5. Providing new strategies	11%	×1.3	9%
	6. Developing new business	25%	×2.4***	+10%(*)
B. Moveable individuated assets index std[std(A3)+std(A4)+std(A5)+std(A6)]			+0.5*** (on s.d.)	+6%** (per s.d.)
C. Did you know employees in the service where you were hired? (n=531)	1. Former colleagues	22%	×1.4	+12%*
	2. Business partners	13%	×1.8(*)	+24%***
	3. Former classmates	13%		
	4. Friends	8%		
	5. Others	15%	×1.4	-3%
D. When you changed jobs, did you ever move with other colleagues to another firm? (n=469)	1. No	85%		
	2. Yes, with one or two colleagues	12%	+0.1*	6%
	3. Yes, with three or more	3%	(on number of colleagues)	(per colleague)
E. Once in your new job, did you help to hire some former colleagues? (n=469)	1. No, I did not try	76%		
	2. I tried with no success	10%	-0.01	+10%**
	3. Yes, one or two colleagues	12%	(on number hired)	(per colleague)
	4. Yes, three or more	2%		
F. Moveable collaboration ties index std[std(C1+C2)+ std(D2+3×D3)+ std(0.5×E2+E3+3×E4)]			+0.2* (on s.d.)	+10%*** (per s.d.)
G. Combined moveable assets std(B+F)			+0.4*** (on s.d.)	+10%*** (per s.d.)

- 1. Front office positions determine moveable assets accumulation
- 2. Moveable assets impact pay
  - No impact of non-professional ties
  - Small increase? 10% rise for bringing one colleague
  - bringing 50 persons \* 5 the pay.

# Magnitude of team moves (Ongoing research)

- Factiva
  - 806 team moves (but selection on dependent variable)
- EX. FT. Movers and shakers (11 August 2014)
  - “Invesco Perpetual has appointed Danielle Singer as a senior client portfolio manager within its multi-asset team. Ms Singer joins from UBS and will be based in New York.
  - (...)
  - Nikko Asset Management has **poached a six-strong global equity team** from Scottish Widows Investment Partnership following Aberdeen Asset Management 's acquisition of Swip this year. Led by William Low , the team includes Stephen Corr , James Kinghorn, Greig Bryson , Iain Fulton and Johnny Russell.”

	Individual	Team	All
Type of moves	2022	117	2139
%	94.5%	5.5%	100.0%
Number of individuals	2473	394	2867
%	<i>Economy</i> 86.3%	13.7%	100.0%

# Team moves are rooted in networks

- “I had been with my previous boss for 10 years, 3 different firms.”
- “My boss left in January, after the bonus (...) And I quit after I got my bonus even though I didn’t have anything, I was completely nuts. But I knew in my head that I didn’t want to stay there without him, and I just left, for nothing. Eventually I got a job, he went to Bank B and he got me a job offer.”
- “I had worked with some of these people for quite a long time. Claudio A, which is my number 2, I had first met him, I had tried to hire him in Bank B in 2000. I had interviewed him for Bank B in 2000. I was in Frankfurt but he didn’t want to come to Frankfurt. I came to London in 2002, and I interviewed him again and hired him at Bank C in 2002, and then left, and then I called him 5 years later when I got to Bank D, and said: ‘hey do you want to come?’ and he came. There was a guy Vito B. who was the brother of Pietro B, that’s how I got Pietro as well. So Vito was with us at Bank C and I hired him at Bank D, and then I hired his brother, and then I took his brother to Bank E.” (Italian Head of Trading Team moving 17 from Bank D to Bank E)

name	COMPANY	STARTFIRM	ENDFIRM	COMPANYB	STARTFIRMB	ENDFIRMB	COMPANYC	STARTFIRMC	ENDFIRMC
Mrs Alice Caroline Marie du Hamel de Fougeroux	Credit Agricole Corporate and Investment Bank	7-Nov-05	15-Nov-06	CIBC World Markets Plc	11-Dec-06	17-Mar-08	RBC Europe Limited	8-Jul-08	31-Dec-13
Mr Dominic Brian Luke Magee	Credit Agricole Corporate and Investment Bank	25-Mar-04	31-Mar-06	CIBC World Markets Plc	13-Oct-06	18-Apr-08			
Mr David Keith Godbee	Credit Agricole Corporate and Investment Bank	4-Apr-05	13-Nov-06	CIBC World Markets Plc	23-Nov-06	7-Mar-08	RBC Europe Limited	31-Mar-08	11-Mar-11
Mr Edward John Rastall Dickinson	Credit Agricole Corporate and Investment Bank	4-Mar-05	13-Nov-06	CIBC World Markets Plc	23-Nov-06	9-Mar-08	RBC Europe Limited	7-Apr-08	31-Dec-13
Mr John Graham Williams	Credit Agricole Corporate and Investment Bank	1-Dec-01	4-Dec-06	CIBC World Markets Plc	15-Dec-06	4-Feb-08	RBC Europe Limited	18-Mar-08	11-Mar-11
Mr Nicholas Alexander Atkinson	Credit Agricole Corporate and Investment Bank	1-Dec-01	30-Nov-06	CIBC World Markets Plc	11-Dec-06	4-Feb-08	RBC Europe Limited	11-Mar-08	11-Mar-11
Mr Nicholas Andrew Carmichael	Credit Agricole Corporate and Investment Bank	1-Dec-01	15-Nov-06	CIBC World Markets Plc	23-Nov-06	7-Mar-08	RBC Europe Limited	31-Mar-08	20-Jul-09
Mr Alan Someck				CIBC World Markets Plc	4-Aug-06	10-Mar-08	RBC Europe Limited	15-Apr-08	31-Dec-13
Mr David Michael Gilbey				CIBC World Markets Plc	3-Aug-06	7-Mar-08	RBC Europe Limited	29-Apr-08	31-Dec-13
Mr James Lobban				CIBC World Markets Plc	13-Nov-06	7-Mar-08	RBC Europe Limited	31-Mar-08	31-Dec-13
Mr Louis Philippe L'Heureux				CIBC World Markets Plc	3-Nov-06	4-Feb-08	RBC Europe Limited	15-Apr-08	31-Dec-13
Mr Paul Dennis Brady				CIBC World Markets Plc	31-Jan-07	4-Feb-08	RBC Europe Limited	11-Mar-08	31-Dec-13



# Identifying team moves in Paris region (2)

All Moves per year	All workers		Within same 2-digit sector		Within same 2-digit sector and full year in t and t+3	
	Nb. Obs	Percent	Nb. Obs	Percent	Nb. Obs	Percent
0. Immobile	7,013,391	78.73%	6,922,198	85.49%	3,568,097	87.2%
1. Move to ≠ estab. within firm	72,674	0.83%	67,073	0.83%	31,244	0.8%
2. Move to ≠ firm within group	979,555	11.00%	755,945	9.34%	355,621	8.7%
3. Organizational move (outsourcing, etc.)	210,112	2.36%	131,607	1.63%	54,106	1.3%
4. Solo move	615,588	6.91%	213,231	2.63%	78,877	1.9%
5. Team move	16,350	0.18%	7,084	0.09%	3,003	0.1%
Total	8,907,670	100.0%	8,097,138	100.0%	4,090,948	100.0%
Share 5/(4+5)	2.59%		3.22%		3.7%	

# Team moves in perspective

	Paris	British Finance			French Law firms	
	Managers	FT	Factiva	FCA	LJA	LinkedIn
Solo	97%	87%	--	72%	40%	77%
Team	3%	13%	--	28%	60%	23%
Number team moves	1782	109	388	3944	126	2220
Number workers in TM	7084	367	2901	21474	544	5909
2 workers TM	--	50%	6%	--	42%	69%
3 workers TM	59%	14%	22%	39%	25%	17%
Min size	3	2	2	3	2	2
Median	3	2	5	4	3	2
Q3	4	4	8	6	4	3
P90	6	6	15	9	6	4
P95	7	7	20	13	7	5
P99	11	13	40	26	14	10
Max size	15	16	83	48	38	25

# Main sector and professions (DADS)

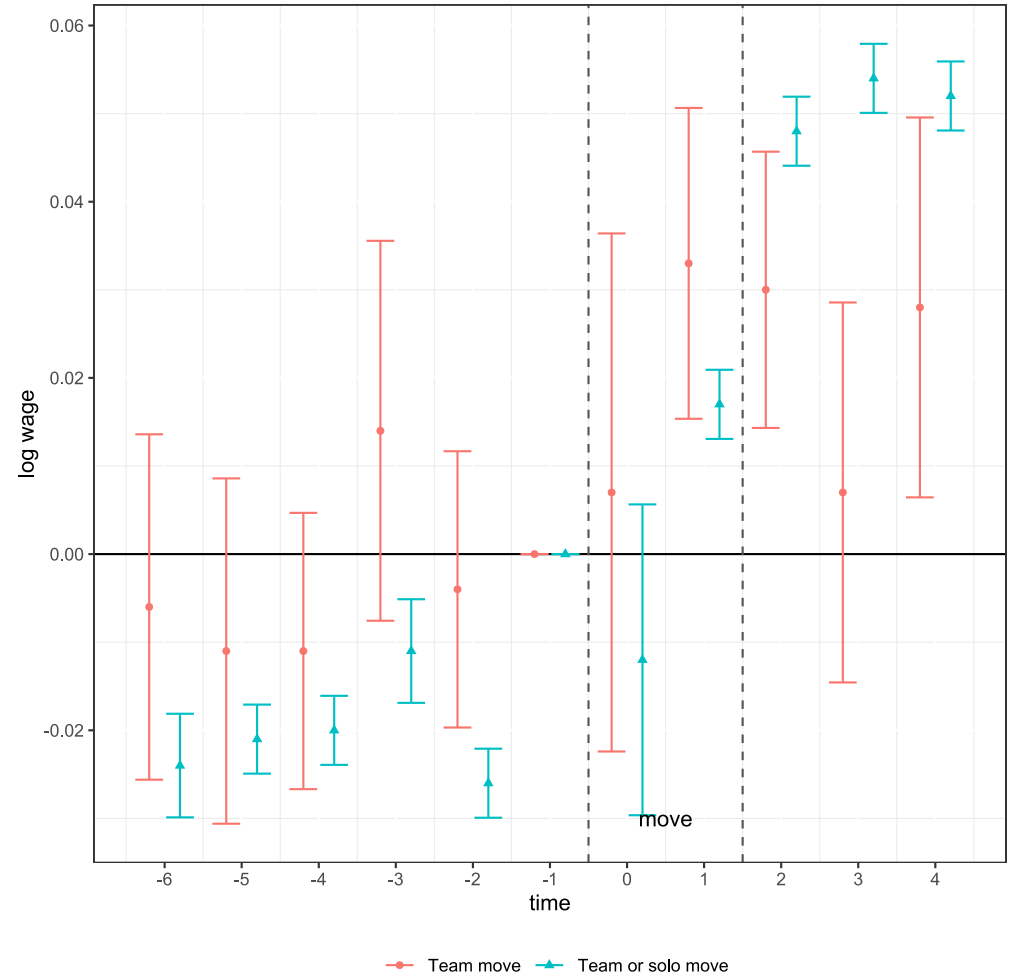
Team moves among Paris Region Managers and Professionals	Number of workers	Share of moves	Share of workers
All	7084	3.22%	0.09%
<u>Main Occupations</u>			
376A.Financial market professionals	279	7.16%	0.33%
352A.Journalists	322	5.04%	0.19%
388.Computer engineers	3960	4.83%	0.25%
376.Other bank and insurance managers	400	3.08%	0.08%
375A.Advertisement professionals	203	2.61%	0.18%
372A.Study consultants	280	2.36%	0.09%
<u>Main Sectors</u>			
62. Computer programming, consultancy and related activities	3506	5.06%	0.40%
64. Financial service activities, except insurance and pension funding	607	4.16%	0.07%
71. Architectural and engineering activities; technical testing and analysis	379	2.77%	0.10%
58. Publishing activities	341	3.38%	0.10%
73. Advertising and market research	291	2.49%	0.14%
66. Activities auxiliary to financial services and insurance activities	259	4.71%	0.14%

*Economy*

*59/62*

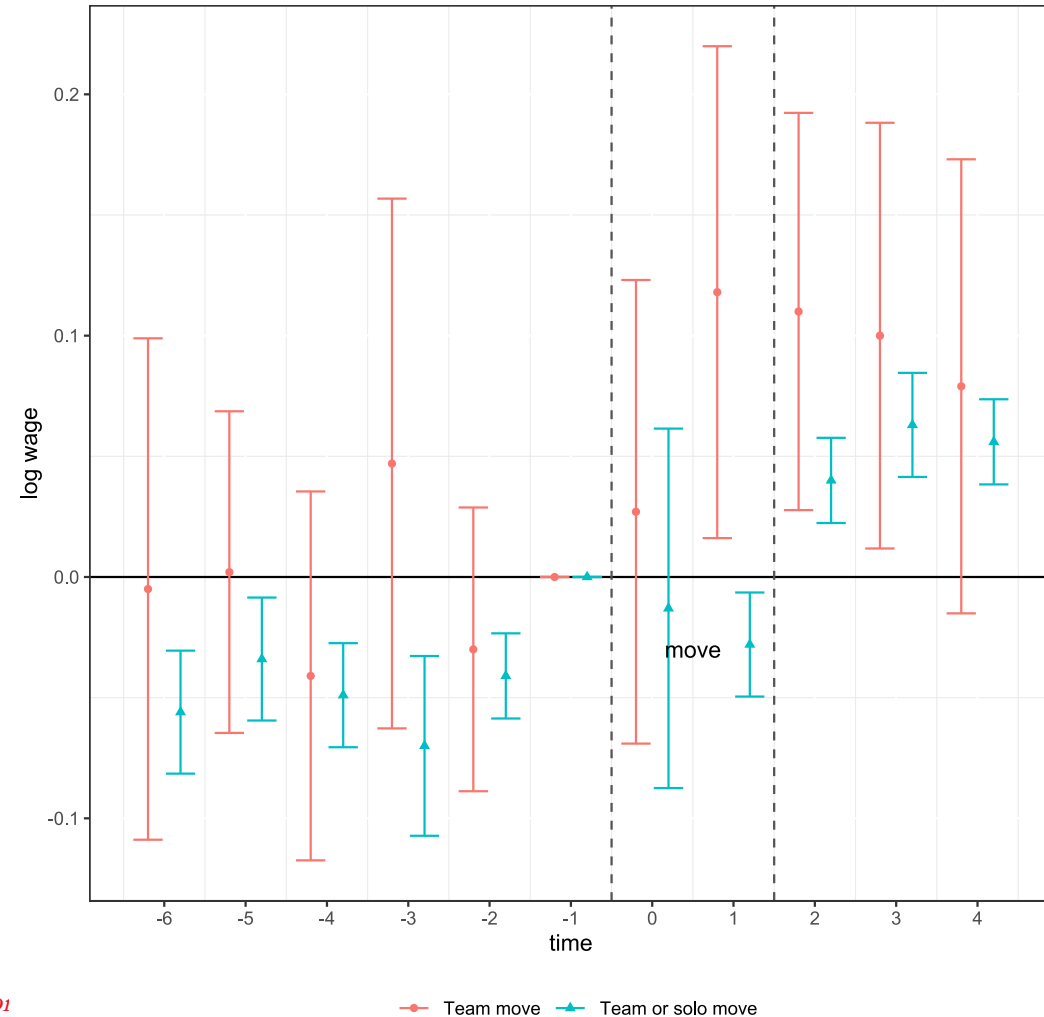
# Comparing team to solo moves

- Once controlling for (team or solo moves)
- Parallel pre-trends
- +3% on pay of team move compared to solo move.



# Banking sector only

- // pretrend
- +10 to 11% effect of moving in team versus moving solo.



*Eco1*

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