

# **The Effects of Employee Mobility Between Competitors and Cooperators on Firm Performance**

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## ABSTRACT

Drawing on social capital theory, we argue that whether firms hire employees from or lose employees to competitors vs. cooperators (e.g., potential clients) will have different effects of firm performance. We test our hypotheses by examining patent attorney movements between law firms and Fortune 500 companies.

## INTRODUCTION

There is both anecdotal and empirical evidence that organizations have come to rely more and more on the acquisition of human assets from other organizations, as opposed to internal development and promotion, to satisfy their human resource needs (Cappelli, 2000). Extant theory on how and why employee mobility influences firm performance has typically focused on the human capital implications of employee movement. From this perspective, employee migration is theorized to influence firm performance by shaping the level of human capital, defined broadly as the individual's knowledge, skills, talent and know-how (Becker, 1964), within organizations. However, another aspect of employee mobility that has not garnered much attention is the role of social capital in shaping the outcomes associated with losing or gaining employees. Social capital is defined as the potential resources embedded within, available through and derived from networks (Nahapiet & Ghoshal, 1998). Therefore, while human capital

refers to knowledge-intensive productive assets embedded in employees, social capital refers to the productive possibilities embedded in relationships that may be used to leverage resources.

In this study we build upon prior research by integrating the resource-based view (RBV) and social capital theory perspectives to understand the impact of mobility on firm performance. We predict that the type of organization a focal firm hires external talent from, or loses talent to, plays an important role in shaping firms' external social capital, and as a result shapes firms' business opportunities. We test our theory by examining the movement of a highly specialized type of employee, patent law attorneys, into and out of leading U.S. patent law firms. We analyze which types of employee mobility are valuable to law firms for obtaining more business from specific Fortune500 clients.

## THEORETICAL BACKGROUND AND HYPOTHESES

***Employee Mobility Between Cooperators.*** Prior research on employee mobility has largely focused on situations where employees move between potential competitors. However, it is not always the case that interorganizational personnel flows occur between competitors. Indeed, there are often situations where firms hire from or lose employees to potential cooperators, such as clients. Clients firms face significant uncertainty when attempting to identify suppliers of needed services, and this uncertainty is especially high when the services are knowledge-intensive and difficult to evaluate. Employee mobility may create a new network tie between firms that heightens mutual awareness and increase the level of trust and understanding a potential client has about a service provider. Thus, we would expect that the hiring of an employee from a potential client will make it more likely that a client will give business to an employee's new employer.

*H1: Gaining an employee from a potential client will result in the focal firm getting more business from that client.*

Social capital theory would also predict that the loss of an employee from a focal service provider to a (potential) client may create external social capital that can expand the economic opportunities of the focal firm. An employee that leaves a firm to join a potential client can be an ambassador for the services of his former employer. In addition, client firms may hire skilled professionals not to substitute for outsourced services, but to manage the interface between external service providers and organization-specific resources and systems in a more effective manner (Somaya, Williamson & Zhang, in press). In these situations, we may expect the social capital generated by the loss of employees to be particularly beneficial for the focal service firm because its former employees are being hired specifically for a boundary-spanning role. Accordingly, we hypothesize:

*H2: Losing an employee to a potential client will result in a focal firm getting more business from that client.*

***Employee Mobility Between Competitors.*** Employee mobility between competitors may also serve to create new social capital between firms due to the migration of *external* network relationships along with the employee. When firms gain new employees from their competitors, they may derive value from social ties shared by these individuals with their competitors' clients.

Therefore, when individuals move between competing firms, they may transfer their external social capital to their new employers who may now have access to greater potential business opportunities with the focal client. Therefore, we predict:

*H3: Gaining an employee from a competitor will result in the focal firm getting more business from the former clients of that competitor.*

Because competitors are more likely to use a firm's former human assets in a rivalrous manner to directly compete with the originating firm in the marketplace, the loss of employees to direct competitors will likely have an explicitly detrimental impact on a firm's competitive advantage, and consequently its performance. For example, Coff (1997) mentions how the brokerage firm Kidder Peabody & Co. "was devastated" (p. 377) when key brokers left to join the firm's *competitors*, taking with them the firm's key resources – namely, human capital and customer networks. Accordingly, we predict:

*H4: Losing employees to competitors (compared to other employee destinations) will have a negative effect on a focal firm's performance.*

## METHODS

### Sample and Data Sources

To test our hypotheses we examined business relationships and the movement of patent attorneys in a dyadic dataset of 107 major patent law firms and 95 innovative *Fortune* 500 companies that they serviced over the period 1991 – 1995. Table 1 contains a list of the variables used in the analysis and how they were measured. The primary data source we use to identify patent law firms, movements of patent attorneys and amount of patenting work conducted by law firms came from the U.S. Patent and Trademark Office (USPTO). Data on *Fortune* 500 companies' attributes was taken from the *Research Insight* database.

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Table 1 about here

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## RESULTS

To test our hypotheses we used a Fixed Effects Poisson count model, where the fixed unit is a law firm–company dyadic pair. Therefore, we focus exclusively on *changes within* the business relationships of that dyad, and examine the impacts of mobility that relate specifically to that dyad. Table 2 contains the results of the analyses.

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Table 2 about here

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Consistent with Hypothesis 1, the *gain from client* variable has a positive and significant coefficient (see Model 2). Therefore, hiring a patent attorney from a *Fortune* 500 company positively influences the amount of business the law firm obtains from that company.

Hypothesis 2 predicted that even losing an employee to a potential client may positively affect the amount of business a focal law firm receives from that company. Model 3 shows positive and significant support for the predicted main effect of *loss to client*. Therefore, we find corroboration for Hypothesis 2. As illustrated in Model 4, the estimated coefficient of the *gain competitor client tie* variable is positive and significant, which indicates that Hypothesis 3 is also supported. Finally, in model 5, we test what effect losing employees to competitors has relative to losing employees to other destinations (Hypothesis 4). We find that the *loss to competitors* variable is significant and negative, indicating support for our hypothesis that when employees migrate to competitors this may be more harmful than their migration to other destinations.

## DISCUSSION

Prior research on employee mobility has mostly used a human capital perspective. Drawing on social capital theory, we offer a complementary perspective to the traditional explanations for the influence of employee movement on firm performance. A key finding of our study is that where firms get their human assets from and who they lose them to matters. In particular, getting people from as well as losing them to clients can be beneficial to the focal firm. Thus, our results partially contradict the popular notion that losing people is always negatively related to firm performance (Shaw et al. 2005). In addition, our results demonstrate that the mobility of employees between cooperators in this way has an impact specifically on the business relationships between these cooperating firms. Similarly, we find a direct connection between employees gained from competitors and the amount of business obtained from their former employers' clients. Finally, we also hypothesize and demonstrate that losing employees to competitors is particularly deleterious for firms because the resources embodied in these employees can be marshaled against the originating firm, thus diminishing its competitive advantage relative to rivals in the marketplace.

There exists a long-standing notion in practitioner circles that acquiring new, talented employees from competitors is beneficial to the firm by getting knowledgeable and skillful employees, and by depriving competitors of them. However, the idea that getting or losing people to clients can positively influence a firm's business with that client offers new insights for managers. Additionally, the importance of the social capital component of employee mobility for developing business relationships with clients adds to the conventional view of employees as important human assets in their own right. Our study indicates that employees may additionally provide firms with access to other resource providers, clients in this case, and thus be significantly more valuable to firms.

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**TABLE 1****Measures**

Variable	Description
Law firm performance (Dependent Variable)	Total number of patents law firm <i>i</i> filed on behalf of company <i>j</i> in a given year
Gain from Potential Client (H1)	Dummy variable measuring if law firm <i>i</i> hired an attorney from <i>Fortune</i> 500 company <i>j</i> in a given year
Loss to Potential Client (H2)	Dummy variable measuring if law firm <i>i</i> lost an attorney to <i>Fortune</i> 500 company <i>j</i> in a given year
Gain from Competitor (H3)	Dummy variable measuring if in a given year focal law firm <i>i</i> lost an attorney to competitor law firm that had prior ties with company <i>j</i> in previous two years
Loss to Competitor (H4)	Number of patent attorneys law firm <i>i</i> lost to competitor law firm in a given year
Loss to others (Control)	Number of attorneys who retired, entered private practice, or went to work for non-law firms or <i>Fortune</i> 500 firms
Gain from others (Control)	Number of attorneys hired from non-competitors
Gain from all competitors (Control)	Number of attorneys hired from all other law firms (not just competitors with tie to potential clients)
Law firm size (Control)	Number of patent attorneys
Law firm reputation (Control)	<i>Intellectual Property Today</i> ranking
Company Size (Control)	Number of employees
R&D spending (Control)	R&D spending in dollars
Year Dummy Variables (Control)	

**TABLE 2**  
**Fixed-effects Poisson model estimates of patents outsourced by law firm to company**

	Dep. Var. = Number of Patents Outsourced by Client to Law Firm					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Gain from client		0.210* (0.107)				0.226* (0.108)
Loss to client			0.283* (0.127)			0.316* (0.128)
Gain competitor client tie				0.305** (0.067)		0.312** (0.067)
Loss to competitors					-0.053* (0.026)	-0.057* (0.026)
Law firm size	0.871** (0.118)	0.848** (0.118)	0.877** (0.118)	0.818** (0.118)	0.823** (0.120)	0.747** (0.122)
Law firm rank	-0.095** (0.033)	-0.094** (0.033)	-0.097** (0.033)	-0.094** (0.033)	-0.113** (0.034)	-0.113** (0.034)
Loss to others	0.020 (0.029)	0.025 (0.029)	0.017 (0.029)	0.020 (0.029)	0.027 (0.029)	0.029 (0.029)
Gain from all competitors	0.039 (0.028)	0.041 (0.028)	0.036 (0.028)	-0.004 (0.030)	0.043 (0.028)	-0.001 (0.030)
Gain from others	-0.077** (0.028)	-0.076** (0.028)	-0.074** (0.028)	-0.055+ (0.028)	-0.068* (0.028)	-0.043 (0.029)
Client company R&D	0.896** (0.090)	0.871** (0.091)	0.885** (0.090)	0.878** (0.090)	0.882** (0.091)	0.826** (0.092)
Client company Size	0.148 (0.105)	0.186+ (0.106)	0.148 (0.105)	0.150 (0.105)	0.181+ (0.106)	0.227* (0.108)
Client patent law expertise	0.396** (0.053)	0.380** (0.053)	0.399** (0.053)	0.393** (0.053)	0.419** (0.054)	0.403** (0.055)
Year 1992 Dummy	-0.077 (0.061)	-0.092 (0.062)	-0.073 (0.061)	-0.110+ (0.062)	-0.098 (0.062)	-0.146* (0.063)
Year 1993 Dummy	-0.035 (0.051)	-0.049 (0.051)	-0.035 (0.051)	-0.056 (0.051)	-0.048 (0.051)	-0.086+ (0.052)
Year 1994 Dummy	-0.218** (0.043)	-0.224** (0.043)	-0.217** (0.043)	-0.238** (0.043)	-0.225** (0.043)	-0.249** (0.043)
Year 1995 Dummy	-0.138** (0.039)	-0.139** (0.039)	-0.138** (0.039)	-0.153** (0.039)	-0.144** (0.039)	-0.161** (0.039)
No. of observations	2289	2289	2289	2289	2289	2289
No. of dyadic groups	469	469	469	469	469	469
Wald Chi-squared	1228.4	1234.5	1233.7	1248.6	1233.9	1266.8
Log likelihood	-3134.7	-3132.8	-3132.3	-3124.5	-3132.5	-3117.3
Likelihood ratio test		3.8*	4.8*	20.4**	4.4*	34.8**

Standard errors in parentheses. Significance Levels: + = 10%; \* = 5%; \*\* = 1%

All variables (except dummy variables) are transformed by logs