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Shortening a company name by one word could add a market value of

$3.75M

Companies with simple names attract more shareholders, generate more stock trading, and perform better on certain financial measures than companies with hard-to-process names, according to **T. Clifton Green,** of Emory University, and **Russell Jame,** of the University of Kentucky, who studied the "fluency" of corporate names. The researchers found that shortening the company name by one word would have added $3.75 million in market value to the median-size firm in the study sample. Their analysis of the 2,630 corporate name changes that occurred from 1980 to 2008 showed that most names became shorter.

TALENT *by On Amir and Orly Lobel*

How Noncompetes Stifle Performance

Noncompete clauses are a standard feature of many employment contracts. Surveys show that in the United States nearly half of engineers have signed agreements limiting their ability to later work for or start rival firms, as have senior managers at 70% of public companies. According to conventional wisdom, these agreements are crucial to innovation-driven businesses, because they help keep proprietary information and talent safe from the competition.

But noncompetes can be a double-edged sword. A growing body of evidence shows that innovation, productivity, and economic growth are all greater in regions where local laws don't allow (or authorities don't enforce) such contracts—most notably, Silicon Valley. Presumably, positive effects spread to many companies when employees are free to move around.

New research suggests another reason to think twice about imposing such restrictions: In a large-scale experiment, we found that subjects in simulated noncompete conditions showed significantly less motivation and got worse results on effort-based tasks. Why? We believe that limits on future employment not only dim workers' external prospects but also decrease their perceived ownership of their jobs, sapping their desire to exert themselves and develop their skills. The resulting drop in performance may be more damaging to companies than the actual loss of the employees would be.

We recruited 1,028 participants to complete an online task for pay. Half of them were asked to do a purely effort-based activity (searching matrices for numbers that added up to 10), and the other half, a creative activity (thinking of words closely associated with other words). Some subjects in each group were placed under restrictions that mimicked a noncompete agreement: They were told that although they would later be invited to perform another paid task, they'd be barred from accepting the same type of task. The remaining subjects were used as a control group and given no restrictions.

Sixty-one percent of the subjects in the noncompete group gave up on their task (thus forgoing payment), compared with only 41% in the control group. Among the subjects who completed the matrix task, people with noncompete conditions were twice as likely to make mistakes as people in the control group. Those who were restricted also skipped more items and spent less time on the task—further indications of low motivation.

All participants who completed the word-association task, regardless of whether they were under a noncompete restriction, performed similarly in terms of errors, skipped items, and time spent. We weren't surprised by that finding: Prior research had shown that in creative endeavors, people are primarily driven by intrinsic motivations. So it made sense that subjects working on the word associations would be less affected by a negative external incentive than people working on math tasks would be.

Given today's increasingly mobile labor market and the heightened competition in many industries, it's understandable that companies want to guard their talent closely. But if the walls meant to protect human capital diminish the quality of that capital, they may not be worth building.

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> The drop in motivation and results may be more damaging to companies than the actual loss of the employees.

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