Industrial & Labor Relations Review

Volume 59, *Issue* 4 2006 *Article* 83

The Mismanagement of Talent: Employability and Jobs in the Knowledge Economy

Phillip Brown* Anthony Hesketh†

*,
†,

find are two brief discussions on pages 144 and 152.) Because so many of the analyses consider how outcomes are correlated with employer "fixed effects" on workers' earnings, the book would have been stronger with an additional appendix detailing how these earnings effects are estimated, and discussing how these estimation procedures constrain the bounds within which the effects can be interpreted.

Part of the issue is that the estimation of employer effects and person effects on earnings is only identified by the persons who switch employer. With only a few years of data for each person, there is substantial measurement error in estimating person fixed effects. In addition, the specification used to estimate person and employer fixed effects on earnings levels does not allow for person and employer effects on earnings growth, which are plausible. As a result, what is estimated to be an employer fixed effect on earnings levels may in part reflect the kinds of workers the employer hires. For example, an employer may tend to hire workers whose true person fixed effects on earnings levels are higher than these workers' measured person fixed effects, or workers whose earnings growth trends are greater than the average person's growth rate trend.

The policy discussion also could have more fully explored some of the limitations of what can be inferred from these estimates. Even if the estimates do reflect causal effects of employer characteristics, the average effects of employer characteristics on workers' success under current labor market policy need not reflect the marginal effects under policies that change how workers are placed in jobs. For example, in research completed after this book was written, David Autor and Susan Houseman found that welfare clients, if they are essentially randomly assigned to welfare-to-work agencies that tend to place more welfare clients in temporary jobs, have lower earnings later on ("Do Temporary Help Jobs Improve Labor Market Outcomes for Low-Skilled Workers?" Working Paper 11743, National Bureau of Economic Research, November 2005). Autor and Houseman's results may not contradict the results reported in AHL's book. Low-earnings workers who are currently placed in temporary jobs may on average experience a long-run benefit, but the marginal additional individuals placed in temporary jobs by policy variations may not.

However, these are modest caveats regarding a unique book that should spark needed future research. Andersson, Holzer, and Lane persuasively argue that employers matter in the success of low-earnings workers. As the book points out, this finding should lead to more research to figure out the specific mechanisms that explain why and how employers matter. And it should lead to exploring a wide variety of policies to see if we can alter the distribution of opportunities offered by employers to low-earnings workers. Some of these policies might fail, but continued efforts to work with employers are likely to be fruitful for both research and policy regarding low-earnings workers.

Timothy J. Bartik

Senior Economist
W.E. Upjohn Institute for
Employment Research

The Mismanagement of Talent: Employability and Jobs in the Knowledge Economy. By Phillip Brown and Anthony Hesketh. New York: Oxford University Press, 2004. x, 278 pp. ISBN 0-19-92-6953-X, $39.95 (paper); 978-0-19-92-6954-9, $124.50 (cloth).

A 1997 landmark study by McKinsey & Company exposed the "war for talent" as a strategic business challenge and key driver of company performance. Although the McKinsey consultants were certainly not the first to note the shift toward a knowledge-based economy (KBE)—Peter Drucker predicted the rise of the knowledge worker over a half-century ago—their report has perhaps done most to promulgate the "war for talent" perspective and the view that companies that are victorious on this battlefield will be those that realize competitive advantage in the KBE.

In *The Mismanagement of Talent,* Brown and Hesketh argue that rooted within the dominant discourse of the "war for talent" are several core assumptions that have shaped our perspective on employability in the KBE. The most central of these is that there is a limited pool of talent capable of rising to senior managerial positions, which creates fierce competition to recruit the best and brightest. The perception of talent as a limited commodity is seen as driving organizations to diversify their talent pools and adopt more rigorous recruitment and selection tools in an effort to get the right people, with the right knowledge, into the right jobs. That perception also shapes public policy, as governments focus on expanding access to higher education and dismantling barriers to talent presented by fundamental forms of inequality so that their work forces are positioned to compete in the global economy. Also affected are future knowledge workers themselves, who are pushed to acquire the employability skills that will ostensibly guarantee them the high-skilled, high-wage jobs generated within the KBE.

In the first chapter-and-a-half, the authors outline those core assumptions. The remainder of the book is dedicated to challenging this "consensus view" of the "war for talent" and exposing what the authors believe are serious problems in how companies recruit the managers and leaders of the future and manage their human capital, how government is adjusting (or failing to adjust) to the realities of the KBE, and how future knowledge workers are trying to manage their employability in the competition for fast-track management positions. The book draws heavily on the authors' fieldwork, which consists of 15 interviews with representatives of private and public sector organizations, 10 interviews with policy stakeholders, and observations of assessment center processes within 6 organizations. In addition, the authors integrate evidence from interviews with 60 college and university graduates who were applicants to the organizations under investigation. Although the authors' own work is limited to organizations and students within the United Kingdom, they adduce employment data from the United States as evidence that their findings and conclusions transcend geographical boundaries.

At the heart of this volume lies the authors' macro analysis of the KBE. Brown and Hesketh challenge positional consensus theory, according to which the key challenge in the modern economy is ensuring that individuals have the employability skills to take advantage of high-skilled, high-wage job opportunities. They argue that this consensus view of employability ignores the realities of the occupational structure and the demand for knowledge workers in the KBE. In particular, they contend that managerial and professional jobs remain at a premium, which leads to positional conflict in which not everyone with the appropriate qualifications and skills can win because there are invariably far more applicants than job opportunities.

In support of their position, Brown and Hesketh present occupational data suggesting that the U.K. and U.S. economies continue to be dominated by routine production and service, rather than knowledge, occupations. This leads to the conclusion that job opportunities for knowledge workers are much more limited than the proponents of the KBE would have us believe. This is a central tenet of the authors' theory and one that serves as the foundation for their arguments in this book.

I found the data and the authors' macro analysis of the current KBE convincing. It should be borne in mind, however, that several important differences exist across the U.S. and U.K. datasets. Most notably, the U.S. data show a far higher proportion of workers engaged in service occupations than in either knowledge or routine production occupations, whereas the U.K. data indicate a significantly higher proportion of workers in knowledge and, particularly, routine production occupations than in service occupations. Further, there exist marked differences across these datasets with respect to the projected growth in the proportion of knowledge workers. Unfortunately, the authors do very little to help us make sense of these differences and their potential implications. Nonetheless, their macro analysis of the KBE raises thought-provoking questions regarding the legitimacy of the "war for talent" and the employment prospects of future knowledge workers.

The focus of the book then shifts to understanding how companies define and approach managerial talent and leadership potential within the KBE. It is argued that many organizations are locked into a "war for talent" that bears little relationship to the reality of the labor market. This focus on winning the talent war, however misplaced it might be, is seen as having numerous implications. Despite the rhetoric of organizational change and recruitment for diversity, it is argued that many organizations have maintained an elitist view of managerial employability and have continued employing fast-track recruitment processes that fail to neutralize fundamental forms of injustice. Brown and Hesketh suggest that the focus on recruiting individuals who demonstrate not only future potential but an ability to add immediate value has led to difficult-to-define skill requirements. They conclude that as organizations attach greater importance to applicants' personal qualities, such as drive and initiative, the purported objectivity of modern recruitment practices breaks down and leads to hiring decisions based on "gut feeling." This is a bold and controversial conclusion that needs to be evaluated cautiously given that it is based largely on observations of assessment centers in only a few (six) organizations. Future work is needed to expand the scope of this investigation and critically evaluate such findings in the context of current recruitment and selection theory. Yet, this book does provide an interesting perspective on the potential forces driving the homogenization of talent in leading companies.

Another thoroughly examined subject in this volume is how young knowledge workers socially construct and manage their employability. Through a series of interviews, the authors focus on assessing not only recent college and university graduates' expectations of finding well-paid and rewarding jobs but also the different strategies employed by graduates in the competition for tough-entry jobs. This assessment leads to the identification of two "ideal types" of graduates—Players and Purists. The Players understand employability as a positional game and market themselves in ways that conform to the requirements of employers. Alternatively, the Purists view the competition as a meritocratic race and focus on finding employment that offers the right fit with their knowledge, skills, and aspirations. This analysis provides insight into how those at the top end of the labor market have responded to changes in employer requirements and the intense competition for top knowledge jobs. The authors also suggest that these differences between the Players and Purists highlight the ethical tension around the question of which routes to success are legitimate. One fertile ethics-related question is whether Player behavior leads to competitive advantage in the quest for top knowledge jobs.

Overall, *The Mismanagement of Talent* presents a compelling alternative view of the "war for talent." Brown and Hesketh unabashedly challenge the dominant discourse of the knowledge-driven economy and provide a critical analysis of current management practice and public policy. While many readers may take issue with the authors' sometimes controversial arguments, I recommend this volume to anyone who is not afraid to follow a provocative exploration of the knowledge-based economy's far-reaching implications.

Bradford S. Bell

Assistant Professor
School of Industrial and Labor Relations
Cornell University

Pay without Performance: The Unfulfilled Promise of Executive Compensation. By Lucian Bebchuk and Jesse Fried. Cambridge, Mass.: Harvard University Press, 2004. xii, 279 pp. ISBN 0-674-01665-3, $24.95 (cloth).

Every once in a while someone comes out with an important book concerning corporate governance or executive compensation. Like Aldolf A. Berle and Gardiner C. Means's *The Modern Corporation and Private Property* (New York: Harcourt, Brace, and World, 1932) and Graef S. Crystal's *In Search of Excess: The Overcompensation of American Executives* (New York: W.W. Norton, 1991), Bebchuk and Fried's new book is thought-provoking and interesting. It is a very important book and should be read not just by those interested in executive pay or corporate governance but by anyone interested in how corporations work.

The main idea in *Pay without Performance* is that there has been a fundamental breakdown in how executives are paid in the United States. Bebchuk and Fried argue that most researchers of executive pay have focused on the "arm's-length bargaining model," according to which CEOs report to objective, independent board members who, in turn, report to shareholders. This standard principal-agent framework has been used in hundreds of academic papers. Bebchuk and Fried argue that empirical facts point to a very different explanatory framework—a "managerial power" model.

Pay without Performance has four main parts. In the first part the authors describe the "official view" of executive pay, the one most scholars hold. In this view, "boards, bargaining at arm's length with CEOs, negotiate pay arrangements designed to serve shareholders' interests." In stoutly arguing that this model is not "a sufficiently accurate reflection of reality," Bebchuk and Fried marshal a long list of considerations: for example, directors seek to be re-elected to boards; CEOs have power to benefit directors (and vice-versa); boards may favor CEOs for a variety of social and psychological reasons; directors' costs for favoring CEOs are very low; and shareholders have very limited power to countervail these forces.

The second part of the book elaborates the "managerial power" perspective and employs it to explain the "unfulfilled promise" of executive pay. Bebchuk and Fried argue that CEOs use their power "to secure rents—that is, extra value beyond what they would obtain under arm's-length bargaining." Although there are many new reporting requirements for firms, managers and boards are able to "camouflage" executives' compensation. The authors cite evidence that CEOs are more richly paid when