

The 'war for talent' is first casualty of the crisis

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Edward Liddy, chief executive of AIG, warned last month that the insurer would be unable to "attract and retain the best and brightest talent" if the US government imposed curbs on executive pay. When the top management of a company kept alive by a \$170bn bail-out speaks like that, we get a sense of just how resilient the ideology of talent has become within the corporate world. However, the causes and severity of this recession threaten this ideology's credibility - with potentially considerable consequences for management and the workplace.

The ideology was formally set out in a 1998 article, entitled "The War for Talent", written by five McKinsey consultants. The article made four key points: a small minority of talented employees have a highly disproportionate impact on company performance; the demands of an increasingly complex global economy would require exceptionally sophisticated leaders with a rare combination of singular attributes; demographic decline would make the search for these extremely effective employees even more challenging; as a result of these factors, companies would contest an ever-intensifying "war for talent" with their competitors.

This way of thinking has guided, to a greater or less extent, the human resources strategy of many large companies. Global talent directors were appointed, talent programmes developed, talent consultants abounded - an entire industry created. The phrase "talented employee" permeated the language of business. In short, the ideology entered the very core of corporate life.

Only much later did the writer Malcolm Gladwell and the academic Jeffrey Pfeffer argue that blind faith in "talent" would harm company performance because of its excessive emphasis on individual "stars", and its resulting neglect of other factors such as organisational culture and efficiency.

These arguments were persuasive but they missed the point. The ideology's popularity was not a result of its inherent rightness but because it served as a convenient justification (validated by the powerful McKinsey brand) for high-flyers to elevate their self-image, embed their position and raise their pay.

Had there been no suggestion of major practical consequences, the essay might have remained a secluded topic of academic debate. However, Gladwell convincingly pointed to its role in Enron's downfall in 2001. Furthermore, its destructive capacity might eventually be seen to have been systemic rather than merely specific to one failed company. In other words, the ideology could well feature strongly in future historians' account of the current recession.

What might a sketch of this account look like? Given the immense rewards on offer, the investment banking industry was particularly enthused by the ideology. A "star" culture, always a hallmark of Wall Street and the City, proliferated further. It was this culture, legitimised and strengthened by the talent ideology, that sent the global economy spiralling into recession. There are four reasons for this.

First, pay. "Rainmakers" in investment banks argued: if we make £100m for the company, we should get £10m. Who else but the "talented" could bring in so much revenue? Having won this argument, they were free to pursue risky strategies, knowing that they would take a large slice of the upside but would not suffer from the downside.

Second, complacency. Banking leaders were lulled into thinking that their companies' massive revenues were not a virtually inevitable consequence of the bull market but solely the result of their own ability and insight. This was a culture devoid of self-criticism and self-analysis, hindering the prevention of impending economic catastrophe.

Third, external sycophancy. This complacency was sustained by business writers, academics, government and regulatory agencies dazzled by the "stars" of the investment banking industry and the revenues they generated. Having swallowed the talent ideology, they shirked their duty to hold banking leaders to account. In the words of Lord Turner, chairman of the Financial Services Authority, "there probably was too much of a fascination with what you could call finance capitalism and a failure to realise the risk that was emerging".

Fourth, conformity. An emphasis on the extreme rarity of the abilities required by top leaders implied that only a tiny number could question their judgment. As Paul Moore, the sacked whistleblower at HBOS, said of his own management: "They were not inclined to listen to a different view". The talent ideology thereby buttressed rigid hierarchy, which in turn crushed dissent and promoted mindless obedience.

If the essence of this argument feeds into popular consciousness, the repercussions will be significant. Supposedly staffed by the cream of the commercial world, the investment banking industry inspired great reverence. If it was, in fact, led by myopic bunglers, what about the captains of other, less celebrated industries? The intellectual leap

from the original conclusion to the subsequent question does not seem huge. Increasing scrutiny of executive and finance sector pay is inevitable. A notoriously impatient Generation Y, previously ordered to wait in line for their opportunity, might wonder still further why on earth they should.

Trust in the actions and pronouncements of leaders, a vital component of employee engagement, might suffer markedly. And reverence for the "talented" might return to where it perhaps always belonged - to great sports stars, entrepreneurs and artists.

The author, a management writer, is working on a book on pay.

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