The battle for brainpower

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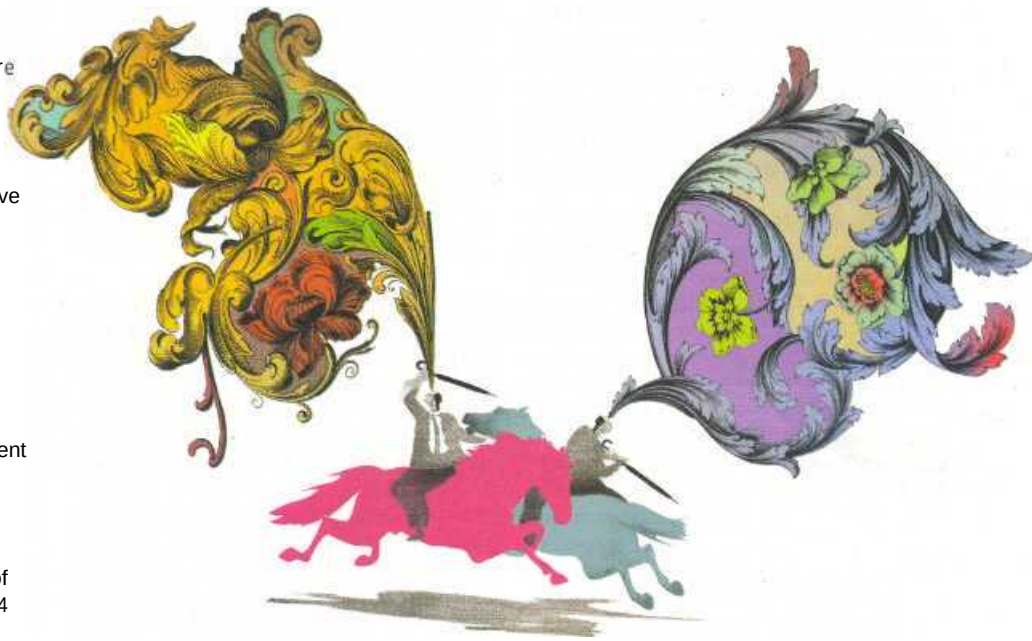

Talent has become the world's most sought-after commodity, says Adrian Wooldridge. The shortage is causing serious problems

IN A speech at Harvard University in 1943 Winston Churchill observed that "the empires of the future will be empires of the mind." He might have added that the battles of the future will be battles for talent. To be sure, the old battles for natural resources are still with us. But they are being supplemented by new ones for talent-not just among companies (which are competing for "human resources") but also among countries (which fret about the "balance of brains" as well as the "balance of power").

The war for talent is at its fiercest in high-tech industries. The arrival of an aggressive new superpower-Google-has made it bloodier still. The company has assembled a formidable hiring machine to help it find the people it needs. It has also experimented with clever new recruiting tools, such as billboards featuring complicated mathematical problems. Other tech giants have responded by supercharging their own talent machines (Yahoo! has hired a constellation of academic stars) and suing people who suddenly leave.

But a large and growing number of businesses outside the tech industry—from consulting to hedge funds-also run on brainpower. When the Corporate Executive Board (CEB), a provider of business research and executive education based in Washington, DC, recently conducted an international poll of senior human-resources managers, three-quarters of them said that "attracting and retaining" talent was their number one priority. Some 62% worried about company-wide talent shortages (see chart 1 on the next page). The CEB also surveyed some 4,000 hiring managers in more than 30 companies, and was told that the average quality of candidates had declined by 10% since 2004 and the average time to fill a vacancy had increased from 37 days to 51 days. More than one-third of the managers said that they had hired below-average candidates "just to fill a position quickly". The CEB found, too, that about one in three employees had recently been approached by another firm hoping to lure them away.

Can't get enough of it

All this brings back memories of the dot-com boom in the late 1990s, when management consultants were writing books such as "The War for Talent" (by Ed Michaels, Helen Handfield-Jones and Beth Axelrod of McKinsey), telling companies that they must move heaven and earth to recruit and promote the best talent. No sooner had the bubble burst than many

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A list of sources can be found online

www.economist.com/surveys

An audio interview with the author is at

www.economist.com/audio

• former masters of the universe were begging for work.

Indeed, companies do not even know how to define "talent", let alone how to manage it. Some use it to mean people like Aldous Huxley's alphas in "Brave New World"-those at the top of the bell curve. Others employ it as a synonym for the entire workforce, a definition so broad as to be meaningless.

Nor does stocking up on talent seem to protect companies from getting it spectacularly wrong. Enron did everything that Mr Michaels and his colleagues recommended (indeed, McKinsey was both a consultant and a cheerleader for the Houston conglomerate). It recruited the best and the brightest, hiring up to 250 MBAS a year at the height of its fame. It applied a "rank-and-yank" system- of evaluation, showering the alphas with gold and sacking the gammas. And it promoted talent much faster than experience. Another corporate disaster, Long Term Capital Management, was even more talent-heavy than Enron, boasting not only MBAS but Nobel prize-winners among its staff. But despite all this talent, the companies still succumbed to greed and mismanageme'nt.

The coining shortage

Clearly there is more to good management than hiring the best and the brightest. Among other things, it requires rewarding experience as well as talent, and applying strong ethical codes and internal controls. Indeed, talent-intensive businesses have a particular interest in maintaining high ethical standards. Whereas in manufacturing industries a decline in such standards is often slow, in talent-intensive ones it can be terrifyingly sudden, as Arthur Andersen and Enron found to their cost.

All the same, structural changes are making talent ever more important. The deepest such change is the rise of intangible but talent-intensive assets. Baruch Lev, a professor of accounting at New York University, argues that "intangible assets"-ranging from a skilled workforce to patents to know-how-account for more than half of the market capitalisation of America's public companies. Accenture, a management consultancy, calculates that intangible assets have shot up from 20% of the value of companies in the S&P 500 in 1980 to around 70% today.

McKinsey makes a similar point in a different way. The consultancy has divided American jobs into three categories: "transformational" (extracting raw materials or converting them into finished

goods), "transactional" (interactions that can easily be scripted or automated) and "tacit" (complex interactions requiring a high level of judgment). The company argues that over the past six years the number of American jobs that emphasise "tacit interactions" has grown two and a half times as fast as the number of transactional jobs and three times as fast as employment in general. These jobs now make up some 40% of the American labour market and account for 70% of the jobs created since 1998. And the same sort of thing is bound to happen in developing countries as they get richer.

A second change is the ageing of the population. This will be most dramatic in Europe and Japan: by 2025 the number of people aged 15-64 is projected to fall by 7% in Germany, 9% in Italy and 14% in Japan. But it will also make a difference to China, thanks to its one-child policy. And even in America, where the effect will be less marked, the retirement of the baby-boomers (which has just started) means that companies will lose large numbers of experienced workers over a short period. RHR International, a consultancy, claims that America's 500 biggest companies will lose half their senior managers in the next five years or so, when the next generation of potential leaders has already been decimated by the re-engineering and downsizing of the past few decades. At the top of the civil service the attrition rate will be even higher. This means that everyone will have to fight harder for young talent, as well as learning to tap (and manage) new sources of talent.

At the same time loyalty to employers is fading. Thanks to all that downsizing, the old social contract-job security in return for commitment-has been breaking down, first in America and then in other countries. A 2003 survey by the Society for Human-Resource Management suggested that 83% of workers were "extremely" or "somewhat" likely to search for a new job when the economy recovered.

As well as becoming more footloose, the workforce is becoming less standardised. Today employees come in all shapes and sizes. Some 16% of American workers telecommute some of the time. A quarter of the staff at B&Q, a British DIY chain, are over 50; the oldest is 91. And these diverse workers are often part of a global supply chain that keeps going 24 hours a day. Managers not only need to deal with lots of different sorts of people, but also to manage workers in different countries and often across different functions. That means even more competition for people with up-to-date management skills.

Obsession with talent is no longer confined to blue-chip companies such as Goldman Sachs and General Electric. It can be found everywhere in the corporate world, from credit-card companies to hotel chains to the retail trade. Many firms reckon that they have pushed re-engineering and automation as hard as they can. Now they must raise productivity by managing talent better.

With opportunities at home running dry, the hunt for talent has gone global. Over the past decade multinational companies have shipped back-office and IT operations to the developing world, particularly India and China. More recently they have started moving better jobs offshore as well, capitalising on high-grade workers with local knowledge; but now they are bumping up against talent shortages in the developing world too.

Even governments have got the talent bug. Rich countries have progressed from simply relaxing their immigration laws to actively luring highly qualified people. Most of them are using their universities as magnets for talent. India and China are trying to entice back some of their brightest people from abroad. Singapore's Ministry of Manpower even has an international talent division.

The dark side

Competition for talent offers many benefits-from boosting productivity to increasing opportunities, from promoting job satisfaction to supercharging scientific advances. The more countries and companies compete for talent, the better the chances that geniuses will be raked up from obscurity.

But the subject is strewn with landmines. Think of the furore that greeted Charles Murray's and Richard Herrnstein's book "The Bell Curve", which argued that there are differences in the average intelligence of different racial groups; I

> or the ejection of Lawrence Summers as president of Harvard University because he had speculated publicly about why there are so few women in the upper ranks of science.

It would be wonderful if talent were distributed equally across races, classes and genders. But what if a free market shows it not to be, raising all sorts of political problems? And what happens to talented Western workers when they have to compete with millions of clever Indians who are willing to do the job for a small fraction of the price?

This survey will argue that the talent war has to be taken seriously. It will try to avoid defining talent either too broadly or too narrowly but simply take it to mean brainpower-the ability to solve complex problems or invent new solutions. It will thus focus on what Peter Drucker, the late and great management guru, called "knowledge workers". But there is no point in being dogmatic. The nature of critical talent varies from company to company: it may be the ability to crack a few jokes while turning an aeroplane around in 25 minutes, as demonstrated by Southwest Airlines. It is one of the marks of a sophisticated society that it rewards a wide variety of different talents.

The survey will conclude by looking at the widening inequalities that will result from the competition for talent, and weighing up the risks of a backlash against the talent elite. •

Fonte: The Economist, v.381, n.8498, p.3-5, 7 Oct. 2006.