

# WHARTON ON

## Human Resources



# Managing Talent

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**AS BUSINESS BECOMES INCREASINGLY COMPETITIVE** on a global scale, HR professionals have stepped up their efforts to manage and retain talent in their organizations. The challenges are varied: determining who to promote and why, finding employee incentives that work, and weighing the value of star performers against the disruptions that sometimes accompany larger egos. Beyond that, managers need to know what their employees consider “success”—a definition that shifts according to workers’ personal goals and work/life balance ideals—and they should consider developing incentives and options along those lines. The following articles from *Knowledge@Wharton* address these issues and more.

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Employees are starting to set career paths based on their own needs, values, and definitions of success. They are otherwise talented and energetic workers who are “plateauing”—setting boundaries around their ambitions rather than striving to climb the next step up the corporate ladder. Some companies are beginning to take notice, providing new options and opportunities in the ongoing war for talent.

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The alchemy of promotion—who gets it, when, and why—animated a recent conference at Wharton organized by the School’s Center for Human Resources. Labor economists and human resources specialists attending the conference, entitled “Careers and Career Transitions: New Evidence for a New Economy,” tackled a number of issues, including whether or not a “fast track” really exists, the effect of corporate restructurings on professional advancement, and the likelihood of promotion for insiders vs. recent outside hires.

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The talk of the National Football League in 2005 was Terrell Owens, the talented wide receiver who was let go by the Philadelphia Eagles because of repeated disruptive behavior that alienated teammates, coaches, and fans alike. Although the saga of T.O.—as he is familiarly known—dominated the sports pages for days on end, coverage of his relationship with the Eagles’ organization could just as easily have found a home between the covers of an academic management journal. Faculty members at Wharton and other experts say Owens is a classic case of a star employee who, because of his immense talent, was given wide latitude even though he engaged in eccentric (at best) and abusive (at worst) behavior. How employers view the tradeoff between talent and disruptive behavior sends a powerful message about teamwork in an organization’s culture, they say.

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Time was when company employees were guaranteed a lifetime of secure jobs and increasing paychecks in exchange for loyalty and hard work. No more. A revolution is underway that brings market forces directly into the workplace. *The New Deal at Work*, a new book by Peter Cappelli, director of Wharton’s Center for Human Resources, examines these changes.

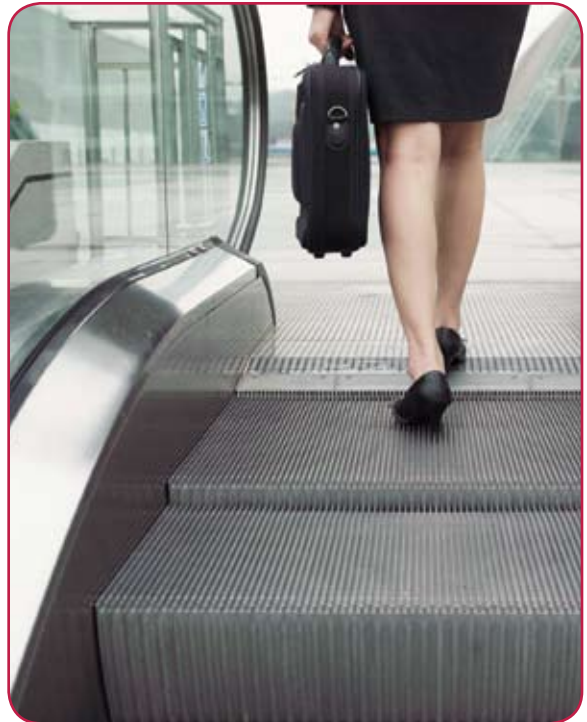
## Plateauing: Redefining Success at Work

**AS AN EXECUTIVE COACH** who works with corporations, Monica McGrath has her ear to the ground. And what she is hearing is this: A number of men and women in middle management are increasingly reluctant to take the next step in their careers because the corporate ladder is not as appealing as it used to be, and the price to climb it is too high. “These people are still ambitious, and they are still driving. They just aren’t driving for the same things they were driving for 15 years ago,” she says.

What may be happening, suggest McGrath and others, is that people are setting career paths based on their own values and definitions of success. They are not burned out or dropping out; they are not going back to school and changing careers; they are not having a mid-life crisis. Instead, they are redefining how they can keep contributing to their organizations, but on their own terms. Rather than subscribe to the “onward and upward” motto, they are more interested in “plateauing,” unhooking from the pressure to follow an upward path that someone else has set.

A number of oft-cited trends in the workplace contribute to this phenomenon: Technological advancements are breaking down the barriers between work and nonwork hours, adding to the pressure to constantly be on the job or on call. Strategic decisions like restructuring, downsizing, and outsourcing are adding to job uncertainty at all levels and reducing the number of promotions available to mid- and upper-level managers. The continuing influx of women into the workforce keeps raising the level of stress when it comes to work/life balance issues.

Lois Backon, a vice president at Families and Work Institute (FWI), a New York-based nonprofit research organization, points to a report FWI does every 5 years entitled “National Study of the Changing Work Force.” The latest one was released in 2003. One of their areas of research relates to what the organization calls “reduced



aspirations” among various sectors of the workforce. “This is an incredibly important issue, and it offers some of the most troubling data out there for corporate America,” she notes.

For example, in one of its latest reports, “Generation & Gender (2004),” which uses data from the national study to determine differences among generations, FWI found that fewer employees aspired to positions of greater responsibility than in the past. Among college-educated men of Gen-Y, Gen-X, and boomer ages, 68 percent wanted to move into jobs with more responsibility in 1992, versus only 52 percent in 2002. Among college-educated women of Gen-Y, Gen-X and boomer ages, the decrease was even higher: 57 percent wanted to move into jobs with more responsibility in 1992 versus 36 percent in 2002. (Generation Y is typically defined as those born between 1980 and 1995, Generation X as those born between 1965 and 1980.)

“We then did a more focused look at leaders in the global economy,” Backon says. “We took the top 10 multinational companies—such as

Citicorp and IBM—and conducted in-depth interviews with the top 100 men and top 100 women. Of those leaders, 34 percent of the women and 21 percent of the men said they have reduced their career aspirations.”

This plateauing is part of a bigger phenomenon in the workforce—one that also includes people putting higher priorities on activities outside their jobs, from family to volunteer work to hobbies. For example, in the FWI study, the reason that the majority (67 percent) of these leaders gave for their response was “not that they couldn’t do the work, but that the sacrifices they would have to make in their personal lives were too great,” says Backon.

“We call it ‘negative spillover from their jobs to their homes,’” Backon adds. “The whole issue of overwork, of needing to multitask, of having to deal with numerous interruptions during their work day” affects employee attitude, not just toward their jobs but also their free time. “Based on our research, we know that 54 percent of employees are less than fully satisfied with their jobs, 38 percent are likely to actively look for new employment in the next year, and 39 percent of employees feel they are not engaged in the work they are doing.” Most employees “do want to feel engaged by their jobs. The term ‘reduced aspirations’ does not mean they are not talented or not good at what they do. They are. But in focus groups, they also say things like, ‘I need to make these choices because my family is a priority,’ or ‘I need to make these choices to make my life work.’”

One way to look at this phenomenon, adds Wharton Management Professor Nancy Rothbard, is that some employees “still derive some sense of identity from their jobs, but they have, or are seeking, other ways to get that fulfillment.” They are no longer pushing for the bigger raise, the larger staff, the more prestigious title; “they are taking energy that had been focused primarily on goals defined by the corporation and focusing it elsewhere.”

## Fewer Promotions, Fewer Pensions

Peter Cappelli, director of Wharton’s Center for Human Resources, has done extensive research into the changing nature of the workplace. As he and others have noted, companies no longer promise job security, generous benefits packages, or even pensions; and employees no

longer feel loyal to their employers or obligated to stay for long periods of time. Employees are responsible for managing their own career track and seeking out the mentors and training they need to move on in their current company or, just as likely, in a new company.

Cappelli agrees that organizations “don’t have quite as much influence over people as they used to in terms of shaping their goals and aspirations, in part because people come to these jobs at an older age and change jobs more frequently than in the past. Does that necessarily mean people are on their own career path? It depends what you mean by that. I’m not sure it means they are eschewing corporate success. But they are looking outside their current employer’s definition of success, more so than in the past.”

Cappelli cautions, however, that it’s unlikely employees can go on cruise control and still hope to be retained and valued by their employers. “It used to be you could just lie low and wait for the pension. That doesn’t happen much any more.” And while some employees may not pay as much attention to the goals that their companies want them to pursue, they “continue to work hard because they are afraid of being laid off.... Companies systematically go through and fire people who are not pulling their weight. The ability to punish people into appropriate behavior is one of the great and unpleasant lessons of the 1980s. Employee morale sank and productivity stayed up because people were afraid of being fired,” Cappelli notes, adding, however, that this dynamic changes in a tight labor market.

Wharton Management Professor Sara Kaplan “could imagine a scenario where people have discovered that there is not too much point being loyal to their employers, and then go on to say, ‘Okay, I have gotten where I am going to get, and I am going to focus on the other part of my life. I will keep working but won’t invest all my energy in my job.’”

But Kaplan also thinks “everyone needs something to be passionate about, so it would be hard for me to imagine that people would simply ramp down on their job without having a crisis or without having found something else” to interest them. Indeed, in today’s economy, she adds, “you can’t keep your job unless you are engaged, to a certain extent. Corporations

don't want people who don't want to go higher. They don't want people who won't strive. You can't plateau; there are always people biting at your heels."

Directly related to the issue of job satisfaction is the question of job design. "Management scholars have been studying this for a long time," says Wharton Management Professor Sigal Barsade. "Whenever a company designs a job, it must take into account how employees view that job, whether their goal is to get ahead, whether work is central to their lives, and so forth. A company can make a real error trying to redesign a job to be more enriched if the employee doesn't want that," especially if the new job definition requires them to work harder.

What is crucial, Barsade says, "is good job fit. Is the person doing what the company needs done? If the answer is 'yes' and the person also is good at what they do but simply doesn't want to do more, then that could actually be a good situation, especially for jobs that don't include room for promotion." This is applicable in particular to customer service positions where people need to be engaged while they are providing the service but are not expected to be thinking of ways to redesign the whole customer service system. "So the fit needs to be between what the organization needs and what the employee wants and values. If that fit isn't there, that's when you are going to have a problem."

When should employees who have no interest in advancing or taking on higher challenges worry about losing their job? "I think as long as these employees are working diligently and competently and are willing to change—whether that means learning a new technology or adapting to a new work process—they should be safe," says Barsade.

## Making Tradeoffs

Kathleen Christensen, who directs the program *Workplace, Work Force and Working Families* at the Alfred P. Sloan Foundation, suggests that plateauing in one's job "is a completely natural part of a career, but we ignore it because we have this notion of a steep trajectory." Psychologists, she says, "talk about different stages of human development. One stage may be that as people reach middle age, there is the idea of generativity—a willingness at this point to start giving back, perhaps start

cultivating others rather than just" focusing on your own achievements. Plateauing can be desirable, she says, in that employees "are likely to have a great deal of institutional knowledge. They can be the ones who know the processes, can share them, and guide others. If everyone is always out for themselves, it goes counter to developing the team culture that every company wants."

No matter how people define their jobs, Christensen adds, "they still must have performance goals and be evaluated in terms of how well they meet those goals. But we should also recognize that at different points in people's lives, they may define their performance goals in slightly different ways—they may move at different tempos—and still be well within what the company needs in order to achieve its business goals."

Plateauing cuts across all boundaries, Christensen suggests, and it could be the result of certain events in people's lives—like the birth of a child or the need to care for a sick parent—which lead an employee to decide, "I'm going to hold my own but not try to climb." But it would be "a mistake to assume that all the factors that lead to different tempos are due only to outside forces. It could just be an employees' own decision not to try to climb" in the organization. It doesn't mean they are slacking off. "Someone can be working hard and still be plateauing in a career," Christensen says.

She emphasizes the need for employer and employee to communicate expectations and goals. Any decision to plateau, for whatever length of time, should be a "deal that is structured to meet both sides' needs. It's a danger if employees think they can make these decisions based only on what they want to do. It's also a danger for the company if it doesn't take into account what the employee needs in order to do his or her best. It comes down to principles of good management."

At Deloitte & Touche USA LLP, Senior Advisor Anne Weisberg is involved with a pilot program called Mass Career Customization, which allows employer and employee together to customize an individual's career "along a defined set of options." It's a realization, she says, that "the 'one-size-fits-all' approach no longer works." In the pilot program, which started in June with a practice group of 400 people and will run for a

year, “we have unbundled the career into four dimensions: role, pace, location and schedule, and work load.” Under the role dimension, employees can specify, for example, whether they want an external role involving significant client interaction, an internal role without that client service aspect, or a role somewhere between the two. Under pace, the issue is how quickly an employee wants to move up. Under location and schedule, issues such as part-time hours, working at home, and willingness to travel are included; while work load looks at variables like the number of projects an employee is willing to undertake at any one time.

“There are tradeoffs to these choices,” Weisberg emphasizes. “A totally internal role has a different compensation structure and advancement route. But the tradeoffs are articulated, and an employee can move from one set of options to another. It’s a recognition that people need to fit their work into their life and their life into their work over the course of their career, which is 40 years. No one solution will work” for all that time. (Interestingly, she notes, the pilot program so far has found that “rather than dialing down on their careers, most of the practice group is choosing to dial up,” reflecting, in part, the fact that 65 percent of Deloitte’s employees are under the age of 35.)

Companies can’t redefine the corporate ladder “with a different model that is just as rigid,” Weisberg adds. “We need to replace the corporate ladder with a corporate lattice” — a term implying a more adaptive kind of framework that allows an individual to move in many different directions, not just upward or downward. “I know in many companies, employees are evaluated on the basis of how much time they spend on the job or how many sacrifices they make. That paradigm has to shift so that you look at performance and contribution separate from sacrifice.”

Weisberg, senior advisor to Deloitte’s Women’s Initiative, says that when the initiative was started in 1993, it was concerned primarily with women’s career paths, which are very different from men’s. (For example, the vast majority of women, about 80 percent, do not work full-time continuously throughout their career, whereas the vast majority of men do, she notes.) “But we quickly realized these issues affect many groups other than women, including men,

members of Gen-X and Gen-Y who perhaps want to accelerate early and then decelerate later, and the baby boomers” who are trying to adjust their workloads to accommodate interests or responsibilities outside of work. What’s been missing, she says, “is a way to approach all these different people with a consistent set of options.” On the micro level, she adds, “it is fundamentally a negotiation between the employer and employee,” which is why it is so important to develop “the right kind of negotiation framework.”

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In scanning the 2006 employment landscape, Weisberg says she sees a “heating up of the war for talent. If you look at the demographics, there is a huge shortage in many of the knowledge-based industries. That is going to be with us for a long time.” She cites a recent statistic that women now make up 58 percent of college graduates, a trend that should affect even more how jobs and careers are structured. “Smart employers don’t want to drive their employees so hard that they burn out. That is very expensive. The estimates of the cost of turnover keep going up, in large part because of this issue of the shrinking skilled labor force.”

In the past, she says, “we used 150 percent of salary as the cost of turnover. We are now using 200 percent of salary.” Some experts say that for knowledge-based companies, that figure is 500 percent. “Turnover is a huge cost. One of the major reasons for doing mass career customization is to improve retention.”

Weisberg, too, suggests the need for transparency in any decisions related to the work environment. When both employer and employee are clear about the choices being made, “then both sides are more satisfied with the arrangement. If choices are never discussed, you can end up with mismatched expectations, which can lead to stress on both sides.”

Wharton Management Professor Stewart Friedman, who teaches Wharton Executive MBA students, among others, agrees that

“people are struggling with this issue of, ‘What do I really care about and how do I measure success?’ My sense is that more people, not just middle-aged employees but younger people as well, are raising this question in ways they didn’t 20 years ago. If so, is it because more people are hitting the pyramid and accepting the reality of lowered expectations caused by less upward mobility, or is it that they are part of a larger swing in our culture that is more focused on other definitions of success besides economics? I think it is probably both.”

What makes leaders in an organization effective, says Friedman, is that they realize employees can have different values than your typical workaholics—those who enjoy working 80 hours a week—and still contribute to the organization. “But it’s hard to change norms and cultural values that are deeply embedded.” What Friedman describes as “the excesses of the overworked generation” have reached a point “where more and more people are starting to question their total dedication to work. We are seeing more people pursuing creative alternatives. The big question 20 years ago was, ‘How early did your power breakfast start?’ Now the big question is, ‘Where and how far did you go on your vacation?’”

## Disappearing Flex Time

It’s not clear how managers in organizations might react to employees who redefine their positions as jobs rather than as vocations or callings. “They could worry that people simply decide to ‘work to rule,’—i.e., do exactly what is specified and nothing more,” says Rothbard. “Companies are terrified of that happening: They know things will break down at that point because you can’t specify everything that has to be done in a particular job. But I think if employees’ identities are still tied up in their jobs, this won’t happen.”

Another consideration is how to continue to motivate people if none of the traditional rewards are available—such as a promotion or a bigger office. “A company may, in fact, want employees to have other sources of fulfillment, and so will try to build in things that matter to them,” says Rothbard. That could include flex time, job sharing, job sabbaticals, or the sponsorship of charity events that are meaningful to employees.

Some people question the sincerity of programs like flex time or sabbaticals that let people pursue interests outside of work. “I don’t think companies are paying a lot of attention to people’s passions. There are programs to address this but, frankly, it doesn’t happen that much,” says Kaplan, who notes that companies will try to institute flex-time benefits during times of economic growth, but “the minute the crunch happens, then all those programs go away.” And even when companies implement such procedures as flex time or job sharing, adds Barsade, “it doesn’t really address the bigger issues of the tremendous amount of work people these days are expected to do on the job.”

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## Plateauing is part of a bigger phenomenon in the workforce—people putting higher priorities on activities outside their jobs, from family to volunteer work to hobbies.

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One of those bigger issues relates to work/life balance and job commitment. McGrath recently taught an Executive Education course for women in the middle management ranks of a pharmaceuticals company to explore “ways to build relationships with, and support, each other, as they attempted to take on the next level of responsibility. It’s because the companies were finding that women were not willing to step into the high-potential pool of employees” for a number of different reasons, including, in some cases, wanting to make sure they had time for their families. “These women were at the vice president level. They weren’t lacking in ambition and they wanted to make a difference in their jobs. It was just a question of, ‘How much more responsibility can I take on?’”

Rothbard continues to find it ironic that employees who want to “opt out” of their jobs for a short time get less pushback than women who want flex time “so that they can pick up their children from school at 4:30 instead of 5:30 every day.” Rothbard cites Arlie Hochschild’s book *The Time Bind*, which notes the exceptions available to high-potential men who want to take a sabbatical and travel around the world. In one chapter, Hochschild relates how two men had asked their supervisor for

time off to do underwater photography of coral reefs. The supervisor granted them an educational leave to pursue their project. Why, the author asks, can't the company offer flexible schedules to parents who want to pick up their children early from daycare?

Rothbard also points to research on the phenomenon of "multiple roles, and the fact that there are physical as well as psychological benefits to people" who have more than one area in their lives that engages them and requires their attention. An example would be a woman who has responsibilities both at her job and with her family at home. The research discusses "the buffer hypothesis, which says that if something goes wrong in one area, you then have another area that buffers you," says Rothbard. "In other words, work/family roles enrich, rather than deplete, each other."

Stress in the workplace, many experts have noted, can be intensified by technological advancements that make it harder for people to ever totally disconnect from their jobs at appropriate moments, like vacations. As McGrath notes, "there are no boundaries around employees' time. They are always available." McGrath has worked as a coach in five large corporations over the past year and at all of them, she observed workloads that were, in her opinion, unmanageable. Some employees, she says, react by trying to set strict limits on their accessibility—for example, not answering their Blackberry from 6 p.m. to 6 a.m. "They have come to some sort of peace with the fact that they will never get everything done and keep everyone happy." ■

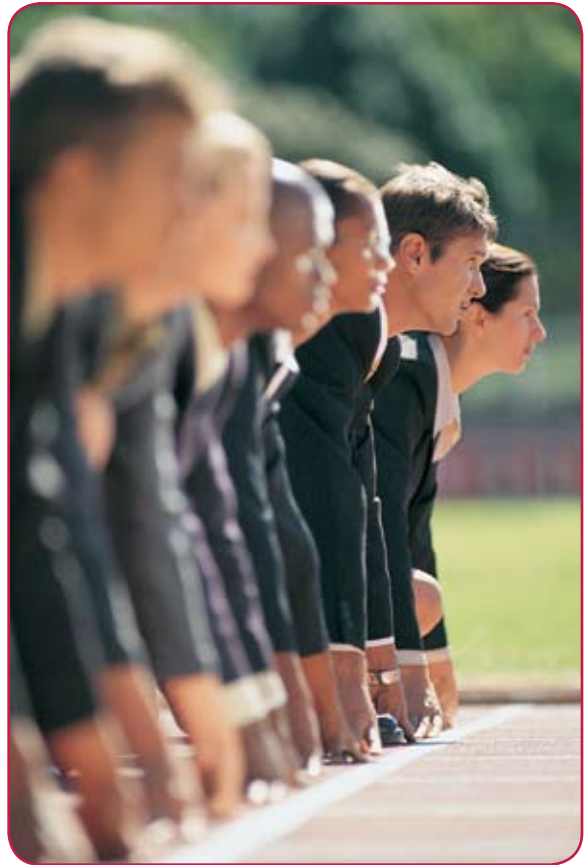
# Heading for the Fast Track? New Studies Examine Who Gets Promoted and Why

**MAYBE OPRAH WINFREY** knew something about workplace dynamics that other people didn't.

Winfrey, of course, is the multimillionaire founder of a media empire that includes not only her syndicated talk show but also *O* magazine, a members-only website, books, and even weight-loss camps. By choosing self-employment over working for a TV station or network—she began her career as a news anchor in Nashville—Winfrey may have avoided a pitfall for many black women in the workplace, namely, being stuck in their jobs. Black women are less likely to be promoted than males and white women, according to a group of labor economists and human resources specialists who recently gathered at Wharton.

Even as two big labor unions decided in August 2005 to defect from the AFL-CIO, claiming that it had failed to stop declining union membership or push hard enough for labor reform, participants in a conference entitled “Careers and Career Transitions: New Evidence for a New Economy” debated the alchemy of promotion—who gets it, when, and why. The conference was organized by Wharton’s Center for Human Resources and sponsored by career transitions firm DBM. Scholars presented evidence from different places—Fortune 500 companies, call centers, Canadian firms—and parsed it in various ways. But two findings arose repeatedly: Minority females are less likely than others to win promotions, and white males are more likely to.

Other studies probed the dynamics of promotion—including the concept of the “fast track,” the effect of corporate restructurings on professional advancement, and the likelihood of promotion for insiders vs. recent outside hires, among other things. The goal of the conference was to understand how modern labor markets operate—nearly everyone agreed that today’s economy appears to allow for more employee mobility among firms—and what this means for workers.



“An overarching theme was thinking about what determines career ladders within firms,” said Wharton Professor of Business and Public Policy Justin Wolfers. “There’s room for a number of different views here. Some scholars believe managerial policies matter. Some think demographic differences do. And if you think about types of managerial policies, some firms have what academics call internal labor markets, and some regard employees as, in effect, being bought and sold on the spot market.”

## The Fast Track and the “Peter Principle”

Pablo Acosta, a doctoral candidate at the University of Illinois at Urbana-Champaign, presented research based on the personnel records of a single U.S. corporation. Like several of his colleagues, he found that whites,

males, and more educated workers had a higher probability of being promoted.

Nothing radical there, but as he sifted through the data, he was able to test two pieces of conventional workplace wisdom. The first was the “fast track,” the idea that companies often have an accelerated evaluation and promotion path for people who have been designated as stars early in their careers. The second was the famed “Peter Principle,” which says that workers rise to the level of their incompetence and then stall. It was formulated by Laurence J. Peter, an education professor who taught at the University of Southern California.

In a paper entitled “Promotions, State Dependence and Intrafirm Job Mobility: Insiders vs. New Hires,” Acosta found that fast tracks didn’t seem to exist in any systematic or firm-wide way. If they did, previous promotions should lead to a higher probability of future promotion, but that wasn’t the case.

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**“Some firms have what academics call internal labor markets, and some regard employees as, in effect, being bought and sold on the spot market,” says Business and Public Policy Professor Justin Wolfers.**

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In contrast, his analysis suggested that the Peter Principle did exist. He discovered that outsiders had an advantage over insiders when competing for a higher position. In theory, if an insider had risen to his or her level of incompetence, he or she would then be less likely to get promoted. Of course, an equally likely explanation would be “the grass is always greener” phenomenon—or, put in the corporate context, companies like newer hires not because their longtime employees are incompetent but because people have a tendency to overvalue unfamiliar candidates and undervalue known ones. That might explain the tendency of companies to seek out savior CEOs from the outside, as, for example, Hewlett-Packard did—with little success—when it hired Carly Fiorina, or as IBM did, with much better results, when it brought in Lou Gerstner.

Like Acosta, John Dencker of the University of Illinois Urbana-Champaign investigated

promotions within a single large U.S. firm. His research was aimed at determining what happened to employees after restructurings. The company he examined, a manufacturer, experienced major layoffs in the mid-1980s, reworked its means of employee evaluation in the late ‘80s, and underwent another round of layoffs in the early ‘90s. Dencker, in a paper entitled “Organizational Structure, Gender, and the Influence of Corporate Reorganization on Employee Promotion Patterns,” focused on white-collar employees because he says that they were disproportionately targeted in layoffs in the ‘90s. During that time, middle managers accounted for 20 percent of job losses but only 10 percent of the workforce.

The first round of layoffs at the firm studied by Dencker appeared to turbocharge the careers of managers who survived it: their promotion rates increased. And that makes sense. A firm would want to try to keep its best people, and thus it effectively signals that layoff survivors are top performers.

But promotion rates decreased after the firm reformed its means of employee evaluation. Specifically, the firm moved from a system based mainly on seniority to one based mainly on performance. Interestingly, though, the promotion rate for female employees rose after the change. Dencker couldn’t explain this. Despite doing followup interviews with executives, he could find little evidence of a concerted effort to advance women. What’s more, “a search for legal rulings failed to uncover any evidence that the firm had engaged in blatant discriminatory practices in the past,” he says.

After the second layoff, promotion rates also dipped. This drop suggests that the firm may have moved from a closed employment relationship, where it relied on promotions to reward good performance, to an open one, where, for example, it might rely on “short-term, market-driven rewards such as bonuses,” Dencker says.

## The Influence of Race and Gender

A pair of papers presented at the conference took direct aim at the influence of race and gender on promotions. In one, Margaret Yap, a professor at Ryerson University in Canada, explored promotions at a large Canadian

company. In the second, Nancy DiTomaso, a professor at Rutgers University, and four co-authors investigated the same issues among scientists and engineers at multiple firms.

Before digging into any statistical analysis, Yap examined simple percentages and found that, in her selected company, whites were more likely to be promoted than nonwhites, men were more likely than women, and white males were more likely than white females or minorities of either gender. “This simple comparison of gross promotion rates indicates...that minority females seem to suffer a double whammy in their prospect for career advancement,” she writes. White males also earned more on average—\$68,000—compared with \$64,000 for minority men and \$54,300 for women.

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**White men were the most likely to receive promotions, even when other workers appeared equally or even more qualified. “Systemic barriers must have existed in the company’s policies, programs, and practices,” Yap concluded.**

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Yap then split the firm’s employees, looking separately at lower-level employees and senior managers. At the lower level, white males had the highest promotion rate. But at the senior level, white and minority females beat them, while minority males still lagged. Yap applied a variety of statistical tests to her findings, and the results held: White men were the most likely to receive promotions, even when other workers appeared equally or even more qualified. This led her to conclude that “systemic barriers must have existed in the company’s policies, programs, and practices.”

Many would feel that Yap’s conclusion is tentative; after all, she examined a single firm. And one doesn’t need to look far to find examples of individual firms that have discriminated against one group of employees or another—or at least have been accused of it. Earlier this month, a male violinist sued the New York Philharmonic Orchestra, accusing it of favoring female violinists. And an arbitration panel ruled that Merrill Lynch had to rehire a

female financial consultant against whom it had discriminated. Last year, the panel ruled that Merrill had exhibited a pattern of gender discrimination. Another New York investment bank and brokerage, Morgan Stanley, paid \$54 million last year to settle accusations that it, too, had discriminated against women.

DiTomaso and her co-authors tried to overcome what researchers call the “small-sample problem” by examining promotions of scientists and engineers at 24 firms. Like Yap, they found an advantage for white males. White male scientists had greater control over the content of their work, which the authors regard as a key driver of professional satisfaction among scientists and engineers, and received higher performance ratings. Interestingly, “[white males] receive greater access to favorable work experiences and higher performance ratings no matter who is rating them,” the authors note. In other words, they are well rated by fellow white males and by minority females.

The authors found no evidence that firms knew they were favoring white males. In fact, interviews and focus groups revealed that white males themselves tended to feel “disadvantaged vis-a-vis other groups, owing to what they perceive as their employers’ emphasis on workplace diversity.”

The only group whom the authors found to be consistently disadvantaged was U.S.-born black females. All other groups experienced what the authors call “the absence of advantage,” that is, no special advantage or, for that matter, disadvantage.

“The process by which U.S.-born white men accrue advantage—by receiving favorable treatment in the workplace that then helps them become more competent and worthy, which then reinforces the belief that people like them are competent in these kinds of jobs—has important consequences,” the authors conclude. “Since no one is ostensibly guilty of discrimination, ill will, or intentional unfairness, without attention to favoritism as well as discrimination, there is no remedy for those who either lack favor or suffer disfavor.” ■

# ‘One for All’ or ‘One for One’? The Tradeoff Between Talent and Disruptive Behavior

## THE TALK OF THE NATIONAL FOOTBALL LEAGUE

in 2005 was Terrell Owens, the talented wide receiver who was let go by the Philadelphia Eagles because of repeated disruptive behavior that alienated teammates, coaches, and fans alike.

Although the saga of T.O.—as he is familiarly known—dominated the sports pages for days on end, coverage of his relationship with the Eagles’ organization could just as easily have found a home between the covers of an academic management journal. Faculty members at Wharton and other experts say Owens is a classic case of a star employee who, because of his immense talent, was given wide latitude even though he engaged in eccentric (at best) and abusive (at worst) behavior. But even Owens’ ability to catch passes and score touchdowns could not save his job because his behavior reached the point that it was deemed detrimental to the successful functioning of the organization.

“In any organization, power is related to dependence,” says Wharton Management Professor Lawrence Hrebiniak. “If the organization depends on someone for skills and if that person’s expertise is rare, the power of that individual goes up. T.O. has greater skill than the normal player and more valuable expertise. When any individual has that type of influence, he becomes central to the organization and can break the rules more than a regular employee can. Because of his rare skill, you’re willing to take a chance on him. A team wouldn’t do that for the guy of average ability who’s on the practice squad.”

But Hrebiniak says Owens showed that even a highly talented employee “can go too far. T.O., even with his centrality and power, attacked the enterprise and broke the rules. The organization said, ‘If we let you go too far, other employees who might not be as central to our success as you are may pull the same stuff.’”

“How employers think about the tradeoff between talent and disruptive behavior



depends on how important they believe teamwork and morale are in the organization’s culture,” says Wharton Management Professor Peter Cappelli. “If you have a star sales person who’s difficult but works away from the office, you might be willing to tolerate a high level of difficulty with that guy because it doesn’t have much effect on the performance of the organization. But where teamwork matters, you want to tolerate less of that.”

Employees like Owens are found in almost any organization, but they can be more difficult to manage in cultures that demand top-flight results and, at the same time, place a premium on cooperation and harmony. Cappelli says the Eagles’ decision to cut Owens sends a signal through the organization about culture. “By letting T.O. go, the Eagles are saying, ‘We’re willing to pay a pretty high price to maintain teamwork. We will not tolerate people who are not contributing to the overall good of the organization.’ This is an exercise in refocusing the organization and getting people’s priorities clear.”

For those who have not followed Owens’ story, it is important to note that the athlete’s questionable actions were not limited to one or two isolated incidents and that they followed

a pattern headed for self-destruction. Before the start of the 2005 season, Owens—who had a reputation for being a disruptive player with his previous team, the San Francisco 49ers—began making comments and engaging in actions that caused serious tension with his teammates and coaches.

During training camp over the summer, Owens criticized the team for not being willing to re-negotiate his contract to pay him more money, even though he had signed a multi-million-dollar, multi-year contract in 2004. He also openly criticized quarterback Donovan McNabb, the Eagles' franchise player and a fan favorite. Owens was sent home from training camp in August 2005 but later given a second chance and permitted to return. During the training-camp period, Owens refused to talk to the press and at one point engaged in bizarre behavior: doing calisthenics on the lawn of his New Jersey home and wearing headphones, while cameras whirred and reporters shouted questions that Owens ignored.

For the first few games of the current season, things seemed quiet. But Owens soon began to criticize the team and McNabb again. He complained that the Eagles did not "honor" him when he scored his 100th career touchdown and once again treated McNabb disrespectfully by agreeing with the comments of an interviewer who had suggested to Owens that the Eagles would be undefeated if Green Bay Packers' quarterback Brett Favre was the Eagles' QB instead of McNabb. Eagles coach Andy Reid at that point told Owens to apologize to McNabb and the rest of the Eagles, but Owens gave only a half-hearted apology to his teammates and refused to apologize specifically to McNabb. Reid then suspended Owens for four games and stated that Owens would not play for the Eagles the rest of the season. In effect, Owens was fired. Later, Owens and his agent held a press conference during which Owens apologized to all concerned, but it was too little, too late. The Eagles have no plans to reinstate Owens.

Much speculation about the Eagles' future without Owens was in evidence prior to their November 14 game against the Dallas Cowboys. The Eagles ended up losing that contest in its waning moments, by a score of 21-20, when McNabb threw an interception

that was returned for a touchdown. The loss prompted Phil Sheridan, a sports columnist for *The Philadelphia Inquirer*, to write: "Somewhere, you imagine, Terrell Owens had a No. 5 [McNabb's number] voodoo doll. He waited until the perfect, most painful time to jam the pin in."

## Corrupting the Organization

The Eagles cannot be faulted for taking a calculated risk in signing Owens to a multi-million-dollar contract prior to the 2004 season, according to the Wharton faculty members. Club officials figured he could help the Eagles reach the Super Bowl (which they did before losing to the New England Patriots), but these officials also knew that Owens and his antics could come back to bite them.

Thomas W. Dunfee, professor of legal studies and business ethics at Wharton and an ethics expert who follows professional football closely, says the Eagles cannot be faulted for recruiting Owens because there was a chance that he would mend his ways and try hard to fit in with a winning team noted for its no-nonsense approach to discipline.

"There have been any number of instances of pro players who have been with a team where they had problems but went to another team and got straightened out," Dunfee explains. "In those cases, it was probably a matter of the players just being a bad fit with a team but getting [undeserved] reputations for being troublemakers. I think the Eagles had something of a reputation of being able to handle difficult players. They probably thought, with reason, 'Here's a great talent and we can manage him.'"

The Owens case raises ethical issues because disruptive behavior by high performers, if left unchecked, can run counter to the values of organizations whose codes of conduct require employees to treat one another with respect. "For corporations, it's understood that if you have a double standard and look the other way for your star performers who are behaving poorly, you are corrupting the organization," Dunfee says. "The stars think ethical rules don't apply to them."

"Managing stars is difficult duty for even the most skilled managers," says Katherine A.

Nelson, a suburban Philadelphia-based ethics consultant who teaches in Executive Education programs at Wharton. “It’s challenging enough when you are managing a high performer who has good interpersonal skills. However, if you are managing a high performer with poor interpersonal skills, your job goes from challenging to nightmarish. Almost nothing can disrupt a workplace faster than a star performer who is arrogant or abusive or who demands special treatment. Not addressing the star’s bad behavior is tantamount to lobbing a grenade into a conference room because resentment will ferment among other members of your team, and it will eventually—sometimes very quickly—undermine the performance of the entire team. The Eagles are a perfect example of this.”

The most serious damage caused by the temperamental star is to the credibility of an organization, according to Nelson. “How can an organization claim that it stands for respect or that it cares about its people when abusive behavior is allowed to go unchecked? The result of publicly promoting noble values and at the same time neglecting to check an abusive personality is that soon your organization will have zero credibility. You say one thing and tolerate another. That is the beginning of a cancer that will devour an organization from the inside out.”

But the experts also stress that not all difficult star performers are troublesome nails that need to be hammered down so that they behave like all other employees.

“True star performers in sales or even in organizations such as law firms—the big rainmakers—who misbehave or march to their own drum can be a huge challenge,” says Linda Richardson, founder, president, and CEO of a sales and consulting firm in Philadelphia that bears her name. “As long as the star performer is producing and as long as the behaviors are not contrary to the true value system of the organization, an organization that is able to absorb diversity is usually stronger.”

But, Richardson adds, when management “feels the behaviors are egregious” and are not “consistent with the values and principles of the organization, or if the behavior is completely unacceptable from a role-model perspective, then the person can be coached

and given a clear warning with specific consequences, or the plug can be pulled. I have always been a believer in second chances, if at all possible. Often the egregious act is a buildup from a series of negative behaviors preceding it. I think many organizations that have problems with stars could benefit from bringing in an executive coach or counselor to help the management and the star work things out before the behaviors reach a breaking point.”

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The bottom line, according to Richardson, who notes that she was not familiar with all the details of the Owens story, is that there is no one answer on when to oust a star employee. “The reality is, it is very, very hard to give up a star. Also, no one is irreplaceable, or at least almost no one. The more an organization can live with diversity and keep its ‘must haves’ to a few and catch and handle problems early with coaching and counseling...the better off it is, and the more likely it will keep its stars and create win-wins. The decision is a matter of weighing the factors—the value the star brings and the cost that comes with it. The cost is more than hard dollars. It is morale, public opinion, the role model that is set, the impact on standards and the value system.”

High-producing prima donnas are one challenge faced by management. But also worrisome are the nonperformers. Nelson, the ethics consultant, says managers cannot afford to tolerate “nice” employees who do not rock the boat but also do not perform up to snuff either.

“Some people are great to work with but produce little or no results,” she notes. “Both ends of the performance/values spectrum need to be managed carefully. Smart organizations try to reward employees for a range of behavior that includes producing results and exhibiting the organizational values by which the organization achieves those results. If, after careful goal-setting and coaching, the star can’t

learn to play well with others and the easy-going person can't learn to produce results, both should be shown the door."

## Stars as Junk Bonds

In a broader sense, sports teams, because of their very nature, face a conundrum when it comes to dealing with unpredictable stars like Owens, according to Wharton's Cappelli. Players, and their agents, know that players are rewarded for individual achievement. Glowing statistics—yardage gained, passes caught, touchdowns scored, interceptions made—are what command lucrative salaries. How much money, by contrast, does a running back or a linebacker earn for being a team player? The same holds true for corporate employees—perhaps not so much staff people, whose efforts cannot be clearly translated to the bottom line, but certainly salespeople and CEOs, whose compensation is tied directly to performance.

"The real dilemma for sports teams is they can't figure out what the real contribution is of individuals as individuals as opposed to

individuals as members of the team," Cappelli notes. "They can't pin down what is optimal. Is it better to have an individual player who's a superstar in terms of stats? Or is it better to have somebody who is giving up opportunities themselves in order to pursue team harmony and team success? You hear all the platitudes about teamwork, but teams also talk out of both sides of their mouths. They talk about teamwork but give money to individual stars."

Now that Owens is no longer an Eagle, will other teams try to sign him for the 2006 season? Absolutely, says Wharton's Hrebiniak. But should they? "It all depends on your propensity for risk. T.O. is like a junk bond: the potential return is high, but so is the risk. Will you buy that junk bond? What is your risk tolerance? How much money do you potentially have to waste? If I'm the coach of a team with a losing record, I'm going to try to sign T.O. But if I'm the New England Patriots or the Indianapolis Colts, strong teams with a culture of cooperation, I'm not going to bring in T.O." ■

# How To Inspire Creativity and Reward Good Employees (Like You and Me)

**LET'S FACE IT.** Anyone reading this article thinks that information about how to reward highly regarded employees applies to them. And we all have ideas about what these rewards should be (more money, bigger title, bigger office, etc). But short of giving out stock options that will be worth \$500 zillion in 6 months, how can managers provide meaningful incentives, and rewards, for star performers?

Wharton Management Professor Anne Cummings recently spoke with an MBA student who related an experience he had while working for an aircraft manufacturer. The student, then a full-time employee, had come up with an idea that over the long-term would save the company millions of dollars and also potentially save lives. For his effort he had received a pen set. "The 'reward' was a big reason why he left the company," says Cummings. "He told me that he would rather have gotten nothing. But what he would really have preferred was an offer of more autonomy, or another project to work on, or to be given two incoming engineers to help him develop a new idea. It's these kinds of incentives—autonomy, more time, more resources—that creative people respond to."

Cummings' research looks at how managers can structure work environments so that creativity is both fostered and rewarded at a time when many companies are still worried about losing their best talent to dot.coms, a lot of whom offer at least the promise of fast, easy money. "I come out of a tradition that says compensation, stock options, and other concrete financial rewards are all fine and good but that they are not always why people stay with a particular company," says Cummings. "I started looking at the models behind creativity and at what managers can do to bring out employees' creative functions at work."

"We're all good at something, but we're not all good at everything," she says. "A manager's job is to identify those areas where their employees are most creative, most productive, and/or most



fulfilled and then come up with ways to give them autonomy to pursue ideas in those fields. It's less about having a carrot out there as an incentive and more about figuring out where this person will bloom and taking constraints out of his or her way... In the end, creativity leads to a better work environment. We are all more efficient and more productive when we are doing something we feel engaged by."

Cummings is currently looking at ways in which companies reward failure. As research in this area has noted, the fastest way to shut down people's willingness to take risks is to punish failures that result from that effort. "I'm interested in the whole idea of what aspects of risk taking get rewarded. How do you evaluate the process? Do you reward good work at the front end of the process regardless of what happens at the back end? How do you avoid rewarding people who go off on useless or wasteful projects without inhibiting the free flow of ideas?"

As part of her research, Cummings has studied where "frame-breaking" ideas in companies originate. "Just because an idea is frame breaking doesn't mean it's good," she says. "It has to be useful, well thought out, grounded in a real context, and able to be implemented. But if there is a good plan going in, you reward that regardless of the outcome at the back end. How do you know it's a good plan? You look

at the due diligence that has gone into it, you study the business plan, you check to see if the employee has done his or her homework. Then you reward both the good homework and the creative thinking.

"It may be that the idea is unique because it tackles a particular problem from the customer's point of view, or it looks at a different niche, or it takes a different technological approach. You don't necessarily wait until everything is over and you see a change in market share. At some point during the process, you may choose to allot 40 percent of that person's time to the project rather than 20 percent, or you may decide to give him or her an additional person for the project team. You might also decide on an interim financial reward or incentive.

"The point is, if you follow this process, you might get a lot of failures. But if you don't do this, you won't get any successes."

## The Stock Options Option

Cummings doesn't discount the draw of financial rewards and incentives: Objective-driven, performance-based, and even piece-rate pay systems are good general policies. And additional incentives, such as stock options, bonuses, and various employee ownership plans can be effective. "For a very vocal group of people, it's 'Give me the stock options,' 'We need to be first and fastest to the IPO,' 'If I'm not worth \$5 million by the time I'm 30, I'm a failure.' But I'm not sure that group represents the majority of employees. When I'm out talking to companies, a lot of them will ask, 'How do I hold on to good employees with all this dot.com stuff beckoning to them?'" My answer is, you don't. If they want to do that, you let them do it. You are offering something different."

What these companies are offering, and need to keep offering, Cummings says, is a different culture. It may be the opportunity to work for one company for a relatively long period of time during which the employee is supported, encouraged to grow, and given the resources to try out new ideas. It may be life balance kinds of incentives, such as the opportunity to job share, to have flex time, to work offsite. It may also be age related. "Different incentives mean different things to a 27-year-old versus a 40-year-old," Cummings says. "The point

here is that companies other than the 'cutting-edge' dot.coms can encourage and leverage employee creativity."

For example, employees in clerical or administrative positions are included in Cummings' research about workplace environments. "Secretaries, tax assessors, hair stylists, and even manufacturing employees may not be in particularly creative jobs, but they can still make creative contributions on the job; and they should, when possible, be given autonomy and the resources to pursue ideas," says Cummings. Take hair stylists, whom Cummings recently studied for a research paper on job stress. "An employer who wants her hair stylists to see 60 clients a week can offer autonomy in how the stylist arranges her time, what hours she works, whether she brings in three people at once for different procedures or brings them in sequentially, and so forth. There can be autonomy about how to do something even if there is not a lot of autonomy about what."

Sometimes it's the little things managers do that improve work environments. Cummings co-authored a paper on the advantages that accrue from allowing employees to use personal stereo headsets (e.g., the Sony Walkman) on the job. Job productivity actually increases because employees can more easily shut out distractions (such as other conversations and the sounds of machines operating) and concentrate more fully on the project at hand.

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And when space is tight, she suggests building in as much privacy as possible. "Not everyone can have their own office, but supervisors can, in a cubicle space, arrange to have visible barriers set up, like six-foot-high partitions between desks. It's the number of boundaries that counts in terms of reducing distractions and giving employees their own space. Both the sense of privacy and of being valued by

one's supervisor can contribute positively to an employee's creative thinking."

Meanwhile, Cummings has cautionary words about reward systems that are based on seniority: the photo album for 10 years of service, the pin for 15 years, the watch for 25 years, etc. "Companies should ask themselves if they are rewarding seniority, quantity, or quality," she says. "If you are rewarding seniority without rewarding quality, you can't expect employees to be appreciative. And a lot of systems will reward quantity because it's easier to measure than quality. But again, employees know the difference. What you want is high-quality, creative people thinking out of the box. Those are the people who should get rewarded. It sounds like common sense, but you would be surprised how few firms do it well... It doesn't take long in my experience for employees to figure out that certain rewards are a sham."

## Idea Generation

Part of Cummings' work looks at the relationship of idea generation to networks. "How do networks of coworkers, and the way in which workers fit into those networks, affect the kinds of ideas that are generated? What I have found so far is that frame-breaking ideas come from people who are boundary spanners.

A boundary spanner is a person who receives information, support, and advice from other people who aren't themselves connected to

each other. So a person might get technical data from three people who are in three different unrelated departments. If you do a network analysis—looking at who is talking to whom about what inside the firm—you find that the most innovative ideas come from employees who spend their time talking to unrelated others. These employees are essentially efficient and creative in how they spend the time interacting with co-workers. They don't talk to multiple people in the same department or group. Rather they spend the same amount of time talking to one person in each of a variety of different departments or groups. This has managerial implications in terms of setting people up in jobs where they are expected to talk to people in other groups rather than getting information from co-workers in the same department."

Cummings also notes the importance of giving employees feedback. "We know that one of the worst things a manager can do is ask people what they think and then never respond to the ideas they are given. A manager would have been better off not asking for input in the first place. Encouraging employees to offer their input into a decision, for example, increases the employees' commitment to the decision outcome, but only when managers either use that input or give clear and detailed feedback about why they didn't. By asking for that input, and responding to it, managers are encouraging employees to think more creatively about what they do." ■

## Welcome Aboard—For Now

**IN THE 1980s, APPLE COMPUTER** took an unusual step that helped reinforce its image as an iconoclastic upstart. At a time when giants like IBM seemed to provide their employees a lifetime of job security in exchange for loyalty and hard work, Apple offered a rather different deal. “We’re going to give you a really neat trip while you’re here,” the company told new hires. “We’re going to teach you stuff you couldn’t learn anywhere else. In return...we expect you to work like hell, buy the vision as long as you’re here... We’re not interested in employing you for a lifetime, but that’s not the way we are thinking about this. It’s a good opportunity for both of us that is probably finite.”

Today, that deal may well have become a metaphor for the way employment relationships have been transformed throughout Corporate America. Peter Cappelli, director of the Center for Human Resources at Wharton, examines this phenomenon in his new book, *The New Deal at Work: Managing the Market-Driven Workforce*, (Harvard Business School Press, \$29.95). The old system, in which employees had stable jobs and steadily increasing paychecks as they climbed the corporate ladder, is dead. In its place has arrived a new deal that is marked by the invasion of market forces within the workplace.

The new deal has changed almost every facet of employment during the past decade. Take salaries, for instance. “The compensation for a particular job is increasingly shaped by the market wage for that job outside the firm and not by how it fits into the hierarchy of an internal compensation system,” Cappelli writes. Old employment ties, which shielded workers from market swings, are “giving way to a negotiated relationship where power shifts back and forth from employer to employee based on conditions in the labor market.” Perhaps the most striking aspect of the new deal is its blunt assumption of transience. “If the traditional, lifetime employment relationship was like a marriage, then the new employment relationship is like a lifetime of divorces and



remarriages,” notes Cappelli. It consists of “a series of close relationships governed by the expectation going in that they need to be made to work and yet will inevitably not last.”

Managing large organizations at a time when the old contract is breaking down and a new one is being written poses new challenges for executives. Some firms, for example, are trying to re-build long-term commitments with their employees, but with little success. Others are introducing new incentive systems—so-called golden handcuffs—to prevent rivals from stealing their best talent. A major difficulty companies face, however, is that they can no longer define their own employment relationships. As Cappelli says, “Markets have a way of breaking them down, not only by pulling out key employees but by shaping the attitudes and behavior of those who remain.”

Using examples from industries ranging from paper to computers, Cappelli examines how the traditional long-term employment relationship came into being and the forces that contributed to its breakup. The traditional system, it turns out, is not so old after all. Outsourcing and contingent work practices were common during the early years of industrial development in the U.S. For instance, under the putting-out system in the 19th century, work was routinely contracted out to workers who made products in their homes. The need for more stable employment relationships emerged

partly in response to the growing complexity of technology, which needed massive capital investments as well as longer planning horizons. Labor shortages during the war years also contributed to the need for companies to have a stable workforce. These factors combined to create such systems as promotion ladders within companies, which allowed employees to master the skills they needed to rise to the next level.

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During the 1970s and 1980s, however, several factors emerged that undermined the stability of the old system. Global competition, for one, forced U.S. companies to restructure operations in order to protect their market share from hungry rivals. In addition, the computer revolution of the 1980s allowed companies to automate systems that previously required human administrators. In a telling example of such reengineering, Cappelli describes how new management information systems in the insurance industry eliminated the need for claims representatives, investigators, and adjusters.

Information technology brought about similar changes in industries from retail to healthcare—in the process wiping out the jobs of hundreds

of thousands of middle managers. “These new systems of information technology change the employment relationship in three ways,” says Cappelli. “The first is simply that they make it possible to cut jobs, especially corporate jobs that had served the function of coordinating and complying with procedures. The second is that they make it possible to unbundle companies, to push more functions outside to suppliers... Third and finally, information systems make it possible to bring information about the market inside the firm so that even the most bureaucratic and firm-specific areas of the company feel a connection to the market.”

Is the new deal rate fair to those whom it affects? What are its implications for society as a whole? Cappelli concludes his study by examining these issues. While the traditional, long-term employment relationship worked in favor of large, integrated companies, he argues, the new deal has “the opposite effect, facilitating startups and companies that hire from the outside, while dragging down those that try to maintain long-term relationships.” Cappelli also points out that while these changes have been good for most employers, they have been bad for many employees. Still, he recommends that people take the long view. Over time, the new deal may prove as transient as the one it has supplanted. For the present, though, as Apple might say, it could offer companies “good opportunities that are probably finite.” ■