Managing Talent – Simon Board, Moritz Meyer-ter-Vehn and Tomasz Sadzik

Abstract: We propose a labor market model for service and tech industries, where a firm's primary asset is its workforce. Firms attract applicants with high wages, and managers identify talent among the applicants. If talent is scarce, firm-applicant matching is positive assortative, with skilled managers posting high wages and attracting an unselected applicant pool; if talent is plentiful, matching is negative assortative, with skilled managers posting low wages and attracting an adversely selected applicant pool. In either case, negative assortative matching is e-cient. We then embed this labor market model into a firm dynamics framework, and into a firm hierarchy framework. These model extensions explain persistent productivity dispersion between firms, and wage dispersion across firms and across hierarchy levels.