

COMMENTARIES

A Labor Economic Perspective on Overqualification

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As industrial–organizational (I–O) psychology and organizational behavior have recently begun to pay increasing attention to how individuals experience overqualification and its immediate consequences for employees, an alternative perspective to overqualification has been taken by labor economists and organizational theorists. Looking at the issue of overqualification from a more macro point of view, these scholars have explored both the system-wide reasons why overqualification may be growing and the longer term consequences of it for employees' careers. As such, this alternative perspective provides an interesting complement to the one taken by Erdogan, Bauer, Peiró, and Truxillo (2011).

Overqualification, Applicant Screening, and Job Performance

In an ideal world, organizations would be looking at individual-level matches between job applicants and job demands. Certainly, such an approach would lead to fewer cases of overqualification (Edwards, Cable, Williamson, Lambert, & Shipp, 2006). In practice, however, organizations

frequently use conventional “rules of thumb” in setting applicant screening criteria, and those criteria often contribute to higher aggregate levels of overqualification. For example, one does not necessarily need a college degree to work in many retail settings or as a barista at a coffee bar, and yet numerous retail stores and coffee houses use this criterion for applicant screening. Why would firms pursue such a strategy, knowing that they might have to pay more for college graduates than for college dropouts, the people they hire will be overqualified, and that turnover among this group of workers is likely to be higher?

Labor economists and organizational theorists (e.g., Becker, 1964; Peteraf, 1993) explain this phenomenon in a variety of ways. First, a college degree is a signal of more than just content knowledge; it is a potential signal of conscientiousness, perseverance, and other desirable work-related traits as well (Ng & Feldman, 2009). Thus, firms might want to set higher standards for entry to obtain workers with traits that contribute to better organizational functioning. Second, and perhaps more importantly, a college degree (or even an MBA degree) may signal to employers that the employee is more likely to engage in organizational citizenship behaviors and less likely to engage in counterproductive

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work behaviors (Ng, Eby, Sorensen, & Feldman, 2005). Thus, while the overqualification literature has primarily focused on the performance of required job responsibilities, labor economists and organizational theorists highlight how employees' seeming overqualification might still be valued by employers. Last here, even if overqualified workers do turnover more frequently than the "just qualified," the transaction costs of replacing and training unskilled or semi-skilled workers are relatively low (Lazear, 2004; Williamson, 1985).

Overqualification, Human Capital, and Social Capital

The next issue we consider here is how overqualification impacts human capital and social capital. Here, the labor economics and organizational theory literatures paint a somewhat different picture than I–O psychology and organizational behavior scholars typically do.

Human capital consists of the knowledge, skills, abilities, and experience that an individual employee possesses (Becker, 1964; Ng & Feldman, 2009). In cases where employees are overqualified, there are fewer opportunities for workers to build their human capital. Even in cases where employees engage in job crafting so that they can use much of their existing human capital, the opportunities for building extensive new human capital are relatively rare in jobs where employees are significantly overqualified.

However, overqualification may not necessarily lead to losses in social capital and in some cases can even lead to increases in social capital. Social capital refers to the interpersonal connections and networks individuals develop through interacting with coworkers, supervisors, and others in their industry or profession (Groysberg, 2010). Consider, for example, the recent rise of college and MBA students willing to do internships for little or no money. In many cases, these internships require students to work at jobs below their ability levels—but students willingly

do so because they view these internships as either "a foot in the door" or a way to make connections to find similar jobs in the same industry. Thus, while overqualification can legitimately be viewed as problematic with regard to employees' human capital, an important avenue for future research is the extent to which overqualification is accepted by employees in exchange for potential gains in social capital (Krackhardt & Hanson, 1993).

Overqualification and Lifetime Earnings

Last here, a particular concern of labor economists has been the long-term consequences of being overqualified for workers' lifetime earnings. Two groups of employees have been of special interest in light of recent labor market trends, namely, those making the school-to-work transition and those seeking reemployment after layoffs.

The long-term effects of underemployment during the school-to-work transition on lifetime earnings are powerful. Drawing on Yale economist Lisa Kahn's work on trajectories of earnings, Peck (2010, pp. 46–47) notes that "seventeen years after graduation, those who had entered the workforce during inhospitable times were still earning 10 percent less on average than those who had emerged into a more bountiful climate." Moreover, those who were overqualified in early career were significantly less likely to end up in professional occupations and significantly less likely to bid up their wages by changing jobs in midcareer. Consequently, the effects of overqualification extend beyond short-term feelings of pay inequity and relative deprivation; overqualification affects lifetime earnings and standard of living as well (Cappelli, 1999).

The situation is no less bleak for workers who have lost their jobs via layoffs (Pfeffer, 2010). Most laid-off workers are reemployed at wages 20–40% below prelayoff salaries, and many experience overqualification in addition to underpayment (Feldman, Leana, & Bolino,

2002). Moreover, the negative economic consequences for underemployed rehires extend beyond what the employees themselves experience. In many cases, nonworking spouses have to reenter the workforce (often in jobs for which they themselves are overqualified) to help the family meet its financial obligations. Furthermore, children in these families often have to scale back the quantity or quality of the higher education they pursue—which in turn increases the chances that they will become overqualified (relative to their potential) as well (Newman, 1993).

Conclusion

In a recent piece, Maynard, Taylor, and Hakel (2009) discuss the apparent “overqualification paradox,” namely, that while managers doing the hiring report that they avoid selecting the overqualified, perceptions of overqualification among those employees hired are high nonetheless. One possible explanation for this paradox, as suggested by Erdogan et al., comes from studies on employees’ perceptions (such as the self-serving bias), which suggest that individuals interpret their current employment situations in ways that enhance their self-images. Another possibility, and one that we broach here, complements this approach. The complementary argument we present here suggests that organizations may not view hiring the overqualified as a failure to maximize person–job fit. Rather, firms may tolerate some level of poor fit among new hires if they view themselves as paying for desirable personal attributes (such as conscientiousness) and for additional performance capabilities (e.g., less counterproductive work behavior), which are less salient to new hires themselves. Furthermore, employees may also accept underemployment more willingly so long

as they see their jobs as opportunities to build social capital.

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