



## The barriers to effective global talent management: The example of corporate élites in MNEs

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### ABSTRACT

This paper focuses on talent management failure by multinational enterprises (MNEs). It examines barriers to corporate advancement of talents located in subsidiaries and more specifically on promotion of talent already employed by the MNE to be part of the upper echelon management team at its centre. Drawing on agency and bounded rationality theories, we discuss the underlying causes of talent management failure in MNEs. At the subsidiary level, we draw on agency theory to delineate self-serving mechanisms displayed by subsidiary managers that might hinder effective talent management systems throughout the MNE. At the headquarter level, we use bounded rationality to explain how decision-making processes, and information top management teams use to make decisions about talent management results in overlooking talents at subsidiary level.

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Talent management has emerged as one of the key strategic issues facing managers in the twenty first century (Boudreau & Ramstad, 2007; Capelli, 2008; Collings & Mellahi, 2009; Huselid, Beatty, & Becker, 2005; Ready & Conger, 2007). Recently, substantial inquiry has focused on the association between talent management and superior performance (Björkman, Fey, & Park, 2007; Chamber, Foulon, Handfield-Jones, Hankin, & Michaels, 1998). Talent management has been investigated under several monikers, including succession (Daily, Certo, & Dalton, 2000), human resource development (Bartlett, Lawler, Bae, Chen, & Wan, 2002), and organizational learning (Adler & Bartholomew, 1992). Regardless of the term used, the theme across this work highlights the unequivocal value of talent as a competitive weapon and shows how talent can serve as a source of competitive advantage (Björkman et al., 2007; Chamber et al., 1998; Lewis & Heckman, 2006).

In this paper, we address the issue of talent management failure in multinational enterprises (MNEs). Talent management is increasingly conceptualized in global terms with authors such as Cheese, Thomas, and Craig (2008:9) arguing that “talent has become a precious resource fought over by competitors in a global war for talent”. This is especially true of MNEs for whom staffing key positions is an important means of developing and sustaining a

competitive advantage (Tarique, Schuler, & Gong, 2006). Indeed, one of the sources of MNEs' competitive advantage in the potential to exploit talent from the different countries in which they operate (Macharzina, Oesterle, & Brodel, 2001; Taylor, 2006).

Apposite to the perceived contribution of talent management, there is also a growing awareness of the extent to which MNEs are (un)able to attract and retain talents, and their capability to use their talents to their full potential. A recent study of 40 global companies found that virtually all of surveyed companies identified a lack of a sufficient talent pipeline to fill strategic positions within the organization, which considerably constrained their ability to grow their business (Ready & Conger, 2007; see also IBM, 2008). Practitioner publications are replete with quotes from senior corporate managers across the globe commenting on the difficulties of attracting and retaining talent on a global scale (see Schuler, 2009, for a useful summary). Thus, while it is clear that managers do understand the potential value added by talent to organizations, they often struggle to deploy their key talents effectively (Bryan, Joyce, & Weiss, 2006). In this paper, we argue that the operationalisation of an effective talent management system is fraught with challenges.

Broadly defined, global talent management involves the systematic identification of key positions which differentially contribute to the organization's sustainable competitive advantage on a global scale, the development of a talent pool of high potential and high performing incumbents to fill these roles which reflects the global scope of the MNE, and the development of a differentiated human resource architecture to facilitate filling these positions with the best available incumbent and to ensure

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their continued commitment to the organization. Clearly the corporate top management team represent pivotal positions in any MNE and it is this that is the focus of the current paper. We consider the extent to which talent management systems facilitate the identification of appropriate talent in subsidiary operations and their appointment to these pivotal positions.

Our point of departure is that if global talent management systems were truly effective then, *ceteris paribus*, such systems should facilitate the promotion of talent from around the global network to take key positions within the MNEs including being part of the upper echelon management team at the centre. Enabling high performing subsidiary talents to be part of the upper echelon of the management team may increase the MNE performance for at least three reasons. First, in order for MNEs to achieve global integration and local responsiveness (Bartlett & Ghoshal, 1990; Doz, Santos, & Williamson, 2001; Mellahi, Frynas, & Finlay, 2005; Prahalad & Doz, 1987), MNE's must have a culturally diverse management team. This is because globally diverse upper echelon teams enable MNEs to respond effectively to the demands of local stakeholders, including political actors, local employees, suppliers and customers (Rosenzweig & Singh, 1991). Overall, research shows that managers from host countries possess the much-needed country specific knowledge and skills. As a result, they are better equipped to deal with complexity of host country challenges (Frynas, Mellahi, & Pigman, 2006; Gong, 2003) than expats.

Second, the global diversity of the upper echelon management team of an MNE helps legitimize the firm in the host country. In Sambharya's words (1996:741) "The job of top management is to legitimize and support the geographical dimensions of a firm in order to become a truly transnational company... by overcoming home country biases and developing an international outlook free of parochialism". He asserts that "the internationalization of (top management teams) TMTs is one of the prerequisites for transforming the firm into a truly transnational firm" (p. 741). Thus, a continuous reliance on home country nationals to staff the upper echelon of management team may damage the legitimacy of the MNE in the host country. Institutional theorists have long argued that MNEs' performance is related to their ability to attain a certain level of legitimacy, without which they would not be able to access valuable resources that are vital for their survival capability (DiMaggio & Powell, 1983; Kostova & Roth, 2002; Meyer & Scott, 1983; Oliver, 1991; Suchman, 1995). Appointment of host country nationals to the top management team (TMT) would enhance the local image of the MNE and elevate its status. As a result, it would provide the organization with greater ability to overcome the liability of foreignness and achieve social acceptance in host markets (Suchman, 1995).

Third, in addition to obtaining legitimacy, providing subsidiary talents with advancement opportunities to be part of the upper echelon of the MNEs is one of the most effective incentives for retaining and motivating talents. A frequently reported problem faced by subsidiary talents in MNEs is limited access to, and exclusion from, the circle of power at headquarters (Bouquet & Birkinshaw, 2007).

Despite the posited benefits of a culturally diverse TMT, the literature suggests that in practice most MNEs' corporate elites remain highly homogenous with regard to their nationalities. For example, Adler and Bartholomew (1992) reported that the executive suits of MNEs are dominated by HQ staff and do not reflect the international spread of MNEs. Indeed, current research suggests that subsidiary level managers are grossly underrepresented within top management teams of most MNEs. Hence despite "claims that the upper echelons of U.S. multinationals are "going global" (Lublin, 1996), the biographical records of their Chief Executive Officers (CEOs) would suggest that few have even

completed international assignments. Surprisingly, among the largest U.S. MNEs, such as IBM, Procter & Gamble and Wal-Mart, CEOs with IAE [international assignment experience] are not common – less than one in five have over one year of international assignment experience" (Carpenter et al., 2001). Similarly, recent research on the boards of directors of the world's largest MNEs, concluded that while there was an increase in the globalisation of these boards over the past decade, such globalisation does not reach very deep with almost 55 percent of firms having fewer than 26 percent non-national directors. Furthermore, the most common way that MNEs boards became more globalised is through cross border mergers and acquisitions (Staples, 2007:318) suggesting that global talent management systems had a limited impact in globalising the corporate elite in these firms.

## 1. Focus of the paper

This paper demarks from previous studies in two major ways. First, prior studies have focused on the importance of international experience of upper echelon management teams of MNEs (Carpenter, Sanders, & Gregersen, 2001; Sambharya, 1996), or the diversity of upper echelon management teams at subsidiary level (Gong, 2006). In this paper, we focus specifically on the international composition of top management teams of MNEs. Second, we shift attention from currently dominant normative models of what global talent management should look like to considering the issues which retard the development of effective global talent management systems. Specifically, we focus on corporate advancement of talents located in subsidiaries and more specifically on promotion of talent that is already employed within the organization to be part of the upper echelon management team at the centre of MNEs.<sup>2</sup>

Our starting point in this paper is that availability of talent *per se* is of little strategic value if it is not identified, nurtured and used effectively. We argue that organizational ability to effectively manage their talent depends to a large degree on how top managers make sense of their ever-shifting competitive landscape and then decide where to draw talent from, and how to develop and nurture this talent. While much research has focused on what managers are (or are not) doing with regard to talent management (Björkman et al., 2007), the underlying reasons behind why managers behave in the way they do towards talent has not received great attention in the debate. Consequently, as far as talent management is concerned, the factors that shape managers' actions are not sufficiently understood as yet. This paper aims to close this gap by focusing on the underlying causes of talent management failure in MNEs. Such an understanding is compelling for at least two reasons. First, in today's knowledge based global economy, global competition pits MNEs against each other in the war for talent. It stands to reason that MNEs that fail to manage talent have a competitive disadvantage. Because of this, senior leaders in MNEs are under increasing pressure to manage talent effectively across globally dispersed subsidiaries. Second, while research has highlighted MNE's failure in managing their talents, little is known about the underlying causes of this failure. Research on talent management failure in MNEs lacks conceptual depth and as a result there remains a significant conceptual gap in our understanding of the underlying causes of talent management failure in MNEs.

We draw on two interrelated theoretical lenses: agency theory and bounded rationality theory to explain the underlying causes of talent management failure in MNEs. We identified and selected the two theoretical lenses for two reasons. First, they provide

<sup>2</sup> Our focus is on talented individuals which makes our research different from the extensive body of research on knowledge transfer between subsidiaries and HQ.

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