



Generational challenges to talent management: A framework for talent retention based on the psychological-contract perspective



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ABSTRACT

In this conceptual paper, we adopt a social-exchange theory perspective to explain the impact of talent management (TM) on the psychological contract and its outcomes. This relationship is supposedly moderated by generational effects and associated differences in work-related values and preferences. Thus, often-neglected individual-level variables are included in the analysis. A framework and testable propositions are provided. As a result, we propose that in contexts where a war for talent prevails, the strong interest of Generations X and Y in training, development, and career advancement makes highly engaged and extensive TM activities even more crucial for retaining talented individuals than is the case for the so-called Baby Boomer generation.

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1. Introduction

Notwithstanding its popularity and undisputed strategic importance for the corporate world (BCG & WFPMA, 2012), research on talent management (TM) is still lacking in its theoretical foundation and the clarity and uniformity of definitions with regard to what talent really constitutes, as well as with respect to how to manage it effectively (Collings & Mellahi, 2009; Dries, 2013; Lewis & Heckman, 2006; Scullion & Collings, 2011; Strack et al., 2011; Tansley, 2011). Furthermore, talented individuals are presented as subjects that need to be managed, while their preferences, needs, and expectations are under-researched (Tansley, 2011; Thunnissen, Boselie, & Fruytier, 2013b). This individual perspective on talent is the focus of this paper.

The basic concept of TM was introduced more than a decade ago in the late 1990s, when a group of McKinsey consultants coined the term *War for Talent* (Chambers, Foulton, Handfield-Jones, Hankin, & Michaels III, 1998; Michaels, Handfield-Jones, & Axelrod, 2001). Despite the global financial crisis, many regions still face a shortage of skilled labor (European Commission, 2011; Farndale, Scullion, & Sparrow, 2010; McDonnell, 2011; Ward, 2011). In addition, some Western industrialized countries especially suffer from declining population growth rates although, simultaneously, employment

rates remain stable or even are rising (European Commission, 2011; Ward, 2011; World Economic Forum, 2011). This development is accompanied by an increasingly aging population and dramatically higher older-worker employment rates (e.g. above 50) compared to those up to 30 years of age. This phenomenon that is sometimes referred to as the *demographic scissor* (Armutat, 2009, p. 25). Examples of these developments include Japan, the U.S.A., and Germany (World Economic Forum, 2011). Consequently, because talent shortages will continue to persist, attracting and retaining any kind of talent is a key challenge for organizations. This includes not only young university graduates, but also older workers, women, and ethnic minorities (Ariss, Vassilopoulou, Özbilgin, & Game, 2013).

Understanding and managing the possible resulting generational differences in TM (e.g. becoming an employer of choice for younger talent, as well as retaining the knowledge and competencies of older workers) have been cited as major challenges in recent TM research (Benson & Brown, 2011; D'Amato & Herzfeldt, 2008; Jenkins, 2008; Schuler, Jackson, & Tarique, 2011; Tarique & Schuler, 2010). However, respective studies have been rather descriptive and normative when discussing differences between younger and older workers, for example. Overall, research that systematically addresses generation-specific issues in TM, including an exploratory dimension that considers the individual perspective of talent belonging to various generations, is scarce (Tarique & Schuler, 2010).

The objective of this paper is to address this research gap. We take a social-exchange perspective based on psychological-contract theory to explain the various expectations and preferences of different generations concerning the employment

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relationship. We analyze generational effects and associated differences in work-related values and preferences in the context of TM by explicitly including often-neglected individual-level variables and discussing implications for TM. We focus specifically on talent retention, as the effects of TM on already recruited employees are at the center of our consideration, and not the recruitment of the talent itself. To sum up, the aim of this paper is to map conceptually the TM field by suggesting a social-exchange-based framework that includes testable propositions concerning the effects of TM on the psychological contract of talented individuals and variations as a function of generations.

The major contribution of this paper is that we add to a further theoretical underpinning of TM research by including insights from psychological-contract theory, as well as research on generations and related variables. Based on these considerations, we develop a framework to guide future research and practice by creating an understanding of the drivers and challenges of talent retention among diverse generations in times of significant demographic challenges.

The remainder of the paper is structured as follows. First, we draw upon a literature review, including TM, psychological-contract theory, and a short overview of generational studies and work-related differences. Combining these research fields, in the next chapter we suggest a conceptual framework and testable propositions for future research. The conclusion summarizes the main findings of our research and addresses the limitations of the study. An agenda for future research and a discussion on possible implications for managerial relevance conclude the paper.

2. Literature review

This literature review, which addresses key issues concerning TM, psychological contract theory, and generational effects, provides the basis for the construction of the conceptual framework in the next section.

2.1. Definitions of talent management and talent

We adopted the broad definition of TM used by [Stahl et al. \(2007\)](#), as an organization's ability to attract, select, develop, and retain key employees (in a global context). Therefore, we acknowledge that TM is part of the broader field of human resource management (HRM), being defined as all "policies, practices, and systems that influence employees' behavior, attitudes, and performance" ([Noe, Hollenbeck, Gerhart, & Wright, 2010, p. 4](#)). It involves a set of selected HRM practices focusing on attraction and retention ([Lewis & Heckman, 2006](#)) for a smaller target group of particularly talented individuals (identified by the company), compared to various HRM stakeholders (all employees, unions, customers, suppliers, investors, etc.) ([Tarique & Schuler, 2010](#)). Highly talented individuals can be characterized through a variety of characteristics, such as competencies, skills, abilities, experience, knowledge, intelligence, character, and drive, or the ability to learn and grow within an organization ([Michaels et al., 2001; Ulrich, 2008](#)). Compared to other human resources, they are supposed to be key strategic resources ([Collings & Mellahi, 2009; Schuler & Tarique, 2012](#)) because they have a most important impact on organizational performance ([Collings & Mellahi, 2009; Tansley et al., 2007](#)) and on creating competitive advantages for a firm. They are valuable, rare, and difficult to imitate ([Barney, 1991, 1995; Vance & Vaiman, 2008](#)). They are also referred to as "pivotal talent" ([Boudreau & Ramstad, 2007, p. 2; Cascio & Boudreau, 2010, p. 84](#)). The same is true for TM systems, which can be understood as bundles of strategically aligned TM practices ([Lewis & Heckman, 2006; Stahl et al., 2007](#)). These have also proven to have a positive

impact on financial, organizational, and human resource outcomes (e.g. employee engagement, improved quality and skills, higher job satisfaction) (see e.g. [Bethke-Langenegger, Mahler, & Staffelbach, 2011; Björkman, Ehrnrooth, Mäkelä, Smale, & Sumelius, 2013; Chami Malaeb, 2012](#)). To sum up, in our paper, talent includes persons (subject approach) who represent those high performers who are pivotal for the organization ([Tansley, 2011; Thunnissen et al., 2013b](#)). Their pivotalness for the company explains a differential investment and TM ([Boudreau & Ramstad, 2007; Cascio & Boudreau, 2010](#))

2.2. An individual perspective on talent management

Research is scarce on the individual TM perspective. In their research investigating the impact of talent strategies on organizational outcomes, [Bethke-Langenegger et al. \(2011\)](#) showed that TM has a positive impact, not only on organizational performance, but also on individual outcome variables. They found that no matter what content focus the talent strategy included (e.g. corporate strategy alignment, succession planning, attraction and retention, development), all talent strategies had a direct positive effect on talent motivation. [Chami Malaeb \(2012\)](#) provided findings showing that not all talent investments were equally effective, but in her research, she nevertheless confirmed that talent development and retention practices had the highest impact on employee commitment and contribution. [Bethke-Langenegger et al. \(2011, p. 536\)](#) explained their findings by arguing that being part of a talent pool (a privileged group of high-potential employees) and receiving attention and appreciation positively impacted the performance motivation of talent, a phenomenon that is consistent with the findings of very early research in organizational behavior, such as the Hawthorne experiments ([Mayo, 2003](#)). These researchers reasoned that talented employees wanted to stay with their companies and try to give something in return for the investment made in them, as well as the trust provided by their organizations. Despite a lack of encompassing research on the effects of TM on the individual, these very recent studies indicate the relevance and importance TM can play in shaping employees' behavior and influencing organizational outcomes and performance.

With respect to whether TM needs to be communicated and whether there are differences in attitudinal or organizational differences, we refer to a recent study by [Björkman et al. \(2013\)](#), who investigated differences in attitudinal outcomes in both employee groups. Those who perceived they were identified as "talent" were more likely to be associated with positive effects (increased performance, support of strategic priorities, identification with the company) than those who did not know their talent status (except for the variable turnover intention). [Björkman et al. \(2013, p. 207\)](#) concluded: "these findings suggest that informing talented individuals of their status has a motivational effect in line with the predictions of social-exchange theory, and thus support the general logic of talent management." Based on these findings, we argue that in order to have a (positive) impact on the psychological contract of the talent, employees should know that they have been identified by their companies as "talent."

In summary, there are indicators that TM can especially help in retaining talented employees and motivating them to stay with their organizations, and thus reduce staff turnover rates. Accordingly, researching talented employees and their expectations can be beneficial for understanding and managing multigenerational workforces ([Tarique & Schuler, 2010](#)). As a theoretical perspective that allows us to discuss these issues in a systematic and meaningful way, we discuss psychological contracts in the following section.

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