

Using Talent Strategy as a Hedging Strategy to Manage Banking Talent Risks in Malaysia

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Abstract: Talent strategy in human resource planning is generally used to deliver business strategy of a firm. The identification, recruitment, development and retention of talented employees are aligned with the priorities of the firm's business. As businesses today are borderless with the global environment, putting in place the most effective talent management strategy is a key to competitive success of firms and this includes the banking industry. Hence, people who are talented in the organization provide opportunities for the firms. As a result, many big firms seem to spend much time on developing these talented employees but less time on retaining them. This includes the Malaysian banking institutions. It is timely for Malaysian banks to have their own talent programs due to acute shortage of banking talents. Hence, the talent systems of banks require investments in these intangible assets. The above need is reinforced by the fact that an important Malaysian banking resource would be talent following the final phase of consolidation of banking institutions by the year 2015. When demand goes up and supply of talent goes down, more and more banking institutions in Malaysia begin to realize the importance of talent strategy and planning to be a part of management strategic focus; hence an integrated talent program for the banking institutions. The objective of this study is to testify that the use of talent strategy as a hedging strategy is able to manage banking talent risks in the Malaysian banking sector. The study proposed to use Talent Management Practices (TMP), Employee Value Proposition (EVP) and Talent Brand Strategy (TBS) as variables along with 12 indicators of Malaysian banking talents by testifying for their direct and indirect relationships. The five research objectives and questions of the study were fulfilled by employing the Structural Equation Modelling (SEM). The five hypotheses of the study revealed that there are significant positive relationships between talent management practices, employee value proposition and talent brand strategy for Malaysian banks. The study also found that employee value proposition partially mediates the relationship between talent management practices and talent brand strategy for the banks. With these significant relationships, the findings of this study suggest that it is timely for the local banks to enhance their talent strategy as this can deliver as business strategy for instance facilitating in innovating the operating structure of financial instruments. Additionally, due to the acute shortage of banking talents in Malaysia, there is a strong need to use talent strategy in managing banking talent risks. This is necessary for the local banks to remain competitive and profitable for a long term in this era of global banking.

Key words: Talent strategy, banking talent risks, business strategy, global banking, Malaysia

INTRODUCTION

Talent strategy in human resource planning is generally being used as business strategy to identify, recruit, develop and retain talented employees in the organisation. With reference to Blass and April (2008), talent management is defined as additional management processes and opportunities that are made available to people considered to be talented in the organization. Moreover with businesses today becoming borderless in the global environment, talent is seen as a potential powerful source of competitive advantage. Nevertheless,

many big organisations seem to spend much time on selecting and developing their talented employees but less time on retaining them. Therefore, it is timely for Malaysian banks to have their own talent programs due to acute shortage of banking talents and talent system which requires investment in intangible assets.

According to Morton (2004) in order to effectively recruit and retain scarce labor, organizations need to create and perpetually refine their employee value proposition. On this basis, researchers will identify the level of employee value proposition of talented people within the Malaysian banking sector. With reference to

Blass and April (2008), talent management can be generally defined as the additional management process and opportunities that are made available to people in the organization that are considered to be talented. Therefore to keep the best and the brightest workforce, companies will need to optimize their human capital through human resource and organization development strategy (Sweem, 2009). This implies turning talent strategy as a business strategy. From the perspective of financial resource planning, business strategy could be treated as a hedging strategy when identifying, measuring and evaluating the financial impacts in the underlying markets. For example by hedging with futures (commodity or financial), any loss in the underlying market would be compensated with a gain in the futures market. As such, the undertaking firms will have quality time to focus on their core businesses for growth and profits as with the case of Malaysian banking institutions.

In view of the importance of talent management and its relationship with talent brand strategy and employee value proposition in the Malaysian banking industry, the aim of this study is to examine the impact of talent management practices on talent brand strategy and the mediating effect of employee value proposition in the banking industry. Based on a study by Bhatnagar (2007), talent management was initially designed to improve the process of developing people with the required skills and aptitude to meet current organizational needs. The high performing organizations are more likely to have a formalized employee value proposition. As employee value proposition helps to identify, engage and retain critical workforce segments, this has probably contributed to their success. On these premises, this study attempts to highlight the evolution of talent brand strategy (banking institutions) and employee value proposition (banks employees) and subsequently the impact of talent management (talent system) on talent brand strategy (banking institutions). These three underlying variables have a link with strategic human resource to enhance the value of businesses as a result of identifying, developing and retaining banking talents (Dewi, 2013) turning talent strategy as a hedge against weak growth and less profit for the organization.

Objectives and hypotheses of the study: The general objective of this study is to examine the relationship between organizational differences (Talent management practices) and individual (employee) effectiveness (Employee value proposition and talent brand strategy). Specifically, this study attempts to:

- Examine the levels of talent management practices, employee value proposition and talent brand strategy in the Malaysian banking industry

- Examine the relationship between talent management practices and employee value proposition
- Examine the relationship between talent management practices and talent brand strategy
- Examine the relationship between employee value proposition and talent brand strategy
- Ascertain the mediating effect of employee value proposition on the relationship between talent management practices (organizational differences) and talent brand strategy

Being a quantitative analysis study, this study tests the following hypotheses:

- H₁: There is positive relationship between talent management practices, employee value proposition and talent brand strategy
- H₂: There is positive relationship between talent management practices and employee value proposition
- H₃: There is positive relationship between talent management practices and talent brand strategy
- H₄: There is positive relationship between employee value proposition and talent brand strategy
- H₅: The relationship between talent management practices and talent brand strategy is mediated by employee value proposition

Literature review: Generally, the most effective talent management practices are organization-specific and related to the organization's unique business as well as its human capital context. Since, these findings are based on D'Annunzio-Green (2008) in ensuring individuals are given opportunities to develop skills and enhance their careers, the talent management practices should encompass the whole of the talent management pipeline. The concept of talent management practices need also be strategized, notably as a set of talent management activities. As such, talent management practices need to be integrated and aligned with internal organizational system and external environmental factors as suggested by Hughes and Rog (2008). Therefore, effective talent management practices aims to advance business strategy, drive competitive advantage and strengthens the long term viability of the organization. Talent management practices also must be completely aligned with an organization's mission, vision and values and fully integrated into the organization's long term strategic planning. These aims are presented by Hannum *et al.* (2006) in an in-depth review of designs for evaluating leadership development and using the evaluation itself to increase business impact.

The above need was further reinforced by a subsequent report in August 2007 by McKinsey Malaysia and Co. The company quoted that an important

Malaysian corporate resource over the next 20 years would be talent. As such as demand goes up and supply of talent goes down, more and more Malaysian organizations realize the importance of talent strategy. Hence, there should be plans for management strategic focus on talent brand strategy and employee value proposition. As there is acute shortage of banking talents in Malaysia, Taing as noted earlier by Zeti on the need of talent development in the Malaysian banking industry. In the context the Malaysian financial institutions, Sufian (2009) discovers that the higher is credit risk, the higher is loan exposure that leads to lower profitability for Malaysian banks. In fact, Sufian (2010) explained further that the higher the supervision in the Malaysian banking system, the lower the profitability will be for Malaysian commercial banks.

Based on the above premises, it is clear that talent brand strategy and employee value proposition within an organization remains operationally and strategically important for organizational success. As postulated by Michaels *et al.* (2001), talented people will work hard to fulfil their needs in which if not they will be inclined to leave the organization. Likewise in their study of intention to leave towards employment engagement or employee value proposition, Hussain *et al.* (2013) found that young bankers in Malaysia are constantly having the intention to leave due to lack of integrated talent programs and less attractive salary packages for them. This is a justifiable remark as they propose that Malaysian banks have a human resource strategy with attractive employment package in order to reduce young bankers to leave their respective banks. As such, it is noteworthy to mention that talent management needs to be a critical success factor in an organization's human resource strategy. The human resource strategy becomes a business strategy to develop and retain talented young bankers having attractive employment packages. This becomes the thrust of this study. According to Asia Pacific Global Data Regional Practice Leader of Towers Watson (2013), the Malaysian financial services industry has recorded a significant increase of turnover rate from barely 7.4% in 2012 to an alarming 13.3% in 2013. Moreover, the survey also reported that Malaysian banks are making a concerted effort to improve their Employee Value Proposition (EVP). In the process of attracting, developing and retaining their top banking talents, talented employees are offered higher salaries and better promotions.

The researchers are therefore, motivated to study on talent management practices issues in the Malaysian banking industry by examining the Employee Value Proposition (EVP). Talent management practices, thus forms a powerful and systematic framework for understanding why employees differ in their effectiveness in the banking industry (Boudreau and Ramstad,

2005; Lewis and Heckman, 2006; O'Donnell and Mccartan-Quinn, 2002). Since, talent management practices is a business strategy not a human resources strategy as proposed by Ong, it can be generalized that the aim of talent management practices is to identify the people in the organization who have more talent than others and then to develop these people, so that they become more experienced and competent, able to play a greater part in the success of the organization, notably competitive environment of the banking sector. This may imply that Malaysian banking institutions shall build rather than buy talents as banking talents are having acute shortage in the competitive and changing global banking environments (Dewi, 2013).

MATERIALS AND METHODS

The research framework of this study comprises of Talent Management Practices (TMP) as the independent variable, Employee Value Proposition (EVP) as mediating variable and Talent Brand Strategy (TBS) as dependent variable. TMP consists of five dimensions, namely talent acquisition, competency management, leadership development, succession planning and performance management. TBS consists of three dimensions, namely leadership brand, employee brand and working environment. EVP consists of four dimensions, namely EVP task, EVP contextual, EVP assignment specific and EVP sustainability. Being the mediating variable, employee value proposition is expected to mediate the relationship between talent management practices and talent brand strategy. In the Malaysian financial services industry, EVP is required to be improved or enhanced to attract top banking talents with attractive remuneration packages (Hussain *et al.*, 2013) and faster growth opportunities (Towers Watson, 2013).

The population of this study consists of 1,413 bank employees in the Malaysian banking industry. The population of bank employees will then be divided into: Commercial Bank, Development Financial Institution and Islamic Bank. The differences between banks' employees and banks category (i.e., labelled as organizational differences) will determine the effects of talent management practices on employee value proposition in the Malaysian banking industry. For this reason, the study has mailed 82 questionnaires to 1400 respondents with a return of 342 responses.

As this study employs the survey method for data analysis, the authors use Structural Equation Modelling (SEM) as a model to test for direct and mediating effects, followed by Confirmatory Factor Analysis (CFA) to test for reliability and validity of the survey instrument. After the data for the survey instrument or questionnaires were collected, a running number was assigned for each individual respondent before the data were entered into

the computer for analysis. The running number functions as an identification code for each respondent for the purpose of checking his or her responses if there was a problem with the quality and validity of data collected. The collected data were analyzed using the Statistical Package for the Social Sciences (SPSS) 17.0 program and Structural Equation Modeling (SEM).

RESULTS AND DISCUSSION

The constructs of Talent Management Practices (TMP) and Employee Value Proposition (EVP), the definition for level of significance for regression weight, the probability of getting a critical ratio as large as 11.389 in an absolute indicates a $p < 0.0001$. This indicates that the regression weight for TMP in the prediction of EVP is significantly different from zero at the 0.05 level (two-tailed test). The definition for level of significance for regression weight for TMP and Talent Brand Strategy (TBS), the probability of getting a critical ratio as large as 6.955 in an absolute indicates a $p > 0.0001$. In other words, the regression weight for TMP in the prediction of TBS is significantly different from zero at the 0.05 level (two-tailed test). EVP in the prediction of TBS is also significantly different from zero at the 0.05 level (two-tailed test). This refers to the definition for level of significance for regression weight and the probability of getting a critical ratio as large as 3.023 in an absolute indicates a $p < 0.0001$.

The three variables, namely talent management practices, employee value proposition and talent brand strategy are significant and this implies that the convergent validity is therefore achieved. Results of hypotheses are discussed as follows:

Hypothesis H₁: There is positive relationship between Talent Management Practices (TMP), Employee Value Proposition (EVP) and Talent Brand Strategy (TBS):

- H₁: Beta is not zero (the regression relation of TMP, EVP and TBS is significant). The hypothesis testing for causal effect of (TMP-EVP TMP-TBS) and (EVP-TBS) is also significant as there is positive relationship between TMP, EVP and TBS

Hypothesis H₂: There is positive relationship between Talent Management Practices (TMP) and Employee Value Proposition (EVP):

- H₂: Beta is not zero (the regression relation of TMP and EVP is significant). The hypothesis testing for causal effect of TMP and EVP is significant as there is positive relationship between TMP and EVP

Hypothesis H₃: There is positive relationship between Talent Management Practices (TMP) and Talent Brand Strategy (TBS):

- H₃: Beta is not zero (the regression relation of TMP and TBS is significant). The hypothesis testing for causal effect of TMP and TBS is significant as there is positive relationship between TMP and TBS

Hypothesis H₄: There is positive relationship between Employee Value Proposition (EVP) and Talent Brand Strategy (TBS):

- H₄: Beta is not zero (the regression relation of EVP and TBS is significant). The hypothesis testing for causal effect of EVP and TBS is significant as there is positive relationship between EVP and TBS
- H₂: The relationship between Talent Management Practices (TMP) and Talent Brand Strategy (TBS) is mediated by Employee Value Proposition (EVP)

According to Iacobucci (2008), a theoretical premise posits that a mediating variable is an indicative measure of the process through which an independent variable is to influence a dependent variable. The researcher needs to assess the extent to which the effect of the independent variable (s) on the dependent variables is direct or indirect via the mediator.

The findings of this study reveal that TMP is positively related to TBS, implying the effectiveness of EVP. This implies that the greater the TMP level, the greater the EVP and TBS levels will be. Specifically, the findings of this study suggest that improving the creativity and human skill in TMP's dimensions (i.e., talent acquisition, competency management, succession planning, leadership development and performance management) will help to improve all three dimensions of EVP (i.e., contextual, assignment specific, task and sustainability of EVP). These represent a quality of employee experience. In addition, improving on talent acquisition, competency management, succession planning, leadership development and performance management as dimensions of TMP will help individuals to perform in their quality or experience specifically on the contextual, assignment-specific, task and sustainability of EVP.

The results of this study also suggest that improving on EVP will help to improve the TBS. Specifically, the findings of this study imply that improving the quality of employees experience will also help to improve all three dimensions of TBS, namely employee brand, working environment and leadership brand. This study also reveals that EVP has significant mediating effect on the relationship between TMP and TBS. Interestingly, the results of this study found that EVP partially mediates the

relationship between TMP and TBS, testifying that TMP represents a talent system, TBS represents employers commitment and EVP represents employees development in identifying, selecting, developing and retaining the banking talent for Malaysian banks.

CONCLUSION

The Talent Management Practices (TMP) factor was found to be a significant predictor of Employee Value Proposition (EVP) and Talent Brand Strategy (TBS). This implies that TMP is that vital creativity of human skill that facilitates EVP and TBS in the Malaysian local banks. In addition, EVP in this model is also found to mediate the relationship between TMP and TBS. In other words, EVP carries the influence of the TMP on the TBS. This indicates that TMP will predispose bank employees in the Malaysian local banks to have effective EVP which in turn will help to boost their TBS in terms of significant relationships for the talent system, employers commitment and employees development. This study also provides critical insights by emphasizing and reinforcing on the importance of talent system for successful accomplishment of talent programs as a business strategy in the local banks. Especially in this era of financial globalizations. Even Bank Negara Malaysia has since 2008 assert that talent requires investment in intangible assets. Therefore with integrated talent programs, the Malaysian banking institutions would be able to hedge well against expected banking talent risk by attracting, developing and retaining their talented young bankers. This hedging strategy turns into a successful business strategy for banks, boosting annual growth and profits.

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