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## The Impact of Talent Management Initiatives on Employee Performance: The Mediating Role of Employee Engagement in the Banking Sector, Sri Lanka

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### **Abstract:**

*Development of talent pools is believed to be a source of competitive advantage in today's dynamic business environment whereas the role of talent management practices has been emerging with the recognition of importance. Though a plethora of studies have been conducted for human resource management and organizational outcomes, there is a dearth of studies investigating on talent pools, talent management practices and its impact on desirable employee level outcomes. The study aimed to examine the impact of talent management initiatives on perceived employee performance empirically in the context of licensed commercial banks in Sri Lanka. Also, it uncovered a theoretical gap by investigating the mediation role of employee engagement in talent management-performance link. The study was conducted on a sample of 245 talented banking employees. The data was analysed using structured equation modeling with the aid of AMOS version 22. The findings reveal talent management initiatives have significant and positive effects on perceived employee performance and employee engagement. Further, it divulges perceived employee performance is significantly and positively influenced by employee engagement. In this study, employee engagement has bridged the gap between talent management-performance link resulting a partial mediation. Accordingly, the findings have proposed adopting talent management initiatives is worthwhile as it leads to better engaged employees and improved performance of talented individuals at work.*

**Keywords:** Talent management initiatives, perceived employee performance, employee engagement, Sri Lankan licensed commercial banks

### **1. Background**

Increasing the intensity of rivalry in global markets, evolving technology and speed of globalisation have created a challenge and necessity for any organisation to be more innovative and responsive. On this ground, the role of human resource management (HRM) is crucial in stimulating overall performance of employees. In contrast to HRM which has a general focus on managing people, it has been emerged the concept of talent management (TM) which is said to be critical in achieving sustainable competitive advantage through identification, development and redeployment of talented employees in organisations (Iles et al., 2010) with the theoretical configuration of resource-based view of Barney (1991). It sounds exceptional business performance and innovations can be driven by the talented individuals (Mensah et al., 2016). However, the debate among some scholars (Barlow, 2006; Lewis & Heckman, 2006; Cappelli, 2008; Stewart, 2008) on talent management, as it is just a re-branding of human resource management, re-packing old thoughts under a new term or producing old wine in new bottles.

A rigorous review of literature and key ideas promulgated by scholars indicate that though HRM and TM have some practices in common, but there's a significant distinction in strategic positioning of talented employees to compel the performance of other members and the organisation (Iles et al., 2010; Mensah, 2015). The focus on talent management is more specific on talent pools/talent pipelines and 'segmented' whereas the emphasis of HRM is seen as 'egalitarianism' (Iles et al., 2010). The segmenting approach is sharpened from marketing theories such as workforce segmentation and employer branding for talent acquisition to focus on attracting and retaining key individuals (Tansley, 2007).

The importance of talent management is arisen with the globalising and advanced technology where the competitors can imitate every single innovation (Wright et al., 2011). In this context, talented employees are needed to continue ongoing innovation. Talent is needed to be secured for gaining sustainable competitive advantage. Talent management practices have evolved over the time (form late 1990s) and moved into holistic and inclusive view with the alignment of such practices with the corporate strategies of organisations (Zesik, 2016). These practices are focused with building employee commitment, enhanced performance, trust, engagement and allowing implementation of organisational goals at different

levels (Gelens et al., 2013). Thus, employee performance can be improved through talent management (Luna-Arocas & Morley, 2015; Mensah, 2015; Khaki, 2017;). Employee performance comprises both financial and non-financial outcomes of which have direct relations to organisational performance and its success (Anitha, 2014). It has been revealed that employees who have been identified as talented, tend to exhibit higher work effort which leads to higher performance than those who have not been recognized (Bjorkman et al., 2013). Despite the scholastic views on the TM-performance linkage, it is vital to investigate TM practices and its direct impact on improvement of performance of talented individuals underlying with Ability-Motivation-Opportunity (AMO) theory as well as indirect impact on employee engagement with Social Exchange Theory (SET).

### 1.1. Research Problem

As highlighted in the study background, in the knowledge era, the most of organisations perceive the importance of having a key talent base in order to survive dynamic business rivalry sustainably. This is challenging in today as managing and retaining such talents is difficult with the higher level of career mobility among new generation. To support to the context, concerning on the generation Y (born in 1980 to 2000) expect to have multiple career and multiple employer attitudes (Ethics Resource Center, 2010). In the light of above background, the study links talent management initiatives with employee performance through the mediating role of work engagement with special reference to Sri Lankan banking sector. Sri Lankan banking sector is comprised with 25 licensed commercial banks (LCBs) and 07 licensed specialized banks (LSBs) by 2016 (Central Bank, 2016). According to the Sri Lankan statistics, 159,000 personnel are employed in financial and insurance sector, which count 2% for the 46.5% of total employment in the service sector employment (Central Bank, 2016). Out of financial and insurance sector, the banking sector is growing resiliently with a stiff rivalry to capture lucrative customer base creating a higher demand for experienced talents to be attracted and secured (Ariyawansa, 2008). The service nature of banking sector; bankers are supposed to work with greater customer intimacy in fulfilling their financial needs. The skills and competency of bankers are essential in making customers delight (Ariyawansa, 2008), thereby the preserve the reputation and profitability of banks. In addition, the cognitive skills, predictive analytical skills and creativity are set of skills needed be embedded with bankers when managing their lending portfolio, assessing credibility of the clients and delivering superior customer service (Tajuddin et al., 2015). A local study of Ariyawansa (2008) mentioned, the career mobility among Sri Lankan financial industry is high, owing to the intense competition of capturing talents into the talent pools. Therefore, the retention of such skilled bankers has become a challenge as the exponential rise in headhunters with attractive offers to absorb them into other competitive banks (Ariyawansa, 2008).

Talented employees are more sensitive towards their career development and progress at work, posing higher importance to apply correct blend of talent management practices by the human resource departments (Tajudin et al., 2015). Perceiving such importance of managing talent, specific human resource personnel catering to the talent pools designated as "talent acquisition and learning managers", "talent assessment and development managers", can be witnessed in Sri Lankan banking sector. Hence, investing on talents has been predominantly increasing among corporations to generate the expected performance from the best talents and retaining them as it is essential factor of achieving competitive edge.

However, spending massive amount of expenses on human capital is not always sensible due to financial constraints and adverse economic conditions (Innocenti et al., 2011). Thus, making the best talents more engaged to work through talent acquisition and development practices is expected to have positive impact on firms' profitability. The economic value of such organisational efforts (in relation to utility theory) should be reflected in the individual performance thereby in the firm's performance (Geer, 2004). Further, in the assessment of existing studies of TM, there is no agreement upon 'which set of talent management initiatives' should be used when examining TM-performance linkage (Jonathan et al., 2011). Thus, investigating the impact of TM initiatives on performance of bankers was mainly addressed in the present study.

Although the concept of talent management is not a brand-new concept (since 1990 according to Michaels et al., 2001), there is a dearth in theoretical and empirical research on the linkage of TM-performance, TM-high potential employee's attitudes and behaviors (such as engagement, commitment, organisation citizenship behavior, trust) (Hartmann et al., 2010). Existing research on the HR practices-employee outcomes links are inadequate to examine the mechanisms of talent management which affect employee level outcomes. Few studies can be found examining the effects of TM practices with high performing employees (e.g.: Bhatnagar, 2007; Hughes & Rog, 2008; Alias et al., 2014; Mensah, 2015; Dhanalakshmi et al., 2016; Khaki, 2017). Out of those, few studies can be observed testing talent management context in banking context in other countries such as Malaysia, India, Ghana, USA and Norway and more studies can be observed specially in the industries of information technology, tourism and hospitality. Irrespective of encouraging signs over TM, the research evidence in Sri Lankan context remains dubious due to the dearth of studies.

Thus, the study examines the impact of talent management on employee performance through the mediating role of employee engagement as it is vital and timely requirement for making more scientific decisions related to investing TM practices to improve individual performance. Theoretically, the study contributes new avenues of linking TM and employee level outcome of individual performance whereas organisational level outcomes are frequently tested in empirically grounds. In addition, the study uncovers the indirect impact of employee engagement on the performance of talented bankers which adds theoretical contribution to existing TM literature.

Accordingly, the main research problem of the current study could be posed as,

What is the impact of talent management initiatives on perceived employee performance and the mediating role of employee engagement?

### 1.2. Research Objectives

In order to address the research problem, the study was aimed to achieve following objectives:

- To examine the impact of talent management on perceived employee performance,
- To find out the impact of talent management initiatives on employee engagement,
- To find out the impact of employee engagement of perceived employee performance,
- To uncover the mediating role of employee engagement between talent management and perceived employee performance,

## 2. Theoretical Background

The paper presents a brief literature cover on talent management, perceived employee performance and employee engagement.

### 2.1. Talent Management Initiatives

The term Talent Management was coined in late 1990s with 'war for talent' by a group of consultants of McKinsey (Michaels et al., 2001). After the emergence of the concept, the talent management has been gradually and consistently gaining attention and interest of both the academic scholars and practitioners in the domain of human resource management (Collings & Mellahi, 2009). Despite of talent wars, the concerns over talent raids and talent shortages, talent metrics retention and talent strategies have been given priority across the world, especially in the countries as United State of America, United Kingdom, Japan, China, India and the Asian region (Bennett & Bell, 2004; Branham, 2005; Chugh & Bhatnagar, 2006; Dunn, 2006; Lewis & Heckman, 2006; Ruppe, 2006; Yeung, 2006). Lack of clarity over the concept of talent management (Lewis & Hackman, 2006) declined with the emerging demand for talented employees to cope up with the challenges of dynamic business environment and competition. Collings & Mellahi (2009, p. 304) defined talent management as "activities and processes that involve the systematic identification of key positions that differentially contribute to the organisation's sustainable competitive advantage, the development of a talent pool of high-potential and high-performing incumbents to fill these roles, and the development of a differentiated human resource architecture to facilitate filling these positions with competent incumbents, and to ensure their continued commitment to the organization". It is usually considered as a differential treatment caters on high performers of organisations (Gelens et al., 2013). Talent management is perceived as a critical to achieve competitive advantages in organisations and also leads to sustainable competitive advantage (Iles et al., 2010) which is underlined with the Resource Based View (RBV). In RBV approach, the emphasis is given to unique set of human capital which can be perceived as a source of sustained competitive advantage having the characteristics of valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991).

Talent management was originally designed to advance the recruitment and development of employees in order to meet the desired competencies for achieving demands of the organisation. In later studies, it is found that talent management has been perceived as an integrative approach combining attraction, development and retain of talented employees within the organisation. In assessing the existing studies, widely and frequently used practices have been considered in the present study as indicated in Table 1, with a relevance to banking sector Sri Lanka:

	Dimensions	Source
Talent Recruitment	▪ Selective staffing	Snell and Dean (1992)
	▪ Employer branding for talent acquisition	Hillebrandt and Ivens (2012)
Managing Talents	▪ Training and development	Snell and Dean (1992)
	▪ Performance management	Snell and Dean (1992)
	▪ Compensation management	Snell and Dean (1992), Hillebrandt and Ivens (2012)
Talent Retention	▪ Career planning and advancement	Greenhaus et al. (2004), Stahl et al. (2009)
	▪ Work-life balance	Greenhaus et al. (2004); De Cieri et al. (2005); Hayman (2005)

Table 1: The Talent Management Initiatives of the Study  
Source: Author's Compilation

### 2.2. Employee Performance

The concept of employee performance is vastly relevant not only for individuals, but also for organizations (Mensah, 2015) as the success of the organisations is predominantly contributed by the productive behaviors of the employees. Viswesvaran & Ones (2000, p. 216) defined job performance as, "scalable actions, behavior and outcomes that employees engage in or bring out that are linked with and contribute to organisational goals." Yildiz et al., (2008, p. 240)

stated employee performance as “the percentage of using the capacity of people in order to complete a work successfully in a certain period of time.” In assessing the literature related to employee performance, ‘ability, contribution, action, capacity or behavior’, were used by most of the researchers. Employee performance includes both financial and non-financial outcomes which have a direct connection with the performance and success of the organisation (Anitha, 2014). Quality of offerings, productivity and customer service are the key areas of such organisational success which mainly depend on the performance of the employees (Rounok & Parvin, 2011). Hence employee performance has become a paramount in meeting organisational needs for fulfilling expectations of stakeholders (Mensah et al., 2016). In a highly competitive business environment, employee performance is seen as a way of gaining competitive edge (Iqbal et al., 2015). The presence of sufficient resources, infrastructure and physical facilities become worthless, unless the direct/indirect involvement of human hands into the operations of the organization (Muda et al., 2014), even in a techno-oriented society. Hence this reflects that the “organisations are the people in them and people make up the organization” (Schneider, 1987, p. 439). Employee performance is considered as multi-dimensional or multi-disciplinary concept (Borman and Motowidlo, 1993; Koopmans et al., 2011). The totality of the concept can be operationalised as task, contextual, adaptive and counter-productive according to Koopmans et al. (2011) of which has been used in the present study to conceptualise the perceived employee performance of talented bankers.

### 2.3. Employee Engagement

Employee engagement has been a growing concept embedded with many of academic and practitioners’ interest (Albrecht et al., 2015) in the fields of human resource management and human resource development (Shuck & Wollard, 2009) as it is recognized with one of the central factors which highly influence to employee performance and work-related attitudes (Harrison et al., 2006; Valentin et al., 2015). Employee engagement was initially coined by Kahn (1990, p. 694) and defined the concept of “job engagement” as “the harnessing of organisational members” selves to their work roles where people express themselves physically, cognitively, and emotionally during role performances”. On this theme, employee engagement is defined as “the psychological state that accompanies the behavioral investment of personal energy” (Schaufeli & Bakker 2010, p. 22). Schaufeli et al., (2002, p. 74), defined engagement as “a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption.” of which three dimensional perspectives were added to the literature, as highlighted in the Utrecht Work Engagement Scale (UWES) (Schaufeli & Bakker, 2004; Schaufeli et al., 2002). Development of Job Demand-Resource (JD-R) model by Bakker & Demerouti (2007, 2008) was another significant contributing force to the literature, which indicates that personal resources and job resources have direct as well as indirect impact on employee engagement of which leads to foster employee performance.

## 3. Development of Hypotheses and Research Model

In this research, the role of talent management was investigated pertaining to its impact on perceived employee performance and the engagement level. Research hypotheses and the research model have been ascertained on a solid foundation of literature with the main focus to the research problem. The hypotheses and the model postulated the relationships of the study variables and simplify the understanding of the current research context.

### 3.1. Talent Management Initiatives and Employee Performance

The recognition for employee performance is widely acknowledged in the literature related to talent management (Thunnissen & Arensbergen, 2015). In assessing many studies, the talent is identified as top ranked employees who display higher level of performance in current and future performance (Collings & Mellahi, 2009) towards the organisational performance. However, the above context is challenged by Groyberg et al., (2004), as no guaranteed of past superior performance will continue with the same momentum at working environment. Hence, Thunnissen & Arensbergen, (2015), suggested to have structural development program for talent management which includes “soft” developmental human resource practices (Truss et al., 2001, p. 1124) such as regular training practices and “hard” human resource practices (Truss et al., 2001, p. 1125) such as performance appraisals and agreements and challenging goals. Such developed program would lead to increase the performance of talented employees at an accelerated pace which may differ from other programs offered to the general employees (Thunnissen & Arensbergen, 2015). The concept is developed to strategic talent management system, which involves in identify high performers, deploying them in pivotal positions and managing them through differentiated human resource architecture (Collings & Mellahi, 2009). This would result in higher level of individual performance in line with Ability-Motivation-Opportunity (AMO) theory (Thunnissen & Arensbergen, 2015). Further in literature, talent management practices lead to create high performers to be agile as it is necessary to survive in dynamic modern business environment where the adaptability of performance is another essential fact in sustaining the competitiveness of organisations (Khoreva et al., 2017). With the assessment of empirical and theoretical grounds of talent management initiatives and employee performance, the current study proposed the first testable statement as:

- H<sub>1</sub>: The talent management initiatives have an impact on perceived employee performance.

### 3.2. Mediating Role of Employee Engagement

Employee engagement was considered as the mediating role in the study between the relationship of talent management initiatives and perceived employee performance. The mostly cited model, JD-R has been considered as the base for choosing the mediating role of employee engagement in present study. Employee engagement and performance link can be established based on JD-R model.

Apart of talent management initiatives, many studies consider the influence of human resource management practices on employee performance subject to the investigation of the intermediate concepts such as organisational commitment, motivation, role clarity, job satisfaction and perceived organisational support (Tessema & Soeters, 2006; Tremblay et al., 2010; Chang, 2015). Few studies have included work engagement as a mediator between HRM practices and employee performance (Christian et al., 2011). In assessing the existing studies related to the context, initiation can be spotted in the work of Karatepe (2013) where work engagement was proposed as the mediator between HRM-employee performance link. In relation to another study of Karatepe & Olugbade (2016), the results of the study conducted for 383 managerial employees showed that work engagement fully mediates the relationship between high performance work practices and performance in terms of service recovery and creative performance and absence intentions. Findings on similar theme can be obtained in the study of Bernt (2016) conducted for 52 organisations (Oslo, Norway) with 665 employee representatives, where the link between ability enhancing human resource practices and employee performance was mediated by work engagement. Alfes et al., (2012, p. 46) proved that "individuals who have a positive perception of the human resource management practices in their organisation are more likely to be engaged with their jobs and, therefore, have a higher propensity to enact organisational citizenship behavior and remain with the organisation."

In the present study, the linkage has been created between talent management initiatives and perceived employee performance through the mediation of employee engagement. Despite of the empirical findings on above which may not be directly tested the present context, the theories could also be based for this underlying relationship between talent management initiatives, employee engagement and perceived employee performance. The relationship between talent management initiatives and perceived employee performance mediated by employee engagement is in line with Ability-Motivation-Opportunity theory (AMO) (Muduli et al., 2017). Jiang et al., (2012, p. 1268) categorize human resource practices based on AMO theory which included "skills-enhancing human resource practices," "motivation-enhancing human resource practices"; and "opportunity-enhancing human resource practices." In the current study, talent management initiatives are comprised with skills enhancing practices (selective staffing, training and development), motivation enhancing practices (compensation management, performance management), and opportunity enhancing practices (career advancement and planning). Further Social Exchange Theory (SET) assists the context that "recruitment, management and retention of talented employees reflects as an investment in employees who are then felt obligated to reciprocate with beneficial attitudes and behaviors" (Kuvaas & Dysvik, 2010, p. 139) in terms of motivation, satisfaction, commitment and engagement in their jobs (Bethke-Langenegger et al., 2011). Blended with theoretical and empirical insights, the study hypothesized the relationships between talent management initiatives, perceived employee performance and mediation of employee engagement as follows:

- H<sub>2</sub>: The talent management initiatives have an impact on employee engagement.
- H<sub>3</sub>: Employee engagement has an impact on perceived employee performance.
- H<sub>4</sub>: Employee Engagement mediates the relationship between talent management initiatives and perceived employee performance.
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### 3.3. The Research Model

The study contributes to the literature by investigating talent management-performance link through the mediating role of employee engagement at employee level.

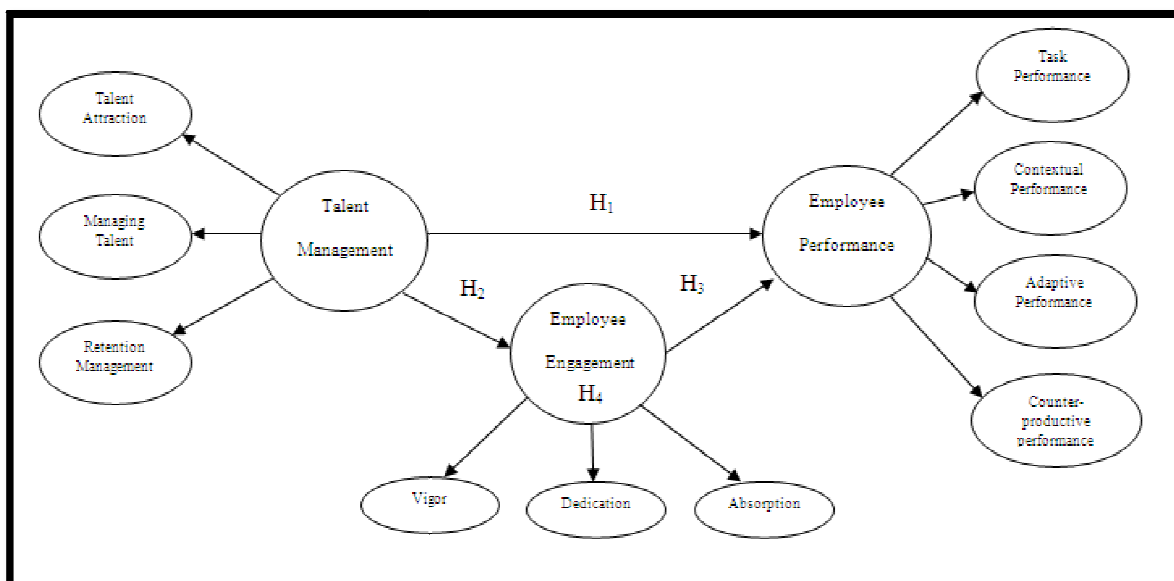


Figure 1: The Research Model  
Source: Author's construction

#### 4. Measures

The level of abstraction in variables presented in the research model has been operationalised into measurable components based on the existing literature. All items of each constructs (Talent management initiatives, employee engagement and perceived employee performance) were measured using five-point Likert-scale from 1, strongly disagree to 5, strongly agree. The four-dimensional frame of perceived employee performance was measured using 24 items adopted from the scale of Individual Work Performance Questionnaire (IWPQ) of Koopmans et al. (2012). The bundled approach was used to determine the appropriate practices of talent management which are in line with existing studies and widely accepted in the studies related to banking sector (Table 1). The total construct was measured using 32 items extracted from the previous studies of Snell and Dean (1992), Greenhaus et al. (2004), De Cieri et al., (2005), Hayman (2005), Stahl et al., (2009) and Hillebrandt & Ivens (2012). The measurement scale for employee engagement was adopted from Utrecht Work Engagement Scale (UWES) developed by Schaufeli et al. (2002) which are of reasonable construct validity and cross-national validity. Based on the scale, the dimensional frame of employee engagement was assessed using 12 items.

#### 5. Methodology

The study was positioned with objectivism based on the ontological view. As the context of present study facilitates the causal relationships (Saunders et al., 2009), it is in line with positivistic approach under epistemological orientation. Accordingly, quantitative method was adopted under deductive approach to test the theoretical relationships in the research model. In consideration of the research questions of the study, it was classified as the explanatory research in nature which attempts to establish causal relationship (Bryman & Bell, 2007) between talent management and employee performance and engagement.

Survey strategy was adopted of which self-administered online questionnaire was determined as the measurement instrument to collect data. The sample of 245 was selected using simple random sampling from a known sample frame of 650 talented bankers in 17 LCBs of Sri Lanka. There were limited number of talented/outstanding employees despite of the total headcount in each bank, thus both managerial/non-managerial talented employees were selected into the sample as to carry out a meaningful and representative study within banking context. The pre-tested questionnaire was sent to 480 selected talented bankers. List of emails were obtained from the HR department of banks' head offices. Ethical considerations were taken into the attention in contacting and collecting sensitive information from responded banks and employees with proper channel of approvals and consents. Three kind reminders were sent to encourage the responses and resulted 245 total usable responses with a considerable response rate of 55.2%.

#### 6. Data Analysis

The study applied Structured Equation Modeling (SEM) as it has greater accuracy over other methods (Gelens et al., 2013). SEM is used to test causal relationships between constructs and simultaneously measures number of variables and their interrelationships (Hoe, 2008) which was well fit with the relationships of the present study. Further it is comprised with factor and path analyses resulting multiple analyses of the casual relationships with different forms of reliability and validity. IBM AMOS (Analysis of Moment Structures) was used to perform SEM in the present study whereas it provided unique user-friendly graphical interface with drag-and-drop drawing tools. It enhanced the view of visual framework of SEM as "natural mode of thought" (Steiger, 2001, p. 333).

##### 6.1. Measurement Model

In the measurement model purification, some of the items of the model were deleted due to lower factor loadings (0.5>) and to improve the model fit indices. It is recommended by Hair et al. (2010) assessment of overall fit of measurement model should be reported by using at least one absolute fit index and one incremental index apart of the values of Chi-square and Degrees of Freedom. Thus, the current study has opted RMSEA and RMR as the absolute fit indices and CFI and TLI as the incremental fit indices. Accordingly, the results of measurement model were well fit with the cut off values, CMIN/DF = 2.376, CFI = 0.929, TLI = 0.934, RMSEA = 0.065, RMR = 0.048 and model was significant at  $p = 0.000$  ( $p < 0.001$ ). Prior to moving into path analysis, the multiple modes of validity and reliability was assessed.

##### 6.1.1. Validity

The content validity was ensured with a careful assessment of the scale items (adopted from previous studies). A pre-test was conducted with the expert opinions of two academic scholars from two universities of Sri Lanka as well as a pilot test was carried for 30 respondents of banks. However, relying on content validity is not sufficient as it is "common sense of interpretation of scores of scale" (Malhorta & Birks, 2007, p. 358), thus construct validity was assessed. Construct validity includes convergent validity and discriminant validity (Hair et al., 2010). The results of the measurement model confirmed convergent validity with the higher factor loadings (above 0.5) (Hair et al., 2014) and the values derived for Average Variance Extracted (AVE) were 0.5 or above as presented in Annexure 01. Discriminant validity was assessed by comparing the square of the correlation estimates of each construct with AVE values (Hair et al., 2014). Evidence of divergent validity was provided in the Table 2. The square of correlation estimates was lower than AVE values ( $AVE > r^2$ ) confirmed the discriminant validity of the data.

	<b>TM</b>	<b>EE</b>	<b>EMP</b>
TM	<b>0.634</b>		
EE	0.384	<b>0.578</b>	
EMP	0.236	0.356	<b>0.576</b>

Table 2 Assessment of Discriminant Validity

Source: Survey Data (2017)

Note: Diagonal Entries (In Bold) Are the Ave Values and Sub-Diagonal Entries Are the Square of Latent Constructs' Correlation Coefficients

6.1.2. Reliability

Coefficient alpha (also known as Cronbach's alpha) was used to test the reliability of constructs as it is the most popular measure for measuring reliability by the researchers (Malhorta & Birks, 2007). According to Hair et al., (2014), reliability that ranges from 0 to 1 of which the values of .60 to .70 are deemed the lower limit of acceptability. The limitation of Cronbach's alpha is, its' the sensitivity with number of scale items, thus Composite Reliability (CR) is suggested (Hair et al., 2010). CR was assessed to ensure the homogeneity in the items of a scale (Koufteros, 1999). The results of CR for each construct were above the threshold value of 0.6 and acceptable (Bagozzi & Yi, 1988) as presented in the Annexure 01.

6.2 Structural Model

The structural model defines the causal relationships between latent (unobserved) constructs specifying the direct or indirect influences of latent constructs (Byrne, 2010). In the current study, the structural model was comprised with three main constructs as shown in the Figure 2. Prior to hypotheses testing, the overall fit of the model was assessed using the same indices as used in the measurement model. The results of structural model were well fit with the cut off values, CMIN/DF = 2.358, CFI = 0.931, TLI = 0.938, RMSEA = 0.059, RMR = 0.044 and model was significant at  $p = 0.000$  ( $p < 0.001$ ). AMOS bootstrap technique (Hayes, 2009) was used with 2000 iterations at 95 confidence level to test the mediation effect of employee engagement.

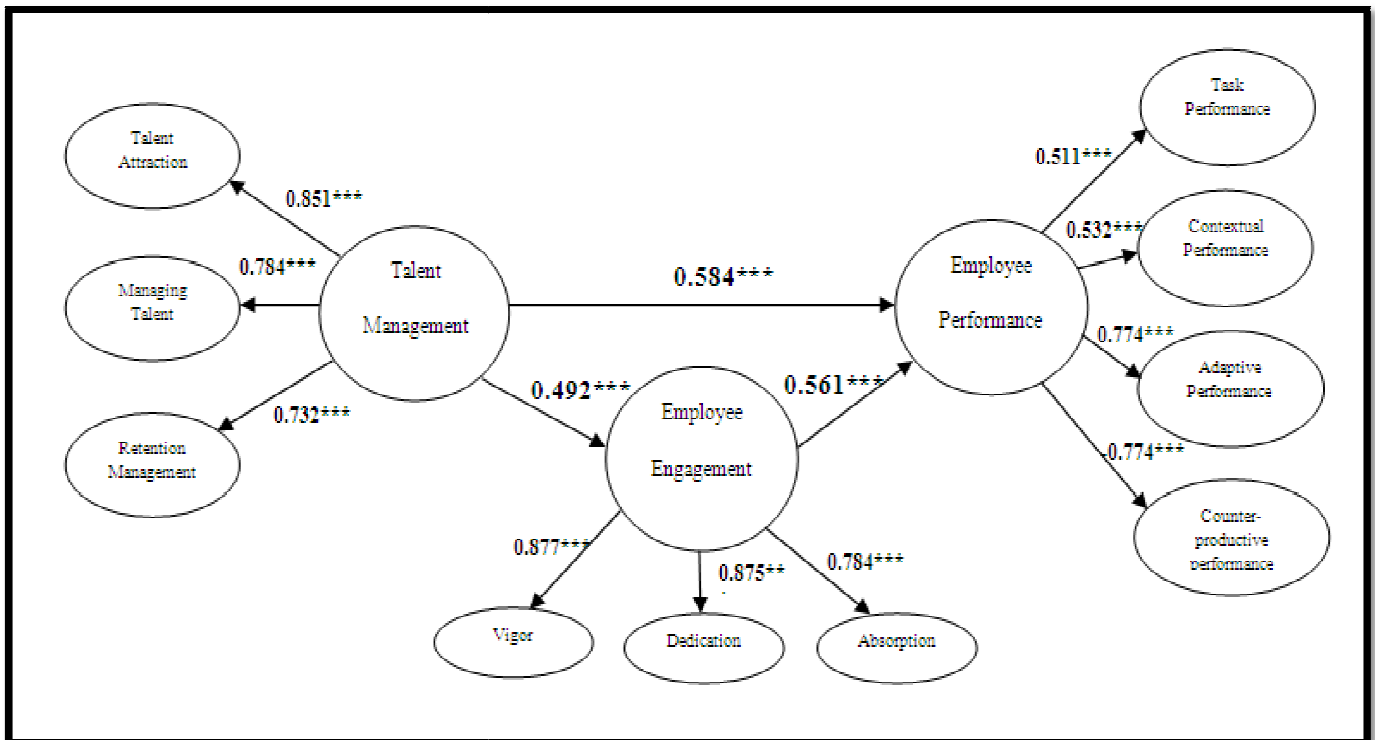


Figure 2: Results of the Path Analysis, \*\*\*P < 0.001

Source: Survey data (2017)

As the estimation results shown in Figure 2 from AMOS software, all paths among constructs were positive and significant at 0.001 level. Based on the results, hypotheses were tested and presented in Table 4 and Table 5 respectively.

### 6.3. Hypotheses Testing

Based on the results of standardized path coefficients and corresponding significance levels, the hypotheses of the study were tested accordingly.

Path	Hypothesis	$\beta$	p***	Result
TM→EMP	H1: The talent management initiatives have an impact on perceived employee performance	0.584	.000	Accepted
TM→EE	H2: The talent management initiatives have an impact on employee engagement	0.492	.000	Accepted
EE→EMP	H3: Employee engagement has an impact on perceived employee performance	0.561	.000	Accepted

Table 4 – Hypotheses Testing

Source: Survey Data (2017)

Note: \*\*\* P <0.001

H4: Employee Engagement mediates the relationship between talent management initiatives and perceived employee performance		Direct Effect	Indirect Effect	Total Effect	Mediation Effect
	Path	TM→EMP	TM→EE→EMP	0.859**	Partial Mediation
	Beta value	0.584	0.275		
	p-value*	.001	.003		
	Accept or Reject	Accepted	Accepted		

Table 5 – Testing Mediating Effect

Source: Survey Data (2017)

Note: \*\* P <0.05

## 7. Discussion

The research model has been developed to study the impact of talent management initiatives over perceived employee performance and the engagement level. The results of statistical analysis show that talent management initiatives which mainly comprised with talent attraction, managing talent and talent retention have positively and significantly influence perceived performance as well as engagement of talented bankers of Sri Lanka. Specifically, talent management initiatives enhance the abilities, motivation and create career advancement opportunities to utilize their skills at work for improving performance. However, it can be challenged that no guaranteed of past superior performance will continue with the same momentum at working environment. This calls a need of structured program for talent management including both soft (i.e. regular trainings) and hard (i.e. performance appraisals on challenging goals) aspects (Trust et al., 1997). The current study included “bundled talent management practices” (selective staffing, employer branding for talent acquisition, training and development, performance management, compensation management, career advancement and planning and work life balance) which were comprised to the term of talent management initiatives as a strategic approach for recruiting, managing and retaining the best performers at work. Thus, the finding is consistent with the rational of Ability-Motivation-Opportunity (AMO) theory on the base of performance lies on collective actions which enhances ability, motivation and provided with opportunity work and grows. Further such positive and beneficial actions create conducive environment and motivation for employees to reciprocate in positive ways in accordance to Social Exchange Theory (SET) (Blau, 1964). This is result in improved performance in terms of core duties, extra role performance, adaptive performance and reduces the negative behaviors at work. In addition, it postulates employees are motivated to be engaged in their work when the work is fair and balanced of exchange.

The findings of the study revealed perceived employee performance is positively and significantly affected by employee engagement. The presence of proper mechanism for talent management encourages the employees' feeling of being obliged to put in more effort at work and to be more passionate and loyal at workplace (Takeuchi et al., 2009). The effect reflects in positive consequences in vigor, dedication and absorption (dimensions of employee engagement) which leads to improved performance at work. Though the exact context of talent management initiatives - employee performance link mediated by employee engagement was not found in the literature survey, AMO and SET theories and JD-R model provided theoretical rational for logical selection of employee engagement as the mediator. A partial mediation was resulted whereas direct (TM→EMP) and indirect effect (TM→EE→EMP) for each direction in the constructs were significant. This is contrast to the study of Karatepe & Olugbade (2016) of which showed a full mediation of work engagement between high performance work practices and performance dimensions of service recovery, creative performance and absence intentions, but similarly in line with the model of Burnt (2016).

Thus, the findings revealed talented workers feels their banks as investing time and effort on them in selection, use of branding, training and development, managing performance, compensation, providing career growth opportunities and work life balance which could be responded with increased motivation, sense of engagement at work ultimately leading to improve their performance. The willingness to payback with enhanced and engaged performance may not be



translated into actual performance if organisation systems, cultures and level of flexibility do not integrated with talent management programs.

### *7.1. Theoretical and Practical Contribution of the Research*

The findings of the current research are of interest to both practitioners and scholars. The context advocates to gaining the desired effects, such as improved employee performance, engagement as it is crucial for organisations to carefully invest in talent management initiatives. This is consistent with the human capital theory (Becker, 1964) which exerts the expenditure incurred on the development and retention of talent should be viewed as investments on behalf of the firm (Sparrow et al., 2014). Moreover, it enables managers/ decision makers in firms to pay more attention to recruitment, management and retention practices of talent management shedding a light on problematic areas which are not concerned as problematic by organisations but are viewed as such by talented employees (e.g.: competitiveness of compensation package, opportunities for career advancement, firm's brand as employer, work-life balance). To illustrate one of the facts, employer branding is used by organisation to attract and retain the best talent within and it is of concerned by the high potential employees to remain in the organisation and grow further (Glen, 2006; Iles et al., 2010). In addition, there are jobs in organisations that are considered and perceived to be more crucial and reflected through a higher perceived status and salary employed by talented individuals those who can exert multiple and complicated responsibilities at work (Ulrich & Smallwood, 2012). Transparency in the process of talent management and development is another vital concern as many of them are subject to bias and narrow down by the values and culture of organisations (Sparrow et al., 2014).

Talented employees are more sensitive towards the concerns that affect to their career, hence allocating investments on correct blend of talent management initiatives is essential to be concerned. Strategic integration of talent management initiatives should be directed to realise organisational objectives and directions which also might lead to gain sustainable competitive advantage through development of unique talent base. In this endeavor, the economic value of such talent management initiatives (utility theory) should also be examined by the practitioners. In the service nature of banking sector, customers are highly connected to the employees in banks in fulfilling their financial needs. Therefore, the retention practices as career advancement and planning and work life balance were recognized in the study context which is deemed important to concern by the practitioners apart of the efforts of talent attraction and development.

The study is also found with direct and indirect impact of employee engagement in fostering perceived employee performance. The current trend of low engagement across the world (Towers-Watson, 2010) can be addressed as the study revealed partial mediation between performance and talent management. It triggers a positive sign for practitioners that engagement of talented employees can be improved with the use of talent management initiatives. This is further provided in relation to the empirical finding of Bhatnagar (2007) which revealed employee engagement can be supported by the practices of talent management.

In the perspective of strategic human resource management, engagement is considered as a source of competitive advantage (Albrecht et al., 2015) as engaged employees exhibit more commitment, satisfaction, productivity and invest personal energy on work in performing their duties which leads to be a strategic asset. This postulate possessing such characteristics is in line with Resource-Based-View (RBV) (Barney, 1991) of gaining sustainable competitive advantage. Thus, organisations can pay more concern to enhance current level of engagement of talented employees through talent management practices with the influences of organisational cultural values and norms supporting to the context. Further the respect and attention can be given for new service ideas, innovative thinking in serving customers, and creative solutions for bottlenecks in the process are likely to enable management to incorporate new programs of employee engagement (Lages & Piercy, 2012). This is vital to address at organisational level, when employees are felt that they effectively participate and contribute to something which is significant and meaningful, and then they tend to exhibit positive performance outcomes and fully engage in their work.

### *7.2. Limitations and Future Research*

The present study is comprised with few limitations. Mainly, the data for the study was collected from 245 managerial and non-managerial talented employees drawn from specific talent pools of 17 licensed commercial banks (LCB) in Sri Lanka. Therefore, the findings of this study may not be generalized to all Sri Lankan organisations other than banking sector. Secondly, there is no agreement upon "which set of talent management initiatives" should be used. However, the seven initiatives (selective staffing, employer branding for talent acquisition, training and development, performance management, compensation management, career advancement and planning and work life balance) were used in considering the most applicability to Sri Lankan banking sector and widely appeared in the literature. Finally, the constructs measures of the study were collected at one point in time and via one method (survey strategy) of which multiple methods can be used to gain more insights to the context. Further a longitudinal study can be suggested to test "before and after" implementation of talent management practices to observe the real impact on perceived employee performance. The results of the study revealed positive effects of all the causal relationships considered in the research context. It is also possible to test the negative effects of talent management which may really not improve the performance or engagement of high potential employees rather increasing a stress and work pressure. Finally, in order to increase the generalizability of the findings, the study context can be expanded to financial sector or other sectors within local boundaries as well as Asian context to examine the talent management and level of employee engagement across different industries, cultures and organisational values.

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### Annexure

Codes	Items	Factor Loading	AVE	CR	Cronbach's Alpha	
	Talent Management Initiatives (TM)		0.634	0.961	0.919	
TSS1	The use of employee selection process for a job in this bank is extensive (e.g.: use of tests, interviews)	0.548				
TSS2	Selection involves screening many job candidates to get the best	0.766				
TSS3	Selection emphasizes the employee's ability to collaborate and work in teams	0.814				
TEB1	This bank has a clear organisational culture to attract the best talents	0.809				
TEB2	A lot of importance is placed on communication with employees in my bank	0.779				
TEB3	There is a strong team spirit among coworkers in my bank	0.73				
TEB4	This bank has good public reputation	0.75				
TEB5	It is good to have this bank on my CV	0.89				
TTD1	The training and skill development process of the bank to develop talented members is extensive	0.805				
TTD2	Training and development are placed as a priority for the employees in my bank	0.816				
TTD3	There are different kinds of training and development programs available for members of my bank to attend	0.717				
TPM3	When performance is discussed, a lot of emphasis is placed on finding avenues for employee's present and future personal development	0.859				

Codes	Items	Factor Loading	AVE	CR	Cronbach's Alpha
TCM1	The salaries in this bank are not very competitive to retain talented employees	0.746			
	Pay levels in the bank are relatively higher than past years				
TCM2		0.877			
TCM3	Pay is closely tied to individual performance of talented employees in the bank	0.855			
TCA1	I have a clear career path in this bank	0.86			
TCA2	Higher positions in the bank are filled from the talents within the bank	0.826			
TCA3	Employees are promoted based on merit rather than seniority in the bank	0.849			
TCA4	Career aspirations of talented staff within the bank are known by their superiors	0.848			
TWB1	I can balance my work and personal time based on the flexible time/days provided by the bank (e.g.: roster work days for Holiday/Saturday banking)	0.87			
TWB2	I'm satisfied with the available leaves (specially study leaves, compassionate leaves etc.) to strike a balance between work and non-work life	0.844			
TWB3	Job gives me energy to pursue personal activities	0.791			
	Employee Performance (EMP)		0.576	0.949	0.853
EPT1	I manage to plan my work so that it is done on time	0.866			
EPT2	I keep in mind the end results that I have to achieve in my work	0.687			
EPT3	I work towards the end result of my work	0.677			
EPT4	I am able to separate main issues from side issues at work	0.868			
EPX1	I try to learn from the feedback I get from others on my work	0.741			
EPX2	My cooperation with others going well at work	0.76			
EPX3	My communication with others leads to the desired result	0.722			
EPX4	I think customers are satisfied with my work	0.729			
EPX5	I take on challenging work/tasks, when available	0.874			
EPA1	I recover fast, after difficult situations or setbacks at work	0.873			
EPA2	I work at keeping my job knowledge up to date	0.836			
EPA3	I work at keeping my job skills up to date	0.802			
EPA4	I am able to cope well with difficult situations and setbacks at work	0.524			
EPA5	I easily adjust to changes in my work	0.79			
EPC1	I complain about unimportant matters at work	0.542			
EPC2	I make problems bigger than they are at work	0.782			
EPC3	I purposely leave my work so that someone else have to finish it	0.625			
EPC4	I purposely make mistakes at work	0.854			
	Employee Engagement		0.578	0.899	0.848
	At my job, I am very strong, mentally	0.741			
EEV1					
EEV2	When I get up in the morning, I feel like going to work	0.873			
EEV3	I can continue working for very long periods at a time	0.722			
EED1	At my work I always keep trying, even when things do not go well	0.884			
EED2	I am enthusiastic about my job	0.718			
EED3	I am proud of the work that I do	0.816			
EEA1	Time flies when I'm working	0.75			
EEA2	I get carried away when I'm working	0.685			
EEA3	I feel happy when I am working powerfully	0.615			

Source: Survey data (2017)