© International Journal of Management, Economics and Social Sciences
2012, Vol. 1(2), pp. 33 – 41.
ISSN 2304 – 1366
http://www.ijmess.com

# Strategies for Adopting Talent Management Issues in Software Companies

**N. Venkateswaran**
Panimalar Engineering College, Chennai, India

**People are the most important resource of a Software Company. Software companies especially have always had to compete for the best and brightest. Facing growing competition for the talent they need, they work harder and longer at keeping their best, developing skills internally, and always on the lookout to attract the best and brightest. The purpose of this paper is to provide an in-depth look into where retailers are succeeding on the talent front - and where they are coming up short. The research design used in this study is descriptive and conceptual framework of this research is based on theoretical and design principles. This paper draws on a survey of 112 organizations to investigate how talent management strategies affect organizational performance in software companies. The findings from this study are talent management practices with a strong focus on business strategy and its alignment with overall business goals. These practices have statistically highly significant impact on corporate profits; one that is greater than that of any other focus of talent management practices. This research paper suggested that the management and individuals need to establish metrics and communicate the impact of the organization's talent management efforts.**

*Keywords: Talent management, corporate strategy, succession planning, human capital*

*JEL: L21*

Talent Management in organizations is not just limited to attracting the best people from the industry but it is a continuous process that involves sourcing, hiring, developing, retaining and promoting them while meeting the organization' s requirements simultaneously. For instance, if an organization wants the best talent of its competitor to work with it, it needs to attract that person and offer him something that is far beyond his imagination to come and join and then stick to the organization. Only hiring him does not solve the purpose but getting the things done from him is the main task. Therefore, it can be said that talent management is a full-fledged process that not only controls the entry of an employee but also his or her exit.

Successful organizations evaluate the worth of every investment. Talent management is no exception. The question is not whether the firm should apply metrics to measure the impact of their investment on performance. It is purely a matter of selecting which metrics will make the most sense for their organization. For a software company especially, the emphasis might be on how much time it takes new employees to cross the threshold into full productivity.

From this paper a list of attitudes, beliefs and behaviors can be extrapolated that define the type of person that is most likely to ensure the success of the organization. Of course, an organization's culture matures and cycles occur, so significant diversity should be promoted when

Manuscript received October 1, 2012; revised November 17, 2012; accepted December 5, 2012.
Corresponding author Email: visvenki2003@yahoo.co.in

these attributes are applied to selection. This process must be repeated over time to keep up with changes.

One of the biggest challenges facing software companies all over the world is building and sustaining a strong talent pipeline. The range of talent management issues facing multinational software companies today is extremely broad. These companies must recruit and select talented people, train them, manage their performance, compensate and reward them and try to retain the strongest performers.

The talent management software marketplace is now more than ten years old, yet it is still a daunting task to select the right solution. This market is both consolidating and expanding at the same time.

Although a review of the literature shows that talent management is a growing field, the effectiveness of talent management and its added value have still not been accurately stated. Moreover, on the one hand, research dealing with talent management strategies and organizational performance is quite lacking and the question of the right strategy for the right impact on organizational performance has not yet been answered (Lawler, III, 2008).

In addition to the fact that there exist various definitions of the terms talent and talent management (Ashton and Morton, 2005; Collings and Mellahi, 2009; Lewis and Heckman, 2006), the challenge is to draw causal inferences isolated from other organizational parameters. Despite the immense toolbox of HR metrics (e.g., Fitz-Enz, 2009; Huselid, Becker and Beatty, 2004) it remains particularly challenging to quantify and qualify the impact of talent management practices and improvements. As a result, most companies continue with subjective estimates when assessing the effectiveness of their HR practices (Becker, Huselid and Ulrich, 2001).

For these reasons, this paper presents how heads of HR, executives and supervisors in software companies perceive the effectiveness of their talent management practices and what changes they have observed in their company since their implementation of talent management. There is little research focused on the software firms regarding talent management practices and organizational performance. As a result, there is evidently a great need for research to investigate the dynamics and impact of talent management strategies in those companies.

The main objective of this study is to address this research gap by identifying the perceived effectiveness and strategies of talent management on organizational performance especially in software companies. A second objective is to describe the extent to which software company’s success is associated with talent management strategies. For this reason, the next section reviews the theoretical background of talent management and organizational performance and highlights studies done in this field before we proceed to the analysis of software company’s talent management.

## LITERATURE REVIEW

Talent management is a “grow-your-own” strategy that can assist companies in finding and developing those critical employees. In an ever accelerating race for talent, organizations are weighing the difficult “ make” versus “ buy” decision when it comes to their workforce. Through the use of tuition assistance and other tools, employers can effectively create some of the skills and competencies needed for their organization to thrive.

According to Michael Echols, author of ROI on Human Capital Investment, “ Seventy-five percent of U.S. establishments with more than twenty employees and almost all large employers offer some type of reimbursement benefit” . The author illustrates how this investment provides significant returns to the employer through increased retention, gains in productivity and improved employee recruitment and engagement.

One of the key challenges that scholars have experienced over the past decade has been the unanswered questions regarding the definition and goals of talent management. As (Lewis and Heckman, 2006, pp. 139) conclude, there is “ a disturbing lack of clarity regarding the definition, scope and overall goals of talent management” . This might be one reason why practitioners find its realization quite challenging but nonetheless extremely important for the company’ s future (BCG, 2008; DGFP, 2009).

To date, the field of characterizations and explanations of the essence of talent management is immense. Nevertheless, three streams come into sight as several authors observed (e.g., Collings and Mellahi, 2009; Lewis and Heckman, 2006; Silzer and Dowell, 2010). A first stream emphasizes the human capital and therefore the definition of talent, a second stream sees Talent Management as “ a process through which employers anticipate and meet their needs for human capital” (Cappelli, 2008, pp. 1), and a third stream perceives talent management as an instrument to reach economic outcomes.

For this study, the researcher disregard whether talent management replaces Human Resource Management, focusing on typical human resource management practices (Heinen and O’ Neill, 2004), if it is seen as global talent management, emphasizing international HR challenges (Scullion and Collings, 2010, Schuler, 2010) or as Strategic talent management, which emphasizes its strategic importance and connection to business strategy (Becker, Huselid, and Beatty, 2009).

Based on the previous literature, the researcher can say that the implementation of and improvements in a talent management system have a positive effect on organization performance in various ways. Therefore, the researcher expects this effect even to occur in software companies also. These are the various research hypothesis framed for this study.

$H_1$: The specific strategic focus of talent management systems leads to higher scores in measures of financial outcomes such as company profit, company and talent productivity and market value.

$H_2$: Talent management increases non-financial outcomes at the company level such as company attractiveness, time for replacement, achieving business goals, operational excellence and customer satisfaction.

$H_3$: Non-financial outcomes on talent level such as job satisfaction, performance motivation, commitment, work quality, qualification are improved through distinctive talent management strategies.

## METHODOLOGY

The conceptual framework of this study is based on theoretical and design principles. This demonstrate an understanding of theories and concepts that are relevant to the topic of this research paper and that will relate it to broader field of knowledge in the class driving software organizations who are fully using and adopting talent management systems and strategies. The theoretical framework connects the researcher to existing knowledge. With this principle the researcher is given a basis for his hypotheses and choice of research methods.

The majority of the survey made on this study is based on questionnaires related to talent management strategies and their issues which were adapted in software companies. The survey is a web-based survey which was conducted between June and July 2011. Participants of this study were members of the association of the HR professionals, software programmers and design engineers.

### Sample

The raw data consists of 150 companies. To evaluate the impact of the strategic focus of the implemented talent management system, the study excluded all companies without a formalized talent management system, where these comprised 25% or 38 companies. After data cleansing, the working sample comprises 112 companies utilizing formal talent management which includes 17% small and mid-sized companies, 21% with 250 up to 1,000 employees, 33% with 1,000 up to 5,000 employees, 11% with 5,000 to 10,000 employees and 18% companies with more than 10,000 workers. A total of 8% of the companies are regional, 21% are national, and 71% are international/multinationals.

To check for the reliability of the questionnaire Cronbach' s alpha coefficient was used by the researcher as a measure of internal consistency. The results of the analysis are shown in the table.

| Construct | No. of items | Cronbach's $\alpha$ |
|---|---|---|
| Overall questionnaire | 65 | 0.95 |
| Talent Management Strategies | 25 | 0.92 |
| Non-Financial Outcomes on Company Level | 26 | 0.91 |
| Non-Financial Outcomes on talent Level | 14 | 0.90 |

***Table 1.1** Reliability Analysis*

Table 1.1 shows that the Cronbach' s alpha coefficient for 65 items was found to be 0.95 which is very high and indicative of high internal consistency. The Cronhach' s alpha coefficients for the 25 items on talent management strategies and 26 items non-financial outcomes on company level and non-financial outcomes on talent level were 0.91 and 0.90 respectively.

### Method of sampling

The sampling strategy used for this study is non-probability sampling. This study followed a convenience sampling approach. The motivation for this is the ease of access to the sample. Due to the number of scarce skills occupations within the sample, it is still fitting and feasible for the researcher to adopt.

Key questions on this present research

Q1: Why progress in talent productivity cannot be transferred to the company level?

The talent productivity cannot be transferred to the company level to produce desirable results. Questions rose with respect to the said assumption included questions q20 to q25. These questions merged and the new variable of T1 produced. Then by use of the average test the assumption was investigated. Statistical assumptions included the following:

$$\{Ho: \mu_1 \geq 2.5\}$$
$$\{H_1: \mu_1 < 2.5\}$$

was the mean of T1 variable. Then we needed to define S=T1−2.5 variable. Therefore we had $\mu_d = \mu_1 - 2.5$.

Accordingly it reached the following assumptions.

$$\{Ho: \mu_d = 0\}$$
$$\{H_1: \mu_d \neq 0\}$$

Based on the following table Ho assumption was rejected at the meaningfulness level (0/000).

| Variable | Test Statistic Value | Test Meaningful ness Level | Result |
|---|---|---|---|
| S | 13.321 | 0/000 | $H_0$ Rejected |

Given the fact that the average difference between S and 2.5 was positive then we concluded that value was more than 2.5. In other words the above result reached the conclusion stating that talent productivity can be transferred to the company level to produce desirable results.

Descriptive Result

In software companies, talent management is a relatively young discipline. In more than two thirds of the companies, talent management practices have been implemented for less than six years. To identify the strategic directions, the study asks the participating respondents according to their talent management practices adopted in their organizations.

Most of the software companies surveyed in this study observed that talent management does not go along with Knowledge Management (13%) or Change Management (9%). In the following analysis, based on the previous literature results derived the study focus on the four important strategies which is a major need and benefit for most of the software companies: first, on talent management as a strategy to support corporate strategy; second, as a strategy to handle succession planning, third to retain talent and fourth to develop talent.

## RESULTS AND FINDINGS

The results of the regression analysis are shown in Table 1.2 to Table 1.4. In all regression models, the researcher included a set of control variables. The study focuses on software firms, based on research hypothesis variables discussed earlier in the study by showing the results clearly how long companies have conducted a formal talent management system.

Table 1.2 shows the results of the effects of different talent management strategies on financial outcomes such as company profit, market value, company productivity and the productivity of talents are shown. A focus of the talent management on supporting corporate strategy has a statistically highly significant positive impact on company profit and the productivity of talent. A focus of the talent management on supporting corporate strategy has a statistically highly significant positive impact on company profit and the productivity of talent. There is no effect on company value or on company productivity. The second row shows that a focus on succession planning has a statistically significant positive effect on profit and market value. No effect is found on productivity at either the corporate or individual level. The focus on talent retention has no effect on financial outcomes at the company level. As expected, the focus on talent development has a positive effect on profit, market value and the overall productivity of talent. This partly supports the first proposition.

| Financial Outcomes ➔ / TM Strategy 🡻 | Company Profit | Market Value | Company Productivity | Talents productivity |
|---|---|---|---|---|
| Corporate Strategy | 1.76*** (0.51) | 0.63 (0,43) | -0.30 (0.41) | 0.92*** (0.45) |
| Succession Planning | 1.18** (0.51) | 0.75* (0.44) | 0.05 (0.42) | 0.30 (0.45) |
| Retaining Talents | 0.65 (0.44) | 0.10 (0.40) | 0.13 (0.39) | 0.37 (0.43) |
| Developing Talents | 0.90** (0.46) | 0.98** (0.41) | 0.53 (0.39) | 0.73* (0.42) |

***Table 1.2*** *Effects of different talent management strategies*

Table 1.3 shows, regression results of the strategic focus on non-financial outcomes on company level are presented. The focus of talent management practices on corporate strategy has a positive effect on company attractiveness, reaching company goals and increasing customer satisfaction. Noteworthy here is the positive effect of an appropriate talent management strategy on reaching company goals. Regarding succession planning, there is no effect on non-financial company outcomes. A focus on talent retention has, as expected, a positive effect on customer positively affects company attractiveness and satisfaction, and the focus on talent development succession time. Curiously, the implementation of a talent management strategy focusing on succession planning has no appreciable effect on the time for succession, while focusing on the development of talents affects the time for replacement. Overall, these results lead to weak support for the second proposition.

| Non-Financial Outcomes on company level ➔ / TM Strategy 🡻 | Company attractiveness | Time for replaceme nt | Achieving business goals | Operational excellence | Customer satisfaction |
|---|---|---|---|---|---|
| Corporate Strategy | 1.62*** (0.48) | 0.31 (0,36) | 0.68* (0.40) | 0.25 (0.39) | 0.93** (0.42) |
| Succession Planning | 1.58** (0.43) | 0.21 (0.38) | 0.10 (0.40) | 0.42 (0.49) | 0.55 (0.43) |
| Retaining Talents | 0.57 (0.40) | 0.18 (0.33) | 0.30 (0.37) | 0.33 (0.37) | 0.91** (0.41) |
| Developing Talents | 0.18*** (0.43) | 0.58* (0.34) | 0.56 (0.38) | 0.45 (0.38) | 0.49 (0.40) |

***Table 1.3*** *Results of strategic focus on non-financial outcomes on company level*

Table 1.4 shows, the results of the effect of the focus on talent management on non-financial outcomes at the talent level. The positive impact of individually focused talent management strategies such as talent retention and development on satisfaction, motivation, commitment, work quality and qualification shows studies (e.g., Kontoghiorghes and Frangou, 2009). This can be explained with a subsequent long-term customer relationship. Obviously, a mass of continuity and consistency in interaction partners is very highly appreciated in this study. The study perceived tremendous increase in work quality and qualification of talent show that talent management strategies with a more institutional-level focus show a more cautious impact on nonfinancial outcomes on talent level, but nonetheless have a statistically highly significant impact on the motivation of talent. The results at the individual level very strongly support the third proposition.

| Non-Financial Outcomes on talent level ➔ / TM Strategy ➔ | Job satisfaction | Performance motivation | Commitment | Work quality | Qualification |
|---|---|---|---|---|---|
| Corporate Strategy | 0.17 (0.42) | 1.14*** (0.42) | -0.66 (0.40) | 0.14 (0.41) | 0.87** (0.38) |
| Succession Planning | 0.17 (0.43) | 0.80* (0.42) | 0.29 (0.41) | 0.97** (0.43) | 0.40 (0.38) |
| Retaining Talents | 0.78* (0.42) | 1.12*** (0.40) | 0.85** (0.40) | 1.24*** (0.41) | 0.27*** (0.38) |
| Developing Talents | 0.12*** (0.44) | 1.06*** (0.40) | 0.93 (0.39) | 0.69* (0.37) | 0.61* (0.37) |

***Table 1.4*** *Results of strategic focus on non-financial outcomes on talent level*

## DISCUSSION

Talent management practices with a strong focus on business strategy and its alignment with overall business goals have a statistically highly significant impact on corporate profit; one that is greater than that of any other focus of talent management practices. Therefore, the results derived from this study are in line with previous studies for other companies and countries (e.g. DiRomualdo, 2009; Ringo, 2008).

Talent management strategy with a focus on retaining talent leads to higher customer satisfaction, what supports the result of earlier can be well directed and that software companies are doing this very successfully.

The study found a reciprocal relationship between the persons: Talent trust in leaders and make their investments paid. This finds support in the psychological contract and motivation among employees of software companies. According to previous studies (e.g. Boekaerts, 2007) motivation has a significant impact on learning and performance, which this study confirms by looking at the relationship between the motivation and qualification of talent.

Focusing on the development of talent is equal to systematic investments in human capital. As a result, the intellectual capital rises and influences not only current but also future market value (Friederichs and Labes, 2006; Scholz, Stein, and Bechtel, 2006). This significant increase in market value is also found in earlier studies (e.g., Axelrod 2001; Huselid, 1995; Huselid and Becker, 1998).

## CONCLUSION

This paper sought to characterize talent management strategies in software companies and their impact on organizational performance, evaluating perceived effectiveness. Analyzing the sample from a financial perspective, the author disclosed a higher corporate profit if talent management strategies will be adopted by firms. From a non-financial perspective, the author identified the results of talent management practices in software companies as being increased corporate attractiveness and a tremendous impact on talent's motivation.

Talent management practices with a strong focus on business strategy have a statistically highly significant impact on corporate profit, one that is more than any other focus of talent management. The author found the pursuit of a strategy focusing on the attracting and retaining of talent to have the greatest effect on the level of talent, highlighting the learning process and its value for improvement in work quality and qualification. Therefore, the study concludes that the appropriate strategy in one country is not necessarily a constructive strategy in another country.

This study should be interpreted taking into consideration its limitations. The non-random sampling design and the relatively small sample represent a limitation to the generalizability of the results. Furthermore, all data were collected through a survey from heads of HR, personal managers, executives and supervisors especially in software companies.

At present, this study reports a promising association between distinctive talent management strategies and outcomes, but we are not yet in a position to assert cause and effect. Moreover, this study provides a snapshot of the situation at one particular point in time. Given that the effects of talent management are thought to occur extended periods, further research should be conducted to determine whether the influence changes over time. Additionally, these data should be verified with other metrics and financial measurements. Nevertheless, this study opens the door for further research on and analysis of the perception of talent management at the workforce level.

## RECOMMENDATIONS

The organizations become "proactive" versus "reactive" to the demand for critical talent needed to respond to company and industry changes; All firms need to provide greater consistency among cross-functional teams with identified specific skills and competencies; In order to the extend the talent management strategies firms need to extend tuition benefits to part-time employees to increase the diversity of the program's participants and build a stronger pipeline of future full-time employees;

The management and individuals need to establish metrics and communicate the impact of the organization's talent management efforts to make the case that investments in education have a significant influence on corporate growth. Similarly the company management recognizes the achievements of employees to assist in improving employee retention and satisfaction.

Firms managers must identify success skills and traits that can be developed in all employees and minimize training costs by focusing on key development areas unique to the company and its culture; It is better to provide educational advise to employees to ensure that they get the most out of their investment in training and education. Additionally the firm should support job-relevant and essential individual courses, professional certificates and job training in addition to degrees.

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