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How do MNCs establish their talent pools? Influences on individuals' likelihood of being labeled as talent

Kristiina Mäkelä *, Ingmar Björkman [1], Mats Ehrnrooth [2]

Hanken School of Economics, Department of Management and Organization, P.O. Box 479, FI-00101 Helsinki, Finland

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ABSTRACT

Addressing the research question of what influences the likelihood of an individual being labeled as 'talent' in MNCs, this paper seeks to understand the decision processes involved in the identification of MNC-internal talent. We develop a framework suggesting that the decision to include an employee in a corporate talent pool is a two-stage decision process in which mostly experience-based (on-line) performance appraisal evaluations are used as an input in largely cognition-based (off-line) managerial decision making. Consequently, talent pool inclusion is determined not only by performance appraisal evaluations, but also a number of factors that influence the decision making in the second stage of the talent identification process. Using empirical insights from an in-depth case study as illustrations, we identify three such factors—cultural and institutional distance between the locations of a potential member of the talent pool and the decision makers; homophily between the individual and the decision makers; and the network position of the person in question.

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1. Introduction

Talent shortages have become one of the biggest HR concerns for multinational corporations (MNCs) today (Cappelli, 2008; Ready & Conger, 2007). A key driver for this surge of interest is the intensification of global competition, which has led to a growing need for human capital to manage not only the requirements for global integration and local adaptation but also international learning and innovation in MNCs (Bartlett & Ghoshal, 1989; Kang, Morris, & Snell, 2007; Lepak & Snell, 1999). Indeed, MNCs are realizing that superior human resources are crucial to their competitiveness, and that these resources may be found in different parts of the world (Bryan, Joyce, & Weiss, 2006). Consequently, talent management, referring to an organization's efforts to attract, select, develop and retain talented key employees (Stahl et al., 2007), has emerged as a high priority issue for corporations. Although approaches to talent management vary from what is basically a more integrated version of traditional human resource practices to a performance-based ranking of employees and the related management of talent pipelines for the purpose of global staffing and succession planning (Conger & Fulmer, 2003; Lewis & Hackman, 2006), most approaches focus on a specified pool or pools of managers who are seen as potential executive talent (Stahl et al., 2007).

Despite recent increased attention to the topic, there is little evidence that firms do talent management in an effective manner (Cappelli, 2008; Cohn, Khurana, & Reeves, 2005; Scullion & Collings, 2006; Sparrow, Brewster, & Harris, 2004), and the field is lacking rigorous academic research (Lewis & Hackman, 2006). In particular, recent research has suggested that MNCs are frequently unable to identify who their most talented employees are and where they are located (Collings, Scullion, & Morley, 2007; Michaels, Hanfield-Jones, & Axelrod, 2001). In fact, although we are learning more about talent management practices (the 'how'), there is remarkably little research on the fundamental questions of who is considered a talent and why (Lewis & Hackman, 2006). This paper thus seeks to address this research gap by examining the research question: "What influences the likelihood of an employee being labeled as 'talent' in MNCs?" More specifically, focusing on MNC-internal employees, we examine what determines whether an employee is identified as 'talented'—that is, exhibiting future leadership potential.

In the following sections, we first review the previous literature on talent management and the related practice of performance appraisal in relation to our research question. We then develop a framework of the determinants of MNC-internal identification of talent, building on the literature on strategic search and choice (Gavetti & Levinthal, 2000; Rosenkopf & Almeida, 2003; Tripsas &

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* Corresponding author. Tel.: +358 40 5593454.
E-mail addresses: kristiina.makela@hanken.fi (K. Mäkelä), ingmar.bjorkman@hanken.fi (I. Björkman), mats.ehrnrooth@hanken.fi (M. Ehrnrooth).
[1] Tel.: +358 40 7040291.
[2] Tel.: +358 40 3521420.

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Gavetti, 2000). Our theoretical arguments for the factors that we propose to influence talent pool decision making are presented together with illustrations from an in-depth case study of the talent management practices of a major MNC. Finally, we discuss the relevance of our framework to theory and practice.

2. Talent management and employee potential

Talent management typically focuses on a specified pool of employees who "rank at the top in terms of capability and performance" (Stahl et al., 2007), and are therefore considered potential leaders either at present or some point in the future. Although hiring talent from outside is a key part of talent management, our focus here is on the existing employees of the firm. In MNCs, talent management decisions are increasingly global in that employees from all parts of the organization may be identified as 'talent' – and therefore included in corporate talent pools – regardless of whether they are parent country nationals, expatriates or local employees working in overseas units (Stahl et al., 2007).

Companies typically integrate their talent review processes closely with the more established practices of performance management, and firms may also link talent identification with staffing decisions, investments in training and development, and compensation and rewards. Stahl et al. (2007) found an increasing global convergence in these practices: particularly large multinationals are becoming both more sophisticated and more similar in their management of talented employees. However, the existing literature appears to focus more on talent management practices (the 'how') and a general prescription to searching for talent globally rather than the question of 'who' and 'why' someone in practice becomes or does not become to be considered as talent. For example, Lewis and Hackman (2006) suggest that talent management should focus on employees with high-value added skills who are difficult to replace, Cappelli (2008) advocates a flexible balancing of internal development and external hiring, Scullion and Collings (2006) discuss the need for combining global and local talent and cultural and gender diversity, and Tarique, Schuler, and Gong (2006) examine the fit between individual characteristics and the requirements of different tasks. The practice through which a certain person is classified as talent as the outcome of the corporation's talent identification process and therefore included in a talent pool is seldom problematized.

The performance appraisal rating that a person receives clearly has a bearing on whether he or she is considered a talent. Employee evaluations based on yearly (or biannual) performance appraisals are the most commonly used data for corporate decision making on whom to include in talent pools (Cascio, 2006; Stahl et al., 2007). The direct superior of the evaluated person is usually responsible for the appraisal process, sometimes with additional data provided by subordinates and/or peers. Recent research has, however, suggested that the implementation of a corporate-wide performance management system is challenging (Cascio, 2006; Roberson, Galvin, & Charles, 2007). A number of reasons have been proposed.

First, the way actual practices are implemented may differ significantly from intended practices (Nishii, Lepak, & Schneider, 2008; Wright & Nishii, 2007). Although MNCs tend to globally standardize their performance management systems more than any other HR practice, foreign subsidiaries have still been found to differ significantly from their parent companies in their implemented practices (Björkman, Smale, Sumelius, Suutari, & Lu, 2008). This inconsistency can be influenced by, for example, the institutional and cultural distance between the headquarters and the focal subsidiary, local norms concerning performance appraisal practices, the organizational culture and congruence of values between headquarters and the focal subsidiary, the transfer process related to the practice, and social capital between the two units (Björkman & Lervik, 2007; Kostova, 1999; Kostova & Roth, 2002).

Secondly, the internalization of practices by subsidiary managers and employees can also vary significantly (Kostova, 1999). The internalization of a practice refers to the "state in which the employees at the recipient unit view the practice as valuable for the unit and become committed to the practice." While implementation is a necessary condition for practice adoption, the internalization of its underlying principles is often the most challenging element of the transfer process (Kostova & Roth, 2002, p. 217). A lack of internalization may lead to ceremonial adoption, superficial obligation, and a low level of commitment (Kostova, 1999; Meyer & Rowan, 1977). In MNCs, cross-cultural factors may help explain not only differences in the practices that are implemented (Cascio, 2006), but also the lack of internalization of practices that are at odds with local cultural values and behavioral norms.

Thirdly, research has pointed to a number of potential rater biases in performance appraisals. For example, Roberson et al. (2007) report that demographic dissimilarity, such as gender and race, and related stereotypic assumptions, can bias expectations and the perception, processing and recall of performance-related evidence. Wood and Marshall (2008) found that the individual-level self-efficacy of the assessor, and rater training and experience influence the accuracy of assessment. Further, Palmer and Loveland (2008) showed that group-level perceptions may polarize good and bad evaluations through a contrast effect, or an increased positive halo, in that a single positive rating is likely to create an overall positive impression. Furthermore, corporate-level factors such as perceived importance of the practice and senior management support can influence accuracy and perceived effectiveness (Wood & Marshall, 2008).

These factors help explain why decision makers at headquarters may question the validity of performance appraisals conducted in foreign units. However, largely missing from the existing literature is a discussion of how and why MNCs decide that a certain employee is included in a global talent pool. We argue that performance appraisal ratings do not automatically translate into talent pool inclusion or exclusion, but rather that there are several other factors that influence the outcome of the corporate talent review process. In what follows we will develop a more comprehensive understanding of the nature of the decision making process concerning talent identification.

2.1. Strategic search and choice

We suggest that the identification and evaluation of MNC-internal talent is a two-stage-process in which mostly experience-based (on-line) performance appraisal evaluations provide input to largely cognition-based (off-line) managerial decision making over whom to include in a talent pool. The idea of a two-stage decision making process is rooted in the literature on strategic search and choice. This literature posits that strategic decision making processes, and the decision makers' ability to access knowledge, are driven and limited by decision makers' experiences and cognitions (Gavetti & Levinthal, 2000; March, 1991; Nelson & Winter, 1982). The literature on strategic search and choice maintains that previous experience and existing cognitive limitations influence both what is on decision makers' radar screen and their access to relevant knowledge, guiding their search for, and choice of, available options (Rosenkopf & Almeida, 2003; Tripsas & Gavetti, 2000). In this search and choice process, decision makers typically create simplified heuristics of complex relationships in the choice landscape, reducing the array of possible choices into a

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