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## Content

<b>VOLUNTEER TOURISM OUTLOOK: AN EXPLORATORY STUDY ON DIVE TOURISM OPERATORS AT KOTA KINABALU, SABAH</b> <i>Boyd Sun Fatt, Amysteffer Jeofrey, Christy Bidder, Muhammad Irfan Harith &amp; Suzzie Suzanthi Sulan</i>	1 – 11
<b>MATERIA MEDICA OF TRADITIONAL KNOWLEDGE: FROM EAST TO WEST AND BEYOND</b> <i>Julenah Ag Nuddin</i>	12 – 22
<b>THE RELATIONSHIP BETWEEN MEDIA, ADVERTISEMENT AND BODY IMAGE PERCEPTION AMONG YOUNG WOMEN IN SABAH</b> <i>Norshatilla Ezanie &amp; Dewi Tajuddin</i>	23 – 26
<b>MOLLUSCIDAL ACTIVITY OF THE PLANT <i>Acacia mangium</i> (Willd.) AGAINST THE SNAIL <i>Pomacea Canaliculata</i> (Lam.)</b> <i>Hendry Joseph, Muhammad Mu'izzuddin Zulkapli, Hasnidar Iskandar &amp; Sharmiza Sanin</i>	27 – 33
<b>HANDLING COUNTER-ARGUMENTS IN WRITTEN ARGUMENTATIVE DISCOURSE: IMPLICATIONS FOR THE TEACHING OF ENGLISH FOR ACADEMIC PURPOSES</b> <i>May Siaw-Mei Liu &amp; Jason Miin-Hwa Lim</i>	34 – 46
<b>FUZZY SIMPLE HIERARCHY ANALYSIS-BASED LINGUISTIC HEDGES TO MIDSIZE LUXURY SPORTY UTILITY VEHICLE SELECTION</b> <i>Zamali Tarmudi &amp; Ung L. Ling</i>	47 – 54
<b>TREND KUTIPAN ZAKAT PERNIAGAAN DI NEGERI SABAH</b> <i>Nor Alhana Abd Malik, Razizi Tarmuji, Saiful Nizam Bin Amran, Yunus Ab. Samed, &amp; Suwaid Tapa</i>	55 – 64
<b>TALENT STRATEGY FOR RETAINING BANKING TALENT IN MALAYSIA</b> <i>Dewi Tajuddin</i>	65 – 70
<b>PEMILIHAN PELAJAR MDAB BERASASKAN PENILAIAN KABUR</b> <i>Zamali Tarmudi, Hamidah Achmad, Jasman Jaafar &amp; Abdul Kadir Rosline</i>	71 – 78

# TALENT STRATEGY FOR RETAINING BANKING TALENT IN MALAYSIA

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## ABSTRACT

The main objective of this paper is to verify that using a talent strategy as a business strategy can retain banking talents in the Malaysian banking sector. This study has Talent Management Practices (TMP) as its direct variable to measure its relationship with Employee Value Proposition (EVP), which is the mediating variable. The two research objectives and questions of this study were answered by employing Structural Equation Modelling (SEM). The two results of this study reveal that there are significant positive relationships between Talent Management Practices and Employee Value Proposition for Malaysian banks. This study also found that Employee Value Proposition partially mediates the relationship of Talent Management Practices in the Malaysian banking sector. With these significant relationships, the findings of this study suggest it is timely for Malaysian local banks to use their own integrated talent strategy as a business strategy not only by developing but also retaining their talented bankers with attractive reward systems. In fact, due to the acute shortage of banking talent in Malaysia, there is a strong need to use talent strategy in managing the banking talent crisis. This is because talent management requires investment in intangible assets to manage the significant rise in the turnover rate in the Malaysian banking industry.

*Keywords:* Talent management; banking talent crisis; business strategy; intangible assets

## ABSTRAK

Objektif utama kertaskerja ini adalah untuk mengesahkan bahawa penggunaan strategi bakat sebagai strategi bisnes boleh mengekalkan bakat perbankan di sector perbankan Malaysia. Kajian ini melibatkan Amalan Pengurusan Bakat (APB) sebagai dimensi langsung untuk mengukur Nilai Proposisi Pekerja (NPP) sebagai dimensi. Kedua-dua objektif dan soalan kajian ini telah di jawab oleh Model Struktural Ekuasiyen. Kedua-dua hasil kajian ini mendedahkan wujud pertalian positif yang signifikan antara APB dan NPP. Kajian ini juga menemui bahawa NPP berdiiasi separa dengan APB dalam sektor perbankan Malaysia. Dengan pertalian signifikan ini, kajian ini mencadangkan bahawa sudah tiba masanya bank-bank tempatan menggunakan sendiri strategi bakat sebagai strategi bisnes bukan sahaja untuk membangunkan bakat perbankan tetapi juga mengekalkannya dengan system upah yang lebih menarik. Malah, oleh kerana kurangnya bakat perbankan yang berlaku, adalah wajar mereka menggunakan strategi bakat untuk menangani krisis bakat perbankan tempatan. Ini disebabkan pengurusan bakat memerlukan pelaburan dalam asset tidak ketara dalam mendepani kenaikan signifikan kadar pemberhentian pekerja berbakat dalam sector perbankan di Malaysia.

*Kata kunci:* Pengurusan bakat; krisis perbankan; strategi bisnes; asset tidak ketara

## 1. Introduction

Additional management processes and opportunities that highlight the performance drivers of a business will attract talented employees. As business today is borderless with a global environment, talent is seen a potentially powerful source of competitive advantage. Many big organisations, however, seem to spend a lot of time on selecting and developing their talented employees but less time on retaining them (Malaysia Productivity Corporation, 2009). Therefore, it is timely for Malaysian banks to have their own talent programmes (Morton, 2004)

due to an acute shortage of banking talents (Taing, 2010) and because the talent system requires investment in intangible assets (Zeti, 2008). In addition, a talent strategy is a business strategy (Ong, 2008).

In fact, according to Morton (2004), in order to effectively recruit and retain scarce labour, organisations need to create and perpetually refine an employee value proposition. On this basis, the researcher attempted to identify the level of employee value proposition of talented people within the Malaysian banking sector. With reference to Blass (2008), talent management can be defined generally as the additional management process and opportunities that are made available to people in an organisation who are considered to be talented. A talent strategy will highlight and keep the best and the brightest people in the workforce, and the companies will need to optimise human capital through human resource and organisational development strategies (Sweem, 2009), hence, turning the talent strategy into a business strategy (Ong, 2008). These highlight the importance of talent management and its relationship with the talent brand strategy and employee value proposition in the Malaysian banking industry.

The aim of this paper is to examine the impact of talent management practices on the mediating effect by employee value proposition in the Malaysian 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 organisational needs. High performing organisations are more likely to have a formalised employee value proposition, and as an employee value proposition helps to identify, engage and retain critical workforce segments, it has probably contributed to their success (Deloitte, 2010). On these premises, this research attempts to highlight the evolution of talent brand strategy (banking institutions) and employee value proposition (bank employees), and hence turn the talent strategy into a business strategy for strong growth and better profit (Ong, 2008).

## 2. Literature Review

Generally, the most effective talent management practices are organisation-specific and respond to the organisation's unique business as well as the 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, talent management practices should encompass the whole talent management pipeline. The concept of talent management practices additionally points to a level of strategic integration, notably as a set of talent management activities. As such, it is integrated and aligned with internal organisational systems and external environmental factors as suggested by Hughes and Rog (2008). Therefore, effective talent management practices aim to advance business strategy, drive competitive advantage and strengthen the long term viability of an organisation. Talent management practices also must be completely aligned with the organisation's mission, vision and values and be fully-integrated into its long term strategic planning. These aims are presented by Hannum, Martineau and Wand (2007) 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 2008 by McKinsey Malaysia & Co (2007) that quoted that an important Malaysian corporate resource over the next 20 years will be talent. As such, as demand goes up and supply of talent goes down, more and more Malaysian organisations are beginning to realise the importance of talent strategies and planning as part of the management strategic focus on talent brand strategy and employee value proposition. This is notable in the acute shortage of banking talent in Malaysia (Taing, 2010), and highlighted earlier by Zeti (2008) on the need for talent development in the Malaysian banking sector. In the context of Malaysian financial institutions, Suffian (2009) discovered that the higher the credit risk, the higher will loan exposure be that leads to lower profitability for Malaysian banks. In fact, Suffian (2010) stated 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 the talent brand strategy and employee value proposition within an organisation remain operationally and strategically important for organisational success. As postulated by Michaels, Handfield-Jones and Axelrod (2001), talented people will work hard to fulfil their need; otherwise they will be inclined to leave the organisation. Likewise, in their study of intention to leave against employment engagement or employee value proposition, Hussain et al. (2013) found that young bankers in Malaysia constantly had intention to leave due to a lack of integrated talent programmes and less attractive salary packages for them. This is a justifiable remark as they propose that Malaysian banks need to have a human resource strategy with attractive employment packages in order to reduce the cases of young bankers leaving their respective banks. As such, it is noteworthy to mention that talent management is a critical success factor on the human resource strategy as a business strategy to develop and retain talented young bankers with attractive employment packages, and hence this has become the thrust of this study. According to Asia Pacific Global Data Regional Practice Leader (Watson, 2013), the Malaysian financial services industry has recorded a significant increase in the turnover rate from barely 7.4% in 2012 to an alarming 13.3% in 2013. In addition, the survey also reported that Malaysian banks are taking concerted efforts to improve their employee value proposition (EVP) to attract, develop and retain their top banking talents by offering their talented employees higher salaries and better promotions.

The researchers were therefore motivated to study talent management practices in the Malaysian banking industry and the employee value proposition (EVP) within an organisation became the focal discussion point through observations and experiments. Talent management practices thus form a powerful and systematic framework for understanding why employees differ in their effectiveness in the banking industry (Boudreau & Ramstad, 2002; Lewis & Heckman; 2006; O'Donnell, 2002). Since talent management practices is a business strategy and not a human resources strategy as proposed by Ong (2008), it can be generalised that the aim of talent management practices is to identify the people in an organisation who have more talent than others and then to develop these people so that they become more experienced and competent, and able to play a greater part in the success of the organisation, notably in the competitive environment of the banking sector. This may imply that Malaysian banking institutions should build rather than buy talents as there is an acute shortage of banking talents (Taing, 2010) in the competitive and changing global banking environment (Dewi, 2013).

### **3. Objectives and Hypotheses of the Study**

The general objective of this study is to examine the relationship between the organisational differences (Talent Management Practices) and individual (employee) effectiveness (Employee Value Proposition and Talent Brand Strategy). Specifically, this study attempts to:

- (i) Examine the relationship between Talent Management Practices (TMP) and Employee Value Proposition (EVP).
- (ii) Ascertain the mediating effect of employee value proposition on Talent Management Practices.

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

**H1:** *There is a positive relationship between Talent Management Practices (TMP) and Employee Value Proposition (EVP)*

**H2:** *Talent Management Practices (TPM) are mediated by Employee Value Proposition (EVP)*

#### 4. Research Framework and Methodology

The research framework of this study comprises talent management practices (TMP) as the independent variable, and employee value proposition (EVP) as the mediating variable. Talent Management Practices consists of five dimensions; namely talent acquisition, competency management, leadership development, succession planning and performance management (Dewi, 2013). Employee Value Proposition (EVP) consists of four dimensions; namely EVP task, EVP contextual, EVP assignment specific and EVP sustainability (Dewi, 2013). As a 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, employee value proposition is required for improvements to attract top banking talents with attractive remuneration packages (Hussian et al., 2013) and faster growth opportunities (Watson, 2013).

The population for this study consists of 1413 bank employees in the Malaysian banking industry and this population of bank employees is divided into those from I) commercial banks, II) financial development institutions, and III) Islamic banks. The differences between bank employees and bank category will determine the effects of Talent Management Practices on Employee Value Proposition in the Malaysian banking industry. For this reason, the researchers mailed questionnaires to 1200 respondents with a return of 342 responses.

As this study employs the survey method, for data analysis, the authors used Structural Equation Modelling (SEM) as a model testing tool for direct and mediating effects, followed by Confirmatory Factor Analysis (CFA) to test its reliability and validity. After the data for the survey questionnaires was collected, a running number was assigned for each individual respondent before the data was entered into the computer for analysis. The running number functions as an identification code for each respondent for the purpose of checking their responses if problems with the quality or validity of data collected arise. The collected data was analysed using the Statistical Package for the Social Sciences (SPSS) 17.0 programme and Structural Equation Modeling (SEM).

#### 5. Results and Discussions

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 absolute indicates the p-value  $<0.0001$ . This highlights 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, the probability of getting a critical ratio as large as 6.955 in an absolute indicates that the p-value  $<0.0001$  is significant. 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 absolute indicates that the p-value  $<0.0001$ .

The two variables of Talent Management Practices and Employee Value Proposition are significant and this implies that the convergent validity is therefore achieved.

Results of the hypotheses are discussed as follows:

*Hypothesis H1: There is a positive relationship between Talent Management Practices (TMP) and Employee Value Proposition (EVP)*

H1: Beta is not zero (the regression relationship of TMP and EVP is significant). The hypothesis testing for causal effect of TMP and EVP is significant.

H2: The relationship between Talent Management Practices (TMP) is mediated partially by Employee Value Proposition (EVP).

The findings of this study reveal that Talent Management Practices is positively mediated partially by Employee Value Proposition. This implies that the greater the Talent Management Practices level, the greater will the Employee Value Proposition be. Specifically, the findings of this study suggest that improving creativity and human skill in Talent Management Practices dimension on talent acquisition, competency management, succession planning, leadership development and performance management will help to improve all three dimensions of Employee Value Proposition; contextual, assignment specific, task and sustainability of EVP, and hence it represents the quality of employee experience. In addition, improving talent acquisition, competency management, succession planning, leadership development and performance management as a dimension of Talent Management Practices will help individuals to perform better in terms of quality or experience specifically in the areas of contextual, assignment-specific, task and sustainability of Employee Value Proposition.

Interestingly, the results of this study found that Employee Value Proposition partially mediates the relationship with Talent Management Practices, testifying that Talent Management Practices represents a talent system and Employee Value Proposition represents employee development. Hence, it is suggested that Malaysian banks, notably those in the Islamic finance-service industry, build rather than buy banking talents by not only focusing on talent development but also on talent retention for their sustainability in competitive banking environments.

## 6. Concluding Remarks

The Talent Management Practices (TMP) factor was found to be a significant predictor of Employee Value Proposition (EVP). This implies that Talent Management Practices is the vital creativity of human skill to facilitate Employee Value Proposition in Malaysian local banks. In addition, Employee Value Proposition in this model is also found to mediate the relationship with Talent Management Practices and Talent Brand Strategy.

In other words, Employee Value Proposition carries the influence of the Talent Management Practices. This indicates that Talent Management Practices will predispose bank employees in Malaysian local banks to have effective Employee Value Proposition in terms of their significant relationships with the talent system and employee development. This study also provides critical insights by emphasising and reinforcing the importance of a talent system for successful accomplishment of talent programmes such as a business strategy in Malaysian local banks in the era of financial globalisation. This is crucial as it was perceived by *Bank Negara Malaysia* since 2008 that talent requires investment in intangible assets. Therefore, with integrated talent programmes, Malaysian banking institutions can manage well against expected banking talent crises by attracting, developing and retaining their talented young bankers as a successful business strategy for future growth and profit.

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