



Generational challenges to talent management: A framework for talent retention based on the psychological-contract perspective



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ABSTRACT

In this conceptual paper, we adopt a social-exchange theory perspective to explain the impact of talent management (TM) on the psychological contract and its outcomes. This relationship is supposedly moderated by generational effects and associated differences in work-related values and preferences. Thus, often-neglected individual-level variables are included in the analysis. A framework and testable propositions are provided. As a result, we propose that in contexts where a war for talent prevails, the strong interest of Generations X and Y in training, development, and career advancement makes highly engaged and extensive TM activities even more crucial for retaining talented individuals than is the case for the so-called Baby Boomer generation.

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1. Introduction

Notwithstanding its popularity and undisputed strategic importance for the corporate world (BCG & WFPMA, 2012), research on talent management (TM) is still lacking in its theoretical foundation and the clarity and uniformity of definitions with regard to what talent really constitutes, as well as with respect to how to manage it effectively (Collings & Mellahi, 2009; Dries, 2013; Lewis & Heckman, 2006; Scullion & Collings, 2011; Strack et al., 2011; Tansley, 2011). Furthermore, talented individuals are presented as subjects that need to be managed, while their preferences, needs, and expectations are under-researched (Tansley, 2011; Thunnissen, Boselie, & Fruytier, 2013b). This individual perspective on talent is the focus of this paper.

The basic concept of TM was introduced more than a decade ago in the late 1990s, when a group of McKinsey consultants coined the term *War for Talent* (Chambers, Foulton, Handfield-Jones, Hankin, & Michaels III, 1998; Michaels, Handfield-Jones, & Axelrod, 2001). Despite the global financial crisis, many regions still face a shortage of skilled labor (European Commission, 2011; Farndale, Scullion, & Sparrow, 2010; McDonnell, 2011; Ward, 2011). In addition, some Western industrialized countries especially suffer from declining population growth rates although, simultaneously, employment

rates remain stable or even are rising (European Commission, 2011; Ward, 2011; World Economic Forum, 2011). This development is accompanied by an increasingly aging population and dramatically higher older-worker employment rates (e.g. above 50) compared to those up to 30 years of age. This phenomenon that is sometimes referred to as the *demographic scissor* (Armutat, 2009, p. 25). Examples of these developments include Japan, the U.S.A., and Germany (World Economic Forum, 2011). Consequently, because talent shortages will continue to persist, attracting and retaining any kind of talent is a key challenge for organizations. This includes not only young university graduates, but also older workers, women, and ethnic minorities (Ariss, Vassilopoulou, Özbilgin, & Game, 2013).

Understanding and managing the possible resulting generational differences in TM (e.g. becoming an employer of choice for younger talent, as well as retaining the knowledge and competencies of older workers) have been cited as major challenges in recent TM research (Benson & Brown, 2011; D'Amato & Herzfeldt, 2008; Jenkins, 2008; Schuler, Jackson, & Tarique, 2011; Tarique & Schuler, 2010). However, respective studies have been rather descriptive and normative when discussing differences between younger and older workers, for example. Overall, research that systematically addresses generation-specific issues in TM, including an exploratory dimension that considers the individual perspective of talent belonging to various generations, is scarce (Tarique & Schuler, 2010).

The objective of this paper is to address this research gap. We take a social-exchange perspective based on psychological-contract theory to explain the various expectations and preferences of different generations concerning the employment

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relationship. We analyze generational effects and associated differences in work-related values and preferences in the context of TM by explicitly including often-neglected individual-level variables and discussing implications for TM. We focus specifically on talent retention, as the effects of TM on already recruited employees are at the center of our consideration, and not the recruitment of the talent itself. To sum up, the aim of this paper is to map conceptually the TM field by suggesting a social-exchange-based framework that includes testable propositions concerning the effects of TM on the psychological contract of talented individuals and variations as a function of generations.

The major contribution of this paper is that we add to a further theoretical underpinning of TM research by including insights from psychological-contract theory, as well as research on generations and related variables. Based on these considerations, we develop a framework to guide future research and practice by creating an understanding of the drivers and challenges of talent retention among diverse generations in times of significant demographic challenges.

The remainder of the paper is structured as follows. First, we draw upon a literature review, including TM, psychological-contract theory, and a short overview of generational studies and work-related differences. Combining these research fields, in the next chapter we suggest a conceptual framework and testable propositions for future research. The conclusion summarizes the main findings of our research and addresses the limitations of the study. An agenda for future research and a discussion on possible implications for managerial relevance conclude the paper.

2. Literature review

This literature review, which addresses key issues concerning TM, psychological contract theory, and generational effects, provides the basis for the construction of the conceptual framework in the next section.

2.1. Definitions of talent management and talent

We adopted the broad definition of TM used by [Stahl et al. \(2007\)](#), as an organization's ability to attract, select, develop, and retain key employees (in a global context). Therefore, we acknowledge that TM is part of the broader field of human resource management (HRM), being defined as all "policies, practices, and systems that influence employees' behavior, attitudes, and performance" ([Noe, Hollenbeck, Gerhart, & Wright, 2010, p. 4](#)). It involves a set of selected HRM practices focusing on attraction and retention ([Lewis & Heckman, 2006](#)) for a smaller target group of particularly talented individuals (identified by the company), compared to various HRM stakeholders (all employees, unions, customers, suppliers, investors, etc.) ([Tarique & Schuler, 2010](#)). Highly talented individuals can be characterized through a variety of characteristics, such as competencies, skills, abilities, experience, knowledge, intelligence, character, and drive, or the ability to learn and grow within an organization ([Michaels et al., 2001; Ulrich, 2008](#)). Compared to other human resources, they are supposed to be key strategic resources ([Collings & Mellahi, 2009; Schuler & Tarique, 2012](#)) because they have a most important impact on organizational performance ([Collings & Mellahi, 2009; Tansley et al., 2007](#)) and on creating competitive advantages for a firm. They are valuable, rare, and difficult to imitate ([Barney, 1991, 1995; Vance & Vaiman, 2008](#)). They are also referred to as "pivotal talent" ([Boudreau & Ramstad, 2007, p. 2; Cascio & Boudreau, 2010, p. 84](#)). The same is true for TM systems, which can be understood as bundles of strategically aligned TM practices ([Lewis & Heckman, 2006; Stahl et al., 2007](#)). These have also proven to have a positive

impact on financial, organizational, and human resource outcomes (e.g. employee engagement, improved quality and skills, higher job satisfaction) (see e.g. [Bethke-Langenegger, Mahler, & Staffelbach, 2011; Björkman, Ehrnrooth, Mäkelä, Smale, & Sumelius, 2013; Chami Malaeb, 2012](#)). To sum up, in our paper, talent includes persons (subject approach) who represent those high performers who are pivotal for the organization ([Tansley, 2011; Thunnissen et al., 2013b](#)). Their pivotalness for the company explains a differential investment and TM ([Boudreau & Ramstad, 2007; Cascio & Boudreau, 2010](#))

2.2. An individual perspective on talent management

Research is scarce on the individual TM perspective. In their research investigating the impact of talent strategies on organizational outcomes, [Bethke-Langenegger et al. \(2011\)](#) showed that TM has a positive impact, not only on organizational performance, but also on individual outcome variables. They found that no matter what content focus the talent strategy included (e.g. corporate strategy alignment, succession planning, attraction and retention, development), all talent strategies had a direct positive effect on talent motivation. [Chami Malaeb \(2012\)](#) provided findings showing that not all talent investments were equally effective, but in her research, she nevertheless confirmed that talent development and retention practices had the highest impact on employee commitment and contribution. [Bethke-Langenegger et al. \(2011, p. 536\)](#) explained their findings by arguing that being part of a talent pool (a privileged group of high-potential employees) and receiving attention and appreciation positively impacted the performance motivation of talent, a phenomenon that is consistent with the findings of very early research in organizational behavior, such as the Hawthorne experiments ([Mayo, 2003](#)). These researchers reasoned that talented employees wanted to stay with their companies and try to give something in return for the investment made in them, as well as the trust provided by their organizations. Despite a lack of encompassing research on the effects of TM on the individual, these very recent studies indicate the relevance and importance TM can play in shaping employees' behavior and influencing organizational outcomes and performance.

With respect to whether TM needs to be communicated and whether there are differences in attitudinal or organizational differences, we refer to a recent study by [Björkman et al. \(2013\)](#), who investigated differences in attitudinal outcomes in both employee groups. Those who perceived they were identified as "talent" were more likely to be associated with positive effects (increased performance, support of strategic priorities, identification with the company) than those who did not know their talent status (except for the variable turnover intention). [Björkman et al. \(2013, p. 207\)](#) concluded: "these findings suggest that informing talented individuals of their status has a motivational effect in line with the predictions of social-exchange theory, and thus support the general logic of talent management." Based on these findings, we argue that in order to have a (positive) impact on the psychological contract of the talent, employees should know that they have been identified by their companies as "talent."

In summary, there are indicators that TM can especially help in retaining talented employees and motivating them to stay with their organizations, and thus reduce staff turnover rates. Accordingly, researching talented employees and their expectations can be beneficial for understanding and managing multigenerational workforces ([Tarique & Schuler, 2010](#)). As a theoretical perspective that allows us to discuss these issues in a systematic and meaningful way, we discuss psychological contracts in the following section.

2.3. Psychological contracts, contract features, and types

According to Denise Rousseau (1990, p. 389), “psychological contracts are individual beliefs in reciprocal obligations between employees and employers,” whereas “two parties to a relationship, such as employee and employer, may each hold different beliefs regarding the existence and terms of a psychological contract” (Rousseau, 1990, p. 391). There are many definitions of psychological contracts; however, taking Rousseau’s definition (1990), we follow her argument that the psychological contract represents an individual’s beliefs (regarding employee and employer obligations) and thus can only be found at the individual level.

Individual perceptions are evaluated by the employee by comparing organizational experiences such as TM practices to their psychological contracts. Outcomes of this evaluation can be contract fulfillment (meeting expectations and keeping contract terms), a breach (the perception that the organization has failed to deliver its obligation), or an escalation of a breach and even a contract violation (failure to fulfill promised obligations and to comply with the terms of a contract) (Morrison & Robinson, 1997; Rousseau, 1995; Rousseau & Tijoriwala, 1998). In the last two cases, TM may be perceived as not corresponding to the individual’s beliefs regarding the employer’s obligations concerning opportunities for talent development.

The emphasis on the individual’s perception makes the psychological contract dynamic and subjective and can lead to misinterpretations and problems in the employment relationship between the employee and the employer (Rousseau, 1990). It is therefore very important for organizations to understand and manage the expectations of the employee, in order to fulfill the organization’s side of the contract. This concept is used as a framework in which to study aspects of the employment relationship, focusing particularly on the exchange of perceived promises, commitments, and obligations with respect to TM (Guest & Conway, 2002; Herriot & Pemberton, 1997; Höglund, 2012; Rousseau, 1989; Schein, 1980; Sonnenberg, Koene, & Pauwe, 2011). Depending on how well an employer manages to keep promises, and on the corresponding state of the psychological contract (fulfilled, breached, violated), various individual attitudinal and behavioral outcomes can transpire (e.g. job satisfaction, organizational commitment) (Conway & Briner, 2005; Freese, 2007). Contract violation especially may lead to adverse, negative reactions by the injured employee, such as reduced loyalty, reduced job performance and commitment, and the intention to quit/exit (Morrison & Robinson, 1997; Rousseau, 1995; Sonnenberg, 2011).

The specific terms of the psychological contract are difficult to study and evaluate, as they can comprise a variety of items that maybe specific to one person, for example training opportunities, flexible work arrangements, or job security (Freese & Schalk, 2008). Therefore, many researchers have decided to describe instead the features of psychological contracts. The two types of contracts identified by Rousseau (1995) in her original research are transactional (*quid pro quo*) and relational (DelCampo, 2007; Freese & Schalk, 2008; Rousseau, 1995) and are based on seven dimensions: Focus, inclusion, time frame, formalization, stability, scope, and tangibility. Transactional contracts, which include specific economic conditions such as a primary incentive, limited personal involvement in the job (low emotional investment), little flexibility, and the use of existing skills, are short-term oriented (Rousseau, 1995). Conversely, relational contracts focus on open-ended, long-term personal relationships and high emotional involvement. Furthermore, their scope is pervasive (affects personal and family life) and involves considerable investments from both the employee as well as the company (long-term career development, training), all of which lead to a high degree of mutual

interdependence (DelCampo, 2007; Rousseau, 1995). In order to discuss whether psychological contracts vary with respect to generations, we will clarify the concept of generations in the following section.

2.4. Generational cohorts and generational research

The central constructs of generations in the field of sociology were influenced largely by the work of Karl Mannheim. He wrote an essay in 1923 about the problems of generations noting that individuals share common events and experiences when they are born within the same historical period and the same socio-cultural context, which he referred to as an “inborn way of experiencing life and world” (p. 283, as cited in Ng, Lyons, & Schweitzer, 2012, p. xvii). Generational units, or cohorts, are defined by a group of people who are born around the same time and share common life events during a formative, critical development period (e.g. during childhood and adolescence), which subsequently leads to similar values, views, and attitudes within each generational group (Arsenault, 2004; Ng et al., 2012; Smola & Sutton, 2002; Twenge, Campbell, Hoffman, & Lance, 2010). Influential life events can include war, parents, peers, the media, and culture (Twenge et al., 2010).

Several generations have been identified in the literature. With respect to labels, birth-year periods sometimes vary slightly (see Crampton & Hodge, 2007 for alternative categorization). According to Twenge et al. (2010, p. 1118), in today’s workforce, there are four generations at work: The Silent Generation (1925–1945, a 20-year period), Baby Boomers (Boomers; born 1946–1964, an 18-year period), Generation X (GenX; born 1965–1981, a 16-year period), and Generation Y (GenY, also known as GenMe, Millennials, iGen; born 1982–1999, a 17-year period). It has to be noted that this result is based on a U.S. sample and does not necessarily reflect the situation globally.

According to Crampton and Hodge (2007) and Jenkins (2008), the members of each generation have their own characteristics, values, and attitudes based on events that have shaped their lives. Furthermore, employment relationships have changed over time. Generations seem to have developed different characteristics and work-related values. These may be important when analyzing the psychological contract of talents belonging to various generations (Benson & Brown, 2011; D’Amato & Herzfeldt, 2008; Jenkins, 2008; Smola & Sutton, 2002). The three most dominant (based on absolute numbers) generations – Baby Boomers, Generation X, Generation Y – and their work-related values – can be characterized as follows (for a comprehensive overview, see Twenge & Campbell, 2008):

Baby Boomers are the post-World War II generation. The rise of economic prosperity that they experienced made them optimistic and prone to believe strongly in lifetime employment and company loyalty. Studies have found that they were significantly more satisfied with and less likely to change jobs, compared to Generation X (Benson & Brown, 2011; Burke, 2004; Crampton & Hodge, 2007).

Generation X, compared to Baby Boomers, places less value on loyalty toward their employers and consequently, is more likely to change jobs than employees of previous generations. Furthermore, members of Generation X place greater emphasis on work-life balance, autonomy, and independence. Technology-wise, members of this generation are savvier than former generations, because they grew up with the internet and various technologies (e.g. television, personal computers, and other mobile devices) (Benson & Brown, 2011; Burke, 2004; Jenkins, 2008; Smola & Sutton, 2002; Twenge et al., 2010).

Generation Y is the third generation in the workplace. Members of this group are known for placing a stronger emphasis on

corporate social responsibility, they value work-life balance, training, and development opportunities, and look for mobility in their early careers (Cennamo & Gardner, 2008; DelCampo, Haggerty, Haney, & Knippel, 2011; DelCampo, 2007; Vaiman, Scullion, & Collings, 2012).

Generation X, and especially Generation Y, are reported to be more individualistic than the other generations, which inspired the label *Generation Me* (Twenge et al., 2010). Furthermore, they are said to learn quickly, are very well educated, and are technologically savvy, since they grew up in the era of the internet (Burke, 2004; D’Amato & Herzfeldt, 2008; Jenkins, 2008; Twenge et al., 2010).

Overall, generations are a popular topic in the daily press. Furthermore, it is a common tool for consumer market segmentation in marketing, which is used to target different groups of customers better (Arsenault, 2004); however, academic researchers call for caution in this respect. For generational classification, the same critique applies as for other conceptual classifications, in that there is a lack of mutual exclusiveness between generations. Since some people are born at the beginning of a generational cohort and others at the very end of it, they share experiences with both their own cohort and the previous or the next generational cohort (Arsenault, 2004; Benson & Brown, 2011). In order to pay attention to these subgroups, Arsenault (2004, p. 125) labels those who are born at either edge of a generation “tweeners”. Another criticism of generational research addresses the methods often chosen by consultancies, using small sample sizes and subjective opinions (e.g. De Meuse & Mlodzik, 2010; Twenge & Campbell, 2008) as compared to the more robust quantitative or qualitative research methods used in academia. Peer-reviewed academic articles investigating generational differences in work values and attitudes are scarce (Arsenault, 2004; Benson & Brown, 2011; De Meuse & Mlodzik, 2010; Giancola, 2006; Twenge & Campbell, 2008; Twenge et al., 2010).

Nevertheless, the limited evidence on this topic suggests that differences in work-related values and attitudes, especially with regard to job satisfaction, organizational commitment, company

loyalty, lifetime employment, and work-life balance, are influenced more by generational experiences than by differences in employees’ career stages, maturity, or age (Arsenault, 2004; Benson & Brown, 2011; Burke, 2004; Crampton & Hodge, 2007; Dries, Pepermans, & de Kerpel, 2008; Jenkins, 2008; Smola & Sutton, 2002; Twenge et al., 2010). For example, Smola and Sutton (2002, p. 366) investigated this notion by analyzing the question “Are an individual’s work values influenced more by generational experiences, or do they change over time with maturity?” In their research, they compared findings of surveys conducted by another researcher in 1974 with their own empirical study in 1999, concluding that work values are influenced more by generational experiences than by age and maturation. Based on their study, Baby Boomers rated job security as an important factor and were significantly more satisfied with their job and less likely to quit, compared to members of Generation X, who were found to be less loyal to the company and more likely to quit, more self-oriented, and certainly more prone to pushing for promotion. Similar findings were presented by D’Amato and Herzfeldt (2008) in their research into differences between Baby Boomers and Generation X. The authors stated that late Generation Xers (defined in the study as birth years ranging from 1971 to 1980) highly valued career development. Generation Xers believe that they had to take personal responsibility for their careers, and be prepared to make quick career changes when good opportunities arose, if their expectations were no longer met by their current employers.

Therefore, considering the context in which a member of a generation was born – and not only his or her age – is important and provides helpful information to understand how to attract, develop, and retain talent (DelCampo et al., 2011; Dries et al., 2008; Smola & Sutton, 2002).

3. Theoretical framework outlining the impact of TM and generational effects on the psychological contract

In this section we first outline the basic reasoning of the framework, and then we develop testable propositions concerning

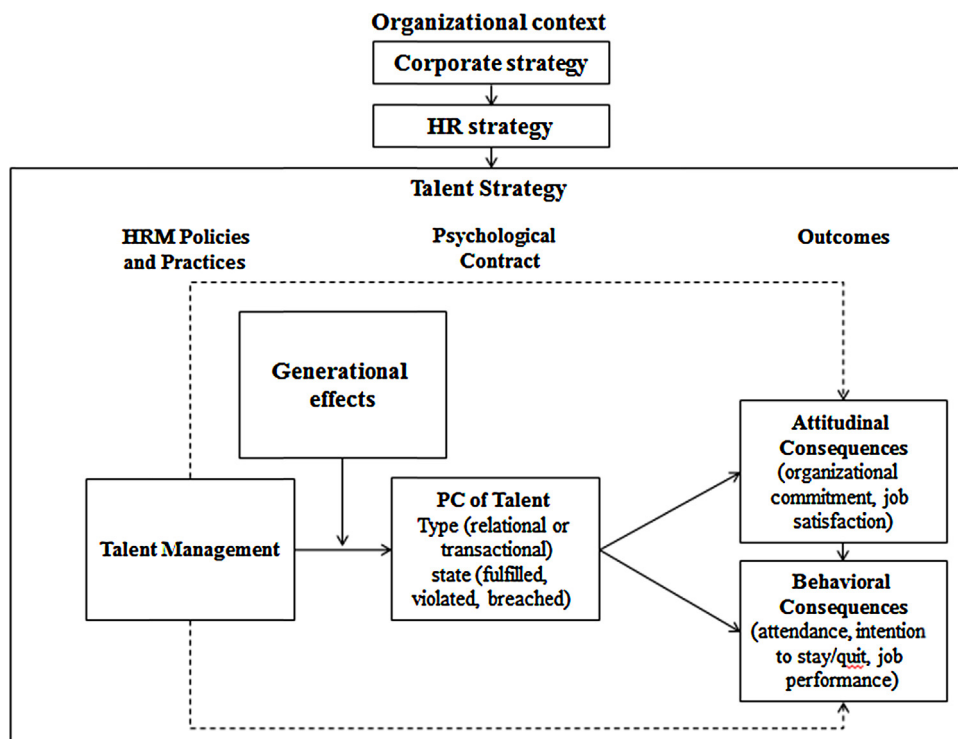


Fig. 1. Framework explaining the impact of TM on the psychological contract moderated by the role of generational effects.

the major relationships between TM, generational effects, and psychological contracts.

3.1. Context and overview

The objective of the suggested framework is to explain how TM affects the psychological contract between talents and their employers (organizations), with special consideration given to generational effects. As outlined earlier, by talent, we refer to those employees who have been identified (by their companies) as high performers with high potential and are part of a talent pool/TM program.

On the organizational level, it is suggested that all TM strategies derive from the overall corporate and HR strategies to ensure that talent management supports the organization's strategic mission (Joyce & Slocum, 2012). As depicted in Fig. 1, corporate and HR strategies are relevant elements in the organizational context and build the outer circle of our suggested framework.

The inner part of the model – and thus our main focus, as outlined in Fig. 1, sheds light on the relationship between TM and psychological contracts by considering explicitly the effects of generational differences in work-related values. In this model, TM is conceptualized as a system, and not, as in other conceptualizations, as individual practices, such as the 16 practices of TM identified by the CIPD (2006) including, for example, mentoring and coaching. By explicitly including in our model corporate and HR strategies as part of the organizational context, we acknowledge that the TM system has an idiosyncratic character, as it reflects the unique context of the firm. Taking this idiosyncratic system approach as the basis for our argumentation also helps to reduce complexity when analyzing the relationship between TM and the psychological contract of talents (for a similar approach see Bethke-Langenegger et al., 2011). As will be detailed in the context of developing the hypotheses in this paper, we assume a moderating generational effect that influences the strength of the relation between TM and psychological-contract variables. Attitudinal and behavioral outcomes are outlined on the right side of the framework (Guest & Conway, 2001). Typical outcomes of psychological contracts include job satisfaction, commitment, loyalty, performance, and the intention to quit (Morrison & Robinson, 1997; Rousseau, 1995; Sonnenberg, 2011). To provide a holistic approach to analyzing the effects of TM on the psychological contract we also briefly include a discussion on the the respective outcomes in the Section 3.2, 'Discussion of possible outcomes' (for this stream of research, see Bethke-Langenegger et al., 2011; Björkman et al., 2013).

In the following sections, and in line with the order of the concepts displayed in the framework (from left to right), we will develop propositions regarding TM, the respective type of psychological contract (Propositions 1a and 1b), the impact of TM on the fulfillment of the psychological contract (Proposition 2), and the impact of TM on attitudinal and behavioral outcomes (Propositions 3a and 3b). In the final section of the paper, we will include propositions regarding the moderating effect of generations on the type and state of the psychological contract, as well as possible effects on outcomes (Propositions 4a, 4b and 4c). In these different sections, we will differentiate between TM signals (e.g. the communication of a TM system or program) and TM practices (the chance for talents to actually participate in and benefit from TM measures and activities).

3.2. Talent management and the type and fulfillment of the psychological contract

There is evidence that organizational mechanisms and practices, such as HRM policies and practices, have an impact on the

type and fulfillment of an employee's psychological contract (Guest & Conway, 2001; Sonnenberg et al., 2011). With regard to the relationship between TM and the psychological contract, we suggest that TM offering inclusion in talent pools, and providing differential treatment and development programs, is perceived as a signal by the talent (Guzzo & Noonan, 1994; Rousseau, 1995; Sonnenberg et al., 2011). The favored individual recognizes an investment in the development of his or her talent and career and receives an indication that his or her contribution is valued (Björkman et al., 2013; Rousseau, 1995; Sonnenberg et al., 2011). If an employee perceives only limited TM activities, this is also interpreted as a signal. In both cases, the implications for the psychological contract will be different. In their empirical study on TM in Germany, based on a cluster analysis and empirical data of TM practices of 700 small- and medium-sized German companies, Festing, Schäfer, and Scullion (2013) found three distinct types of TM: highly engaged TM, retention-based TM, and reactive TM. *Highly engaged TM* was found in organizations that intensively pursued TM measures that focused on extensive investment in training and other measures. Key priorities were employee retention, as well as talent attraction and recruitment. The other extreme is described by *reactive TM*, which is characterized by a very limited proactive effort to cope with the war for talent, i.e. there is only a small emphasis on training and talent development activities or other measures to retain talented individuals, with moderate effort exerted on human resource and succession planning. Topics such as employer branding, e-recruitment, and career websites did not receive much attention in this study. Between these two extremes, *retention-based TM* was identified, which largely neglected talent-attraction activities, but emphasized talent development and training. In order to simplify our arguments we will only focus on the two extreme types of TM and discuss their impact on the type and state of employees' psychological contract.

We have argued previously that the psychological contract can be characterized by time frame, stability, inclusion, focus, formalization, scope, and tangibility. With respect to these criteria, TM can be seen as an investment in a long-term and stable relationship with an employee. Various practices, including thorough talent identification, development, placement, coaching, mentoring, and/or career planning, reflect this notion and represent important signals to the talent. As a consequence, company investment made in the long-term development of talent through *highly engaged TM* which focuses on developing not only job-specific but also long-term and firm-specific knowledge, skills, and competencies creates a higher emotional involvement and a higher degree of mutual interdependence between the talent and the employer. This in turn favors the development of relational rather than transactional contracts with talents (DelCampo, 2007; Rousseau, 1995). It reflects a long-term and stable orientation due to formalized obligations by the employer, with a scope and focus on the firm as a whole and not only on the job. Proposition 1a includes these assumptions.

Proposition 1a. Signals from highly engaged TM lead to a relational psychological contract for individual employees.

On the contrary, *reactive TM*, which only focuses on selected practices and reacts to short-term and job-specific needs by offering training and development, sends different signals to employees. This indicates a *quid pro quo* approach and a transactional psychological contract is the consequence (DelCampo, 2007; Freese & Schalk, 2008; Rousseau, 1995). Transactional contracts are therefore not described by an explicit long-term, stable, and formalized orientation, and their scope is narrower than in the case of relational contracts. According to

the definition of a transactional contract, other measures not included in TM, such as economic conditions in terms of incentives and a short-term perspective may support this notion. Accordingly, for the impact of reactive TM signals on the type of psychological contract, we suggest the following:

Proposition 1b. Signals from reactive TM lead to a transactional psychological contract for individual employees.

By offering highly engaged TM practices focusing on attracting, selecting, developing, and retaining key talented employees, and thus investing in the long-term development of this designated internal talent, the employer clearly communicates that talent is valued in this individual case. These firms attempt to meet the talent's expectations and reflect a relational psychological contract (Bethke-Langenegger et al., 2011; Höglund, 2012; Sonnenberg, 2011). In this case, the psychological contract would be fulfilled. This expectation is in line with prior findings from a consultancy. Sonnenberg (2011) argues that each TM practice can be interpreted as an organization's effort to meet employees' expectations and to fulfill their part of the psychological contract. The study claims that the more TM practices an organization offers and the higher the investments in TM, the more signals it sends to its employees that the organization values talent and is trying to fulfill its part of the deal (Sonnenberg, 2011). Six large international organizations and 681 respondents participated in Sonnenberg's study (2011). She found that the more TM practices an organization employs, the higher the employee's psychological contract fulfillment, which, in turn, leads to higher levels of commitment, wellbeing, and fairness, and lower levels of turnover intention, thus emphasizing the importance of psychological research.

The holder of a transactional psychological contract would be less demanding with respect to the number and scope of talent-management activities, and he or she would only expect the support that is necessary to complete the current job successfully, for example job-specific training opportunities. In this case the psychological contract would be fulfilled because the TM activities would be consistent with the perceived obligations.

Therefore, we suggest the following:

Proposition 2. Highly engaged TM practices have a positive impact on psychological-contract fulfillment in the case of a relational psychological contract or a transactional psychological contract.

3.3. Discussion of possible outcomes

The literature suggests that if the psychological contract of an individual is fulfilled, this will lead to higher attitudinal (e.g. job satisfaction, loyalty) and/or behavioral outcomes (e.g. a lower intention to quit) (Morrison & Robinson, 1997; Rousseau, 1995; Sonnenberg, 2011). According to the assumptions guiding our framework, a highly engaged TM can play this role and have a positive impact on sustainable talent retention. It includes participation in a talent pool and offers training and development opportunities that are only available for employees identified as talent. In the case of a well-communicated transactional contract and corresponding reactive TM, talented individuals might not develop a long-term perspective with the company, but they should at least display job satisfaction, loyalty and an acceptable level of performance during their employment. Therefore, although "only" reactive TM is offered, in the case of a clear communication of obligations this approach does not damage the employer's branding, as the TM practices carried out by the employer correspond to the perceived obligations.

In summary, regardless of whether or not clearly communicated TM is highly engaged or reactive, the different types of

psychological contracts (relational or transactional) can both be fulfilled, which, in turn, should lead to job satisfaction, loyalty, and good performance. However, with respect to the intention to quit and possible high staff turnover rates, differences may occur, and only a highly engaged TM may contribute importantly to talent retention, as intensive investments in the long-term relationship with employees create a high degree of mutual interdependence and more barriers to resignation (Conway & Briner, 2005; D'Amato & Herzfeldt, 2008; Rousseau, 1995).

Therefore, we suggest:

Proposition 3a. Highly engaged TM leads to positive attitudinal outcomes (e.g. job satisfaction, commitment) and lower intention to quit in the case of a fulfilled relational psychological contract.

Proposition 3b. Reactive TM leads to positive attitudinal outcomes (e.g. job satisfaction, commitment) in the case of a fulfilled transactional psychological contract.

3.4. Generational effects moderating the impact of TM on the psychological contract

Many psychological contract studies have neglected the potential of generational differences in interpreting psychological contracts (DelCampo et al., 2011). Generational cohorts can differ in their behavior and attitudes to work (DelCampo, 2007; DelCampo et al., 2011; Jenkins, 2008). Some researchers have identified that traditional psychological contracts, built around values such as loyalty and commitment in return for job security, are changing (Meuse, Bergmann, & Lester, 2001; Hiltrop, 1999; Vaiman et al., 2012). Employees have started increasingly to take personal responsibility for their employability and careers, along with changing expectations of new generations toward the workplace (D'Amato & Herzfeldt, 2008; Pate & Scullion, 2010; Schuler et al., 2011; Tarique & Schuler, 2010; Vaiman et al., 2012).

Acknowledging the fact that employees from the Baby Boomer generation will generally occupy more senior positions in companies than Generation X and Y members, past studies have also investigated whether work-related values change over time as a function of age and maturity, or due to belonging to a generation. There are a number of distinct attitudes and preferences that have lifelong effects. These are based on differences in generations (Arsenault, 2004; Benson & Brown, 2011; D'Amato & Herzfeldt, 2008; Twenge & Campbell, 2008). Therefore, in line with previous research, we assume that differences in work-related value orientations and preferences are phenomena of generations that are based on distinct life events and changes in society, and are not a matter of the age of the employees at the time of the investigations.

With respect to TM, Sonnenberg (2011) found differences across generations. Baby Boomers expected most from their employers with regard to organizational policies, while Generation Y members expected the most regarding career development. Another example of where generational differences in psychological contract content occurred was related to work-life balance (Baby Boomers did not perceive this as much as an employer's obligation compared to Generation Y). In summary, the result of the study indicates that different generations of talent may not have the same types of psychological contracts in a comparable situation. Therefore, a one-size-fits-all approach to TM may not be appropriate, which has led to a call for generation-specific HR and TM strategies (D'Amato & Herzfeldt, 2008; DelCampo et al., 2011).

As various generations vary with respect to work-related values such as attitudes (Benson & Brown, 2011; Burke, 2004; Crampton & Hodge, 2007; Jenkins, 2008), it is likely that talent responds differently to TM practices. Consequently, we assume that TM practices do not affect the psychological contract of all talented

individuals in the same way, but rather that different levels of psychological contract fulfillment can be achieved (D'Amato & Herzfeldt, 2008; DelCampo et al., 2011). Since some studies have found that the Generation Y cohort is very focused on training and development opportunities, career development, and work-life balance, this may be an extremely important and indispensable element of TM for Generation Y employees (D'Amato & Herzfeldt, 2008; DelCampo et al., 2011; Twenge et al., 2010). Furthermore, Generation Y members are reported to be less loyal and more individualistic, compared to Baby Boomers, and in their choice of employers, they value those who care about their employees as individuals (Terjesen & Frey, 2008). Therefore, we assume that highly engaged TM as described earlier, which, by definition, addresses the above-cited preferences of Generation Y, will lead to a higher psychological contract fulfillment for these younger employees (Generation X and Y) than for older workers (e.g. Baby Boomers) (Accenture, 2010). With respect to generations such as Baby Boomers, studies have demonstrated that they have a higher intention to stay in a current organization and are less likely to change jobs frequently, compared to Generation X (Accenture, 2010; Benson & Brown, 2011; Burke, 2004).

Thus, we assume that highly engaged TM, which can be seen as a signaling device and as an investment in talent, will have an even more important impact on the psychological contracts of members of Generations X and Y. This leads to the following propositions:

Proposition 4a. Generations' distinct value orientations and preferences moderate the effect of TM on the psychological contract.

Proposition 4b. Highly engaged TM practices have a higher impact on psychological-contract fulfillment for Generation X and Y than for the Baby Boomer generation.

There are a number of factors influencing an employee's intention to stay or quit, however, *ceteris paribus*, highly engaged TM practices and the provision of development and career prospects are in accordance with the value orientation of Generation X and Y and have the potential to influence their behavior and their intention to stay in the company. Thus, we assume the following:

Proposition 4c. The positive effect of highly engaged TM on the intention to stay is higher for Generation X and Y than for the Baby Boomers.

Following these propositions, TM can meet the challenges of managing individualism and recognition for the mobility of Generation Y and Generation X indicated above, by emphasizing, among other things, highly valued training and development opportunities, and thus meeting the expectations of these generations (Cennamo & Gardner, 2008; D'Amato & Herzfeldt, 2008; DelCampo et al., 2011; DelCampo, 2007; Vaiman et al., 2012). Of course, these effects may be even stronger if, in addition to the generation-specific change in values and preferences, we consider that the Generation X and Y members are younger than Baby Boomers who are retiring, and therefore decreasing in numbers, while the representation of Generation Y in the workplace is increasing. Consequently, it is crucial to address the needs and expectations of this generation's employees, who still have a long way to go before their careers come to an end (Benson & Brown, 2011).

4. Conclusion

4.1. Summary and contribution

The literature review and the suggested framework demonstrate that it is valuable to focus on the individual level in TM

research. By applying the social-exchange theory of the psychological contract to TM, we were able to consider explicitly an individual perspective in TM research. The moderating role of generations enriched this framework further (see Fig. 1).

With the current demographic situation and shortage of skilled labor in many countries (European Commission, 2011; Ward, 2011), it has become even more important to retain talent within the firm. One way to achieve talent retention is by investing in highly engaged TM. Therefore, an employer fulfills its obligations in the reciprocal relationship with the talent and uses TM as a signaling device to demonstrate the importance of that talent. This again leads to a more fulfilled, relational psychological contract for the designated talent, a precondition to reaching suggested outcomes such as job satisfaction, loyalty, and performance, and a reduction in the intention to quit (Morrison & Robinson, 1997; Rousseau, 1995; Sonnenberg, 2011). Bearing in mind that workforces and even respective talent pools are heterogeneous, one way to embrace and address this diversity is to adopt a generational lens and try to understand that the impact of TM on the psychological contract of talent can be different for different generations.

By suggesting the framework depicted in Fig. 1 we contribute to a more informed theoretical research on TM. Integrating knowledge from social-exchange theory, in particular, on the psychological contract helps to enrich the research domain and establishes an innovative and valuable link between TM and psychology. With regard to the organizational level, we outline the importance of TM as a key human resource practice with the potential to contribute to competitive advantage.

4.2. Limitations

Based on the conceptual nature of the paper, there are several limitations. The paper is based purely on a literature review and secondary data. Furthermore, we studied TM as an entire, idiosyncratic system and did not dwell on the various practices or measures that constitute a TM system. Moreover, one has to acknowledge that the terms 'talent' and 'talent management' and their associated practices can have multiple meanings for different companies. Developing talented individuals can mean a single training initiative in one company, whereas it stands for a long-term development program including job rotation or expatriation in another company. We tried to cope with this challenge by differentiating between highly engaged TM and reactive TM by following the empirical work of Festing et al. (2013). While we described the possible contents of selected TM practices, this differentiation would need to be elaborated and operationalized further, in order to conduct future empirical research, especially because it has been developed based on empirical data from a specific country (Germany) and from a specific type of organization (medium-sized company).

In addition, it is difficult to study generational effects, because the concept of generational cohorts as well as measuring their values is difficult, given the varying birth-year periods and taking into account 'tweeners' (Arsenault, 2004). Huge sample sizes would be necessary to adjust for and moderate these effects. In western countries there are currently four generations in the workplace (Catalyst, 2012; Twenge et al., 2010): For example, in the U.S., Generation Y represents around 27% (Generation X = 22.9%) of the population and 25% (32.7% Generation X) of the labor force (Catalyst, 2012). Empirical evidence regarding generational differences in the workplace is still scarce and further research is needed.

Due to the novelty of the research field and the lack of empirical studies on TM, a scale that could be employed to measure TM practices has not yet been developed. However, the CIPD (2006)

has developed a list of 16 practices, such as mentoring, coaching, and development programs, which are commonly used by organizations and could serve as a first reference to operationalizing TM in empirical studies.

While the focus of this paper was to explain generational differences and their effect on the relationship between TM and psychological contracts, we have to acknowledge that other diversity measures, such as gender or cultural background, could provide additional potential moderating effects – again, a currently under-researched domain (DelCampo et al., 2011; Rousseau & Schalk, 2000). Lastly, when talking about talent and talent retention, we assumed that talented employees are those with a permanent contract, leaving out aspects of retaining contingent workers (Vaiman, 2010) or challenges to fully recognizing the talent of skilled ethnic minorities (Al Ariss et al., 2013).

4.3. Managerial relevance

At this stage of the research, it is difficult to develop valid implications for practice. Our suggested framework has not been confirmed empirically. If the suggested relationships could be empirically supported, the framework would have important implications. As shown in the literature review, each generation has its own values and attitudes toward work (Crampton & Hodge, 2007; Jenkins, 2008). Analyzing, understanding, and addressing these generational differences can lead to a more effective way of attracting, managing, motivating, and retaining employees, and talent in particular (D'Amato & Herzfeldt, 2008). In this case, TM has a different impact on the psychological contract of members from various generations, and we therefore truly question a talent strategy that treats all talent the same, without including variations based on generational cohorts or potentially even other diversity groupings (gender, cultural, or minority). With respect to the applicability and validity of the framework, we postulate that it only applies to developed countries and larger organizations (compared to smaller enterprises) that have, on the one hand, multiple generations represented in their current workforces, and on the other hand, the necessary resources to invest in TM practices, in addition to general HRM practices.

We call for caution with respect to so-called best practices. When considering operationalizing the framework of this paper, one has to balance carefully the national and cultural setting, as well as global standards vs. the local adaptation of TM to the respective context (Stahl et al., 2012). Finally, organizations should also pay attention to meeting future potential talent expectations and pre-employment beliefs, in order to influence the “anticipatory psychological contract” (De Hauw & De Vos, 2010, p. 294). However, in order to focus on talent attraction instead of retention, a thorough reconsideration of the framework and its underlying assumptions is necessary, in order to better incorporate the processes and dynamics of psychological contract-making (e.g. messages, social cues) as well as respective contract makers (Rousseau, 1995).

4.4. Future research agenda

Due to the under-researched phenomenon of the combination of social-exchange theory, generational studies, and TM, the results of this conceptual study reveal a variety of research questions and are as affecting the context, organizational, and individual levels of TM.

On the *context level*, as indicated previously, we assume that the framework can be applied especially to developed countries and larger companies that have the necessary resources to invest in talent and also have several generations represented in the workforce. However, with increasingly diverse workforces in

multinational companies, and the acknowledgment of cultural differences, there is the need to further investigate national and cultural differences in retaining talent (Collings, Scullion, & Vaiman, 2011; Festing et al., 2013; Scullion & Collings, 2011). If we take the case of India as compared to Germany, high annual turnover rates are reported to be a major challenge for MNEs active in this national context (Bhatnagar, 2007; Tymon, Strumpf, & Doh, 2010). In this very different national context we simply do not know if TM practices and psychological contracts are similar for the various generations found in the two countries.

With regard to the *organizational level*, the question is still whether TM can really lead to increased company performance and which specific TM practices have the highest impact depending on the psychological contracts of members of different generations and their retention rates. Furthermore, concerning generation-specific HR and TM strategies, some case studies have found that there are already some companies that segment their talent pools, thus allowing for a more targeted approach to TM and the chance to experiment with generation-specific TM practices (Hewlett, Sherbin, & Sumberg, 2009; Stahl et al., 2012). If this is the case, it would be interesting to study the lessons learned.

On the *individual level*, TM research could analyze and compare various target groups in organizations, in order to better understand the challenges of employee diversity, i.e. whether, for example, gender or culture-specific challenges can explain differences in the acceptance and effectiveness of TM (Benson & Brown, 2011). For example, persons identified as talent and those who have not been selected, i.e. other employees who do not participate in TM activities could be compared with respect to differences in the psychological contract of the various generations (Björkman et al., 2013). This could help to better understand the impact of TM on the contents of the psychological contract, the process of contract-making, the parties involved (contract makers), and related generational differences. Furthermore, gender issues could be explicitly included in this conceptual framework (Tatli, Vassilopoulou, & Özbilgin, 2013). For example, in their study on ‘Attracting and retaining Generation Y knowledge worker talent’, Terjesen and Frey (2008) studied whether there are sex differences in students’ perceptions of organizational attributes. The authors found, contrary to the popular view, that the values of Generation Y men and women are increasingly converging, however, that sex differences exist, and that women favor attributes that could be related to female gender self-schemas (e.g. an emphasis on relationship-based organizational characteristics) (Terjesen & Frey, 2008, p. 83). With respect to a cited limitation of the study, in that it includes only arguments concerning permanently designated talent in our framework, future TM research could also investigate whether there are differences with respect to contingent workers (temporary, part-time, contracted, leased, outsourced, and consulting services) as a growing group in the workplace (Vaiman, 2010; Vance & Vaiman, 2008).

This paper has shown that the field of TM is still lacking theoretical foundations, and although many academics have contributed to the various publications on TM in the last decade, the research field still offers fruitful avenues for future research (Thunnissen, Boselie, & Fruytier, 2013a; Thunnissen et al., 2013b). Only if we apply various theoretical perspectives to the field and conduct empirical studies will we be able to advance our knowledge step by step and develop increasingly more solid frameworks.

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