

Assessing the Effect of Talent Management Practices on Indian Banks' Financial Outcomes

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Abstract

This paper attempts to address important sector of the financial industry providing insight of talent management practices. As, talent management (TM) act as a major driver for organisational excellence such as financial performance. Financial indicators reflect the fulfillment of the economic goals of the firm. In this context, present paper has explored the impact of talent management practices (i.e. talent identification, succession planning, talent development and talent retention) on the financial performance in the banking sector. The data has been collected from the managers working in five prime banks (according to market shares) of India. The scale has been purified and validated with the help of exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) respectively. SEM has been used for hypotheses testing. Further, theoretical and managerial implications and scope for future research have also been discussed.

Keywords: *talent identification, succession planning, talent development, talent retention, financial performance, banking sector*

Introduction

In the current era, every type of organisations is struggle to attain sustainable competitive advantage. Human Resource is the only asset in the organisation that are capable for generating sustainable competitive advantage. In this context, talent management (TM) is an analytical process of HR, which focuses on people in terms of quality and quantity in order to meet current and future needs of the organisations (Regis, 2013; Jyoti and Rani,

2014; Boselie et al., 2021; Al Jawali et al., 2022). Talent management has emerged as a critical element and multidisciplinary field of strategic HRM (Jyoti and Rani, 2014; Tarique and Schuler, 2010), as its focuses on attracting, identifying, selecting, developing, engaging and retaining employees (Best, 2018, Valverde et al., 2013; Kamjula, 2012; Bhatnagar, 2007). Furthermore, it was indicated by (Billings, 2020) that in order to implement human resources' vision, possessing qualified workforce with high skills and competencies form talent management. In the late nineties, the study of McKinsey "War of talent" has generated the concept of talent management which consisted of giving importance to retain qualified and talented people in order to succeed in business (Berger, 2019). Financial performance represents the measurement of the changes in the company's financial condition or the financial output that is resulted from the management decision as well as the decision by the members of the organization. According to Richard et al. (2009), the financial performance of the organization related to the accountancy measurement. The financial performance will be measured indirectly by asking the opinion of the management level about the degree of financial performance achievement due to the limited data available. This is called as subject performance measurement. It will avoid the problems of availability and confidentiality (Pelham and Wilson, 1996). Subjective performance measurement can be used in many indicators such as Return on Assets (ROA), Return on Investment (ROI), and the others (Harris, 2001). The indicators used in this research will be adopted from Lopez et al. (2005) which consist of Return on Asset

(ROA), Return on Equity (ROE), sales growth, net profit, profit growth, and market share.

Despite, the increasing attention towards TM, literature review has revealed that there are few empirical studies on talent management especially with modern practices (Hendrawan et al., 2024; Agrawal, 2010; Kontoghiorghes and Frangou, 2009; Janardhanam et al., 2011). Further, the impact of talent management practices on financial performance has not been evaluated at length in the literature. For testing the relationship, this study has conceptualised that talent management is a multidimensional construct that comprising talent identification, succession planning, talent development and talent retention practices. Further, the main purpose is to investigate the impact of talent management practices on the financial performance of an organisation.

Objectives of the Study:

The objective of the study assessed talent management on financial performance in banking sector, India. While the specific objectives are to:

- To investigate the talent management practices adopted by the banks in the study area
- To study the impact of talent management practices on financial performance of banking sector.
- To recommend key implications for HR managers, branch managers and future research.

Conceptual Framework

Figure 1 shows proposed model, which illustrate the relationship between talent management practices and financial performance. The model highlights how effective implementation of TM practices can lead to enhanced organizational outcomes, particularly in terms of profitability, productivity, and sustainable financial growth.

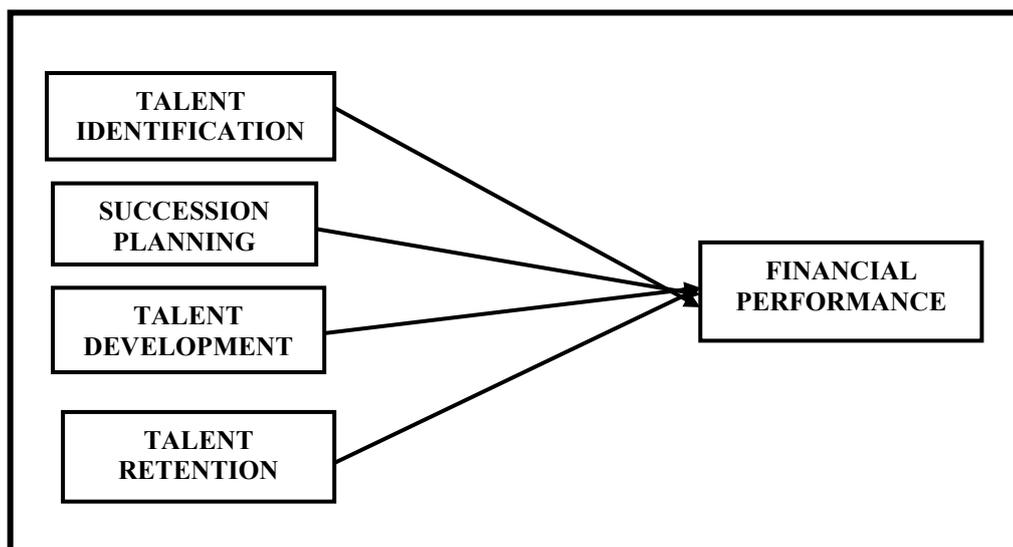


Figure 1: Proposed Research Model

Hypotheses Development

Impact of talent management practices on financial performance

Talent management practices help not only to overcome a talent shortage, but also deliver financial results that will win the approval of all stakeholders (Janardhanam et al., 2011). It increases productivity and capability; develops better linkage between individuals' efforts and business goals. Moreover, Jyoti and Rani (2014) conceptually revealed that organisations that apply talent management practices will achieve significant higher financial outcomes in terms of sales revenue and productivity (Kontoghiorghes & Frangou, 2009), net profit margin and earnings before interest, depreciation, and amortisation (DiRomualdo et al., 2009), return on assets and return on equity (Joyce & Slocum, 2012), or return on shareholders' value and market value (Huselid & Becker, 1998). The identification of talent has a significant impact on the competitive advantage of the firm. They contribute towards the materialisation of strategy and organisation's economic objectives and cutting the cost of fluctuation. Talent management reduces the extra cost of recruitment process for vacant positions because management chooses the best candidate from the selected talent pool

(Horvathova & Durdova, 2010). By attracting and developing a satisfied, highly skilled talent pool and organisations enjoys improved customer service, increased sales, improved stock prices, individual contributions, and organisational growth (Connors et al., 2008; Puvitayaphan, 2008; Heinen & O'Neill, 2004; Handfield-Jones et al., 2001). Managing talent results in better financial outcomes such as company profit, market value, and greater shareholders' value, return on assets and return on equity. Furthermore, succession planning and talent development have statistically significant positive consequence in financial terms such as on profit, market value, and overall talent productivity (Bethke-Langenegger et al., 2010; Heinen & O'Neill, 2004). Moreover, talent management leads to cost savings through long-term proactive internal succession planning and higher retention rates (Sebald et al., 2005; Steinweg, 2009; Tansley et al., 2007). Though, Batt (2002) researched those high standard human resources practice i.e., talent retention contributes to the firm's profitability and market value. But, Bethke-Langenegger et al. (2010) founded that no effect of talent retention on financial outcomes at the company level.

Author(s)	Year	Key Finding
Collings & Mellahi	2009	Strategic TM leads to increased firm-level outcomes including ROI and revenue.
Al Ariss et al.	2014	Effective TM in multinational firms correlates with improved profit margins.

Author(s)	Year	Key Finding
Becker & Huselid	2006	High-performance work systems including TM practices predict strong financial performance.
Sheehan et al.	2020	Talent retention and engagement significantly affect financial growth in service firms.
Apospori et al.	2008	Organizations with strong TM and HRM practices showed higher return on assets (ROA) and return on equity (ROE).
Pandita & Ray	2018	Talent engagement strategies in Indian IT firms are linked to higher revenue per employee and customer satisfaction.

The above literatures lead to formulation of following hypotheses:-

- H1: Implementation of talent identification leads to better financial performance.*
- H2: Implementation of succession planning leads to better financial performance.*
- H3: Implementation of talent development leads to better financial performance.*
- H4: Implementation of talent retention leads to better financial performance.*

Research Design and Methodology

Generation of Scale Items

The constructs for Talent Management Practices and Financial Performance were developed based on an extensive review of related literature. Inputs were also obtained from Human Resource Management experts and one branch manager from each participating bank to ensure contextual relevance and practical alignment. A five-point Likert scale was employed to maintain consistency in responses, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

- **Talent Identification:** Twelve items were developed based on the works of Edwards and Bartlett (1983), Horvathova and Durdova (2010), Yarnall (2011), Piansoongnern et al. (2011), and Hartmann et al. (2010).
- **Succession Planning:** Twelve items were generated from the studies of

Farashah et al. (2011), Krishnakumar (2011), Hartmann et al. (2010), Bano et al. (2010), and Piansoongnern et al. (2011).

- **Talent Development:** Twelve items were drawn from the research contributions of White (2009), Collings and Mellahi (2009), Heinen and O'Neill (2004), Yarnall (2011), and Bano et al. (2010).
- **Talent Retention:** Twelve items were adapted from the studies of Kontoghiorghes and Frangou (2009), Hausknecht et al. (2009), Bhatnagar (2007), Priyadarshi (2011), and Piansoongnern et al. (2011).
- **Financial Performance:** Seven items were adapted from established measurement frameworks by Fuentes et al. (2006) and Venkatraman and Ramanujam (1986).

Data collection

To determine the appropriate sector for the study, a pilot survey was conducted with 20 bank managers, selected through convenience sampling, to assess the extent of Talent Management (TM) practices being implemented. The findings of the pilot survey indicated that TM practices are actively adopted within the banking sector. Based on these results, the final survey was conducted within this sector. Data were collected from managers working in two public sector banks (State Bank of India and Punjab National Bank) and three private sector banks (HDFC Bank, ICICI Bank, and J&K Bank) located in Jammu city. A total of 250 managers were approached using the convenient sampling method, out of which 225 provided valid and complete responses.

Data Analysis

The data were analysed using IBM SPSS (Statistical Package for the Social Sciences) for preliminary analysis and AMOS (Analysis of Moment Structures) for structural equation modeling. Prior to the main statistical testing, the dataset underwent a rigorous purification process to ensure data quality and construct validity. This process began with Exploratory Factor Analysis (EFA), which was employed to uncover the underlying factor structure of the scale items and eliminate any poorly performing or cross-loading items.

Following the EFA, Confirmatory Factor Analysis (CFA) was conducted to validate the factor structure identified. CFA helped assess the construct reliability, convergent validity, and discriminant validity of the measurement model. Several model fit indices were evaluated—such as Chi-square/df ratio,

RMSEA, CFI, GFI, TLI, and SRMR—to ensure the model's adequacy and overall goodness of fit.

The combination of EFA and CFA strengthened the psychometric properties of the instrument, confirming that the measurement items were statistically sound and theoretically consistent. The detailed results of the exploratory and confirmatory factor analyses are presented in the following sections, including factor loadings, eigenvalues, variance explained, and model fit statistics.

Scale purification- Exploratory Factor Analysis (EFA)

In this study, majority of scales are self generated. Thus, this study has conducted multivariate data reduction technique of factor analysis for examining the inter-relationship among variables and reduction of a large number of variables into few manageable and meaningful sets. It has carried with Principal Component Analysis along with the orthogonal rotation procedure of Varimax for summarising the original information with minimum factors and optimal coverage. In this study, the statements with communalities and factor loading less than 0.5 and Eigenvalue less than 1.0 have ignored in the subsequent analysis (Sharma and Jyoti, 2006). EFA has been conducted on each practice of TM separately. The detailed outcomes of EFA are explained as under:-

The twelve items of talent identification have reduced to 7 after EFA. The high KMO value (0.659) and Bartlett's test of sphericity (chi square =716.723, sig<.001) indicate required sample adequacy for factor analysis. The loading of all items have greater than 0.50.

The total variance explained by this factor has arrived at 72%.

The 12 items of succession planning got reduced to eight with 73 percent variance explained. The high KMO value (0.713) and Bartlett's test of sphericity (chi square =282.925, sig<.001) provided required sample adequacy for factor analysis. Again, the loading of all items is greater than 0.60.

Talent development construct initially consisted of 12 items that got reduced to 9 under one factor. It is explaining 78 percent of total variance. Further, high KMO value (.880) and Bartlett's test of sphericity (chi-square= 1550.239 sig<.001) revealed the sample adequacy for factor analysis. The factor loading of all items is greater than .50.

Further, Talent retention construct got reduced from 12 to 8 items and explained 68 percent of total variance. Further, high KMO value (.882) and Bartlett's test of sphericity (chi-square= 1254.373 sig<.001) revealed the sample adequacy for factor analysis. The factor loading of all items is greater than .60.

Financial performance construct contained seven items with high factor loading (<.70). Further, high KMO value (.816) and Bartlett's test of sphericity (chi-square= 1541.496, sig<.001) revealed the sample adequacy for factor analysis. The total variance explained by this construct arrived at 79%.

Results

Henseler et al. (2009) and Anderson and Gerbing (1988) suggested two phase procedure for testing the theoretical model: 1) the measurement model and 2) the structural

model. For assessing the composite reliability, convergent validity and discriminant validity, the measurement model i.e. Confirmatory Factor Analysis has been tested first. Hence, the items that emerged after EFA under the individual factor have validated through CFA and items with standardised regression weights (SRW) less than 0.50 have deleted (Hair et al., 2007). Fitness of the model has been assessed with various global fit indices like goodness of fit index (GFI), adjusted goodness of fit index, comparative fit index (CFI), normed fit index (NFI), Root mean squared error (RMR) and root mean square error of approximation (RMSEA). Goodness of fit of all the measurement models are within threshold limits (GFI, AGFI, CFI, NFI > 0.9; RMR <0.05; RMSEA <0.08) (see Table 1).

Further, CFA has also been used to assess convergent validity (Bagozzi et al., 1991). The convergent validity has been checked through factor loadings and the AVE of all constructs. High standardised estimates (SRW>0.05) and AVE (>0.05) proved the convergent validity (Table 2).

Apart from the validity, reliability of the constructs has been checked through internal consistency in the application of Cronbach's alpha (Cronbach, 1951) as well as by extracting the composite reliability with the help of variance extracted. Alpha values equal to or greater than 0.70 indicate high construct reliability (Nunnally, 1970), which is proved in this study. Composite reliability is calculated as the squared sum of the individual item loadings divided by the squared sum of loadings plus the sum of error variances for the

measures. This measure of internal consistency is similar to Cronbach's alpha except Cronbach's alpha assumes a priori that each measure of a construct contributes equally to construct (Cronbach, 1951). Bagozzi and Yi (1988) suggested that composite reliabilities of 0.6 or greater are desirable and that the individual item reliabilities will be usually lower than composites. The Cronbach's alpha and composite reliability values are presented in Table 3 prove that the constructs are quite reliable. Fornell and Larcker (1981) highlighted the importance of evaluating the discriminant validity of the constructs used. A successful evaluation of discriminant validity shows that a test of a concept is not highly correlated with other tests designed to measure theoretically different concepts. It has been proved by comparing the variance extracted with squared correlations between two constructs. The variance extracted for the constructs is higher than the squared correlation thereby proving discriminant validity (Table 3).

Assessing the Impact of Talent Management Practices on Financial Performance: A Structural Equation Modeling

As suggested by Anderson and Gerbing (1988) in the second phase, the structural model has used to test all the hypotheses simultaneously. In the present study, the relationship between talent identification, succession planning, talent development, talent retention and financial performance have been assessed.

Figure 2 reported the results of the study. Hypothesis 1 states that implementation of talent identification leads to better financial performance. But, structural model shows that there is an insignificant relationship between talent identification and financial performance ($\beta = 0.06, p > .05$). Hence, this hypothesis is not supported. The reason may be that talent identification is a planning process, which focuses only on identification of best, average and low performers in the organisation at every level.

Further, hypothesis 2 states that implementation of succession planning leads to better financial performance. The standardised regression weight (SRW) of this relationship ($\beta = 0.54, p < 0.001$) is significant, which supports the second hypothesis (Figure 2).

It has been further hypothesised (H3) that implementation of talent development leads to better financial performance. The result ($\beta = 0.30, p < 0.001$) revealed that talent development has strong impact on financial performance of an organisation (Figure 2). So, this hypothesis has also stands accepted.

Further, Hypothesis 4 states that implementation of talent retention leads to better financial performance. The result ($\beta = 0.25, p < 0.05$) revealed that talent retention also significantly affects financial performance of an organisation (Figure 2). So, this hypothesis also stands accepted.

Though out of 4 hypothesised relations 3 stand accepted but, the goodness of model fit is poor ($\chi^2/df=2.363$, RMR= 0.239, GFI= 0.639, AGFI= 0.574, NFI= 0.660, CFI= 0.767, RMSEA= 0.117). So, in order to achieve the goodness model fit, the insignificant relationship between talent identification and financial performance has been removed (as suggested by Arbuckle and Wothke, 2004), still the goodness of model fit are not appropriate. So, the modification indices have been inspected, which suggested regression paths from Talent identification → Succession planning and Talent identification → talent development. The introduction of these paths improved the goodness of model fit significantly, which yield model 2 has better fit ($\chi^2/df=1.974$, RMR=0.059, GFI=0.907, AGFI=0.870, NFI=0.809, CFI=0.903, RMSEA=0.080). Further, model comparison also revealed differences in the two models ($\Delta\chi^2>3.84$, $p<0.01$).

Discussion

alent management practices play a critical role in enhancing the financial performance of organizations, particularly in the banking sector, where human capital is a key strategic asset (Collings & Mellahi, 2009; Becker & Huselid, 2006). The findings of this study revealed that succession planning, talent development, and talent retention have a significant and positive impact on the financial performance of banks. Succession planning involves proactively identifying and preparing talented employees to fill key roles within the

organization. By assigning high-potential individuals to pivotal positions, organizations ensure leadership continuity and operational stability, which contributes to improved financial outcomes (Farashah et al., 2011; Krishnakumar, 2011). These individuals utilize their skills, competencies, and institutional knowledge to drive organizational performance and profitability. In terms of talent development, banks invest in structured training programs, long-term development initiatives, and strategically assigned roles. Such practices enable employees to acquire and refine essential skills, enhancing their overall productivity and efficiency (Collings & Mellahi, 2009; White, 2009). These enhanced capabilities are directly applied to business operations, thereby generating financial benefits such as increased profitability and market competitiveness. However, development alone is insufficient if not coupled with effective talent retention strategies. Organizations must focus on retaining skilled and experienced employees over the long term to sustain competitive advantage and realize superior financial outcomes (Hausknecht et al., 2009; Bhatnagar, 2007). Retention ensures that the investment in talent development yields continuous returns by reducing turnover costs and preserving institutional knowledge. Interestingly, this study found that talent identification did not have a direct and significant impact on financial performance. This could be attributed to the fact that talent identification is an initial stage in the talent management cycle, primarily concerned with recognizing high-

potential individuals for future development (Horvathova & Durdova, 2010; Yarnall, 2011). At this stage, the financial contributions of identified talent may not yet be realized.

However, further analysis using an alternative model revealed that talent identification significantly influences succession planning (SRW = 0.48, $p < 0.01$) and talent development (SRW = 0.66, $p < 0.01$). These findings suggest that while talent identification may not directly affect financial performance, it plays an important enabling role by feeding into other critical TM dimensions that do contribute financially.

Theoretical Implications

This study contributes to the theoretical understanding of Talent Management (TM) by validating measurement scales for four key constructs: talent identification, succession planning, talent development, and talent retention. The validation strengthens the conceptual clarity and operationalization of these constructs within the banking sector context.

Moreover, the study advances TM theory by empirically establishing that succession planning, talent development, and talent retention have a direct and significant impact

on financial performance. These findings align with the Resource-Based View (RBV) and Human Capital Theory, which emphasize the strategic role of human resources in achieving sustainable competitive advantage.

In contrast, talent identification was found to have an indirect effect on financial performance, operating through its significant influence on succession planning and talent development. This highlights talent identification as a foundational but enabling construct in the TM process—critical for initiating the talent pipeline but not directly linked to financial outcomes. This nuanced understanding extends existing TM models by recognizing the mediating role of downstream practices in translating identification into measurable financial gains.

Managerial Implications

The findings of this study offer several practical implications for branch and HR managers in the banking sector, aimed at enhancing the design and execution of effective Talent Management (TM) practices. These insights are particularly useful in strengthening the strategic role of branch managers in the TM process.

Implication Area	Managerial Actions	Expected Outcome
Strategic Involvement in TM	Branch and HR managers must actively participate in the formulation, implementation, and evaluation of TM practices.	Strengthens alignment between talent strategies and organizational goals.
Talent Identification Process	Implement formal identification techniques (e.g., nominations, segmentation) and maintain a centralized	Facilitates effective succession planning and long-term talent retention.

Implication Area	Managerial Actions	Expected Outcome
	talent database.	
Inclusive Talent Scouting	Survey all organizational levels to ensure talent is identified across the hierarchy.	Broadens the talent pool and ensures diversity in leadership pipelines.
Customized Development Plans	Offer need-based development programs, including leadership development and succession planning initiatives.	Enhances employee capabilities, confidence, and readiness for future roles.
Branch Managers' Role in Succession	Ensure active involvement of branch managers in planning succession strategies.	Empowers managers, improves decision-making, and boosts motivation.
Mentoring Programs	Design and institutionalize formal mentoring programs for guidance on career and life issues.	Increases employee satisfaction, work-life balance, role efficacy, and career development.
Integration with HR Systems	Regularly review and integrate TM practices with performance appraisal, career planning, and organizational development systems.	Promotes strategic consistency and improved HR outcomes.
Focus on Retention Strategies	Use the talent database to identify high-potential employees and offer long-term career paths and retention incentives.	Minimizes turnover and sustains financial performance through experienced human capital.

Limitations and Directions for Future Research

While this study has been conducted with careful attention to ensure objectivity, reliability, and validity, certain limitations must be acknowledged.

Firstly, the findings are based solely on the perceptions of branch managers, which may be influenced by personal biases or subjective viewpoints. To address this limitation, future research should consider incorporating multiple respondent groups, including HR managers and employees, to mitigate the issue of common method bias and gain a more holistic understanding of talent management practices.

Secondly, the study follows a cross-sectional research design, capturing data at a single point in time. Future studies could adopt a

longitudinal approach to examine the dynamic and evolving impact of talent management practices over time, thereby enhancing the causal inference of relationships.

Lastly, while the current research focuses on financial performance as the primary outcome, future research should explore additional employee-level and organizational outcomes, such as job satisfaction, employee performance, and organizational commitment, to gain a broader understanding of the implications of talent management practices.

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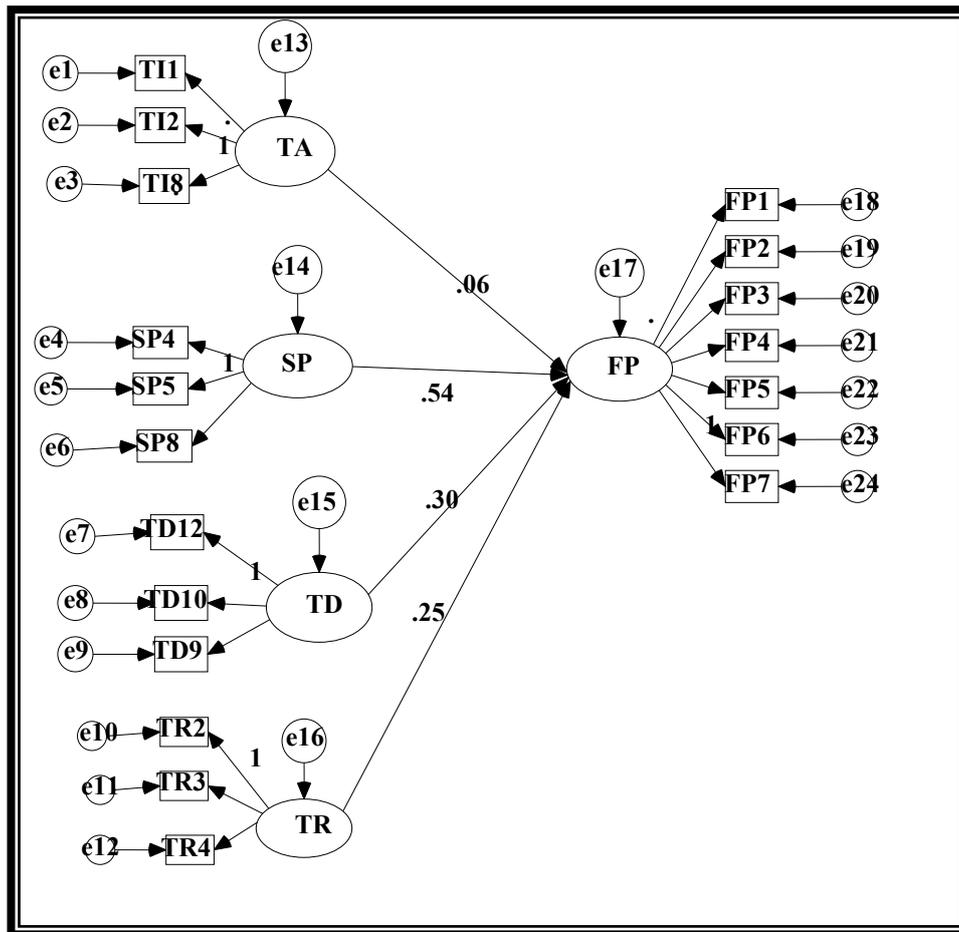


Figure 2: Proposed Model of the Study

Key: TI_talent identification; SP_succession planning; TD_talent development; TR_talent retention; FP_financial performance; e1-e24_error terms

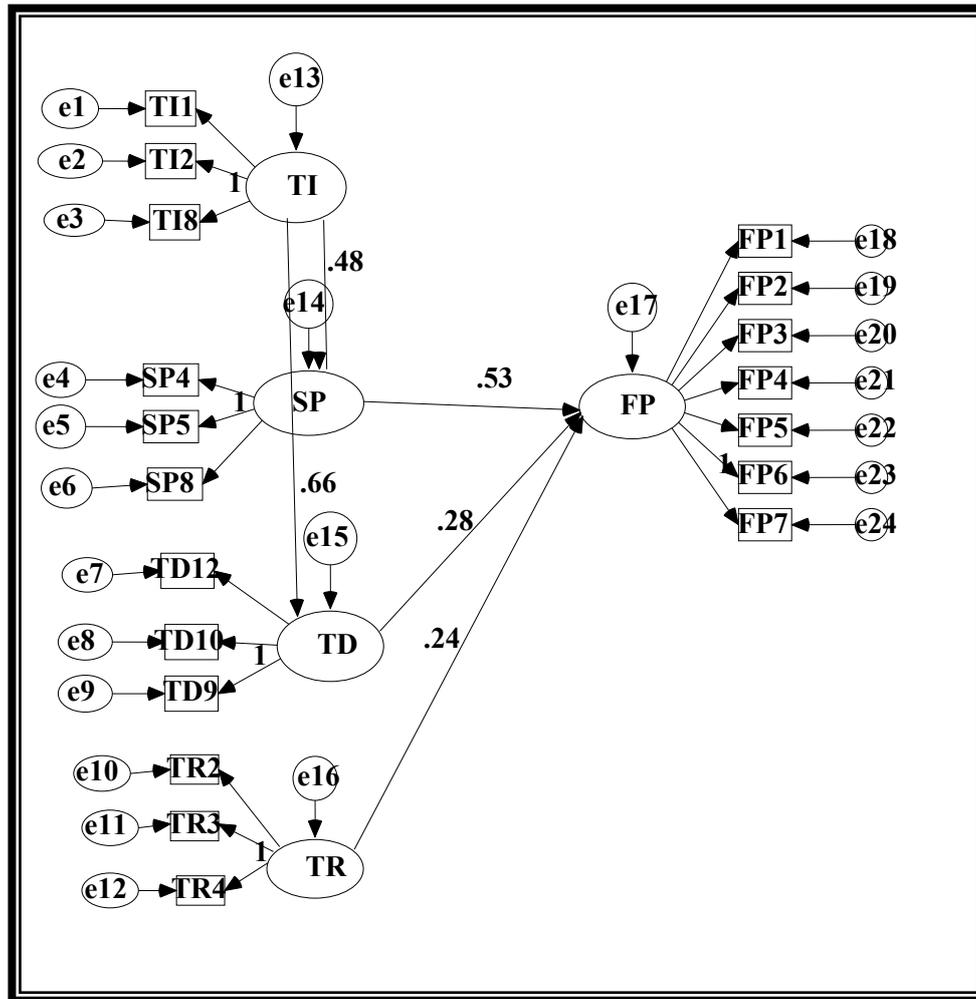


Figure 3: Alternate Model

Key: TI_talent identification; SP_succession planning; TD_talent development; TR_talent retention; FP_financial performance; e1-e24_error terms

Table 1: Goodness of Fit Indices of Various Measurement Models (CFA)							
Scales	χ^2/df	RMR	GFI	AGFI	NFI	CFI	RMSEA
Talent Identification	1.050	0.28	.970	.929	.960	.998	.023
Succession Planning	1.635	0.26	.976	.911	.968	.987	.080
Talent Development	1.643	.029	.956	.885	.965	.986	.081
Talent Retention	1.471	.039	.958	.902	.943	.981	.069
Financial Performance	1.569	.021	.953	.890	.976	.991	.076

Table 2: Reliability and Validity Analysis			
Scales	AVE	Cronbach's alpha	Composite Reliability
Talent Identification	.895	.839	.970
Succession Planning	.896	.891	.983
Talent Development	.903	.933	.986
Talent Retention	.851	.934	.990
Financial Performance	.969	.956	.971

Table 3: Discriminant Validity and Correlation Analysis					
	Talent Identification	Succession Planning	Talent Development	Talent Retention	Financial Performance
Talent Identification	.895				
Succession Planning	.283 (.532**)	.896			
Talent Development	.374 (.612**)	.494 (.703**)	.903		
Talent Retention	.421 (.649**)	.413 (.643**)	.633 (.796**)	.851	
Financial Performance	.158 (.398**)	.391 (.626**)	.488 (.699**)	.279 (.529**)	.969
<p>Note: ** Significance level=0.01 Values the diagonal axis represent Average Variance Extracted and below diagonal axis are squared correlations and values within the parenthesis are coefficient of correlation</p>					