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THE IMPACT OF TALENT MANAGEMENT PRACTICES ON EMPLOYEE

RETENTION: THE MODERATOR EFFECT OF LEADER-MEMBER EXCHANGE

AND ROLE MODELING.

ANA MARGARIDA DA SILVA DE ARAÚJO, 1489

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Professor Pedro Neves

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The impact of Talent Management practices on employee retention: the moderator effect of Leader-Member Exchange and Role Modeling.

Abstract

Organizations are undergoing serious difficulties to retain talent. Authors argue that Talent Management (TM) practices create beneficial outcomes for individuals and organizations. However, there is no research on the leaders' role in the functioning of these practices. This study examines how LMX and role modeling influence the impact that TM practices have on employees' trust in their organizations and retention. The analysis of two questionnaires ($Nt_1=175$; $Nt_2=107$) indicated that TM only reduced turnover intentions, via an increase in trust in the organization, when role modeling was high and not when it was low. Therefore, we can say that leaders are crucial in the TM context, and in sustaining a competitive advantage for organizations.

Keywords: Talent Management, Leader-Member Exchange, Role Modeling, Turnover Intentions

Introduction

Organizations everywhere are looking for talented individuals and trying to manage and develop them to become more competitive in the marketplace. However, these same organizations are facing major challenges and undergoing serious difficulties to attract and retain talent. Some of these challenges include globalization, shortage of competencies, and retention of top level talent in strategic alliances (Tarique and Schuler, 2010). Moreover, aspects related to demographics pose difficult challenges as well, such as the mix of employees from different generations and their differing perceptions of the employment relationship (Festing and Schäfer, 2014; Tarique and Schuler, 2010).

Despite the importance Talent Management (TM) has for organizations, there is no clear definition of it (Gallardo-Gallardo et al., 2013; Höglund, 2012; Vaiman and Collings, 2013). This lack of clarification can be explained by the fact that the different perspectives on TM reflect and are linked to specific contexts, organizations and beliefs around talent systems (Tansley, 2011; Vaiman and Collings, 2013).

In this study TM is defined "as an organization's ability to attract, select, develop, and retain key employees" (Festing and Schäfer, 2014: 263). At the same time, TM serves as a communication mechanism, signaling what the organization "expects from its employees and what the employees can expect in return" (Sonnenberg et al., 2014: 274). TM practices include, for example, coaching, mentoring and buddying, and in-house development programs (CIPD, 2006).

Authors argue that TM practices have a positive impact on the attainment of several outcomes, such as the development of talent pools (Collings and Mellahi, 2009), employee motivation and obligations to develop skills (Höglund, 2012), affective

commitment and intention to stay (Chami-Malaeb and Garavan, 2013), and job satisfaction and performance (Festing and Schäfer, 2014).

However, do leaders and managers have an important role on the outcomes achieved with such TM practices? In order to attract and retain the best workforce possible, it is crucial to have a compelling and consistent "employee value proposition" (Brannick, 2001: 30), which includes, for example, a culture where "talent flourishes", there are "career advancement and growth opportunities", and great leaders are present (Stahl et al., 2012: 17). The same author proposes that managers are important elements in the TM system, as they are responsible for developing their subordinates. However, we identified a gap in the literature concerning the support given by leaders and line managers in the implementation and functioning of this type of practices.

With this study we want to investigate the impact of the leadership component in the TM context. We want to study whether Leader-Member Exchange (LMX) and role modeling enhance the relationship between TM practices and trust in the organization, and consequently help in retaining employees. Social exchange theory (Blau, 1964) frames this work, proposing that, by investing in TM practices, organizations signal that they care for their employees and therefore are trustworthy, which will influence employees' behaviors later on.

This study adds to the current stream of literature on TM by deepening the knowledge on this recent topic, especially the impact these practices have on positive behaviors such as trust and intention to stay; and it introduces the leadership component as a moderator. Besides, we used a two time collection method, with six weeks of difference between both questionnaires (Nt_1=175; Nt_2=107), to test causal relationships between variables.

Given the difficulties that organizations are facing nowadays, Tarique and Schuler (2010) propose three major sets of activities that corporations can use to overcome their TM challenges: "Attracting (includes reputation management, recruitment, and selection), Retaining (includes performance management and compensation activities), and Developing (includes training and career development activities)" (p. 127).

TM is referred by many authors as a source of competitive advantage (Collings and Mellahi, 2009; Schuler et al., 2011), as it helps to create a more effective workforce, through the development of needed competencies, thereby increasing employees' value and uniqueness, and the business success. As Chami-Malaeb and Garavan (2013) refer, the human capital of "key talent is valuable and is very difficult to imitate" (p. 4048), therefore providing a benefit for those that learn how to retain it. This competitive advantage is of greater importance nowadays, given the economic and demographic context, where competition is increasingly growing in the marketplace, (Collings and Mellahi, 2009; Schuler et al., 2011; Sonnenberg et al., 2014; Tarique and Schuler, 2010). In the TM context, trust in the organization becomes extremely important for businesses, given the economic and demographic challenges, the context of rapid change and fierce competition (Hurley, 2006). Trust in the organization "refers to an employee's belief that the employer will act upon its words, and all its future actions will be beneficial or favourable for employees" (Malik and Singh, 2014: 338). In the present study, trust will be thought as trust in the organization, analyzed at a macro level, as TM practices are developed by a group of organizational representatives and not by a single individual. In this context, "individual perceptions of trust in the employer hinge on the collective

characteristics of the organization", being a preferable way of working when analyzing the impact of HRM practices on individual behaviors (Alfes, Shantz, & Truss, 2012: 410).

It is expectable for employees to rely more in organizations with TM practices, since it signals support for their professional development (Stahl et al., 2012). Given that the organization is investing in employees' career advancement, it is providing reasons for employees to trust in it. When organizations show interest in investing resources on employees, and actually do it, it is expectable that employees believe their words and in the good intentions the organization has with the employees' future. Having TM practices is a sign of competence, which attracts the employees' trust. Therefore, this study proposes that TM practices are positively related with trust in the organization.

Hypothesis 1: TM practices are positively related to trust in the organization.

The Leadership component

The impact leaders have on employees is extremely important to guarantee that programs and practices are successfully established. We propose there must be a vector of communication serving as an intermediary between those who create the practices and the employees. It is not enough to create the policies, it is necessary to have a spokesperson that embodies this change, to involve others and bring them to the same side. Stahl et al. (2012) proposes that managers are "important elements of successful talent management systems" (p. 8), as they are responsible for developing their subordinates.

There are two aspects of leadership especially important in the TM context, role modeling, and the quality of the exchange with the direct supervisor (LMX). These two pillars enable the "creation of supportive work environments", through "employee's

relationships with other key individuals in the organization" (Zagenczyk et al., 2009: 238). We expect that the relationship between TM practices and trust in organizations is influenced by the existence of managers that set positive examples, on one hand, and maintain high quality relationships with employees, on the other. Relationships between leaders and employees provide a base for support in the development of employees' capabilities. Consequently, this study proposes that the relationship between TM practices and trust in the organization will become stronger when employees perceive there are role models to look up at and when they have high quality relationships with their leaders. Only when employees perceive that leaders provide the example, support and needed resources for them to develop their capabilities, will they reciprocate and trust the organization.

A role model exemplifies "professional skills and personal attributes needed to achieve desired goals". Moreover, individuals "perceive to be similar to some extent" to these role models, thus desiring to "emulate (or specifically avoid) aspects of that person's attributes or behaviors" (Gibson and Barron, 2003: 199). Given this, role models are important, for example, in transmitting information to newcomers (Ostroff and Kozlowski, 1992), as they translate policies into practice. Since role models lead by example, they have the ability to instill higher levels of organizational trust, as employees can expect consistent work ethic and behaviors from them, and consequently reduce the levels of uncertainty they have concerning the organization.

Hypothesis 2: Role Modeling moderates the positive relationship between TM practices and trust in the organization, in the sense that, in the presence of high levels of role modeling, TM practices will have a stronger impact in the trust employees have in their organizations.

LMX theory describes the different exchange relationships formed between leaders and followers (Liden et al. 2006), given the "degree of emotional support and exchange of valued resources" (Tekleab and Chiaburu, 2011: 461). According to Kamdar and Van Dyne (2007), "high quality LMX relationships are personal, intangible, and open ended. Low quality LMX relationships are relatively impersonal economic exchanges" (p. 1289). The LMX theory tells us that supervisors treat more favorably promising individuals and these subordinates "reciprocate by working harder and providing more help to supervisors, leading to high-quality LMX relationships" (Eisenberger et al., 2014: 635). LMX quality has been shown to be linked with several positive outcomes such as employee creativity through self-efficacy (Liao et al., 2010), core task performance and organizational citizenship behaviors (Ilies et al., 2007; Tsui et al., 1997). We consider that the more personal and open ended relationships are, the stronger will the impact be between TM and trust in the organization. This can be explained by the fact that employees have a leader closer to them who provides support and resources, thereby bringing the TM practices to life, apart from its development in the HR department. The perception of the favorable treatment will make employees reciprocate accordingly, therefore increasing the levels of trust they have in the organization.

Hypothesis 3: LMX quality moderates the positive relationship between TM practices and trust in the organization, in the sense that, in the presence of high quality relationships with their leaders, TM practices will have a stronger impact in the trust employees have in their organizations.

The impact of Talent Management practices and leadership behaviors on employee retention

HRM practices have a positive impact on the performance of organizations, given that they influence the behaviors of employees (Chami-Malaeb and Garavan, 2013), such as the creation of trust and intentions to remain (Robinson and Rousseau, 1994). When organizations implement TM practices, they have the intent of maintaining their knowledgeable and talented employees (Malik and Singh, 2014), and not to lose them for competitors, with all the benefits the investment in those practices has generated. It is the "organisation's best interest to retain members of the talent pool as opposed to loosing them due to turnover" (Collings and Mellahi, 2009). Employee turnover is a very important aspect to study when considering TM practices, given that it represents a loss of human capital and money (Sagie et al., 2002) and studying its antecedents is important to prevent it from happening.

Social exchange theory frames the notion that TM practices influence behaviors such as turnover (Chami-Malaeb and Garavan, 2013). By representing an investment and commitment to employees, this type of HRM practices elicit particular behaviors on individuals, by increasing the perceptions of obligation to the organization (Shaw et al., 2009). Employees want to pay back their "debt" with behaviors valuable to the organization, given that balance is expected in the exchange relationship (Blau, 1964).

Besides the desire to establish the balance in the exchange relationship with the organization, described by the social exchange theory mechanism, high levels of trust will act as a mechanism to prevent turnover as well, since employees will not want to leave an organization that helps them deal with uncertainty. Robinson (1996) had already showed that trust was significantly related to intentions to remain. According to a study

conducted by Hurley (2006), when asking participants to characterize a trusting environment, individuals described it as "'fun,' 'supportive,' 'motivating,' 'productive,' and 'comfortable'". A low-trust environment was said to be "'stressful,' 'threatening,' and 'tense'". Given this, a trusting culture could be a source of competitive advantage in the TM context, given that an organization with a trusting environment would have lower turnover levels (Hurley, 2006).

We propose that the investment in TM practices, coupled with effective leadership behaviors, such as role modeling and LMX, will have a negative impact on employee turnover, given that it creates an environment where trust is fostered. Therefore, trust will work as a mediator between TM practices and employee turnover. Moreover, this effect will be enhanced by high quality relationships there may be between employees and leaders and/or the existence of role models to look up at.

As turnover intentions are a key predictor of actual turnover, and as they are used as a preferred proxy (Oluwafemi, 2013),we will follow the same procedure.

Hypothesis 4a: Trust in the organization mediates the relationship between the TM practices x Role Modeling interaction and Turnover Intentions.

Hypothesis 4b: Trust in the organization mediates the relationship between the TM practices x LMX interaction and Turnover Intentions.

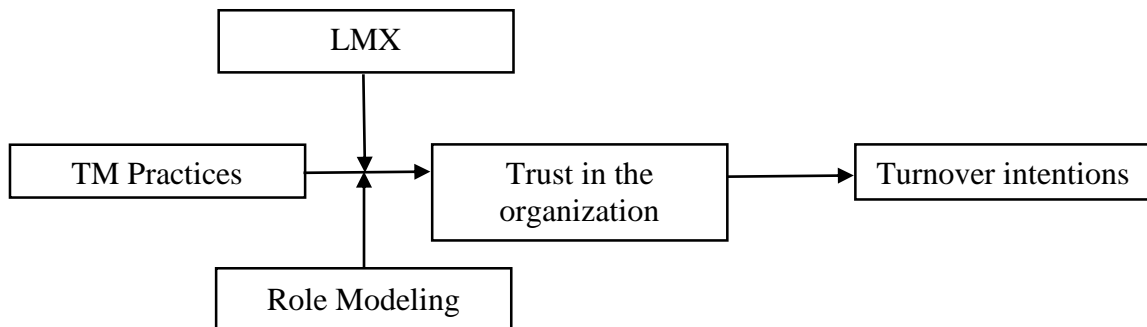Figure 1 illustrates the theoretical model proposed in this study.

Figure 1. Theoretical model.

Method

Sample and procedure

We collected questionnaires twice, with a six week difference between t_1 and t_2. The first collection involved 175 respondents, working in several public and private organizations in Portugal. Six weeks later, we contacted the same participants of the first time and received 107 responses (response rate of 61%). For TM practices, role modeling and LMX, we used the values of t_1, and for trust in the organization and turnover intentions, we used the values of t_2. In order to enable the crossing of the surveys from both times, codes were created with letters and numbers, guaranteeing its confidentiality. The two time collection method was used to determine temporal relations among measures, therefore capturing the chronological nature of the sense making process. Essentially, this way of data collection would allow to test causal relationships (Chami-Malaeb and Garavan, 2013).

The industries present in the sample included education (46.70%), defense (17.80%), banking (12.10%), health care (4.70%), audit and consulting (3.70%),

information technology (3.70%), consumer products and food distribution (1.90%), furniture (1.90%), pharmaceutical (1.90%), real estate (.90%), travel and hospitality (.90%), communication and marketing (.90%) and others (2.80%).

Regarding gender, 63.60% of the respondents were female. In what concerns education, 4.70% had a primary education, 10.30% had a lower secondary education, 16.80% had an upper secondary education, 38.30% had an undergraduate degree, and 29.90% had a Masters or superior degree. The employees' average age was of 42 years old (SD=14). Regarding tenure in the organization, 36.40% had worked in the same organization for less than five years, and 66.40% had worked with the same supervisor for less than five years. Regarding employment type, 93.50% of the respondents were full-time employees, and 29.90% of the respondents worked in the private sector.

Measures

The questionnaires included questions regarding TM practices, LMX, role modeling, trust in the organization, and turnover intentions.

Talent Management Practices were measured using a modified scale from Chami-Malaeb and Garavan (2013), originally with seven items, including, for example "Learning and development programs are available at least once a year". The sixth item, "E-learning is available to enhance employees' performance", was removed from the scale given that there is no systematic offer institutionally normalized, "no clear policy, consistent investment, or a transversal regulation on e-learning that is transparent and effective" in Portugal (Dias et al., 2014: 13). When doing the reliability analysis, the first item of the scale, "I often design my own development plan where I describe my learning objectives and activities to enhance my career development", had to be removed, increasing the Cronbach alpha from .66 to .71, with the remaining five items.

LMX was operationalized using the 12 items from Liden and Maslyn (1998) work, such as "I do work for my supervisor that goes beyond what is specified in my job description". The Cronbach's alpha for this measure was .90.

As to *Role Modeling,* we used the scale developed by Rich (1997). The five items included: "My manager provides a good model for me to follow". The Cronbach's alpha for this measure was .91.

Trust in the Organization was measured using the scale developed by Robinson and Rousseau (1994). The seven items included "I believe my employer has high integrity". The Cronbach's alpha of this measure was .88.

Turnover intentions were used as a proxy of actual turnover (Oluwafemi, 2013). In fact, when the economy and the labor-market are in a downturn, as in the current situation, turnover rates may not be the best measure to use. In this type of context, the levels of uncertainty increase and individuals get more risk averse, therefore waiting for more secure opportunities to appear for them to leave the current organization. To assess turnover intentions, we used the scale of Robinson (1996). The four items included: "If things go as I intend, I think three years from now I will still be working in this organization" (R). The Cronbach's alpha of this measure was .82.

All items from all measures were assessed on a five-point Likert scale, going from 1 (strongly disagree) to 5 (strongly agree).

Bootstrapping analysis

In order to analyze the data, we used the SPSS Statistics software. As the model presented in this study is a moderated mediation, a Bootstrapping analysis was made to test the conditional indirect effects. In order to make this possible, we used the Process macro provided by Preacher et al. (2007) and chose model 7. For TM practices, role

modeling and LMX, we used the values of t_1, and for trust in the organization and turnover intentions, we used the values of t_2, in order to test temporal relations between variables.

Results

The response rate was significantly reduced from t_1 (N_{t1}=175) to t_2 (N_{t2}=107). That raised the concern that our results could be biased, in the sense that the second sample could contain a bigger proportion of those individuals who reported high values in TM practices, role modeling, and LMX. In order to exclude this possibility, we conducted an ANOVA analysis, comparing the values of the three variables between the group that responded to both questionnaires (N_{t2}=107) and the group that only responded to the first questionnaire (N_{t1-t2}=68). The differences between groups concerning TM (F=.87, p>.05), LMX (F=.45, p>.05), and role modeling (F=1.01, p>.05) were not significant. We also tested for demographics, and age was the only variable with a significant difference between groups (F=4.61, p<.05). Those who answered only in t_1 were younger, with a mean age of 37 years old (SD=13), which may reflect differences in the sense of responsibility in answering the questionnaires. Therefore, there are only differences in one of the 12 indicators, including control variables and the TM, LMX, and role modeling measures. Consequently, we assume the smaller sample of the second questionnaire is very similar to the original group.

The ANOVA analysis also showed significant differences between both public and private sectors concerning TM practices (F=11.07, p<.01). The public sector reported a mean value for TM practices of 2.98 (SD=.70) and the private sector reported a value of 3.49 (SD=.79). This is expected given that private organizations have more discretion in using and developing TM practices. As to LMX (F=.05, p>.05) and role modeling (F=1.06, p>.05), there were no significant differences between sectors.

The descriptive statistics, correlations and Cronbach's alphas for the variables used in the model are presented in Table 1.

Table 1. Descriptive statistics, correlations and Cronbach's alphas.

	Mean[a]	SD	1	2	3	4	5
1. TM practices	3.18	0.86	(0.71)				
2. LMX	3.75	0.65	.53**	(0.90)			
3. Role modeling	3.47	1.05	.51**	.81**	(0.91)		
4. Trust in organization	3.41	0.88	.50**	.36**	.40**	(0.88)	
5. Turnover intentions	2.74	1.07	-.08	-.23*	-.28**	-.24*	(0.82)

[a] 5-point scales.
*p<.05; **p<.01

As the results present in Table 1 show, TM practices are positively related with LMX (r=.53, p<.01), role modeling (r=.51, p<.01), and trust in the organization (r=.50, p<.01). LMX and role modeling are positively correlated with trust in the organization (r=.36, p<.01; r=.40, p<.01, respectively), negatively correlated with turnover intentions (r=-.23, p<.05; r=-.28, p<.01, respectively), and positively correlated with each other (r=.81, p<.01). Trust in the organization is negatively correlated with turnover intentions as well (r=-.24, p<.05).

Afterwards, we ran two Bootstrapping models, one for each moderator. We centered our predictors, TM, LMX and role modeling. Our results showed that TM practices (B=.45, p=.00) were positively related to trust in the organization, therefore confirming the first hypothesis. Role modeling (B=.23, p=.00), and LMX (B=.31, p=.02) were positively related to trust in the organization as well.

The interaction effect TM x Role Modeling was also significant (B=.19, p=.05). However, the interaction effect TM x LMX was not (B=.32, p=.06), which led to the rejection of hypothesis 3 and 4b. LMX and role modeling were highly related with each

other, which could signal both variables were measuring almost the same. However, it is interesting to see that these variables had different effects in the model.

According to our results, when there are low levels of role modeling, TM practices have no significant effect on the perceptions of trust (t=1.70, p>.05). On the other hand, when the levels of role modeling are high, TM practices have a significant impact on the levels of trust (t=4.80, p<.05). Therefore, we can confirm the second hypothesis. Graphic 1 depicts this interaction effect.

Graphic 1. Interaction effect of TM practices and Role Modeling on perceptions of trust in the organization.
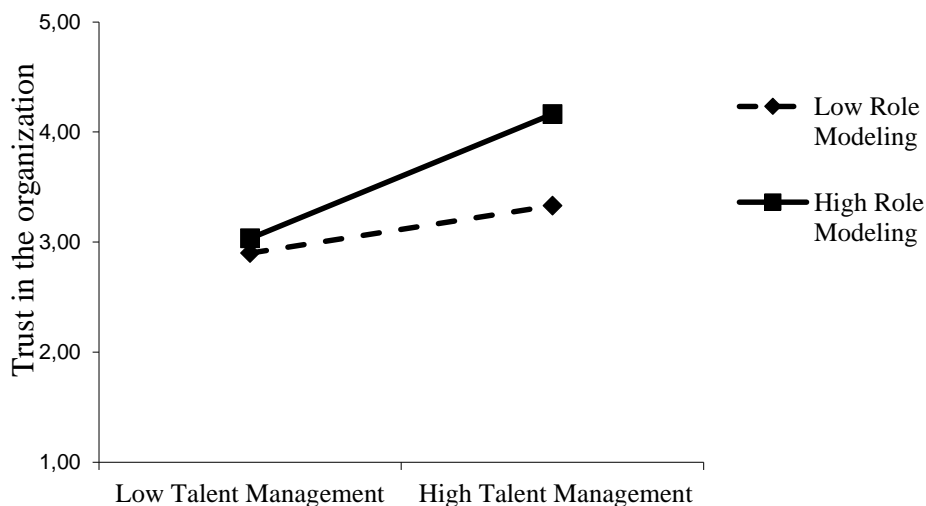
Trust in the organization was also shown to be significantly, and negatively, related to Turnover Intentions (B=-.32, p=.02). With these results, we can say that TM practices only reduced turnover intentions, six weeks later, via an increase in trust in the organization, when role modeling was high and not when it was low. Therefore, the proposed theoretical model only works for role modeling as a moderator, verifying hypothesis 4a.

The values of the Bootstrapping analysis are presented in Table 2.

Table 2. Bootstrapping results.

Predictors		Trust in the org.			Turnover intentions		
		B	t	R^2	B	t	R^2
Main effects							
	TM	.45	4.50**		.07	.47	
	Role Modeling	.23	3.00**				
	LMX	.31	2.44*				
Interaction							
	TM x Role Modeling	.19	2.02*	.33			
	TM x LMX	.32	1.91	.31			
Mediator							
	Trust in the org.				-.32	-2.39*	.06

*p<.05; **p<.01

Discussion

There is a gap in the literature on the role the leadership component may have when discussing the impact of TM practices. This study had the intent of assessing the impact TM practices have on employees' retention through the effect of trust in the organization, given the moderation effect of LMX and role modeling.

It is not enough to develop TM practices and expect employees to react accordingly. Organizations need to understand the process behind it and acknowledge who the actors are during the course of the implementation of these practices (Stahl et al., 2012).

The results of this study give support to the social exchange theory, since TM practices will impact employees' attitudes and behaviors. Individuals see TM practices as a benefit for their career, therefore responding with behaviors favorable to organizations, namely lower turnover intentions (Chami-Malaeb and Garavan, 2013).

Our results show that TM practices are positively related with the trust employees have in their organizations. This can be explained by the fact that the organization is sending signs of good faith and care in employees' development, by investing in TM practices (Sonnenberg et al., 2014; Stahl et al., 2012), which will attract employees' trust. Festing and Schäfer (2014) suggested that TM practices signal and communicate the importance that talented individuals have inside the organization. Consequently, in organizations where TM practices are more abundant, employees will feel as important pieces of the entire system, trusting the organization's integrity and its good intentions, and therefore increasing their desire to remain in the organization (Shaw et al., 2009).

It is interesting to note that role modeling had a significant moderating effect on the relationship between TM and trust employees have in their organizations, and LMX did not, despite their very strong correlation. This may be explained by the fact that having a high quality relationship between supervisor and employee may not be indicative of whether managers are helpful in developing employee talent. On the other hand, a manager that provides a good model for others to follow is more likely to enhance the impact of TM practices, given that he/she has the ability to instill higher levels of organizational trust, as employees can expect consistent work ethic and behaviors (Rich, 1997), and consequently reduce the levels of uncertainty they have concerning the organization. Therefore, setting positive examples for others to follow at the managerial level strengthens the impact that TM practices have on employees' trust in their organizations.

Our results showed that trust in the organization serves as a mediator between the interaction effect of TM x Role Modeling and turnover intentions. Trusting in an

organization reduces the uncertainty levels experienced by employees and, consequently, it reduces the intention of working somewhere else.

Limitations and future research

A limitation of this study is related to the big portion of employees belonging to the public sector, where employees reported fewer TM practices being applied when comparing with the private sector. However, this shows that, with a larger proportion of private sector employees, our results could be stronger.

In addition, the final sample size (N_{t_2}=107) is fairly small, which may impact the results obtained, since the statistical power is reduced with smaller samples (Aguinis and Harden, 2009). However, this shows that, with a larger sample size, results would be stronger. For the future, our hypothesis could be tested with a larger sample.

Despite these limitations, this study adds to the current stream of literature on TM, by deepening the knowledge on this recent topic, especially the impact these practices have on positive behaviors, such as trust and intention to stay, and its boundary conditions; and by introducing the leadership component as a moderator. Moreover, having a two time collection method was also an important strength of this study, allowing to test causal relationships between the variables, with a six week difference in time.

Future research could explore the impact of the different leadership styles (e.g. transformational, transactional) on TM practices. Moreover, other forms of research studies could provide interesting results on supporting our hypothesis, such as having a sample group where authors could implement some TM initiatives in order to test for differences in outcomes when comparing with a control group.

Managerial implications

This study's findings have several managerial implications organizations should care for. Nowadays, organizations are facing major challenges and undergoing serious difficulties to attract and retain talent. This creates a valuable opportunity for organizations to explore new practices and generate a sustainable competitive advantage. The main input we can take from this study is that TM practices only reduce turnover intentions, via an increase in trust in the organization, when there are high levels of role modeling. Therefore, line managers are crucial in delivering HR policies.

By developing TM practices, such as training in new processes, and learning and development programs, organizations are able to increase employees' levels of trust. Moreover, it is also essential that line managers act as role models inside the organization, to strengthen the impact these practices have on perceptions of trust. This will reduce levels of uncertainty and make organizations more attractive to individuals. Investing in TM practices and finding role models internally does not necessarily bring high costs to organizations. It may even reduce the dependence on the external labor market, since organizations will be able to use trust as a mechanism that will help in retaining their employees.

Conclusion

This study investigates how LMX and role modeling affect the relationship between TM practices and employees' trust in their organization, and the ultimate effect on employee retention. This work sheds light on the importance managers and leaders have on the functioning of TM practices. Their role is important when employees make sense of the impact of these practices on their employment relationship. It is in this stage that employees look at their supervisors and assess whether they act as role models or not.

Organizations may have TM practices, but if managers do not act as role models, there is no room for people to trust their good intentions. This study has the potential to help organizations face their challenges regarding TM and even contribute to better retain their workforces, therefore opening new possibilities for the creation of a sustainable competitive advantage.

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