Chapter 4

An Optimal Dynamic Program of Talent Attraction and Development

Asma Raies
Umm Al Qura University, Saudi Arabia & University of Sfax, Tunisia

ABSTRACT

This chapter develops a dynamic model which studies the firm’s optimal strategy of talent attraction and development. It shows that the firm should start out with a high talent acquisition rate and low training rate. As more and more high talented workers are hired, the firm becomes more competitive, its profit increases and it begins investing in research and worker training to improve more its productivity. By doing, the firm contributes to the pool of public knowledge. These inter temporal spillovers allow the firm’s efficiency to grow in the steady state. This is reached when talent acquisition peters out and the firm settles into a stable situation where its average efficiency grows at a constant rate due to the training activity only. The comparative dynamics and numerical simulations sections show that attracting the most efficient talents, reducing the talent acquisition cost and encouraging researchers and trainers through increasing their wage, improve the firm’s average efficiency growth in both short run and long run.

INTRODUCTION

To survive and grow, firms must continually improve their performances by attracting, developing and retaining high-level talent. This chapter expands on the theoretical literature by focusing on joint determination of talent attraction and development decisions.

Using a monopolistic competition model, the theoretical framework identifies the optimal strategy that firms should apply to achieve sustainable short-term performance and to maintain positive efficiency growth in the long term. The comparative dynamics reveals the theoretical impacts of economic policies on efficiency growth, and numerical simulations support these theoretical effects.

BACKGROUND

This chapter combines two existing strands of literature. The first strand focuses on the relationship between talent attraction and firm performance. Talent attraction has been shown to have a positive and significant contribution to the success of global firms (Guthridge, et al., 2008; Lohr, 2010), that the most efficient firms employ more talented workers (Abowd et al., 1999; Haskel, Hawkes, & Pereira, 2005) and attracting talent is a strategic element that is key to firm survival and growth. For example, Haltiwanger, Lane, and Spletzer, (2007) argued that the initial choice of employee skill level is determinist for newly created firms. Thus firms that are more likely to exit the market are those who initially hired a low-talent workforce.

Other researches have focused on the challenges of attracting “star” employees at low wages (Beechler & Woodward, 2009, Guthridge, et al., 2008; Lohr, 2010). It was found that hiring talented workers is not obvious because such workers are scarce and more expensive to hire and satisfy because of increased bargaining power (Coff, 1997, 1999) and career expectations that are more challenging to meet (Trank, Rynes, & Bretz, 2002).

The second strand of literature focuses on the relationship between talent development through training or research and development (R&D) and firm performances. Improving a firm’s performance depends fundamentally on the firm’s own investment in R&D and worker training (WT) (Cohen and Levinthal, 1989; Lucas, 1993; Hewitt and Wield, 1992; and Audretsch,1995). Studies have shown that talent development through job-related training has positive effects on firm efficiency (e.g. Bartel, 2000; Sepúlveda, 2010 ..). Ichniowski et al. (1997), demonstrated empirically that innovative talent management practices, such as training, teams, flexible job assignments and employment security, achieve substantially higher levels of productivity than traditional approaches. Dosi, (1988); and Bell and Pavitt, (1993) argued that firms should continuously invest in R&D to


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