2 Review of the Literature

With the introduction of marketing in the second half of the last century, the focus of companies shifted from a product-centered orientation toward a market orientation (Leeflang, 2011). According to Kotler and Armstrong (2010), successful contemporary companies are preoccupied with "understanding and satisfying the needs of their customers in well-defined markets" (p. 28). Similarly, the focus of high-potential recruitment has started to shift from a vacancy-oriented approach toward a talent-oriented approach (Trost, 2012). According to Boudreau and Ramstad (2005), talent segmentation therefore becomes as vital to an organization as customer segmentation is in marketing of products and services.

This literature review of the use of marketing instruments in the recruitment of high potentials in the pharmaceutical industry covers the contemporary literature of the pharmaceutical industry and the emergence of strategic human resource management with a focus on the management of high potentials. The review continues with marketing literature (including segmentation and targeting), the development of this research stream, and marketing literature in the context of human resources. The three elements of human resource marketing (Trost, 2012)—recruitment, targeting, and segmentation—as well as employer branding are discussed, followed by a discussion of the literature on the implementation of segmentation and targeting in the recruitment of high potentials. The last section of this literature review covers the literature on contingency theory.

2.1 Pharmaceutical Industry

One industry that needs a proactive human resource function that actively drives change is the pharmaceutical industry. This industry faces a rapidly changing and deteriorating environment (Buxton, 2010; Garavan, 2012). In the last few decades, the major players in this industry were used to double-digit growth, but they now face several challenges (Gilbert, Henske, & Singh, 2003). The pharmaceutical industry has been slow to respond to industry challenges as long development cycles tend to hide costs and divorce accountability from action (Gilbert, Henske & Singh, 2003). Pharmaceutical companies are also relatively late adopters of human resource activities like global talent management programs. Historically, they have hired from within, which limited their exposure to outside challenges (Buxton, 2010).

Recent literature (e.g., Garavan, 2012; Hunt et al., 2011) has focused on several trends currently transforming the industry.

- Recent or soon-to-be patent loss of several blockbuster products, in combination with low R&D productivity, have left major industry players with low growth or stagnation compared to the high sales and profit growths of the last decades (Gilbert, Henske & Singh, 2003; KPMG, 2011).
- As compounds lose patent protection in major large primary care indications (e.g., lipid

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lowering and hypertension), this environment becomes less attractive for investment because of the availability of generics (Gilbert et al., 2003). Thus, companies are increasingly forced to focus on cost reduction and organization restructuring (Hunt et al., 2011).

- Increasing pressures from government and regulatory agencies have forced companies to reevaluate their product pipelines in terms of value delivered (Hunt et al., 2011) and indications for future development.
- The pharmaceutical market is becoming increasingly global, with a strong focus on China and other emerging countries (Garavan, 2012).
- Despite large mergers among big pharmaceutical companies, the industry has become more fragmented with highly specialized companies (e.g., focused solely on generics) entering the market (Hunt et al., 2011).
- Competition is intensifying, and the time to earn back investments is becoming shorter. Patent protection is an issue in certain regions, as is the time a drug is unique in its first indication. In the 1970s, only 23% of first-in-class products faced a follow-up product that was at least in Phase II of the development process, but by the end of the last millennium, 90% of first-in-class products faced this issue (Stirling, 2011). This transformation of the industry will continue in the coming decades. The patent loss of large drugs in the primary care setting in the Western hemisphere will be partly offset by growth in emerging countries such as Brazil, China, and India as well as the growth of generics (Buxton, 2010), changing the geographical spread and focus of the industry.

Another focus of the pharmaceutical literature is the transformation of attitude that is currently taking place. The 2005 USA Today/Kaiser Family Foundation/Harvard School of Public Health Care Costs Survey found that society held a rather low level of trust in the pharmaceutical industry. This industry reputation issue is reflected in the strong increase in legal settlements for violations of laws since 2003, such as the promotion of drugs outside its licensed disease area (Stirling, 2011). In order to regain trust, the pharmaceutical industry must comply with promotion and development rules and regulations and work closely with government agencies (Raidolska, Scott, & Oliver, 2005). Good relations with government agencies are crucial, as government agencies control access and, to a large extent, the prices pharmaceutical companies can charge for their innovations (Davidson & Greblov, 2005). Given the pressures in the industry to simultaneously improve productivity, efficiency, and innovation, clear processes and responsibilities and compliance with internal and external rules (e.g., regulatory, good clinical practice [GCP], good manufacturing practice [GMP]) are deemed important. Shohet (2013) has therefore identified three factors—in addition to Peters and Waterman's factors (1982) from the McKinsey 7–S framework (structure, strategy, system, skills, staff, style, and shared values)—that are especially relevant in today's pharmaceutical industry: governance, business compliance, and talent management.

These necessary strategic changes in the pharmaceutical industry require pools of talented people with skillsets that enable them to work in joint ventures; create strategic alliances; manage cross-border communication; and work across different cultures, divisions, and affiliates (Shohet, 2013; Steiner et al., 2007), though pharmaceutical companies currently lack strong leadership pipelines (Garavan, 2012). Several studies (e.g., Deng, Lev, & Narin, 1997; Rigby, Gruver, & James, 2009) have emphasized the importance of talent in the pharmaceutical sector. Scientific talent is vital for the innovative potential of a pharmaceutical company (Deng et al., 1997), and innovative talent is considered especially valuable in turbulent times (Rigby et al., 2009).

2.2 Human Resource Management

Studies with a strategic focus on the management of high potentials have only emerged in recent decades as contemporary human resource management (HRM) developed into a new profession (Silzer & Dowell, 2010). HRM has changed significantly in these last decades, evolving from an operational field to one with a strategic focus (Millmore, 2003) and from a passive service provider to an active partner within the company (Becker, 2007)). The literature on contemporary human resource management emerged in the 1970s, with employees becoming a critical element in the effective management of a company (Wright, Dunford & Snell, 2005). The view shifted from an earlier one that viewed employees as an expense to the perception that employees are a potential resource to be managed. This view is in line with the recognition that modern companies are increasingly dependent on their employees for their competitive advantage (Ulrich, Brockbank, Johnson, Sandholtz, & Younger, 2008).

Contrary to a strong economic focus in earlier decades, the HR field became part of management and behavioral sciences, which contributed to a shift toward a more organizational and psychological orientation. The new model became known by labels such as “high-commitment workplace” and “high-performance work system” (Kaufman, 2007). HRM was now clearly differentiated from the classical “personnel” management, which was reflected in the mainstream management literature (e.g., Peters & Waterman, 1982; Pfeffer, 1994). Torrington, Hall, and Taylor (2008) describe six themes in the history of human resource management. The first period or theme is described as *social justice,* in which a few enlightened employers promoted a welfare approach by ameliorating the working conditions, which followed by a period of *humane bureaucracy,* which emphasized an incentive-based approach to managing people that was aimed at achieving efficiency and high morale at work. In the 1960s, a theme, called *negotiated consent* by Torrington et al. (2008), evolved in which workers were managed by representation and collective agreements. This was followed by a period (in the 1970s) of increased HR focus on career path and workforce planning known as the *organization* theme. In the 1980s and 1990s, the focus shifted toward flexibility, performance management, monitoring, and control under the *HRM* theme. The most recent theme, which focuses on global perspective, competitive advantage, engagement of employees at work, and customer-centered focus in organizations, has been labeled as *new HR*. However, there is a gap between the academic literature and the daily practice of HR. Kaufman (2007) observes that “still many companies continue to practice people management in a largely tactical, administrative, and cost-focused manner” (p. 42). However, Ulrich et al. (2008) posit that HR is growing dramatically in scientific sophistication and envisions that HR will someday be at the core of the company. In their view, HR is becoming more aligned with the business.

The structure of the HR departments in most large private and public sector companies seems to have changed from the classical centralized HR department into a model with more specialized functions such as shared services (focused on administrative HR), business partners (focused on working directly with line management on strategic development, performance, and organizational design), centers of expertise like recruitment and organizational development, vendor management (e.g., management of pension administration provided by third parties), and corporate HR (developing HR and people strategy) (Farnham, 2010).

A factor that has shaped the discussion of HRM is the development of the view that contemporary human resource management should be a strategic partner in a company, with a shift from short-term operational management toward a long-term vision regarding the human resource policy and a focus on sustainable competitive advantages.

<table>
<tr><th></th><th colspan="7">Company Objectives and Vision
Company Strategy</th></tr>
<tr><td>Corporate Functions</td><td colspan="7">Company Framework</td></tr>
<tr><td>Finance</td><td rowspan="5">Strategy</td><td rowspan="5">Systems</td><td rowspan="5">Structure</td><td rowspan="5">Skills</td><td rowspan="5">Style</td><td rowspan="5">Staff</td><td rowspan="5">Shared values</td></tr>
<tr><td>Production & Operations</td></tr>
<tr><td>Human Resources</td></tr>
<tr><td>R&D</td></tr>
<tr><td>Marketing</td></tr>
</table>

Figure 1: Alignment of company framework and functions. Adapted from *In Search of Excellence: Lessons from America’s Best-Run Companies* by T. J. Peters and R. H. Waterman, 1982, p. 11. Copyright 1982 by Harper Business Essentials.

In contemporary strategic HRM theory, the various HR functions are integrated with other HR functions within the business framework and the overall business strategy (Gerhart, 2007; Gmür & Thommen, 2007), as seen in Figure 1 above.

The concept of strategic alignment between HR strategy and business strategy is associated with contingency theory and based on the assumption that HR practices can be selected from a portfolio of possibilities to ensure they are supportive of the overall business and competitive strategy of the company (Taylor, 2010).

Kinnie, Swart, and Purcell (2005) argue for a selective approach that takes the specific situation and company strategy into account, but others (Huselid, 1995; Silzer & Dowell, 2010) argue that there are some HR best practices that have a potential beneficial effect for all companies, irrespective of the business strategy. A third group of authors (e.g., Bowen & Ostroff, 2004; Datta et al., 2005) argue that some best practices, such as incentives for performance, may have an overall positive effect on performance but may be implemented differently based on the situation and strategy of the company.

An alternative view of the alignment between business strategy and human resource strategy which has become prominent in HRM only in the last two decades (Allen & Wright, 2007), the resource-based view (RBV) of a firm, argues that a company would profit if it matched the business strategy to the current human resource base of the company instead of adapting HR practices to the business strategy. The focus is on those resources that give the company a competitive advantage over other companies (see Figure 2).

The importance of alignment between HR policies and other strategic elements is expressed in the seminal McKinsey 7-S framework: structure, strategy, systems, skills, staff, style—all united by shared values, from Peters and Waterman (1982).

<table>
<tr><th colspan="8">Meta Function
Strategic Human Resource Management</th></tr>
<tr><th>Cross-Sectional Functions</th><th colspan="7">Process Functions</th></tr>
<tr><td>Human Resource Controlling</td><td rowspan="4">Assessment of Demand</td><td rowspan="4">Recruitment</td><td rowspan="4">Human Resource Development</td><td rowspan="4">Assignment of Human Resources</td><td rowspan="4">Human Resource Retention</td><td rowspan="4">Human Resource Exemption</td></tr>
<tr><td>Human Resource Marketing</td></tr>
<tr><td>Human Resource Information</td></tr>
<tr><td>Organization of Human Resources</td></tr>
</table>

Figure 2: Alignment of HR functions. Translated from *Retention Management für High Potentials* by R. Buri-Moser and A. Saxer, 2003, p. 2. Copyright 2003 by the University of Bern. Saxer Moser, 2003)

The framework from Peters and Waterman (1982) highlights the importance of the integration of hard factors like structure and systems with soft factors like style and shared values. Within the HRM setting, the importance of these soft factors, the culture of a company, and the values of employees and the fit between them, has been studied in stream of research on person-organization (P-O) fit (Sutarjo, 2011).

The importance of P-O fit has been highlighted by various authors (e.g., Ployhart et al., 2006; Sutarjo, 2011), and its impact on company turnover and overall performance has been acknowledged (Westerman & Cyr, 2004). Collins and Kehoe (2009) assert that P-O fit is especially important in companies that emphasize a family-like environment that builds on long-term commitment and tenure.

With the alignment of human resource strategy with the overall company strategy comes a shift in orientation from being a passive observer of business trends to a more active HR department that tries to understand and adapt to those trends (Ulrich et al., 2008). Analysis in human resource management was traditionally focused on the relation between employer policy decisions and individual performance. During the last two decades, however, HRM has evolved in that it also tries to understand the effects of employer-related policies on company-level outcomes such as profitability, survival, and parameters such as overall cost and quality of output (Gerhart, 2007).

Boudreau and Jesuthasan (2011) note that HRM needs to evolve further and propose a shift from an HR approach that often still relies on gut feel toward an evidence-based approach called *transformative HR.* In transformative HR, segmentation and optimization (investing in activities and segments that make a difference) play a key role. Davenport, Harris, and Shapiro (2010) propose six types of analytics to manage the workforce:

- human capital facts: analyzing human resource key performance indicators;
- analytical HR: reviewing units and departments in order to identify which ones need extra attention;
- human capital investment analysis: identifying the parameters that have the most impact on the business;
- workforce forecasts: making quantitative forecasts;
- talent value model: identifying which items of the employer brand and value system drive retention and or turnover of employees; and
- talent supply chain analysis: predicting the adaptation of talent needs based on changes in the business environment.

2.3 Management and Identification of High Potentials

In the literature, there is agreement that different groups of employees (segments) have different potential to add to the overall performance of a company and that, depending on the set of competencies, capabilities, and potential, different human resource strategies should be applied (Boudreau & Jesuthasan, 2011; Collins & Kehoe, 2009; Thom, 2007). Recruitment of high potentials is part of the overall talent management system of the company and comprises “those practices and activities carried out by the organization with the purpose of identifying and attracting potential employees” (Orlitzky, 2007, p. 273). There is less of a consensus in the literature regarding the definition of a high-potential employee. Contrary to other forms of capital that can be quantified, the lifetime value of an employee is difficult to assess as potential is subjective and situation dependent (Trost, 2012); the remaining time with the company is difficult to estimate as well (Stiles & Kulvisaechana, 2003). Therefore, subjective qualitative assessments of the potential of a (future) employee have remained the mainstay line of thinking in the literature. Most of the literature asserts that high potentials have to be talented people and have the potential to add value to the company, but authors include different elements in their descriptions of high potentials, such as special social competence (Cavallo & Brienza, 2006), international exposure (Kienbaum Management Consultants, 2001), learning and development capability in connection with a high level of career motivation (Kunz, 2004), or performance in his or her current role (Thom & Friedli, 2003). According to Ready, Conger, and Hill (2010):

> High potentials consistently and significantly outperform their peer groups in a variety of settings and circumstances. While achieving these superior levels of performance, they exhibit behaviors that reflect their companies' culture and values in an exemplary manner. Moreover, they show a strong capacity to grow and succeed throughout their careers within an organization—more quickly and effectively than their peer groups do. (p. 80)

Thom and Friedli (2003) use the term *key employees* as a synonym for high potentials, which, in their view, is a group of talented employees that exceeds the requirements of their current positions. Kienbaum Management Consultants (2001) emphasize the difficulty of recognizing a high potential with a specific profile of qualification, further describing a high potential based on the following four criteria:

- international orientation (study or work placement abroad),
- link to practice (in addition to theoretical background),
- achievement potential (above-average grades and short duration of study), and
- personality (social competence as well as the capacity to lead teams and projects).

Kienbaum Management Consultants and Morton (2005) use the term *high potential* as synonymous with *talent,* whereas others regard high potentials as talents with additional features (Kunz, 2004; Thom & Friedli, 2003).

The differences in definitions of high potentials and talent are also reflected in daily practice. In a survey of 20 large U.S. companies, Silzer and Church (2010) found a wide variety of approaches used to define high potentials. Of the questioned corporations, 35% defined them by role; 25% percent defined them by their assumed ability to perform in positions two levels above their current one; 25% percent defined them by the ability to take on a broader and leadership role; and 10% defined a high potential as someone who has a track record of extraordinary performance. Robbins and Judge (2009) emphasize the need for companies to hire employees who are able to switch teams and tasks readily in order to be able to respond rapidly to a dynamic and changing environment. Lewis and Heckman (2006) conclude that the lack of clarity regarding the overall goals, definition, and scope of the management of high potentials is disturbing. Similarly, a 2006 United Kingdom survey of HR professionals found that “51% of these HR professionals surveyed undertook high potential/ talent management activities, however only 20% of them operated with a formal definition” (Tansley, Harris, Stewart, & Turner, 2006, p. 2). The challenge of defining what a high potential is in a company reflects the complexity of making two types of predictions: to anticipate the profile of future leaders regarding abilities, attitudes, and experience that the company needs for the future; and to assess an individual beyond performance on the ability to learn and develop (Silzer & Church, 2010). Anticipation of the profile of the future leaders of a company is also conditional on the vision of current management about the future market development and strategy of the company. The assessment of the future potential of an employee or external applicant is contingent on the availability of an assessment framework and tools. Around 1950, many companies relied on the assessment of character through analysis of family background or extracurricular activities or through assessments with character-rating scales. These assessments were rarely based on hard science, though, and “these efforts were leaps of faith based on assumptions that the criteria being measured were the important factors in leadership” (Cappelli, 2008, pp. 192–193). Many companies still rely on various types of potential assessment, though Cappelli (2008) believes that a prediction of potential can only be done by giving employees and future employees the opportunity to perform in jobs and show their leadership skills. Silzer and Church (2010) found that past performance is often mistaken for future potential; not many organizations have clearly defined how potential is different (and can be assessed differently) from past performance or current abilities.

Some high-potential identification models, such as the model of the Corporate Leadership Council (Morton, 2005), emphasize individual traits of the employees, e.g., the ability, engagement, and aspirations of employees, whereas Silzer and Church (2010) describe models (such as the one from DDI Consulting) that go beyond individual characteristics and include potential fit with a company’s values and culture. According to their findings, companies are increasingly interested if the values of an internal or external high potential matches well with their company’s values and culture.

According to Silzer and Church (2010), the size of the internal high-potential pool differs from company to company and is contingent on the business environment, company strategy, and the culture of the organization. They found in their survey of 20 U.S. companies that the high potential pool is, on average, 9% to 10% of the total population of employees, whereas Byham, Smith, and Paese (2002) estimate the average size of the high potential pool to be 1% to 2% of the total population of employees.

There is an overall agreement on who is involved with high potential management and monitors development in the academic literature and daily practice. Sloan, Hazucha, and van Katwyk (2003) state that senior line managers and their HR business partners should align their high-potential management practices. A large survey of global companies in 2007 confirmed the importance of involvement of human resources as well as chief executive officers and other managers (Stahl et al., 2007). In order to have a competitive advantage, high-potential management has to be the combined responsibility of line management and human resources, be embedded in the value system of the company, and be aligned with its values. A combined effort of management and HR is important to ensure internal consistency and complementarity (Stahl et al., 2007).

Not every talented or high-potential employee will use his or her potential and become a high performer, however. Spickschen (2005) makes a distinction between offered potential, acquired potential, and used potential. *Offered potential* is part of the acquired potential that the high potential makes available to the company and can be defined as the sum of capabilities and qualifications that a high potential presents to the company. It is determined through the initial phases of the recruitment process, in which the company and potential employee get to know each other and decide to work together in the future. The *acquired potential* is defined as the available sum of all capabilities, qualifications, and characteristics and is determined by the contact and selection phases of recruitment process. Only the *used potential*—a mixture of the original available potential of the potential employee and the ability of the company to attach to this potential and release it within the settings (and to the benefit of) the company—is the "performance indicator" for the translation of offered and acquired potential into the level of performance. Spickschen (2005) notes that used potential is not part of the recruitment process, as it is dependent on the effective use of a high-potential employee within the company. The used potential depends on—among other variables—the business strategy, which can change over time, making a high-potential employee obsolete. This line of discussion in the literature reflects the importance of a system within the company that actively seeks to manage the high-potential employee as well as the contributions of these high potentials to the company (Silzer & Dowell, 2010). It also highlights the difficulty of transferring the internally used definition of high potentials to the recruitment setting.

In the last two decades, there has been a growing interest in high-potential management. Boudreau and Ramstad (2005) argue that organizations should invest in high potentials. They emphasize the significance of building a framework around the management of high potentials to define the connection between talent resource and business strategy. Ulrich et al. (2008) point out that HR strategies and activities should not only be integrated in the business strategy, but should also be managed with the perspective of an external customer. The ability to integrate HR strategies with customer perspectives implies a system that identifies the needs of these customers and translates these needs into a framework that delivers the necessary output.

Developing an effective high-potential management system is a significant topic of discussion in the literature. A key element of a strategic talent management system is the identification of talent pools in which a small increase in the quality of the applicant pool has a major impact on the company (Ryan & Delaney, 2010). Sloan et al. (2003) group the key high-potential management activities into three clusters: (a) attract and retain, (b) select and transfer, and (c) mobilize and develop. These authors start the high-potential management process with the definition of the value proposition for employees. The *employee value proposition* represents the attributes and benefits of working for a certain organization. The proposition is built on three elements (Joyce, 2010).

- Differentiation: Each organization should have attributes that make the organization more interesting for high potentials than its competitors.
- Credibility: An employee value proposition is not aspirational, but is built on the reality of the organization.
- Sustainability: The organization should be able and willing to honor the promises made to high potentials.

Next, they identify the high-potential gaps, choose the source for needed talent, align talent management processes, and, finally, build organizational support mechanisms. Several theories from international HRM and related fields such as sociology and industrial psychology may serve as a basis to understand talent management systems. These vary from broader theoretical frameworks such as institutional theory, human capital theory, configurational theory, and strategic contingency theory to theories specifically developed in the field of talent management, such as workforce segmentation (Schuler & Tarique, 2012). *Workforce segmentation* focuses on identifying the categories of employees that should be included in the talent pool and assumes that some individuals add more value to the company compared to others. Becker, Huselid, and Beatty (2009) and Boudreau and Ramstad (2005) categorize company employees and positions based on the value added and importance and propose to manage these categories as a portfolio. A theoretical framework that potentially supports workforce segmentation is competency modeling. *Competency modeling* is the analysis of organizations and positions within these organizations and assesses the knowledge, skills, and abilities needed currently and in the future. Becker et al. posit that the probability is high that a substantial part of talent management efforts is dedicated to the individuals with the highest impact on the companies' strategy and positions that are most differentiated in performance.

Cappelli (2008) and Joyce (2010) emphasize the importance of a direct relationship between talent management and the business strategy. Cappelli (2008) proposes a paradigm shift away from a system focused on internal development and reactive outside hiring toward a system built around four principles:

- minimize the risk of over- and undersupply of talent through the development of a mix of developing talent internally and external recruiting;
- reduce the uncertainty in the prediction of demand for high potentials (e.g., through the

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