THE EFFECT OF TALENT MANAGEMENT ON EMPLOYEE ENGAGEMENT AND EMPLOYEE RETENTION IN IMPROVING EMPLOYEE PERFORMANCE

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Abstract. Employee performance is an essential factor for company success. Optimal employee performance will affect the company's development in producing good products. This study aims to determine the application of Talent Management to Employee Engagement and Employee Retention in Improving Employee Performance at PT XYZ Surabaya employees. This study's population was PT XYZ Surabaya employees, totaling 393 people. The sampling technique uses the slovin formula with an error tolerance of 5%, and the sample used in this study is 200 employees. The data analysis technique in this study is as follows PLS-SEM analysis using SmartPLS software. The results showed that: 1) Talent management has a positive and significant direct effect on employee engagement, 2) Talent management has a positive and significant direct effect on employee retention, 3) Talent management has a positive and significant direct effect on employee performance, 4) Employee engagement has no direct positive and significant effect on employee performance, 5) Employee retention has a positive and significant direct effect on employee performance, 6) Employee engagement has a positive and significant direct effect on employee retention, 7) Talent management has no direct effect on employee performance indirectly through employee engagement, and 8) Talent management influences employee performance indirectly through employee retention.

Keywords: Talent Management, Employee Engagement, Employee Retention, Employee Performance.
INTRODUCTION

Strategy and changes from the inner side of the company are needed to become a winner in facing increasingly fierce external competition. Business people need to maximize their companies' performance to compete and survive in business competition. According to Windi et al. (2021), Organizations are also required to have HR (Human Resources) who are reliable and competent in carrying out their organizational and operational activities. One of the strategic functions of Human Resources in the organization is to prepare human resources who have the capability and potential to support the achievement of the organization's strategy and improve employee performance and engagement. A good company is a company that continuously evaluates the performance of its employees regularly. With regular performance monitoring, it is hoped that no employee will experience a decrease in work quality.

Ramadhani et al. (2020) stated that if the company retains terrible employees, it will increase employee turnover, impacting service in achieving company goals. In general, the relationship between maintaining employees and performance is significant, where performance will be wrong if retaining employees is terrible so that employee turnover will be high. Company performance is a result that is influenced by the utilization of its resources. One way is to retain employees to maintain high loyalty. Talented human resources determine the success of an organization or company. Thus, companies must manage human resources as capital that will provide added value and competitive advantage to enhance the company's development and sustainability.

LITERATURE REVIEW

Employee Performance

Sedarmayanti (2017:285) states that performance is a record of the results produced or produced or certain job functions during a specific period displayed by individuals or a process related to assigned work tasks. Individual performance is achievement or effectiveness at this level of work influenced by job objectives, job design, and job management, as well as personal characteristics.

Talent Management

Talent management is a form of implementation of an integrated strategy or a system designed to increase organizational productivity by developing processes to attract, develop, retain, and maximize resources high-quality human resources. (Wicaksana et al., 2021:41).
**Employee Engagement**

Employee engagement is a two-way relationship between employees and the organization where both parties know each other's needs and work together to fulfill those needs. Involvement is not just working hard, being active at work, or having high involvement with work, but seeing how far employees can fully put themselves into position (Harahap, 2014).

**Employee Retention**

According to Sumarni (2011), employee retention is a company's ability to be able to retain potential employees within the company so that they remain loyal to the company. Employee retention is a practice and policy designed to make employees want to stay with the company, thereby reducing employee turnover.

**RESEARCH METHOD**

This study uses an explanatory quantitative approach that describes the relationship between variables. The variables used are Talent Management (X), Employee Engagement (Z1), Employee Retention (Z2), and Employee Performance (Y). Testing the research hypothesis using the Partial Least Square (PLS) based Structural Equation Model (SEM) approach. PLS analysis uses two evaluations: the measurement model (outer model) to test the validity and reliability and the structural model (inner model) to test the hypothesis.

Figure 1. Conceptual Framework
RESULT AND DISCUSSION

Descriptive Analysis

1) Talent Management for employees of PT XYZ Surabaya is in the high category. It proves that the talent management implemented by PT XYZ Surabaya is still in good condition.

2) Employee Engagement among employees of PT XYZ Surabaya is in the high category. It proves that between employees and the company, both parties are aware of each other's needs and work together to meet them.

3) Employee Retention at PT XYZ employees in Surabaya is relatively high.

4) The performance of PT XYZ employees in Surabaya is high. It shows that the performance of employees in this company is outstanding, considering that this company is a manufacturing industry that relies on production, where employee performance dramatically influences the company's success in producing products.

Therefore, the performance of employees in this company is quite good. Analysis PLS (Partial Least Square)

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Figure 2. Output Bootstrapping
b. Evaluation Outer Model

1) Validity Test

This test is conducted to determine the validity value of the variables talent management, employee engagement, employee retention, and employee performance that fulfill the validity with the condition that the outer loading factor value is > 0.70 can be seen in the table below:

<table>
<thead>
<tr>
<th>Talent Management</th>
<th>Employee Engagement</th>
<th>Employee Retention</th>
<th>Employee Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>Loading Factor</td>
<td>Item</td>
<td>Loading Factor</td>
</tr>
<tr>
<td>X.2</td>
<td>0.775</td>
<td>Z1.1</td>
<td>0.845</td>
</tr>
<tr>
<td>X.4</td>
<td>0.790</td>
<td>Z1.2</td>
<td>0.837</td>
</tr>
<tr>
<td>X.5</td>
<td>0.751</td>
<td>Z1.3</td>
<td>0.746</td>
</tr>
<tr>
<td>X.9</td>
<td>0.756</td>
<td>Z1.4</td>
<td>0.832</td>
</tr>
<tr>
<td>X.10</td>
<td>0.740</td>
<td>Z1.11</td>
<td>0.834</td>
</tr>
<tr>
<td>X.11</td>
<td>0.850</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X.12</td>
<td>0.784</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X.13</td>
<td>0.838</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X.14</td>
<td>0.880</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X.15</td>
<td>0.845</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X.16</td>
<td>0.765</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X.18</td>
<td>0.780</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed Data (2022)

2) Reliability Test

Measuring the reliability of a construct through reflexive indicators can be seen from the value of Cronbach's Alpha and Composite Reliability with criteria > 0.70.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Cronbach's Alpha</th>
<th>Composite Reliability</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>TM</td>
<td>0.952</td>
<td>0.957</td>
<td>Reliable</td>
</tr>
<tr>
<td>EE</td>
<td>0.882</td>
<td>0.903</td>
<td>Reliable</td>
</tr>
<tr>
<td>ER</td>
<td>0.945</td>
<td>0.958</td>
<td>Reliable</td>
</tr>
<tr>
<td>EP</td>
<td>0.933</td>
<td>0.949</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Source: Processed Data (2022)
Construct testing will go through one level based on the results of the second-order confirmatory factor analysis in PLS. Namely, the analysis is carried out from latent constructs to items for each variable. Then in bootstrapping, the value of the path coefficient table will show the significant level of each construct indicator (dimensional) on the latent variable provided that the t-statistic value is > 1.96 (Ghozali dan Latan, 2015).

Table 3. Confirmatory Factor Analysis

| Construct | Original Sample Mean | Sample Mean | Standard Deviation | T Statistics (|O/STDEV|) | P Values |
|-----------|----------------------|-------------|--------------------|-----------------------------|---------|
| TM → TM_1 | 0.891                | 0.892       | 0.023              | 39.371                      | 0.000   |
| TM → TM_2 | 0.971                | 0.971       | 0.006              | 156.088                     | 0.000   |
| TM → TM_3 | 0.897                | 0.895       | 0.021              | 42.441                      | 0.000   |
| TM → TM_4 | 0.809                | 0.806       | 0.044              | 18.527                      | 0.000   |

Source: Processed Data (2022)

Based on the path coefficient table shows that all items are significant from each construct indicator (dimensional) to the latent variable with each t-statistic value > 1.96 and p-values < 0.05. Thus it can be stated that the indicators TM_1, TM_2, TM_3, and TM_4 are the manifest variables forming the Talent Management construct.

c. Evaluation Inner Model

1) R-Square

Table 4. R-Square

<table>
<thead>
<tr>
<th>Construct</th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Performance</td>
<td>0.742</td>
<td>0.738</td>
</tr>
<tr>
<td>Employee Engagement</td>
<td>0.444</td>
<td>0.441</td>
</tr>
<tr>
<td>Employee Retention</td>
<td>0.638</td>
<td>0.634</td>
</tr>
</tbody>
</table>

Source: Processed Data (2022)
R-Squares on Employee Performance is 0.742, where the value shows that the Talent Management, Employee Engagement, and Employee Retention variables affect Employee Performance by 74.2%, and the remaining 25.8% are influenced by other variables not used in this study. The higher the $R^2$ value, the better the proposed prediction and research models.

2) Q2 Predictive Relevance

Table 5. Q2 Predictive Relevance

<table>
<thead>
<tr>
<th>Construct</th>
<th>$Q^2 (=1-\text{SSE}/\text{SSO})$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Performance</td>
<td>0.570</td>
</tr>
<tr>
<td>Employee Engagement</td>
<td>0.269</td>
</tr>
<tr>
<td>Employee Retention</td>
<td>0.515</td>
</tr>
</tbody>
</table>

Source: Processed Data (2022)

Based on the table above, it can be seen that the $Q^2$ value of the endogenous variables is higher than 0 (zero), which indicates that the model in this study has a good observation value with a predictive relevance of 0.570 or 57%, which means that the greater the $Q^2$ value, the better the observation value produced in the model.

3) Hypothesis Test

In the bootstrap resampling method in this study, the hypothesis is accepted if the significance value of the t-statistics is more significant than 1.96 and the p-values are less than 0.05. $H_a$ is accepted, and $H_0$ is rejected.

Table 6. Hypothesis Test Summary

| Construct | Original Sample | Sample Mean | Standard Deviation | $T$ (|O/STDEV|) | P Values | Description |
|-----------|-----------------|-------------|--------------------|----------|----------|-------------|
| Direct Effect |                 |             |                    |          |          |             |
| TM $\rightarrow$ EE | 0.667 | 0.668 | 0.059 | 11.346 | 0.000 | Accepted |
| TM $\rightarrow$ ER  | 0.675 | 0.665 | 0.077 | 8.727  | 0.000 | Accepted |
| TM $\rightarrow$ EP  | 0.424 | 0.420 | 0.070 | 6.046  | 0.000 | Accepted |
Direct Effect:

1) Talent Management on Employee Engagement has a t-statistical value of 11.346 and a p-value of 0.000, so it can be hypothesis 1, which states that there is an influence of Talent Management on Employee Engagement accepted.

2) Talent Management on Employee Retention has a t-statistic value of 8.727 and a p-value of 0.000, so hypothesis 2 states that there is an influence of Talent Management on Employee Retention, is accepted.

3) Talent Management on Employee Performance has a t-statistic value of 6 and a p-value of 0.000, so hypothesis 3, which states that there is an effect of Talent Management on Employee Performance, is accepted.

4) Employee Engagement on Employee Performance has a t-statistical value of 1.866 and a p-value of 0.063, so hypothesis 4, which states that there is an effect of Employee Engagement on Employee Performance, is rejected.

5) Employee Retention on Employee Performance has a t-statistic value of 6.206 and a p-value of 0.000, so hypothesis 5, which states that employee engagement influences employee performance, is accepted.

6) Employee Engagement on Employee Retention has a t-statistic value of 2.353 and a p-value of 0.019, so hypothesis 6 states that there is an influence of Employee Engagement on Employee Retention, is accepted.

7) Employee Performance mediated by Employee Engagement has a t-statistic value of 1.856 and a p-value of 0.064, so hypothesis 7, which states that the effect of Talent Management on Employee Performance mediated by Employee Engagement, is rejected.

8) Talent Management on Employee Performance mediated by Employee Retention has a t-statistic value of 5.196 and a p-value of 0.000. So it can be said that hypothesis 8 states that there is an influence of Talent Management on Employee Performance mediated by Employee Retention, which is accepted.
**Indirect Effects:**

1) Talent Management on Employee Performance mediated by Employee Engagement has a t-statistical value of 1.856 and a p-value of 0.064. The 7th hypothesis, which states that Employee Engagement mediates the effect of Talent Management on Employee Performance, is rejected.

2) Talent Management on Employee Performance mediated by Employee Retention has a t-statistic value of 5.196 and a p-value of 0.000. The hypothesis 8, states that there is an influence of Talent Management on Employee Performance mediated by Employee Retention, is accepted.

**Table 7. Model Fit**

<table>
<thead>
<tr>
<th></th>
<th>Saturated Model</th>
<th>Estimated Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRMR</td>
<td>0.079</td>
<td>0.080</td>
</tr>
<tr>
<td>d_ULS</td>
<td>5.633</td>
<td>5.777</td>
</tr>
<tr>
<td>d_G</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Chi-Square</td>
<td>infinite</td>
<td>infinite</td>
</tr>
<tr>
<td>NFI</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Processed Data (2022)

The results above show that the SRMR value is found to be 0.079, meaning that if the value is smaller than 0.100, the model is considered fit. However, the size of the fit model can be used as a reference. In this case, the researchers were cautious reporting and using the fit model in PLS-SEM (Hair et al., 2019).

**DISCUSSION**

1) The Effect of Talent Management on Employee Engagement

Employee engagement at PT XYZ Surabaya can contribute positively to achieving company goals. Several studies state that engaged employees are more productive in their performance, provide the best customer service, have fewer absences, and are more loyal to the company than disengaged employees. Employee engagement's critical role helps an organization achieve a competitive advantage (Harahap, 2014). Employee engagement does not appear by itself but results from an organization's efforts...
to do something through leadership, organizational culture, and commitment that makes employees feel involved with the company.

2) The Effect of Talent Management on Employee Retention

Talent management has a positive and significant influence on employee retention at PT XYZ Surabaya, which means that the more conducive the implementation of talent management is, the more employee retention at this company will increase. PT XYZ Surabaya also makes employee retention one of its main concerns because the impact on the company is significant. By referring to the policies and practices implemented by the company to prevent employees from leaving their jobs, the company is taking several steps and strategies to encourage employees to stay with the company for an extended period. The higher the level of business competition, the company faces challenges to survive.

3) The Effect of Talent Management on Employee Performance

Talent Management directly has a significant effect on the performance of employees of PT XYZ Surabaya. Based on an interview with one of the informants, it was revealed that the company supports employee talent management by recruiting and providing training with the skills or abilities possessed by employees, which are direct, so that employees can develop skills and abilities at work. PT XYZ also conducts evaluations and assessments, which are carried out with the aim of screening and obtaining employees with good abilities and performance so that they can contribute and fill certain job positions under the required expertise. PT XYZ Surabaya's employee performance is quite good.

4) The Effect of Employee Engagement on Employee Performance

Employee Engagement at PT XYZ Surabaya has yet to influence employee performance strongly. The more fantastic the employee's attachment to the company, the more significant the employee's contribution, and vice versa. This condition shows that an employee's engagement affects the employee's performance at PT XYZ Surabaya. However, some employees feel they need more involvement in the company. Previous studies that support this research is Kusumawati (2017), where there is a positive but not significant effect of employee engagement on employee performance.
5) The Effect of Employee Retention on Employee Performance

Employee Retention has a high impact on employees so that employee retention can run stably in the company. This condition indicates that employee retention directly affects employee performance at PT XYZ Surabaya, which means that the higher the employee retention, the higher the employee performance. To gain an understanding of how vital employee retention is, this company provides an understanding or a kind of education about the importance of work and how difficult it is to find work in the current era of business competition.

6) The Effect of Employee Engagement on Employee Retention

Employee engagement has a positive and significant effect on employee retention at PT XYZ Surabaya, where the level of employee engagement in this company is high. The active participation of employees in work can generate commitment, a desire to contribute, and a sense of having high loyalty to work and the company.

7) The Effect of Talent Management on Employee Performance Indirectly through Employee Engagement

Employee Engagement at PT XYZ Surabaya has not significantly influenced employee performance. The greater the employee's attachment to the company, the more significant the contribution that employees have. This condition shows that an employee's engagement affects the employee's performance at PT XYZ Surabaya. However, some employees feel they need more involvement in the company. This study's results differ from previous research found in Mariza (2016) in his research showing that employee engagement has a positive and significant indirect effect on employee performance. This study shows that when employees feel enthusiastic and satisfied with the work done, it can be ascertained that employees already have good engagement and motivate employees to improve their performance.

8) The Effect of Talent Management on Employee Performance Indirectly through Employee Retention

Talent management or talent management indirectly positively affects employee performance through employee retention. The better the implementation of talent management, the better the performance of PT XYZ Surabaya's employees. The management of talent management in this company is carried out by positioning employees in certain positions according to their abilities and expertise. Thus, when the
work assigned follows employees' expertise, they will be able to complete the work more seriously and efficiently. So that employees will feel comfortable and more comfortable to keep working and not escape the incentives they provide as an appreciation for efforts to keep employees loyal and make employees continue to contribute more to this company. By retaining employees, companies can reduce costs that generate turnovers, such as recruitment and selection.

CONCLUSION AND SUGGESTION

The researcher recommended that the leadership and management of PT XYZ Surabaya need to improve strategies in implementing talent management, employee engagement, and employee retention to enhance employee performance so the company's goal can achieve. The plan is implemented through good talent management by conducting training and development and adding insight to employees so that they are more creative and develop at work, in addition to strengthening team-building activities to increase employee solidarity. Employees of PT XYZ Surabaya should better manage their talents or intelligence, broaden their knowledge through training and previous experience and increase their creativity and skills. Employees are expected to be able to maintain optimal performance in order to make a good contribution to the development of PT XYZ Surabaya.

REFERENCES


