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**Organization Agility and Talent  
Management**

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## **Organization Agility and Talent Management**

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### **Executive Summary:**

To be sustainably effective, organizations need to change what they do and how they do it at an ever increasing rate. Creating an agile organization requires taking an approach to organization design and management that allows organizations to sense what is changing in the environment, develop and test possible changes, and quickly implement changes. The payoff is worth it; research shows that organizations that are agile can outperform others over decades. This article uses case studies on Netflix and oDesk to show that organizations can create an agile workforce by adopting a set of talent management practices that encourage employees to learn and develop, and by reducing the transaction costs associated with changing the skill sets in their workforce.

## **Organization Agility and Talent Management**

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To generate profits and societal benefits that are better than average over a long period of time, organizations need to change what they do and how they do it more frequently than ever. The environments they face are increasingly uncertain, disruptive and complex. They are more globally interconnected, more technologically complex and more politically challenged. To respond to this environment, organizations need to be able to quickly adjust their capabilities and management processes so that they are effective over time.

Creating an agile organization that can respond to today's environment requires taking an approach to organization design and management that allows organizations to sense what is changing in the environment, then develop and test possible changes and quickly implement the right changes (Worley, Williams, & Lawler, 2014). Research shows that agile organizations can

outperform others over decades. Even though they may not be the best performer in any given year, they tend to be consistently above average in performance, while the best performers in a year are usually thrashers whose performance varies greatly over time (Worley, Williams, & Lawler, 2014).

Talent management is a critical management process in an agile organization. It is a primary determinant of an organization's ability to change its behaviors and capabilities in response to environmental change. This is a direct effect of the rapidly changing, more complex global environment. The combination of new technologies and more complex environments has made having the right talent a competitive necessity. It has also created a major challenge for organizations when it comes to change.

A central issue for almost any change is whether the individual members of an organization have the skills necessary to support the change and the new business activities it calls for. Given the rate of change that is occurring in the environment, yesterday's right talent often is not today's or tomorrow's right talent. Organizations need to develop talent management strategies that allow them to change their employees' skills and knowledge at the same time and rate as they change their business strategies.

An agile approach to talent management is different from the execution-focused approach used by most organizations. In the execution approach, the focus is on high levels of talent stability in order to avoid turnover costs and to assure that the existing workforce can execute an organization's current strategy. Employees are recruited to fill existing jobs, rewarded for seniority, trained to perform today's jobs and rewarded for current performance. With this approach, replacing existing employees with new hires in order to change what an organization

can do has high transaction costs associated with it while training them to perform new jobs takes time and makes rapid change difficult.

The talent management practices and policies used to make organizations agile must enable strategy driven motivate organization change. They need to motivate individuals to change what they do and ensure that the workforce has the skills and competencies that are needed to make the organization successful given its new activities.

The talent management strategy of an organization needs to reflect both the kind of agility and the speed of change that it needs. Organizations in different businesses, industries and countries need to change at different rates. Therefore, they need to consider which agility talent management strategies and practices fit their rate of change and type of change. Those that are changing more slowly, for example, can use more of a career approach to talent management, while those facing extremely rapid change need more transactional relationships with individuals and short-term talent management approaches so they can easily change their workforces.

Organization agility requires a talent management approach that minimizes resistance to change on the part of organization members and eliminates the high talent change transaction costs that can stem from changing the skill mix. This requires practices and systems that are significantly different from those that are commonly used in the developed world and are considered best practice. Most of them were designed with execution and stability, not agility and change, in mind. As a result, they create individuals and organizations that resist change, or at best are slow to implement it. Talent management for agility needs to be based on the right employment deal, but it also needs to include the right attraction, selection, performance management, pay, and talent development systems.

## **Employment Deals**

There are two approaches that organizations can and do take to talent management in order to deal with change. One is the “career approach,” which calls for staffing an organization with individuals who like change, are willing and able to learn new skills, and enjoy creating organizational policies and practices that encourage and support individuals changing. The other is the “travel light approach,” which creates an employment deal and talent management system that supports an organization constantly changing the members of its workforce in order to change the types of skills it has (Hoffman, Casnocha, & Yeh, 2014; Lawler & Worley, 2011).

The literature on talent management has often argued that the best way to assure an organization has the right talent is to internally develop its talent, invest in it and have relatively long-term employment relationships with individuals. One advantage of this is that it helps build loyalty and the willingness of individuals to sacrifice for the good of the organization. Another is that it helps to attract and retain talented individuals.

The problem with the career approach is that change often requires new skill sets and new approaches to dealing with business issues that aren't quickly learned and developed. This is where the “travel light” approach is superior. It argues strongly for “temporary” relationships between individuals and organizations. Responsibility for an individual's career and the skills they have shifts from the organization to the individual. Employment is “guaranteed” for only as long as an individual has the skills the organization needs and performs well.

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### **Case Study: Netflix**

Netflix Corp.'s approach to talent management exemplifies the travel light approach. At Netflix, the reward for doing a good job today is having a job tomorrow. It does not guarantee work. It is up to individuals to have the skills that the organization needs. If they have them, they have a job. If they don't have them, they find themselves out of a job (Lawler & Worley, 2011). Closely related to this point is the following statement on its website. "We try to hire well, but unlike many companies, adequate performance gets a generous severance package."

Netflix has no problem paying a premium for talent developed by other companies. They view this as the only way that they can change fast enough. Developing talent is simply not a realistic option in their fast changing world. Not only does it help them change rapidly, they avoid the costs of talent development.

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There are a number of approaches to employing individuals that produce minimal transactional costs when the skills an organization's employees have need to be changed. A recent article by Cappelli and Keller (2013) provides detailed examples of the many different ways organizations are contracting with people to get work done by those who are not regular employees. It makes the distinction between employment and contract work and under each of these, identifies almost 20 different types of employment arrangements. Many of them involve contract-based temporary relationships that meet the need for short-term skills. Not all of them can be used on a global basis because some violate national labor laws; but in most countries many of them can be and are being used.

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### **Case Study: oDesk**

oDesk represents a particularly interesting example of an organization that provides contract labor. It operates in the world of information technology and has a large inventory of individuals who are available to do contract labor. Using a cloud-sourcing system, oDesk matches individuals with the projects that need to be done. It posts the projects on its website, individuals bid on them, and organizations contract with the individuals to do a specific project. The result, from an organization's point of view, is that they have tremendous flexibility with respect to who it employs and how long individuals work for them. oDesk enjoys minimal transaction costs when severing relationships with their "employees."

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One last point, even when an organization faces a rapidly changing environment, there are situations where it makes sense to do some internal talent development, the most obvious being where there simply is none of the needed talent available in the market. This can be for a large number of reasons ranging from high demand to the fact that the cutting-edge or unique skills needed simply do not exist elsewhere. Overall, what differentiates agile firms is that they have the talent they need in order to implement change and as a result do it more quickly and effectively than their competitors.

## **Recruiting and Selection**

Recruiting and selecting the right employees is the first step in building an agile organization's workforce. There is no selection or recruiting process that will have a perfect "hit

rate” when it comes to hiring the right employees. But, there are a number of key practices that when built into the process, can greatly increase the success rate when an organization wants to be agile. Netflix provides a good example of several of the best selection practices which lead to hiring an effective, agile workforce.

Years of research on employee selection has shown that giving individuals a realistic preview of what it is like to work in the organization they are considering is one of the most important things that organizations can do. In short, organizations need to have a clear employer brand. There are two major reasons to establish a clear and accurate employer brand. First, it helps individuals make an intelligent decision about whether they are, in fact, a good fit for the organization. Yes, it is true that individuals don’t always know themselves well enough to know whether they will survive and thrive in a particular work environment, but many individuals do and can make better decisions if they know what it will be like to work for an organization. Second, realistic job previews are a big help in reducing early turnover among new employees. When individuals have a realistic sense of what it is going to be like to work for an organization, there isn’t the problem of newcomers becoming disillusioned and dissatisfied because they were sold a “false deal.”

When an organization wants to be agile, it is critical that its realistic job preview provide a great deal of information about what agility means in the organization and what individuals can expect in terms of work assignments, skill change demands, job security and in general, what it means to work in an agile organization. Netflix has an interesting approach to providing individuals with a realistic preview. Their website has more than 100 PowerPoint pages that define and specify what it’s like to work for Netflix and what Netflix expects from its employees. It encourages employees to look at the PowerPoint presentation and to become



familiar with Netflix. After reading through them, most job applicants can't help but have a sense that this is a different organization, and that if they go to work there, they will be expected to perform extremely well and change what they are doing on a regular basis.

The second issue to focus on when selecting employees for agile organizations is their willingness to take on new things, learn new things, develop new skills and work in new environments. Agile organizations often are faced with the decision of whether to train and develop their existing employees, or replace them with others who have the needed skills. Even in a travel-light organization, some employees are likely to be asked to do new and different things. In some travel-light organizations, it may be preferable to invest in existing employees rather than hiring new ones. As mentioned earlier, the most obvious case is where there simply are no people available who have the needed skills. When this is true, it is best to develop existing employees.

It is often said, and it is true, that the best predictor of future behavior is past behavior. This means that the selection process should focus on what individuals have done when they have had the opportunity to change, and whether they have, in fact, done it successfully. Thus, the selection process should target individuals who in the past have shown the willingness and ability to learn and develop. Key examples here would be people who have changed functions, volunteered for new assignments, have a history of job changes, and those who have continued their education. A careful look at an individual's résumé is a good way to get information about how they have responded to change in the past. Individuals who have a long steady history of holding the same job in the same company and geographic location are probably are not the best candidates for an organization that wants a workforce that welcomes and seeks change.

Carefully structured job interviews are a second way to gather information about how individuals have dealt with change in their past work situations. Interviewers need to ask questions about what changes the individuals have experienced, how they responded to them and whether they have ever led a change effort. In short, a whole series of questions need to be asked about what the job applicants have done in the past when it comes to change and their roles in it.

### **Performance Management**

Even though they differ significantly, almost every organization has a performance management system. They can be one of the many parts of an organization's HR system that makes it difficult for organizations to change in significant and important ways. In the minds of many critics of performance management systems, this is one more reason why organizations should abandon performance appraisals. The argument is straightforward. Most performance management systems demand commitments to specific performance goals and skill growth over a period of time, often a year. As a result, if they motivate behavior at all, they cause individuals to focus on achieving goals and acquiring skills that may be out of date if rapid change is occurring. All too often, the argument goes, even though the skills and goals quickly become outdated, employees resist changing them. They continue to pursue their preset goals because they have made a "commitment" to them and their bonuses and salary increases depend on achieving them.

There are those that say no performance appraisal can effectively motivate any kind of performance or skill acquisition. As a result, they are simply a waste of time rather than a cause of resistance to change or a cause of failed change efforts. However, the research evidence does not support this view. Performance management systems that set clear achievable goals and

establish a clear connection between performance and rewards **do** significantly influence behavior (Lawler, 2000; Lawler, Benson, & McDermott, 2012). But, there is the danger that they motivate yesterday's right behaviors rather than today's and tomorrow's right behaviors.

Designed correctly, there is reason to believe that performance appraisal systems can be a major force in making organizations more agile. Indeed, in today's rapidly changing business environment, it is more important than ever that organizations have effective performance management systems. When organizations operated in relatively stable local environments, much of what needed to be done to make them successful was well known and clear and thus, even without an effective performance management system, individuals often knew what to do, how to do it, and in some cases, were motivated to do it. In today's world this is simply no longer true. Rapid successful change requires frequent alteration of what people do, and often of the skills that they have. One way to help ensure that this change occurs is to have a performance management system that is designed to support organizational change.

To be change friendly, there are three key features an effective and flexible performance management system must have. First, it is critical that it focus on the skills that individuals need in order to be successful in the future. The system should not focus on traditional job descriptions and just the skills that are needed for someone to execute their current job. Of course, the skill acquisition part of the system needs to be sure that the job holders have the skills they need to perform their current job. But, it also needs to be constantly pushing the frontier with respect to skills that are critical to the future. It is also critical that the skill acquisition process be tied to the reward system of the organization. Bonuses, promotions and/or pay increases should be contingent upon the successful acquisition of new skills. This means paying the person for what they can do.

There is no magic timing for how often the skill portfolio of an individual needs to be assessed, but it is certainly important for the performance management system to review it more often than the traditional rate of once-a-year. For most agile organizations, at least every three months there should be a review of the skills that individuals should be learning, and an assessment of how their learning has gone over the last three months.

Second, clear performance goals are a powerful motivator and should be the major focus of the performance management system. They are a motivator even when they are not tied to financial rewards, but they are even more powerful when they lead to bonuses, salary increases, stock, promotions, etc. For goals to be meaningful and motivate the right behavior, they often need to be both short-term and long-term. Short-term goals can be 30-day goals, for example, while long-term may be two or more years. Short-term goals are particularly important in a rapidly changing environment because what individuals need to do in order to make a business succeed may in fact change every month or so. Long-term goals are also important because they can ensure that an individual doesn't become overly focused on short-term results and fail to behave in ways that will build a longer-term successful business, such as building good relationships with customers or making investments that will pay off in the future. It is also important that goals include how results are achieved, not just whether they are achieved. The "how" goals should include building organizational agility, developing new skills, and demonstrating the company's values.

Third, in some instances, the performance management system needs to reward failure, or at least to not punish it. All too often individuals fail to take risks and fail to change because they are concerned about punishments. This is particularly likely if they are on a financial incentive performance management system. The best way to get individuals to take risks and change is to

reward them for it, and in some cases to reward them even if they are not successful (Lawler, 2000; McGrath, 2011). Organizations need to build into their performance management and rewards systems the concept of “good failures.”

Until recently, the type of performance management system that supports change was often impossible to implement in most organizations. It requires a considerable amount of flexibility with respect to when and how the appraisal is done, and a considerable amount of information being shared up and down the hierarchy. Only if this is done can the right goals be set and changed, the right skills incented, and good performance and good failures identified.

But, the world has changed with modern information technology and social networking tools. It is quite possible to develop performance management systems that support change and organization agility. It is also possible to give people real time feedback on their performance and to have it come from multiple sources (e.g., customers, bosses and their peers and subordinate). Goals can be changed and adapted as the business environment changes, and needed skills can be identified and incented on short notice. Finally, and perhaps most importantly, rewards can be more easily and quickly distributed on a flexible schedule.

In addition to having the right structure and technology, a change-friendly performance management system requires managers who are skilled in managing business and employee performance. This is a must-exist condition that is often lacking in organizations. Organizations seem willing to spend money on information technology support for performance management systems and even for performance based rewards, but they hesitate to invest in the training and development of managers who can operate systems in a way that makes them motivating and supportive of change (Lawler, Benson, & McDermott, 2012). This is simply unacceptable in a world in which organization agility is a key differentiator with respect to organizational

performance. More than ever, organizations need performance management systems and managers that effectively support change.

### **Reward System**

The compensation system of an organization must fit and support the approach that it takes to overall talent management as well as its business strategy. This is true for any organization, but it is particularly true for an organization that wants to be agile. It must fit well with the attraction and selection practices of the system, the performance management system, and the organization's approach to careers and talent development.

There is a set of compensation practices that fit well with developing organization agility. In some compensation areas, there is clearly a one best pay practice, but in others there are several approaches which can produce the right results. With that in mind, this article looks at what effect a compensation system can and should have on an organization's performance, then looks at the type of pay system practices that will produce the desired outcomes.

### ***Attraction and Retention***

There is no question that the amount of compensation that an individual receives is a clear driver of attraction and retention (Lawler, 2000). In many respects, it is about an organization's brand as employer. Higher paying organizations attract more applicants than lower paying organizations, and this attraction follows with respect to retention. All things being equal, turnover is higher in lower paying organizations than in higher paying organizations.

Thus, the best approach for an organization that wants to attract and retain individuals with the right skills is to be sure they are paid above the market. This is the approach that Netflix

takes. It pays all its employees above market and expects every individual to perform above market. If individuals do not perform above market, Netflix is quick to dismiss them. It feels that paying above market for everyone is something that sends a strong message to everyone about the advantages and disadvantages of working at Netflix. It also fits with its corporate culture and aspiration to be a company that is known for seeking excellence, a culture which values high performance, and pay that is at the top of the market. Because higher paying organizations are more desirable to work for, they have better job applicant pools and are able to select and retain the best talent. This policy helps organizations when they need to change the mix of talent that they have in order to have the right skills and knowledge. If they have a reputation and corporate image as a high payer, they attract more applicants, can add individuals with new skills and attract potential high performers much more effectively than an organization with below or at market pay rates.

### ***Performance Motivation***

The compensation practices of an organization can be an important determinant of performance. Simply stated, decades of research show that well designed pay for performance systems motivate performance (Lawler, 2000). In the case of creating an agile organization, the compensation system must motivate both performance and skill development. To do this, the amount of compensation someone receives needs to depend on how well the individual performs and the skills he/she has. Of course compensation isn't the only thing that drives performance, and it shouldn't be the only talent management organizational design feature on which an agile organization focuses. Nevertheless, the evidence is clear that when compensation depends on a particular type of performance, individuals are motivated to perform well in that area.

## *Rewards System Design for Agility*

The most effective type of compensation may differ greatly from one agile organization to another. Bonuses, salaries, stock, and benefits all can be important in attracting the right talent. There is no right combination of these that is a particularly good fit for agile organizations. In many situations, bonuses are the best choice because they are the most flexible form of cash compensation. But what is a good fit varies considerably by the type of people the organization wants to attract and retain and the kind of agility that it needs. What is clear is the need to have an at- or above-market combination of multiple forms of compensation. This is a must have in order to attract and retain individuals who are high performers and have high-level skills and knowledge.

What is the right kind of pay for performance system for an agile organization? For most agile organizations, the best approach is one that looks at both short-term and long-term performance and delivers pay accordingly. Focusing too much on the short term can result in some obvious and highly negative consequences. For example, it can create a mentality of constantly trying to optimize performance in the short term. But it fails to create the kind of investments and behaviors that will lead to long-term success. Overly focusing on long-term performance has its own negative consequences. Individuals may not be particularly motivated to produce good current performance because there is little incentive to do it. The right balance between long-term and short-term incentives is very much determined by the type of business environment the organization is in and its strategies.

In most cases, some participation in a stock program is a positive for agility. It keeps individuals focused on the external world and what is happening there. It also provides an effective retention device if individuals have to stay a certain period of time to collect their stock



or financial reward. Short-term bonuses and rewards are a good way to encourage skill acquisition and performance. For them to be successful in an agile organization, they must be tied to short-term goals. When they are effectively tied to short-term performance goals, they can be powerful motivators of skill acquisition and performance.

One final issue with respect to pay for performance is the degree to which it is based on group performance versus individual performance. There is no right answer to what it should be based on. Individual bonuses and organization performance based variable pay plans can be quite effective in agile organizations, as can group plans. The right choice between them depends on the measures of performance that are available and the degree to which performance of the organization is essentially an individual-driven outcome versus a collective outcome. Some organizations that need to be agile fall into the group performance sector while others fall into the individual performance sector. The key, therefore, is matching the incentive plan to the type of performance interdependencies and outcomes that the organization needs in order to be successful. This, above all else, should drive whether the compensation system rewards individual performance, group performance or both.

The base pay systems of most organizations are based on jobs. Jobs are priced to market and individuals are paid according to the value of the job they hold. This is an approach that fits the career model of talent management. It does not support an agile organization. Jobs do not have a market value; they are not hired and fired. Employees have a market value based on their performance and their skills and competencies.

One of the things the job-based approach does is encourage individuals to develop their job-related skills. It also makes job-restructuring and, in many cases, movement to a new job something that individuals may resist or be at the very least be concerned about because they

may lose job value and as a result pay. Finally, it typically offers no direct incentive for them to improve their skills and learn new skills.

An alternative to a job-based pay system is a person-based pay for skills system (Ledford & Heneman, 2002). This alternative has been growing in popularity over the last several decades and has done well with respect to creating agile talent management systems and with the reality that more and more work is becoming knowledge-based and individualized. Also, it makes it easier to get individuals to change what they can do because there is a reward for learning new work related-skills. Under a skill-based pay system, change can lead to more rewards for the individual in addition to opportunities to learn and develop. Overall, the right compensation system can be an important component of an agile organization. It can motivate the right performance, the right kind of skill acquisition, and contribute to the attraction and retention of the right individuals.

### **Talent, Agility and Type of Change**

Every organization's need for new skills and knowledge varies considerably by function and area within it. This is particularly true of global organizations because parts of them often operate in very different environments. Organizations facing continuous rapid change need to take an organization-wide agile talent management approach. In others, the need for agility may be limited to certain functions or areas. For example, in the more technical areas of knowledge work firms, talent is often a particularly important asset to have and one where the skills and knowledge needed changes rapidly.

One way to think about where flexibility in the talent management system is particularly likely to be needed in an organization is to combine an analysis of where product, technological

and/or environmental change is likely to be rapid, with an analysis on the degree to which the work being done is pivotal or critical to the successful execution of an organization's strategy (Boudreau & Ramstad, 2007). Job areas where change is expected to be rapid and where talent is a pivotal determinant of the organization's effectiveness are the areas where agile talent management practices should be utilized. It is less important to use such management approaches as skill-based pay and paying everyone well above market in areas that are not pivotal to the organization's success and are unlikely to require new skills.

In agile organizations, it may make sense to treat a limited number of members more like traditional organizations treat their employees by giving them longer-term employment contracts and investing in their development. Examples of this are individuals who are strong candidates to be senior managers and who are needed to develop and maintain an agile corporate-wide approach to running the organization. The obvious issue here is concern over whether an organization can maintain an agility culture if it is constantly changing its employees in the most critical leadership roles. The danger is that without a core of employees who maintain the culture, an organization will become more of a temporary organization than an agile one. Another example involves national differences. In some countries, because of local talent and legal conditions, it may make sense for an organization to treat employees in a traditional manner while in other countries an agile approach is the best fit.

### **Conclusion**

Organizations can and need to create workforces that can adapt. They can do it by adopting a set of talent management practices that encourage employees to learn and develop, and by reducing the transaction costs associated with changing the skill sets in their workforces.

Their challenge is getting the right mix of internal development and change in who is in the workforce. This should be driven by the nature of the organization's strategy, the kinds of change it expects to implement, and the rate of change that it sees coming in the future. What is very clear is that more and more organizations need to adopt agile talent management practices so that they can change as fast as their environment is changing.

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