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Organization Development and Talent Management:
Beyond the Triple Bottom Line

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No society can provide its members with a high quality of life unless it has effective organizations.

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Organization Development and Talent Management: Beyond the Triple Bottom Line

Edward E. Lawler III

There is a growing movement to broaden the definition of organizational effectiveness. Fewer and fewer countries and societies are willing to accept that financial performance is all that matters when it comes to organizational effectiveness. The movement to hold organizations accountable for their environmental impact is one clear example of this change. More governments are demanding that organizations monitor and provide effectiveness reports on their impact on the environment. In addition, there is a growing demand that companies in developed countries monitor the working conditions and experiences of their employees in the developing countries.

The triple bottom line approach to measuring and reporting on organizational effectiveness is one outcome of this growing concern with how organizations affect the environments in which they operate. As it grows in popularity in the developed world, more large corporations are reporting annual triple bottom line performance numbers. At this point, approximately forty-percent of the Fortune 500 companies issue a report. The typical triple bottom line report, which supplements the usual report of the financial results of the corporations, reports on the organization's impact on the physical environment and the societies in which they operate.

The triple bottom line approach represents a dramatic change from the thinking about organizational effectiveness that was dominate in the 1950's, when OD started. The dominant view then was that organizations should only be responsible for their financial performance. Forty-four years ago, the economist Milton Friedman argued in a *New York Times* article that

this was exactly as it should be because to do otherwise would be to do charity with other people's money.

Unfortunately, the triple bottom line approach and the current focus on how corporations' impact the environment has not included a major focus on how corporations affect the people who work for them. As noted, there is some focus on working conditions in underdeveloped countries where wages are low and working conditions are often dangerous, but there is little focus on the quality of work-life of most employees.

In recent years, the OD field has continued to focus on how well organizations perform in the traditional operational areas and it has also been concerned with how they impact the quality of life of their employees. Overall, the growing focus of societies and organizations on how they affect the environment, society, and people presents a tremendous impact opportunity for OD because it has the orientation and knowledge that is needed to make organizations effective in all these areas.

What should OD do in order to capitalize on this opportunity? Two things seem obvious. First, as Chris Worley and I argue in our book *Management Reset: Organizing for Sustainable Effectiveness* (Jossey-Bass, 2011), it should champion the idea of organizations being sustainably effective. That is, being effective, not just in terms of their financial performance but being effective in how they treat employees, the communities they operate in, and the environment. This means advocating not a triple bottom line approach, but a quadruple bottom line approach to organizational performance. The reason for this is straight-forward and compelling given what those of us in OD know about organizational effectiveness.

Moving to the quadruple bottom line approach involves measuring the impact that organizations have on their employees and the impact that they have on the societies in which they operate. How employees are treated requires different measures in order to assess it and has different consequences for organizational performance than how organizations impact the communities in which they operate. Combining them in the way that the triple bottom line approach does detracts, in many ways, from the significance of how employees are treated and very rarely leads to organizations focusing on talent and organization development issues as it should. Separating employee impact from community impact, and taking a quadruple bottom line approach is a way to highlight the impact of organizations on all employees not just those in developing countries. This is very consistent with the long history of organizational development focusing on the quality work-life and how people are treated both interpersonally and from a leadership and management perspective.

Second, organizational development as a field should continue to champion useful research and research-based management practice. Taking a sustainable effectiveness approach to organizational performance raises innumerable issues that revolve around change management, talent management, leadership, and organization design. It clearly is not as easy to design an organization that is effective in terms of a quadruple bottom line as it is to design one that focuses on financial performance. There are difficult trade-offs to be evaluated, multiple organization design options that need to be explored, and a continuous change process that needs to be developed and implemented.

Given the rapid changes that are occurring in the business environment, yesterday's approaches to management and organization design are unlikely to be the most effective

approaches to producing the best quadruple bottom line results in the future. As a result, the only way for organizations to create positive quadruple bottom line outcomes is for them to constantly develop and test the effectiveness of new management practices and organization designs. But they must do more than experiment and change the practices; they must research the effectiveness of what they do so that they can learn from what they do. OD practice, unguided by research, is unlikely to produce optimal results. Similarly, research that does not take place in organizations that are trying to achieve sustainably effective results is unlikely to be useful.

Creating Sustainable Effective Organizations

In many respects, the field of OD is well positioned to help organizations become more sustainably effective. The organization designs and talent management processes that are critical to achieving organizational effectiveness are a large part of the history of OD. These include its focus on evidence-based change, democratic leadership, and respect for individuals. Organizations, for example, are unlikely to be sustainably effective unless they have highly permeable boundaries and are able to change quickly and effectively. Similarly, they are unlikely to treat their employees well and in a sustainably effective manner if they do not practice effective leadership and have effective talent management processes. All of these areas of organization design and management are part of the competency sets that OD professionals have helped organizations develop and where OD scholars have a history of research and practice.

Talent management is an area that deserves a particularly strong focus because of its effect on both financial performance and employee outcomes. Today the talent management

practices of most corporations do not follow a set of principles that treat talent as an important corporate asset. Instead, they follow the principles of traditional bureaucratic management, which is not based on talent being critical to the effectiveness of most organizations.

Technology and social change have clearly altered this situation. Most organizations are in a position where talent is their most important asset and they need to be designed and managed in ways that reflect this reality. My recently published book, *Reinventing Talent Management*, outlines a number of practices and policies that organizations need to implement in order to reflect the importance of talent. Here, I would like to focus on five next practices which every organization should adopt if talent is truly their most important asset and they want to achieve a high level of quadruple bottom line performance.

1. Talent should drive strategy

There is little question that strategy should be an important determinant of the talent decisions that an organization makes. However, it should not just be looked at as a one-way, causal relationship. In many cases, the availability of talent and the ability to manage talent should drive the strategy of an organization. Creating a business strategy that cannot be implemented because the talent needed cannot be obtained or managed appropriately is a sure prescription for strategy failure. Thus, talent needs to be front and center and an important driver of the business strategy of every complex, talent intensive organization.

2. Pay the person

In traditional bureaucratic organizations, it makes perfect sense to pay people based on the job that they are doing. However, it does not make sense in an organization where talent is a critically important asset that needs to be motivated and developed. When this is true, pay should be driven by the skills and competencies that individuals have, not the work they are doing at the moment. Increasingly, the market value of people depends on their skills, and thus for an organization to attract, retain, and develop their critical talent, they need to pay individuals based on the market value of their skills. Organizations are increasingly doing this in the case of their technical contributors and knowledge workers, but it needs to become the institutionalized driver of the compensation systems of corporations that depend on talent for their competitive advantage.

3. Manage performance, do not appraise it

The performance appraisal systems of organizations are increasingly being criticized and altered because they fail to motivate and develop people. There are multiple reasons for this, but perhaps the biggest one is that they do not create a feedback and performance culture that supports learning and development, nor appeal to talent that wants to gain skills and perform at a high level. This cannot be accomplished by an annual rating of individuals based on a supervisor's judgment of their performance. It can only be accomplished if individuals have reasonable goals and rewards that are based on reaching goals, and receive ongoing advice and direction in terms of skill development and performance improvement. This requires a continuous dialogue among them, their peers and, their managers. This can only be achieved

by a system that is radically different than the traditional performance appraisal systems in most corporations.

4. Individualize, do not standardize

In bureaucratic organizations, there is always a strong emphasis on treating talent in standardized ways, which is often based on the job they have or their level within an organization. The assumption is that people will see this as fair and that individuals want and should be treated the same is incorrect. The reality is that we live in a world where individuals are increasingly diverse and have different expectations, different desires, and different perceptions of what is fair and reasonable. The only way to cope with this is to individualize the way people are treated. Often the best way to individualize work is to let people choose where they work, when they work, how they rewarded, and even who they work for. While this can be complex, modern information technology has made it increasingly possible to customize how work is done in an organization, while taking into account the skills, motivation, and preferences of individuals with respect to when, where, and how they work.

5. Create agile HR systems and employment relationships

The world is rapidly changing, as is the nature of the workforce. The implications of this for how talent is managed are clear. It must be agile and able to change as an organization's business strategy, technology, and the business environment changes. Fundamental to an agile approach to talent management is moving away from the idea of long-term employment and employment stability. These may come about, but it should be because individuals are adapting

to and changing to fit what the organization needs and are experiencing growth and development.

Organizations need to tell individuals that their continued employment depends on their willingness and ability to change, adapt, and perform in ways that support the organization's current strategy and direction. They need to be warned that changes are likely to take place in the skills they need to have in order to perform and have a job, the work they will do, and how they are rewarded. Organizations can no longer and should no longer promise long-term employment and stable work. Instead they should promise to support individuals who need to change their skillsets and they should provide transparency with respect to what changes are taking place and how these might affect their talent needs.

Implementing these five next practices is not a simple matter. It often is easiest to do in a new organization, but it can be done in many existing organizations that have effective organization development practices. Clearly, it must be done in order for organizations to thrive in today's rapidly changing talent centered business environment.

Conclusion

What OD has done in the past and how it is positioned in most organizations not enough to make organization development professionals major players in creating sustainably effective organizations. They require expertise in measuring sustainable effectiveness, as well as knowledge in macro-organization design and business strategy and in most cases do not have it. These areas of expertise are critical to making good decisions about the strategic paths that organizations should take in order to be sustainably effective and to understanding the impact

of organization design decisions and practices on the organization's quadruple bottom line performance. OD needs to adopt a new approach to thinking about and creating organizational effectiveness. *The Agility Factor* (Jossey-Bass, 2014), a book by Chris Worley, Tom Williams, and myself, asserts that the "old way" of OD thinking needs to change. In particular, it calls for organizations to adopt a continuous change model rather than the traditional "freezing" model which calls for implementing change and the returning to stability. This was a good model, but is outdated. The rate of change in the environment demands continuous organizational change and experimentation with new practices and strategies that will produce high levels of quadruple bottom line performance.

A great opportunity for organizational development to build on its history and traditional strengths exists. If it does, OD can play an important and necessary role in the future of organizations and in society. By astutely combining useful research and new thinking about how organizations must perform in order to survive, organizational development can position itself as a vital resource and important contributor to creating rewarding work-lives for individuals and sustainable societies for them to live in. In order to be effective and survive in the next decades, organizations need to grapple with the classic OD areas—change, people, work design, leadership, etc. However, many of the designs and practices that organizations need to use are either unknown or still evolving. Useful research, which has characterized OD in the past, can help discover and develop what is needed. Implementing it can be aided by some of the change processes that OD has used since its inception. The foundations upon which organization development can move successfully into a new era exist, but they need to be built upon.

BIO:

Edward E. Lawler III is Director of the Center for Effective Organizations and Distinguished Professor in the Marshall School of Business at the University of Southern California. He is the author of over 400 articles and 50 books. His most recent books include *Useful Research: Advancing Theory and Practice* (2011), *Management Reset: Organizing for Sustainable Effectiveness* (2011), *The Agility Factor* (2014), and *Reinventing Talent Management: Principles and Practices for the New World of Work* (2017). For more information, visit <http://www.edwardlawler.com> and <http://ceo.usc.edu>.