

A New Data Type For Strategy-Focused Organizations

Otto Laske and Associates
Laske and Associates LLC

Abstract

One of the data types consistently missing from balanced and HR Scorecards is a precise measure of workforce capability, captured in terms of the developmental and behavioral 'people properties' that characterize strategy-critical company constituencies. In this paper, we introduce capability data in the form of a Capability Metric™ and Human Capital Cause Map™, arguing that the HR Scorecard is but a portion of a broader Human Capital Scorecard. We use a small, pertinent case study to show that and how metricizing workforce capability strengthens companies' focus on strategic performance management. Keywords: Capability Metric™, Human Capital Cause Map™, Human Capital Scorecard

Introduction

Among the factors considered crucial for the economic success of companies one often hears mentioned "that people are our greatest asset." We show in this paper that this proclamation will remain just "a nice touch" of the mission or values statement, rather lead to strategic HR, as long as no methodology is in place that actually supports the measurement of workforce capability. In this paper, we consider the data types utilized in building human strategy as a crucial building stone for bringing the above proclamation closer to a strategic step in thinking and measuring business success.

In the history of the balanced scorecard, three data types have dominated discussions about the Learning and Growth perspective: strategic hypotheses, employee opinion surveys, and statistics regarding the "HR system," --the system put in place by a company to develop, maintain, and employ human resources. It is our experience that these three data types constitute a rather slim foundation on which to build truly balanced HR Scorecard. What is more, we see the latter as only one part of the larger *HC Scorecard* needed by executive and line management for balancing company strategy and level of workforce performance.

As soon as one delves into social science research of the last 50 years, especially capability research (Jaques, 1955, 1994; Kegan, 1982, 1994; Basseches 1981, 1984; Loevinger 1976, 1996; Cook-Greuter, 1999; Laske, 1999), one is apt to notice a fourth data type that is of profound relevance for human strategy. This is the data type that characterizes employees' and executives' readiness to carry out strategy and the effectiveness of HR interventions put in place to boost it. In most simple terms, capability data regards those *people properties* that have been consistently shown to determine work performance: developmental level (maturity), systems thinking capacity, self conduct, task approach, and interpersonal perspective (often referred to by the oxymoron "emotional intelligence").

It is the purpose of this paper to put in doubt the belief that intangibles like maturity (developmental level), systems thinking ability, and other people properties cannot be measured precisely and predictively, or are "too private" to be measured. As specialists in capability levels influencing business outcome, we believe that companies have a right to know what are the *people properties* that underly the performance of their executives and employees. Historically, we think the time has come to break open the "HR black box" that holds capability data captive to opinion surveys (that is, predefined questions). We also think that the line drawn between executives and employees has no substantial justification in terms of capability, and that line management may be closer to assessing needed capability correctly than HR staff. To show that capability data is beneficial not only for management, but for members of the workforce itself, we are introducing three novel notions: Capability Metric™, Human Capital Cause Map™, and Human Capital Scorecard™. We think of these three elements of human strategy as the principal

tools of Capability Management. We believe that these three notions go a long way toward enhancing HR's clout at the strategy table.

Method: A Case Study

Problem: A U.S. software company is launching the process of building a balanced scorecard. In order to strengthen the strategic focus of its human resources policy, the company gives primary attention to an HR scorecard centered around capability (what people ARE) rather than competence (what people HAVE). The focal business issue selected by the company to guide scorecard implementation is its present plan, to join a Software Consortium whose purpose it is to deliver a large internet-banking project. This plan raises concerns at the Board and CEO levels, as to whether the company's middle management has sufficient capability to make participation in the Consortium a full success. Management therefore decides to go beyond gathering answers to predefined questions, and instead assess a representative sample of the workforce regarding its actual and predicted work capability. The notion guiding the company is that building a balanced scorecard before knowing workforce capability is "putting the cart before the horse." Since in contrast to strategy, capability cannot simply be stipulated but has to be empirically assessed, the company decides to build the balanced scorecard "bottom up," rather than exclusively top down as is customary.

Solution: Based on a request by the Board, Laske and Associates carries out a cultural climate analysis based on focus groups and interviews. The analysis shows a pervasive lack of alignment of middle management in three different branch offices. Upon this finding, we recommend and are asked to start assessment for building a comprehensive Capability Metric focused on middle management alignment and leadership, in order to test the soundness of the Consortium endeavor. In short, we adopt the resource-based (or as we say, capability-based) view of a company, in order to enable HR to provide human resources that are "valuable, rare, inimitable, and non-substitutable" (Wright, McMahan, & McWilliams, Intern. J. of H. R. Management, 5(2), 301-326, 1994). As will be shown, this view goes beyond the behaviorist notion that employee behavior is primarily determined by the "HR system," since it takes into account what employees and executives bring to the job by what they ARE (their actual capability).

Implementation: The CFO and HR Director volunteer to participate in the CDREM™ assessment in order to demonstrate the upper-management conviction that people properties matter at all levels of company performance. Using the previously collected culture climate data, Laske and Associates establishes a representative sample of 24 managers (75%) and team leaders (25%), focusing on the branch office most directly involved in the Consortium project. Alignment with strategy and leadership are made the focus of assessment, with CDREM™ index, standards, and criteria chosen accordingly.

CDREM™ Method

Since people properties of executives and employees cannot be assessed through surveys or data regarding the HR system, Laske and Associates used two scored semi-structured interviews and a questionnaire as the principal data gathering tool. The fact that interviews and questionnaire are scored, rather than simply read for content, is the crucial distinguishing feature of building capability metrics. 'Scored' entails that there is a validated method of interpreting interview statements; 'semi-structured' entails that all interviews follow a common conceptual framework, but also include situation-based probing for what an interviewee utterance means in terms of developmental level and cognitive profile. It further entails that the interview agenda is that of the interviewee, not the interviewer, which runs counter to all survey methods using predefined questions. The scoring of capability data follows social science research, in particular methods in developmental psychology where a distinction is made between "ontic" development (life span

development, or “nature”) and “agentic” development (development promoted by human agency, or “nature”).

In its entirety, the CDREM™ method used in the study comprised the following 10 steps:

1. Defining strategic objectives that determine HR deliverables
2. Specifying the HR deliverables required by company strategy
3. Articulating HR “concerns” regarding whether such deliverables can be provided
4. Based on the preceding 3 factors, defining the overall focus (index) of the capability metric to be built for the sample
5. Determining standards and criteria associated with the index based on level of work complexity of sample members
6. Structuring and sizing the representative sample
7. Data gathering through semi-structured scored interviews and a questionnaire
8. Displaying capability findings by way of a Capability Metric
9. Interpreting the Capability Metric in terms of a company specific Human Capital Cause Map
10. Linking capability measures as well as findings to the Human Capital Scorecard in which is embedded the HR scorecard (which pertains to the effect of the ‘HR System’ only)
11. Linking the HC Scorecard to the company’s strategy map and scorecard.

Step 1: Defining strategic objectives

The value of capability is a virtual one until defined within a specific strategic context. Therefore, the first step toward measuring capability is to define the strategic objectives for which capability is required.

Step 2: Defining HR deliverables

Strategic objectives define capability needs only superficially and indirectly, via their correlated HR deliverables. Spelling out HR deliverables needs to be informed by two kinds of knowledge: what strategy entails that people do, and what capability is required for people to do what they are asked to do. While what people (should) do is often spelled out in “strategy maps,” the capability needed to do what has been stipulated is mostly answered in terms of competency models. It is here that HR deliverables are grievously misconstrued since “having competence” does not entail “using competence to the fullest.” In short, competence models fall short in defining HR deliverables if they are not complemented by capability models that take developmental potential into account. Developmental potential strongly influences present use of available competence. As a consequence, capability models are more strategic than competence models in defining HR deliverables.

Step 3: Articulating HR “concerns” regarding HR deliverables

HR concerns are a critical asset of strategic HR. How such concerns are articulated reveals the theory of human resources that underlies HR’s contribution to executing strategy. Where there are no concerns, there is also no insight into capability, or even an inkling that there no such insight. Concerns are therefore the guidepost for defining strategically required capability. “Tell me what HR concerns are regarding strategy deliverables, and I will tell you how strategic your HR Department is.”

Step 4: Define the focus of the Capability Metric to be build

Capability Metrics are not only strategy focused, they are also build around HR concerns regarding the execution of strategy. Companies being unique organisms, there are no “benchmarks” for what capability metrics should focus on. The focal index of a metric depends on in-house knowledge of where workforce capability may be lacking, gathered through surveys or other means. There are a few recurring candidates for an index around which to build a Capability Metric, such as employee alignment, optimality of technology use, leadership, present

performance levels, cultural climate. Others can be picked from a generic Human Capital Cause Map that shows what aspects of performance culture capability findings have a primary impact on (Fig. 1). The map is a true “cause map,” not simply a “strip map” (Bougon ...) as strategy maps are. It states the actual causal links (not just stipulations) between available capability and intangible as well as tangible HR assets, as validated by social science research. Specifically, quadrant IV states available capabilities as causes of elements listed in quadrants III and II, up into those in quadrant I which even surveys have attempted to fathom.

	Tangible	Intangible
Extrinsic	I (Employment Brand) Compensation & Benefits Location Technology Work Conditions Opportunity Competence of Co-Workers	II (Company Trust Fund 2) Management Rapport Company Support Company Communications Company Reputation Cultural Climate Work Productivity Brand Culture Equity
Intrinsic	III (Company Trust Fund 1) Personal Growth Professional Growth Achievement Motivation Supervisor Behavior Team Synergy Consistency of Leadership Management Promises Kept	IV (Core Capability) Individual ‘People Properties’ [CDREM™]: <i>Developmental Level</i> <i>Systemic Thinking Capacity</i> <i>Self conduct</i> <i>Task approach</i> <i>Interpersonal Perspective</i> <i>View of Corporate Culture</i>

Legend: Quadrants III and II address alignment with strategy, while quadrant I addresses retention potential.

Fig. 1, Generic Human Capital Cause Map

5. Determining standards and criteria associated with the index, based on level of work complexity of sample members

Once a central capability index has been decided upon, the task is to select among CDREM™ variables, their criteria and standards those that have a primary bearing on the selected index. In the present case, this entailed defining a two-dimensional index for middle management called ‘alignment,’ based on an estimate by line managers of the work complexity level of prospective sample members. The CDREM™ hypothesis for setting standards of capability assessment is as follows:

Level of Work Complexity (Stratum)	Largest Time Span of Tasks*	Developmental Level (Future Potential)	Type of Complexity of Mental Processing (Current Potential)
I	1 month	3	B1
II	6 months	3(4)	B2
III	1 year	3 /4	B3
IV	2-3 years	4/3	B4

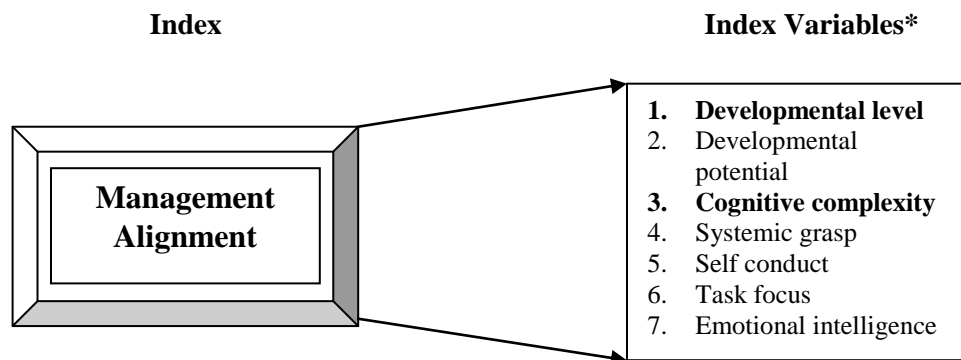
V	4-5 years	4(3)	C1
VI	6-7 years	4	C2
VII	8-9 years	4(5)	C3
VIII	10 years	4/5	C4
IX	15 years	5/4	D1
X	20 years	5(4)	D2

* Time span gives an objective measure of complexity of work, and is based on “the longest targeted completion times” of actual tasks on a particular level of work, as seen by a “manager once removed” from sample members (Jaques, 1994, p. 13).

Fig. 2 Capability standards for different levels of work complexity, following research by Kegan (1982) and Jaques (1994)

Following the example of E. Jaques (1994, p. 13), Column 1 defines the level of work complexity judged by a line manager “once removed” from sample members. Column 2 states the “longest targeted completion time” of tasks at a particular level of work, that is, the typical time needed for completing tasks corresponding to the level of responsibility at that level. Column 3 states the typical developmental level (self awareness level) of personnel that is required for functioning at a particular work level, while column 4 states the complexity of cognitive profile required for completing tasks at that level. In the present case, middle management was considered as Stratum V (4(3); C1).

The index chosen as focus of the Capability Metric is defined as follows:



* Index Variables no. 1 and 3 are detailed in columns 3 and 4 of Fig. 2, respectively

Fig. 3, Index of Capability Metric

The 7 index variables chosen fall into two classes. The first four of the variables are “developmental,” indicating sample members’ present capability ceiling and developmental potential that determines present performance. The last three variables are “behavioral,” indicating causes for sample members’ present performance levels that derive from their personal make-up. Each index variable is associated with “standards” validated by empirical research since the 1950s. For instance, Developmental Level and Potential (variables 1-2), which indicate leadership potential and ability to de-center from one’s own value system, can be set at 16 different levels, depending on the requirements of strategy execution in a company. In addition, variables 3-4 indicate current capability ceiling, that is the highest level of complexity of work an individual can presently carry out. See Fig. 4, below.

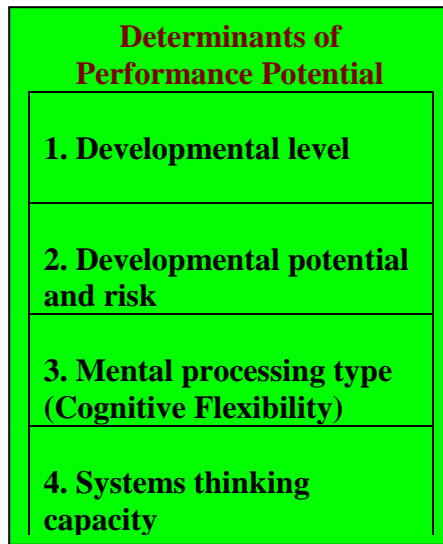


Fig. 4 Criteria of Developmental Potential (1,2) and Current Capability Ceiling (3,4)

Each of the behavioral variables is measured based on six criteria for which empirically validated managerial standards exist. In addition, the questionnaire determines cultural climate, by exploring how the company itself is seen in terms of these criteria. See Fig. 4, below.

Self Conduct	Task Focus	Emotional Intelligence
<ol style="list-style-type: none"> 1. Self concept 2. Risk taking 3. Flexibility 4. Need for power 5. Need for visibility 6. Confrontation-alism 	<ol style="list-style-type: none"> 1. Autonomy 2. Drive to achieve 3. Resourcefulness 4. Endurance 5. Quality of planning 6. Need to self-protect 	<ol style="list-style-type: none"> 1. Capability for affiliation 2. Relationship to power 3. Empathy 4. Helpfulness 5. Dependency 6. Bias

Fig. 4, Criteria of Performance Level and Cultural Climate

Importantly, the two classes of variables shown above interact. For instance, low emotional intelligence at a low developmental level may be acceptable, but becomes decidedly alarming at a higher developmental level, pointing to impaired managerial span. Similarly, low systemic grasp, especially when combined with lack of cognitive flexibility and overall weak task focus, points to limitations of alignment with strategy (despite of what opinion surveys may convey). Human resource data like these point to powerful causes of failure of human capital. They add aspects of actionable knowledge for building human strategy that can decide the failure and success of balancing the company scorecard.

6. Structuring and sizing the representative sample

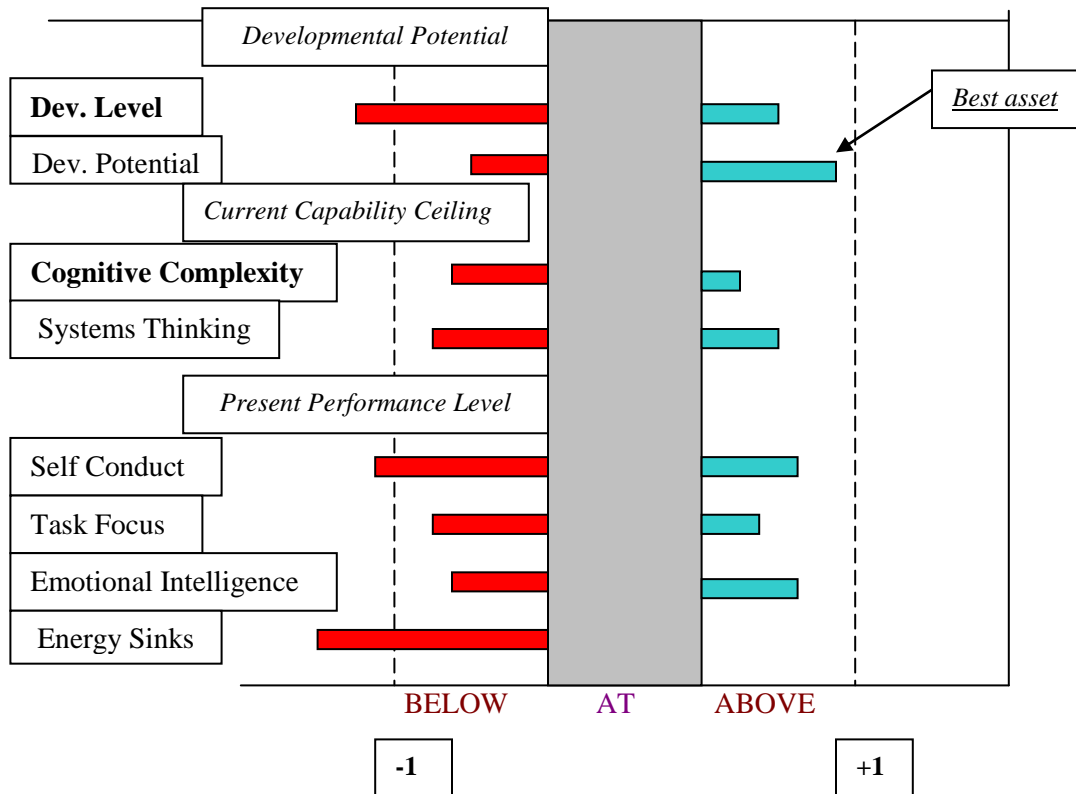
Having spelled out the capability requirements implied by strategically requisite HR deliverables, the next step consists of structuring as well as sizing the representative sample for which a capability metric is to be built. Choice of sample members entirely depends on the business issue considered paramount, the size of the company, the ranking of company divisions in building human strategy, input from line management, available employee data, and the tradeoff between size and cost of assessment. As stated, in the case study middle management was focused upon, and a sample of 24 managers (75%) and team leaders (25%) was established, as befitted concerns regarding the Consortium Project.

7. Data gathering through semi-structured scored interviews and a questionnaire

Capability assessments break open the “HR black box” in the sense that they reveal how a company member’s workplace is constructed by individuals internally, dependent upon developmental and behavioral profile. The intended transparency of intangibles goes hand in hand with the confidentiality of the assessment. For building a Capability Metric, confidentiality poses no obstacle, since assessment outcomes are made available to management only in a coded form that protects individuals’ privacy. (However, individual coaching and learning needs can upon consensus of individuals be made available, to support executive and employee development.) Data gathering and interpretation are carried out by professionals certified in CDREM™, who simultaneously have a strong business and HR background.

8. Displaying capability findings by way of a Capability Metric

A Capability Metric is a high-level summary of capability findings. It is a three-layered workforce analytic that partitions a strategically chosen representative sample into three subgroups: those “below,” “at,” and “above” standards chosen based on company strategy. The three dimensions of the metric correspond to the three aspects of capability measured: present performance, cognitive-behavioral capability ceiling (also called “current potential capability”), and developmental potential (also called “future potential capability”). These dimensions are intrinsically interrelate; all of them explain present performance levels. The first dimension explains in causal terms why present performance levels are what they are. The second dimension in addition sheds light on cognitive and behavioral people properties of the sample that embody presently unknown, and consequently unused, resources of sample members. The third dimension specifies the nature of these resources, pointing to the potential of sample members for mental growth, thus guiding learning and development programs and reward system redesign.



Legend:

Below: below chosen capability standard (subgroup A)

At: measuring up to chosen capability standard (subgroup B)

Above: exceeding chosen capability standard (subgroup C)

Fig. 5, Capability Metric for Middle Management Sample

Capability Layer	Overall Outcome
Present performance level (Alignment with strategy and managerial span)	-1.33
Current capability ceiling	+0.14
Potential for mental growth (over the long term)	+0.28

Fig. 6, Summary of the Capability Metric

Capability Layer	Criteria	Below* Standard	Above* Standard	Overall Outcome
Present performance level (Alignment with strategy; managerial span)	Self concept** Task focus Interpersonal Perspective			

Current capability ceiling	Cogn. Flexibility Systems Thinking			
Potential for mental growth (over the long term)	Dev. Level Dev. Potential			

* expressed in terms of the fraction of those 'at' standard, where 1 is of the magnitude of those at standard

** measured by 3 of 6 subcriteria

Legend:

Numbers indicate the proportion of sample members 'at' and 'below' or 'above' measured standards

Present performance levels = 0 indicates that 'below' and 'above' standard levels cancel each other out, while negative outcomes indicate low performance levels (below set standard)

Current capability levels = 0 indicates a balance between available resources and their use, while a positive outcome indicates unused resources in the sample

Potential for mental growth = 0 indicates that no long-term margin for professional growth exists in the sample, while a positive outcome indicates relative margin for growth

As shown by the high-level summary of the metric, present performance levels in terms of the focal index (alignment with strategy and managerial span) are significantly "in the red," while unused cognitive and behavioral capabilities are moderately, and potential for mental growth over the long term is significantly, positive.

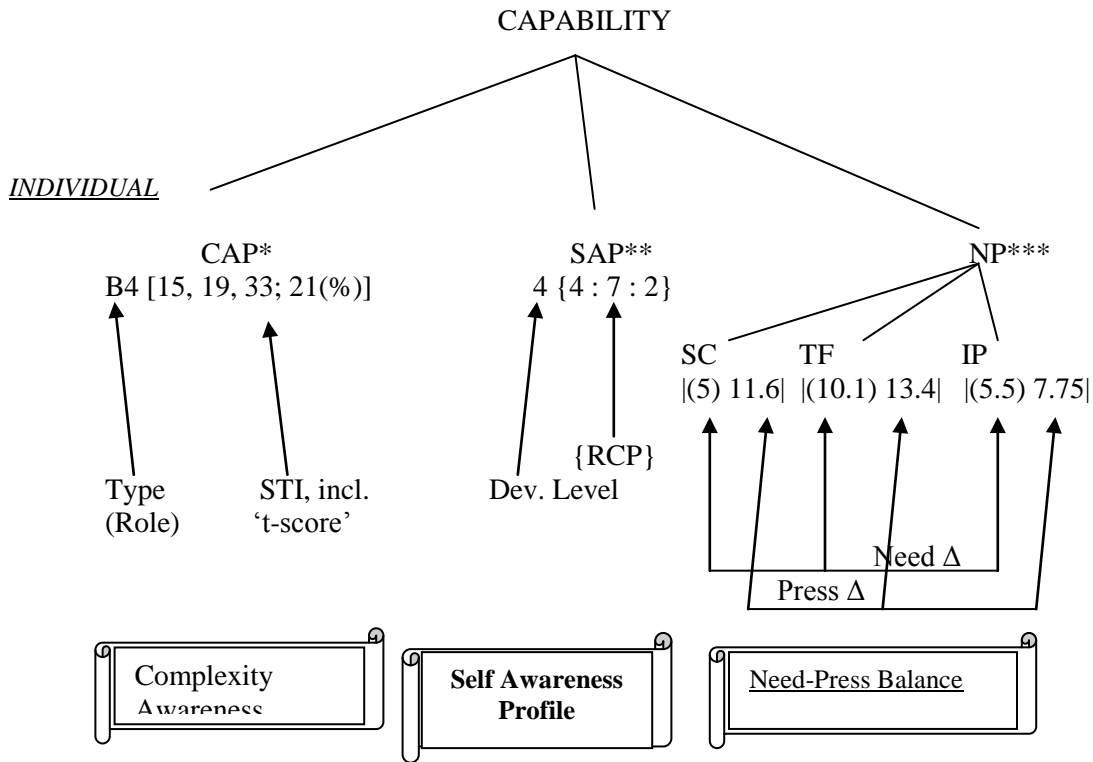
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Results:

- The Capability Metric puts in doubt the likelihood of success in participating in the Consortium, by pointing to a lack of strategic alignment, particularly in the dimensions of systems thinking and task approach, with lesser deficits regarding the emotional intelligence of team leaders.
- However, the Capability Metric also predicts strong potential for a third of the representative sample assessed, to realize gains in executive development over the next two years, given adequate company support (such as CDREM™-based hiring, team building, and coaching).
- On the basis of the Cause Map interpretation of the Capability Metric, initiatives aiming at hiring, firing, job-reassignment, and coaching of leaders of virtual teams are put in place, and succession planning is initiated for upper-echelon managers.
- Despite remaining misgivings, Board and CEO decide to take the risk of joining the Consortium. The HR Director mandates the coaching of team leaders, and a capability-based restructuring of software teams.
- On the strategic side, the measures exercised in the Capability Metric are incorporated in the company's high-performance work system, together with a cultural-climate index.
- The CEO stipulates CDREM™ assessment of 25% of the company workforce within a year, and the monitoring of capability levels at the middle management and team leader levels on a bi-annual basis.

Discussion**Conclusion****References**

CAPABILITY DATA TYPE
For Strategy-Focused Organizations
Implemented in CDREM™



Legend:

* CAP = complexity awareness profile (current potential capability)

1. Type defines level of work complexity in role person can be held accountable for
2. STI, 'systems thinking index' defines grasp of systemic thinking, summarized by 't-score'

** SAP = self awareness profile (future potential capability)

1. Developmental level defines level of self awareness in role; leadership capacity
2. 'RCP' = risk-clarity-potential index, defines risk of regression to a lower dev. level under duress, and potential for advancement to a higher developmental level

*** NP = need-press balance (current applied capability)

1. Need Δ [differential] = deviation from standard for manager's subjective need regarding self conduct (SC), task focus (TF), and interpersonal perspective (IP) ('emotional intelligence')
2. Press Δ [differential] = deviation from standard for manager's organizational press, indicating understanding of organizational functioning and view of the organization (cultural climate index) in terms of self conduct, task focus, and interpersonal perspective.

Aggregation of Data:

- For Teams: 'Capability Grid' summarizing CAP and SAP scores
- For larger groups called 'Representative Samples' (e.g., company division or management layer): 'Capability Metric,' summarizing SAP, CAP, and NP, and partitioning group into three subgroups: 'below, at, and above' standard set for the assessment.