'Do-Gooding' versus 'Outsourcing' HR:
How to Get it Wrong Both Ways
Otto Laske, Ph.D., President and Founder
Laske and Associates, LLC

Introduction

The substitution of call centers by websites ("eHR") and the rise of professional employee organizations (PEO) are the newest sign of the demise of the once humanistic HR Department. Both put in jeopardy the celebrated "alignment with strategy" of employees from above, and unmask as a pretence the saying that "people are our greatest resource." What's worse is that outsourcing is happening without any or much insight into work capability, the near and far future human potential that underlies performance, success in training, and career development. In short, the "people power paradox" (Fletcher), --that people are said to be a company's deepest resource, but there is not enough insight into work capability to use that resource, --is blossoming to unknown grandeur.

I am not speaking as a humanist, but as an organization development expert. Simple attention to social science research will show that the outsourcing fad is not going to work in the long run. It is rather a case of "other-dependency," like bench-marking, where you look to the other guy to know what to do next. In this process, you forget to look where your future as a company really lies: in the simple fact that human beings are beings that develop capability over the entire life span. In short, they are growing naturally, something you as a company only try to do artificially, by employing human beings. But then, you don't go far enough in doing so since you are battling people's well established life span development spiral (researched by social science) which crests in their steadily increasing ability to de-center from themselves as leaders of others.

The other side of the outsourcing fad is that you and the PEOs don't know the people you are "in-sourcing" in depth either. Now, this is a total irony! You have thrown out part of your people and now take in others about whose capability you know as little as of those you let go. What are you thinking? Below, I will give you some data on why capability matters in this context, and why outsourcing without measuring capability is a mere prayer in the wind.

Hard Facts from the Social Sciences

Fact has it that as much outsourcing as you may do to lessen HR burden and increase strategic flexibility, you will not succeed in beating the following statistic of future potential (giftedness) ceilings in human beings worldwide (S. Cook-Greuter, 1999):

Table 1: 'Giftedness' Ceilings

Future Potential Capability Levels		% of Attainment
5+ (not identifiable by work)	**Spiritual Leader**	2
5 ('self aware')	**Leader**	8
4 ('self authoring')	**Manager**	*25
3 ('other-dependent')	**Group Contributor**	*55
2 ('instrumental')	**Difficult to employ**	10

* The overall distribution of people on these levels depends on overall giftedness and corporate culture.

This statistic tells you that over the life span, executives and employees reach five or more levels of capability (actually 16 levels, counting intermediate ones), both cognitively and in terms of self-awareness, and that only about 8% reach full leadership capability. As a CEO and HR Director, you want to employ people at level 4 or 5. This statistic is in effect for those you let go as well as those you 'in-source' via PEOs (It even regards you yourself). If you don't have insight into the capability levels of your workforce, and you don't hold PEOs to hiring criteria you define in terms of current and future capability, how dearly will your 'flexibility' cost you in the long run?

Actually, there are three aspects of capability you should consider, according to the life-time research done by E. Jaques (1994): *current applied, current potential, and future potential*. Current applied capability is what most people refer to as "performance," the capability an executive or employee employs right now in specific work they do. This is the conventional realm of HR, and is all most firms who outsource, as well as PEOs, ever look at. They thereby omit two crucial aspects of capability regarding the near and far future. Current potential capability is capability that could be applied by a worker who values the work and can learn the expertise to carry it out in *any* domain of work. It indicates people's learning and training potential within the next two years, and also influences what people can presently do. Equally essential in light of strategy is future potential capability, the predictable capability people will possess at a specific future time given natural mental growth and environmental (company) support. Future potential capability is best circumscribed as 'talent' or 'giftedness.' It is bound to the ceilings shown in Table 1, and impervious to training. In fact, it defines limits of training success.
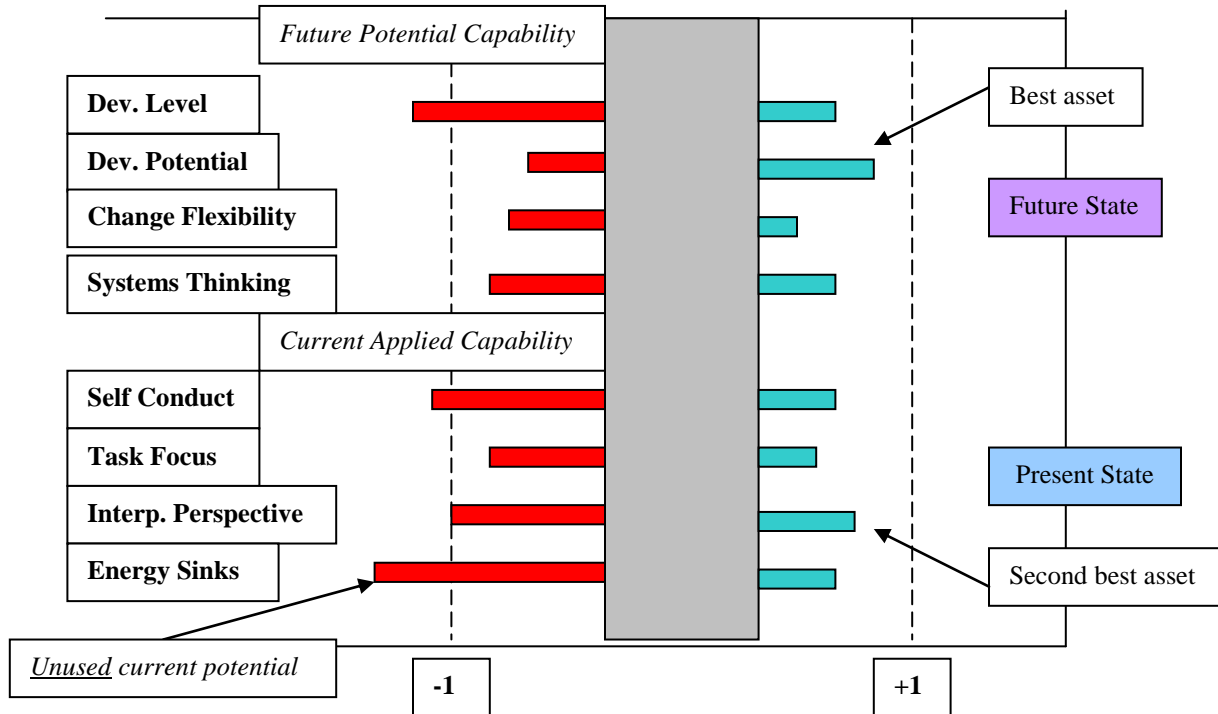
Ways to Measure Capability
Capability is not only dependent on developmental factors (life span development), but comprises many behavioral strands such as systems thinking capacity, self conduct, task focus, and interpersonal perspective. The good news is that all of these strands can be measured by a *Capability Metric*, in a way customized to company strategy. This would seem to entail that outsourcing done without a look at a company's Capability Metric is short-sighted if not blind. Such a metric can advise the CEO and HR Director not only regarding their true human capital capability. It also lets them define 'in-sourcing' standards that will assure that what PEOs send their way holds up to company standards defined for HR deliverables required by current strategic objectives.

Capability is a broad term that can be focused on specific enablers of executing strategy, like leadership, alignment with strategy ('motivation'), team synergy, or any other of concern in a company. (An accounting firm might choose 'risk liability'). Depending on what "index" of capability is being measured by a metric, different "index variables," chosen in agreement with present strategy, come into play in building the Capability Metric. An example discussed in some depth will make this more clear.

Example
The Capability Metric focused on leadership capability, below, is that of a manufacturing firm whose executives and workforce lack leadership capability, as well as showing large energy sinks revealing unused current potential that could be developed within two years.

Fig. 1, Leadership Capability Metric

Future Potential Capability

Dev. Level		Best asset
Dev. Potential		
Change Flexibility		Future State
Systems Thinking		

Current Applied Capability

Self Conduct		
Task Focus		Present State
Interp. Perspective		
Energy Sinks		Second best asset

Unused current potential

-1   +1

The metric is read both vertically and horizontally. Vertically, it displays the variables defining the leadership index (outer left), and the proportion of the representative workforce sample that misses (red), adheres to (grey), or exceeds (green) set leadership standards. The sample is structured and sized to reflect current company strategy and human capital bottlenecks in the company. Horizontally, the metric has an entry for each of the variables comprised by the leadership index. In the upper half, future potential capability is shown. This is a bird's eye view of the future, 2-5 year, capability the sample embodies. In the lower half, current applied capability is shown, that is, present performance levels in the sample. Performance levels are measured in terms of three aspects: the quality of professional identity of sample members, in terms of how they see and conduct themselves in the company (self conduct); the quality of their approach to tasks, in terms of endurance, quality of planning, etc. (task focus); and their way of interfacing with peers, superiors, reports, and the company as a whole (interpersonal perspective).

The Company's Future State Regarding Leadership
What does the Capability Metric above say about the 'hidden intelligence' of this company with regard to leadership? Clearly, the red (risk) overwhelms the green (potential) in this firm. In more detail, these are the implications of the metric, which can be further developed in great detail (size of the representative sample is 30):
- Maturity level is missed by many more sample members (46%, line 1, in red) than exceed it (15%), with an adherence to level of 39%
  - Outcome: nearly half of people in a leadership position in the company do not have leadership capability
- The company has sizable future potential capability for leadership (green, line 2 on right; 33%); this is the company's best human capital asset over the next five years
  - Outcome: every third manager now in a leadership position and presently lacking in leadership capability can be developed into a leader within 2 to 5 years

- Current potential capability over the next 2 years is hampered by a change flexibility and systems thinking deficit of 30 and 33%, respectively (line 3, red), which is not offset by exceeding the company standard (line 3, green, 10 and 17%, respectively)
  - Outcome: lack of complexity awareness (ability to take multiple perspectives) presently hinders existing potential to be realized, resulting in simplification and politicalization of organizational events, as well as lack of adaptability to change.

Let us now take a look at performance, or current applied capability.

The Company's Present State Regarding Leadership
Here, the overall picture does not look much brighter. What catches one's eye immediately is the large number of people experiencing *energy sinks*. These sinks derive from a gap between their actual leadership opportunities and current potential for leadership. 52% of the sample experiences such energy sinks, while only 16% are free of them, and the remaining 32% find such gaps 'bearable.' How can such a company retain people other than by unjustified monetary rewards?

As the metric shows, performance is hampered most in terms of how people regard and conduct themselves, followed by how they interface with others, and by the way they go about realizing their professional agenda:
- Self Conduct: Leadership depends on the relationship people have to their professional self. Is that relationship secure in terms of self concept, flexibility toward change, and need for power? In this case, nearly half of the sample (45%) fails set standards, and only 18% have sufficiently good self conduct to be able to act in a leadership role (that is, motivating and supporting others even if these others hold opposing views).
- Task Focus: Torn between adherence to status quo and need to crash conventions, 35% of the sample lack autonomy and an innovative stance, cannot rise to the occasion or have such high a motivation to overcome obstacles that their decisions are often impulsive, without due distance from the situation; they either make poor use of cognitive skills or are unimaginatively tied to schedules and guidelines.
- Interpersonal Perspective: Leadership further depends on one's ability to interface with peers, superiors, and reports, in terms of capacity for affiliation, empathy, and helpfulness. In this dimension, the findings are slightly better, since a quarter of the sample has potential in this regard (which reflects their future potential capability).

In short, present leadership performance in the company is not measuring up to the demands of strategy. This shows in missed deadlines, lack of team cohesion, breakdown of communication between interdependent groups and team leaders, etc. What makes matters worse, as shown by energy sinks, the current potential capability for leadership that exists is not known in the company, and therefore is not used either.

Conclusions
What decisions regarding outsourcing of leadership functions does the Capability Metric suggest? Clearly, the company is "in the red" both in terms of future and current potential capability, not to speak of present performance. The metric indicates a sizable future potential that can be developed within 2-5 years, and a moderate current potential that is presently unseen, and thus unused. **Should the company 'outsource' part of its leadership, or permanently rehire it?** As the upper part of the metric makes clear, there presently exist stark limits of potential training success, given the lack of developmental maturity, change flexibility, and systems thinking among members of the sample. Developmental potential does exist, but needs 2 to 5 years to be realized in-house. Can the company 'wait' it out? Probably not. Near future potential is more

easily developed, but even in this regard, two years would be a long time. The company's best bet is to outsource, but only if the PEO can be put under close scrutiny regarding the capability of personnel it proposed to deliver to the company. The PEO will have to be held to the company's defined capability standards, now missed by roughly a third of its managers. As this shows, outsourcing without a capability metric is blind. Outsourcing based on a Capability Metric is the way to go, since the metric not only delivers data to decide the need for outsourcing in the first place, but also delivers criteria for 'in-sourcing' personnel through PEOs.

HOW TO LEARN MORE

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