



## Outsourcing, HR Confidence and Relational Capital: Critical Connections for Strategic HRM

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For quite some time now the HR profession has been enamored with the idea of outsourcing. We have outsourced in the name of cost cutting, of being more strategic and in many cases to support the development of new industries made possible through the efficiencies gained by new technology. Given this quest, it is interesting to view the latest leadership pulse data through the lens of outsourcing. We did not set out to address this topic in the June 2008 study, but several pieces of information came out of this work that speaks to the topic of outsourcing.

First, one must ask whether outsourcing has helped or hurt human resource management (HRM) as a department. I have been trending three questions that address HR confidence, and the results may shed light on the topic. The three core questions that I asked the members of the leadership pulse project (members are about 12,000 managers and leaders from around the world) are focused on rating confidence (using a 1 to 5 scale) in the overall effectiveness of their HR group, their HR team's ability to execute on HR tactical work and HR's success in doing strategic work. Figure 1 shows the trend data gathered since 2004.

HR Confidence Questions	Percent confident, May, 2004	Percent confident, December, 2006	Percent confident, June* 2008
Your HR team's ability to execute on HR tactical work.	83%	59%	63%
The overall effectiveness of your HR department.	65%	49%	53%
Your HR team's ability to execute on HR strategic work.	61%	46%	44%

\*These numbers are reporting percentages for core group in place since 2003. If we add in CEO and The Conference Board numbers are 68% for tactical, 55% for overall and 44% for strategic.

Figure 1. HR confidence trends from 2004 to 2008.

The results indicate that from December 2006 to summer 2008 HR has improved in both the perception of its overall effectiveness and in delivering on HR tactical work. Shall we thank the outsourced employee for that? If executives perceive HR's effectiveness overall as a function of tactical delivery and that aspect of HR is getting better, then it seems an argument could be made for a relationship.

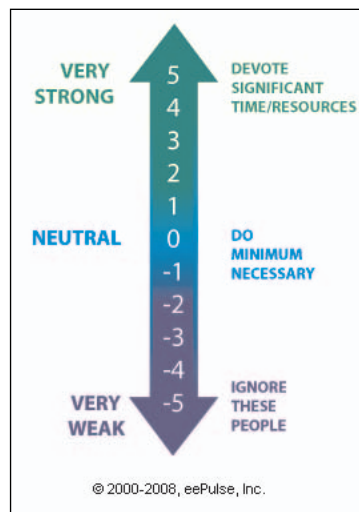


Figure 2. Relational capital response scale.

However, what about the continuous dip in HR's ability to deliver on HR strategic work? If outsourcing did what it was supposed to do, then wouldn't you expect confidence in strategic work to be on the rise?

The June 2008 data also focused on the topic of relational capital, and although there is quite a bit to report on that subject, in this article I will focus on just a few key results that relate to the topic of outsourcing.

We asked respondents to rate the overall level of relationship their organization had with a number of stakeholders. Figure 2 illustrates the response scale (from -5 to 0 to +5) that was used for this set of questions.

Next, in Table 1, you will see the overall responses for all stakeholders rated. The table is ordered from high to low based on the overall mean score (1,200 people responded to the June 2008 survey).

QUESTION SUMMARY	
Question	Mean (SD) <sup>a</sup>
Key customers	4.30 (1.14)
Key investors	3.82 (1.69)
Our leaders	3.66 (1.40)
Key partners	3.47 (1.54)
Customers overall	3.46 (1.34)
Investors overall	3.15 (1.69)
High potential employees	3.10 (1.59)
Employees overall	2.96 (1.64)
Key suppliers	2.91 (1.69)
Partners overall	2.84 (1.51)
Middle managers	2.69 (1.46)
Local community	2.57 (1.99)
Government agencies	2.50 (2.01)
Suppliers overall	2.14 (1.75)
Outsourced employees	1.12 (2.02)
Temporary employees	0.95 (2.06)

<sup>a</sup> Average (Standard Deviation)

Table 1. Overall responses for all stakeholders rated.

At the very bottom of the list you find, with extremely low scores, are the following groups:

- Temporary employees,
- Outsourced employees, and
- Suppliers overall.

The question I would pose to all of you in HR who hope to become more strategic by outsourcing is whether we can be successful while placing such low value on the employees who are not “core?” If outsourcing is the trend, does it mean we are creating a class of second class employees who will be destined to have poor relationships with the firms with whom they work? And if we think long-term for a moment, does having poor relationships with the people who are supplying services to the organization help or hurt from a competitive point of view?

The reason that we did this study in the first place is that there is ample research evidence to suggest that something called “relational capital” is a key to sustained and long-term competitive advantage and success. This means that it is the relationships you build with *all* stakeholders that provides an organization with what it needs to compete in both good and bad times.

When employees have positive relationships with each other and with their employer, they go “above and beyond” to do the following:

- Remain with the organization even if they have other offers,
- Help others in the company even when it does not “count” as part of their own job,
- Come up with new ideas to help the business thrive, and
- Do things that help the overall organization even when it’s not part of their core job.

When you have positive relationships with temporary employees, outsourced workers and suppliers, will they too go “above and beyond?” If outsourcing is the trend of the future, how can you retain positive relationships if we place such a low value on the people who are part of the outsourcing schema?

Let me leave you with one more finding from a separate study. Manuela Pardo del Val from the University of Valencia, Spain presented a paper recently that she and I wrote on relational capital. We used a different set of survey data collected from 600 top leaders in larger, *Fortune* 500 organizations. In that study we learned a few things:

- Smaller firms place more value on relational capital than human capital.
- Larger firms place more value on human capital (the people they hire) than relational capital (relationships with people they hire and their extended stakeholders).
- Regardless of the size of the firm, the higher performers in each category were *the ones who had stronger relational capital*.

That means the organizations that win are the ones that build strong and positive relationships, not just with employees but with all of their stakeholders. This says to me that the HR departments that will do well in the long run (if we believe that outsourcing will continue) are the ones that start to pay attention to non-core workers.

Ask any successful salesperson, and they will tell you that success is about relationships. I don’t think they differentiate. The good sales executives have positive and healthy relationships with the receptionists at their client firms, the key contacts, and all others within their client firms that the sales executive may come in contact with from time to time. We in HRM need to do the same.

I would speculate that there is a reason that confidence in HR’s ability to deliver on strategic HR has decreased, and it has something to do with the fact that organizations are placing more importance on the outsourced employee, the temporary worker and their suppliers (from a dependency perspective) and valuing these groups so little. This is a mismatch that any strategic HR group will have to address, if it wants to contribute to delivering high performance within their organization.

To learn more about the leadership pulse or to sign up, go to [www.leadershippulse.com](http://www.leadershippulse.com). You also can join the leaders’ forum, a place for sharing knowledge and learning about the leadership pulse results: [www.energizeengage.com](http://www.energizeengage.com).

## About the Author



Dr. Theresa M. Welbourne, is the founder, president, and CEO of eePulse, Inc., an HR consultancy delivering Web-based data and dialogue tools to energize and engage employees. She also is a research professor at the Center for Effective Organizations, Marshall School of Business, University of Southern California. With more than 30 years in HR management, Dr. Welbourne’s expertise is in the area of HR leadership, employee engagement, HR metrics, HR technology, and research methods for HR. She is a prolific writer and featured speaker in a number of management venues, editor-in-chief of *Human Resource Management, the Journal*, and she also works in Executive Education at the University of Michigan. She is the author of the Leadership Pulse™, the first real-time benchmarking and learning initiative for managers. To learn more about the leadership pulse or to sign up, go to [www.leadershippulse.com](http://www.leadershippulse.com). You also can join the leaders’ forum, a place for sharing knowledge and learning about the leadership pulse results at [www.energizeengage.com](http://www.energizeengage.com).