



▶ Seven Action Steps to Achieve HRO Quality

Human Resource Outsourcing (HRO) is one of the fastest-growing segments of the business process outsourcing sector. As the industry expands, the need to define and measure the quality of an HR outsourcing agreement is becoming a critical factor in determining success.

According to recent HRO studies from Everest Research Institute* and other organizations, the minimum requirements for HRO are cost effectiveness and technology access. However, the most important success factor is supplier quality — the ability to consistently deliver a superior operational experience. Most engagements are managed via service level agreements (SLAs) that contain specific measurable cost and performance criteria. They rarely include more qualitative criteria or measures that are closely associated with the overall quality of the engagement and the supplier. Today's HR leaders need to look beyond the traditional SLA and find an outsourcing partner that can satisfy both the needs of the company and the requirements of the employee.

We recently commissioned a leading industry research firm with experience in the HRO marketplace to ask HR Benefits vice presidents, directors, and managers to help define the critical factors that drive quality in HR outsourcing. Here is some of what we learned, along with seven actionable recommendations for achieving higher quality during an HRO engagement. Understanding and implementing these considerations will help ensure that you are on the path to high quality and successful HR outsourcing initiatives.

**Everest Research Institute, 2006; used with permission.*

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Measuring the Engagement

Measuring and managing supplier quality is established in manufacturing and technology outsourcing environments, but it is less well defined in service engagements. While there are specific measures for individual activities (e.g., transactions managed correctly per unit time), there are few measures of quality that assess the overall interplay of dependent variables, or measures that distinguish between great and good processes, technology, or staff. There are even fewer measures that target the efficiency of client-provider relationships or that provide mechanisms for both client and provider to honestly evaluate success to date — and make adjustments to the service delivery strategies and measurement requirements.

Traditionally, an SLA ensures that standards are met and goals achieved. Companies quantify their current service levels and costs and use this to negotiate incremental improvements that are captured in SLAs with service providers. This creates a simple scorecard to ensure that baseline service delivery occurs. However, SLAs are not sufficient to assess the qualitative performance or complexion of the relationship in terms of employee satisfaction or organizational effectiveness in a successful long-term

engagement. Yet it is these qualitative factors that are most likely to move the engagement from “adequate” to “great.”

Indicators of Quality

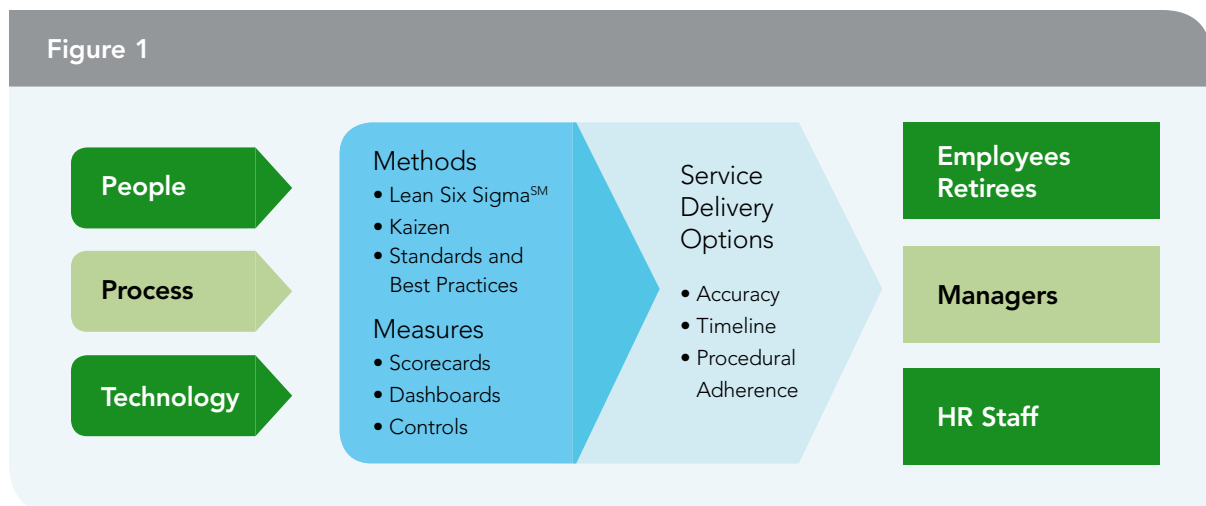
Clients generally believe that “where there’s smoke, there’s fire.” They equate noise in the system, from employees, HR staff, or technology, with the level of quality. In an HRO engagement, noise suggests that something isn’t working properly. Qualitative indicators can be helpful in assessing the level of noise and alert you to potential disturbances that may require immediate attention.

Suppliers bring three elements to an engagement — people, process, and technology. Each of these contributes to the overall quality of the engagement and to the success of HRO. To be judged a high-quality outsourcing supplier, it is necessary to routinely get all three things right at the same time — a challenge much easier said than done.

As seen in Figure 1 below, there are methods and measures that can be applied against each of these elements to improve service delivery quality for all the user types.

2

Figure 1



HRO Quality

Delivering HR services is a moving target in an evolving and dynamic environment. The ability of a supplier to be nimble and responsive to change is a vital component of achieving quality performance. As a result, continuous improvement of service quality along with the agility to change in response to emerging needs are important elements of any HRO engagement. While these factors are often discussed at deal signing, they can have an even greater impact as the engagement matures.

According to the HR VPs and directors we interviewed, the following are attributes of a high-quality service provider and are indicative of a quality deployment and delivery:

- Satisfies users and clients (“employees are happy”)
- Possesses HR expertise, understands specific HR trends in the client’s industry, and knows the company culture
- Anticipates problems before they happen (“no surprises”)
- Improves company operations/efficiencies — HR can focus on more value-added work (new initiatives)
- Lives up to commitments — processes and technologies work “as if they weren’t even there”
- Is available and responsive
- Establishes long-term relationships — meetings are focused on the future, rather than on discussing past issues
- Leverages key learnings/process improvements from experience delivering HRO for other clients with similar challenges

By monitoring and measuring these indicators in addition to SLAs, and sometimes using soft or perceptual measures as well as SLAs, an HR organization gains a more complete assessment of the qualitative level of service and the quality of delivery and performance.

Seven Recommendations

Consider these seven actionable recommendations to achieve quality at the start of measuring and managing your HRO activity.

1 Focus on people, process, and technology

Select an HRO partner that excels at people, process, and technology. People are the critical factor in real and perceived quality, especially account managers and people involved in solving day-to-day problems. Assign your top people to work side by side with your HRO partner. Work together to create a much appreciated and enhanced employee experience. Don’t underestimate the importance of the “cultural fit” between supplier and client.

2 Phase your implementation

Plan on a phased implementation rather than a big bang. While the big bang may have the potential to yield better economic value, a phased approach mitigates risk, allows measurement systems to be validated, and provides an opportunity to effectively institute change management in a controlled fashion “as client and supplier learn to work collaboratively.”*

**Everest Research Institute, 2006; used with permission.*

3 Simplify

Start by selecting a single component that reduces costs and complexity for both employer and employee. Reduce the number of moving pieces and variables. (For example, reduce the number of ways possible to process certain transactions [like a leave of absence] by reducing the number of paper-based systems, eliminating the number of available options, and moving certain transaction options to the Web.) Start small and don’t take on too many process improvements all at once. Look for a “quick win” early on to build momentum for the entire team.

4 Deliver consistency

Establish a consistent platform for employee data and process delivery — one that offers greater accuracy in HR reporting, lower cost and fewer steps in running, and less room for failure or error. Migrate employee data sets onto a common database schema. Strive to eliminate technology patches and workarounds over time to help drive uniformity of employee records. Examine your HR policies across your own enterprise and look for ways to drive standardization.

5 Integrate technology systems

Ensure that the supplier is able to integrate technology across processes, geographies, subcontractors, non-HR systems, HR/Benefits administration database formats, and other enterprise systems (e.g., procurement). Ensure that key suppliers can access and update information to your HR portal and extranet, as appropriate. This requires strong technology integration capabilities to meet implementation and operational goals.*

**Everest Research Institute, 2006; used with permission.*

6 Invest in governance and assign key people to make it successful

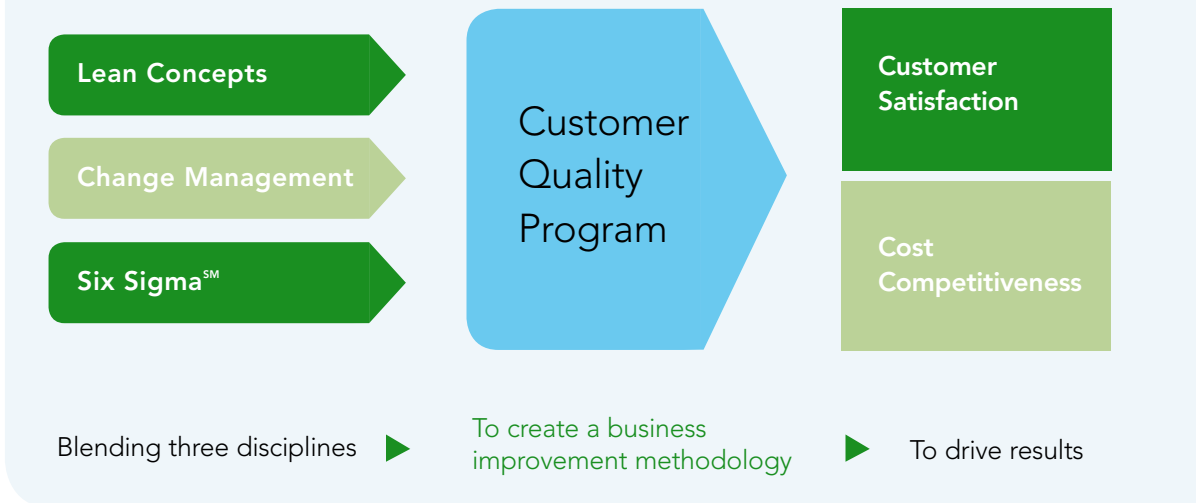
Governance drives quality, so dedicate key members to a joint implementation governance team, ensuring consistency between the request for proposal (RFP) and implementation. Establish clear definitions of roles and responsibilities and a real project management discipline, and assign at least two key people to champion important governance activities across your enterprise. We have seen that the percentage of outsourcing costs spent on governance tends to range from 3% to 3.25%. Organizations that invest more in governance of the outsourcing arrangement have better, more satisfying results.

7 Improve measurement and decision support

Deploy quality or business improvement management tools such as Six SigmaSM to establish a baseline and a system for measuring continuous improvement for both the supplier and ongoing operations. What you measure determines results. (For example, a small improvement in resolving a complex payroll transaction for a company with 100,000 employees can result in 1,000 fewer work items that need to be resolved by the supplier's customer support organization. More importantly, the fix could result in 1,000 fewer employees receiving a discrepancy in their pay advice.) Financial measures ensure that cost targets are met, transactional metrics confirm that service delivery volumes are met in a timely fashion, and quality measures ensure that the "value" expected is being received. Data and analytics should be used to improve and drive decision making for all key HR initiatives.

Figure 2 (on the following page) identifies the disciplines that can be marshaled to create a customer quality program that can drive satisfaction, reduce noise, and improve overall performance.

Figure 2



Summary

An SLA is just the starting point for measuring and ensuring quality in an HR outsourcing deployment. Assessing the qualitative aspects of people, process, and technology performance plays a significant role in driving successful outcomes. People can overcome process and technology issues; likewise, a poorly managed relationship can ruin good technology and processes. Process is critical because if things don't flow correctly, the system will fail.

Technology enables the speed and integration needed for people to communicate and for processes to be effective. When making capital investments in HRO, people, process, and technology are all significant factors — yet all are interdependent. A “high-quality” service provider must consistently demonstrate high quality in all three critical areas and continually invest in improving the employee experience.

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