

HRO BENCHMARKING – KEEPING YOUR OUTSOURCING RELATIONSHIP CURRENT WITH THE MARKET

WITH THE HR OUTSOURCING INDUSTRY BEING ONE FULL OF COMPLEXITIES AND STILL IN ITS INFANCY, MARK HODGES, EXECUTIVE DIRECTOR, CORPORATE DEVELOPMENT, EQUATERRA AND ROBIN RASMUSSEN, CLIENT EXECUTIVE, EQUATERRA, LOOK AT THE BEST WAYS TO MEASURE PERFORMANCE OF CONTRACTS, WHERE MORE TRADITIONAL BENCHMARKING IS UNREALISTIC.

Whether you are a few years into human resources outsourcing (HRO) or just considering it, you're probably thinking about benchmarking. After all, what better way to ensure your performance standards are still current in today's marketplace? Or, if you are still shopping around, to get a feel for the standards you would like to achieve?

But in HRO, benchmarking is easier said than done. That's partly because HRO, though growing, is still relatively immature, so there are not as many established standards as in other outsourcing markets. In addition, the complexities of outsourcing deals and internal processes from one buyer to the next can make apples-to-apples comparisons virtually impossible.

If these are the realities of HRO, then how do you measure the performance of your existing contract or lay the groundwork for a new one? The answer is to look to the market for directional data rather than side-by-side comparisons. By taking a more holistic approach toward reviewing your performance, you can garner meaningful information that translates to actionable items.

THE PROBLEMS WITH HRO BENCHMARKING

If HRO buyers really want to benchmark, they can do so, but the process is very time-consuming, expensive and prone to caveats. For example, if you are benchmarking payroll processing, you might determine that your organisation's payroll cost is quite different from that of another HRO buyer. But maybe it's because your number reflects end-to-end payroll for 35,000 employees in seven countries, while the other figure covers back-end payroll

for 100,000 employees in 29 countries. Because of the uniqueness of HRO deals, many data comparisons are not very meaningful.

“you are still comparing an apple to an orange”

Taking that payroll benchmarking one step further, you might find another organisation in your industry that has a similar product, global footprint and comparable number of FTEs. Comparing costs side by side, you might come up with some pretty good numbers. But the comparison might not consider that your organisation pays monthly by direct deposit, while your competitor mails bi-monthly pay cheques. Because of the dramatically different payroll processes, you are still comparing an apple to an orange.

Most HRO contracts do contain a benchmark clause, which permits the client to require the service provider to engage a third party to benchmark price and quality. But whenever buyers evoke this clause, service providers almost invariably return with data suggesting their services and prices are competitive, and if they have identified an opportunity to enhance delivery, it's usually for a higher price.

Alternatively, some buyers may choose to benchmark prices on their own, but these buyers often discover they are paying a below-market price for HR services. That is partly because HRO pricing has increased in the past 12 months, but it is also because in the early-adoption phase of HRO (1999-2003), many HRO providers 'bought the relationship' to get a foothold in the market. As a result, a buyer's benchmark on pricing may lead to a higher price from the service provider – which certainly is not the intention!

STAYING CURRENT WITH THE MARKETPLACE

Due to the challenges of HRO benchmarking, EquaTerra recommends a different, more holistic approach to marketplace comparisons. One approach, called a "market currency review," enables buyers and HRO providers to get out of their price myopia and get into a broader understanding of the relationship, ensuring their contract remains current with the HRO marketplace. Pricing, of course, is important, but it should be one of several factors painting an overall picture of HRO performance.

In a market currency review, the buyer and the service provider gather marketplace information separately and then share the results to plan a course for the future. The process focuses on three key areas:

- **Technology.** Assess your organisation's use of the software, hardware and HR innovation that's available in the marketplace. For example, are you taking advantage of manager and employee self-service? How about distance learning? *Obtaining this information:* Buyers can talk to software companies such as SAP, Oracle and Microsoft, who are usually very willing to discuss the state of technology in the HR industry. HRO providers, meanwhile, can get information from their existing technology vendor relationships, and they can work with research companies such as IDC, Forrester or Gartner to get statistics on HR technology usage.
- **Best practices.** Compared with other HR organisations, how are you doing on processes such as recruiting and payroll? How well are you controlling costs while managing demand from business units? *Obtaining this information:* Buyers can work on these comparisons simply by talking to the HR leadership at other organisations who are in HRO relationships. HRO advisory experts are also a good source. HRO providers, meanwhile, can talk to their own teams on different client accounts to identify what's working best.
- **Price competitiveness.** This factor – the typical subject of traditional benchmarking – is essentially cost based on defined services, volume and performance. For example, if your payroll is 10,000 pay cheques per month, how does the price and service you are purchasing compare with that offered by other service providers? *Obtaining this information:* Buyers can talk to other HRO clients and request price quotes from other providers. Buyers can also engage an HRO advisory firm to provide this information. And while service providers should already know how their price compares to others, they might research current price ranges for certain processes.

Such a market currency review doesn't take any more time, money or effort than traditional benchmarking, and for those buyers who already have marketplace relationships or work with a third-party advisor to acquire the knowledge, the process can be even faster and more streamlined than benchmarking. More importantly, a market currency review prompts clients to scan the marketplace and get different perspectives that go far beyond price, while requiring service providers to look outside their current client relationships. Ultimately, it brings both parties to the table to discuss their findings and opportunities for improvement, and the results are usually revelatory. In a market currency review, for example, you might discover that implementing a direct-deposit payroll system would be far more productive and efficient than just telling your service provider to cut payroll costs by five per cent. >

OUTSOURCING IN THE USA

RECENT RESEARCH UNDERTAKEN BY GALLUP HAS SHOWN THAT PUBLIC OPINION ABOUT OUTSOURCING IN THE UNITED STATES IS NOT SO MUCH DIVIDED, AS SWAYED HEAVILY TO THE NEGATIVE.

In June 2007 Gallup surveyed more than 39,000 members of its probability-based household panel, whose members are selected from every state throughout the country and represent all ages, races, gender and education levels. Using a definition of outsourcing as: *"When American businesses hire workers in other parts of the world in order to save money"*, panel members were asked which of the following was closest to their view:

1. Outsourcing is bad for the American economy because it sends good jobs overseas
2. Outsourcing is good for the American economy because it keeps the cost of goods and services down.

The response showed that 77% of Americans think that outsourcing is bad for the economy, while 13% see it as good. The remaining 10% don't know whether outsourcing is good or bad.

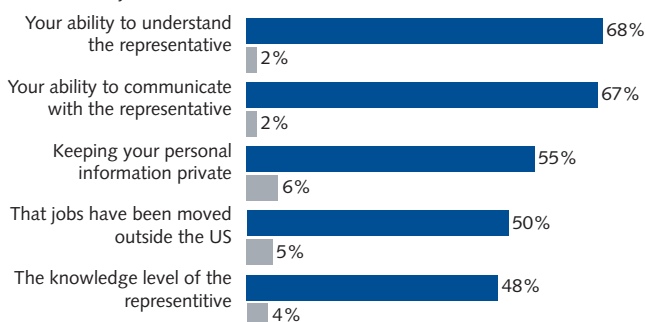
The survey showed that the American public is aware of the rise in outsourcing generally, but are affected personally by overseas customer service centres:

- 90% feel that outsourcing has increased in this sector over the past five years
- Of the 90% that have called a customer service centre, 86% believe that their communication was with a representative that was based outside of the US.

It seems, that for the American public at least, the question of outsourcing is not an economic one, but more specifically one of effective communication, as shown in the diagram below:

Level of Concern

■ Extremely concerned ■ Not at all concerned



In the US, organisations now face a multiple challenge; ensuring their business stays both profitable and productive whilst also providing effective, high-quality communication channels for their customers.

For further information:

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> KEEPING THE PULSE

Another way to stay current with the HRO marketplace is through an ongoing, proactive process that is an embedded part of your business. You might use basic green-yellow-red scorecards for key HR factors, so you always have a good idea of how your organisation is performing today and where you would like it to be in the future.

Unlike traditional benchmarking, do not get hung up on collecting every piece of available data and comparing it against your HR operations – because, again, such comparisons in HRO usually are not apples to apples. Instead, strive to spend five per cent of your time gathering information and the other 95% on responding to it. For example, if your scorecard shows your recruitment performance differs sharply from that of the market, then respond to it by making a change and then benchmarking that change. That is, you might find a new vendor who can reduce the cost and time for recruiting employees; then put that number on your scorecard and keep an eye on it.

“scorecards should align with the organisation’s overall objectives”

Remember, however, that a disparity between your numbers and the market’s does not necessarily mean something is wrong. Your organisation’s staff-to-employee ratio of 1-to-40, for example, may be lower than others, but maybe that’s the ideal ratio for your organisation’s high-touch culture. Also keep in mind that your scorecards should align with the organisation’s overall objectives. If the company leadership’s key objective this year is to improve customer service and your scorecards are focused on cost, then that could spell trouble. Instead, ensure that your HRO market comparisons are aligned not only with your HR objectives but also with the overall business.

In conclusion, benchmarking is most effective in mature outsourcing markets, ones that have established standards in place. But in HRO, which is still in the high growth phase and some 10 years away from ‘maturity’, it’s better for buyers to approach their relationships with a more holistic view, one that ensures overall performance remains current in today’s rapidly changing marketplace. Through methods such as the market currency review, buyers can perform basic comparisons, drill down to specific opportunities within their organisations, and use the findings to make directional decisions about HR outsourcing.



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