

## ▶ Understanding the New Dynamics of Delivering Quality HR Services



When it comes to HR service delivery, there are many aspects of quality that can impact an organization’s employee satisfaction, engagement, productivity, and overall business success. This paper offers new research and perspectives from Fidelity to help you enhance the quality of your HR service delivery.

Throughout recent business history, quality has been defined by many meanings, measures, and mantras. The “quality movement” found its roots in post–World War II Japan and has evolved over time to feature a host of initiatives and disciplines including quality circles, the Baldrige Awards, voice of the customer methodologies, ISO standards, and the concept of continuous improvement known as *kaizen*.

Today, the quest for identifying and improving quality has accelerated, spurred on by ever evolving methodologies and initiatives such as “total quality management” (TQM) and Six Sigma. But quality is more than the sum of tools or methods used to influence or evaluate. Quality today is defined as the level of commitment and satisfaction the customer perceives from a product or service.

Achieving true quality requires that customers and suppliers set realistic expectations and agree on what quality is, how to measure it, and how to achieve it. This is particularly true of Human Resources Outsourcing (HRO) relationships, which continue to evolve, from a purely cost-reduction proposition to a strategic business imperative, where quality of service and quality of experience are emerging as the premier indicators of overall quality.

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## Beyond the SLA

Traditionally, SLAs (service level agreements) have been a mechanism to gauge the quality of an outsourcer's services. Properly structured SLAs can be used to measure the quality of the transactional service provided and as a basis for quality improvement. SLAs can measure technical things such as uptime, system availability, and process change requests.

However, SLAs by themselves cannot measure the perceived quality of the HRO engagement. To be truly effective, other measures, both quantitative and qualitative must also be considered.

Since the introduction of SLAs, clients and providers have used accuracy, consistency of performance, and other service delivery measures in outsourcing engagements.

While important measures, they provide only a minimum standard by which to assess quality. Clients should demand more of their providers and work with them to agree upon a common definition of what represents a quality service delivery engagement for their business or industry.

### Measuring HRO Quality

In the early days of HRO, clients and providers often defined success in terms of cost savings rather than in terms of quality improvements. While cost is still an important component in every engagement,

HR decision makers today are demanding quality HR service delivery at every turn—and are developing new ways to measure success. Most HRO providers recognize that quality is not just a compliance issue, it is an underlying principle of how they do business. They understand that quality HR service delivery can increase business productivity and drive real business results. With improved reporting, measurements, and transparency, providers and the clients they serve play an important role in assuring that quality gets delivered consistently throughout their organizations.

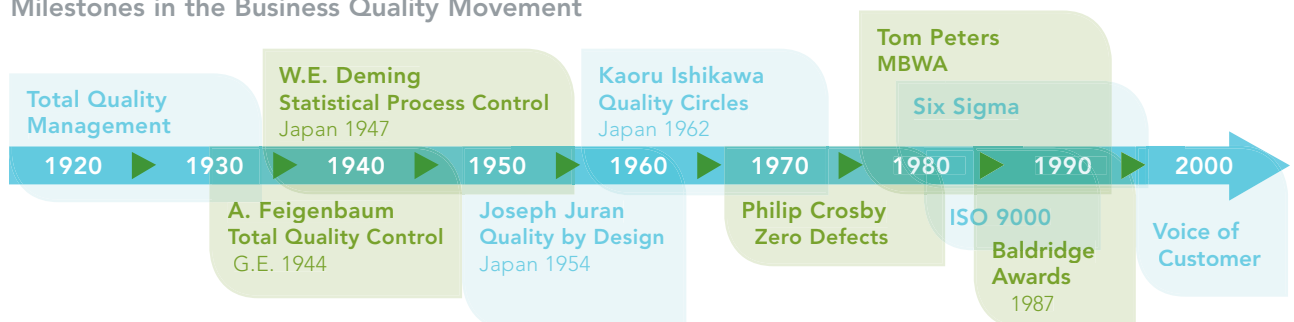
### The Need for Research on HRO Quality

Primary research<sup>1</sup> on the topic of HRO Quality was commissioned over the past year by Fidelity. The firm wanted to know more about the role that an HRO provider plays in their clients' service delivery, and to better understand the critical factors of success in delivering quality services in a dynamic business climate. Key questions asked included:

- What are the key drivers of successful HR service delivery?
- Does the market have a definition of quality beyond SLAs?
- What are the most important elements of quality, and how are they prioritized?
- Does the perception of quality play a role in determining success in an HRO engagement?
- How can quality be measured?

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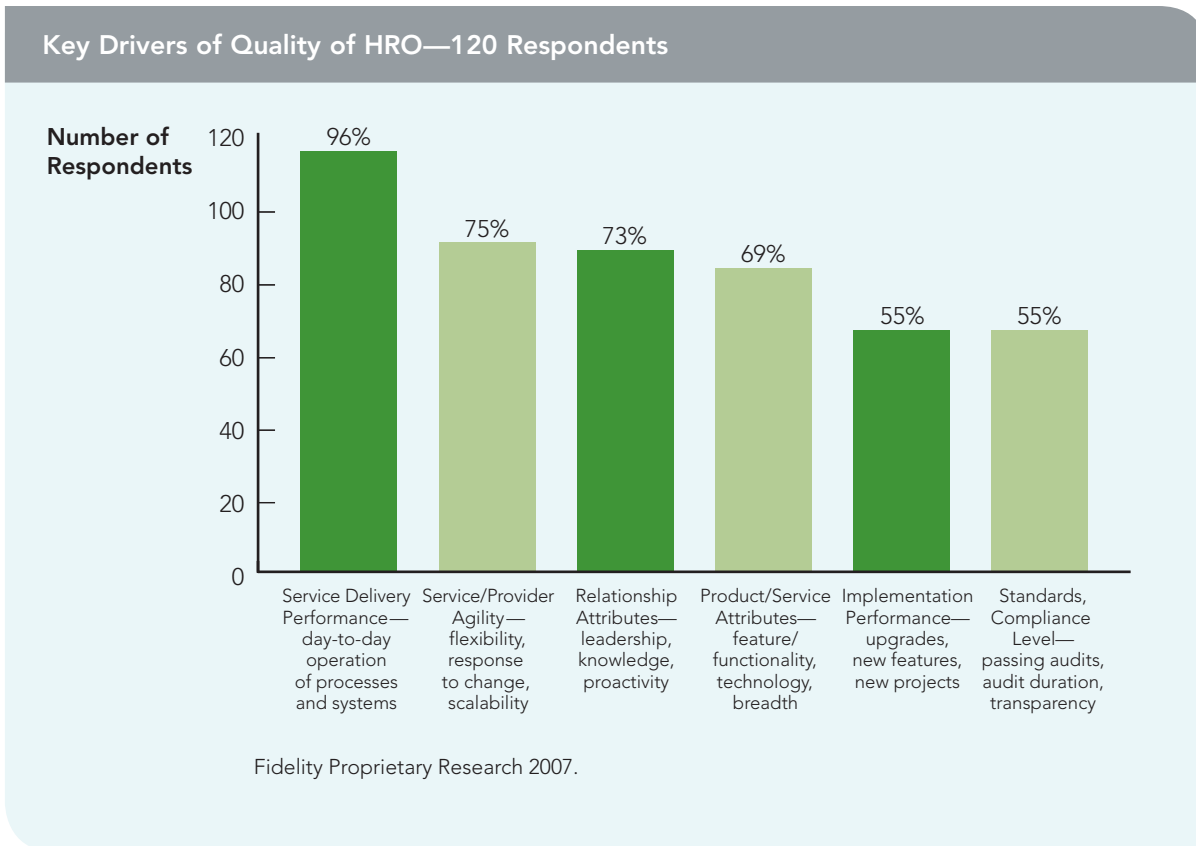
## Milestones in the Business Quality Movement



Over the last eighty years, many manufacturing production experts, business consultants, and process improvement specialists have worked to evolve the business quality movement around the world.

## Key Findings: Six Key Quality Drivers

The study identified six key drivers of quality in an HRO relationship (see chart below). The top three quality categories are covered in detail here: service delivery, provider agility, and relationship. Three additional critical factors—product/service, implementation, and standards/compliance—were deemed important to consistent quality HR service delivery and are covered briefly in this paper.



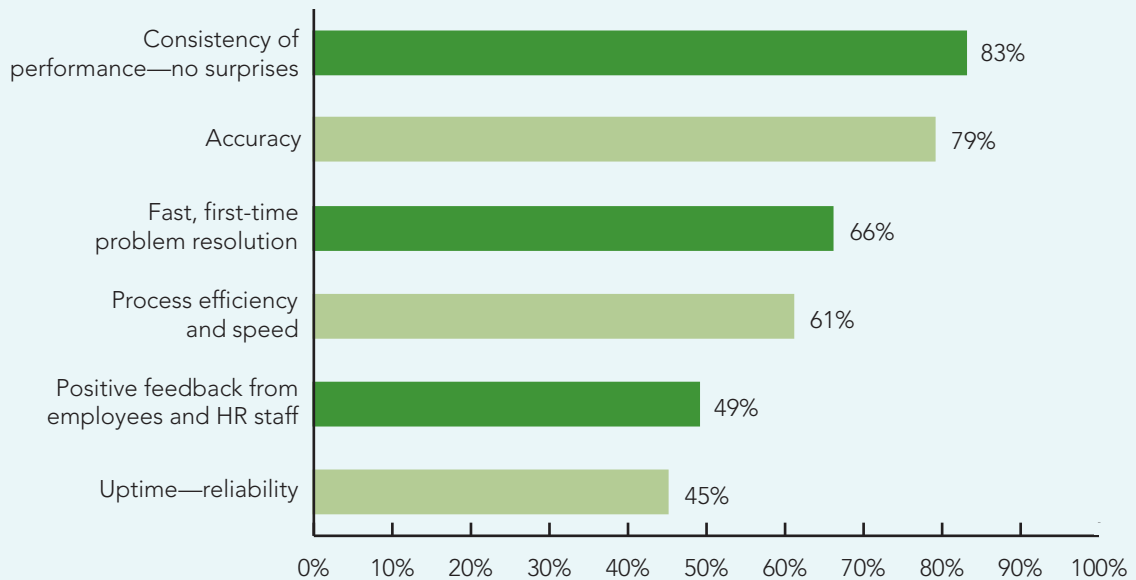
### Service Delivery

Service delivery is the lifeblood of every HRO engagement; all other quality factors are meaningless without the ability to deliver. So, it is no surprise that service delivery was ranked as the leading driver of HRO quality, according to HR executives participating in the research study.

A major component of service delivery is the processing of HR transactions. Through successful HRO engagements, companies have learned that transaction processing execution is best handled externally. HRO providers have experience in handling millions of transactions per day, and a true measure of success means consistently delivering quality to all clients, across all markets and industry segments.

When HR professionals were asked to rank important factors of Service Delivery Performance—the day-to-day operation of processes and systems—the top response was “consistency of performance.” This was followed by “accuracy of service delivery” and “fast, first-time problem resolution.”

## Service Delivery



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Ideally, issues are resolved the first time, with a “one and done” approach where provider service representatives have the skills, knowledge, and technology to resolve a particular problem during a single service-call session with the employee or retiree. Reducing variability in common HR processes can also play an important role in driving the speed of resolving problems in HR service delivery.

In addition, although the factor of positive feedback can be more difficult to measure, it can be an important aspect in determining the overall success of any HRO engagement and should be closely monitored by HR executives.

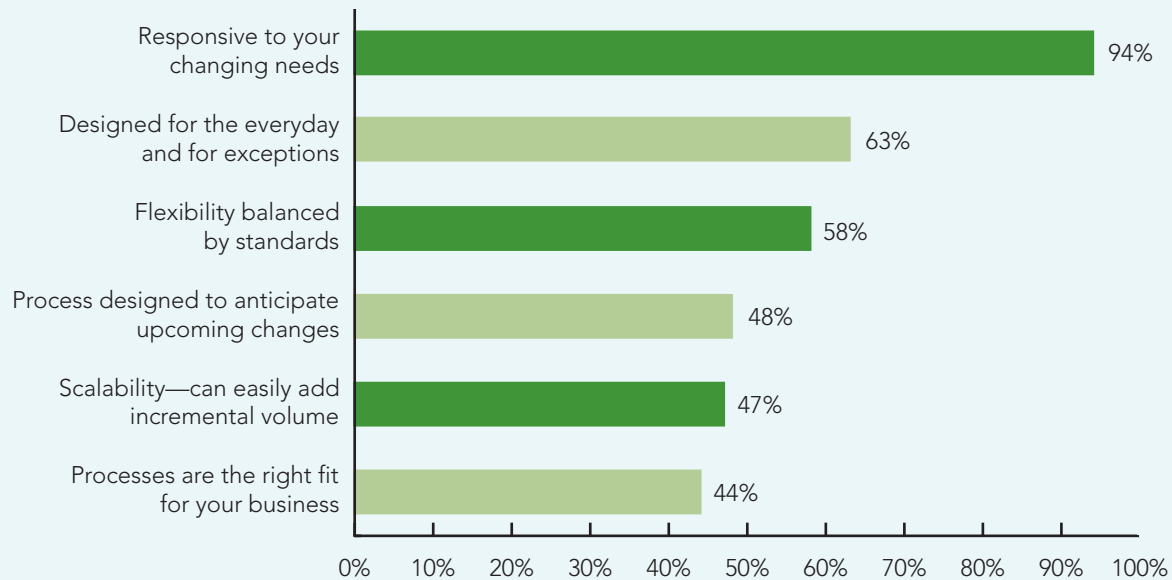
### Service Provider Agility

Change is a constant in the world of business, and HR leaders often look to external partners capable of reacting quickly to market dynamics. Let’s now examine the role that provider agility and the ability to adapt to change play in driving quality HR service delivery. Agility is defined as

the power to move quickly and easily; nimbleness. When HR executives describe provider agility, they typically look at how suppliers can support them in ways that allow their business and HR systems to operate with more flexibility and adaptability. To better support HR initiatives, suppliers should be able to anticipate and react to change; further, their people, process, and technology systems must react to change and evolve to meet client needs in the near and long term.

For example, a traditional national retail banking company is growing rapidly, expanding across the United States, and acquiring a number of related businesses (credit card processing companies, private banking firms, regional banks). They need to work with a supplier that is responsive to their rapidly changing needs and already has standard processes in place that can efficiently support everyday situations. The provider should also be able to provide ongoing support for HR programs and operations as they evolve in the future.

## Provider Agility



Finally, provider agility tends to be a more qualitative and less quantitative assessment of quality. Why? Because it requires an assessment beyond numbers. It demands an understanding of the processes and a willingness and capability to add value beyond service delivery. “Responsiveness to changing needs” was important to the market in determining a quality relationship and exceeded the other drivers of agility. To be agile, providers need to listen to and understand their clients’ needs. Their systems, resources, knowledge, and processes need to be designed with the future in mind—yet flexible enough to quickly react to changes in a dynamic business environment and shifting HR landscape.

### Relationship Attributes

Business is all about human relationships, and HRO is no exception. Topping the relationship category was a quality driver that was exceedingly important—accountability. HRO is not just the right technology coupled with the right process. It’s about the right people and the human factor,

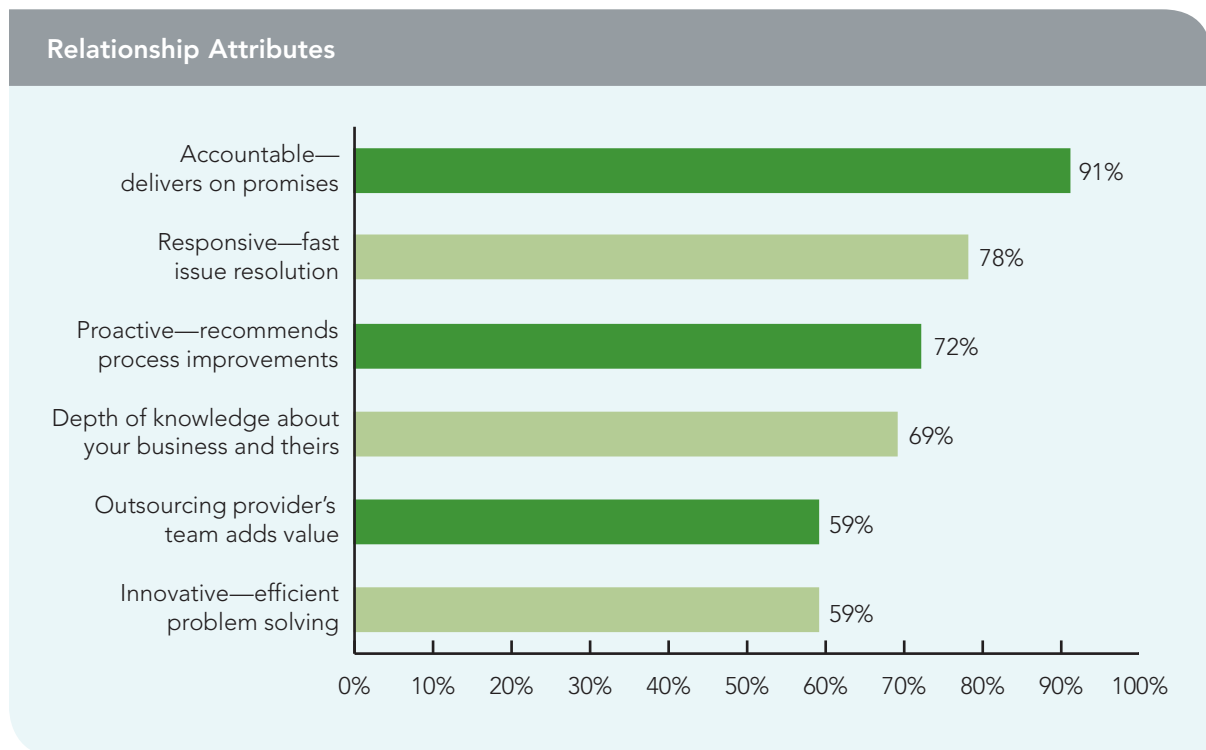
which should not be overlooked in this equation. The results of this category show how important it is to rely on relationships—and the people, skill sets, communications abilities, and positive service attitude that should come with them.

There were no surprises in the findings that ranked “responsiveness—fast issue resolution” and “being proactive—recommending process improvements” second and third in our survey. They underscore the fact that key people employed by providers become an extension of your own HR department and they must fully understand the needs of their clients’ employee population—and how to drive quality HR service delivery to best serve them.

When service delivery snags arise, it is the people working to support the business—not systems or processes—who can actually determine the speed of response and drive toward problem resolution. They are empowered to make decisions on their client’s behalf and then follow through on their service delivery commitments.

Only people are capable of thinking ahead to anticipate service delivery issues, take the initiative to positively affect process improvement, or drive collaboration with everyone involved in delivering HR programs.

A quality relationship starts with provider team members knowing how to manage expectations realistically. They should act as an extension of an HR department but know the boundaries. While being good at listening and quickly responding to client concerns, they need to also demonstrate accountability and take responsibility for outcomes—all while not overpromising what cannot be delivered. In addition, an ideal team member brings new ideas to the table, thinks out of the box, and has a problem-solving attitude that best serves the needs of the client.



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### Three Additional Factors

In addition to the three top drivers of HRO quality, three other factors cited as important drivers in HRO quality included Product/Service, Implementation, and Standards/Compliance. Let's examine them in brief.

#### Product/Service

According to the research participants, Product/Service was characterized by feature/functionality set, ease of use/learning, and easy data/information access. Product and service attributes should be assessed prior to the engagement, through prototyping, usability testing, and evaluation of the existing installation.

#### Implementation

Implementation is always critical to success in any outsourcing engagement, and it scored fifth overall in our survey. Despite all the planning and mutual decision making, implementation timetables and delivery schedules can be a true test of a client relationship. A quality implementation was described as having projects completed on time, making smooth transitions, and "getting it right the first time."

With a high quality implementation, work is on schedule and the implementation team experiences smooth transitions in its day-to-day operations. New systems and processes are implemented correctly the first time and tightly integrated with other HR systems. When possible, implementations are staggered. This enables both client and provider to ensure that schedules are appropriate, transition plans are in place, and successes can be achieved and measured incrementally rather than in a “big bang.”

### Standards/Compliance

The last key quality category highlighted in the research is that of the role of Standards/Compliance. Common definitions of HRO quality here include consistently passing regulatory audits, feeling secure about being within regulatory compliance, and providing ready access to documentation and reports. Quality initiatives cannot be relegated to the provider alone. Rather, working together with open communication and transparency, clients and providers should focus on enterprise-wide compliance,

corporate governance, and other financial controls to minimize risk while improving HR service delivery throughout the organization.

## A Framework for Measuring Quality

So far we’ve reviewed key drivers of quality HR service delivery. Now, let’s take it one step further: How do you go beyond the SLA and determine metrics that are meaningful for your business? How do you measure results?

Begin with an agreed-upon definition of quality that will help determine the best metrics based on how HR service delivery quality is to be experienced by your employees and retirees. Don’t focus on the details but on the anticipated customer experience that is to be created consistently over time. Next, map the six quality drivers (as outlined in this research) to your specific business. Then, describe the user/customer experience associated with each driver and determine key ways to best measure each user/customer experience.



### Use the following framework to begin measuring quality:

The table below highlights the three top drivers of HRO quality (service delivery, provider agility, relationship), lists three key attributes for quality, and then provides examples of how HRO quality should be measured. For example, under key driver category “service delivery,” the quality experience attribute “accuracy” could be measured by the “problem resolution turnaround time or the average number of telephone calls required to resolve a specific issue.”

Determining how to best measure quality for an organization requires clients and providers to have an open and direct conversation during the yearly business planning process. Remember that key quality metrics should change over time as business requirements and HR programs evolve.

### Measuring the Quality Experience

Category	Quality Experience (top 3)	Quality Metrics*
<b>Service Delivery</b>	<ul style="list-style-type: none"><li>• Consistency of performance; no surprises</li><li>• Accuracy</li><li>• Fast, first-time problem resolution</li></ul>	<ul style="list-style-type: none"><li>• Number of errors/problems</li><li>• Problem resolution turnaround (average # calls required to resolve)</li><li>• One and done rate</li></ul>
<b>Provider Agility</b>	<ul style="list-style-type: none"><li>• Responsive to changing needs</li><li>• Processes designed for the everyday and for exceptions</li><li>• Flexibility balanced by standards</li></ul>	<ul style="list-style-type: none"><li>• Change order turnaround</li><li>• Number of change orders implemented (in agreed timeframe)</li><li>• Non-standard process turnaround</li></ul>
<b>Relationship</b>	<ul style="list-style-type: none"><li>• Accountability; deliver on promises</li><li>• Fast issue resolution</li><li>• Proactive; recommend process improvements</li></ul>	<ul style="list-style-type: none"><li>• Number of commitments/deadlines met by provider</li><li>• Percentage of inaccurate responses/total</li><li>• Call response turnaround</li></ul>

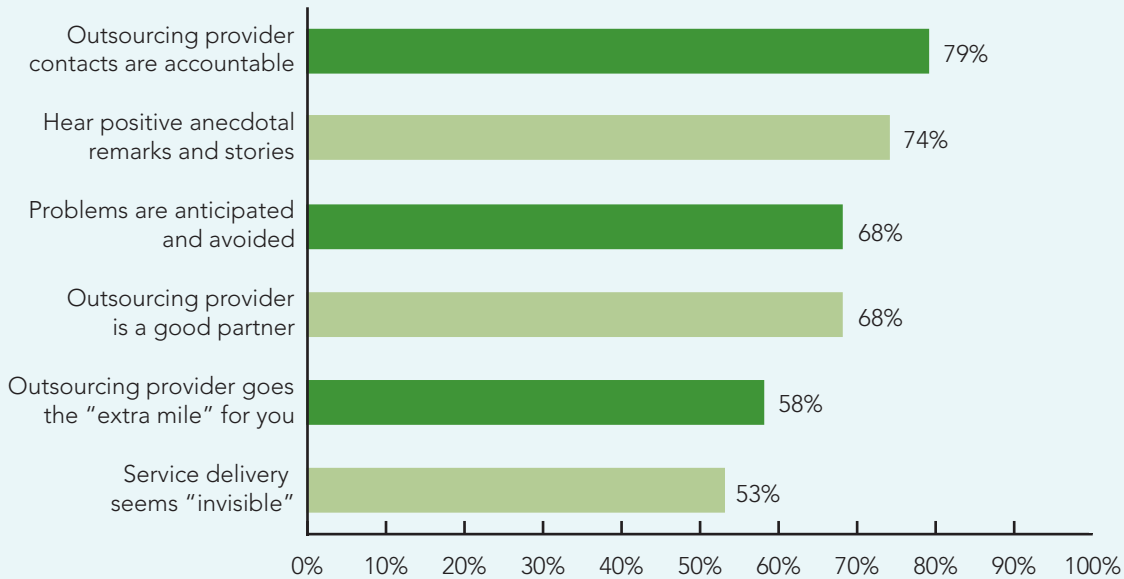
\*Scored 3.5 or higher on 5-point scale

## The Role and Perception of “Gut Feel”

Most of the quality indicators discussed so far are quantitative in nature—and somewhat easier to measure. However, a number of research participants discussed how they experienced “gut feel” and the role that emotional decision making may have played in their overall satisfaction with their HRO provider and with their own service delivery initiatives. “Gut feel” can be described as an internal or intuitive reaction to a specific person, experience, or event and is not considered to be based on hard facts or tangible evidence.



## How Do You Define "Gut Feel"?



So, HR executives were asked: "As a quality indicator, how do you account for gut feel?" Although this is an intangible attribute, our research participants were able to define their perception of gut feel. The most commonly mentioned "gut feel" attributes were accountability, positive endorsement, and proactive problem resolution.

Although factors like attitude can be extremely hard to define, measure, or judge, they are important in determining success. When speaking about the role gut feel played in their rankings, several research participants expressed it as an overall feeling of partnership they get from their providers. Gut feel is often expressed at high levels in somewhat vague terms, but it can still be important in judging the overall quality of an HR service delivery engagement.

### Ask yourself the following five key questions to determine if your gut feel is mapped to the overall HRO experience:

1. When you think about your relationship with your HRO provider, do you get frustrated or concerned?
2. If all SLAs are met and quality metrics are at or near goal, are you still getting 25 e-mails a day from your employees seeking better service?
3. Compare today's situation to your past HR career experiences. Is the level of "noise" greater than normal?
4. Do you get a good feeling from those on your support team—and their actions, communications, and attitudes?
5. Do you feel that lines of communication are always open?

## Strategic Considerations for Quality HR Service Delivery

There are a number of important factors that can support your efforts to build, deliver, and maintain quality HR service delivery to a diverse employee population. When navigating a course around a constantly evolving HR landscape, you should keep these key considerations in mind:



### 1. Company drivers

Fully understand the critical role that the key quality drivers play in your own company—and how they impact your ability to drive quality HR service delivery throughout your organization.

### 2. Domain expertise

Tap into the domain expertise of your service provider. Allow its staff to function as true business partners, not just as transaction processing specialists. Afford them an opportunity to positively impact your business.

### 3. Defining success

Make sure that you and your service provider have a common definition of success in terms of quality. Agree on how you expect HR service delivery quality to be experienced by your employees and retirees throughout the year.

### 4. Measuring quality

Reevaluate the role that SLAs play in determining the overall success of an HRO engagement and reassess current quality metrics and reporting. Ask your provider to share best practices on obtaining quality metrics.

### 5. Ongoing dialogue

Work with your provider to maintain open communication and transparency regarding enterprise-wide compliance, governance, and financial controls. Together, you can assess the impact of regulations on your HR initiatives and mitigate risk.

### 6. Value intuition

Don't discount "gut feel" as it can be an indicator of your overall feeling of partnership with your provider and ultimately the quality of your HR service delivery initiative.

## Achieving Quality through Standardization

In HRO, standardization efforts can be described as the ability for providers to design repeatable processes based on best practices. Simply put, standardization is the foundation for consistently delivering outstanding service.

For years, many employers focused on duplicating their existing processes when transitioning to an outsourced relationship. The demand was often for both customization and lower processing cost. But what about quality? As HRO engagements became increasingly complex, providers dedicated significant resources to deliver “customized solutions” for every client.

It is now understood that excessive customization drives variability into processes and increases the probability for error—all while driving up the cost of delivery for both the client and provider. Savvy HR executives and providers are realizing that standardization is all about consistency. For employers, that means knowing that HR policies and standards must be adopted across their organization. For providers, this translates into solutions and services, built around best practices, that still offer a level of configurability to meet client business requirements.

As the industry moves beyond second generation HRO, standardization will prove to be a key driver of quality as clients and providers work collectively to improve the consistency and predictability of their HR service delivery across the enterprise.

## Summary

In today’s competitive business environment, the need for successful HR service delivery has become a priority for all companies. To improve HR effectiveness in providing quality services, companies are increasingly relying on their HRO providers to play a critical role in driving employee satisfaction, retention, and productivity.

HR organizations need to determine their own quality metrics and understand which quality drivers are most important to their businesses. These decisions should be made together with the assistance of HRO providers working to create an efficient and effective HR service delivery model for the entire organization.



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<sup>1</sup> Note on research methodology: Focus groups were conducted in late 2006, with 19 respondents from large firms (10,000+ employees) outsourcing benefits administration or HR. An online survey was conducted in February 2007, with 120 respondents from large firms outsourcing benefits administration or HR. Respondents in both studies were Directors/VPs/Senior VPs.

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