Few would argue that outsourcing is one of the hottest trends in HR these days. Unfortunately, because it is such a “hot trend” many individuals rush into it without sufficient preparation and due diligence. The aspect that is frequently underdeveloped in most outsourcing plans is quantifiable measures of success. If you are one of the many HR executives considering outsourcing, or a member of a team responsible for selecting an outsourcing solution, it is important not to “rush into” an agreement without first developing a set of metrics and measures that will govern your relationship with your chosen provider. Well-designed metrics help to ensure that the proposed outsourcing has a reasonable chance of returning a positive return on investment (ROI), and after implementation, they help to ensure that outsourcing is reaching each of its goals.

**WHAT EXACTLY IS A METRIC?**
Metrics are measures of output or results. While some managers use “words” to describe results, metrics require the use of numbers to more accurately “describe” output or performance. When they are correctly developed, metrics take away all doubt about what was and was not accomplished and whether the program actually met its goals. The types of metrics that I am recommending have an added feature in that they also provide a standard, against which you can compare your performance. And as a result, you can more clearly see how you are doing because the metric includes a “benchmark standard number” that allows you to easily compare your results to a standard. Metrics generally cover five assessment areas: quantity, quality, time, money and satisfaction.

**THE BENEFITS OF USING METRICS DURING OUTSOURCING**
Metrics help you manage outsourcing better by telling you what to do “more or less of.” Metrics allow you to focus your limited resources on demonstrating to top management that you are results-oriented. Reports that are full of numbers and metrics will make the CFO happy because they make your results more easily comparable to what others are doing.

1. **Metrics can help to demonstrate your impact to the CFO.** Using metrics (especially ones pre-approved by the CFO) sends a clear message that your outsourcing approach is “business-like.” By measuring results you are demonstrating to top management that you are results-oriented.

2. **Metrics eliminate vendor confusion.** Because vendors have a different culture and they are physically separated from your firm, it is likely that the numerous communications and instructions between the corporation and the vendor will often be misinterpreted. Metrics clearly send a message to them about what results are expected both before and during the time period where the actual work is being completed. Without having to give a speech, metrics help focus everyone’s attention on the important issues.

3. **Metrics allow both you and the vendor to focus on the highest priority issues.** Metrics tell everyone what...
is a high priority and where they should focus their efforts. Because the different program measures or metrics can be given different weights based on their importance, metrics help cut through the clutter. They define what is important and they tell the vendor’s employees and managers precisely what level of performance is expected. In addition, if what you measure is also closely tied to your vendors’ rewards, you are on your way to ensuring that everyone is focused on the most important areas. Quantifying and comparing the success of every program element highlights to both the vendor and to HR managers where resources should be cut or increased.

4. Metrics help push continuous improvement. Metrics tell you about your results during a particular time period; comparing metrics between different time periods allows you to tell how fast you are improving. By studying the change in your metrics, you can learn where to focus your attention and which program elements need improving. Collecting and reporting metrics on a regular basis also makes it difficult to keep a “problem” program element hidden.

5. Metrics help ensure that you are meeting your outsourcing goals and customer needs. It is easy to assume that your internal customers are happy with your outsourcing efforts, but it is better to find out for sure. Customer satisfaction metrics allow HR managers to know who is happy and who is not with the services being offered. In addition, if you provide senior management at year-end with a report that lists your yearly goals and the metrics to prove that they have been met, you send a quick but clear message that you did what you promised:

“Remember... without data, it’s just an opinion.”

**Develop Metrics Before You Begin the Vendor Selection Process**

Many HR managers believe that metrics are something that you develop after a vendor is selected. Unfortunately, waiting too long can permanently damage any outsourcing effort. There are two basic reasons why you should develop your metrics prior to selecting a vendor.

The first reason is that the process of developing metrics forces you to not just determine your program goals but also to prioritize them (this is because there must be a metric for each individual outsourcing goal and objective). By prioritizing your goals early in the process, you help to ensure that the rest of the outsourcing effort stays focused on those goals.

Because program metrics are so critical to outsourcing success, it is important to include in the selection criteria, the vendor’s ability to provide the appropriate measures and metrics. Of course, before you can assess a vendor’s metric ability, you must first determine what the essential elements of an effective program measurement process are and what program output metrics you will use to assess whether your program is successful. These metric criteria can be included in the criteria you put in the RFP (request for proposal) that you send to vendors.

**What Metrics Should Be Used?**

The first step in determining what metrics you need is to make a list of your outsourcing goals and to develop a separate metric (or series of metrics) to measure whether each goal is met. The goals of most HR outsourcing efforts, and their related result of the outsourcing, have actually been put to better or more strategic use.

Each of the six measurement areas will be covered in greater detail in the next section.

**The Six Areas Where You Need Metrics**

In order to ensure that your outsourcing initiative is effective, you need to develop metrics in each of these six primary areas. Many vendor contracts include an all-encompass-
ing service level agreement that specifies both the services that will be provided and the acceptable “level of performance” for each of the first three of these six measurement areas.

Because metrics vary with the type of HR program you are outsourcing, space limitations do not allow me to give specific metrics examples for more than a single HR program. As a result, the metrics examples provided in this section relate to a typical area of outsourcing, moving all employee benefits questions to a vendor’s call center.

1. Service Level Metrics

It is important to develop metrics that measure whether the types of services that were contracted for are actually being provided by the vendor. Service level metrics generally measure whether each of the contracted services are being provided and at the volume or quantity level specified.

Examples of typical service level metrics include:
1. Number of service areas where employee benefits questions were answered,
2. Hours of the week that calls were answered,
3. Number of calls handled, and
4. Cost per call (in the cases where the costs were not fixed in advance).

2. Measuring Service Quality

Merely providing services is insufficient if the quality of the service is below acceptable levels. As a result, it is important to monitor the quality of the service provided by the vendor. Examples of typical quality-of-service measures include:
1. User satisfaction with the answers provided,
2. User satisfaction with the way the answers were provided,
3. Average and maximum response time required to answer a call,
4. Average accuracy of the answers provided (error rate), and
5. Vendor services met all legal requirements.

3. Vendor Management Issues

Even though the quantity and quality of services provided meet the acceptable standards, it is also important to assess the relationship between the HR function and the vendor. As a result, it is important to assess whether the vendor has been difficult to “do business with” or if they have been non-responsive to change requests. This information can be used to improve the relationship with the vendor or as bargaining tools in the next contract negotiation.

Examples of vendor management metrics include:
1. Vendor responsiveness to problems and change requests,
2. Honest and forthcoming vendor representatives, and
3. Ethicalness of vendor’s activities

The following three metrics areas cover areas outside the vendor’s control:

4. Total Cost Reduction

One of the primary goals of most outsourcing efforts is obviously to reduce the costs of providing HR services. Metrics in this area are designed to assess whether the overall expenditures (that are either directly or indirectly related to outsourcing) have actually gone down as a result of the outsourcing initiative. It is necessary to provide measurements in this area because it is quite possible for the time and effort required for contract negotiation and vendor management to add significantly to the overall costs of outsourcing. In fact, in some cases, those overall costs can increase to the point where the net savings from outsourcing are negative.

The formula for assessing the total cost reduction is:

➢ Start with the baseline costs that were incurred by running the HR process in-house prior to outsourcing.

From the above baseline costs:
➢ Subtract the total cost of the vendor contract payments;
➢ Next, subtract the internal costs of vendor management (for example, the salary of your internal vendor manager, related travel costs, the cost of communicating the shift to a vendor, the costs related to the RFP, accounting costs related to vendor transactions, and any software or equipment that was required to make the outsourcing arrangement possible).

➢ Then, subtract any actual HR employee headcount reduction (converted to salary dollars) that resulted from the outsourcing. (Note, some CFOs do not consider it to be an actual cost-savings if the displaced HR people are just assigned to different HR responsibilities.)

Assuming that the quality and amount of service provided by the vendor is equal to or greater than the baseline services offered by internal HR, you can then compare the before and after costs of providing these services. If there is a net gain, then the next step is to determine if there are any unintended consequences resulting from the outsourcing initiative.

5. Unintended Consequences

In addition to the traditional costs associated with outsourcing, you must also assess any additional costs or benefits that might result from the initiative. This is because outsourcing traditional HR functions occasionally has some negative impacts that, in effect, increase the relative costs of outsourcing. Some of the possible unintended impact areas that should be tracked and measured include:

1. Reduced employee and manager “trust” with HR (for example, in this benefits outsourcing case, because HR no longer directly answers the employees benefit questions, trust levels can go down as a result of the decrease in interaction between HR and employees);
2. Reduced attraction and retention (for example, benefits might have a less positive impact on employees and applicants because of low service levels and poor customer service provided by the vendor. In some cases, the mere fact that the service is being outsourced...
might leave employees to believe it is less valued by the company); and
3. Reduced use of benefits (for example, employees could actually reduce their usage of benefits or reduce or stop asking questions related to benefits because of the low knowledge or service level the vendor provides).

6. Better Use of HR Resources

One of the primary goals of most outsourcing is to free up internal HR resources so they can be redirected to areas where they are likely to have a higher strategic impact. In order to ensure that those resources are actually being put to better use, it is important to have metrics that assess whether HR has increased its strategic impact as a result of the outsourcing initiative:

1. Manager’s rating of HR’s increased strategic contribution (using a survey of your manager’s satisfaction levels with HR’s strategic contribution to gather data, you can then compare this year’s satisfaction levels with those prior to the outsourcing);
2. Increase in the percentage of HR strategic goals that are met (comparing this year’s strategic goal attainment with the levels prior to outsourcing);
3. HR’s self-assessment of its strategic contribution (using a survey to assess HR’s own opinion of its increased strategic impact); and
4. The impact of any strategic HR programs developed with the “saved” money as a result of the outsourcing initiative.

THE FINAL STEP — CALCULATING THE ROI OF OUTSOURCING

After the calculations have been completed in items 4 through 6, it is then possible to assess the overall ROI of the outsourcing initiative. However, it is important to note that even if the ROI is low or even negative, that does not automatically mean that you should drop the outsourcing effort. This is because the “start cost” of returning to internally-based HR process might be so high as to outweigh the benefits of dropping the outsourcing vendor. Other options might include selecting another vendor or using the metric data to refine and continually improve the outsourcing initiative.

CONCLUSION

When it comes to assessing its effectiveness, outsourcing should be treated no differently than any other business function. It is essential that every effort be made to calculate the program’s ROI and to periodically measure whether outsourcing is meeting its stated goals. Rather than considering metrics as an important add on, HR should consider them as the foundation of any outsourcing effort. By insisting on a comprehensive measurement and metric system as part of the vendor agreement, you can actually improve the probability that the vendor will provide the same or higher levels of service that your employees have come to demand. This is because well-executed metrics contribute to outsourcing success. A high success rate is important not just for building HR pride but also because employees and managers will still blame HR (outsourcing does not relieve responsibility) if the level of service falls below expectations. CFOs will be equally as unhappy if the total cost of outsourcing exceeds the initial baseline costs that existed before the service was outsourced.

The lesson learned is that metrics are no longer optional within HR. Whether it be outsourcing or any other program, metrics not only help in program design, but they also increase the probability of initial program success and of continuous improvement over time.

For the author’s biography, see page 65.