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HRO Provider Management: Success Requires a Disciplined Approach

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THE CASE FOR HRO PROVIDER MANAGEMENT

The success of any Human Resources outsourcing (HRO) relationship lies not only in how well it is implemented, but also in how effectively it is managed going forward. Designing and building a cohesive approach for managing the ongoing relationship, as well as the accompanying business processes, is critical for long-term success and satisfaction.

It is imperative for companies pursuing HRO alternatives to begin the development of a disciplined approach for the management of the outsourcing arrangement early, typically during the strategy and assessment phase. Instituting this process at this juncture is necessary because the approach a company uses to manage its outsourcing relationship has an impact on both the design of the service delivery model being sought and on the structure of its retained organization.

The intent of this paper is to provide you with a suggested approach for developing and designing a Provider Management organization linked to proven, best-practice methodologies.

PROVIDER MANAGEMENT DEFINITION, COMPONENTS AND BACKGROUND

Provider Management encompasses the functions and business processes required for successful post-contract management and governance of outsourcing relationships.

The charter of any Provider Management organization should include:

- Maintaining alignment between corporate strategy and outsourced services

- Serving as the focal point for the service provider to seek support and sponsorship from the client organization
- Tracking and assessing the service provider's performance
- Advocating for other internal organizations such as centers of excellence, business partners and other retained HR staff
- Effectively managing changes that occur over the term of the contract with the service provider
- Fostering executive sponsorship

HRO SUCCESS BEGINS WITH A STRATEGIC PROVIDER MANAGEMENT TEAM

The primary requirement for a successful outsourcing relationship is for the company to establish a Provider Management team to oversee the arrangement. The size and structure of this team is not only dependent on the size and complexity of the outsourcing relationship, but also upon the framework of the internal organization within which it must function.

Consideration to the degree of centralization (or lack thereof) is key to aligning the Provider Management process with the functional roles described below. This is not to imply that the Provider Management function requires separate job positions or one specific organizational structure. The size of the relationship and the experience of the internal staff should determine the job requirements. The blending of the client's internal structure with that of the service provider's should determine the organizational structure.

Although the responsibility for providing quality service appropriately falls to the service provider in all situations, the client organization tasked with overseeing the relationship can significantly impact the service



provider's performance in either a positive or negative manner based on how the Provider Management function is organized.

In too many cases, the internal organization tasked with managing an outsourcing service provider derives from a group of resources formerly responsible for the Human Resources, Payroll, and/or Benefits Administration activities that are to be outsourced going forward. These resources are usually selected for the Provider Management role primarily based on their depth of knowledge and administrative expertise in their respective disciplines. And although these attributes are significantly important to effecting a smooth transition of activities, their value decreases during the process of managing the long-term relationship.

The structure of new Provider Management organizations typically reflects a derivation of the former function, with the staff of these areas usually continuing to be organized by discipline and following a similar re-

porting structure as was in place prior to outsourcing. Depending on the scope of HR processes outsourced, either the HR process area (for single process HRO relationships) or a separate HRO Provider Management organization within the HR function "owns" the service provider relationship. For multi-process HRO the actual act of outsourcing causes a need for all processes included in scope to have some level of involvement in managing the relationship, while most other related functions, such as benefits planning/design and communications, continue as independent functions.

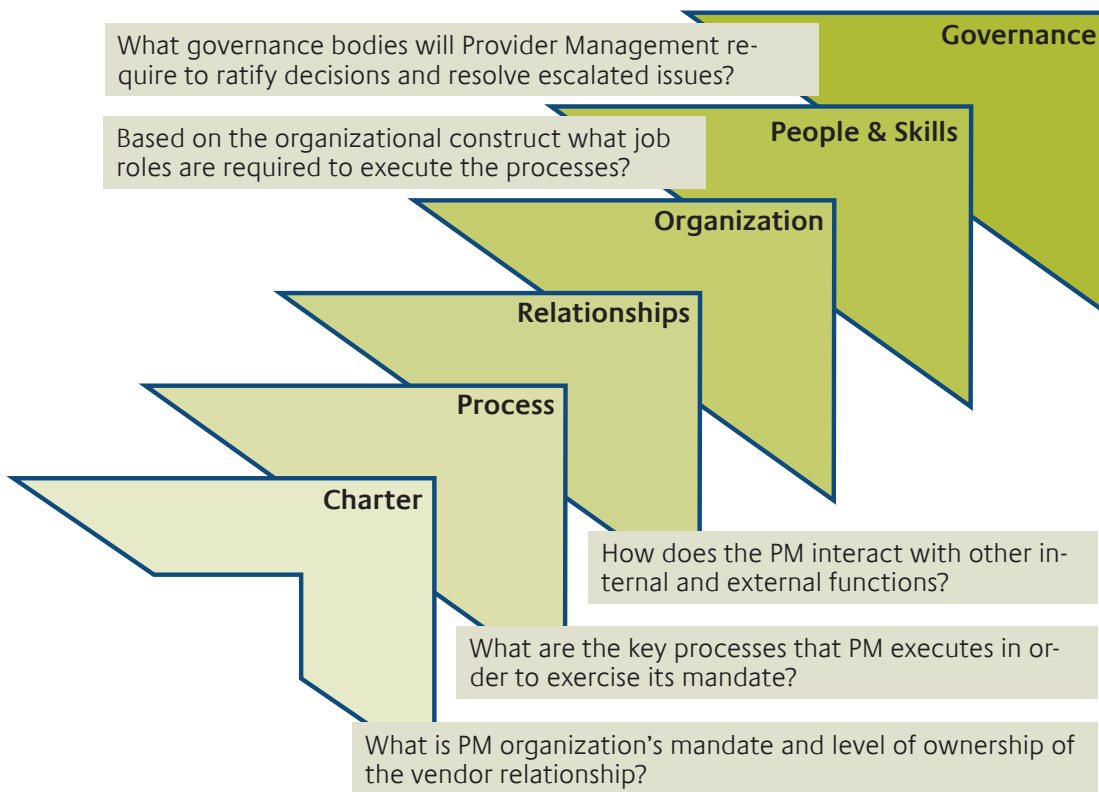
Outsourcing demands a paradigm shift within the retained organization along with a different skill set. The characteristics of the resources successful in performing this type of work are not necessarily in sync with the strengths found in individuals who were successful administrators prior to outsourcing. Serious consideration must be given to the resources assigned to the new Provider Management function so that it is not simply used as a means to reallocate retained staff.



DESIGNING AN EFFECTIVE PROVIDER MANAGEMENT TEAM

The design framework utilized to develop a Provider Management organization is a progressive series of activities that build upon one another to deliver a cohesive operating model.

Building the Provider Management (PM) Team From the Ground Up



The order of the activities is purposefully directed at determining process, links and structure before fitting the people into the roles rather than allowing the available resources and existing structure to define the organization.



THE FOUR DISCIPLINES OF PROVIDER MANAGEMENT

In terms of the organizational design and assignment of resources, the roles and functions of a Provider Management organization are best categorized into four “disciplines” that provide a framework for clarifying the workload and skills that need to be fulfilled.

Each Provider Management organization should possess and plan for executing the four disciplines regardless of how many and which individuals are responsible for the work.

Performance Management means ensuring “the right work, done right.” Common performance management activities include:

- Service delivery monitoring
- Control validation
- Service level reviews
- Case management
- Select transaction audits

Cost Management entails managing and validating those factors that impact the cost of services. This includes:

- Invoice verification
- Change request management
- Change order approval
- Work prioritization
- Project monitoring
- Acceptance review

Contract Administration means ensuring compliance over the term of the service provider relationship. Activities may include, but are not limited to:

- Contract compliance
- Contract amendments/re negotiations
- Document management and repository
- Communication of requirements

Relationship Management encompasses direction setting and assuring satisfaction with the Provider Management function. The scope of this discipline includes:

- Customer satisfaction
- Business unit liaison
- Communications and forums
- Escalation management
- Issue tracking

The HRO Provider Management team roles are not necessarily mutually exclusive in every instance. Depending on the size and complexity of the outsourcing arrangement, these roles or components may overlap and thus may be effectively maintained with fewer resources. For smaller outsourcing relationships, two or more roles may be performed by a single individual. For larger relationships, each of these roles may require a different individual — or possibly even a team — to fulfill.



Your company’s ability to perform the recommended roles and activities will be determined by the level of complexity of your individual service provider relationship(s) and the size of your staff.

The following chart illustrates in more detail how each of the roles apply to most outsourcing relationships.

Provider Management Roles and Responsibilities

Role	Description
Relationship Management	<ul style="list-style-type: none"> • Primary contact for the service provider to communicate issues and concerns regarding the business relationship between the firms • Serves as the “sponsor” of the service provider within the client’s organization • Final point for escalation of issues before bringing to the attention of the steering committee • Coordinates and prioritizes all action planning by the Provider Management team • Ensures the service provider informs of service enhancements and best practices • Aligns the HRO strategic plan with overall business changes within the client and service provider organization
Performance Management	<ul style="list-style-type: none"> • Monitors and evaluates the service provider’s performance via periodic reporting mechanisms • Oversees the service provider’s development and implementation of action planning for making service delivery improvements • Monitors escalated case log and coordinates internal resolution of issues as required • Maintains the “issues log” regarding service and/or relationship issues with the service provider
Change Order Management	<ul style="list-style-type: none"> • Develops change order requests, including high-level descriptions of the requested changes • Facilitates review of the service provider’s change order requests; works with the service provider to identify appropriate solutions; and coordinates the development of requirements • Oversees and coordinates support for the service provider’s change implementation process, including project planning and acceptance testing • Tracks the status of all outstanding change order requests and other service implementation priorities
Contract Administration	<ul style="list-style-type: none"> • Oversees contract requirements, including maintaining the statement of work • Negotiates contract amendments and renewals • Communicates requirements throughout the HR organization and ensures compliance • Maintains contract documentation and other relevant material



IMPERATIVES FOR HRO PROVIDER MANAGEMENT SUCCESS

We have touched briefly on the four disciplines that should be captured in the Provider Management organization. Aside from the activities involved in these roles, there are several best practices that companies should strive to integrate into the build-out of the Provider Management function.

Align with the Service Provider

One common mistake that many organizations make when designing their Provider Management team is to allocate responsibilities internally and to then expect that their service provider will “match up” against their internal structure. In practice, this is a certain way to ensure a suboptimal client/service provider relationship.

It is actually much more effective to approach the Provider Management design equation from the other direction by seeking to mirror your service provider’s structure and communication requirements. It is essential to understand that the service provider is a large organization, while your team is a single, select group of individuals.

By the time your company has made the decision to outsource HR functions, it has already made specific decisions about how to provide HR services through some combination of technology, dedicated resources and shared resources. This “operating model” is essential to the effective provision of services by your service provider. To maximize the utility of the model, your company should understand how the service provider desires to interface with you and should organize accordingly.

In the end, this commonality of client/service provider responsibilities and mirrored organizational structure will facilitate optimal communication and provide an environment that maximizes the probability of the service provider achieving successful results for you.

Keep Outsourced Work Outsourced

In an outsourced arrangement, the service provider is contracted and expected to perform a scope of work with a high degree of quality. When you take a direct role in employee/participant support or providing more than the most critical program expertise performed by your company, the responsibility for work quality shifts back to you regardless of expectations or contractual obligations. Although your involvement in these processes that fall under the contract may be done with the best intentions and a desire to “fix” the problem, it typically results in duplicative efforts (in other words, multiple channels), slower turn-around times and muddled employee/participant relations. Thus, your company is always better served by expending your efforts ensuring that the service provider has the proper means in place to manage the quality and accuracy of the work or by taking appropriate action to improve areas of concern or ineffectiveness.

Focus on Performance

The level of satisfaction with the service provider’s performance is gleaned from the dual perspectives of employees and the program sponsor. Therefore, it is extremely important that the parties have an agreed-upon set of success measures.



Contractual performance standards should provide a full breadth of measures that address service level and administrative accuracy/control. Furthermore, most activities should have performance expectations defined for them so that both parties have a full understanding of the work quality anticipated. Implementing performance metrics provides both parties with an objective means for determining the effectiveness of service delivery and allows the Provider Manager to avoid getting lost in a morass of hearsay and biased interpretations.

Own the Relationship

Although the term “partner” is overused in the outsourcing marketplace, the best way to manage outsourcing relationships is to treat them as partnerships if for no other reason than the size and significance of the arrangement to your company. Remember that the service provider in this instance deals directly with the company’s employee base and should thus be considered an extension of the company itself.

To best support the service provider in this role, the Provider Manager must act as a sponsor of the service provider within the internal organization to ensure that the measure of the service provider’s success is understood and remains objective throughout the client organization.

Clarify the Leadership

When more than one HR process area is responsible for the relationship, it is imperative that a single entity within the HR function be deemed the leader of the relationship. If the relationship includes multiple functional areas (such as HR and Finance), it is even more imperative that a single entity be deemed the leader of the overall relationship, oftentimes resulting in the

need for a separate Provider Management organization within an organization.

If there is no clear leader, the service provider is left in the precarious situation of responding to more than one “boss” and constantly trying to balance priorities in an attempt to please all parties. Thus, any differences in approaches between internal functions and questions of leadership capability should be addressed prior to involving the service provider so that the direction they receive is succinct and actionable.

OTHER CONSIDERATIONS

Assuming that an effective Provider Management structure and best practices are in place and understood, it is also important for leaders of Provider Management organizations to be prepared for the continued interplay between the company and the service provider.

Additional aspects to be aware of are the relationship life cycle and coordination of other internal functions.

The Outsourced Relationship Life Cycle

The significance of the role played by the Provider Manager adjusts based on where the outsourced relationship is within its life cycle:

- New relationships usually require more emphasis on Performance Management as well as the transition of program expertise to the service provider resources.
- More mature relationships typically shift to heavier emphasis on change order activity, with constant review of performance to ensure that service delivery is continuing effectively.



Regardless of how effective the service provider's overall organization is, the strength of a particular client service team is in its human resources. Staff turnover within the client team is inevitable. Likewise, you should anticipate 15 to 20 percent turnover of your team on an annual basis, with some strong performers moving on to other opportunities within the service provider organization.

For the most part, the Provider Manager has no control over staffing outside of the lead roles, therefore he or she should understand that service delivery is never "fixed" and may fluctuate in quality regardless of the maturity of the relationship. Above all, it is imperative to remain focused on performance across the service provider's service delivery model.

Other Internal Functions

Beyond the function(s) assigned to manage the service provider relationship, other internal functions have a direct impact on the service provider's effectiveness. Program planning and design, employee communications and various financial reporting and accounting functions regularly interact with and/or affect the service provider organization.

Consistent coordination between all of these parties is critical. However, attempting to initiate these functions into a Provider Management role will not necessarily ensure more effective communication and harmonization. The workload of these functions, including Provider Management, is distinct; therefore it is impractical to combine them into a single entity. A more appropriate arrangement is to coordinate across these functions through a common reporting relationship.

CONCLUSION

Successful HRO Provider Management starts and ends with people. Getting the right team and role structure in place before the service provider selection process starts is imperative. Companies that understand best practices for setting up the Provider Management function stand a much higher chance of ongoing success and satisfaction with their service provider relationships.

HRO Provider Management is just one key element of what is often a larger plan that many companies pursue in transforming their businesses to address the challenges of an increasingly competitive global economy. Consequently, this paper is simply a primer to direct your thinking about the key foundational elements that should be part of the HRO Provider Management aspect of the outsourcing arrangement.

Companies that require a swift, sure, cohesive action plan often solicit the assistance of a Provider Management advisory partner to help them navigate this often complex process. There are many more high-level and lower-level requirements for long-term success, such as management buy-in and governance, that advisors may help you address on the road to successful HRO Provider Management.

LOOKING FOR A STRATEGIC PARTNER?

TPI's CHRO Services experts can help you achieve your organizational goals through objective advice, knowledge of your industry and experience with sourcing arrangements from simple to complex.

Looking for a strategic partner? Contact **Jeff Krynski**, Governance Competency Leader, CHRO Services, TPI, at +1 310 546 5852 or jeff.krynski@tpi.net.

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