



**Best Practices When Using Third-Party Human
Resources Services Providers**

BEST PRACTICES WHEN USING THIRD-PARTY HUMAN RESOURCES SERVICES PROVIDERS

The major dilemma for Human Resources groups when contracting with third-party service providers is not dissimilar to the hedgehog parable posed by 19th century philosopher, Arthur Schopenhauer. In the cold, the dilemma for hedgehogs is to get near enough for warmth, but keep far enough apart that their sharp spines don't harm others. In essence, the hedgehogs trade off warmth for safety when they find the comfort range.

Human resources departments engaging third-party service providers face similar dilemmas, the first of which is whether to treat the service provider as a 'fee for service' provider or as a business partner which is much more than a transaction and exchange of a service for a fee. The former implies that the primary task of Human Resources is to find the best fee for service arrangement that money can buy while the latter implies that the parties will together arrive at an agreement that specifies rights and responsibilities that are mutually beneficial to each other without forsaking the buyer's concern for price.

What we have learned from sitting on both sides of the table is that partnership-based relationships with third-party services lead to better outcomes – if both parties subscribe to some simple but important best practices. The cost of services is always going to be a factor, however it should not be the only driver of the decision to the exclusion of ways to ensure success and prevent poor outcomes.

Reading this opening might lead a Human Resources directors to wonder aloud - Is this relationship with my future third-party service provider supposed to be a marriage? Our answer suggests that we are actually speaking more about dating responsibly than marriage. The thought of marriage might cause HR directors some chagrin if it brings to mind the high rate of marriage failures these days.

Where the marriage analogy is a good fit with this discussion is for business leaders to realize that not only are divorce rates rising, second marriages are often failing faster than first marriages! This leads us to the conclusion that couples like businesses emerging from failed outsourcing arrangements only to repeat past mistakes simply put the prior failure down to a selection error that they plan to correct the next time out. While we are not advocating that business employ the Chinese tradition of "staying with one partner from the beginning to the end" as a foundation for using third-party services providers, we are suggesting that businesses who fail in one outsourcing arrangement reassess the processes used to enter future arrangements. The flaw in putting failure down to making a poor selection decision in both marriage and business is that it presupposes that there is no need to make changes and address issues and problems that got the first relationship to the break up stage. While we don't pretend to be experts on marriage we do know what works and what does not work when organizations contract with third-party service providers.

Before putting aside failure and dealing with what works, here is what we have heard from HR directors who ended up unhappy with an external service provider. The three basic complaints: (1) no cost savings; (2) dissatisfied with the provider's processes; and, (3) the provider's unwillingness to meet their change requests.

What we heard from HR directors who enjoy good relationships with outside providers can be reduced to three things: (1) the external assistance allowed HR adequate blocks of time to focus on key strategic priorities (2) Immediate benefits were seen in better information on job hires, reduced hiring times, and

the real reasons as to why people were leaving; and, (3) HR was perceived by the organization as playing a more strategic role as a business partner.

We have put together a few thoughts and ideas under the guise of best practices for HR groups to employ when working with third-party service providers.

1. Think collaboration, partnership and longer-term

Underpinning any use of an external service group should be longer-term thinking, collaboration and partnership. Thinking longer-term enables the buyer to think strategically about the leverage the organization is attempting to gain on its resources which is essential. Thinking collaboration helps focus the internal staff and the third-party on what each will need to do to ensure the working relationship works effectively. Thinking partnership suggests that both parties must be on the same “wavelength” with a shared view of what is to be delivered along with a clear understanding of the organization’s objectives and the roles that must be played to make the services and processes seamless and effective.

2. Set out strategic objectives early

The starting point should be a set of strategic objectives that the organization is seeking to achieve. These should be shared and discussed with the service provider. This ensures that there are realistic expectations about the value proposition being delivered by the third-party. For example, an organization using a third-party service provider to do pre-employment screening and exit interviewing might strive to achieve the following:

- § Improved hiring cycle times and new hires completing initial job training and orientation quicker.
- § Job interviews more fully focused on candidate accomplishments and what they will deliver versus time spent on candidate education and certifications.
- § Deployment of internal resources to specific critical initiatives with demonstrable progress made towards their implementation.
- § Internal customer satisfaction ratings with the recruitment process and the background information provided on job candidates.
- § Improved information on why people are leaving the organization.
- § Longer-term reductions in turnover of new hires and overall as candidates who fit the culture better are hired and information from exit interviews is used to eliminate the job dissatisfiers.

This assumes that the organization wants to establish excellence in recruiting and selecting as well as wants to ensure that they fully understand why they are losing staff to other organizations and opportunities.

3. Agree on service levels

There is nothing wrong with preparing service level agreements that set out time frames for turnaround. Some agreements specify penalties and incentives which work well if not used by the buyer to lower

costs or by the supplier to improve revenues. Organizations employing financial penalties should “bank” them so that the service provider has an incentive to overcome any deficiencies and earn back the penalty.

Unquestionably price and costs are issues but this should not be the main driver. As HR practitioners who have bargained a number of low price arrangements for services our experience has shown that the service provider ended up spending valuable time managing down the services we were getting just to ensure that it was still cost-effective for them. The conclusion reached was that we should have bargained with a set of guiding principles that led to both sides winning and benefiting over a narrow focus on our HR budgets alone.

4. Clarify roles and identify multi-level contacts

To make agreements with external services work properly the right people should be in the right roles and at the right levels of both organizations. It is our view that multi-level contacts work best with clearly identified contacts for executive interface, account management and service delivery. You can have the most clearly articulated set of strategic objectives and operating principles and service level agreements in place and lose many of the benefits if the roles are not clear and there is no mechanism in place to find out how it is going.

5. Communicate objectives internally

If an organization is implementing new steps in the recruiting process, this should influence the development of candidate briefing packages and some changes to the interview process. It is useful to make sure hiring managers are as fully briefed as the HR staff group. For example, if you are using a third-party to do exit interviewing managers and exiting employees should be informed of the objectives and the approach being taken and why.

6. Hold periodic review sessions

Periodic review sessions with the internal staff group and the external partner should focus on both the strategic objectives and the operational issues and results of the program. Good communications build and strengthen partnerships.

Whether you call these best practices or guiding principles is less important than thinking partnership and collaboration prior to establishing working relationships with third-party service providers. It is not dissimilar to negotiating any contract where both parties will benefit and where the quality of the relationships are important and must be preserved.