CDI-Talent Management:
RPO Metrics Driving Performance

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Successful companies focus on business metrics, measurement systems, and performance tools to drive management strategies. In volatile economic times this focus can quickly become an obsession as companies desperately gather more and more data to explain shifts in market position, earnings and productivity. It is easy to be overwhelmed with data — and constantly in search of useful business information.

Human capital is no less a part of business success than financial capital. However, financial measures have long been established and used for business decisions, while the information age for managing human capital is only in its infancy. Recruitment Process Outsourcing (RPO), like any new construct, is just beginning to establish a common and useful foundation for effective performance management.

More and more companies are looking to external partners to help them align business objectives, motivate staff, and manage performance. Once the decision to outsource has been made, the functional details come into play. Project scope and objectives, contract terms, statement of work, pricing and service level agreements must all be finalized. The process is complex and can be lengthy, taking weeks, even months to negotiate.

A common mistake often made by the negotiating parties is to leave discussion about one of the most important components - metrics and service level agreements - until the end. This short circuits an important component of the agreement, one which should be designed specifically to drive performance and support the buyer's objectives. When engaging and managing a partner to deliver a key service, metrics should lie at the heart of the partnership agreement.

Service Level Agreement Selection

When used properly, Service Level Agreements (SLAs) and metrics are an important component of the well-thought-out performance strategy. But the buyer must spend adequate time to fully understand what they want to gain from the partnership and what activities drive the performance of those goals, and therefore should be measured.

SLAs have become a common component in both internal and external service delivery agreements. Effective SLAs provide focus and incentive to deliver essential customer requirements. Selection of the right SLAs to drive performance management begins with four important steps:

1. Determine the key objectives you want to accomplish and measure, then prioritize them.
2. Assess your contractual arrangement to ensure partner responsibilities and deliverables are clearly defined, and that the partner will be unencumbered to perform as required.
3. Select the most important objectives and drill down to the activities and skills required to drive them.
4. Collaborate with your provider as to how your selected metrics will be collected, tracked and used to evaluate performance.

"Workforce analytics can be an intimidating topic. It often evokes a sense of rigidity and dehumanization that is contrary to the mission of most human capital practitioners. It also seems, at first glance, to be a terribly complex process, due to its close relationship with Business Intelligence (BI).

Additionally, human capital metrics are usually considered a secondary consideration in regards to other corporate data sources, and continue to be (in many cases) an untapped mine of strategic and operational data.

However, workforce related expenditures are one of the single largest corporate expense lines, and employee performance is one of the most important success factors for any organization. Better visibility into the dynamics that impact these two critical areas allows companies to make better, faster decisions that positively impact the bottom line."

Aberdeen Group,
Workforce Analytics
Business Intelligence Meets
Human Capital Management
October 2007

There is an old American Indian proverb, "Chase too many rabbits and they will all get away". Keep this in mind when selecting SLAs. If you require a provider to focus on too many priorities, you may find they are not focused on anything. Carefully choose 2-3 key objective-based SLAs to drive the performance you seek.

Common Service Level Agreement Categories	
Speed	*Example:* time to fill, time to submit
Quality	*Example:* customer satisfaction candidate quality percentage of presented candidates interviewed, retention rate
Timeliness	*Example:* recruiter response to requisition (supplier), hiring manger feedback (buyer)
Accuracy	*Example:* offer letters, billing, other administrative activities
Reduced costs	*Example:* agency fees and/or usage, relocations, retention
Compliance	*Example:* diversity, EEO OFCCP background checks

Note: Cost per Hire is generally handled within the pricing structure, not as an SLA.

SLAs may carry financial penalties for non-performance and rewards for over performance. However, SLAs do not always carry penalties and rewards, and contracts that carry a mix (SLAs with and without financial impact) are not uncommon. SLAs are usually tracked/reported monthly and are a key topic of discussion at the quarterly performance review meeting. If targets are not being met, corrective action plans are required.

Key Performance Indicators

Key Performance Indicators (KPIs) are more tactical measurements which, when tracked, provide an "indicator" of resulting SLAs and overall performance. They can generally be linked to the SLAs and are used to validate reasons for performance/non-performance as well as provide support for action plans for improvement.

KPIs carry no financial gain or reward and are usually tracked and reported monthly. Because KPIs are an important tool used by the recruiting team to manage the engagement, they may be tracked and reviewed more frequently.

Common Key Performance Indicator Categories	
Informational	*Example:* # requisitions opened, total # hires, # hires by type, average age of open requisitions
Speed	*Example:* average time to initiate intake call, average time to present first candidate, average time to provide feedback, average number of qualified candidates in specified time frame, average time to deliver offer letter
Candidate Quality	*Example:* average qualified candidates presented per offer, determine maximum slate of qualified candidates and track average, average presented candidates accepted for interview
Customer Satisfaction	*Example:* average time to respond to issues, average presented candidates accepted for interview

Establishing SLA Baselines and Targets

To fully understand the process of setting targets, it is important to take a step-by-step approach. This includes understanding why the decision was made to outsource — what significant pain needed to be soothed, how the decision has been quantified, and what expectations have been laid out in the business case to support the decision. Since most business objectives are set with an eye to improvement, someone has defined what that improvement needs to be. In order to deliver that improvement, you must 1- be able to measure it (gather and report relevant data), 2- know where you started (the baseline), and 3- determine how much performance improvement is needed (the target).

In many cases RPO buyers may know what pain is being suffered, but they have not effectively measured the impact of that pain in the past. Therefore, the starting point for a new provider must be established. If a buyer has measured and maintained performance records, then that data is used to establish baseline performance.

In the absence of documented baseline data, the first 6-12 months of the outsourced engagement can be used to finalize the baseline for each SLA. The question generally arises "why so long?" and there are good reasons not to rush this process:

- It takes several months to establish credible data
- Seasonal changes will impact performance and a full year of data will ensure a blended measure
- Both parties should have the opportunity to understand the subtle changes brought on by the outsourced arrangement and how they may impact performance perceptions
- During the first year of engagement, there are generally adjustments to the business case that should be considered in setting SLA targets
- With financial rewards/penalties at stake, both partners need to be comfortable

It is easy to get carried away expecting huge leaps in improved performance, but good recruiting comes from a wise balance of cost, speed and quality. Targets should be set by carefully evaluating the established baseline in conjunction with the business case objectives. A reasonable approach follows:

- During implementation establish "suggested targets" that correspond closely with the business case, taking into consideration any baseline data that is available
- Identify any business impact that may effect the evaluation and agree to remove that data from the "benchmarking" period (i.e. a hiring freeze or special project could skew the true data)
- During the first year, work under the "suggested targets" that have no financial impact, but are tracked and reported as planned
- Use quarterly data and the governance review process to analyze and discuss trends
- In the 4th quarter of year 1, evaluate actual results against the "suggested" targets, finalize the baseline and agree on targets to become effective at the start of year 2
- Re-evaluate yearly – not just the targets, but the SLAs for measurement as well

It is important to recognize that it may take years to establish a credible performance management program with solid SLA targets. Taking a step by step approach will help ensure a successful program, even as your goals may change.

Rewards & Penalties

When deciding to attach monetary incentives (rewards and penalties) to SLAs to facilitate partnership and encourage performance, it is important that both parties have "skin in the game". The provider should be motivated by the rewards to meet the buyer objectives. If that is not the case, the provider may instead be inclined toward activity that minimizes the risks and penalties. Conversely, the potential for savings or increased productivity, driven by performance of a particular service level, should be equally as compelling to the buyer which ensures they are incented to partner to accomplish the goals.

Note: Since a buyer should expect their provider to perform at or above targeted performance levels, it is reasonable to assume the pricing covers that performance. Therefore rewards would only apply if performance truly exceeded expectations.

It is also important to note that monetary incentives are a bit of a "two-edged" sword. If a definitive monetary cost resulting from non-performance can be recognized – and the provider is not encumbered in working to achieve the target – penalties and rewards can be a powerful incentive for the provider to deliver on target. However, if the value is unclear, the targets can become a "negotiation of protection" by either party. When this happens one or the other is likely to end up paying —but feeling they got little for their investment. For this reason gain share may be an alternative approach to consider.

The gain share approach is not often used in RPO contracts, but this convention provides a way of better managing ancillary costs that are inherent in the outsourced recruiting process. It is generally used by companies that are spending significant budget dollars in ways that can, and should, be reduced. By partnering operationally and financially to reduce a significant cost item, the buyer realizes greater savings in the long term. Good examples would be agency fees and relocation costs.

Note: The rewards and gain share approaches are only effective when the dollars are specifically identifiable, the buyer is committed to supporting the reduction of the expense, and both the parties agree on the strategy to work together to make it happen.

Ground Rules for Effective Performance Management through SLAs

A strong governance model provides the best performance management framework for driving results. With that in mind, we offer the following critical components to a successful performance management partnership:

- Negotiate and honor a strong governance model as part of your contract that provides for appropriate weekly / monthly / quarterly / annual review and recalibration
- Establish a working relationship in which both partners are willing to re-evaluate and request changes as needed
- Keep in mind this needs to be a two-way street – RPO does not work effectively in a vacuum, so metrics have to be assigned to and met by both parties
- Agree to work only with metrics that can be tracked and reported through a well-configured ATS and/or other automated tools … manual processes end up taking time away from the real work of recruiting
- Be sure to take into account outside influences and factors beyond the provider's control and adjust accordingly.

Once the importance and complexity of metrics as a key driver in RPO success is understood, it becomes clear why it is so important that this discussion happen early in the contractual negotiations — ***begin early and design with the end in mind.***

ABOUT THE AUTHOR

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Kay has been the principal advisor to CDI in building its state of the art RPO practice over the past three years. Her prior experience includes work with Mercer Human Capital Consulting and Workforce Insights, LLC to assist clients in better understanding workforce trends and in developing stronger recruiting methodology, performance management programs and retention strategies. She lead RPO operations for Spherion's first major RPO account and ran the overall operations team in the formative years of their RPO business. She was also formerly principal consultant with Ryder Systems during the re-engineering and rollout of floor automation of its North American operations. Kay holds an MBA from the University of Houston and a BA from Florida State University.

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