

# HR Beginning to Adopt Service Level Agreements

## New Trend

We are seeing an interesting trend developing in HR. An accepted concept from the world of Information Technology (and many external customer service functions) is beginning to be adopted by HR departments. I am not referring to HR Management Systems or Employee Portals, now widely-used. In fact this latest application is not technical at all; it is the Service Level Agreement (SLA).

In the past, HR departments have generally only seen SLA's as part of outsourcing deals. Today, the early adopters are introducing SLA's as a key component of their HR strategy. According to Dr. John Sullivan<sup>1</sup>, the pioneers in offering SLA's in HR were Hewlett Packard and Sun Microsystems.

## HR Strategies

Many HR departments find themselves spending much of their time on the transactional and record keeping aspects of HR, and correspondingly can't pay sufficient attention to the higher level strategy issues. This is not new. Much has been written about HR's long term struggle to evolve to this higher form of existence – with the bar being set by Dave Ulrich's epic "Human Resource Champions"<sup>2</sup> in 1997.

In order to "be strategic", it stands to reason that you would first require a "strategy" per se. Yet it is surprising how many HR departments operate without one, or make do with a few slides on annual business plans.

HR Service Level Agreements and HR Metrics can be vital elements of an HR Strategy and serve to focus time and resources on the strategic aspects of HR.

How do we get there? Ideally, the steps should be as follows:

- Know your organization's business strategy (mission, vision, goals, culture, business plans etc.)
- Prepare an HR Strategy document which reflects and supports the business strategy and which outlines HR's corresponding mission and goals
- Use the HR Strategy to confirm HR's service areas and the objectives for each
- Determine your Client Service Delivery Model – How HR is organized to deliver client service.

Many HR departments have a front end support service for queries and basic transactions (either people-based or via the Intranet), HR business partners (generalists who are assigned to serve the different line functions), and corporate specialists in certain areas.

- Prepare an annual business plan as a direct extension of the HR strategy, outlining the current year's objectives, projects and activities
- Prepare an SLA and negotiate its contents with your clients
- Prepare a set of HR metrics appropriate for your organization.

## HR Service Level Agreements

Dr. Sullivan says that; *"Managers are (often) disappointed with what HR delivers, and HR is often disappointed with how managers manage. One of the many reasons for these disappointments is that the relationship between the two parties is never clearly defined"*.<sup>3</sup>

A Service Level Agreement (SLA) is a formal agreement negotiated between HR service providers and users. Its purpose is to clarify and articulate the expectations and requirements of HR and its clients. It documents the measurable service that HR provides to its clients. It also defines the level of effort managers must provide to complete their side of the agreement.

Many of the functional components of the SLA will be derived from the HR Strategy, the Client Service Delivery Model and your HR Metrics.

Elements of an SLA can include:

- Roles and responsibilities of HR staff. Who are the HR staff, how are they organized, what does each person do, what are they responsible for?
- Roles and responsibilities of the clients – What does HR need or expect managers to do? How responsive should they be, in terms of both turnaround time and following HR's advice?
- Points of contact and the media used
- Descriptions of the HR services provided, including:
  - Benefits
  - Compensation
  - Employee Relations
  - HR Information and Technology
  - HR Planning

- HR Policy Development and Administration
- Learning and Development
- Organizational Design and Development
- Performance Management
- Recruitment and Staffing
- Confirmation of the type of advice provided by HR
- Performance targets and key performance indicators, including:
  - Response times – How fast will HR respond to queries and issues
  - Levels of completeness and accuracy
  - Turnaround times – How long will staffing actions etc. take
  - Service availability
  - Other service measures (what metrics are measured, and when)
- A dispute resolution mechanism
- Duration – The time period that the SLA will be in effect for.

## HR Metrics

According to Dr. Sullivan; “*The largest single difference between a great HR department and an average one is the extensive use of metrics. There is nothing that you can do to improve your department’s performance that exceeds the impact of using metrics*”.<sup>4</sup>

HR metrics are a key component of the SLA. They must be objective, measurable and relevant to the organization. Examples of standard HR metrics include: Absence rate, cost per hire, health care costs per employee, HR expense factor, turnover costs, training days, training costs, success rates of recruiting sources, staffing costs, and process times for staffing and classification. For example:

Title	Formula	Description
<b>Absence Rate</b>	Employee days lost through absence ÷ (average employee population x number of work days)	Measures absenteeism. This can be done both monthly and annually, and by department. Absenteeism cost can also be calculated.
<b>HR Expense Factor</b>	HR expenses ÷ total operating expense	How much does HR cost? This includes the HR department budget. Expenses

Title	Formula	Description
		can also include total employee compensation (payroll) expenses, employee benefits, HRMS and related HR costs.
<b>Human Capital ROI (Return on Human Capital)</b>	(Revenue less operating expenses) ÷ total compensation and benefit costs	An investment ratio for employees. Shows the amount returned for every dollar invested in employee compensation and benefits. It can be used to measure the productivity impact of investments in staff and HR practices.
<b>Time to Fill</b>	Total elapsed days to fill a vacancy	Number of days from when a job requisition is approved to new hire start date. Measures the efficiency of the recruiting function.
<b>Training Investment Factor</b>	Total training cost ÷ headcount	Training cost per employee. You can also measure the average number of Training Days per Employee, as well as actual versus budget. <sup>5</sup>

The goal of all these metrics is to improve HR effectiveness, which is a combination of efficiency, productivity and results. Metrics provide an opportunity for continuous improvement. A baseline can be established in the first year, and used to measure future progress.

Metrics can be reported to top management so that they can judge both the effectiveness of HR and the extent to which managers are helping or hindering HR efforts.

## Conclusion

SLA's are just one part of the growing trend to make HR act less like a bureaucracy and more like a competitive business that is responsive to client needs.

One last observation from Dr. Sullivan; *"The 'new HR' requires a more aggressive and businesslike approach to solving people problems than most HR professionals are accustomed to"*.<sup>6</sup>

This approach can be initiated through the introduction of HR Service Level Agreements.

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<sup>1</sup> Dr. John Sullivan. HR Metrics (Kennedy Information, Peterborough, NH, 2003), page 189.

<sup>2</sup> Ulrich, David. Human Resource Champions (Harvard Business School Press, Boston, 1997)

<sup>3</sup> Dr. John Sullivan. HR Metrics (Kennedy Information, Peterborough, NH, 2003), page 188-189.

<sup>4</sup> Dr. John Sullivan. HR Metrics (Kennedy Information, Peterborough, NH, 2003), page 9.

<sup>5</sup> Dr. John Sullivan. HR Metrics (Kennedy Information, Peterborough, NH, 2003), Chapters 2-4

<sup>6</sup> Dr. John Sullivan. HR Metrics (Kennedy Information, Peterborough, NH, 2003), page 2