

TECHNOLOGY TRENDS

TECH IN BLOOM

Start As You Mean To Go On, Part I

Why do we stay focused on the wrong metrics? Total cost of ownership is not enough to help you make the right business decision.

By Naomi Bloom



Naomi Lee Bloom,
Managing Partner, Bloom
& Wallace, may be
reached at 239-454-7305
or naombloom@
mindspring.com.

I love a very old-fashioned, quite British expression, “Start as you mean to go on.” It means you should begin any new enterprise by acting and sounding as if it were already a success. I can remember being told this on my first day of school, and I knew right away that it meant that I was to speak only English (we spoke Yiddish almost exclusively at home) and to remember the very good manners I had been taught. It’s a phrase that captures a lot of common sense and is the homespun version of “Dress for Success.”

We could use a lot more of this common-sense approach when we start the enterprise of more comprehensive HRM BPO by focusing on what’s really important about HRM and the larger organization rather than on what’s easily accomplished by the HRM delivery system (HRMDS) or just by its IT components. Here’s a hint: What’s really important to the larger organization about HRM has very little to do with the cost per transaction of payroll, the errors per 1,000 garnishments, the elapsed time to answer a ringing call-center phone, or the number of performance appraisals that got done on time. These things matter but are not critical to achieving the organization’s goals.

My point is that when making investments or process changes in our HRMDS, we should focus on what’s important in HRM rather than on what’s of interest to the owners and operators of the delivery system. If we’re HR leaders, we’d better not lose sight of the important but challenging goals of our organization among the trivial but accessible metrics of our HRM factory. At the beginning of our quest for cost savings and improved service quality in HRM, before we even contemplate comprehensive HRM BPO, we’d better get our business outcomes yardstick in hand. Long before we had even heard of comprehensive HRM BPO, we were busy managing that most important and easily reported of IT metrics, total cost of ownership (TCO), rather than business outcomes.

TCO is used by both software vendors and their IT customers, as well as internally at many BPO providers to consider the costs associated with acquiring and deploying the functionality of a packaged or custom software application, including the direct costs of:

- Software development, acquisition, subscription, maintenance, and upgrades;

- Software implementation and ongoing support;
- Software operations, with allocated costs of aggregate operations, e.g., servers, data storage, networks, facilities, backup, and recovery capabilities, etc.; and
- All other costs associated with implementing and operating a collection of software functionality over some agreed period of time.

In my view, far too much emphasis has been placed on this metric by the vendors, custom developers, and IT organizations, given that it doesn’t indicate how or if business outcomes are achieved. And knowing what we get for our IT money is much more important to the overall enterprise than some second-order savings on the consolidation of blade servers. Perhaps we should even be spending more on IT to achieve those outcomes. Enter the total cost of service delivery (TCSD).

TCSD is a far more useful metric because it adds to the data center operations and software-focused total cost of ownership the additional costs of people and process costs needed to deliver to end-users specific HRM services. This metric becomes particularly important in the BPO or shared-services business because service delivery cost—at least for in-scope services—is the responsibility of the BPO provider (or shared-services leader) and has a huge impact on financial success or failure. Using TCSD also provides more guidance to the business case for further automation, as well as for labor and facilities arbitrage.

Where service delivery is very heavily automated (think Amazon.com or Google) and almost entirely self-service, the total cost of service delivery does approach the IT total cost of ownership, but we still aren’t seeing a measure of what we’re getting for the money. All we’re seeing here is the true cost of delivering specific HRM services—which, while important, tells you little about the business impacts of those services.

TCSD is a very useful metric, if I’m the BPO provider—but it does little to help HR customers make wise design choices in HRM programs, policies, and practices, or to align those choices with the critical business needs of the organization. Using measures that show us what we’re getting for our investment in the HRMDS, whether via BPO or shared services, is the subject of next month’s column. **HRO**