

## Auditing is Up to You!



As the service world in HR outsourcing has continued to globalize, service providers have continued to refine their profiles through

alliances and subcontracting. This is, in part, a function of local service scale. The appeal of subcontracting is also driven by margin pressure.

Extensive subcontracting and alliances impose a heightened burden on the client company to audit and understand the source, character and depth of subcontractors' services. The

fact that the overall service level is the responsibility of the primary provider does not remove the burden on the client to verify and validate the nature of the subcontractor resources.

A client in a new outsourcing relationship needs quality service. The fact that the provider may owe contractual penalties and remedies for poor service is of interest to the chief financial officer and the general counsel, but HR executives need service—not penalties—to do their jobs. Damage payments do not result in good bonuses or even continued employment. Poor service costs jobs and ruins careers. That's why the HR executive has to be fully aware of just how the services in the HRO relationship are being supplied.

This burden of fully understanding the provider's full service-delivery model starts with the provider's first presentation in the request-for-proposal process. The client needs to conduct a true due-diligence investigation of all major subcontractors, similar to what the client is doing with respect to the primary provider. After service begins, the client company should plan to audit and verify subcontractors' service stability every year (or more often if warranted by service problems). This need imposes a substantial governance, business continuity and service-audit burden on the client company.

When assessing a major subcontractor, it's critical that the client "kick the tires" at all of its major service centers. Thus, if IBM is using Mercer for benefits processing, the client should plan to inspect both the Manila, Philippines, service center of IBM and the Norwood, Mass., service center of Mercer. The client needs to carefully examine the interfaces and handoffs between the two providers and understand what each is responsible for. This can only be done thoroughly by on-site inspections, and the client needs to dedicate the necessary time and resources to do them carefully. Too often, we see such trips become watered down "drive-bys," which do not allow the client to get a serious feeling for present and potential service capacity.

The need to keep inspecting and auditing service capacity of subcontractors is critical in each year of service in the basic contract. The client's full array of experts in HR, IT, technology support, procurement and law should all be deployed in this effort.

When a provider tells you not to worry about subcontractors and offers you its "throat to choke," take the offer. But first verify the other providers' conditions so no throats *need* to be choked.

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