

Lessons from Toy Industry Debacle



Hundreds of thousands of children in the United States will be deprived of their Christmas toys this year. Mattel, Hasbro, KB and other

toy suppliers have recalled millions of fire engines, dolls, accessories, tops, model airplanes and other favorites—all because of the presence of lead paint used in decorating the toys. And what has this to do with HR outsourcing? Let's step back for a moment and look at outsourcing in the manufacturing industry.

Millions of articles once manufactured here are now made abroad, often in lower-wage, less-developed countries. And data from the Department of Commerce and The Conference Board tells us that most of the shift to overseas manufacturing has been done through contract manufacturing, rather than U.S. companies setting up their own manufacturing plants abroad. With contract manufacturing, U.S. buyers have less control, fewer inspection and audit rights, and less knowledge of the end product. This problem is compounded when a U.S. seller/distributor assembles components in the United States that have been manufactured from multiple sources overseas.

The impact of lead paint, solvent compounds in children's cough syrup, easily detachable small pieces of toys that can be swallowed—and other unsafe or fake components—is rapidly taking a toll on the profits and sustainability of many large multinationals. There is a powerful lesson from these examples to be learned by the HR outsourcing community.

We must ensure that our employees, dependents, retirees and beneficiaries are treated correctly and that their data is safe. We should not wait for a major "lead paint" problem to occur before considering how we're servicing our HR stakeholders. Instead, we should mobilize our experts in HRIT data recovery and security, our process experts, knowledgeable people in overseas operations and standards, and experts in service-center operations to audit, test and secure our data and our services.

This is not a call for economic nationalism. Rather, we have ethical, legal and contractual responsibilities to our HR customers to ensure that their data is secure and that they are being served with integrity and professionalism. Service providers should not resist or be hostile to our verification of services and standards. In the United States and western Europe, we are subject to a wide variety of legal statutes, regulations and customs concerning data privacy and personal employee information, and we need to start ensuring right now that the services we are buying through outsourcing are what we contracted for when we signed the services agreement.

Multiple task forces are mobilizing right now to get Johnnie's toy fire engine back. We need to mobilize rapidly in our HR service community, and the time to start assembling the audit and service validation team is now. Service providers will understand and ultimately welcome this effort, and none of us wants our names to be splashed across the front page of the *Wall Street Journal* because of a major security or service breach. Now is the time to act to ensure that such problems do not arise.

Lowell Williams, executive director of HR Advisory Services for EquaTerra, a BPO consulting firm in Houston, can be e-mailed at lowellwilliams@equaterra.com.