

## Don't Cut On Governance



Fresh flowers are gone from the lobby, internal meetings go without coffee and notices are up in the break room asking

people to use cups multiple times rather than just once.

In short, the signs of contraction are everywhere and have migrated from the executive lunch room to the office cube and the shop floor.

These particular signs are being seen by the lucky people who are still there to read them rather than in a state office applying for unemployment benefits.

HR professionals are in the front lines of cost cutting, and they have to be seen as doing their share by tightening up their own spend and their own staff.

There are some areas where they can make sacrifices and other areas where it is not prudent to do so—even in the short term.

The team that is managing a significant amount of outsourced services exemplifies one of the areas

in which significant cuts in number or experience levels of staff can be very unwise, and the dangers in cutting the project management or governance team are readily apparent.

Providers are under the same cost and margin pressures as their clients. Many clients operate businesses in which labor costs are a truly significant part of overall costs.

HRO providers are even more sensitive to labor costs because up to 70 percent of their total costs are for labor. Providers must control labor costs carefully, and many providers are slowly and carefully trimming dedicated full-time employees in this climate.

As they thin out delivery staff, many providers are very carefully managing a quiet deterioration of service levels, allowing them to rise to the maximum allowed by the services agreement without attracting a penalty.

The only group that can police this for clients is the governance group, so making significant cuts in that group is very unwise.

The governance team in a client company may be overseeing multiple relationships from 401(k) services

through full HRO. The team is usually small and often consists of fewer than 10 people.

They oversee invoicing, strategic evolution, service levels, change orders and development of services for total annual expenditures of millions of dollars of services for the client company.

In this respect, the team is managing a small business, and we need to preserve its members' abilities to direct and correct that business.

Cutting these services to the bone creates a direct and serious threat to managing the total outsourced business and is, frankly, very short-sighted.

Yes, they can cut the fresh flowers and the gourmet coffee, but prudent HR executives will not let the collected governance group be shredded because that is the best contribution many executives can make to effective cost control in HR in the near term.

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