HP business controls solutions
Reducing operational risks while gaining the benefits of outsourcing
“There are signs that outsourcing and offshoring is being applied to business areas higher up the ‘value chain’.....while this may be positive for firms, it can also give rise to a number of risks. These include the ability of outsourcers to control the companies performing the outsourced functions and increased operational risks such as breakdown in accessibility and loss of data.”

Financial Risk Outlook 2005, Financial Services Authority, UK
The practice of business-process outsourcing (BPO) is gaining favor with corporations across the world as they search for new levers of value creation. As BPO gains momentum, these corporations are exposed to business risks in the three primary areas of:

- **Operational risks**—these include risks to business operations associated with operational disruption due to external disasters (e.g., earthquake, wars) or internal process breakdowns (e.g., data integrity issues, labor strike, fire)
- **Brand risks**—these include risks to the company’s brand and reputation due to non-compliance (e.g., accounting lapses, privacy breach, information leak)
- **Financial risks**—these include risks to financial performance due to profitability losses (e.g., customer defections, revenue leakage, fraud impact)

The standard approach to BPO contracts—outsourcing to an off-shore service provider, operating under a different regulatory regime, under a long-term contract period ranging from five to 10 years—carries with it a strong need for appropriate business controls.

Weakness in third-party internal controls and loss of intellectual property were identified as top concerns for CFOs’ around BPO.

To manage these risks and gain access to the benefits of outsourcing (including greater focus on core activities, flexibility in size of operations, lower costs, higher productivity, and better service levels), companies must critically evaluate service providers’ specific capabilities to manage existing and potential risks. These include the ability to reduce the cost of processing, to deliver or exceed service levels, to manage current and potential risks, and to support flexibility in business configurations (see Figure 1).

1 “Offshoring by the numbers.” CFO Magazine, June 2004
HP's approach to business controls

HP's approach to business controls draws upon the many risk assessment, reporting, and management frameworks available for use in developing a comprehensive approach to risk management (see Figure 2).

Compliance

Most public companies require generally accepted U.S. accounting principles (GAAP)-related compliance in their accounting operations. The Sarbanes-Oxley Act (SOX) of 2002 extends company management’s responsibilities for process compliance even to outsourced operations. Similarly, Basel II will require banks to institute operational risk-measurement and risk-reporting techniques by the end of 2006, including their outsourced operations.

HP has identified a core team of qualified chartered accountants within its BPO group who can support such compliance-related requirements. The team would work jointly with the client to help ensure that compliance-related controls are instituted, all the way from process transition to steady-state operations:

- **Transition controls** (for example, process documentation, ownership definition, knowledge transfer procedure, GAAP compliance, company policy compliance)
- **Operations controls** (for example, Segregation of Duties, transaction audit trails, service-level-agreement [SLA] metric tracking)
- **Steady-state controls** (for example, SAS70 reporting, self-audits, forensic audits, account reconciliation, privacy impact assessment)

As part of compliance with internal policies, HP also has the expertise to support recovery audits relating to over-payments or under-recovery, as per contractual requirements.

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2 Some common approaches include FRAP (facilitated risk-assessment process), CREAMM (CCIA risk-analysis and management method), DRAM (Delphi risk-assessment method), and COBIT (control objectives for information-related technology).

3 In June 2004, the Basel Committee on Banking Supervision issued the final draft of a framework for measuring capital adequacy and minimum standards of supervision for the banking sector. The framework, organized under three pillars, was accepted by the Group of Ten countries for mandatory implementation by the end of 2006. This revises the earlier (1998) accord, imposing stricter guidelines concerning business-metrics monitoring and reporting.
Data privacy and information security

Various countries have identified their own standards for data privacy and information access. HP’s approach to data privacy is driven by the need to manage business effectively—without compromising on these various legal requirements, and with minimum intrusiveness.

Information policies have been defined for collection, storage, usage, and sharing of all personal, sensitive, and business-confidential client data. There are separate HP teams for reporting and data-integrity checking, as well as for oversight and enforcement (including procedure audits and customer complaint reviews).

Information security management at HP encompasses physical security (for example, card access and video surveillance) at the Global Business Centers; network security (such as compartmentalized network, encrypted flows, and vulnerability scans) at the HP backbone level; and system and data security (including password quality review and secure patch management, authorization, and logging) at the HP data-center level.

Transparency

Client managers—and their business stakeholders—increasingly demand greater transparency regarding outsourced activities and the ability to control business-process operations and exceptions.

HP’s BPO operations use multiple tools—both standard and proprietary—to monitor and report operations including Web-based access, prioritization controls, work delegation/balancing, and online status tracking, to name a few.

To improve client process efficiency, HP has further invested in transparency-related initiatives such as support of user-defined performance metrics, intelligent metric reports, SLA violation prediction, scenario analyses, and resource optimization.

Continuity

Service availability and business continuity are an important part of all service-level requirements having to do with outsourcing.

At HP, business-continuity efforts for BPO are managed by a global team that includes business-continuity planning (BCP) and risk-management professionals as well as process and facility heads. This team defines and works on the business-continuity plan according to the client’s requirements.

The team’s business-continuity efforts cover data, network, and application outage at the country, city, or site level, using a 7-step approach that includes pre-incident risk planning and mitigation as well as post-incident mobilization response and recovery—along with feedback action to drive process improvements.

The HP advantage

HP’s comprehensive approach to business controls (including compliance, privacy and security, transparency, and continuity) enables us to drive operational excellence through appropriate client feedback and process re-engineering based on controls. This allows us not only to support our clients’ current requirements, but also to prepare for future requirements, whether internally driven (for example, compliance cost reduction and revenue leakage savings) or externally enforced (for example, regulatory restrictions on data transfer).
Investments in business controls for HP’s BPO clients

HP’s focus on business controls goes beyond frameworks and plans, with specific investments being made as part of our BPO capabilities in people, processes, systems, and infrastructure.

HP has a designated team trained and certified in country-specific audit and tax requirements, ISO/BS security standards, and Six Sigma initiatives to drive process-control–related improvements. BPO operations staff is also trained in self-assessment audits as part of service delivery.

HP has a well-defined program in place to continuously monitor operations and to escalate and act upon any control violations. This includes specific tools for automated reconciliation and audit, dashboard reporting of key metrics, workflow interface monitoring, and self-assessment checklists.

HP’s global delivery infrastructure allows the flexibility of a front-end back-end BPO model, with multiple sites for support. The site facilities are designed to support physical and virtual segregation of the client support space, with defined access controls. For business-continuity purposes, these sites are connected to each other through the global network with defined migration plans. All the delivery sites have been certified under ISO 9001 with Six Sigma initiatives in place, and all are in the process of getting information security–related certification (ISO 17999 and BS 7799).

Additionally, HP is open to client-specific business-control requirements.

Case study: business controls for HP’s outsourced operations

HP has outsourced a number of business processes from the controllership (finance) function as well as various business functions (sales, marketing, and human resources) to the various HP Global Business Centers.

HP has invested in a customized tool for accounts reconciliation tracking and reporting (ARTT) and has enabled Web-based access with differential access rights. The pilot deployment of the “Control Tower” initiative for the process is designed to result in greater client transparency and control. This transparency has helped to reduce the time to escalation and resolution of control-related issues.

In addition, a separate HP team tracks ongoing performance and key SLA-related metrics. The Global Business Centers also support SOX compliance, covering more than 812 audits for HP entities worldwide. The team provides input on process design concerning segregation of duties and fraud prevention.
Case study: Business controls for the outsourced operation of a Fortune 500 client

Increasingly, Fortune 500 companies are choosing to outsource some of their finance and accounting processes to HP because of our strong capabilities and controls.

For many of these companies, HP has defined a designated physical space—with controlled access and a virtually separated network—for business-process outsourcing (BPO) support. Transaction data is accessed and processed through secure connections into the company's data centers, so the client can retain data within its own network and still be able to monitor system usage directly.

The HP Global Business Centers also support a client’s self-audits for Sarbanes-Oxley (SOX) compliance and service-level agreement (SLA) adherence. The HP team provides ongoing suggestions on business-control improvements, based on process-quality techniques.

Business controls at the core of HP’s value proposition

Business controls and risk management are key to our overall proposition for BPO—using technological and process innovation to offer the best customer experience on a cost-effective platform (see Figure 3).

We understand the business-critical nature of some of the processes that our clients have entrusted to us, and we have appropriately developed stringent business-control policies.

Our business-processing experience, our global delivery infrastructure, and our background as a core technology company enable us to manage the compliance efforts of numerous clients across multiple process areas.

Our approach to business-process transition involves inputs from quality, process, IT, and BCP experts—right from the transition stage.

This includes an initial feasibility assessment and tracking associated with specific business-control-related investments, followed by regular audits if required.

For more information

For more information about HP business controls solutions, please visit www.hp.com/hps/process/ or send an e-mail message to our sales principal Steve Stubitz (steve.stubitz@hp.com) for the Americas region or Les Mara (les.mara@hp.com) for the EMEA region.