

Payroll Outsourcing Gains Momentum in Russia

By [Andreas Romanos](#)

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Andreas Romanos

General Director, Russia and CIS
Intercomp Global Services

Payroll outsourcing is a global solution, one of the first measures to be proposed when internal processes undergo review and optimization. The business model sprang to life about 80 years ago in the United States and is now widely applied around the world. Recent research indicates that 70 percent of U.S. and European companies have outsourced their payrolls, although in Russia the outsourced payroll market is relatively young, dating back to the mid-1990s.

This means that the outsourced payroll market in Russia has been around for 15 years, which could be considered to be reasonably advanced. However, according to the first survey of this sector, by the Russian rating agency Expert in December 2010, outsourcing as a payroll solution remains relatively small (worth some \$20 million a year) though growing by some 15 percent per year. While payroll services are provided by major finance and accounting groups outside the scope of their core businesses, there are very few specialized outsourcing companies operating on a larger scale. It was foreign-led providers like Intercomp Global Services who pioneered payroll outsourcing, along with other types of business process outsourcing in Russia.

Russia's main users of payroll outsourcing are all types of international companies and large Russian companies. It is mostly, but far from exclusively, used by industrial and production companies with 300 to 500 employees and by IT companies, banks, financial institutions and retailers. International companies operating in Russia usually follow their global corporate HR strategy to outsource payroll throughout all their branches worldwide. There is no reason for Russia to be an exception — perhaps, even, on the contrary, Russia would be the ideal market for payroll outsourcing in view of the complexities of compliance with Russian legislation and its accompanying bureaucracy and paperwork. Organizationally and economically, the best option for these companies is to use payroll outsourcing services provided by a single provider.

To date, payroll outsourcing has not been widely adopted by local Russian companies where there has always been a preference to running all processes in-house — perhaps reflecting a historical tendency toward pyramidal structures with which the concept of farming out critical support functions beyond the scope of direct control does not sit comfortably. However, the penetration of international best practices combined with the growing need to optimize internal processes and efficiencies has prompted Russian companies to start using payroll outsourcing to achieve their business goals. The advantages of outsourcing are becoming better understood and are being increasingly adopted.

Although cost remains the key driver toward payroll outsourcing in Russia, the benefits are more varied and far-reaching:

- Firstly, a specialized outsourcing provider benefits from economies of scale when performing similar operations for multiple clients; in other words, the solution can save clients money by eliminating costs associated with extra employees and with the acquisition and maintenance of hardware and specialized software. This applies when comparing outsourcing both to stand-alone, in-house departments and to the considerable investments required in establishing corporate shared support centers.
- Further crucial advantages include payroll quality, compliance with legislation and improved reliability, as the work is done by dedicated experts who are backed by long-established processes that are frequently updated, as well as regular training on process and legislation.
- Providers can ensure human resource optimization: With several clients per accountant, a full workload is ensured.
- Mitigation of risk and expense connected to human factors such as sick leave, vacations, staff turnover/replacement/retraining, unauthorized absences, lack of loyalty from in-house accountants, etc. With strict contractual obligations in place, providers guarantee the timeliness and quality of performance and are financially liable for failure.
- Finally, freedom from the concerns listed above allows clients to focus on core activities and devote more attention and resources to strategic initiatives.

Clearly, payroll outsourcing is gaining popularity in Russia. Growth in domestic outsourcing will not only extend the adoption of payroll services, but, more critically for our clients, it will enhance the quality and scope of service that outsourcers will provide in the future.

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