

# Finance, HR Functions Transformation – Outsourcing Perspective

By [Elena Rybkina](#)

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**Elena Rybkina**

Marketing Director

Intercomp Global Services Russia & CIS

The Russian market for finance and accounting and HR outsourcing services has both matured and slowed in 2010, with fewer deals struck than in previous years. According to recent research done by the Expert RA rating agency, reasons for the decline are numerous, with weakened post-crisis economic conditions chief among them.

The pace of business over the past months has led buyers to be slow to act, but there are signs that the pace is picking up especially with domestic companies.

This study conducted by Expert RA focuses exclusively on finance and accounting and HR outsourcing, including such areas as payroll, accounting, reporting and HR administration. It shows that the Russian outsourcing market is differentiated by the type and scale of service providers that range from specialized professional outsourcing companies to diversified audit and consulting groups down to small accounting firms. Seventy-five companies were analyzed as part of the survey, with their total annual revenue constituting 3.8 billion rubles (\$137 million) in 2010, compared with 3.2 billion rubles in 2009.

Expert RA defined the top six service providers that taken together contribute to 50 percent of the market in terms of revenue. The first on the list is Intercomp Global Services with its market share of 21 percent. Despite market leaders demonstrating slow growth year on year, all predict that the market will continue to expand, especially given the fact that overall companies' readiness to transform their finance models rise every year.

Today cost saving remains the key criterion for organizations in the process of making a decision to move to outsourcing. However, companies start to recognize that it is possible for outsourcing to go beyond transactional and operational work to achieve new productivity

gains and new revenue streams by implementing new practices through unique, creative methods of implementing standardization and automation, driving continuous improvement and assuring better performance.

In order to make the right outsourcing decision, the organization must be clear about the objectives of its transformation strategy. Pooling skills into silos for greater standardization, automation and control makes sense. Yet, though the benefits derived from such a practice have begun to shift from labor arbitrage and cost-cutting to top-line augmentation, what can be outsourced has not changed all that much.

The basic rule of thumb is: If tasks can be documented to an 80-20 level or higher, if they can be repetitive, and if they can be learned in no more than six weeks given a certain skill level then they can be sourced. Thus, this model of delivery can be applied to transactional activities, not to value-added activities, decision making or strategy and policy. What is important to note is that in most organizations, such transactional activities account for 80 percent of the head count.

More and more companies in Russia are starting to realize that there is nothing wrong with the principle of moving non-core transactional processes to a third-party provider. The outsourcing model no longer offers a distinct strategic advantage — it is a tactical necessity. Only a few years have passed since the time when outsourcing services were considered a mythical entity in Russia. Today they are becoming a mundane component of businesses widely adopted not only by foreign companies operating on this market, but by domestic organizations who realize anticipated (and unanticipated) benefits from outsourcing.

The study of Expert RA shows that outsourcing service providers are well positioned today through current capabilities to gain market share over the next few years by pro-actively coming up with process improvements and best practices. In their turn, Russian companies are becoming more mature and ready to evolve into rapidly changing and flexible organizations applying new tools, points of view, rules and regulations. Outsourcing today is a key enabler of change that plays an important role in the success of any business.

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