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IN-HOUSE OR OUTSOURCED?

Payroll Outsourcing Services have recently become popular to many organisations but a common concern is whether they are cost effective compared with employing an individual to perform payroll management tasks.

For a clearer view of the cost effectiveness of employing internal payroll staff or using outsourcing payroll services, let's look at the following analysis, based on a company with around 200 employees and assuming it will recruit one payroll specialist on a gross salary of \$1,000 per month (\$12,000 annually).

	Unit: USD
Cost category	Annual Cost (\$)
1. Personnel Costs	17,920
- Employee base salary (12 months)	12,000
- Social Insurance, Health Insurance, Unemployment Insurance (21% of base salary)	2,520
- 13 th month salary	1,000
- Bonus, health & accident insurance, vacation expenses, special annual events such as birthdays, Women's Day , year-end ... (15% of salary)	1,800
- Training (5% of salary)	600
2. Office Administrative Costs	2,853
- Office rental (\$25 per sq m x 6 sq m)	1,800
- Electricity, water, telephone, stationery, parking ...	720
- Computers & licensed software (\$1000 at estimated 3-year depreciation)	333
3. Administrative Costs for Payroll	770
- Printing expense (payroll, pay-slips, related reports)	200
- Travel expenses for submitting reports (Bank, Tax, Insurance, Department of Labour ...)	570
4. Management Costs	3,500
- Checking and managing the performance of the payroll specialist (10% of a manager's costs)	3,500
A. Total (1+2+3+4)	25,043
B. Budget for annual review of personnel cost (revising compensation & benefit scheme for staff retention - 8% of the personnel cost)	1,433



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Apart from above expenses, additional costs of about \$2,000 per year are incurred where a Human Resources System is in place. This expense is for depreciation, maintenance, and updates to the system from legal changes.

According to above analysis, an organisation may cost from **2** to **2.3** times the annual base salary of a payroll specialist for payroll and related works (\$25,043 vs \$12,000). These expenses are trending upwards every year due to annual revisions of the personnel costs.

In addition to the above tangible costs, the organisation also faces major intangible risk costs, such as:

1. Fines imposed by the government due to non-compliance because employees are not sufficiently aware or up-to-date on changes in regulations regarding personal income tax, social insurance, or the Labor Law.
2. Any resignation or sudden absence of the employee in charge of payroll leading to the salary payment delays that violate the organisation's commitment to employees and affect its reputation.
3. Missing information or data resulting from inadequate storage system at an organisation or an incomplete or improper handover when person in charge is replaced.
4. Data security, which is a critical issue for organisations. Such issue may arise when payroll information is printed on shared printers or saved in shared folders, or if the payroll specialist shares confidential information upon leaving the organisation.
5. Data storage systems that are not equipped with the data backup systems, which may result in data being lost when an incident occurs with the server.

The above information is for reference only for organisations in analysing whether to engage a payroll specialist or use payroll outsourcing services. Such a decision will also depend on other factors, such as company strategy, business status (a new arrival or a well-established organisation), and the status of its internal resources.

HR Consulting Corner is monthly composed in a Question & Answer format by HR consultants of Talentnet Payroll & HR Outsourcing Services. Our purpose is to support readers & enterprises to understand more about HR trend in Vietnam and update the new labour changes for prompt application.

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