



HR2B

**The 10 Things You Must
Know Before You Buy
Payroll Outsourcing
Services in Vietnam**

**Free Report
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“The 10 Things You Must Know Before You Buy Payroll Outsourcing Services in Vietnam”

HR2B has given advice to hundreds of companies about outsourcing payroll. The aim of this report is to give you a head start in your own decision about payroll outsourcing.

Outsourcing payroll is a relatively new concept in Vietnam. HR2B has been running professional outsourcing services since 2005. Before that time you had three alternatives;

- Use FOSCO / HANECO or some other state run labour supply company;
- Use an accounting firm (like PWC) or computer software company;
- Do your payroll in-house;

When we started the business payroll outsourcing had a bad reputation as being expensive and inaccurate. These days that is not the case. However you still have to be careful about who you trust with this mission critical business process.

When looking for an outsource partner you need to evaluate costs, risks and the service provided. This report will give you some tools with which to make a sound decision.

We hope you find the following 10 points useful. Consider them as a checklist for evaluating your current payroll administration or simply use them to stimulate your thinking.

As always we welcome your feedback. Feel free to email or post onto our blog.

For more information on payroll outsourcing in Vietnam visit our website or call to one of our friendly staff.



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“THE 10 THINGS YOU MUST KNOW BEFORE YOU BUY PAYROLL OUTSOURCING SERVICES IN VIETNAM”

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1. How Much Do You Spend Now?

Payroll administration is a 'mission critical' business process. You really do not want to get it wrong. For those of us in the service sector, pay is one of our biggest single input costs. Well run organizations make sure this process is goes smoothly, but at what cost?

The example below aims to help you calculate the cost of your current payroll administration. This is useful in evaluating a payroll administration proposal. You can request a 'live' version from our staff so you can do this calculation for your own organisation. You may need to speak to your accounting department to get the correct figures. The figures you need to change are marked in yellow.

A 50-100 person company probably has payroll done by a USD300 per month person using a spreadsheet. The cost of doing payroll this way is conservatively estimated to be around USD750 as the analysis below details.



Current Payroll Costs	Units	Cost	Comment
Forex	19,500		USD to VND
Number of staff	1		Full time equivalents
Average Salary	5,000,000	\$ 256.41	VND Gross Salary month
Salary on-costs	30%	\$ 76.92	SI/MI Bonus, 13th month, workers compensation, other insurances
Training	5%	\$ 13.89	% of Gross Salary per year accrued each month
Parking	75,000	\$ 3.85	per month b grade building
Office Space	6		metres squared per person including for common areas and filing (international standard is 12)
Office Cost	\$ 40.00	\$ 240.00	USD per metre squared per month
Office Utilities	\$ 50.00	\$ 50.00	per person per month electricity water telephone stationary
Computer Hardware	1,000	\$ 41.67	USD eg: Desktop depreciate over 24 months
Computer Software	500	\$ 20.83	USD EG: MSOffice Professional 2007 License depreciate over 24 months
Transport	200,000	\$ 10.26	VND monthly taxi fares to and from government departments per person

	Total estimated base costs before benefits
<u>\$ 713.82</u>	

278% % increase over gross salary

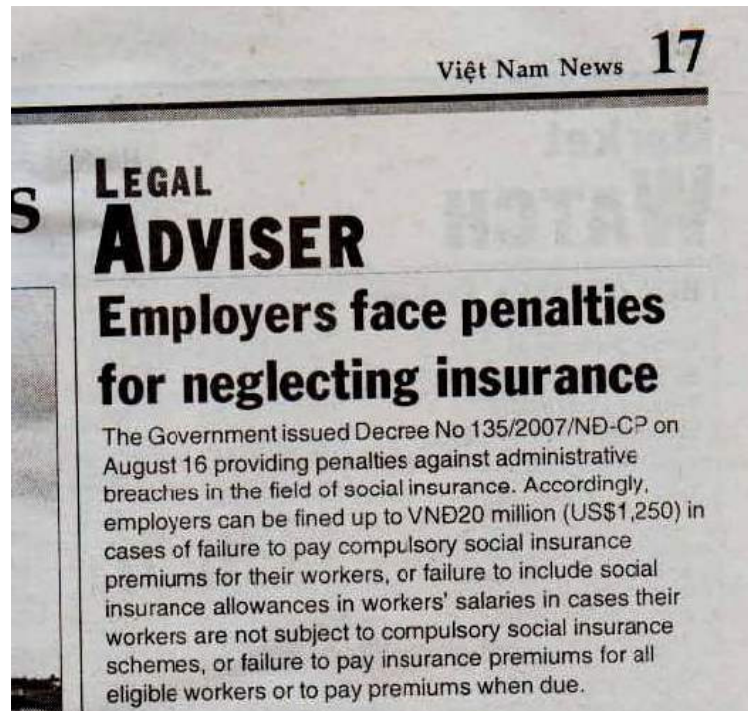
If you do not have time to do the calculations, simply take your payroll staff salaries and multiply by 2.5 times to get an estimate of the actual cost of your payroll administration costs.

2. Non-Compliance – Regulatory Risk;

As Vietnamese government institutions and infrastructure are developing along with the economy. Here is a clipping from a recent news article.

In the past it was possible for organizations to be non-compliant and get away with it. These days that is no longer the case. Now all firms (Vietnamese and foreign) are subject to the same rules.

Compliance monitoring is increasing. Government departments have targets. Misunderstanding the rules is not considered by the authorities when they determine penalties.



3. Non-Compliance - Employer Branding Issues;

Internet penetration is growing at a world record pace. Employees are now fully informed of their rights when it comes to pay and payroll issues. They can also more easily share experiences with your company on various blogs and message boards. In Vietnam right now there is strong competition for the available talent. Paying people correctly and on-time is a key part of building your employer 'brand'.

How much is that worth?



4. Confidentiality - Space;

In the past pay administration in Vietnam was relatively straight forward. People were on similar salaries. With the 'war for talent' many organizations have to pay new hires a larger salary than their already hired peers. This may be 'un-fair' however it is necessary to keep the business going. In this situation the confidentiality of your payroll information becomes an issue. There are three aspects to confidentiality you need to understand, physical, systems and people related.

Physical confidentiality is simply about the physical security of payroll information. Risks include:

- 1) Printing payroll data on a shared printer;
- 2) Leaving payroll data unlocked out of hours;
- 3) Having payroll processing people in a shared office;

5. Confidentiality - Systems

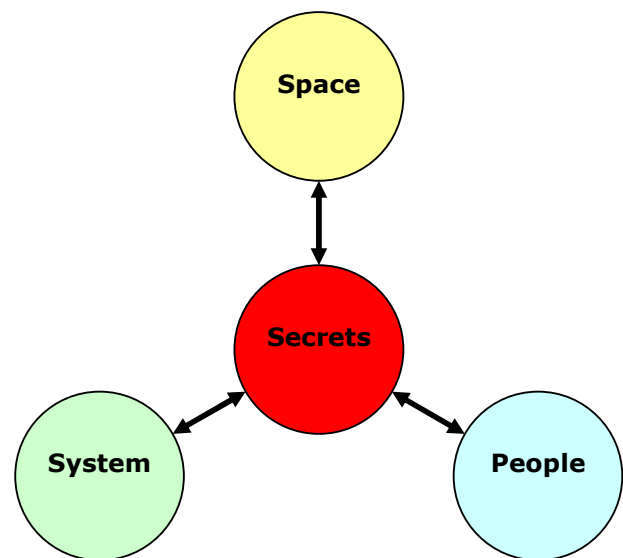
Systems confidentiality refers to your computer system and you system of work. How easy is it for non-authorized people to access your payroll data? Common areas of risk are;

- 1) Keeping salary data on shared drives;
- 2) E-mailing unprotected files;
- 3) Sharing too much detail with accounting function;

6. Confidentiality - People

People confidentiality refers to the behavior of your staff. Common areas of risk include;

- 1) Inexperienced staff mishandling sensitive information;
- 2) Staff trained incorrectly in how to keep information confidential;
- 3) Staff having no motivation to keep confidentiality;



7. Computer Systems Risk;

How confident are you that your current computer system is up to the task of processing your payroll information correctly?

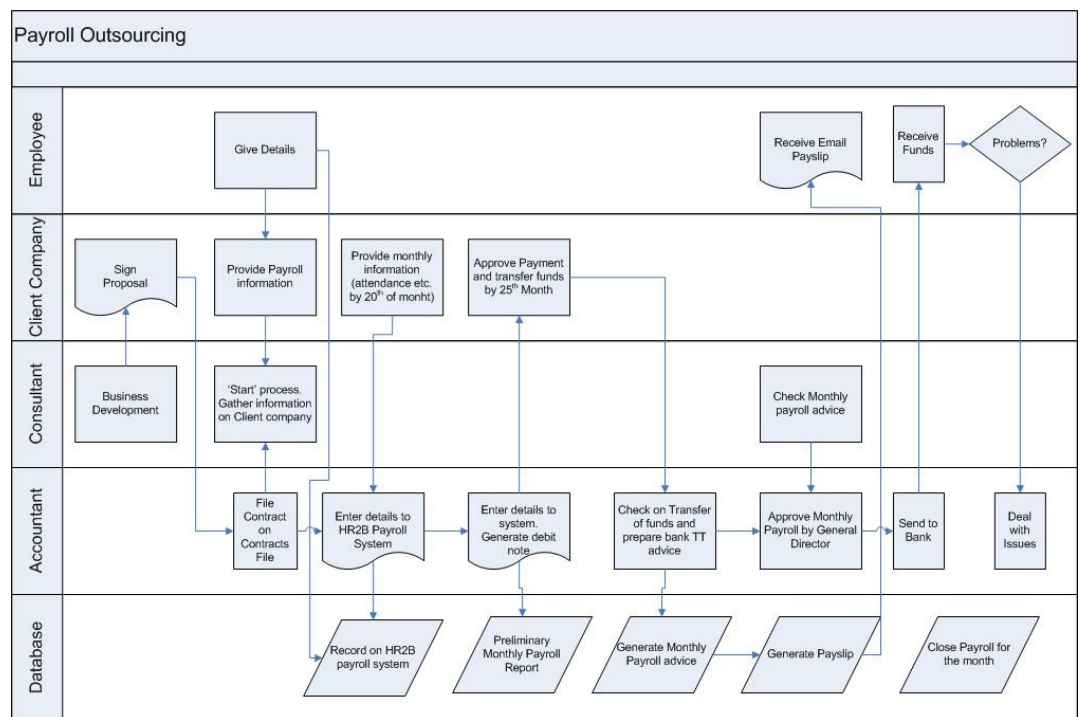
- 1) Do the formulas used to calculate payroll match with the current legislation?
- 2) Is your payroll data backed up and stored offsite?
- 3) Can other people run your payroll system if a key staff member was to leave?



8. Process Risks;

These risks are about how your payroll data is handled. For example;

- 1) Do you have your payroll administration process mapped out so that you can easily identify places errors may occur?
- 2) How clear is your approval process and how good it is at keep individual people's pay details confidential?
- 3) How do you keep up with changes in the payroll administration requirements of the various government authorities and how would you know?



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9. Know what to outsource

As with any business process outsourcing exercise you must know where to draw the line between outsourcing and keeping a process in house. Payroll administration providers are best at providing timely and accurate processing of your data for payment to individuals and the authorities.

Tax and Legal issues: A good payroll processing provider will not knowingly allow you to break the laws of Vietnam, however at the same time you should not rely on your payroll outsource provider for legal or tax advice. In our view you are better served to get detailed legal and tax advice relevant to your industry and your company from your lawyer or tax consultants. A good payroll processing provider will work easily with your lawyers and other advisors to come up with solutions to your particular business situation.

Setting Company Policy: A good payroll processing provider can give you guidance as to the policy decisions of other companies in the industry, however it remains the company's responsibility to set the policy.

Communicating Company Policy : Your payroll outsourcing provider can help you with this, however primary responsibility is with the company.



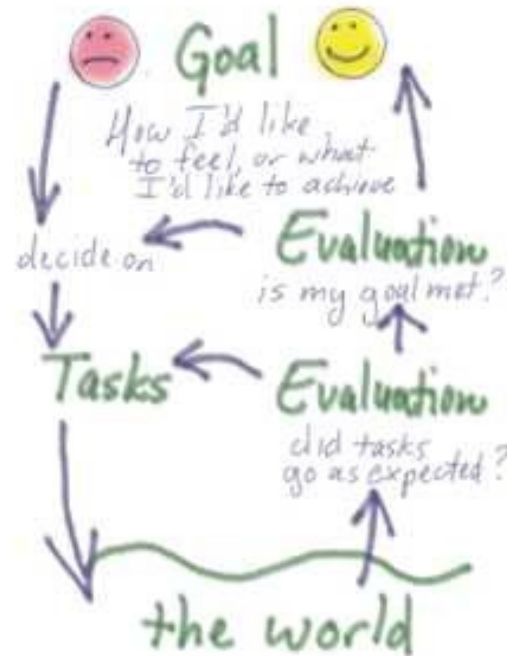
10. *How To Evaluate An Outsource Provider.*

Now you have decided to outsource your payroll administration, what is next? Like every purchasing decision, you need to find some options and compare alternatives. This checklist below should help you gather information and make a sound decision. You can get a softcopy version of this checklist from HR2B.

When seeking quotes from suppliers make sure you give them the same information so that you can compare their quotes. Good companies will offer variable pricing depending on processing complexity to keep your costs down.

Things to include in your payroll outsourcing “request for proposal”

1. Number of Vietnamese staff on your payroll
2. Number of expatriates on your payroll
3. Where your staff are registered (which province should be sufficient)
4. How your payroll is done now (so they can estimate set up costs)
5. What are you plans for the future (so they can offer volume discounts).
6. The number of legal entities in your business (each legal entity will require it's own payroll processing)



Checklist for Payroll Outsourcing Provider

Ensure you have given all providers the same information so that you get quotes you can compare.

Prices will vary depending on processing complexity.

Show the number of staff in each location and in each legal entity within your business

Rating Scale (suggest 1 low and 10 is high)

Weight Scale (suggest distribute 100 points across each category)

Make One sheet per provider and then compare

#	Weight	Topic	Item	Rating	Company B evidence
				Company B	
1	15%	Track Record	Accuracy		
2			Timeliness		
3			Customer Service		
4			Strong Customer list		
5			Good referrals		
6			<i>Total Track Record</i>	0	
7	15%	Computer System	A system not spreadsheets		
8			Web-based to allow remote access		
9			Multi location multi currency		
10			Can create standard reports		
11			Can create custom reports		
12			Follows existing laws		
13			Clear process for update with new laws		
14			<i>Total Computer System</i>	0	
15	15%	Customer Service	Documented processes		
16			Staff trained in customer service		

17			Dedicated account manager		
18			Clear escalation process for problems		
19			<i>Total Customer Service</i>	0	
20	15%	Range of Services	Paying individuals via bank account		
21			Calculating and lodging tax forms		
22			Calculating and processing yearly tax finalization		
23			Calculating and lodging Social Insurance (SI) forms		
24			Administration of SI booklets		
25			Labor office reports		
26			Administration of labor booklets		
27			Service of trade reports (for rep offices)		
28			Tailor service to your business needs		
29			<i>Total Range of Services</i>	0	
30	15%	Compliance	Up to date with latest policy and procedures		
31			People are payroll experts		
32			Process for alerting me of upcoming issues		
33			<i>Total Compliance</i>	0	
34	10%	Cost	Allows volume discounts		
35			Flexible pricing around processing complexity		
36			Allow for price reviews		
37			Good value for services offered		
38			Billing in VND with official receipt		
39			<i>Total Cost</i>	0	
40	5%	Systems Confidentially	24 hour security;		
41			Computer System has Permission system;		
42			Strong password protection;		
43			128 bit SSL encryption		

44			Procedures for communicating confidently		
45			<i>Total System Confidentiality</i>	0	
46	5%	Space Confidentiality	Electronic security access system;		
47			Infra-red camera;		
48			Dedicated lockable office for payroll staff only;		
49			Dedicated lockable filing for paper documents;		
50			Computer located in secure data centre;		
51			No access by non-authorized people		
52			Raid5 or equivalent data backup system;		
53			Data stored offsite secure location.		
54			<i>Total Space Confidentiality</i>	0	
55	5%	People confidentiality	Staff trained in confidentiality		
56			Staff experienced in handling payroll data		
57			Staff motivated to follow confidentiality guidelines		
58			Computerized processing (not spreadsheet)		
			<i>Total People Confidentiality</i>	0	
<u>100%</u>			Total Rating	<u>0</u>	