



Gartner for HR Leaders

Prioritizing HR Cost Optimization Initiatives

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Summary

Cost optimization remains high on the priority list for CHROs. To effectively seize HR cost optimization opportunities without compromising business value, CHROs need to evaluate and prioritize potential opportunities by considering various criteria instead of solely focusing on expected savings.

Key challenges

- HR cost optimization is still among CHROs' priorities as they are under increasing pressure to drive business value while saving costs.
- HR cost optimization initiatives are often evaluated only on their potential to realize savings, leading to unforeseen negative business impacts and leaving key trade-offs uncovered.
- Reasons for the failure of HR cost optimization often lie outside of HR within the wider organization, as initiatives lack business leader and CFO buy-in.

Introduction

When seeking to reduce HR costs, CHROs tend to prioritize HR cost optimization ideas by solely examining potential financial savings. The financial benefit is certainly a key consideration, but other criteria, such as the impact on the employee experience and required time, need to be taken into account during the decision process.

The decision process should never solely lie within the HR function, but should include relevant stakeholders from the business and the finance function to ensure agreement on the initiatives pursued. A graphical representation of a prioritization matrix helps decision makers to identify related risks and interdependencies and derive strategies to minimize these risks while maximizing outcomes.

Analysis

Evaluate initiatives by following a systematic approach

As the demand for HR to deliver high-value services increases in tandem with the need to improve productivity and reduce costs, cost optimization remains high on the list of priorities for CHROs. Thus, many CHROs regularly conduct HR cost optimization initiatives to mitigate inefficiencies while unlocking opportunities for more business value.

But as the cost optimization challenge continues, the question remains: How can CHROs evaluate and compare the investments, benefits and viability of potential cost optimization initiatives in a comprehensive manner? Optimization efforts can fail to yield their full potential when they are not evaluated based on a systematic approach that weighs several criteria.

Yet following a systematic approach to identify an organization's best opportunities for HR cost optimization is difficult. Due to the growing pressure to reduce budgets and improve productivity, HR leaders often face ad hoc cost-cutting requests with a high sense of urgency. In such times, decision making is often clouded by stress and confusion. Thus, HR leaders tend to evaluate and prioritize HR cost optimization ideas solely on their potential to save costs, neglecting a comprehensive evaluation and view of the various other criteria impacting optimization, as well as the long-term consequences proposed cost savings may have.

Potential cost savings are certainly a key consideration; however, HR leaders should broaden their cost optimization horizon and consider other criteria such as the impact of their activities on the business, time until implementation or risk for the HR service delivery. In fact, using potential cost savings as the only decision criterion results in a prioritized list of initiatives that could yield significant savings, but it could also be risky as the long-term impact on the business as well as the dependencies between different cost optimization initiatives may be overlooked.

Gartner has created a systematic decision framework and an operational Toolkit to help prioritize HR cost optimization initiatives.

This framework considers not only cost savings and productivity gains, but instead adds eight key criteria to the analysis that shed light on strategic relevance, cost savings and productivity gains, business impact, impact on employee experience, required investment, required implementation time, HR service delivery risk and stakeholder buy-in (see Figure 1).

Figure 1. Gartner’s Decision Criteria for Prioritizing HR Cost Optimization Initiatives

Benefit and impact			
Strategic relevance	Low The initiative does not align with or is not critical for achieving strategic HR/organizational objectives.	Moderate The initiative somewhat aligns with and is critical for achieving strategic HR/organizational objectives.	High The initiative aligns with and is significantly critical for achieving strategic HR/organizational objectives.
Cost savings and productivity gains	Small The initiative minimally generates savings or improves HR/organizational productivity.	Medium The initiative moderately generates savings or improves HR/organizational productivity.	Large The initiative significantly generates savings or improves HR/organizational productivity.
Business impact	Negative The initiative will have an adverse impact on the business.	None The initiative will neither have a positive nor negative impact on the business.	Positive The initiative will have a positive impact on the business.
Impact on employee experience	Negative The initiative will have an adverse impact on the employee experience.	None The initiative will neither have a positive nor negative impact on the employee experience.	Positive The initiative will have a positive impact on the employee experience.
Investment, time and risk			
Investment requirement	High The initiative requires a large, upfront investment before savings can be realized.	Moderate The initiative requires a moderate, upfront investment before savings can be realized.	Low/none The initiative requires little to no upfront investment before savings can be realized.
Time requirement	Long-term Savings may be realized either within a year or not at all upon full implementation.	Intermediate-term Expect savings can be realized within months of full implementation.	Short-term Expect savings can be realized within weeks of full implementation.
HR service delivery risk	High The initiative will have an adverse impact on the HR function’s service delivery.	Moderate The initiative will neither have a positive nor negative impact on the HR function’s service delivery.	Low/none The initiative will have a positive impact on the HR function’s service delivery.
Stakeholder buy-in	Low/none The initiative is initiated top down by board with no business or HR involvement.	Moderate The initiative is initiated by HR with limited business involvement.	High HR-initiated, sponsored by board and strong involvement of the business to define the initiative.

This figure provides the first step to surface and clarify cost optimization opportunities based on the benefits and impact versus the investment, time and risk.

Conclusion

CHROs seeking to identify the right HR cost optimization initiatives should:

- Evaluate initiatives by following a systematic approach that considers eight criteria: strategic relevance, cost savings and productivity gains, business impact, impact on employee experience, investment requirement, time requirement, HR service delivery risk and stakeholder buy-in.
- Uncover strategic and organizational trade-offs by mapping HR cost optimization initiatives by considering the risks and level of effort required.

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