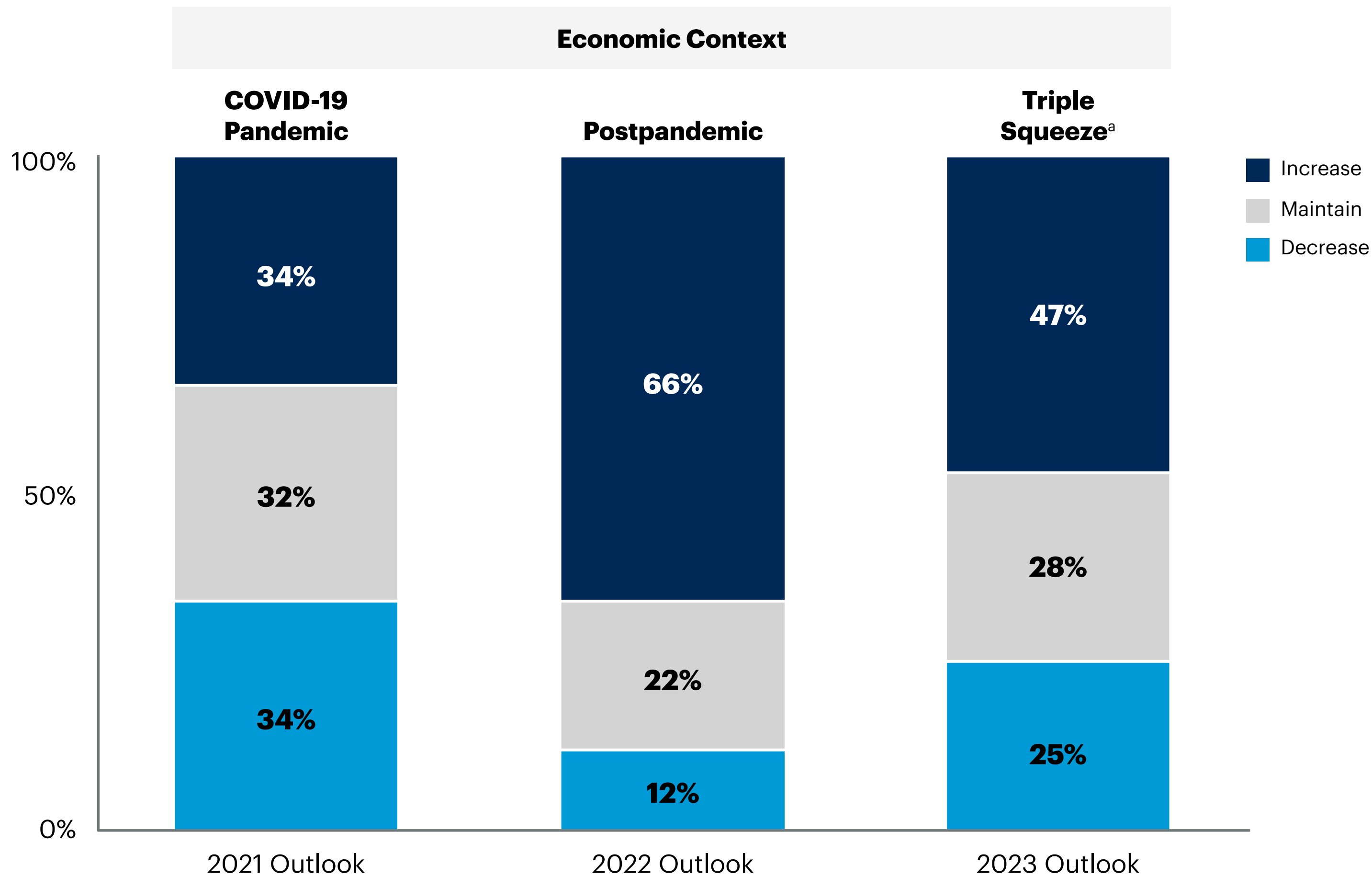

# How to Balance HR Cost Savings and Talent Investments in 2023

by Seyda Berger-Böcker, Hanne Nieberg and Jonah Shepp

Economic uncertainty is putting pressure on HR budgets in 2023, but businesses are still focused on growth. CHROs can use these benchmarks to see where their peers are finding opportunities to reduce costs by increasing efficiency, while preserving critical talent investments.

**Figure 1: HR Budget Outlook 2021-2023**
Percentage of HR Leaders




n = 204 HR Leaders (2020) n = 139 HR Leaders (2021) n = 154 HR Leaders (2022/2023)

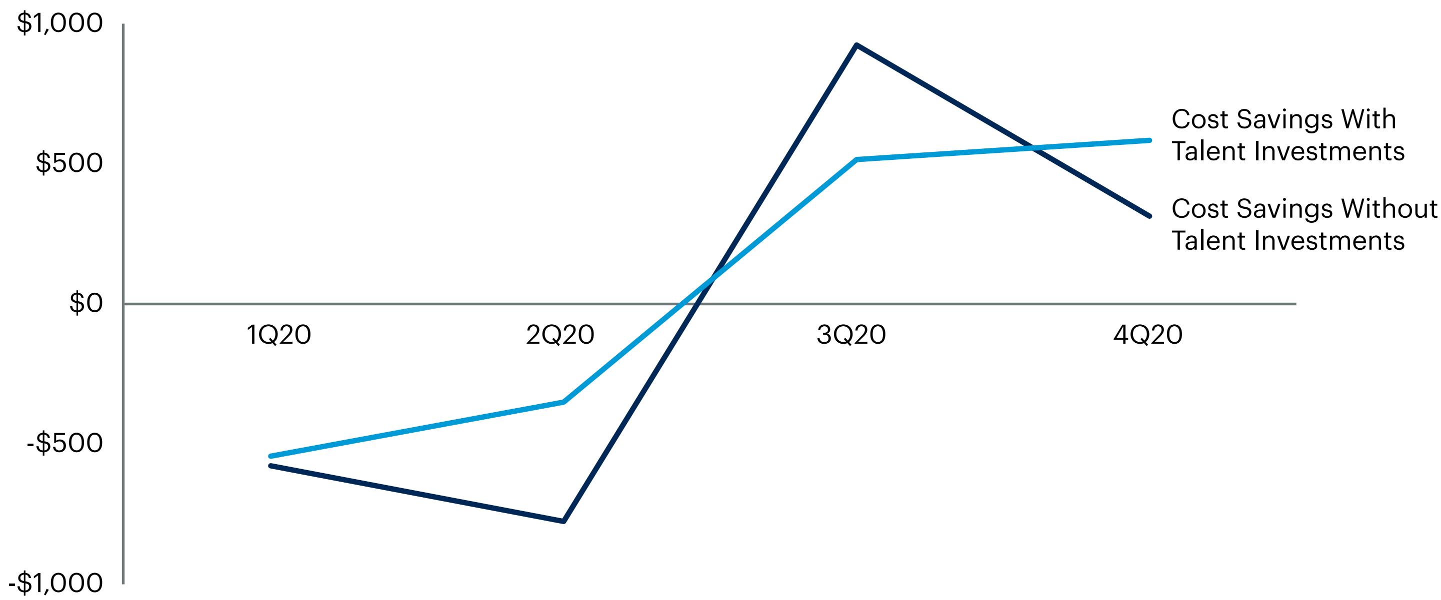
Source: 2020/2021/2022 Gartner HR Budget and Staffing Benchmarking Survey

[a] Inflation, a competitive talent market and ongoing supply chain constraints

Despite concerns about the global economy slowing down, business leaders remained focused on growth going into 2023. Thirty-nine percent of CEOs and senior business executives we surveyed in mid-2022 identified growth among their top three strategic priorities for the coming two years.[1] Nearly as many (38%) identified the workforce, while 30% cited technology.[1] Even in the face of high inflation, geopolitical uncertainty and the threat of a recession, they still expect to grow their businesses this year and see people and technology as the key levers for achieving this goal.

The continued focus on people is reflected in budget planning, as indicated by both finance and HR leaders. In December, 49% of CFOs and finance leaders said they expected to increase spending on HR in 2023, while only 25% expected to decrease it.[2] HR leaders' expectations lined up almost exactly, with 47% saying they anticipated increasing spending in 2023 and 25% anticipating cuts.[3] HR leaders are spending more cautiously in 2023 than 2022, but more robustly than in 2021 (see Figure 1).

**Figure 2: Average Revenue Growth of S&P 500 Companies**
USD Millions




n = 428 S&P 500 companies

Source: Gartner

Note: We studied the 2020 transcripts of S&P 500 companies, accessed through S&P Capital IQ.

## Three Anchors on Growth

This year, organizations are facing a growing number of obstacles, or anchors, that hold down growth, including:

- **Higher interest rates —** Goods and services are more expensive, demand is lower throughout the economy and investors are increasingly impatient for returns on their investments.
- **Lagging digital transformation —** Organizations are not seeing the returns they expected from major investments in digital transformation. Eighty-one percent of boards say they have not made progress toward or achieved their digital business transformation goals.
- **Hypercompetition for talent —** Recruiting, retaining and developing the right people has become extremely challenging.

These anchors will be familiar to CHROs — especially the third one, which affects them most directly but which they also have the most power to address in their strategic decision making.

The causes of this extremely competitive talent market are numerous: Employees are burnt out and struggling with declining mental health. Employee expectations have shifted, with employees looking for a greater sense of purpose inside and outside their work environment. Meanwhile, skills needs are evolving rapidly, and top talent for critical roles is more costly and challenging to attract.

To compete in this environment, CHROs need to maximize efficiency, balancing cost optimization with targeted talent investments that set the organization up for success. In our analysis of S&P 500 companies during the first year of the pandemic, we found organizations that balanced cost savings with dedicated talent investments outperformed those that focused on cost reduction alone. These organizations' revenue grew more slowly but steadily and sustainably throughout the crisis (see Figure 2).

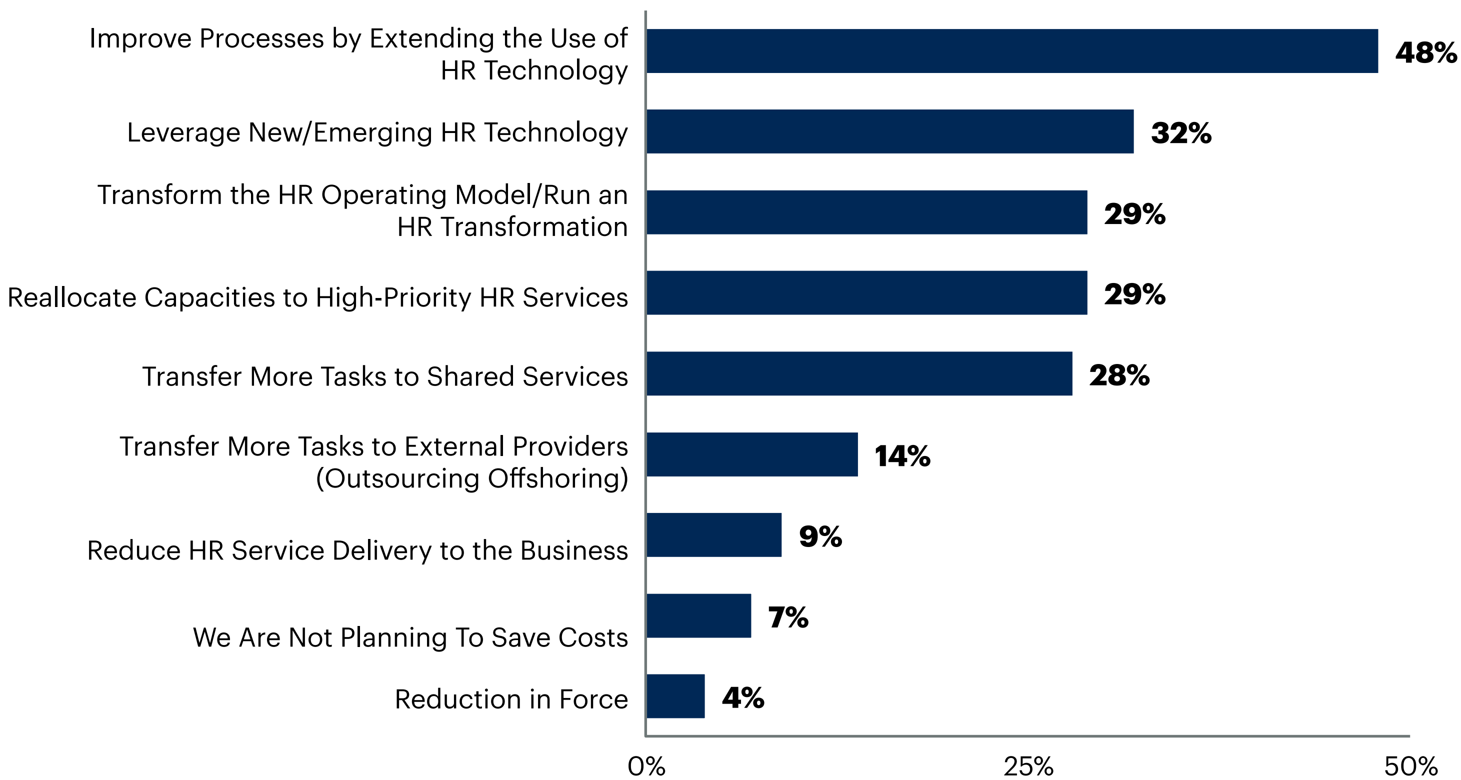
## Balance Spending and Savings: Reduce, Replace, Rethink

How can CHROs strike this balance? By identifying opportunities to reduce, replace and rethink current spending and redistribute these savings into growth areas:

- **Reduce —** Decrease the number of processes, tools or services you provide by reducing service levels, canceling or postponing projects, or more drastic measures, such as headcount reductions, salary cuts or hiring freezes. These drastic measures should be a last resort, targeted at areas where they're unavoidable.
- **Replace —** Find less expensive or more efficient alternatives to current spending. For example, you can renegotiate terms with external vendors or even rearrange your external vendor portfolio. You can also move more transactional tasks toward shared services teams and outsource complete processes.
- **Rethink —** Rethinking spending is more complex and often requires thorough evaluation and sometimes even upfront investments. Examples include redesigning the HR operating model, standardizing and centralizing processes, and implementing technology solutions to automate processes or enable self-service.

Most HR leaders are focusing their cost saving efforts this year on rethinking and replacing: pursuing greater efficiency through technology, revamping their operating model or shifting more tasks to shared services (see Figure 3).

**Figure 3: Most Common HR Cost Saving Measures Planned for 2023**
Percentage of HR leaders




n = 203 HR leaders

Q. How do you plan to save cost in the HR function over the next year?

Source: 2022 Budget and Efficiency Survey

## Use Budget and Staffing Benchmarks to Identify Cost Saving Opportunities

CHROs can gauge their function's efficiency by two key metrics: spend per employee and HR staff per employee. Our survey of HR leaders, representing a wide range of industries, found HR functions on average spend $2,524 per employee per year.[3] In terms of staffing, the average HR function employs 57 full-time employees (FTEs) per employee in the organization.[3] Since 71% of HR spend goes toward HR people, the first place most CHROs should look to identify efficiencies and cost savings is in where they are allocating their staff.[3]

Like most benchmarks, these should not be taken at face value. Every organization is different, and these metrics will vary by industry, size of the organization, maturity of the HR function and many other variables. For example, our survey found manufacturing businesses had leaner HR functions, with each FTE serving 75 employees on average, while organizations in the banking and financial services sector reported an average of 43 HR FTEs per employee.[3] Average HR spend also differs extensively among industries, from $4,185 per employee per year in banking and financial services, to $2,022 in manufacturing and $1,900 in retail.[3]

In general, the most efficient HR functions tend to be organizations with high levels of HR tech support, which enables automated and standardized HR processes and increased employee and manager self-service opportunities. They also tend to have low organizational complexity and geographical dispersion as well as a business that neither requires nor is accustomed to a high-touch HR approach. Hence, CHROs must look at their own HR efficiency ratios through the lens of those efficiency drivers.

Another key benchmark is how spending and staffing is allocated among various HR processes. As Figure 4 shows, staffing and recruiting currently take up the largest allocations of median HR spend ($425 per employee) and

**Figure 4: HR Spend and Staffing Allocations by Activity Area**


n = 42-181 HR leaders

Source: 2023 Gartner Budget & Efficiency Benchmarking Survey staff (3.33 FTEs per 1,000 employees) this year.[3] Considering the hypercompetitive talent market and CEOs' continued focus on growth, HR leaders are understandably devoting many resources to recruiting; finding efficiencies in this area is challenging. The next-highest shares of HR budgets are allocated to total rewards and learning and development, which also tracks with a highly competitive talent environment as organizations compete for talent through pay and benefits as well as growth opportunities.

However, opportunities for increased efficiency might be found in transactional processes such as HR administration, employee relations and payroll, which together make up an even larger proportion of HR staff commitments than recruiting. Organizations are allocating significantly more staff to these activities this year than they did in 2022. Remote work, vaccine mandates, increased turnover and other disruptive changes have certainly added to the workload in these areas in recent years. However, HR functions can reduce the number of FTEs needed for these tasks by moving them to shared services teams and providing the right technology support.

Even as they seek to optimize costs, CHROs should also be cognizant of areas where they may be underinvesting. For instance, our survey found diversity, equity and inclusion (DEI) and talent analytics received the lowest allocations of HR spending and staff. Robust HR analytics enable organizations to monitor critical talent indicators such as turnover, performance and employee experience and help their leaders improve workforce management, which can ultimately save the organization money — by reducing attrition, for example.

DEI, meanwhile, is still a priority for boards, business leaders and employees. If organizations treat it as a "nice to have" element and a target for budget cuts, they could experience negative consequences for talent outcomes down the road. Many HR functions are likely underinvesting here, and CHROs should not neglect DEI as a potential target for strategic investment.

CHROs can use Gartner's HR Budget & Efficiency Benchmarks to more precisely compare their current spending and staffing against their peers. As they implement plans for 2023 and look to 2024, CHROs can use these benchmarks to identify opportunities for cost savings and greater efficiency, as well as critical talent investments that will better position their organizations to weather economic headwinds.

1 The 2022 Gartner CEO and Senior Business Executive Survey was conducted to examine CEO and senior business executive views on current business issues, as well as some areas of technology agenda impact. The survey was conducted from July 2021 through December 2021, with questions about the period from 2021 through 2023. One-quarter of the survey sample was collected in July and August 2021, and three-quarters was collected in October through December 2021. In total, 410 actively employed CEOs and other senior executive business leaders qualified and participated. The research was collected via 382 online surveys and 28 telephone interviews.

A mid-2022 update of this annual survey was conducted June through July 2022. In total, 110 CEOs and other business leaders were qualified and surveyed. The sample mix by role was CEOs (n = 95); CFOs (n = 10); COOs or other C-level executives (n = 3); and chairs, presidents or board directors (n = 2). Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

2 Gartner Expected Budget Changes in 2023 Survey. This study was conducted to understand how budgets and spending are changing in 2023. The research was conducted online during November and December 2022 among 301 respondents across multiple industries and geographies. Respondents were CFOs or other senior finance leaders (including heads of FP&A, controllers and finance transformation leaders). Disclaimer: Results of this study do not represent global findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

3 The 2022 Gartner HR Budget and Efficiency Survey is an always-on survey with biannual benchmark updates. The current published benchmark was last updated with data collected through 31 October 2022, and contains data from the prior 18 months. All data is collected from Gartner clients.