Cutting workforce costs wisely

Three approaches for strategic, data-driven cost cutting to improve resilience during times of disruption

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A PwC Product

In these volatile times, businesses are reshaping themselves in response to a multitude of ongoing disruptions — social instability, AI disruption, major economic challenges and more. In response to these near-term challenges, there is a big focus for leaders on growing revenue, improving productivity and increasing profitability — and a large part of that involves cost cutting.

The majority of CEOs — 52% — have already started cutting costs — or they plan to soon. And while many are hesitant to reduce spending on their workforce, over a third of CEOs are either conducting hiring freezes or considering them. The same holds true for CEOs currently reducing and in consideration of reducing their workforce.

And while it can be very easy to implement across the board reductions or company-wide hiring freezes, these oversimplified strategies may hurt more than they help. Think about the teams that may need more hiring, not less — especially those that could help secure the company's resilience against macroeconomic challenges.

Employing a more holistic, data-driven approach using reliable HR benchmarks can help drive a thoughtful cost cutting plan that is more precise — enabling you to achieve a more productive and resilient workforce.

Informing business strategy with HR benchmarking

Data-driven strategies that use HR benchmarks can help you discover your biggest opportunities — and biggest risks — related to your changing workforce. With HR benchmarks and people analytics, folks ranging from executives and CHROs to HR subfunction leaders to analysts can answer important questions like:

1. **What is my current situation and metric results?**

   Organizations can use internal benchmarking to help in goal-setting and understanding the quantifiable impact of investments. Insights into where you stand now compared to your future goals can help you make decisions about your workforce based on data rather than opinion.

2. **How do my metrics compare to my peers?**

   With peer benchmarking, you can take a look at similar companies who share the same challenges — and what they're doing to overcome the same hurdles.

3. **How do these metrics impact the organization as a whole?**

   After you compare your metrics against your peers and evaluate the results, you can investigate further by incorporating other types of data and people analytics. This step is critical to creating a more holistic, broader view so you can gather a variety of inputs to inform decision-making.

Use the benchmark comparisons to develop a data-driven plan of action. In this case, how to cut workforce costs wisely.

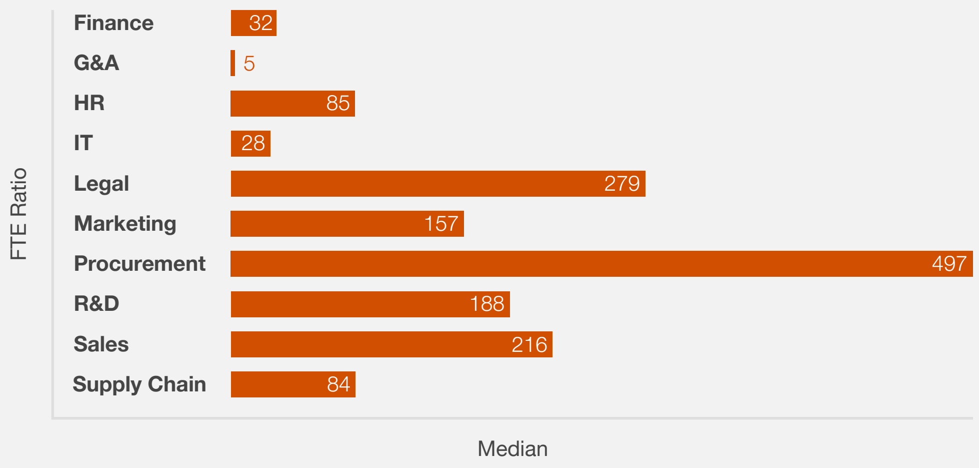
Three data-driven strategies for cutting workforce costs wisely

1 Team sizes

Team sizing can be one of the first things organizations consider when looking to cut costs. You may be asking: “Is our IT team the right size for an organization of our size?” “Is our IT team too big or too small compared to our peers?” Benchmarks will help answer those questions.

For example, a financial services company is taking a look at how their 415 IT full-time employees (FTEs) compare to other functions. The benchmark median for an IT FTE ratio is one IT FTE for every 28 total FTEs. For a company with 10,000 total FTEs, this would translate to 357 IT FTEs as a median.

FTE Ratios by Function

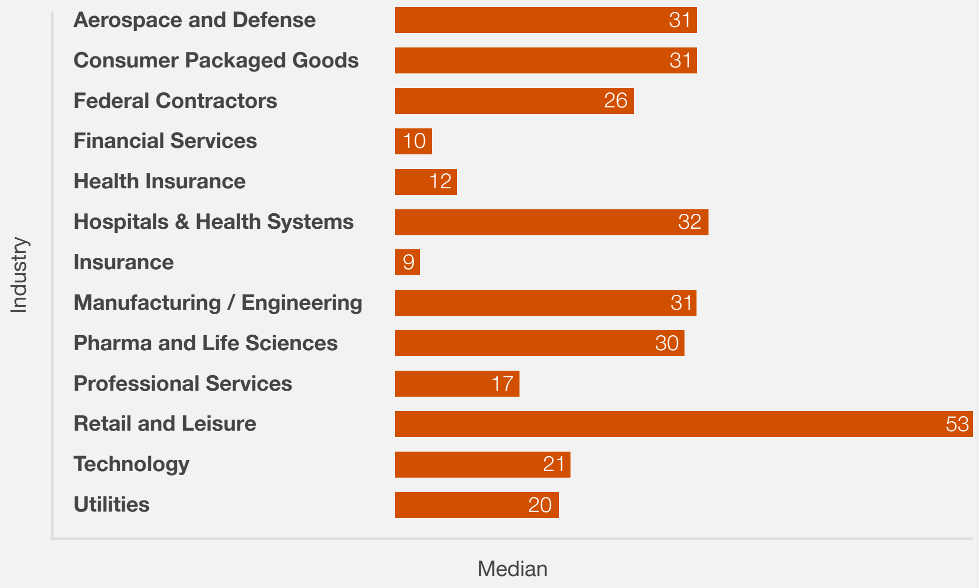


While looking at these benchmarks at face value can provide insight, put thought into which peer comparison groups or perspectives you'll be referencing. While a 357 median could support the argument for workforce reduction, the company may have other factors to keep in mind — like digital transformation, cloud capabilities and new deals — and may want to dig deeper.

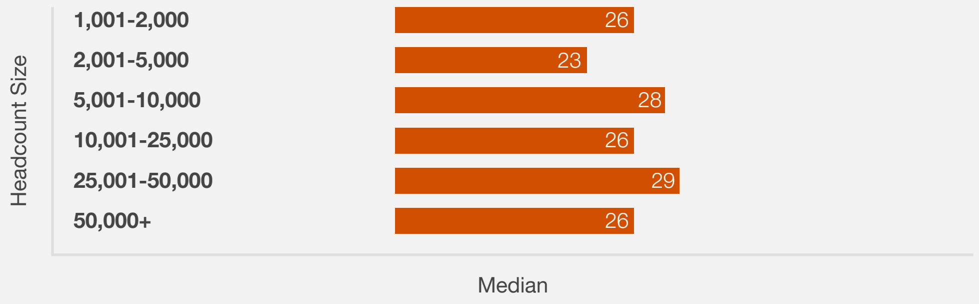
The financial services company may then want to compare their full time IT employees by industry. In this case, there's a ratio of one IT FTE for every 10 total FTEs, or 1,000 FTEs for a company with 10,000 employees. This number doesn't quite line up with their goals, but fortunately, with HR benchmarking, the company can tilt the perspective again — this time by headcount size.

When the financial services company takes a look at IT FTE ratios by headcount size, it finds a median ratio of 1 out of 26, or 384 employees. Now, they can see that they're not too far off from the benchmark and can use this data to help address workforce costs more accurately.

Information Technology FTE Ratio - by industry



Information Technology FTE Ratio - by headcount size



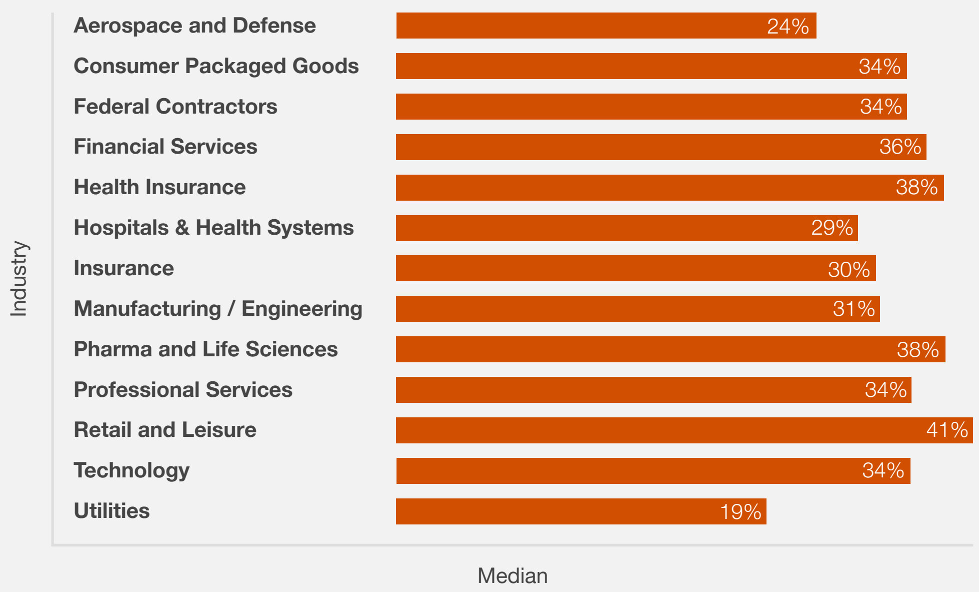
2 Group representation

Group representation helps you examine benchmarks for a variety of populations and can help you avoid unforeseen risks. For example, if you choose to divest one arm of your business, how might that impact the representation of various demographic groups in your organization?

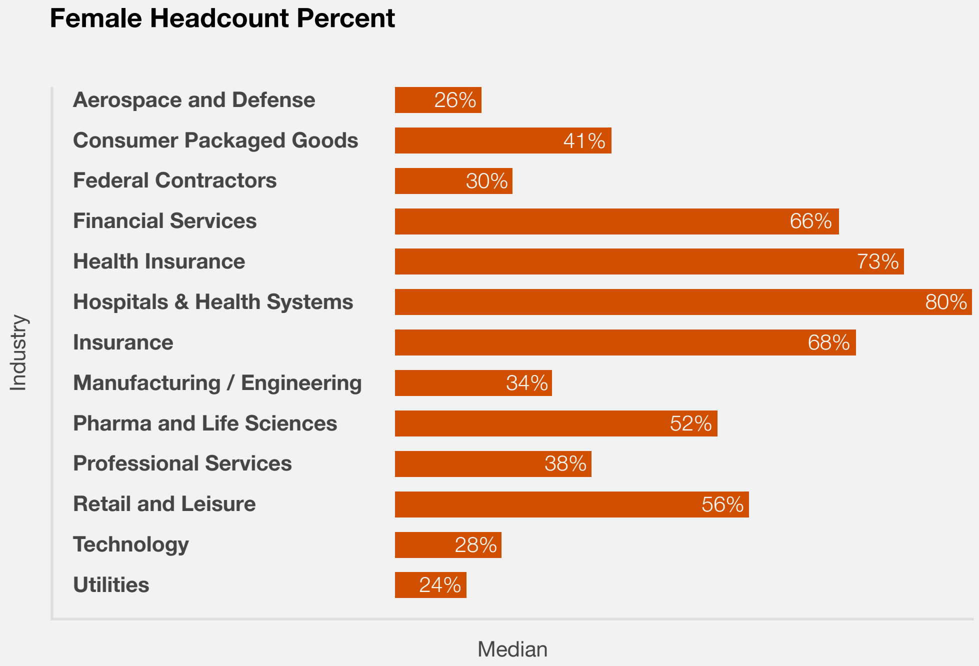
You should consider the implications based on where you plan to downsize and reduce team sizes. Creating and maintaining a diverse and inclusive workforce can help bring purpose to the business, generate more creativity from different perspectives and drive more equitable outcomes and better business outcomes. Inadvertently overdoing reductions for a particular population could also have an impact on leaders' abilities to meet their diversity goals.

With HR benchmarking, you can look at racially/ethnically diverse headcount percentages by industry. If the industry average lands around 30% and your organization's diversity is lower, you could use this data to drive more aggressive diversity initiatives.

Racially/Ethnically Diverse Headcount Percent



But as with many business strategies, creating a diverse and equitable workplace takes nuance. One change can benefit one group while negatively impacting another. HR benchmarking allows you to drill down further into these metrics by function or department. You can break out the data by race and ethnicity and track this by other demographic groups like gender, age, sexual orientation and gender identity, and more, and use combinations or intersections of those groups to balance decision-making.



3 Organizational structure

Right-sizing your company can be challenging as it impacts costs and budgets. Companies try to achieve the proper mix to confirm quality and sustainable delivery of their services, this leads to questions like, “Is our IT team top-heavy?”

If you have too many managers relative to operational staff, it can result in managers performing operational work that doesn’t optimize their skills and experience. On the flip-side, if there aren’t enough managers, quality can suffer as project delivery timelines are missed or the quality of services and goods slip due to insufficient oversight. Fewer managers can mean lower costs. How long can your managers sustain team performance, especially if benchmarks suggest you need a higher number of managers per employee?

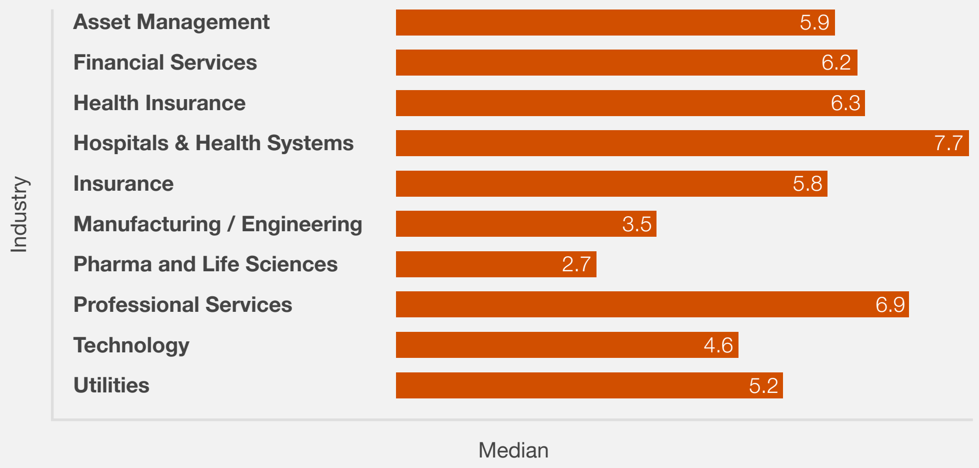
Organizational structure could be a good benchmark to use for companies that have already undergone layoffs. They can see where they are in terms of appropriate level mix and resource distribution. Some teams might be heavier or leaner than needed and benchmarking analysis can help provide a more detailed view.

To select the more effective path forward, organizations can drill down into other external benchmarks layers like spans of control to help provide quantitative justification for decision-making.

Using the financial services company as an example, if its IT management span of control equals 1 manager for every 3.5 employees, but an industry benchmark shows an average of 1 manager to every 6.2 employees, the company may want to consider where they can drive more value.

By drilling further into subfunctions of IT, the company can see where it can strategically redistribute managers and employees to other areas of IT in need of support — like cyber security — to maximize resources and improve resilience.

IT Management Span of Control



Remember: quality data matters

When using any benchmarks, the quality and reliability of the data can make a significant difference in benchmark results — and your decision-making. When gauging the strength and reliability of benchmarks, focus on aspects like the depth of metric definitions, how the data is collected, the consistency of data calculations and representation by aspects such as industry.

Remember that benchmarks are just one critical piece of a holistic approach to cost cutting that can include other strategies like investigating and improving hiring practices, measuring and enhancing productivity, and strengthening career development practices.

The bottom line

A data-driven, holistic approach using HR benchmarking can help businesses make informed decisions that can result in a productive and resilient workforce, especially during these times of economic, social and labor disruptions.

By comparing metrics to industry peers and assessing the impact of metrics on the organization as a whole, organizations can create a more precise, data-focused cost cutting plan — one that maintains the strength and diversity of their workforce.

About Saratoga Benchmarking

Saratoga, a PwC product, provides organization-wide and HR function metrics. With over a thousand metrics, it covers various dimensions such as demographics, job level, and performance and provides benchmark comparisons across peer groups.

Saratoga's database represents over 1000 metrics, over 400 companies and 20 industries, and is updated annually. It helps organizations to drive cost cutting strategies by providing valuable insights into productivity, mobility, headcount, group representation, and other metrics, so that leaders and organizations can make decisions about their workforce based on data and not opinion.

Saratoga HR benchmarks allow you to compare and assess your workforce metrics against internal benchmarks and industry peers.

Gain deep insights that nurture your most important HR and culture strategies so you can meet — and exceed — performance goals.

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