Managing an Organization’s Largest Cost: The Workforce

Key Insights Delivered Through the Familiar Format of the Organization Chart
Introduction

Today’s economy has finance professionals and CFOs in organizations large and small focused on efficiencies and costs. When revenue growth flattens or even declines, profit maintenance and increases must come from cost efficiencies. In most organizations, including large organizations such as the Fortune 500, total human capital costs, also known as total cost of workforce, average nearly 70% of operating expenses. While an organization’s total cost of workforce percentage may vary, with few exceptions these costs remain the single biggest organizational expense. Given their fluid and rapidly changing nature, workforce costs are extremely difficult costs to manage and control.

Workforce Cost Management Challenges

There are a number of reasons why effectively controlling or managing the total cost of workforce is difficult. When growing, a typical organization’s primary workforce cost management tools usually consist of the rather archaic annual budget process as well as the new hire signature approval requisition process. When an organization is shrinking, the tool of choice frequently becomes layoffs. Neither is a particularly attractive option. Simply put, organizations lack tools with which to surgically manage, tune or optimize their workforce.

In dynamic rapidly changing businesses, annual budgets can quickly become obsolete and therefore become more of a bureaucratic obstacle than effective cost control tool. Also, while finance may like to believe otherwise, expecting line managers to accurately predict full-time equivalent headcount (FTE) and workforce cost across multiple scenarios at least a year in advance seems unrealistic. Particularly in complex, service driven, technical and professional functions, line managers may not know exactly how many workforce resources they will need and are even less likely to know exactly what such resources will cost in the market.

The typical organization’s next line of defense in workforce cost control is the new hire signature approval or requisition process, or, in ERP heavy organizations, the use of position control. Again, neither of these are particularly attractive options. For hiring, tools to evaluate a new hire or replacement often point back to the problematic budget process, or entail the politically and bureaucratically challenged “justification for sign-off” process. For example, while an executive or CFO can demand a strong justification for a newly created position, executives championing the new position learn to use recent CEO initiatives such as business risk mitigation, customer service level improvement and other justifications. These typically work for the task at hand and secure the justification, but lack a clear return. Position control in complex organizations often requires adding significant headcount and workload such that the cost and complexity of the controls mitigates any savings from its use.

More troubling is the replacement hire for a position recently vacated. Instead of a simple one-to-one replacement, the position now may be argued that it requires a significantly more experienced and expensive replacement or, perhaps, should be split into two or more separate positions. The cost implications are difficult to manage in the traditional process.

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Additionally, neither the budget nor the new hire requisition processes adequately manage or control contingent labor costs such as temporary or contractor costs. In fact, executives can use the budget process to justify the cost of temporary hires to cover for open or delayed hiring of positions and also use all the elements of the “justification process” for acquiring contract resources. Yet these costs are seldom watched closely after the initial justification.

The net result of these inefficient cost controls in the hiring process is often a general inability to effectively control and manage workforce costs throughout growth periods. Over time, costs get out of control and management is forced to turn to their last line of defense — directives such as a “hiring freeze” or “reduction in force” or “layoff.”

In today’s economy, using layoffs and reorganizations to reduce workforce costs is commonplace. The problem with layoffs is they are both expensive in the short term (termination costs), and potentially even more expensive in the long term if either the wrong amount of labor is cut or if the wrong positions or individuals are cut.

For example, a technology organization looking to cut workforce costs by 10% that lacks workforce insight into critical job roles (see definition of critical job roles), optimal manager span of control, and visibility into replacement costs is unlikely to make wise cost reduction decisions. A company, in trying to be fair and “share the pain” could end up cutting critical job roles, such as engineers, who are essential to company growth when business improves again. The fact that an engineer costing $100k annually was cut and later replaced by a new engineer costing $130k annually is invisible to the organization. If this scenario is repeated many times, CFOs will actually be losing ground in the struggle to control workforce costs on both a per headcount and total cost basis.

Your Choice: Blunt Objects or Precision Tools for Understanding Costs
What seems missing from this picture is the capability of top management, finance and HR to systematically assess and surgically implement workforce cost management practices at a level below the companywide mandate but above the individual manager level.

While the CFO or finance department may indicate that they know what the total cost of the workforce is, it is highly unlikely that they know how costs relate to the most valuable segments such as high performers, critical job roles, and tenured employees. More shocking, they do not know how much of workforce costs are suboptimized on low performers, noncritical job roles, low-tenured employees not yet fully productive, or are tied up in the cost of vacant positions. For most organizations, it is a struggle to identify both number and total cost of the contingent temporary or contract workforce within an organization.

What organizations need is a straightforward way to manage workforce costs. What gets measured gets managed; therefore, if there were a simple way to review, evaluate and adjust workforce headcount and cost information frequently or on a near real-time basis, perhaps finance and HR could truly control workforce costs. General ledger systems and budget tools manage cost centers, not people and spreadsheets. The Finance tool of choice, complex workforce spreadsheets, are difficult to update and fail to keep up with constantly shifting organization structures. As a former accountant and finance executive, I can attest to those in accounting and finance who spend many late nights poring over detailed spreadsheets attempting to do just that.

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While there is justifiable reluctance to add yet another tool to the organization, what if it were possible to use or expand the use of an existing tool that every organization already has and which is specifically created to focus on and clearly illuminate workforce issues: organization charts.

**Organization Charts as Cost Management Tools**

Organization charts have aggregated headcount and clarified the formal supervisory structure for decades, but today’s digital technology means they can also be utilized to aggregate workforce costs and other metrics as well. With Saba’s Planning@Work-enabled window into detailed workforce costs finer than the traditional department/cost center structure, HR and finance can analyze and proactively identify solutions to the cost issues organizations face. Why organization charts? How can embedding workforce cost information in organization charts really highlight workforce issues and costs? How does the organization chart differ from managing at a cost center/department level aside from the obvious visual differences?

The best way to discuss using organization charts to manage workforce costs may be to just show examples visually of how the process can work (see Figure 1a and 1b below).

**Note: Organization Chart Technology Provided by Saba’s Planning@Work**

In figure 1a and 1b, total cost of workforce is shown, broken down by manager. The detail shows total employees managed as well as total and average cost of workforce. Using customizable color code formats, one can easily spot outliers and drill into the organization to identify root causes. In the example above, CEO Jane Smith could quickly see that Chief Technical Officer Mike Thornburg’s group is causing her organization to be above target in workforce costs.

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**Figure 1a**

**Figure 1b**

- Low - Below Total Workforce Cost Target
- Warning - Limit of Total Workforce Cost Target
- High - Above Total Workforce Cost Target

Hovering over each category shows performance, tenure and job role detail (see Figure 2)

Total employees managed and average cost of workforce displayed for each manager
Due to their visual nature, organization charts have several advantages in managing workforce costs and metrics, such as:

1. Org charts provide intuitive, at-a-glance ability to visually assess the workforce, managers, and employees both in aggregate and individually on key workforce dimensions.

2. Org charts are superior to the cost center/department structures methods for managing, classifying and enabling decisions about workforce cost due to:
   
   a. The ability to understand cost issues at the individual manager level, which is particularly valuable when multiple managers occupy the same cost center.

   b. The ability to analyze the workforce and managers using performance level, compensation element (e.g., salary, bonus, and benefits), tenure and job role among other analysis options.

   c. The ability to calculate additional metrics and measures that roll up the organization structure and use color coded conditional formatting to spot issues.

3. Organization chart cost data can be tied to both managers and individuals, enabling near realtime “what if cost scenario modeling” for reorganizations, layoffs, acquisitions, or divestitures.

Figures 2a and 2b show highlighted hotspots and profile popup information that can be shown for each manager’s organization down to the individual employee level. A profile can summarize key workforce data on virtually any workforce dimension, as in figure 2a showing number of employees managed and total cost of workforce by performance rating level. Also, figure 2b shows individual demographic at-a-glance information, plus span of control and cost information.
In figure 2c CEO Jane Smith drills into Mike Thornburg’s group and can clearly see that Mike has several problem staff areas in terms of workforce cost vs. targets. Now Jane can implement a “surgical” hiring freeze and have Mike work with his managers to conduct a root cause analysis and address total cost of workforce. From this analysis, they could choose to increase spans of control, forgo replacing future turnover, limit salary increases or bonuses, among other surgically implemented interventions.

Jane can utilize summary level analysis and what if modeling to drag and drop potential organizational changes. Metrics will automatically recalculate to show the revised total cost of workforce. This capability to monitor and tune total cost of workforce across various dimensions or key demographic criteria is a further step toward workforce optimization.

Figure 2c

Problem areas identified by drilling into an individual manager’s organization in OrgPlus
Another use of contextual workforce information is for the CFO or head of HR to have a summary as shown in figure 3b, highlighting both percentage and total cost of workforce across multiple dimensions. This can in turn highlight savings opportunities across performance, tenure and noncritical job roles. (see figures 3a and 3b).

Figure 3b shows a total cost of workforce summary for “Jane Smith” CEO of the example large scale technology business shown in the charts. This shows important ways to cut or breakdown workforce cost information so that finance and HR professionals can easily spot where total workforce costs are potentially suboptimized. The examples noted above in red show total cost of workforce summaries for low performers, workforce tenure less than both one and three years, support job roles (defined as noncritical and nonmanagerial) and contingent or non-employees as a percentage and total cost of workforce.
Enabling Chart-Based Workforce Decision Support
Of course there are other considerations that must be taken into account for managing and making workforce decisions. Important issues to consider when adding key workforce information and costs into company organization charts include:

1. Clear accountabilities, governance and oversight in loading, managing and analyzing workforce cost and other information via digital organization charts.

2. Leveraging role-based security to automatically update the org chart, ensuring that information flows appropriately and that no sensitive employee information goes to unauthorized parties.

3. Determining how frequently information should be updated:
   a. In near real time to instantly reflect changes to the workforce or reporting structure
   b. On a less frequent basis (weekly or monthly) for cost and financial information
   c. Or both, depending upon the information type

4. Deciding which data sources to consolidate and upload to the organization chart. These might include the upload of simple data elements or metrics upon which additional calculations can be made.

Ultimately, the possibilities are limited only by data availability and input metrics. Additionally, Saba’s Planning@Work advanced capabilities allow users to calculate additional metrics and combined indices in the tool itself, creating powerful, issue-based measures that recalculate and update as the data is refreshed.

Case Study — Span of Control at XYZ Corporation:
XYZ Corporation, a large, fully integrated technology manufacturer and seller, paid a top tier consulting firm several million dollars to analyze and recommend a series of changes across the organization. They increased the overall manager span of control from an average of 4 to 1 to an average of 5 to 1. This reorganization netted the company nearly $150 million dollars in annual savings by eliminating 1,000 manager positions across the company at various tiers in the organization at an average total workforce cost per manager of $150,000. However, what is noteworthy is that if XYZ used org charting software for workforce decision support, like Saba’s Planning@Work, they could have had instant access to workforce costs and metrics, and they could have achieved the same cost savings on their own. They would have saved several million dollars while building credibility internally and embedding cost control DNA further into the organization.
Summary and Conclusions

With the integration of basic cost data and metrics into today’s digital, online organization chart technologies such as Saba’s Planning@Work, it is possible to visualize, and therefore effectively manage, total workforce costs. This ultimately results in better workforce strategy decisions.

Rather than applying workforce strategy like peanut butter across the organization, embedding workforce cost information and metrics into organization charts creates a workforce analytic capability and focus that allows users to more effectively identify and execute specific workforce cuts, reorganizations, acquisitions and divestitures. This capability enables both thorough and thoughtful risk management and identification of unrealized opportunities for cost savings.

Without the appropriate level of analysis and tools, there can be a continuing wake of destructive activity as organizations move from one extreme in over-hiring to the other of recurring layoffs and reductions, much like a binge and purge bulimic cycle, destroying company health over time.

Schedule a demonstration today at www.saba.com to see how to manage Total Cost of Workforce in Saba’s Planning@Work.
Saba delivers a cloud-based Intelligent Talent Management™ solution used by leading organizations worldwide to hire, develop, engage, and inspire their people. Intelligent Talent Management uses machine learning to offer proactive, personalized recommendations on candidates, connections, and content to help your employees and organization lead and succeed.

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