



## IDENTIFYING HIDDEN COSTS AND MANAGING COST REDUCTION IN HUMAN RESOURCES

### Abstract

With one full-time HR FTE per 57 employees handling administrative tasks, CHROs must invest in HR technology to optimise costs. This article highlights the types of HR costs, the hidden costs of benching employees, and HR cost reduction strategies. Finally, the article highlights the role of a Human Resource Management System (HRMS).

According to research by a leading management consulting company, HR leaders must optimise their budgets

and functions to stay competitive. HR currently accounts for 1.52% of the overall operational expense, with \$2,542

per employee per year. This includes recruitment, rewards, and training and development.



## Traditional B2B sales strategies and their limitations

The cost of running a human resource department includes searching, hiring, training, and retaining employees. Other costs include employee salaries and benefits. External factors such as the labour market, the skill required, and the type of business you are in decide the HR costs. The main categories of HR costs are:

### Recruitment costs

Depending on the size and scope of the business, recruitment costs can vary between a few hundred to thousands of dollars. Several factors that contribute to recruitment costs are:

- Advertising on different online platforms
- Headhunting and initial shortlisting

- Applicant screening and interviewing
- Relocation cost (if you are hiring a candidate from another city or country)

The interview process can be long and takes away valuable time you can spend on other strategic HR initiatives. It is best to understand your needs and the budget you can afford and stick to it. You can also hire a headhunting agency to save time and money.

### Training costs

A study by the American Management Association found that it costs a company \$1,252 and \$4,129 on average to train a new hourly worker and a full-time employee, respectively. However, these

figures vary depending on the company size, training and development processes, and the type of business. On-the-job training usually costs less than classroom instruction, where the employee needs to be available full-time.

Training costs can quickly escalate if you have external trainers or send employees for sponsored certifications. In this case, you must have clear processes including the terms and conditions of employment the recruit must agree to.

### Retaining costs

Retaining high-quality talent is a multi-dimensional approach that requires a competitive salary, employee benefits,

optimal career progression, etc. This cost increases for highly skilled employees.

The HR department must ensure employees remain engaged at work. According to a Gallup report, disengaged employees cost global businesses \$8.8 trillion in productivity each year.

Other than a competitive salary, offering flexible work options and benefits can reduce costs. For example, a flexible work-from-home model can help the employee save on the cost of travelling, thus encouraging loyalty.

#### Employee benefits costs

The cost of employee benefits increases with the size of your business. As the number of employees grows, you may be able to cover the benefits on your own. Otherwise, you can use business credit cards to track expenses or get a bank loan to maintain operating funds.

Providing individual or family health insurance is a lucrative way for SMBs to offer benefits and retain talent. On average, businesses spend between \$1,978 and \$11,232 on health insurance. Additionally, they consider retirement costs and other non-traditional benefits.

#### Benefits also include employee

engagement activities that are an added cost for the company. Such activities include team parties and outings, rewards, and reimbursements. To keep the costs low, you can encourage employees to volunteer to set up activities and combine two or more of them.

#### HR administration costs

There is a cost of maintaining employee data, including salaries, personal information, benefits, leaves taken, etc. This includes the data of the HR team itself. Depending on the type of data administration, filing, and sharing system you use, this cost can vary. While physical files can take up space in the office and sharing between different departments can take time, digital transformation requires investment in technology. The HR leaders must analyse the cost and benefit of the two.

Administrative task automation and non-essential task outsourcing, such as payroll and benefits, significantly reduce admin costs. While self-service tools give employees access to information, digital technology streamlines communication among HR team members. Companies must review their policies regularly to ensure they align with overall business objectives.

#### Turnover costs

The cost of hiring a new employee can go up to 60% of their salary. When your employees are dissatisfied with the work environment and quit or abscond, re-hiring can become expensive.

To retain valuable employees, the HR team must explore several options, including paying a competitive salary, providing benefits as per labour law, and showing them a lucrative career progression.

Rather than hiring from outside, you can promote from the in-house team. Without increasing the hiring budget, you can open new opportunities for those seeking career growth.

#### Payroll processing costs

As the company size grows, payroll processing becomes a significant task. Companies with homegrown or standalone payroll processing systems may spend significant time processing monthly salaries. This can cause delays and dissatisfaction among employees.

An automated payroll processing system within the HRMS speeds up this process, thus increasing efficiency and employee satisfaction. It streamlines different aspects of payroll processing, giving a high ROI.

#### Importing costs

For specialist jobs, businesses often need to hire employees from other countries. This results in additional costs of visas, flight tickets, accommodation, and relocation allowances. HR must ensure that the employee serves their time and does not leave early.

Companies can hire freelancers or contractors to curb the blow of onshore employees leaving early. They can also define terms of employment that hold an employee till the end of their tenure and provide equivalent benefits.

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## The hidden cost of benching employees

Hiring employees without assigning them to a project immediately can damage their morale and increase turnover rates. It can also result in high absenteeism, damage to company culture, impact on customer service, and employee health problems.

To deal with employee benching effectively, HR leaders can provide skill

development training and temporary assignments and communicate the status clearly to the employees.

Benching is not always unproductive. Employees can undergo benching between two projects and can utilise this time for:

- Relaxation to re-focus on the energy for the next project.
- Professional development.
- Team building, including socialising and working on collaborative projects.
- Brainstorm ideas and develop strategies for the next project.

## Strategies to reduce HR costs

HR leaders are looking for ways to optimise processes and reduce unwanted costs. Cost-optimisation is a continuous process that requires discipline and long-term vision. Some of the ways to reduce HR costs are:

### Employee development planning

HR departments can plan employee career progression through upskilling and cross-skilling to fill gaps during absenteeism, resignation, and retirement. Nurturing and developing internal talent is cost-effective compared to external hiring.

### Smart recruitment and retention

If you consider the cost of lost productivity and training, wrong hiring can cost a business ten times more than the salary. HR teams can use intelligent systems that

automatically identify the right candidates for the job. Systems can plan and execute the hiring, onboarding, and engagement activities to significantly elevate job satisfaction and retention.

### Automation

Adding to the previous point, automating systems saves a lot of time and money. The HR team can use automation to execute manual and repetitive tasks to improve speed and accuracy. It reduces the cost of dealing with errors and processing delays. Sub-processes that can be automated are payroll processing, applicant screening, recruitment documentation, and training.

### Consolidating perks

A large part of the HR budget goes into employee engagement activities, rewards

and recognition, and training. While you must not exclude them, you can become creative in the way you execute them. For example, you can combine a team outing with rewards and recognition and a team-building activity with interpersonal training.

### Cost-value analysis

The HR team must let go of areas where the cost exceeds the business value. Prioritising the tasks and anticipating the potential downside of investments help achieve goals while keeping the costs low. An HRMS system plays an important role in cost-value analysis.



## Benefits of using HRMS to reduce HR costs

HRMS allows the team to bring efficiency within HR processes and reduce costs in the following ways.

**1. Efficient recruitment:** An HRMS posts the requirements on several online portals and collects the CVs efficiently. It scans and shortlists the appropriate

applications, reducing the time for scrutiny. By matching the traits of candidates with those of existing high-value employees, HR can make efficient and informed hiring decisions.

**2. Employee self-service:** Using HRMS, employees can manage their holidays,

leaves, and other applications without directly calling or emailing HR. This increases the efficiency of HR and payroll processing teams.

**3. Time-sheet management:** Employees can log their in-time, out-time, and business travel plans remotely.



The HR team can use this data to improve punctuality and reward employees for extra time.

**4. Payroll management:** Collect information about changes in payslips, record medical reports, separate contractual from full-time employees, and send the data for processing and salary disbursement using HRMS. Automation of these administrative tasks reduces the workload of the HR team.

**5. Data logging:** Manual record keeping can be inefficient and time-consuming and runs the risk of allowing data into the wrong hands. HRMS automates data logging and increases safety by using access control.

**6. Performance management:** Digitally evaluate an employee's performance by monitoring their targets, feedback from peers and managers, and their work outcomes. This helps managers plan and justify the appraisals.

**7. Reporting:** Generate meaningful reports for HR teams, managers, and top leadership quickly and efficiently. Keep a tab on different HR and employee performance indicators and know if they always align with the company's goals.

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## Conclusion

From talent sourcing to nurturing, engagement, and retention, [HR outsourcing services](#) are the key to accessing expert consultation and

technology necessary to transform processes. Through a transformation-driven approach, HR leaders can enhance employee experience, ensure compliance

with labour laws, and improve the return on capital investment.

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