WHITE PAPER

Unlocking HR Transformation:

How HR Can Improve Operating Margins and Boost Profitability via Workforce Optimization

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Abstract

In recent years, global workforce trends like the shift to hybrid work, unprecedented labor shortages, and changing employee expectations have led to a recasting of the role of human resources (HR) in the workplace, from a passive support function to an active profit center. Talent has become a critical driver of business success, and attracting, recruiting and retaining the right people can help organizations gain a competitive advantage. Chief Human Resource Officers (CRHOs) and managers have become strategic leaders who can drive efficiency throughout organizations, increasing profitability and creating shareholder value. Advances in HR technology are fueling this HR transformation, empowering organizations to streamline HR processes and turn data into powerful insights. The purpose of this whitepaper is to demonstrate how HR leaders can create business value by improving operating margins through workforce optimization. Using an enterprise-grade workforce management solution, HR leaders can leverage data, analytics and automation to reduce HR costs and increase productivity and profitability.

Introduction

When the world's most successful CEOs are asked what their most valuable assets are, most will respond in the same way: "Our people." Regardless of the industry, it's the people who deliver the most value. People provide innovation, develop new technologies, create strategies for growth, and do the work that keeps organizations running. So it makes sense that human resources departments are vital to every business's success. Still, until recently, HR was seen mostly as an administrative department rather than as a strategic partner.

So, what is leading the HR transformation from workforce administration to shaping the future of the business through talent management? Like many changes that have taken place over the last few years, COVID-19 was a primary factor in disrupting the status quo.

The transition to working from home and hybrid work changed the workplace forever, creating new challenges and opportunities for HR teams. Virtual recruiting, culture building in a hybrid work environment, and staff retention are just a few of the challenges HR leaders are now facing, while increased flexibility and work-life balance present new opportunities for attracting top talent. While many companies are asking workers to return to the office, 65% of employees still prefer working from home[1]. This means that HR departments must continue to evolve to attract and retain top talent, and ensure productivity while employees are working remotely.

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[1] Haan, Kathy. "Remote Work Statistics And Trends In 2023." June 12, 2023. *Forbes.* Online. https://www.forbes.com/advisor/business/remote-work-statistics/#:~:text=Sixty%2Dfive%20percent%20of%20workers,opportunities%20from%20in%2Doffice%20work. Accessed online. Sept. 27, 2023.

The Great Resignation also affected HR departments, as employees left the workforce in droves. In 2022, more than 50 million U.S. workers left their jobs, according to the Bureau of Labor Statistics.[2] While quits have since decreased, the job market still favors job seekers rather than employers, with labor shortages creating challenges in filling roles. In August of 2023, the unemployment rate was at a low 3.8%.[3] As reported by the U.S. Chamber of Commerce, in September of 2023, there were 8.8 million job openings in the U.S., with just 3.3 million unemployed workers to fill them.[4] To fill roles and keep workers engaged in this competitive job market, HR departments need new tools and strategies.

A third factor in the HR transformation is the development of new HR technology, and the availability of data. In the past, many HR tasks were carried out manually and in-person, from posting job openings, to interviewing candidates, to processing payroll and conducting performance reviews. While face-to-face relationships and in-person meetings are still highly valuable, virtual platforms have improved efficiency and made meetings simpler, especially across long distances. Online recruiting has made it easier for companies to find and screen applicants, leading to fewer interviews, with higher quality candidates. Similarly, automated payroll and time tracking solutions have improved accuracy and efficiency, and freed up many hours of time for HR leaders to focus on more strategic tasks.

These advances are significant—however, there is still room for even greater HR transformation. In this white paper, we will discuss five ways HR departments can improve operating margins, a key driver of shareholder value. Then, we will share what HR leaders at our 200+ clients are doing to improve operating margins through workforce optimization technology. With access to real-time data, analytics and streamlined HR processes, HR leaders can increase efficiency, improve retention, reduce HR costs, and improve productivity—taking HR transformation to the next level.

A. The Power of Operating Margin Improvement in Enterprises

In today's competitive business landscape, enterprises are always seeking ways to create value for their shareholders. One often-underestimated way to increase profitability is by improving an organization's operating margin. The operating margin is a measure of how much money a company makes per dollar of sales *after* paying for operating costs, such as raw materials and salaries. The figure is expressed as a percentage, and it can be calculated by dividing operating income by net sales. The higher the ratio, the more profitable a company is.

Operating margins are used to show how efficiently a company is able to generate profits from its core operations. This is very important to shareholders, because the more efficient company operations are, the more valuable their shares are. It's also important to investors, because they

[2] "Job Openings and Labor Turnover – July 2023." August 29, 2023. *Bureau of Labor Statistics, U.S. Department of Labor.* News Release. https://www.bls.gov/news.release/pdf/jolts.pdf. Accessed Sep. 27 2023.

[3] "The Employment Situation — August 2023." September 1, 2023. *Bureau of Labor Statistics, U.S. Department of Labor.* News Release. https://www.bls.gov/news.release/pdf/empsit.pdf. Accessed Sep. 27 2023.

[4] Ferguson, Stephanie. "Understanding America's Labor Shortage." *US Chamber of Commerce.* Online. https://www.uschamber.com/workforce/understanding-americas-labor-shortage. Accessed Sep. 27 2023.

use operating margins as a way to value companies. If a company has a higher operating margin than others in the same industry, it gains a competitive advantage.

Companies can improve their operating margins by growing revenue or reducing expenses. However, either of these approaches can also incur additional costs. For example, if a company uses advertising to boost sales, they will have to pay for the costs of the advertising. By the same token, companies must also be careful when reducing expenses. Cutting costs may negatively affect product or service quality, causing sales to go down. Reducing advertising could lower sales, and cutting perks could cause employees to leave. However, there are a number of effective ways companies can improve operating margins through HR initiatives, including both cost reduction and revenue growth, without incurring excessive costs or losses.

The HR department manages human resource costs, and worker wages are the greatest contributor to selling, general, and administrative expenses (SG&A). What's more, these costs are expected to continue to rise. In 2023, budgets for salary increases reached their highest level in 20 years, and employers have indicated they will remain aggressive in offering high salaries throughout 2024.[5] While lower salaries would reduce expenses, it could also drive attrition and limit the ability to attract top talent. A more efficient way to reduce salary expenses is to increase the productivity of all staff members, thereby requiring fewer people to complete the same work. But how can HR teams increase productivity?

While HR teams are not tasked with employee management, they can use technology to measure productivity across their workforce, identifying top performers as well as those that need improvement. Armed with this data, they can then recognize and reward top performers, to improve retention of these valuable employees. Productivity data can also enable HR managers to create benchmarks for performance and measure progress. In addition, HR can provide training for employees who are less productive, providing them with opportunities to improve and advance.

If data suggests that a small percentage of employees are completing a large percentage of tasks, HR leaders can share this information with managers, encouraging them to re-balance the workload to prevent burnout, and spread work out more evenly and efficiently across the workforce. This can increase employee engagement and job satisfaction, which reduces attrition, along with the need for recruitment—two high-cost items that fall under the HR umbrella. HR teams can also provide recognition to top performers, along with incentives such as continuing education, which can help them further their careers.

Let's look at a few more ways HR leaders can increase operating margins:

B. Five Ways HR Leaders Can Boost Operating Margins

[5] Meyer, Kathryn. "Salary Increase Budgets Hit Two-Decade High." Sept. 11, 2023. *SHRM*. Online. Accessed Sep. 26, 2023. https://www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/salary-increase-budgets-hit-two-decade-high-2024-projection-worldatwork-report.aspx.

ProHance is an analytics and operations enablement platform with over 320,000 users across 24 countries. Analysts at ProHance held conversations with various HR leaders in the industry over the past several years. Based on their responses, we identified five broad areas for operating margin improvement:

1. Reduce Costs of Recruitment and Retention

As noted above, recruitment and retention are among the highest expenses HR departments pay. According to Zippia, the average cost per new hire is $4,700—with higher costs for higher-paid employees, and lower costs for lower salaries. The same source notes that it can take up to six months for an organization to recoup the money it spent on a new hire.[6] Most HR leaders are already using technology to optimize recruitment and retention processes. Online recruiting can drastically reduce time and expenses previously spent on manual processes.

Another way HR departments can reduce these costs is by implementing effective retention strategies, such as competitive compensation packages, robust employee engagement initiatives, and career development opportunities. Taking these steps can help to lower attrition, thereby reducing the need for recruitment. To illustrate the point, the cost to replace an employee has been estimated at three to four times the position's salary. This means that a worker with a $70,000 salary could cost $210,000-$280,000 to replace.

Workforce analytics software can help HR departments measure employee engagement, which is an indicator of career satisfaction. Using this data, HR departments can then implement programs to increase engagement, measure program effectiveness, and make improvements as needed. They can also deploy career training for employees who need development, helping them to be more successful in their roles.

2. Improve Talent Management and Development

Today, talent is the driving force behind business success, so investing in talent management is a prudent choice. As any manager knows, productive employees deliver far more value to the business than non-productive employees. However, most businesses lack the data to determine which employees are the most productive, or how productive their team is overall.

HR teams can increase top-line revenues by implementing performance management systems that align individual goals with organizational objectives, and track progress toward goals on an ongoing basis. Through data analysis, HR leaders can identify and reward high-performing employees, and provide targeted training and development programs to enhance their skills and capabilities. A skilled and motivated workforce can improve productivity, reduce errors, and increase operational efficiency.

[6] Boskamp, Elsie. "25+ Crucial Average Cost Per Hire Facts [2023]: All Cost of Hiring Statistics." *Zippia.* Feb. 16, 2023. Online. https://www.zippia.com/advice/cost-of-hiring-statistics-average-cost-per-hire/
Accessed Sep. 26, 2023.

Just how much more value can productive employees deliver? To answer this question, we might first look at how much unproductive employees cost. If an employee earning $70,000 per year is unproductive 20% of the time, this results in $14,000 in wasted resources. If 100 employees at the same pay rate have similar productivity levels, the company loses $1,400,000. This is the cost equivalent of 20 employee salaries, at the same pay rate.

HR leaders who invest in workforce analytics software will gain access to the data needed to measure productivity, set goals, and begin making improvements across the workforce.

3. Streamline HR Processes

While most large companies have implemented automated HR processes, some organizations are still using outdated methods. According to a 2021 survey conducted by Paychex, HR leaders report that they spend four full weeks per year on manual tasks.[7]

By streamlining administrative tasks, reducing manual paperwork and leveraging technology, HR teams can reduce time and resources spent on these routine administrative activities. This allows HR professionals to focus more on strategic initiatives and value-added tasks, ultimately driving operational efficiency and cost savings throughout the organization.

It should be noted that while automating HR tasks like timesheet submission saves time, it is only truly beneficial if the data recorded is accurate. Even if HR departments use electronic timesheet software, allowing employees to manually enter their time can result in errors, inaccuracies, or even deliberate time theft. According to QuickBooks, 49% of employees in the United States who track time admitted to time theft.[8]

Workforce analytics systems that track time automatically, in real time, provide a clearer picture into workplace engagement, whether work is being done in the office or remotely.

4. Boost Employee Engagement and Productivity

It's expected that some employees may not be fully engaged at work—but the data describing just how unengaged most employees feel may be a bit shocking. A 2023 Gallup study reported that less than one-fourth of employees are fully engaged at work. Surprisingly, exclusively remote employees (30%) are more engaged than exclusively on-site (21%) and hybrid (24%) employees.[9]

If you suspect your team may be unengaged, workforce analytics software can provide insights into current engagement levels, and help you set a baseline for improvement. HR teams can

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[7] "The Hidden Costs of Manual HR Management." July 16, 2021. Paychex. Online. https://www.paychex.com/articles/human-resources/hidden-costs-of-manual-hr. Accessed Sep. 26, 2023.
[8] "The Ultimate List of Time and Attendance Statistics." Quickbooks. Online. https://quickbooks.intuit.com/time-tracking/resources/time-attendance-stats/. Accessed Sep. 26, 2023.
[9] Harter, Jim. "Globally, Employees Are More Engaged — and More Stressed." June 13, 2023. Gallup. Online. https://www.gallup.com/workplace/506798/globally-employees-engaged-stressed.aspx. Accessed Sep. 26, 2023

boost engagement and productivity through initiatives like employee recognition programs, flexible work arrangements, and a supportive work environment.

5. Develop a Workforce Optimization Strategy

One of the primary ways HR can significantly impact operating margins is by creating and implementing an effective workforce optimization strategy. Workforce optimization is the process of improving organizational efficiency and decreasing operational costs through data and analysis.

Some of the key aspects of workforce optimization include aligning workforce planning with business objectives, ensuring optimal staffing levels, improving productivity, and eliminating excess labor costs. Effective workforce analytics software enables organizations to conduct regular assessments of workload distribution, implement efficient scheduling practices, and identify opportunities for automation or process improvement to streamline operations.

C. How HR Can Improve Operating Margins Through Workforce Optimization

Of all the strategies listed above, workforce optimization has the greatest impact on operating margins. An effective workforce optimization strategy can reduce costs by 15% and improve productivity by 20%—results proven by ProHance's own workforce analytics solution.

As a leading workplace analytics and operations enablement platform, ProHance provides HR leaders with high-quality data, enabling them to achieve the following five benefits of workforce optimization:

1. Informed Decision-Making

By definition, HR leaders bring a people-focused approach to creating business value. Yet these leaders also know that when it comes to making business decisions, data can provide a competitive edge.

Good quality data provides accurate, reliable information about various workforce factors, such as employee skills, performance metrics, productivity levels, and resource allocation. With access to comprehensive and up-to-date data, HR decision-makers can make informed choices about workforce planning, talent management, training initiatives and process improvements, leading to optimized workforce outcomes.

Instead of relying on manually-entered data, such as time sheets and project management tools to understand workload, utilization and productivity, ProHance tracks this information automatically, and delivers data in a single dashboard. Because data is recorded automatically and in real time, it is highly accurate—and since it is delivered via a single source rather than disparate applications, it is much easier to access and analyze.

2. Identification of Key Metrics and Trends

Data plays a vital role in identifying key metrics and trends essential for workforce optimization. ProHance empowers HR teams to analyze historical and real-time data, so organizations can identify patterns, trends, and correlations related to workforce performance, productivity, and efficiency. These insights enable HR professionals to identify areas of improvement, understand the impact of various workforce initiatives, and make data-driven adjustments to optimize workforce allocation and resource utilization.

Historical data is a gold mine for HR teams and other departments, and having a single dashboard with historical data that is easy to use and study can help to reduce dependency on IT staff to provide this information. HR teams shouldn't be required to train on complex business intelligence tools to access data and implement workforce optimization initiatives. With ProHance, the data is easy to understand and available to all managers who are granted access.

3. Predictive Analytics for Future Planning

Predictive analytics is crucial for future planning, a key component of workforce optimization. By leveraging historical data and advanced analytics tools, organizations can forecast future workforce requirements, predict potential talent gaps, and proactively develop strategies to address them. Predictive analytics enables HR to align workforce planning with business goals, anticipate skill needs, and implement proactive measures, such as talent acquisition, training programs, or workforce restructuring.

Anticipating future needs and preparing to address them in advance can help to optimize resources, maximize productivity, and prepare teams to pivot when needed.

4. Identifying Cost-saving Opportunities

High quality data can also identify cost-saving opportunities across the workforce. For instance, data on employee absenteeism, turnover rates, and overtime can help identify the underlying causes. Then, HR teams can develop strategies to reduce the costs associated with these issues. Additionally, data on workforce productivity and performance can highlight areas where process improvements or training interventions can enhance efficiency, ultimately reducing costs and improving the bottom line.

5. Monitoring and Evaluation:

How do HR teams know if workforce optimization initiatives are successful? Through ongoing monitoring and evaluation. By tracking key performance indicators (KPIs) and metrics, organizations can assess the effectiveness of implemented strategies and make necessary adjustments in real-time. Having quality data enables HR professionals to measure the impact of workforce optimization efforts, and respond quickly. They can identify areas of success and address any potential challenges or gaps. This enables continuous improvement and sustained workforce optimization.

Organizations that prioritize data quality and invest in an enterprise-grade workforce management solution will have a significant advantage in implementing effective workforce optimization strategies. An enterprise-grade workforce analytics solution will automatically gather the data you need to understand work patterns, utilization, and workload, and provide all the information in an easy-to-use single dashboard.

Conclusion:

As organizations shift to people-focused models, HR transformation will continue to drive operational excellence and create greater business value. To respond to ongoing workforce changes, companies need to embrace change, release old models that are no longer working, and evolve to attract, retain and develop their people. Access to high quality data is the cornerstone of workforce optimization, and HR leaders who integrate data, automation and technology will be at the forefront of the HR transformation. Organizations that prioritize data quality and invest in an enterprise-grade workforce management solution will have a significant advantage in implementing effective workforce optimization strategies.

ProHance is a leading workforce management solution that enables informed decision-making, facilitates the identification of key metrics and trends, supports predictive analytics for future planning, identifies cost-saving opportunities, and enables ongoing monitoring and evaluation. ProHance automatically gathers the data that HR teams need to understand work patterns, utilization, and workload, and provides all the information in an easy-to-use single dashboard.

Workforce analytics solutions like ProHance can simplify and accelerate workforce optimization, equipping organizations to improve operating margins and achieve true HR transformation.