

Gartner for HR

Cost Optimization's Impact on Employee Turnover

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HR Practitioner Research Team

This analysis helps CHROs consider the impact of cost optimization on employee turnover for their organizations. We have synthesized insights from 64 U.S. and European organizations using 2019 investor earnings call transcripts and Gartner's 2019 Departure View employee exit survey data.

Overview

As business leaders discuss how to optimize organizational costs, CHROs must translate business outcomes into their downstream impact on talent strategy and activities. To help inform these conversations, we analyzed trends in employee turnover based on the extent to which organizations are undergoing cost optimization efforts.

For this research, we analyzed the text of investor earnings call transcripts to identify how frequently CEOs mentioned keywords related to cost optimization. We then classified organizations as either high-level or low-level cost optimization based on the total number of cost terms mentioned in the earnings call for each. Finally, we compared the trends among employees whose CEOs mentioned cost optimization most frequently with the rest of the sample. This analysis helps CHROs whose organizations are currently considering mitigating the talent risks associated with cost optimization efforts.

Key Findings

- Cost optimization can increase employee attrition risk, as employees whose organizations have undergone more cost optimization efforts are 74% more likely to have high intent to leave their organization.
- Employees whose organizations have undergone more cost optimization efforts are more likely to indicate their dissatisfaction with rewards and leave their organizations without securing a new job.
- Cost optimization efforts can have a lasting impact on an organization's talent brand, as organizations with more cost optimization efforts have lower employee Net Promoter Scores and employee experience satisfaction scores.

Recommendations

To help address the adverse impact of cost optimization on the frontline employee experience, CHROs should:

- Mitigate the impact of changes in rewards by allowing employees to have a voice in cost optimization efforts.
- Equip managers to reevaluate employees' career aspirations by encouraging employees to use stay interviews.
- Manage employees' perception of the organization by openly acknowledging and validating the challenges of cost optimization.

Introduction

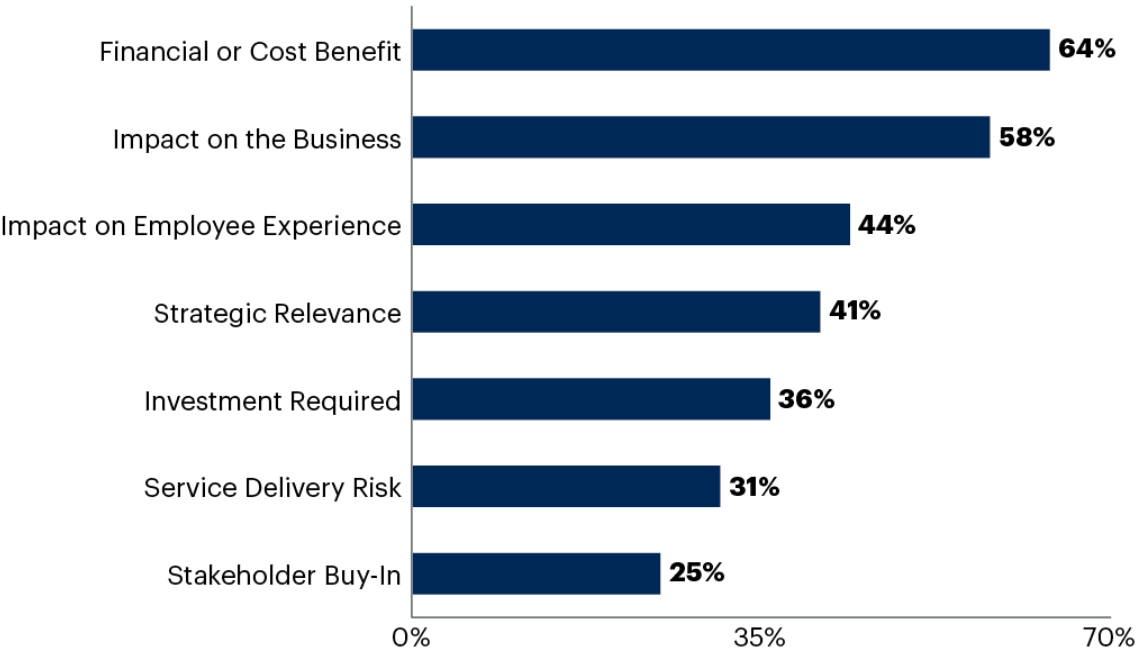
The COVID-19 pandemic and resulting economic slowdown have required organizations to take extraordinary actions to remain viable in today's business environment. Leaders face the daunting challenge of simultaneously optimizing organizational costs and restoring business growth. As organizational leaders consider potential cost optimization approaches, they must evaluate and balance the potential implications of such efforts on both the business's bottom line and the workforce.

In particular, we find that as HR leaders evaluate potential cost optimization initiatives for their organizations, they most frequently consider the financial benefits, the impact on the business, and the impact on employee experience (see Figure 1).

Figure 1: Criteria HR Leaders Use for Prioritizing Cost Optimization Initiatives

Criteria HR Leaders Use for Prioritizing Cost Optimization Initiatives

Percentage of HR Leaders Considering Each



n = 381 HR leaders
Source: 2019 Gartner HR Cost Optimization Survey
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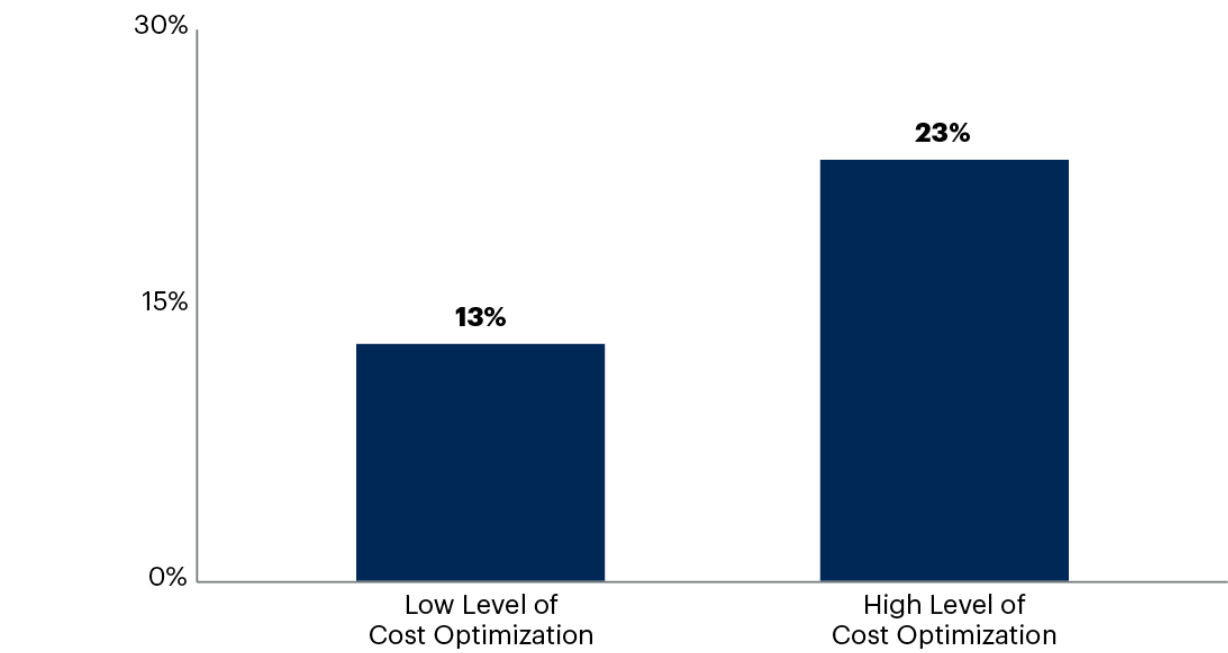
A recent HR survey indicates HR leaders continue to prioritize delivering a positive employee experience in today’s business context; only 7% of surveyed HR leaders indicated that employee experience has decreased in importance as a key priority since the start of the coronavirus pandemic. ¹

Impact of Cost Optimization on Employee Turnover

With many organizations focusing on cost optimization, we wanted to understand the impact of organizational cost optimization on employees’ intent to leave their current employers. Employee survey data from April 2020 verifies there is a strong connection between employees’ intent to leave and organizational cost optimization in the current business environment. Employees whose organizations were in the top quartile of cost optimization efforts reported an intent to leave their organizations at a rate 10 percentage points higher than their peers (see Figure 2).

Figure 2: Impact of Cost Optimization on Employee Intent to Leave

Impact of Cost Optimization on Employee Intent to Leave
Percentage of Employees Reporting Intent to Leave



n = 4,492 employees
Source: 2020 Gartner Cost-Cutting and Employee Experience Survey
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While not every cost optimization effort necessarily has an adverse impact on the workforce, many of them do. To understand the potential impact of cost optimization on departing employees, we analyzed exit survey data from 64 organizations across 2019. We then classified these organizations by the extent to which each had undergone cost optimization interventions, based on the frequency with which their CEOs mentioned cost optimization terms in 2019 investor earnings call transcripts. Our search terms varied widely, including shorter-term cost-cutting efforts, such as headcount reduction; medium-term cost optimization efforts, such as automation; and longer-term value optimization efforts, such as organizational transformation.

Our analysis identified two direct challenges and one indirect challenge HR leaders should consider as they focus on maintaining employee experience for their workforce while navigating difficult choices (see Table 1). Direct challenges are often associated with cost optimization efforts, while indirect challenges are downstream talent effects of cost optimization initiatives.

Table 1: Key Talent Challenges Associated With Cost Optimization

Type of Challenge	Talent Challenge Associated With Cost Optimization
Direct	Employee Dissatisfaction With the Approach to Rewards: Cost optimization efforts lead to employee dissatisfaction with the organization’s rewards strategies.
Direct	Difficulty Adjusting to Changing Employee Career Aspirations: Cost optimization efforts create friction as employers struggle to adjust employees’ career aspirations in response to business changes.
Indirect	Decline in Employee Perception of Organization: Cost optimization efforts result in a decline in employees’ Net Promoter Scores and satisfaction with their overall employee experience.

Source: Gartner

Direct Talent Challenges of Cost Optimization

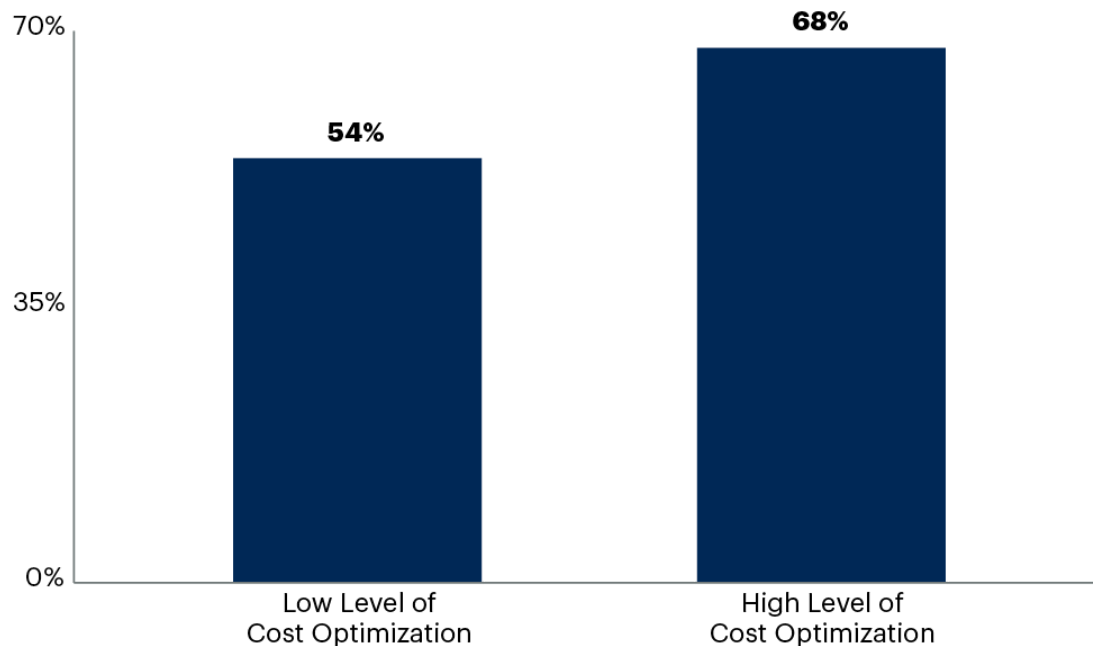
Employee Dissatisfaction With the Approach to Rewards

Despite a wide range of potential reasons for their departure, on average, employees who have undergone cost optimization are more likely to cite rewards as a key reason for their departure (see Figure 3). Cost optimization efforts that focus on reducing employee pay are effective but also have a personal and direct impact on frontline employees. This approach often limits the compensation and benefits organizations can use to incentivize their employees, which is a key challenge for organizations seeking to stay competitive.

Figure 3: Perception of Rewards by Level of Cost Optimization

Perception of Rewards by Level of Cost Optimization

Percentage of Employees Dissatisfied With Rewards at Their Previous Organizations



n = 17,702 employees

Source: 2019 Gartner Departure View Diagnostic Survey

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We also found that employees who have undergone high levels of cost optimization are more likely to expect an increase of 25% or greater in their overall compensation at future jobs. Forty-four percent of those who had undergone high levels of cost optimization indicated this expectation, compared to only 30% of the rest of departing employees.

It is important to note, however, that the type of cost optimization initiative is not the only factor that influences how the workforce perceives changes in their rewards. For example, at organizations where CEOs give up their salaries alongside the rest of the workforce, cost optimization initiatives can be perceived differently compared to organizations which only make salary reductions among employees.

Solution: Focus on Giving Employees a Voice in Cost Optimization

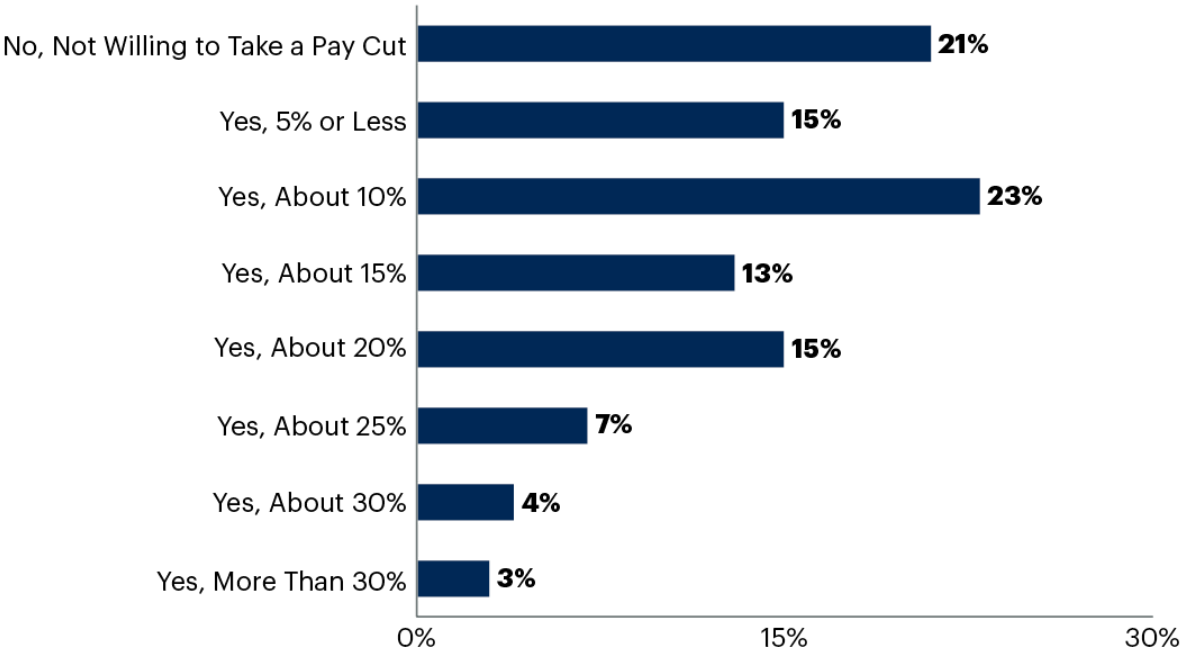
To minimize reward reductions' impact on employees, organizations should give employees a voice in cost optimization to the extent possible. While organizational leaders will still likely have to make hard — and often unpopular — business decisions, this approach can, at the very least, provide employees with a platform to communicate their preferences.

For example, in response to the COVID-19 pandemic, 40% of organizations are pursuing workforce reductions through layoffs or furloughs, while few organizations have reduced (4%) or are considering reducing (9%) employees' base compensation. ² However, four out of five employees report they would

be willing to take a pay cut if it meant avoiding layoffs and furloughs at their organizations (see Figure 4).

Figure 4: Employee Willingness to Take a Pay Cut to Avoid Layoffs and Furloughs

Employee Willingness to Take a Pay Cut to Avoid Layoffs and Furloughs
Percentage of Employees Selecting Each



n = 1,203 employees
Q: "If you had to, would you be willing to take a pay cut to avoid layoffs and furloughs at your organization?"
Source: 2020 Gartner Culture of Quality During Disruption Survey
Note: Percentages may not add up to 100% due to rounding.
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This finding indicates the importance of the way organizations communicate their cost optimization efforts to the broader workforce. Organizations should consider asking for employee input on the size of pay reductions they would voluntarily take to avoid workforce reductions before taking such actions. This approach can not only help organizations reduce costs while avoiding workforce reductions but also make employees feel like they are more fairly compensated; previous Gartner research found that involving employees in pay decisions has a positive impact on employee perceptions of pay fairness. ³

Difficulty Adjusting to Changing Employee Aspirations

Cost optimization initiatives often significantly affect employees’ future opportunities and, as a result, can be high leverage points in shaping employees’ career paths. Our data shows that reducing or freezing development opportunities has the highest adverse impact on employees compared with reductions in other employee offerings. ⁴

As with other major enterprise changes, it is important for managers and leaders to lean into the discomfort of cost optimization and create open conversations about the context behind the changes and the implications for employees. This may help reduce attrition, as cost optimization makes it more likely employees will have another job lined up prior to their resignation (see Table 2).

Table 2: Percentage of Employees With Accepted Job at Another Organization, by Level of Cost Optimization

	Low Level of Cost Optimization	High Level of Cost Optimization
Accepted a job at another organization prior to resigning	62%	49%
Actively looking for a job	22%	31%
Did not accept a job at another organization and not actively looking for a job	16%	20%

Source: 2019 Gartner Departure View Diagnostic Survey

The fact that more employees at organizations with high levels of cost optimization leave even without having a solidified future role indicates employees take a more reactive approach to their situation, likely reflecting the challenges of cost optimization for employees.

Solution: Equip Managers to Reevaluate Employees' Career Aspirations

While it may not be feasible to prevent attrition in response to major organizational changes, HR leaders can help managers and leaders mitigate the effects on the workforce. These changes, in fact, offer managers a key opportunity for engaging with employees on their career aspirations. One way for managers to effectively start such an open conversation is through a "stay conversation" exercise.

Stay Conversation: *A semistructured, one-on-one conversation between an employee and a manager, a manager once removed or a member of HR.*

Stay conversations aim to assess employees' commitment to the organization and improve their engagement. They are different from typical manager-employee conversations, including standard check-ins and performance conversations. Stay conversations are a useful, personalized form of communication that can help managers identify what ultimately influences employees' engagement, rational commitment and overall desire to either stay at or leave the organization.

Here are a few questions managers can ask their employees as they consider the potential implications of cost optimization efforts on their longer-term career aspirations:

- How do you feel about the current business environment? What are your concerns about the current business environment?
- In order to stay, what do you need to see in the organization?
- If you were to get a call today, what would push or pull you out the door?

Indirect Talent Challenges of Cost Optimization

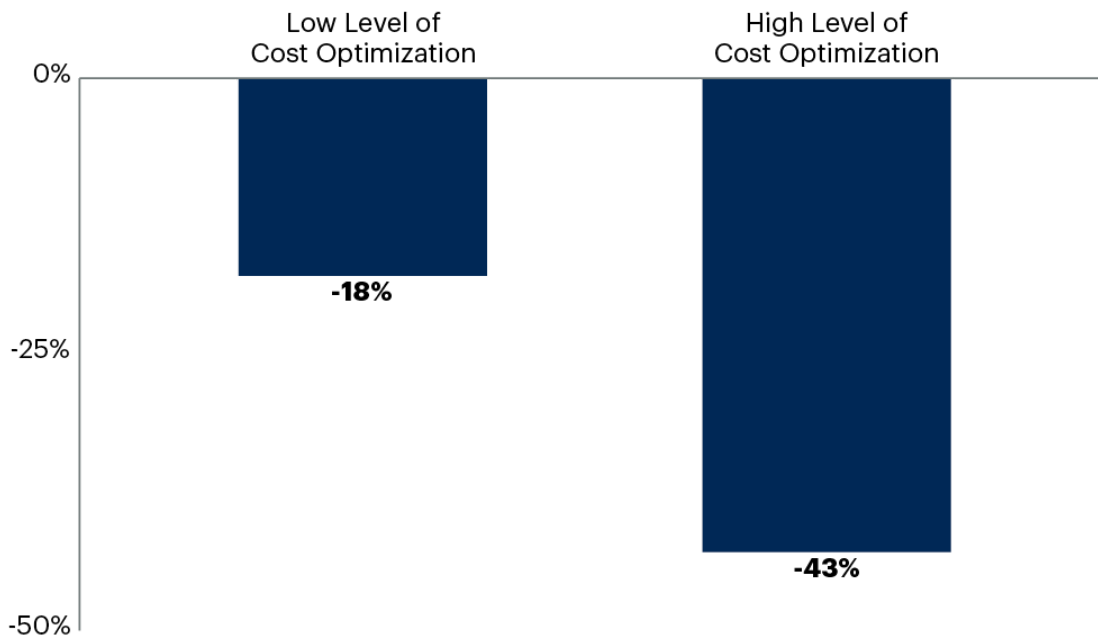
Decline in Employees' Perception of Organization

Cost optimization approaches can harm the employee experience, resulting in declining talent outcomes.⁵ The effects on employees are varied and can result in lower levels of job security or fewer resources in their work. Even for employees who are not directly affected, these efforts have indirect effects; for example, employees might now regard their employers more negatively or become less engaged and productive.

Cost optimization substantially reduces employees' satisfaction with their work experience. While, overall, 37% of employees indicate they are satisfied with their employee experience, only 25% of employees in organizations with high levels of cost optimization agree.

Taken by itself, this result is alarming. But it becomes even more concerning as these negative perceptions extend to damaging an organization's reputation. Indeed, we found that employees who had undergone high levels of cost optimization had significantly lower employee Net Promoter Scores (eNPS) compared with other employees who had undergone low levels of cost optimization (see Figure 5).

Figure 5: eNPS by Level of Cost Optimization

eNPS by Level of Cost Optimization

n = 17,702 employees

Source: 2019 Gartner Departure View Diagnostic Survey

Note: To calculate eNPS, we took the percentage of employees who indicated a score of 9 or 10 on a 10-point scale for whether they would recommend their former employer as a place to work, and we subtracted those that indicated scores of 0 through 6.

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Solution: Use Communication to Manage Employees' Perception of the Organization

To mitigate these downside risks, organizations should think about the way they are involving and consulting with employees. In particular, HR leaders should ensure their communication strategies help validate the difficulties faced by frontline employees. Even if it is too late to solve the specific challenge employees have faced, acknowledging and validating it can lead to a more positive memory of the situation and a more favorable perspective for the organizational brand.

Case in Point: Microsoft's "Acknowledge It" Email Initiative

When organizations focus solely on improving the parts of the experience that cause the most employee dissatisfaction, they see only a temporary reduction in negative employee feedback. Microsoft wanted to figure out a new way to address employees' negative experiences at the organization for the long term.

Microsoft's HR leaders use their Acknowledge It email initiative during employee onboarding and offboarding to acknowledge negative experiences employees had and highlight their feedback's positive impact in improving those experiences for other employees. This approach reframes how employees feel about those negative experiences.

Microsoft's HR leaders carefully consider what message they send, who they send it to and when they send it. To determine whom to send the messages to, Microsoft's HR leaders use several inputs, such as the number of negative experiences an employee had or the risk to future employees, to identify employees with the most negative feelings about their experience. To determine when to send the messages, Microsoft's HR leaders consider a variety of criteria — including employee receptivity to the message, employee context and organizational context — to identify the “sweet spots” or ideal timing windows for each type of acknowledgment email.

Since starting this simple, effective initiative, Microsoft has seen improvements in various areas, including employee engagement, retention and satisfaction.

Conclusion

While many cost optimization efforts can harm the employee experience of the workforce, Gartner analysis of employee turnover trends highlights a few priorities HR leaders should consider as they work to mitigate the challenges associated with constraining budgets. By focusing on maintaining their organizational reputation, refocusing on their employee rewards communication strategies and ensuring managers have open career conversations with employees in response to these changes, HR leaders can effectively address the negative talent implications of cost optimization efforts.

About This Research

This research is drawn from text analysis conducted on investor earnings calls and compares the organizational impact of cost-cutting measures on employee turnover outcomes using Gartner's proprietary Departure View employee exit survey data. We used data from nearly 18,000 employees from 64 organizations in the U.S. and Europe collected across 2019.

For our analyses, we considered organizations whose CEOs were in the top quartile of those mentioning cost optimization efforts most frequently compared to the rest of the sample.

Endnotes

¹ May 2020 Gartner Coronavirus Polling on HR Priorities

² April 2020 Gartner Compensation Watch Survey

³ 2020 Gartner Employee Job Leveling Survey

⁴ 2020 Cost-Cutting and Employee Experience Survey

⁵ ["The Impact of Cost Cutting on Employee Experience and Talent Outcomes"](#)

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