

Gartner®

2023 HR Budget and Efficiency Benchmarks

Optimize strategies.
Prioritize future investments.



Introduction

This research contains benchmarking insights from our 2022 HR Budget and Efficiency Benchmarking Survey to help human resources leaders compare their HR function's performance against peers, assess cost optimization strategies and prioritize future HR investments.

Overview

Key Findings

- The average HR functional spend as a percentage of revenue is 0.74%. Compared to other support functions such as finance (1.33%), IT (3.06%), marketing (5%) and sales (7.01%), HR receives one of the lowest investments.
- HR accounts for 1.52% of organizational operating expenses on average.
- HR functions spend \$2,524 per employee annually on average. The top spending areas are recruiting (\$425 per employee), total rewards (\$213 per employee) and L&D (\$188 per employee). However, the No. 1 area HR is planning to increase investments in is HR technology.
- HR functions deploy one HR FTE per 57 employees on average. The majority of HR staff full-time equivalents (FTEs) are involved in activities such as HR administration (2.22 FTEs per 1,000 employees), payroll (1.36 FTEs per 1,000 employees) and employee relations (1.51 FTEs per 1,000 employees).

Recommendations

To successfully identify HR improvement areas and make effective, data-driven investment decisions, HR leaders should:

- Use the benchmarks in this report as a first step to validate their own performance and identify potential areas where they could adjust spend or make investments.
- Complete benchmarking for their own function via our HR Budget & Efficiency Benchmarks to get a personalized baseline comparison of their HR functional spend and efficiency levels against key HR performance metrics.
- Extend their benchmarking analysis by assessing the depth, breadth and quality of their HR services to determine the trade-off between efficiency and quality of HR services being delivered.
- Link cost and efficiency benchmarks to a larger discussion about HR's strategic priorities and business impact by moving beyond how much the HR function is spending compared to peer organizations, to identifying how HR spending and staffing allocations are aligned to strategic business objectives. This allows for deliberate decisions on which HR services should ultimately be best in cost/efficiency versus best in quality/effectiveness.

Data Insights

Today's business landscape is defined by rising economic uncertainty, coupled with hypercompetition for talent. Disruption is the new status quo. However, we learned one lesson from prior contractionary periods: They offer the opportunity for executives to differentiate their performance and their company's performance. During times like these, organizations can pull away from their competitors and drive success for decades to come.

Our 2022 CEO and Senior Business Executive Survey shows CEO priorities are shifting in 2023. CEOs are not prioritizing cost cutting and fighting inflation. Instead, they focus on growth, with talent and the workforce as well as the acceleration of technology becoming front and centered to driving growth in 2023 and beyond.

As a result, budgets are shifting: 47% of HR leaders plan to increase their 2023 budgets, with recruiting and HR technology as the top two areas where HR leaders are planning to increase investments. Hypercompetition for talent and a digital strategy are taking center stage to keep up with future organizational needs.

As you work with your CEO and CFO to reassess organizational priorities and start to reset expectations on critical talent investments during turbulent economic times, use this report as a first step to validate your own function's performance, identify potential areas to adjust spend and advocate for critical investment opportunities. This report provides fundamental benchmarks around HR functional costs, efficiency as well as budget and staffing allocation ratios, collected via our HR Budget & Efficiency Benchmarks survey.

In the report, we will dive into three fundamental metrics:

1. HR function spend as a percentage of revenue
2. HR function spend per employee served
3. HR productivity ratios

HR leaders can use this report to:



Identify potential HR areas of overinvestment or underinvestment.



Validate staffing levels and reveal staff shortages or areas of overstaffing.



Inform the budgeting process.



Pinpoint areas to adjust spend or optimize functional cost.



Pinpoint areas for investment to enable critical business objectives.

1. HR Function Spend as a Percentage of Revenue



Why it matters

HR cost as a percentage of revenue is often the most recognized metric, as it shows the investment levels in the HR function relative to organizational performance. It helps clarify the role HR plays in overall business spending patterns. The average HR functional spend as a percentage of revenue is 0.74%. Compared to other organizational support functions such as finance (1.33%), IT (3.06%), marketing (5%) and sales (7.01%), HR receives one of the lowest investments.



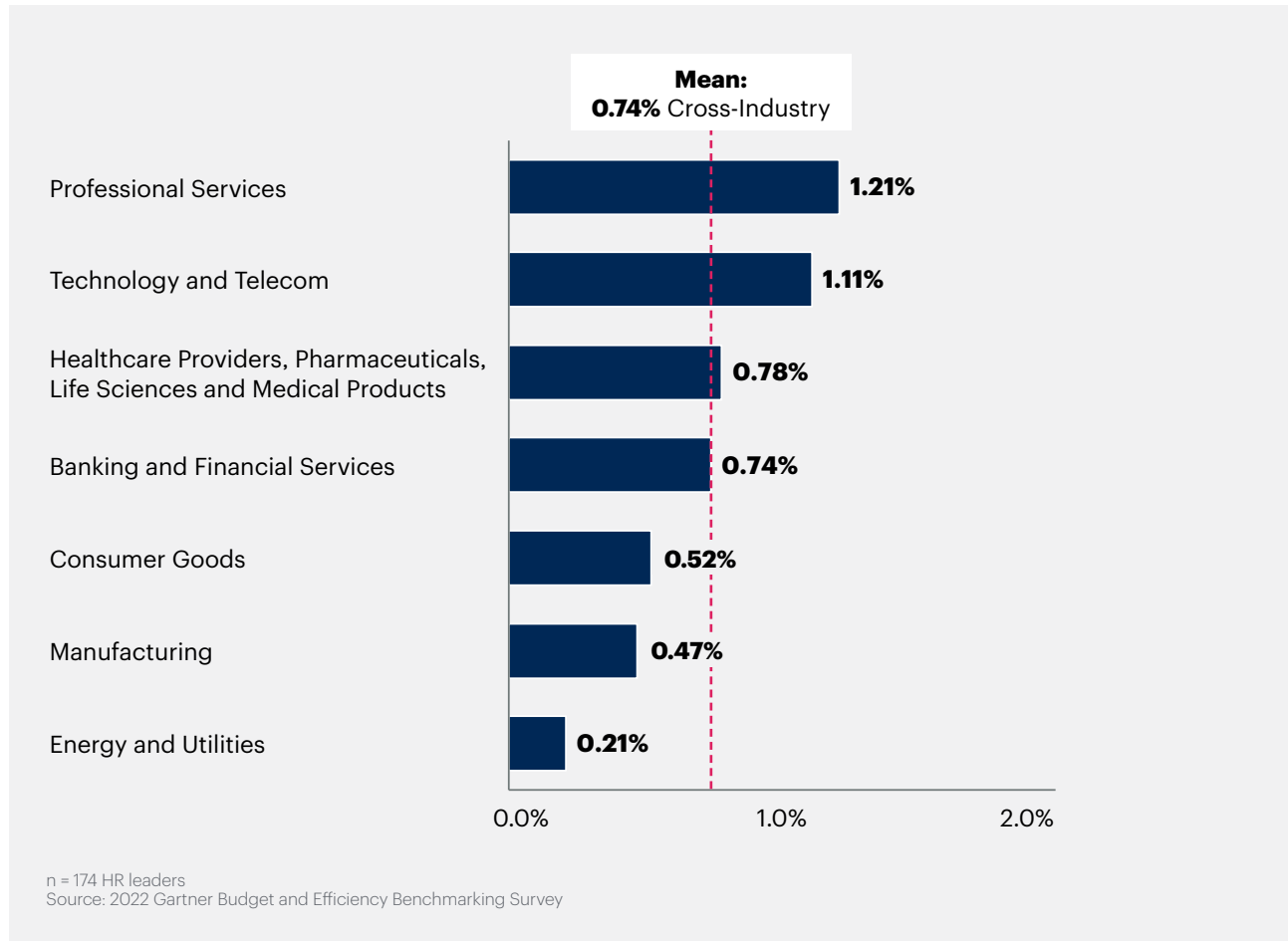
How to interpret the results

When we look at HR cost as a percentage of revenue benchmarks across multiple industries, we see industries with a high ratio of highly skilled staff — such as professional services, technology or pharmaceutical companies — at the top of the list. In contrast, more labor-intensive industries — such as manufacturing — are at the bottom. The energy and utilities industry is coming off a strong year, as tight supplies and rising demand fueled high energy prices. Therefore, look at HR function spend as a percentage of revenue numbers for this sector in the context of the current economic circumstances (see Figure 1).

Typically, organizations with a greater level of HR investment relative to revenue see HR as a strategic enabler that can improve workforce productivity levels and thereby business performance. However, HR cost as a percentage of revenue levels above or below the benchmarking average should not necessarily be interpreted as good or bad. This is because the metric neither reflects the quality of HR services provided nor HR's contribution to business performance.

Multiple internal and external factors affect the calculation. Therefore, interpret HR spending as a percentage of revenue in the context of the HR function's maturity level, the business leader's satisfaction with the HR service they receive and the level of investment other organizational support functions receive (i.e., IT, finance, marketing). This can provide further context for whether HR cost as a percentage of revenue is at an appreciable level.

Figure 1: HR Function Spend as a Percentage of Revenue



2. HR Function Spend per Employee



Why it matters

HR cost per employee is often used to determine the amount of HR support an organization's workforce receives. It can also serve as an initial litmus test as to whether the function should further explore reducing spend, shifting resources and/or investing in new capabilities.



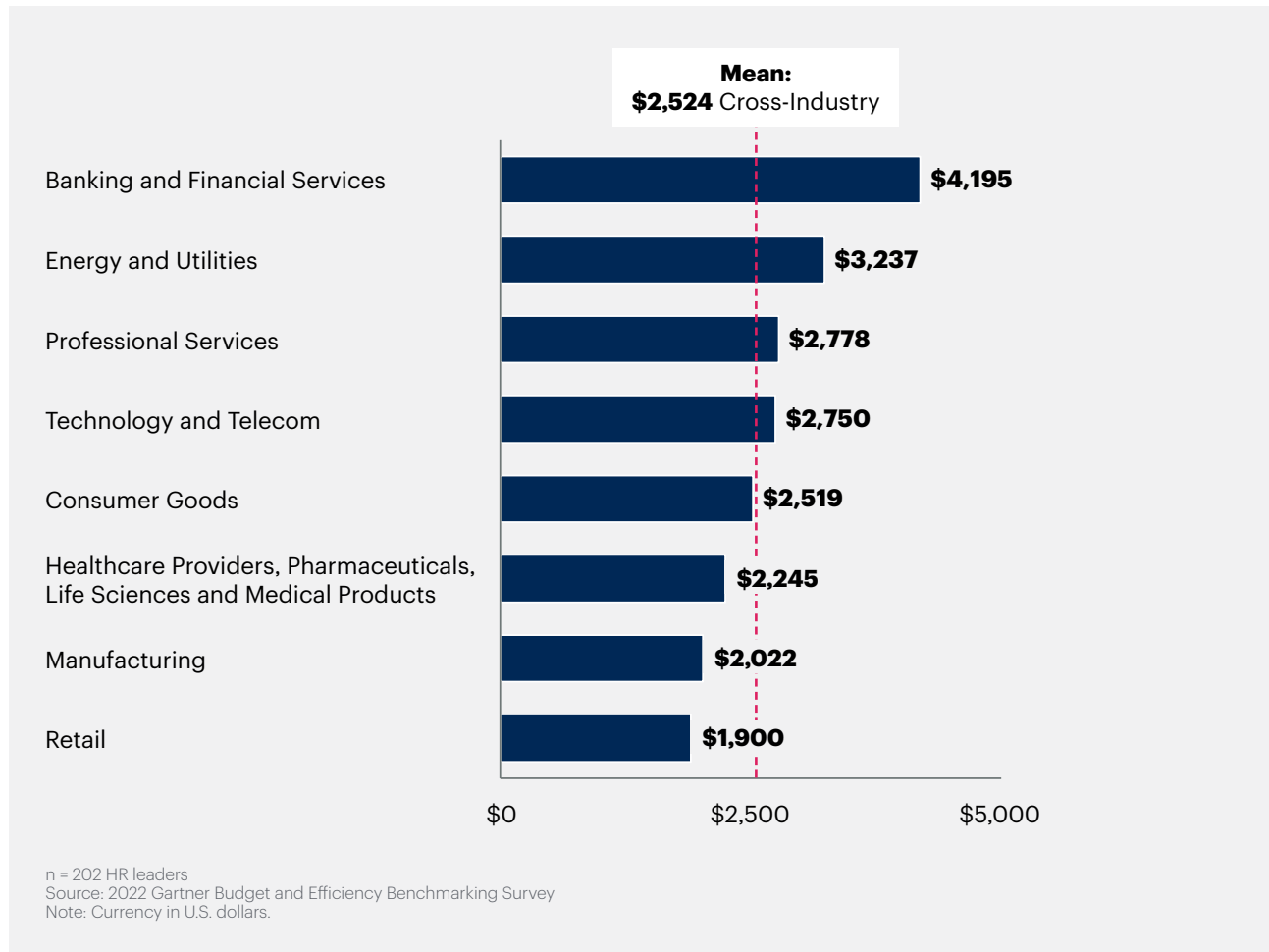
How to interpret the results

The average HR spend per employee is \$2,524. Industries with the highest HR cost per employee again tend to be the ones with high ratios of highly skilled staff. HR teams within the manufacturing or retail and wholesale industries typically spend the least per employee (see Figure 2).

However, variations in this metric could also be due to organizational staffing strategies — a decrease or increase in the number of employees or investments in new technology. In addition, the benchmarking data does not reflect an organization's deliberate decision to increase HR spend. The current fragmented and volatile business environment has led to a demand for HR support that is growing off the scale, putting HR functions under continued pressure to make the right investments to fuel organizational growth. As a result, some organizations are investing in HR as a means to create differentiating capabilities that improve employees' experience, attract specific talent segments or develop critical skills. Therefore, above-average HR cost per employee could indicate that an organization sees HR as a key contributor to its ongoing success and market competitiveness.

On the other hand, given that more than two-thirds (71%) of total HR costs are people-related, high cost per employee can also indicate a people-heavy HR function. People-heavy HR functions should seek opportunities for reallocating HR resources, leveraging HR technology to maximize efficiency and cost optimization efforts and establishing mechanisms to build flexibility within the HR function in response to unpredictable business demands. At the same time, HR should embrace an "HR shared services first" mentality and allocate transactional responsibilities into an HR shared services or HR operations team. HR should also avoid a high number of HR people in specialist roles that become costly when priorities change.

Figure 2: HR Spend per Employee



3. HR Productivity Ratios



Why it matters

The number of employees served per HR staff FTE can help determine HR's productivity in terms of workforce support.



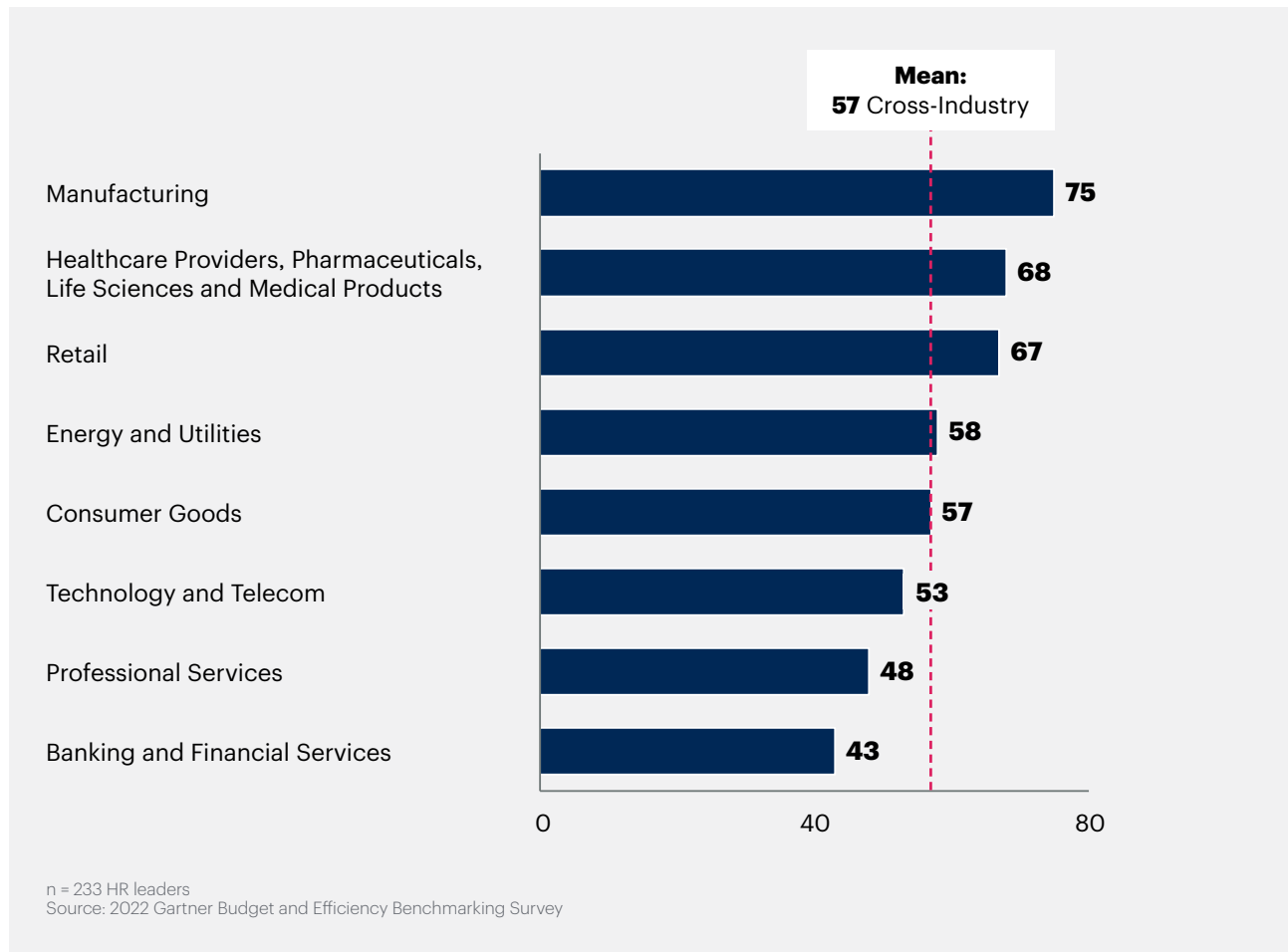
How to interpret the results

With respect to efficiency, on average, HR functions deploy one HR FTE per 57 employees. Organizations with highly labor-intensive operations — such as manufacturing industries — tend to have the highest HR productivity levels (see Figure 3). However, variations in HR productivity ratios are driven by not only industry-specific workforce characteristics but also an organization's geographical footprint, which requires dedicated HR resources in certain regions or business areas.

Further, consider HR efficiency ratios within the context of effective HR technology use that enables automatized HR processes and increased employee and manager self-service opportunities, thereby positively impacting HR's overall efficiency.



Figure 3: HR Productivity Ratios



Conclusion

CEOs continue to prioritize the workforce and technology for business success. Hence, with the reality of workforce issues rising substantially in importance, HR's chance to attract CEO attention and secure funding for critical HR initiatives has never been higher. Benchmarks can serve as a foundational component to guide HR leaders in rethinking and reprioritizing functional spending, providing context for required optimization strategies and advocating for critical investment opportunities.

However, the metrics and benchmarks outlined in this research focus on HR's cost and efficiency, not its effectiveness and maturity. Therefore, HR leaders should link these cost and efficiency benchmarks to a larger discussion about HR's strategic priorities ([see HR Score](#)) and business impact. This means moving beyond how much the HR function is spending compared to peer organizations, to identifying those HR services that require funding or additional investments to support business objectives and provide an opportunity to gain competitive advantage. Having greater visibility into how HR spending and staffing allocations are aligned to strategic business priorities helps HR leaders make better decisions on which HR services should ultimately be best in cost/efficiency versus best in quality/effectiveness.

Evidence

This research contains results from more than 200 HR organizations from across the Americas (73%), EMEA region (19%) and APAC region (8%) that participated in our 2022 HR Budget and Efficiency Benchmarking Survey, conducted from January through December 2022. Participating organizations represented all major industries, revenue sizes and organization sizes.

Resources Available to Gartner Clients:

We recommend Gartner for HR Leaders clients complete their own benchmarking using our [HR Budget & Efficiency Benchmarks](#) to get personalized results against the metrics outlined in this report and filter results according to their peer group.

Actionable, objective insight

Position your HR organization for success. Explore these additional complementary resources and tools:

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