COST MANAGEMENT

Beyond Headcount: The Role of CHROs in Cost Transformation

By Kevin Kelley, Julia Dhar, Julie Bedard, Suketu Shah, and Aisha Taylor

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At many companies, chief financial officers (CFOs) shape the cost agenda, and chief human resources officers (CHROs) execute it—typically by managing headcount reductions and potentially by lowering costs within the HR function. But that self-limiting approach reduces the office's cost-improvement potential, given that CHROs oversee what is most companies' biggest cost driver and the biggest asset: people. Both during and after a cost transformation, CHROs who take a more strategic role, shape the program, and become trusted advisers to the CEO, CFO, and business units can generate much better results.

This article explores how CHROs can shape and lead on cost by reshaping how the organization works, leads, rewards, and grows. It highlights five specific priorities that CHROs can focus on to serve as strategic partners, not support functions, in building cost-efficient organizations.

The Cost Challenge Is a People Challenge

Companies in virtually all industries and geographic markets face growing cost pressure from inflation, supply chain disruptions, tech investment demands, and other factors. Rapidly shifting tariff and trade policies introduce a new dimension to the challenge. In response to the increasingly urgent need to protect margins, many businesses are taking a closer look at their costs—both through targeted cost programs and stricter ongoing cost discipline.

Although CFOs and chief operating officers (COOs) own financial levers, CHROs can play a uniquely valuable role in addressing enterprise costs, for several reasons:

- **Most cost programs have a significant workforce component.** Because labor is such a significant expense, cost programs almost always involve changes to the workforce in overall size and in changes to team structures, roles, ways of working, leadership behaviors, incentives, and newly required skills and capabilities. In most organizations, only the CHRO has a comprehensive view of the entire people operating system.

- **Many root causes of inefficiency are people based.** Poor capacity planning, unclear roles, technology-driven changes in job parameters, talent mismatches, and cultural resistance can impact workforce effectiveness—and the company's ability to meet its cost and strategic ambitions. This is particularly true after a cost transformation, when many companies see costs rise as they struggle to adopt new behaviors and technologies.

- **Culture can undermine a cost program.** Unlike CFOs or COOs, CHROs are custodians of corporate culture and overall employee morale, which are critical to achieving disruptive change. For that reason, their perspective is critical for implementing change without eroding employee morale.

- **CHROs understand the dynamics of supply and demand for talent.** Top-performing CHROs have up-to-date information on talent resources and flows inside and outside the organization.

Five Imperatives for CHROs to Lead on Costs

In our experience, CHROs can become cost leaders for the organization—before, during, and after a transformation—by focusing on five core priorities.

Craft a Strategic People Agenda That Aligns with Business Goals

Dynamic workforce planning and demand planning are foundational capabilities for CHROs, but they are even more important in addressing the cost agenda. Translate business and cost priorities into a clear workforce plan—from the current baseline to the ideal target state—and create a clear roadmap for change. Identify the activities and programs that HR will stop, start, shift, and scale to improve cost performance. Quantify the investment required to make these changes, and get buy-in from peers by framing people initiatives in business terms: "What's the ROI on better talent allocation?" Critically, look beyond reductions to ensure that the company can support growth.

Build Talent Visibility

Revamp performance management and tracking processes to get a better sense of the company's current talent and of emerging gaps in its people and capabilities. Many organizations that have these processes in place fail to convert the information into clear, actionable metrics for leaders. Performance management assessments should factor in the overall value and cost performance of individual employees, and they should explicitly identify top performers who can drive growth in a lean environment with fewer resources. Determine how the company will fill potential talent gaps, and assess opportunities for reskilling, upskilling, and redeploying current employees before resorting to workforce reductions.

AI can provide crucial help to CHROs in managing the sheer volume of information required to increase talent visibility. By using AI to make sense of massive amounts of employee data and

external factors, companies can more effectively predict their talent needs, in core functions and in areas such as seasonal hiring, overstaffing, and projected attrition.

Redesign Decision Rights and Clarify Roles to Simplify the Organizational Structure

In many large companies, overly complex organizational structures with excessive layers and bureaucracy lead to significant operational friction. A change program—even one designed to streamline processes—can make the problem worse because measures to eliminate bureaucracy often entail introducing new processes and committees.

To overcome this tendency, CHROs relentlessly focus on simplifying the organizational structure, removing unnecessary layers, clarifying decision rights, and increasing spans of control. Controls over headcount are the best way to ensure that a cost program succeeds and that the organization doesn't need to launch another cost program a year or two later.

Clear accountability for cost performance is crucial as well. Ensure that business leaders have accountability for the P&L performance of their unit. Otherwise, one unit's costs can easily leak into the overall balance sheet and become someone else's problem.

In a cost transformation, maintaining a zero-based mindset can help. Rather than starting with the existing organization structure and applying a specific cost reduction target to it, consider adopting a clean-sheet approach—designing the organization anew after examining the talents and capabilities needed to execute the company's strategy. AI can help drive this approach by reducing the need for some types of lower-level work. For that reason, CHROs need to ensure that legacy activities stop when similar capabilities arise elsewhere, when new priorities emerge, or when AI begins to perform some tasks and the legacy component no longer adds value.

In some top-performing cost efficiency initiatives, companies set objectives and key results, and review them as part of their quarterly business review.

Foster a Cost-Conscious Culture Without Killing Morale

Culture is often the silent killer of change programs, but properly structured cost efforts can actually improve an organization's culture. One BCG study found that 62% of cost leaders saw a positive morale impact after instituting cost changes, proving that cost discipline and employee engagement can coexist.

Both during a transformation and in steady-state operations, build a cost-conscious culture that rewards smart spending, role clarity, and performance. Incentives can help: companies should update their incentive scheme to reward cost-aware behaviors. CHROs and the full leadership team can promote stories of impact (for example, teams that identified specific savings opportunities) to build internal pride in financial stewardship.

CHROs should ensure that the company treats employees impacted by workforce reductions fairly and with respect. That may entail structured support such as training opportunities during the transition. In addition to benefiting the departing employees, taking these steps fosters a more positive culture within the remaining workforce.

Lead the Human Side of Change at Scale

Cost efforts succeed when employees and managers buy into the process, but this kind of engagement can be difficult to foster. Many organizations have gone through multiple rounds of cost reductions, and unsuccessful efforts can breed cynicism.

CHROs must own the change narrative, from executive alignment to frontline teams. Clear communication about future objectives can help bring employees along on the journey, generating momentum and consensus. Adopt proven measures from change management playbooks, including milestones and objectives, value tracking to show bottom-line impact, communications cadences, feedback loops, and training.

In the critical period after adoption of a cost program, take specific steps to ensure that costs don't creep up over time. Reallocate talent to new business priorities, rather than simply hiring new people. Resist the tendency to create new levels of overhead—committees, approvals, and processes—to implement the program. To capture the cost savings from technology investments, ensure that employees have the necessary skills and willingness to use the new applications and solutions. Shut down legacy systems to avoid parallel workstreams and hidden technology costs.

Key Factors in Execution

Our experience in helping companies implement these priorities points to several success factors that CHROs can consider in executing a people-oriented cost transformation:

- The process can take as little as four to six months, but it won't succeed if the organization relies on business-as-usual methods. Instead, bolder steps are necessary. Although some of these may initially seem uncomfortable or challenging, they will lead to better results in the long run.

- To systematically improve talent and engagement levels, HR functions need to run error-free, people-oriented processes across the entire enterprise. Often, that entails rethinking processes, using technology to improve accuracy and reduce manual work.

- Care for employees includes pragmatism and action, at speed.

Many CHROs want to evolve beyond their traditional mandate and become strategic partners to the CEO and C-suite. In an era in which cost discipline defines competitiveness, they have a clear opportunity. Future people leaders won't simply execute processes—they'll optimize how people work, learn, and lead, with the goal of making their organizations more cost efficient and competitive. For CHROs, the time to lead is now.

Authors

Kevin Kelley

Managing Director & Senior
Partner, Global Lead for
Operating Model, Organization,
and Cost
Dallas

✉

Julia Dhar

Managing Director & Partner
Miami

✉

Julie Bedard

Managing Director & Partner;
BCG Henderson Institute Fellow
Boston

✉

Suketu Shah

Managing Director & Partner
Dallas

✉

Aisha Taylor

Managing Director & Partner
Chicago

✉

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