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5 KEY CHALLENGES ORGANIZATIONS WILL FACE IN 2024

INTRODUCTION

The 2023-24 SHRM State of the Workplace Report finds business leaders caught between the talent challenges of the past few years and an AI-powered future. Executives will need to adapt their business strategies and change management methods to reach their goals in the year ahead.

THIS REPORT EXAMINES **FIVE CRITICAL ISSUES** ORGANIZATIONS WILL FACE IN THE COMING YEAR:

- Balancing inflation and talent needs.
- Training an evolving workforce.
- Realizing the full potential of AI.
- Persistent IE&D and mental health challenges.
- Struggles with engaging workers.

If transforming an organization's approach to talent and technology amid economic and political uncertainty sounds like a tall order, remember that all organizations are facing the same demanding environment. Clear-eyed leadership may well be a decisive competitive differentiator in the years ahead. Consider each of the trends below as an opportunity to surpass the competition in 2024.

CHALLENGE 1:

BALANCING INFLATION AND TALENT NEEDS

While inflation has moderated in recent months, the cumulative effects of higher inflation between 2021 and 2023 will continue to impact workers and businesses in 2024. Almost three-quarters (74%) of executives said inflation would be a concern for their organization in 2024, more than any other issue. The labor market has cooled somewhat compared with the height of the Great Resignation, with rounds of significant layoffs in tech, retail, manufacturing and finance making headlines in the past year. Yet unemployment remained low at the end of 2023, and there are still more job openings than available workers.

This leaves business leaders in a delicate position, as **fair compensation is a top priority for 87% of U.S. workers[1] in 2024.**

A combination of labor demand and pay transparency laws will incentivize companies to offer competitive salaries to attract and retain workers. But businesses must also contend with rising costs in other areas, the drive to increase profits and the need to hedge against a potential economic downturn. About two-thirds (68%) of HR executives identified “finding ways to reduce costs/improve efficiency” as a priority for 2024, making it the fifth most commonly cited concern. Most HR executives (51%) said they expect budget constraints to be a barrier to meeting organizational goals in 2024. Just 65% of HR executives said their organization reported planned staffing increases in the coming year.

[1] Refers to workers in non-HR roles.

Yet **78%** of organizations expect to pay more for talent in 2024.

Among those organizations, 79% are planning for pay increases of 4.9% or lower, roughly commensurate with the current inflation rate. About half (52%) of HR executives said they considered inflation when determining pay increases, but it is not a standard factor, while another 27% said they consider inflation as a standard part of their annual cost-of-living pay adjustments.

This could be why few (35%) HR professionals[2] believe their organization effectively delivered fair compensation to current employees in 2023. Notably, HR executives were more optimistic and more likely to report effectiveness in providing fair compensation to newly hired employees (64%) and current employees (55%) than HR workers[3] (47% and 34%, respectively). Despite these differences in perspective, both groups agree that current employees lagged behind new hires.

At the same time, 39% of organizations plan to transition more of their workforce to in-person work in 2024, compared to just 5% transitioning toward remote work. Some employees will see the end of remote work as a loss of a benefit with monetary value, which could blunt both the fiscal and psychological impact of pay increases. However, more than a third of organizations (35%) plan to plan to improve flexibility and leave policies to better fit their current workforce's needs—perhaps to increase retention. This strategy could also help attract prospective employees since HR professionals named schedule flexibility a barrier to talent acquisition.

[2] Includes responses from HR executives and HR nonexecutives.
[3] Refers to nonexecutive HR workers.

HOW SHOULD BUSINESS LEADERS RESPOND?

Organizations will need to take inflation into account when designing both their compensation strategy and their long-term approach to talent. Many workers are still struggling with the cumulative effects of two years of pay increases that didn't keep up with high inflation rates or productivity gains. In the long term, if workers can't connect their contributions and their compensation, it could lead to declines in morale and productivity. Business leaders must empower their HR departments to find ways to make workers continue to feel valued in a shifting work environment, especially since retaining a productive worker is more cost-effective than replacing them. As the workplace evolves in response to some of the trends discussed below, upskilling workers and giving them clear paths to advancement may help improve retention, reduce skills gaps, and increase productivity while containing costs, offering executives the best of both worlds.

CHALLENGE 2:

TRAINING AN EVOLVING WORKFORCE

Heading into 2024, 37% of organizations plan to invest more in training and development, making it the most common investment area, while leadership development was the third-most common at 33%. Fewer organizations are planning increases for talent acquisition (29%).

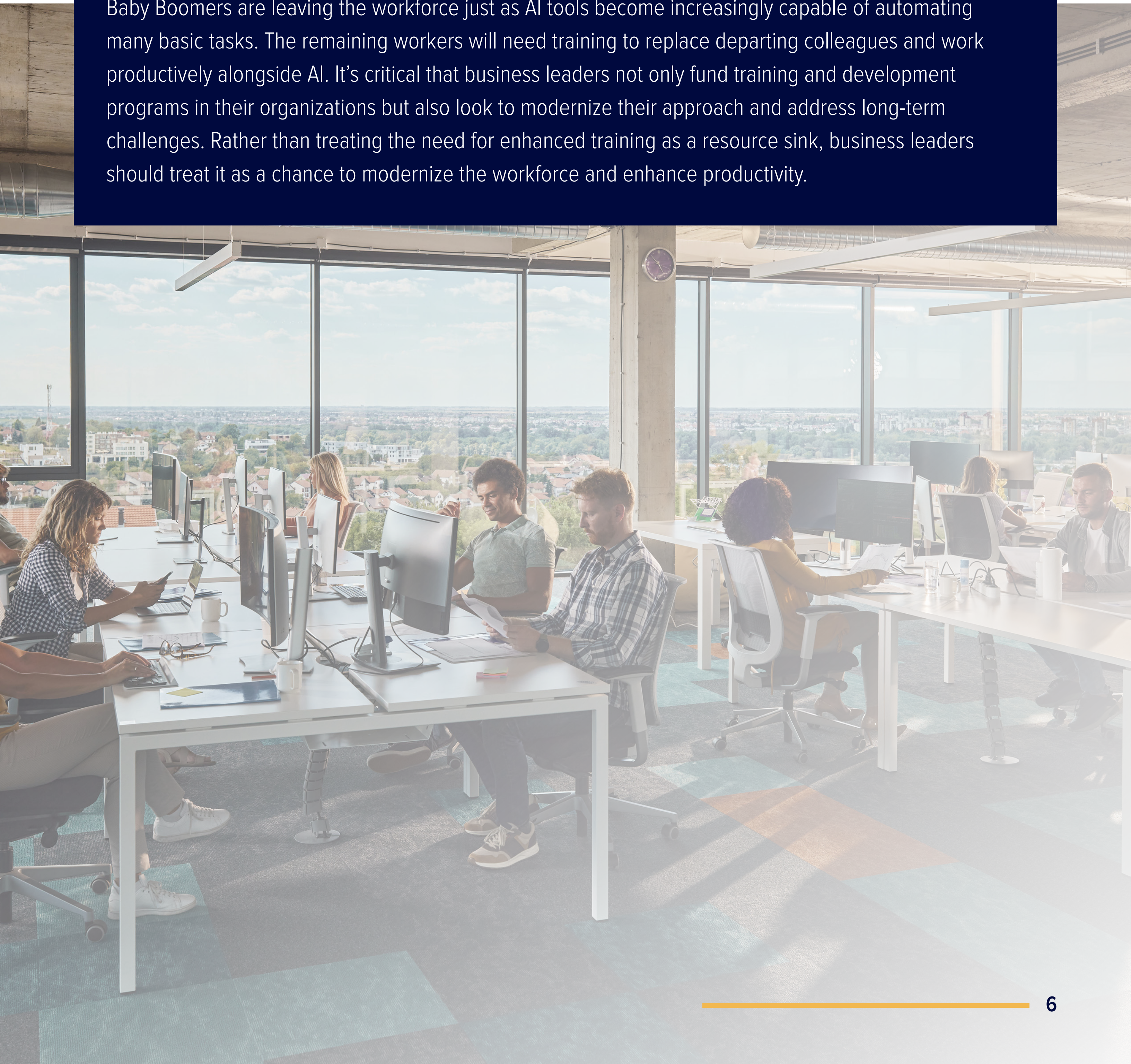
Upskilling or **reskilling** the current workforce is a top 2024 priority for **53%** of organizations, yet only **21%** were very or extremely effective at upskilling or reskilling in 2023.

What's driving the need for investments in training? About [12,000 people a day] will reach the age of 65 in the U.S. in 2024, more than at any other time in the nation's history. Organizations know that retraining existing workers to replace retirees is more cost-effective than hiring new employees for critical roles.

Training is an area rife with opportunities for improvement. HR executives rated their organizations' training and development programs a **B-** on average, while U.S. workers would only give them a **C**. Training leaders and people managers will be a particular focus in 2024, as it offers organizations a cost-efficient chance to increase staff retention rates and organizational effectiveness. Progress is needed, considering HR executives give their organizations a **C+** for leadership development, and U.S. workers would give them a **D+**.

HOW SHOULD BUSINESS LEADERS RESPOND?

Organizations are caught between two accelerating trends that will disrupt the talent landscape. Baby Boomers are leaving the workforce just as AI tools become increasingly capable of automating many basic tasks. The remaining workers will need training to replace departing colleagues and work productively alongside AI. It's critical that business leaders not only fund training and development programs in their organizations but also look to modernize their approach and address long-term challenges. Rather than treating the need for enhanced training as a resource sink, business leaders should treat it as a chance to modernize the workforce and enhance productivity.



CHALLENGE 3:

REALIZING THE FULL POTENTIAL OF AI

In the near term, HR's approach to AI is cautious yet strategic, focused on a handful of tasks that lend themselves to automation and optimization. Current AI adoption in HR departments is relatively low and focused on specific functions, but that seems likely to shift in the years ahead.

Currently, 25% of HR departments use AI. Among those departments using AI, it is most frequently used for talent acquisition (42%), employee training and development (36%), and people analytics (21%). However, only 12% of HR professionals and 15% of U.S. employees believe their organization uses AI very or extremely effectively.

Looking ahead, another **26%** of HR departments plan to adopt AI tools in 2024 or later. This means that by 2025, **half of HR departments could be using AI.**

In the meantime, "shadow" AI use may be a concern for organizations, as 75% of organizations have no guidelines or policies about using generative AI. A third (34%) of HR professionals report using ChatGPT or other generative AI programs at work, suggesting that some use these tools without their organization's guidance.

Among HR professionals who use generative AI, 60% considered it “quite” or “extremely” useful. Only 5% said it was not at all useful. Despite AI’s utility, only 20% of HR professionals report that integrating it into the workplace is a high priority in 2024.

HOW SHOULD BUSINESS LEADERS RESPOND?

AI adoption will be about balance for most organizations. Businesses should not rush into AI use without a coherent strategy and sound policies to govern its use, but they also shouldn’t try to avoid the technology. Business leaders need to use this time to actively study potential use cases and risks rather than passively waiting to see what approaches become dominant. With careful planning, organizations can ensure strategic alignment between its AI use and talent strategy, particularly regarding training and development. Workers will need to adapt to AI and will need organizational support to adjust to the new working methods associated with these tools.

CHALLENGE 4:

PERSISTENT IE&D AND MENTAL HEALTH CHALLENGES

Only 52% of organizations are planning to implement or expand inclusion, equity and diversity (IE&D) initiatives. In a Q4 2023 survey for SHRM's CHRO Business Outlook, CHROs were asked how much their organization prioritized IE&D. Half (50%) indicated that it was not a priority or a low priority, compared with 39% who said the same in Q4 2022.

There are many reasons why IE&D programs could be floundering. It could be about a shift in priorities, a lack of resources, or perhaps some IE&D programs aren't delivering the results organizations expected. Or it may reflect concerns about potential legal challenges to programs designed to promote workplace diversity in the wake of the U.S. Supreme Court's recent ruling on affirmative action.

Whatever the cause, IE&D programs are struggling. Organizations' 2023 IE&D efforts received a C rating on average from U.S. workers, HR workers and even HR executives, who typically assign higher grades to their organization's performance in most areas. According to HR professionals, just 28% of organizations were effective at achieving greater workplace IE&D in 2023. Mental health programs are in a similar position.

About two-thirds **(66%)** of HR professionals say employee mental health is a concern, second only to inflation.

Yet only 39% of organizations plan to increase mental health benefits in 2024. At the same time, just 35% of HR professionals said their organization is effective at supporting employees with mental health concerns.

Part of the challenge may be that many organizations aren't evaluating IE&D and mental health programs properly. According to SHRM research, only 25% of HR professionals said their organization measured the effectiveness of their IE&D programs in 2022, and just 17% said the same for mental health programs. If these programs aren't being tracked and continuously improved, they won't deliver the results organizations need.

HOW SHOULD BUSINESS LEADERS RESPOND?

Instead of seeing IE&D and mental health as separate challenges that can be ignored in favor of focusing on engagement and retention, organizations need to recognize that these are parts of the same conversation and require a coordinated approach. Rather than de-emphasizing these critical areas, look for ways to make IE&D and mental health programs more systemic and integrated into all employee experience programs so they're strategically aligned with the organization's broader talent goals.

CHALLENGE 5:

STRUGGLES WITH ENGAGING WORKERS

When HR professionals were asked what they believed their organizations would prioritize in 2024, the two most common answers were "maintaining employee morale and engagement," reported by 81% of respondents, and "retaining top talent," reported by 78%. Those goals make sense, given the talent challenges outlined in the sections above.

However, only **29%** of HR workers said their organizations were effective at retaining top talent in 2023, and just **45%** of HR executives stated that their organizations were effective in this regard.

HR departments are not immune to morale challenges. More than half of HR professionals feel they are working beyond their typical capacity (57%) or are short-staffed for their workload (56%), and there are significant turnover implications as a result. HR professionals who say they are working without enough staff for the workload are more likely to say they are actively searching for another job (34% versus 22%). In addition, HR professionals working beyond their typical capacity are also more likely to say they are actively searching for another job (31% versus 22%).

Perhaps this is why more than half of HR executives (58%) say limited time or dedicated personnel is a top barrier to achieving 2024 priorities. Organizational budgets are not likely to address these issues in 2024. About half (52%) of HR executives say they expect their organization's investment in HR to remain the same in 2024, while 37% say they expect their organization will invest more in HR. Just 34% of HR professionals report increasing their budget for HR employee compensation for 2024.

This reflects the high-stakes challenges, tight budget pressures and high board expectations that organizations face in 2024.

HOW SHOULD BUSINESS LEADERS RESPOND?

Morale will be a pressing challenge across organizations in 2024. Traditionally, business leaders would look to HR to address this issue, but the data suggests that HR departments face some notable challenges of their own. Many HR departments will need additional resources, as burnout is a real risk for HR professionals at the executive and nonexecutive levels. Additionally, organizations should consider how they're investing in people management and leadership development to help create a workplace culture that promotes employee engagement.

CONCLUSION

Workplaces have endured a lot of transformation in the last four years, but the changes behind are nothing compared with the ones that lie ahead. The coming year will bridge old and new ways of thinking about how organizations source, compensate, train and engage talent. The companies that will thrive in the world of work to come will be the ones that lay the foundations for those changes now.