

CHRO OUTLOOK:

CHALLENGING TIMES AHEAD

**CHROs Grapple with Long-Term
Effects of Labor Shortage**





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EXECUTIVE SUMMARY

The past two years have not been easy for HR teams—and more challenges lie ahead, according to a February 2022 survey of HR executives by the SHRM Research Institute in partnership with Chief Executive Group's StrategicCHRO360. Fewer CHROs have a positive outlook on current business conditions than in the last quarter of 2021, yet most HR leaders expect to see their businesses grow in the next year. If HR leaders are going to help their organizations thrive in a challenging market, they're going to have to focus on talent management so that the internal effects of the current labor crunch, such as lower employee morale, don't turn into external problems like poor customer service.


The labor shortages currently plaguing virtually every industry are top of mind for HR leaders, with CHROs citing the labor market as the top contributing factor to their forecast. Despite recruiting and retention difficulties, nearly 3 in 4 HR executives anticipate increasing staff counts. This expected growth will come at a cost, however, as employees demand better compensation for the work they do, while HR teams will need to work harder for every hire.



Higher labor costs are only part of the story. Almost half of CHROs surveyed predict capital expenditure increases within their organizations, reflecting efforts to combat other issues, such as supply chain challenges and inflation in the prices of goods and services. Higher labor, materials and logistics costs will place a growing burden on organizations in the next year, forcing many to make difficult choices about whether to pass higher costs on to consumers who are already struggling with inflation or to trim executive salaries and bonuses, which could affect turnover.

Two-thirds of CHROs indicate that their overall turnover rates are higher now than one year ago. The good news is that 88 percent of CHROs said that resignation rates within the human resource department are no greater than in other organizational units. Interestingly, executives—who no doubt face stress levels similar to or higher than that of the teams they lead—have remained in their roles. Two-thirds say that C-suite-level turnover is about the same as one year ago, with an average of only 8 percent. This statistic is of particular importance because troubled times require steady leadership in key executive positions.

Still, 85 percent of CHROs reported in our Q4 2021 report that HR professionals under their purview feel burned out. Thanks to stress at work and at home, 86 percent of CHROs say employee mental health has become more prominent as a topic at their organization. If high turnover throughout the organization continues to create additional urgent work for HR professionals, CHROs would do well to monitor HR staff closely to make sure they have the resources they need and to ensure that stress doesn't hamper their ability to staff the rest of the business effectively.



HR leaders should ponder the long-term effects of the conditions we're calling the Great Resignation. The longer the labor market remains this tight, the more pressure it places on HR to deliver. CHROs will need to move beyond "crisis-mode" thinking and look for scalable solutions that will allow the business to compete for talent in the long term.

CHROs already claim they've seen business operations affected in the short term. As businesses struggle to retain employees, they risk significant loss of institutional knowledge and culture that are critical to maintaining high levels of excellence.



LACK OF BUSINESS IMPROVEMENT DISHEARTENS CHROs

CHROs who have trouble seeing the light at the end of the tunnel shouldn't feel alone. In fact, only 32 percent of CHRO respondents to our survey expect to see very good to excellent business conditions in one year (rating condition 8+ on a 10-point scale). The number of CHROs who anticipated weak to poor conditions (1-4 on the 10-point scale) doubled to 6 percent since Q4 of 2021, showing steady movement toward realism over optimism among CHROs.

32%

of CHROs predict very good to excellent business conditions in one year (8+ on 10-point scale).

6%

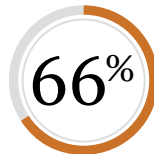
anticipate weak to poor conditions in one year (1-4 on 10-point scale).

Still, as organizational leaders, the actions HR executives take now will ultimately facilitate more favorable business conditions over the long term. While CHROs cannot control inflation, supply chain bottlenecks or the general labor market, they can bolster internal focus on a workplace culture that encourages retention. Focusing on developing a strong internal culture that supports and celebrates employees can have two positive outcomes: Staff feel inclined to recommend qualified people for job openings, and workers are less likely to resign.

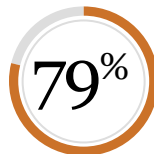


FOCUS ON WORKFORCE EXPANSION AND CHALLENGES

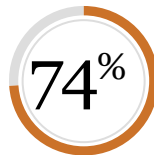
The news isn't all bad for businesses. CHROs project growth in numerous areas. Despite the challenges organizations face right now, CHROs forecast growth in the following areas over the next 12 months:



Profits. Despite all the business challenges, only 8 percent of CHROs expect their profits to decline.



Revenue. The impact of the labor market has yet to trickle down to the financials for some organizations, because 79 percent of CHROs expect revenue to increase.



Number of employees. Even the Great Resignation hasn't dimmed HR leaders' determination to increase their headcount.

When CHROs were asked about the areas of their business most affected by the current labor crisis, their answers revealed that they believe the current staffing crisis influences the employee experience, which has implications for both retention and recruitment. The most-affected areas include:

- Employee morale (63 percent).
- Employee engagement (44 percent).
- Business operations (44 percent).
- Workplace culture (42 percent).
- Productivity (37 percent).
- Knowledge loss (34 percent).

Savvy CHROs will recognize the need for increased resources to support employees individually and organizationally through company culture if they hope to retain staff. Given that a majority of CHROs plan to focus on expanding their workforces, employees who don't feel their needs are being met likely won't have any problems finding employment elsewhere.

MIXED SENTIMENTS ON COVID-19 VACCINE MANDATES

COVID-19 vaccinations remain a polarizing political issue. Such polarization can create a proverbial minefield for HR, which is responsible for navigating both sides of the argument to keep the peace among the workforce. However, even HR leaders at the executive level can't agree on the next steps for vaccine mandates.

HR executives' sentiments feature a notable split on a government health tax and a near-even divide on increased insurance premiums for unvaccinated individuals.

More than half of HR executives disagree or strongly disagree with a statement supporting the government charging a special health tax to U.S. residents who are not vaccinated against COVID-19.



There is no consensus among HR executives when it comes to a statement in favor of organizations raising health insurance premiums for employees who have not received a COVID-19 vaccination.



The split opinions among CHROs illustrate another example of the stresses present in the modern HR workforce. HR staff must enforce company policies regarding vaccines whether they agree with them or not, which can cause extreme stress and lead to burnout. It's up to CHROs to provide top-down guidance in these scenarios to ensure that HR staff feel supported when enforcing the rules.



SEEKING LONG-LASTING ORGANIZATIONAL RESILIENCE

Human resource executives all but universally say that their organizations are resilient. Having said that, the issues discussed here can all potentially threaten organizational resiliency.

99%

of CHROs classify their organizations as resilient.

Organizations will continue to evolve as the world of work changes, but now is not the time to be lulled into a false sense of security. Clearly, the COVID-19 pandemic has not only brought employee mental health issues to light, it has also exacerbated them. These challenges undoubtedly existed before the pandemic, but they have become a prominent topic for organizations in recent months and will likely continue to be.



METHODOLOGY

The CHRO Confidence Index survey is a Chief Executive Group research program conducted quarterly in partnership with SHRM. A total of 101 surveys were completed from Feb. 14, 2022 to Feb. 23, 2022. The survey was fielded electronically to U.S.-based CHROs and senior HR executives. Respondents represented organizations of all sizes—from 50 to more than 5,000 employees—in a wide variety of industries across the United States. More than three-fourths (76 percent) of respondents were from organizations with 500 or more employees.

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