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**Submitted to the
Senate Armed Services Committee**

Evolving Workforce Dynamics and the Challenges for Defense Acquisition and Defense Industrial Base Personnel

Wednesday, February 28, 2024

Introduction

Chairman Jack Reed, Ranking Member Roger Wicker, and Senate Armed Services Committee members thank you for the opportunity to testify on the state of the workforce.

SHRM empowers people and workplaces by advancing HR practices and maximizing human potential. For 75 years, we have been the trusted authority on all things work, workers, and the workplace. Our nearly 340,000 HR professionals and executive members touch the lives of over 362 million workers and their families in 180 countries.

A few weeks ago, SHRM released its [*2023-2024 State of the Workplace Report*](#), focusing on the challenges employers and workers faced in 2023 and the key issues they foresee confronting them in the future. The report looks at four existing critical issues and future challenges in the workplace:

1. Balancing inflation and talent challenges.
2. Training an evolving workforce.
3. Realizing the full potential of Artificial Intelligence.
4. Struggles with engaging workers.

Key Trends and Challenges

The *2023-2024 SHRM State of the Workplace* report highlights several key findings:

- **Inflation:** Inflation was the top concern for organizations in 2023, with 73 percent of HR professionals indicating it as a current concern. Organizations expect inflation to remain a

challenge in 2024, impacting hourly/nonexempt employees (82 percent of HR professionals identified this concern), salaried/exempt employees (69 percent), and customers/consumers (67 percent).

- **Labor Shortages:** Labor shortages were another major issue in 2023, with 65 percent of organizations expressing concern.
- **Cost Reduction and Efficiency:** Reducing costs and increasing efficiencies is a top priority for organizations in 2024, cited by 68 percent of HR professionals. However, only 31 percent of HR professionals say their organizations were extremely or very effective at finding ways to reduce costs and increase efficiencies in 2023.
- **Compensation:** Nearly 9 in 10 U.S. workers (87 percent) believe fair compensation for current employees should be the top priority for organizations in 2024. Yet only 27 percent of HR executives say they factor inflation into annual pay raises.
- **Artificial Intelligence (AI):** A quarter of HR departments currently use AI applications for specific purposes such as recruitment and employee training and development. Plans for 2024 reveal steady AI adoption in more organizations.
- **People Management:** Improving people managers' understanding of their roles and developing their soft skills (such as empathy) are top plans for 2024 (both selected by 76 percent of HR professionals). Organizations can build better managers by developing skills in coaching and mentoring, effective communication, performance management, conflict resolution, and strategic thinking.

Recruitment Challenges

- Seventy-seven percent of organizations report difficulty recruiting for full-time regular positions in the last 12 months. While this is a decrease from 91 percent in 2022, recruiting difficulties remain of deep concern.
- Forty-seven percent of HR professionals say it has been somewhat (39.1 percent) or much more difficult (8 percent) for their organization to recruit for full-time regular positions compared to one year ago.
- The top three reasons for recruitment challenges are a low number of applicants (60 percent), competition from other employers (55 percent), and an increase in “ghosting” (46 percent).

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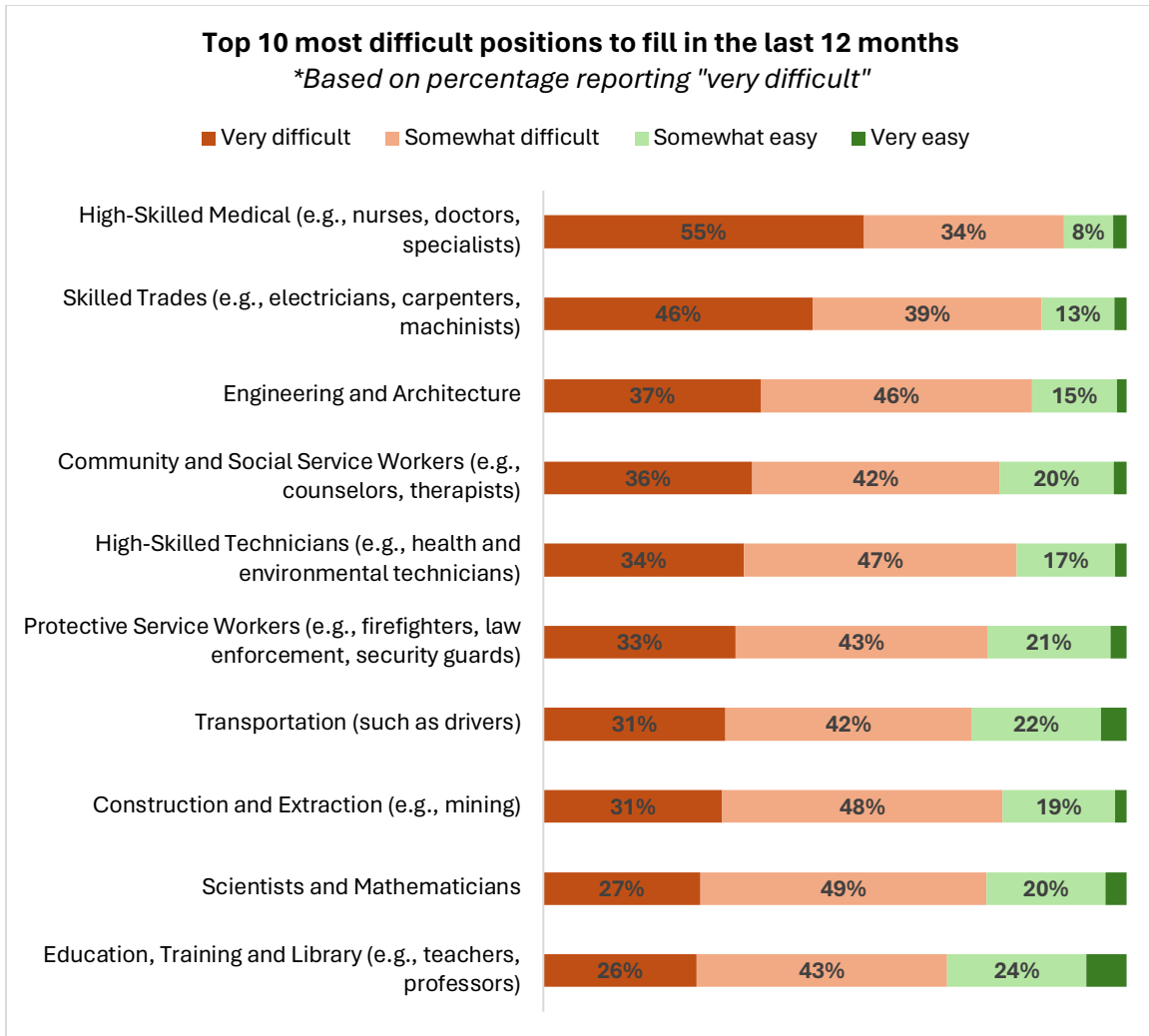
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Retention Challenges

- Nearly half (49 percent) of organizations have had difficulty retaining full-time regular employees in the last 12 months.
- The top five reasons for retention challenges are salaries/pay not competitive for the market (56 percent), employees’ personal reasons (54 percent), poor people managers/leaders (50 percent), limited advancement opportunities (49 percent), and the inability to offer flexible work arrangements, such as remote work (44 percent).
- For organizations **not** experiencing retention challenges, the top reasons are a positive workplace culture (70 percent), competitive benefits packages (68 percent), positive work-life

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integration/balance (61 percent), salaries/pay that is competitive for the market (58 percent), and good people managers/leaders (54 percent).

Skills Availability

- 1 in 4 (26 percent) HR professionals report that some of the full-time regular positions hired by their organization in the last 12 months have required new skills to fulfill new job duties.
- 3 in 4 report that it has been somewhat (62 percent) or very difficult (14 percent) to find qualified individuals for these positions that require new skills.
- The top three reasons organizations require new skills are the growth of the organization (55 percent), changing technology (51 percent), and developing or offering new products/services (41 percent).
- Among HR professionals whose organizations hired full-time regular positions in the last 12 months that required new skills, 44 percent say these positions required new workplace soft skills (e.g., problem-solving, interpersonal skills, communication, teamwork).

Modernization: Navigating the Changing Landscape

SHRM is a longstanding pioneer in predicting workplace trends and equipping organizations for perpetually evolving work environments. In 2024, HR departments are implementing several strategies to enhance recruitment:

- They are expanding their search to more diverse and underutilized talent pools, including people with disabilities and formerly incarcerated individuals (62 percent).
- Utilizing pre-employment tests or assessments to identify qualified candidates (35 percent).
- Relaxing education/degree requirements (28 percent).

However, due to ongoing labor shortages, HR departments are being compelled to strategize about workforce management more effectively. A key focus is on supporting the existing workforce before recruiting new talent.

Organizations must evolve beyond traditional hiring practices, which often emphasize qualifications and experience, and adopt skills-based hiring principles. This approach broadens the talent pool, uncovering overlooked talent, such as veterans, military spouses, and caregivers, by prioritizing skills acquired through various experiences, certifications, competency assessments, or nontraditional learning platforms.

In today's rapidly changing world, adaptability is paramount. SHRM research indicates that over 31 percent of organizations are modifying their recruitment strategies, including enhancing social media presence, advertising, and employee referrals. Approximately 20 percent are adopting new HR technologies or upskilling their HR professionals to improve recruitment and hiring processes in this new

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environment. HR executives rank strategic thinking and adaptability among their top five most effective behaviors sought in their talent.

A commitment to communicating potential career paths and development opportunities is an incredibly effective retention strategy. Opportunities for growth within the workplace are a prominent factor in employees' overall mental well-being, and they directly affect decisions to remain with a current employer rather than look elsewhere. According to HR Professionals surveyed in the *State of the Workplace*, the top three priorities for organizations in 2024 are maintaining employee morale and engagement (81 percent), retaining top talent (78 percent), and finding and recruiting talent with the necessary skills (70 percent). Workers outside of HR had two additional top priorities:

1. Providing fair compensation for current employees. *
2. Maintaining employee morale and engagement.
3. Providing good health care coverage. *
4. Retaining top talent.
5. Finding and recruiting talent with the necessary skills.

In 2024, organizations must include these targeted initiatives to address talent needs strategically:

1. **Training and development for people managers remains vital.** HR managers say that people managers are essential to their organization's overall success (92 percent) and accomplishing their organization's strategic objectives (82 percent).
2. **Upskilling/reskilling current employees is a high priority.** Upskilling or reskilling the current workforce is a top priority for 53 percent of organizations.
3. **Succession planning and mentoring receive attention.** For 49 percent of organizations, succession planning is a top priority.

Investing in employee knowledge development also reduces skills gaps and increases productivity. Leadership development, performance management, mentorship and coaching, and continuous learning opportunities are good strategies to bolster employee development. Employers should also look at career pathing programs that clearly outline the different career paths available in the organization and the skills and experience required at each level. Employees must also be encouraged and given opportunities to move between different roles and departments to develop a dynamic skill set. This approach is particularly effective in bolstering retention efforts. Additionally, providing employees access to career development websites, skills assessments, and job shadowing opportunities can help them explore different pathways and discover hidden strengths and interests.

It's also vital to leverage and reinforce existing strengths to attract and retain workers. Organizations must be innovative to prepare for and respond to potential economic pressures. A good starting point is benefits packages. SHRM research shows that 60 percent of HR professionals believe providing affordable and comprehensive healthcare coverage is the most effective incentive, and 35 percent plan to enhance leave and flexibility policies – cost-effective ways to increase employee engagement. However, there's room for improvement. In 2023, employee mental health was a primary concern for HR professionals. Yet only 35

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percent felt their organizations effectively supported employees in this regard, suggesting a communications gap regarding existing resources and needs.

Creating and maintaining a positive workplace culture, civility, and an inclusive work environment is another solution to current organizational challenges. A respectful and inclusive work environment is crucial for employee morale and engagement. Fifty-eight percent of HR professionals said their organizations were effective or very effective in ensuring a civil and respectful workplace in 2023. U.S. workers also noted civility as an area of high organizational effectiveness. On the other hand, while 90 percent of HR professionals report having had mostly positive interactions with co-workers, only 67 percent of U.S. workers said the same.

Interestingly, 94 percent of working American civilians have considered Google as a potential employer, while only 46 percent have considered the Department of Defense (DOD). The primary reason cited was a lack of knowledge about the DOD's culture or employer brand. Most civilian workers in the DOD choose to work there because they get to do innovative things and care about the mission of securing the Nation. However, these key factors are rarely promoted as part of the DOD civilian workforce's mission. Given that the DOD employs more than 900,000 civilian roles, this represents a missed opportunity to enhance its civilian employment brand and talent.

In recent years, the DOD has taken positive steps to address these challenges, build a stronger partnership with the Office of Personnel Management, leverage data-driven methods to develop an enterprise-wide set of cultural guiding principles, and modernize talent management processes.

Striking a Balance: Employee Needs and Organizational Mission and Values

A well-defined culture rooted in shared values and guiding principles is the cornerstone of healthy employee engagement, retention, and mission success. Leadership is key, and HR managers must comprehend their roles and responsibilities. According to SHRM's "Changing the Face of Leadership" report, employees rank accountability, transparency, mentorship, inspiration, and empathy as the top five leadership behaviors they wish to see in their organization's leaders. Exceptional leaders are characterized by inspiration, innovation, empowerment, empathy, and advocacy. Notably, over 45 percent of employees have higher expectations of their organizational leaders now than they did seven years ago.

To effectively balance the needs of employees across an organization with diverse sectors and occupations, it's crucial for HR leaders to understand the different segments of their workforce. Creating personas is a strategic approach to identifying these segments and accounting for the unique needs and challenges pertinent to each. Clear and open communication is a must to achieve this. Leaders are expected to articulate the organization's goals and challenges while empowering employees to express their needs or concerns. Implementing collaborative solutions such as internal task forces, workshops, educational opportunities, or employee-led initiatives can be effective tools to address trends that emerge. Maintaining a balance between equitable treatment and tailoring for employee segments is an ongoing process that necessitates continuous evaluation, adaptation, and communication. Investing in employees is essential as engaged employees contribute to higher productivity, innovation, and loyalty.

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Investing in effective people managers is a critical aspect of any organizational success. HR managers affirm that people managers are integral to their organization’s overall success (92 percent) and in achieving their organization’s strategic objectives (82 percent). Insights from SHRM’s “Perspectives on Effective People Management” suggest that effective people managers significantly influence overall performance, well-being (mental health, stress, exhaustion), professional development, and commitment to the organization. Organizations can cultivate better managers by developing skills in coaching and mentoring, effective communication, performance management, conflict resolution, and strategic thinking. Inadequate investment in enhancing people manager effectiveness is a missed opportunity. HR executives who report their organizations make adequate investments in manager development are significantly more likely to say their people managers are effective (88 percent) than those who say their organization makes inadequate investments in this area (63 percent).

Artificial Intelligence (AI) is another critical area that supports HR-related functions. Organizations are leveraging AI for talent acquisition to streamline the recruitment process, generate job descriptions, review, and screen resumes, communicate with applicants, and identify the best talent. These technologies assist hiring managers in analyzing candidates, enhancing the quality of candidate pools and hires, and reducing the time it takes to fill positions.

Apprenticeships

Apprenticeships are valuable tools for developing a skilled workforce and closing the skills gap. These programs help employers build programs that tap into diverse talent pipelines, such as veterans, military spouses, caregivers, and individuals without four-year degrees.

- Among organizations that currently provide work in conjunction with a registered or a customized (i.e., non-registered) apprenticeship program, **nearly half (48 percent)** plan to expand their use of apprenticeship programs over the next five years.
 - In contrast, among those organizations that do **not** currently provide work in conjunction with an apprenticeship program, **only 9 percent** plan to start an apprenticeship program over the next five years.
- Among HR professionals whose organizations provide work in conjunction with a registered or a customized (i.e., non-registered) apprenticeship program, **over 3 in 4** say these programs have been somewhat (54 percent) or very (24 percent) effective at addressing their organization’s talent shortages.
- The top four reasons why organizations **don’t** provide work in conjunction with apprenticeship programs include:
 - Staffing limitations (37 percent)
 - An unclear return on investment (34 percent)
 - Time constraints (27 percent)
 - They wouldn’t know where to start (22 percent)

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HR Technology Advancements

The excitement over generative AI in the workplace is palpable. As companies rush to implement generative AI capabilities, understanding the technology’s potential to deliver value will help shape critical decisions. Businesses must maximize ROI, stay competitive in a digital landscape, and manage workforce transformations amidst the greatest technology shift of this generation. To realize the most value from generative AI, people across the spectrum of work – from applicants to employees to managers – leaders need to understand how to:

Manage disruption and empower innovation. Work is where markets, people, and disruptive technologies intersect with the intelligence of humans at the heart of the workplace. As generative AI becomes more integrated into our daily lives, we will learn how to unlock potential, spark innovation, and discern our unique human qualities from AI.

Augment the power of people to drive the world forward. To flourish in the AI era, we must rethink work, workers, and workplaces—reimagining a world of work where the intelligence and ingenuity of people are augmented, not replaced.

Engender a culture of change and invest in human catalysts. Studies show human catalysts are key to successful AI integrations. Organizations must invest in their people to empower the mindsets, skill sets, and toolsets to drive thriving, responsible workplace transitions.

SHRM’s research shows that private-sector employers are already embracing the possibilities of AI in the workplace. **One in four** organizations already use AI to support HR-related activities; however, **nearly two in three** only began using it for this purpose within the past year. The top three areas where organizations are using AI to support HR-related activities include recruitment, interviewing and hiring (64 percent), learning and development (43 percent), and performance management (**25 percent**).

SHRM’s *2024 Talent Trends* survey found most HR professionals are optimistic about the potential for AI to benefit their organization. **Three in four** agree that advancements in AI will increase the importance of HI in the workplace over the next five years. Over **60 percent** are optimistic about the potential for the effective use of AI, and **56 percent** are optimistic about its potential to improve collaboration in their organization.

The use of AI in the workforce development process is more efficient and profitable than traditional methods. For example, 36 percent of those surveyed said it allows them to make more data-driven decisions related to their learning and development offerings, and 33 percent said it has reduced the costs associated with learning and development activities.

While embracing generative AI is a business imperative, it’s essential to approach its adoption responsibly. Addressing ethical considerations, ensuring transparency, and providing proper training are crucial aspects of a successful AI integration strategy. Critically, AI is helping employers avoid biases during the hiring process. When technological developments eclipse the speed of government, SHRM is not standing pat waiting for legislation or guidance – we lead the way in shaping best practices that fit

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within existing legal frameworks and support appropriate application in the world of work. HR is working with policymakers to establish guardrails and standards to protect individuals and employers.

We see a future where the synergy of artificial intelligence and human intelligence paves the way for a workforce that is not only efficient but truly empowered. **When combined with human intelligence (HI), this synergy has the capacity to transform organizations while maximizing human potential. AI + HI = ROI.**

The role of the CHRO (Chief Human Resource Officer) and HR teams has never been more critical. As automation and AI augmentation become more prevalent, HR must focus on reskilling and upskilling initiatives to ensure that employees have the skills necessary to thrive in a technology-driven workplace and ensure continuous learning.

The Future of Work

Labor shortages are forecast to persist for years. According to the World Bank, the number of people of working age in the US will decline by over 3 percent over the next decade. The Bureau of Labor Statistics (BLS) estimates our Labor Participation Rate will drop to 60.4 percent in 2030. A recent Federal Reserve Bank of St. Louis report found that “[t]he U.S. has about 2.7 million more retirees than predicted,” an 80 percent increase from six months ago.

People are retiring faster than new workers are entering the workforce to replace them. The aging of the Baby Boomers would have been felt even more acutely by now, except that people are working longer than they once did. Today, 41 percent of Americans expect to work past age 65, a Bain & Company study found. Thirty years ago, just 12 percent did.

With not enough new workers to replace those leaving, employers are increasingly cognizant of the need to look at retaining and attracting older workers. By 2030, roughly 40 percent of adults aged 65 to 69 are expected to still be in the workforce, according to the BLS. That’s up from 33 percent in 2020. This means there will be more older employees at workplaces soon, and their specific needs should be on employers’ minds.

One of the most effective and least-utilized solutions to close labor gaps is reaching untapped talent pools: those workers who may not be in the standard consideration set when businesses seek talent due to perceived barriers related to one or more demographic characteristics. These previously untapped talent pools include veterans, military spouses and caregivers, workers over 60, disabled workers, those with a criminal record, and non-student unemployed youth. For employers to remain competitive, bringing untapped talent to the forefront of recruitment and hiring will be paramount.

Our modern, skills-based economy demands new strategies and approaches to meet hiring and retention needs. SHRM and its members see firsthand the challenge of filling jobs in today’s labor market, which is why we have been leading the way in providing resources on using skills-based hiring and skill credentials to acquire top talent. To that end, HR departments are evolving to adapt skills-based hiring practices. To level set, let’s first answer what skills-based hiring is and why it is essential today. Skills-

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based hiring goes beyond education and experience requirements to focus on the skills match between candidates and roles.

Such practices can offer instant economic opportunities for millions of job seekers, help relieve talent shortages, increase diversity, and strengthen internal mobility in the workplace. Skills-based hiring becomes a talent acquisition solution for the skills gap and a talent shortage, especially today, as the United States is facing a talent shortage expected to persist for years. Furthermore, 82 percent of HR executives and 80 percent of HR professionals agree that labor shortages are the second most significant external challenge facing workplaces. Skills-based hiring is about ensuring that people have a chance to showcase their skills and qualifications. This can be as simple as employers looking at skills listed on a resume, or it can consist of more formal skills assessments. Skills-based hiring can be achieved by hiring entities that recognize skilled credentials and proper use of skills assessments. The SHRM Foundation, the 501(c)(3) nonprofit affiliate of SHRM, has prioritized educating employers about using skill credentials in talent acquisition through the SHRM Foundation's Skilled Credentials at Work Initiative.

Businesses miss talented people every day because their gifts, aptitudes, and skills are more challenging to identify than a degree on a resume. Skills-based hiring recognizes the abilities of all workers, regardless of where these skills are obtained. SHRM and the SHRM Foundation are committed to educating HR leaders and people managers about skills-based hiring to ensure that all learning paths are granted weight in assessing whether a person can thrive in a job. SHRM looks forward to partnering with Congress to increase knowledge, reduce barriers, and support work, workers, and workplaces transitioning toward a skills-based hiring and retention mindset.

Conclusion/Recommendations

Again, thank you to the Senate Armed Services Committee for the opportunity to share SHRM's thought leadership and insights on the critical issues facing the American workforce. As we navigate the rapidly changing landscape, addressing talent shortages, fostering a positive workplace culture, and leveraging emerging technologies are the keys to building a future of work. The evolving workplace landscape presents many challenges and opportunities, and the private and public sectors, including the Department of Defense (DOD), are no exception. SHRM's testimony underscores several pivotal areas where organizations can concentrate efforts to attract, retain, and empower the workforce:

Talent Acquisition and Retention

- **Adopt skills-based hiring:** Prioritize the skills and qualifications necessary for the role, irrespective of traditional education and experience prerequisites. This approach unveils untapped talent pools such as veterans, military spouses, and older workers.
- **Invest in retention:** Place employee engagement at the forefront and address concerns like compensation, work-life balance, and career development opportunities.
- **Leverage apprenticeship programs:** Broaden existing programs and contemplate partnering with other organizations to establish new ones, particularly for in-demand skills.

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- **Modernize talent management processes:** Employ data-driven strategies and harness technology to enhance efficiency and effectiveness.

Employee Development and Empowerment

- **Invest in people managers:** Offer training and development opportunities to equip managers with the skills to coach, mentor, and support their teams effectively.
- **Upskill and reskill the workforce:** Provide continuous learning opportunities to ensure employees possess the skills and knowledge needed to excel in the evolving workplace.
- **Create a culture of learning:** Foster a growth mindset and provide employees with the resources and support needed to advance their careers.
- **Embrace AI responsibly:** Utilize AI tools for recruitment, learning, and other HR functions while ensuring ethical considerations and transparency.
- **Focus on human-machine collaboration:** Acknowledge the value of human intelligence and synergize it with AI to enhance performance and innovation.

Additional Considerations

- **Support skills-based hiring policies:** Advocate for policies facilitating access to skilled workers from diverse backgrounds.
- **Partner with SHRM:** Collaborate with SHRM to leverage resources, best practices, and expertise in navigating the changing workplace landscape.

Implementing these recommendations will help employers construct a robust and resilient workforce equipped to confront the challenges of today and the future. It's imperative to remember that attracting and retaining talent is a continuous process that necessitates ongoing evaluation, adaptation, and investment. By prioritizing the needs of its employees and embracing innovative approaches, private and public sector employers can ensure a competitive and thriving workforce. This commitment to the workforce will enhance operational effectiveness and contribute to competitiveness and the need to meet global challenges.

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