

IS HR READY FOR AI?

A VALOIR REPORT

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The integration of AI and generative AI capabilities in human resources (HR) and human capital management (HCM) applications is rapidly evolving. Given the risks associated with the use of generative AI and AI in general, HR faces a new set of challenges, in both effectively managing AI's use in the HR technology stack and its use by the broader employee population. In our recent survey, Valoir found that while HR has been an early adopter in many areas of AI and automation, most organizations still lack the policies, practices, and training to safely and effectively adopt AI for HR – and broader employee – benefit. New policies and training with an understanding of the technology's potential risks and benefits, as well as the human factors at play, will better equip HR and the broader organization to safely and ethically harness the value of AI.

Since the announcement of the first version of Chat GPT more than a year ago, enterprise application software vendors have been rushing generative AI products to market, and those in human resources (HR) and human capital management (HCM) are no exception. Although the announcements vary in actual capabilities and timelines, they have common themes: vendors are investing big in AI and can be trusted to know what they're doing, but applications must have the right guardrails and "humans in the loop" to avoid the potential risks of hallucinations, toxicity, bias, and data leakage.

In Valoir's 2024 Predictions, we predicted that although AI will deliver great benefits in productivity and automation in 2024, more notable will be some dramatic and highly publicized failures. Lack of mature technology, appropriate policies and procedures, and adequate training and safeguards are creating the risk of AI "accidents" that go beyond just mistakes and hallucinations.

As both the stewards of sensitive employee data and the curators of employee policies and procedures, HR departments need to navigate the risks and opportunities of AI for their own HR processes and data as well as establish new policies and procedures for all employees' use of AI and generative AI. This means having practical knowledge from a technology perspective. It also requires the ability to understand the human-related risks associated with AI, and to translate these into policies, practices, and training that maximize AI's benefit within and beyond the walls of HR while minimizing its risks in a rapidly-evolving technology landscape.

HR, automation, and AI readiness

As part of its ongoing analysis of the potential value of AI, Valoir conducted a study in mid-2023 on the automation potential and propensity to adopt technologies such as AI by job role, geography, and industry. Key HR-related findings of *Assessing the value of AI and automation* included:

- Generative AI experimentation is widespread. By mid-2023, more than $\frac{3}{4}$ of workers in HR roles had experimented with some kind of generative AI, lagging only behind IT employees in generative AI experience (finance and marketing employees had similar experimentation levels, while sales and service lagged far behind).
- There's a large HR automation opportunity with AI. Thirty-five percent of the HR employee's workday is ripe for automation, meaning it is spent on tasks that can readily be automated in all or in part by AI (such as responding to e-mails or entering data).
- HR workers have already shown a high propensity for adoption of automation. The average HR employee already automated nearly 20 percent of their work tasks in the past two years.

HR's experience with handling sensitive data, as well as its high level of experimentation with AI and automation, already suggest it may be ready to benefit from AI for automating more HR processes. However, HR will also be responsible for implementing policies and providing the training to help a broader employee base take advantage of AI.

To better understand the issues facing HR leaders as they address the potential introduction of AI into the enterprise, Valoir partnered with *HR Executive Magazine* in the Fall Of 2023 to conduct an in-depth survey of its subscribers about their plans to adopt AI-enabled HR technologies, AI's perceived potential benefits and risks, and how HR teams are preparing for the adoption of AI in their organizations. The global study of more than 150 HR executives worldwide included leaders from a broad range of industries and company sizes.

Key findings

Key findings of our study included:

- The most opportunities for HR to benefit from AI today are in the areas of recruiting, learning and development, and talent management – but they are also the areas that pose the most risk.
- Nearly 25 percent of organizations have adopted some form of generative AI for recruiting today, making it the leading area for AI adoption to date – and an additional 30 percent plan to



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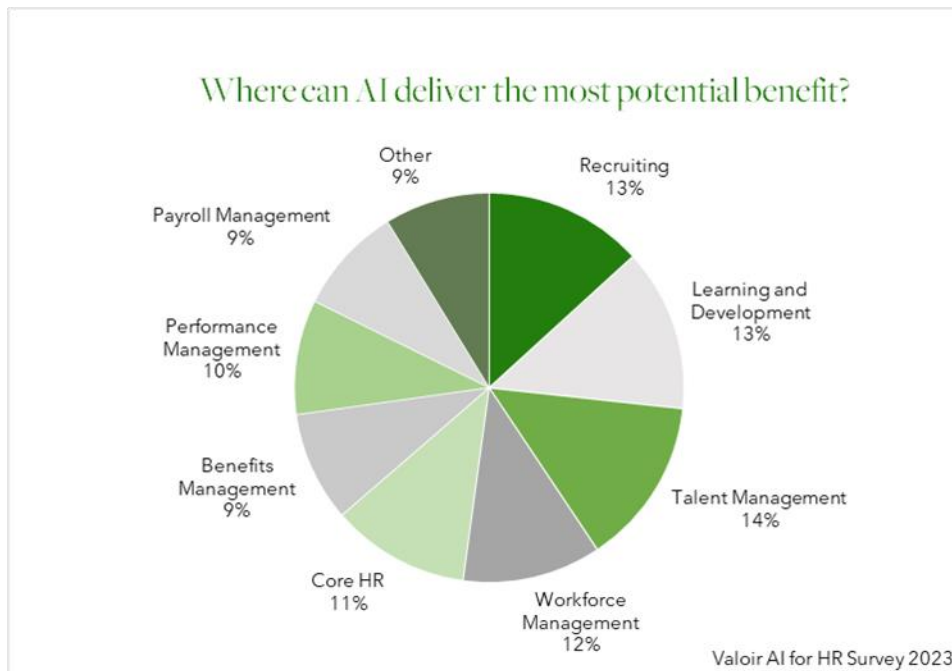
adopt it in the next 24 months, making it by far the most adopted application of AI in HR today.

- HR leaders believe the main hurdles to AI adoption are lack of AI expertise (28 percent), fear of compliance and risk (23 percent), and lack of resources or funding (21 percent).
- Only than 16 percent of organizations have a policy on the use of generative AI, and even fewer have a policy on the ethical use of AI.
- When it came to training for AI, only 14 percent of organizations have a training policy in place for the effective use of AI, and only 8 percent of organizations have a training or development program in place for workers whose jobs or roles could be replaced by AI.

Value potential for AI in HR

HR leaders see the most opportunity for benefit from AI in the areas of recruiting, learning and development, and talent management. This is not surprising given the initial focus of the application of AI on assisted authoring, recommendations, and summarization:

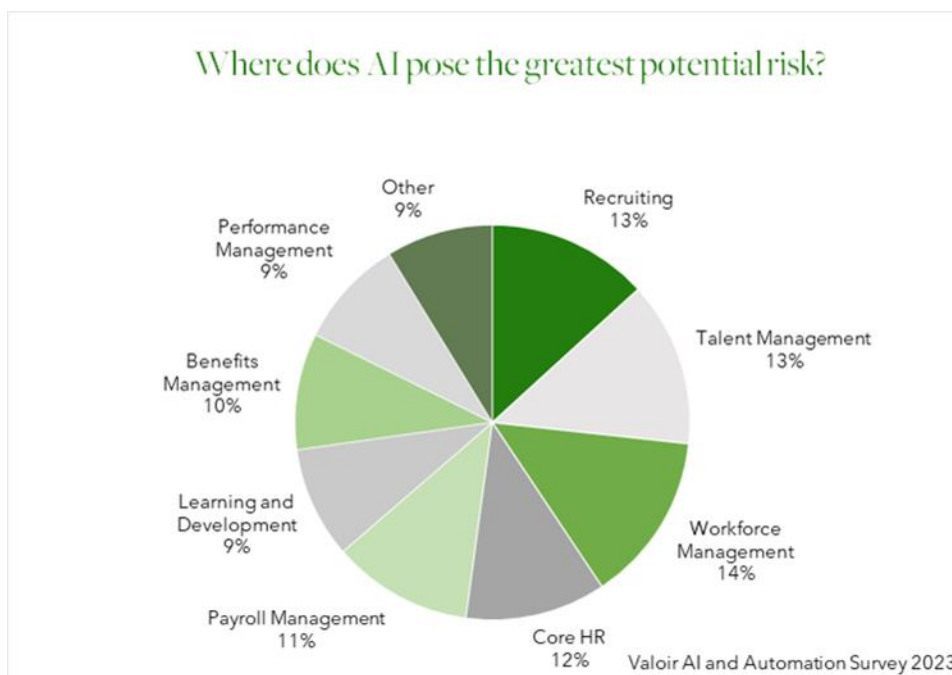
- Much of the workload in recruiting around writing job descriptions and summarizing interview evaluations are ripe for AI-driven automation, and early releases of generative AI applications from many HR software vendors have focused on the recruiting area.



- Many generative AI software releases in the learning and development space have focused on learning content development, and the ability to use AI to both create training from existing materials (such as manuals or other documentation) and recast existing training content for different audiences.
- The talent management space is also ripe for AI-driven automation, both for managers and employees who can use assisted authoring and for the drafting of talent and role taxonomies and skills graphs. The increased focus on moving from roles to skills across the talent life cycle, and the resulting need for HR to break down job roles to component skills, is but one example of a great opportunity for intelligent AI-driven automation in assisted authoring and summarization.

Potential risk for AI in HR

It is not surprising that the areas where HR sees the most opportunity for AI benefit are also the areas where HR sees the greatest potential risk. Because there is such an opportunity for AI-driven automation in recruiting, workforce management, and talent management, there's also the possibility that automation will go awry. The risk perception also reflects the concerns of HR leaders about potential bias in AI-delivered recommendations or suggestions based on models that may have been unintentionally trained on data sets that reinforce biases.



Core HR is also seen as a key area of potential risk for AI, just by the nature of the personal and confidential information housed in core HR

applications. In exploring the potential risks of AI for HR, Valoir identifies four main areas of concern:

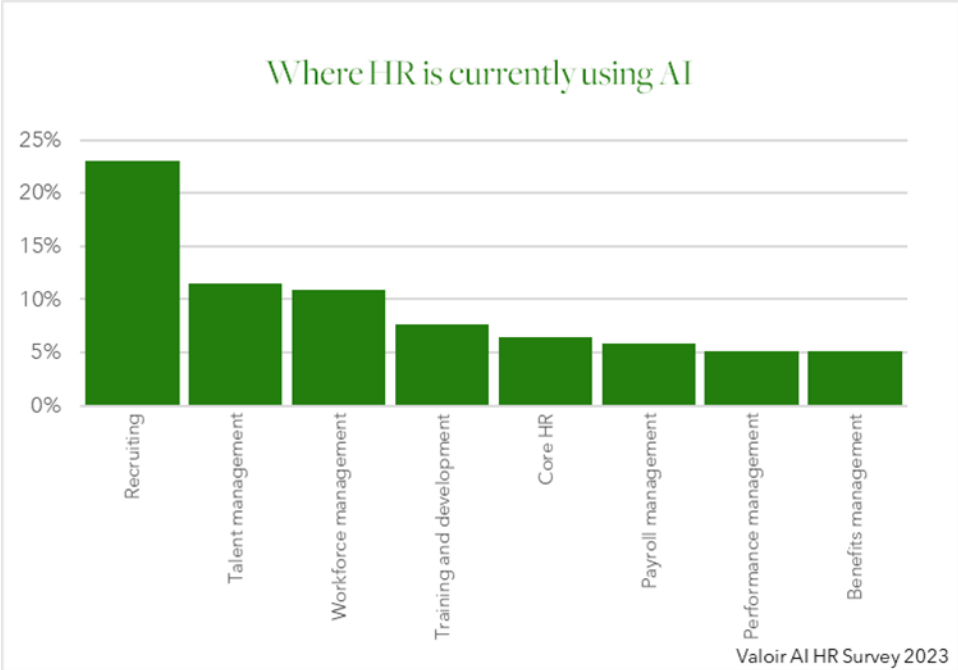
- **Data compromises.** When appropriate guardrails and training are not in place, applications or employees can unwittingly expose confidential HR data to large language models (LLMs) where it can be leaked to other public sources or become part of the public model’s data set.
- **AI hallucinations.** AI hallucinates when it doesn’t have proper grounding in relevant data, and while LLMs are evolving, most are trained on content that has limited relevancy to HR. Although HR technology vendors are using different approaches to make their AI outputs more accurate, most are still advocating the “humans in the loop” approach at this point as hallucinations will continue to be a risk.
- **Bias and toxicity.** Because many LLMs are trained on data and content from the Internet, the possibility of toxicity is very present when generative AI is used to generate text, even in commercially-vetted applications (as we’ve seen with recently highly-publicized missteps from major vendors). AI can also amplify the biases of its model builders and trainers, increasing concerns about bias in areas like recruiting and performance evaluations.
- **Recommendation bias.** A more nuanced concern about the application of AI is the risk that employees will accept AI’s answers or recommendations as truth rather than critically evaluating its outputs. This is particularly a concern where employees have traditionally been incented to complete tasks as quickly as possible, such as closing cases or posting a certain number of reviews or job posts in a certain period of time.

The common theme among all these areas of potential risk is the human steps that can be considered to mitigate them. Although technical steps can be taken to reduce the possibility of hallucinations and toxicity, key for eliminating their negative consequences will be – at least in the short term – having humans clearly in the loop.

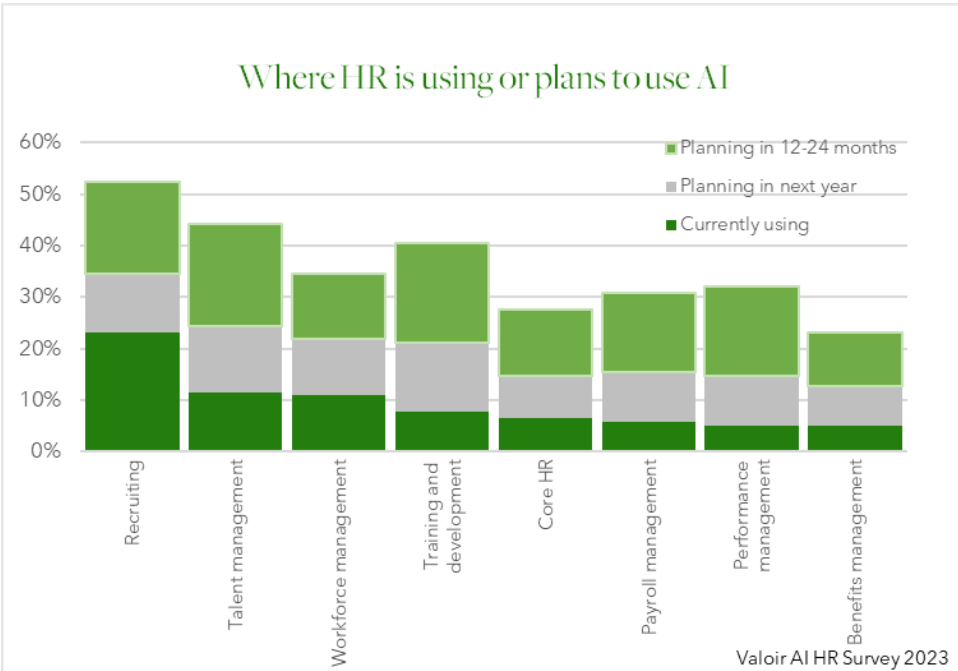
Adoption of AI in HR functions

When we asked HR leaders about where they were using AI today, we found that recruiting leads other HR areas in adoption of AI by far, at more than twice the adoption rate of talent management, the next most-adopted area.

In terms of future plans, we found that more than 50 percent of organizations are either currently using or planning to apply AI to recruiting challenges in the next 24 months, followed closely by talent management and training and development.

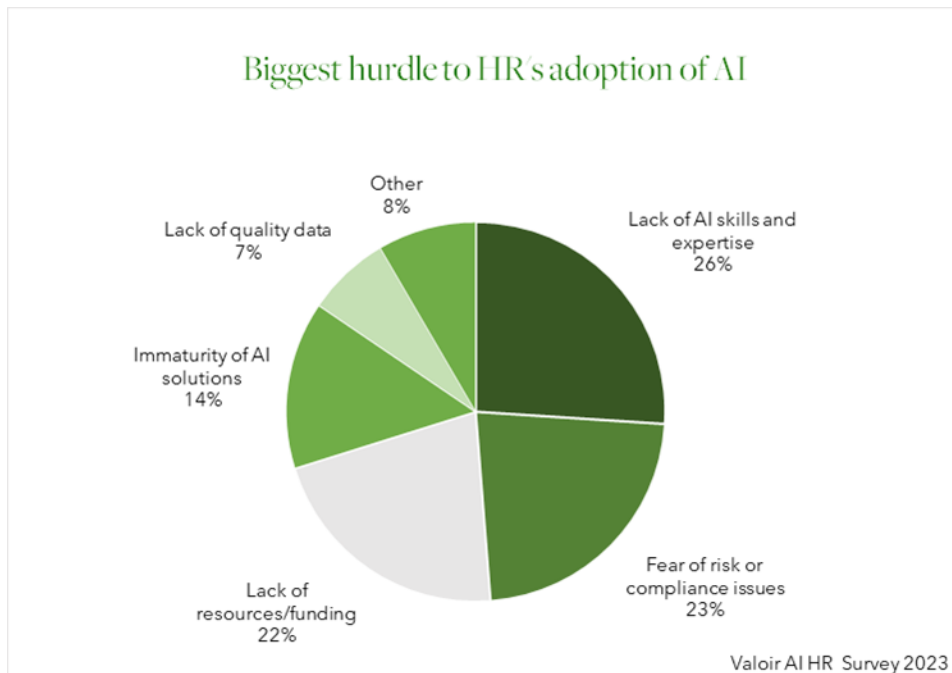


Surprisingly, benefits management – an area where document summarization and recommendations make up a significant portion of HR’s work – was the least likely to be leveraging AI today or planning to do so in the future. This is likely because of the perceived concerns about the sensitivity in particular of employee data involved in the benefits management process, and of the potential negative impact of delivering incorrect or inappropriate information related to employee health, financial, or other benefits.



Barriers to adoption

When it comes to barriers for adoption of AI to automate HR tasks and processes, Valoir found that the biggest hurdles are around lack of AI skills and expertise (26 percent), fear of risk or compliance issues (23 percent), and lack of resources or funding (22 percent). Although some HR leaders surveyed mentioned lack of quality data as a concern, data quality was less of a concern than many other factors.

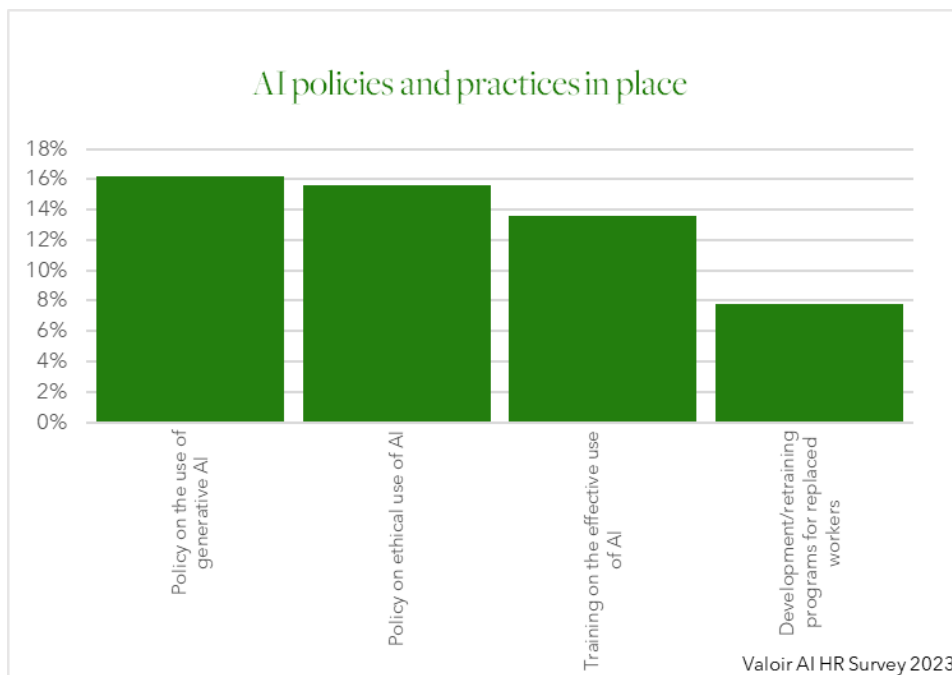


Although HR may believe talent and resources are its top constraints in adopting AI for its benefit, that lack of knowledge and expertise is not just about technology. A key challenge for HR is in developing and applying the appropriate policies, practices, and training to ensure employees adopt AI appropriately to maximize benefit and minimize risks. Even those that have adopted some AI have a long way to go in building and implementing policies and training that balance the necessary guardrails and appropriate flexibility.

We found that only 16 percent of organizations had a policy on the use of generative AI, and even fewer had a policy on the ethical use of AI. When it came to training for AI, only 14 percent of organizations had a training policy in place for the effective use of AI. Only 8 percent of organizations had a training or development program in place for workers whose jobs or roles could be replaced by AI.



Only 16 percent of organizations have a policy on the use of generative AI.



Looking ahead

The potential benefits for AI for productivity and automation are great, but only if organizations can mitigate the risks, especially those associated with generative AI. For HR, this means not just selecting vendors and technologies that can be trusted, but putting in place the appropriate policies, procedures, safeguards, and training for both HR staff and the broader employee population. Specifically, HR will need to:

- Experiment with generative AI (if they haven't already), and review the technical offerings of vendors in key areas as well as evaluate data hygiene and readiness for AI.
- Develop and implement a policy on the ethical use of AI that aligns with organizational principles and is inclusive, explainable, and empowering while ensuring that it support data privacy and security while being flexible enough to adapt as the technology evolves.
- Develop and implement a policy on the use of generative at work that addresses the varying levels of data and technology savviness of employees, their willingness to adopt technology, and the relative level of impact it may have on their roles and departments.
- Develop or deliver training on the effective use of AI that is focused on empowering, not replacing, employees, that is role and expertise-tailored, and that reinforces the need for critical thinking when using AI (to reduce recommendation bias). It will also need to be personalized, tied to career advancement, and flexibly delivered so that it can evolve as the technology changes.
- Develop a strategy for evaluating and identifying employee groups that are at risk of being replaced in whole or in part by AI, and

developing the appropriate training and development or redeployment programs to reduce the risk of attrition or the loss of tribal knowledge.

Finally, HR departments will need to think about how they communicate those policies and training to both their internal HR teams and the broader population. In an area like AI where trust is critical to effective use and adoption, HR's role as both data steward and policy implementer puts it at the cornerstone of every organization's ability to effectively adopt – and maximize the benefits from – AI.

Valoir is a technology analyst firm providing research and advisory services with a focus on the value technology delivers. With deep expertise in CRM, HCM, customer and employee experience, and enterprise applications, Valoir helps clients understand and maximize the value of technology. For more information, contact Valoir at www.Valoir.com or 1-617-515-3699.