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How to Restructure HR Budgets for Evolving AI Adoption

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Initiatives: Functional Design; Transforming HR With AI

HR investment in AI is accelerating, but typical HR budgeting approaches are incompatible with the consumption-based variability of AI costs such as usage, scale and integrations. Discover how CHROs can restructure their budgets to align with the stages of AI adoption for sustainable funding.

Insights at a Glance

HR budgets are likely to stay flat or shrink year over year, even as 82% of HR leaders plan to increase their AI spend in 2026. Typically, HR budgets are not structured to accommodate AI's nonlinear cost profile, and consumption-based AI pricing models make budgeting feel like a guessing game. This causes CHROs to over- or underbudget as AI initiatives move from pilots to scaled deployments. If they fail to anticipate how AI costs change and keep constantly revisiting their annual budgets, not only do they risk stalled adoption due to cost overruns but also failed returns on AI investment.

Gartner position: Avoid treating AI as a static line item in HR budgets. Instead, CHROs should restructure HR budgets to align with the stages of AI adoption across use cases and evolving AI cost drivers.

To do this:

- Adjust how AI costs in HR are treated based on the adoption stage for each use case. The four AI adoption stages are experimenting, scaling, stabilizing and leading.
- Plan for variability in key cost drivers including users, usage, scope, rates and resources, rather than assuming fixed costs.
- Collaboratively operationalize AI cost governance by embedding funding triggers and flexibility into HR budgets to manage cost variability without reopening budgets.

This approach enables CHROs to fund AI sustainably within existing budget constraints. It maintains financial discipline and accelerates value realization.

Analysis

Typical HR Budgets Fail to Accommodate AI's Cost Variability

AI spend in HR and the HR functional budget are moving in opposite directions. Even as 82% of HR function leaders expect to increase AI spend in 2026, [1] 57% of CFOs are planning HR budget cuts. [2] This highlights the limitations of outdated HR budgeting approaches that do not suit the fast-evolving vendor landscape or complex AI adoption. Leaders tend to embed AI costs within broader HR technology budgets, but this approach underestimates the full scope of investment required beyond the technology itself. In some cases, organizations are already encountering rapid cost escalation during scaling, forcing them to reassess usage or impose limits on both functions and employees to stay within budget.

For many AI initiatives, there is a shift from the familiar subscription-based to newer consumption-based pricing. It also introduces added costs for customization and integration, layered costs associated with implementation and adoption, as well as pricing model variability across use cases. HR budgets are typically annual with limited quarterly updates, and generally static. This leads to two flawed approaches:

- Treating AI like any other HR expense, typically as an annual, single line item for the function
- Treating AI as a fixed component within HR subfunction budgets, such as a line item buried deep in the talent acquisition section

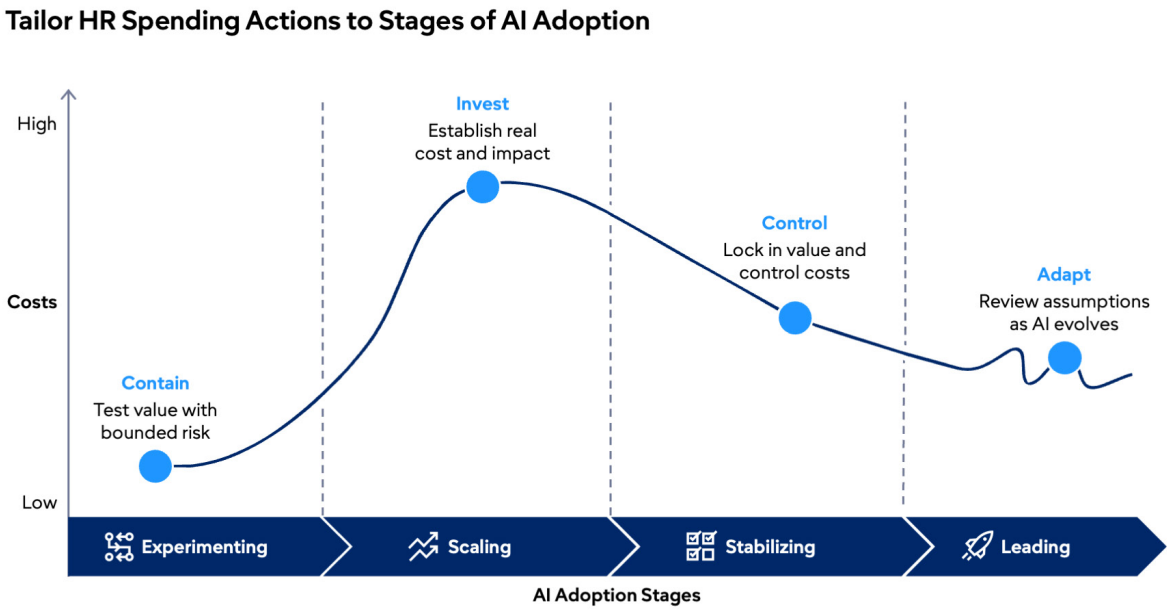
Neither of these approaches are sufficient because AI costs, requirements and infrastructure are constantly changing.

As a result, CHROs can no longer rely only on established formulas used to calculate traditional SaaS costs such as per employee per month pricing. They should anticipate how AI-specific cost elements will change as adoption matures, and pricing models shift. Budgeting approaches that cannot absorb the rapid evolution of AI costs lead to inefficiencies, and ultimately impede AI's ROI. To address this, CHROs should restructure their AI budgets to align with the stages of AI adoption across use cases and evolving AI cost drivers.

Tailor HR Spending Actions to Stages of AI Adoption

Instead of treating AI as a static line item in their budgets, CHROs should structure HR budgets around predictable changes in key cost drivers as AI adoption matures across different stages (see Figure 1). AI costs typically start low, rise sharply as adoption expands, and then decline as governance and efficiency measures stabilize spending, before entering a phase of continuous adjustment as adoption matures. Expanding user base, integrations and usage drive the cost curve upward, while cost governance and efficiency measures drive the downward movement.

Figure 1: Tailor HR Spending Actions to Stages of AI Adoption



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Tailor HR spending actions on AI for each stage, from containing, investing, controlling and adapting. CHROs can identify the current stage of AI adoption based on how AI initiatives are deployed, governed and funded across the organization.

- **Experimenting:** AI initiatives are limited to a small number of exploratory use cases in HR. Contain AI costs as teams are testing value, learning what works and identifying where AI delivers impact, with minimal governance or standardization.
- **Scaling:** AI initiatives expand across HR subfunctions, workflows and user groups, supporting operations and driving rapid increases in users, integrations and usage. Invest in making AI initiatives repeatable and operational at scale.

- **Stabilizing:** AI initiatives in HR are managed as a coordinated portfolio rather than isolated projects. This is where HR can control costs, improve ROI and stabilize value delivery across the function, leveraging an increased focus on governance, prioritization and vendor management. This is also where organizations may identify particular use cases that are consuming excessive credits and optimize them.
- **Leading:** AI is embedded in how the HR function operates rather than existing solely as part of the HR technology stack, with decisions shifting from whether to use AI to how best to deploy it. Organizations continuously adapt HR budgets to balance cost, performance and evolving business priorities, adjusting spend in response to changing needs and vendor pricing dynamics.

Five key cost drivers determine total AI solution cost. Each element must be included in HR's budget to create a comprehensive cost estimation.

1. **Users:** Total number and types of users (e.g., regular users, power users, admins, etc.).
2. **Rate:** Pricing structure and contractual terms (e.g., per-user pricing, usage rates, and escalation clauses).
3. **Complexity:** Breadth of customization, integration and configuration across modules and consolidation opportunities, along with AI-driven workflows, custom agents, and modular or composable AI capabilities.
4. **Usage:** Degree of feature and AI consumption (e.g., two employees with the same license may generate very different AI consumption costs based on usage intensity).
5. **Resources:** Internal team and administration both in terms of headcount and structure.

To learn more about these cost drivers and how to calculate them, see How to Cut HR Technology Costs Without Cutting Capability.

Apply this guidance at the level of individual AI use cases in HR, as not all AI portfolios may be standardized — different initiatives may be at different stages of maturity at the same time. In such cases, use the five cost drivers to assess current spending for each use case, and use the AI adoption stage to anticipate cost variability and guide future spending decisions.

Review these recommended spending actions for each cost driver based on AI adoption stages (see Figure 2).

Figure 2: Recommended Spending Actions for HR AI Initiatives Based on AI Adoption Stages

Recommended Spending Actions for HR AI Initiatives Based on AI Adoption Stages

Key Cost Drivers	Experimenting	Scaling	Stabilizing	Leading
Users	To cap spend, limit access to small, defined user groups; avoid enterprise-wide entitlements.	Increase budget for role-based growth; expand access across HR and to managers and employees.	Rationalize users based on realized value and adoption rates.	Re-tier users to align access and spend as AI becomes embedded in daily workflows.
Complexity	Minimize customization and integrations to limit costs and prioritize speed and efficiency.	Budget for broadened scope due to integrations, workflow redesign and increased use cases.	Reduce spend by retiring redundant customizations.	Optimize costs by periodically reassessing and removing legacy configurations that no longer add value.
Usage	Cap usage and negotiate limits to control spend.	Invest to enable usage growth; monitor spend to establish baselines.	Trim spend against defined usage baselines; establish approval mechanisms for additional consumption.	Review consumption assumptions annually and reassess spend.
Rate	Negotiate future price protections and exit clauses to manage rate exposure.	Lock in pricing tiers once usage stabilizes to control future costs.	Actively manage renewals using performance evidence to reduce costs.	Re-benchmark pricing against market innovation; renegotiate older contracts to reset pricing.
Resources	Utilize part-time support and temporary roles to limit resource spend.	Invest in dedicated product owners and administrative support.	Reduce manual and administrative support effort through automation (such as approvals and reporting) for cost efficiency.	Adjust resource costs by continuously aligning AI support capacity with shifting priorities.

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Operationalize AI Cost Governance in HR With Finance and IT

As AI adoption expands in HR, evolve AI funding beyond controlled experimentation into coordinated, enterprise-aligned and continuously managed investments. It is critical that CHROs partner closely with finance and IT, as leading organizations increasingly treat AI spend as a cross-functional discipline with active cost governance and shared accountability. This necessitates HR, finance and IT to align upfront on how key cost drivers (such as users, usage and integrations) will scale, and define guardrails to manage cost variability. Embedding these expectations into the HR budget from the outset will enable HR leaders to balance growth, control and agility of AI spending within fixed financial cycles.

CHROs who operate within fixed budget cycles set by finance should:

- *Establish a cross-functional AI budget governance structure with finance and IT, outlining clear guidelines for how cost variability will be managed and funded across the enterprise and HR.*
- *Set up prebudget planning sessions and quarterly review meetings with finance and IT to align on where AI costs may vary and how that variance will be managed and funded across functions.*
- *Incorporate predefined funding triggers into the HR budget statement such as adoption thresholds and usage limits that allow additional spend without revisiting the full budget.*
- *Earmark a portion of the HR budget for flexible AI funds that can be used to scale AI initiatives based on performance. Create an approval structure to allow this budget line to be used as intended and does not become a slush fund.*

If your organization already uses adaptive or agile budgeting approaches (such as rolling forecasts or centrally managed AI funding pools), create consensus with finance and IT on monitoring cost drivers, assigning accountability for spend and tying funding decisions to adoption milestones and business outcomes. Being intentional about this alignment will help CHROs mirror enterprisewide AI priorities, while effectively budgeting (and getting buy-in for) HR-specific AI initiatives. As initiatives mature, HR should introduce governance guardrails, like approval thresholds and periodic cost reviews to stabilize spend. Agility requires revisiting assumptions annually and reallocating budgets across initiatives, and should involve frequent adjustments to balance scale, impact and costs.

Evidence

[1] **2026 Gartner C-Suite AI Survey.** This survey was conducted to understand how enterprises are approaching AI, including budget allocations, current state of implementation and impact, AI strategy, and use cases across key business functions. The functions covered in the survey include finance, HR, procurement, supply chain, marketing, sales, customer service, legal/compliance, IT, and product management. The research was conducted online from January through April 2026 among 1,303 respondents across various industries and regions, including North America (n = 671), EMEA (n = 425), Asia/Pacific (n = 141), LATAM (n = 65), and others (n = 1). Qualifying organizations reported enterprisewide annual revenue of at least $50 million (or equivalent) in fiscal year 2025. Participants were required to be either the most senior leader or one level below the most senior leader within their respective function, and have familiarity with AI strategy, implementation, and budget for that function. Disclaimer: The results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed

[2] **2025 Gartner CFO Planning Assumption Survey.** This survey sought to provide CFOs and FP&A leaders guidance on critical assumptions for building annual operating budgets going into 2026. It covered the assumptions organizations are making for revenue growth, cost of goods sold, overhead function budget changes, profitability, compensation, and investment prioritization. The survey was conducted from August through September 2025 among 142 CFOs and senior finance leaders across multiple industries and geographies. Survey respondents were required to be full-time finance employees to be included in this research. Disclaimer: The results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed

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