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62.432

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APRIL 2024

Skills Based Organizations

Current Trend

12.751

APRIL 2024

Current Trends

| Concept

The skills-based approach - for valid reasons - gained momentum among employers over the past few years. Narrowing work to standardized tasks done in a certain job, and then making all decisions about workers based on their job in the organizational hierarchy, hinders some of today's most critical organizational trends: agility, innovation, diversity, inclusion, and equity. In response, organizations are moving toward a whole new operating model for work and the workforce that places skills, more than jobs, at the center.

A skills-based organization defines work by describing the tasks and activities that need to be performed to achieve set outcomes. Skills-based organizations deconstruct traditional roles and jobs and break them into smaller parts that describe the "work to be done". Organizations are moving to more skills-based setups using different approaches similar to the relaxation of hiring requirements such as academic degrees and opening up opportunities to a broader talent pool with the practical experience and knowledge to do the work. It is about breaking down jobs to understand which skills are required to perform a specific type of work and then organizing work around skills, not traditional requirements.

As for skills taxonomy, it is a system that classifies skills across the organization into groups and clusters. Skills taxonomies typically include the skills that are most important to the business goals, sometimes with definitions of skills as well. Having a skills taxonomy creates a common understanding and language that can be used to deliver effective workforce strategies that drive organizational agility.

Today's labor market is not just bringing more people into the talent pool, it's bringing the right people with the right skills to help organizations manage the changes that are disrupting businesses.

| Background

The skills revolution is almost upon us. As per PWC a recent estimate shows that by 2030, approximately 85 million jobs could go unfilled globally because of a lack of applicants with the skills to take them, which could result in \$8.5 trillion in unrealized annual revenues. Skills-based organizations will be best prepared to navigate the reality influenced by the artificial intelligence increased ability to augment and form part of the workforce. Another quantitative and qualitative research done by Deloitte in 2022 —surveying 1,021 workers and 225 business and HR executives around the world and across industries, and interviewing nearly a dozen executives showed a strong preference from both executives and workers

for a skills-based model over jobs-based one. The results were assessed by Deloitte as unexpected because it was predicted that more organizations may resist moving away from a jobs-based model for organizing work and making decisions about workers. According to a research done by the Burning Glass Institute - a workplace research organization-, the share of jobs that require a college degree fell to 44 percent in 2022, down from 51 percent in 2017.

Traditionally, the academic degrees requirements were included in almost every salaried job. Candidates who didn't have a degree often would lose out on opportunities and struggle to advance their careers. Recently, common talent shortages and several other cultural shifts have prompted more employers to revisit that requirement. Despite the significant value of traditional college education, some experts promote to the orientation of not requiring a degree in all jobs to make the workplaces more diverse. Business success in practice is associated with diversity of backgrounds. In several sectors, emphasizing skills over degrees enabled HR teams to bridge the skills gaps in a more expedient and effective manner.

| Benefits

LinkedIn's new Global Talent Trends findings report that companies with employees who have learned new skills on the job have around a 7% higher retention rate. In September 2022, Deloitte also indicates that those who've adopted skills-based approaches to a significant extent are building organizational models that better align to their organizations' needs and workers' expectations today.

The benefits of applying the skills-based models can be categorized as follow:

- Talent Pool Development

Skills-based models can provide access to a larger talent pool as it defines work in terms of specific skill requirements instead of a larger job requirement. This context allows matching talent more closely with organizational needs. Thus, the organization will better understand the available skills and the potential gaps they need to address to achieve organizational objectives.

- Human Centricity Acknowledgement:

Instead of turning everyone into the same kind of contributor through standardizing them in jobs, skills-based organizations acknowledge more human centricity and let people's uniqueness as humans shine with work tailored to their strengths. Recent researches indicate employees' strong preference to work where they feel the organization is contributing to their growth, and where they feel seen, valued, and respected.

- Employability Increase

Refocusing work around the skills required to do the job and supplying the necessary skills training can increase employability. For example, identifying foundational skills for workers who are displaced by automation or whose roles are no longer needed can help organizations redeploy them to work may be in another suitable function.

- Equity Promotion:

Skills-based organizations can also promote equity: As per Deloitte, 80% of business executives surveyed say making decisions about hiring, pay, promotions, succession, and deployment based on people's skills rather than their job history, tenure in the job, or network would reduce bias and improve fairness; and 75% say hiring, promoting, and deploying people based on skills (vs. tenure, job history, or network) can help democratize opportunity and improve access to it.

Implementation phases/steps

As per the Academy To Innovate HR (AIHR) the steps to move to a skills based organization can be designed as follow:

Phase 1: Building the Business Case for Skills	Phase 2: Deconstruct and determine the needs	Phase 3: Manage the transition and change
<ul style="list-style-type: none"> Define the skills meaning Articulate the business benefit 	<ul style="list-style-type: none"> Break work down into jobs to be done Organize the work around skills Understand the needed skills Determine the accessible skills 	<ul style="list-style-type: none"> Incorporate skills into HR practices Help individuals build skills portfolios Implement transparency and visibility of skills Manage the change

Challenges

- Despite the mentioned advantages of skills-based hiring, the process can be challenging to be implemented. It requires a complete mindset change from management and teams who have relied on degrees as a proxy for skills for years and decades. It also means that HR teams must thoroughly examine what skills are necessary for each role to decide if a degree is required, as well as rewrite job descriptions and postings to detail which capabilities are essential. Organizations need sufficient time to outline what skills are necessary for each role and train interviewers to focus on capabilities rather than degrees and years of experience, which has been the norm.

As per SHRM, only 1 in 7 jobs was filled using skills-based hiring in 2022/2023, according to a study of about 11,000 roles at big companies by the Harvard Business School's Managing the Future of Work Project and the Burning Glass Institute. IBM, a pioneer in skills-based hiring, still requires degrees for 50 percent of its roles. It started using the approach years ago when it was having difficulty finding individuals to fill open positions.

- Discerning equitable pay may also be an issue. For example, an employee who was required to have a college degree and a certain amount of experience for a job may be frustrated when they learn someone who doesn't have a degree and who has less experience is earning the same amount of money.
- Other critics argue that skills-based approaches are too simplistic and focused on describing "what we need to do" while excluding "how we need to do it". There are also concerns regarding the ability of skills to accurately predict performance and achieve the targeted objectives.

As per several experts, the challenges associated with skills-based approaches can be considered as just barriers not as deal breakers. Skills-based approaches can add immense value to organizations and, if approached correctly, can address these concerns. A comprehensive change management plan should be designed around before applying these changes.

| Practical Case

As a result, major employers such as IBM, Unilever, Dell and Bank of America have eliminated the college degree requirement for many jobs, and many other businesses are following suit. More details about IBM practice is presented below:

IBM Skills-Based Case:

As mentioned, IBM is a pioneer in skills-based hiring. It started using the approach years ago while implementing their Apprenticeship Program. IBM first started their Apprenticeship Program which now encompasses 35 roles across cybersecurity, software development, data science, and design. It is all about picking up new skills. The IBM Apprenticeship program gives an opportunity for candidates without advanced degrees to build new technical skills while getting paid. The program provides an entry point into IBM for candidates with relevant skills who may not have a traditional college degree. This skills-first approach to talent is what they call a "New Collar" Initiative.

IBM believes that apprenticeships can help close the opportunity gap as well as narrow the skills gap in IT. To promote this approach, IBM is investing \$250 million in

apprenticeships and similar New-Collar programs by 2025. The main steps in IBM journey can be briefed as follow:

- **Start Small and Iterate**

IBM initially began its apprenticeship program with a few roles, focusing on cybersecurity, software development, data science, and design. They started with a small cohort and gradually expanded based on the success and positive feedback received. This approach allowed them to learn from their experiences and build upon initial wins.

- **Measure Impact Using Data and Stories**

IBM emphasizes measuring the impact of its skills-first programs to reinforce their value and gain continued support. They use data to track metrics like learning hours per year and the correlation between learning and career progression. Additionally, they share human stories of individuals who have benefited from skill development, creating a personal connection and showcasing the program's effectiveness.

- **Encourage a Shift in Mindset**

To implement a skills-first strategy successfully, it is essential to change the mindset of employees and the organization. Companies need to think differently about candidate pipelines, skill development, and welcoming diverse talent. By embracing skills-first thinking, companies can expand their talent pool and achieve a positive impact on diversity and candidate profiles.

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Current Trends

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