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A Multilateral Approach to Bridging the Global Skills Gap

Abstract

[Excerpt] In 2012, McKinsey & Company forecasted a troubling outlook on the labor market through the year 2020. The report highlighted three talent shortages across the globe: nearly 40 million too few college educated workers in the global labor market; a 45 million shortfall of workers with secondary and vocational education in developing countries; and up to 95 million workers that lack the skills needed for employment in advanced economies. This global crisis is known as the skills gap. It impacts nearly every industry, job and employer. Simply put, critical talent supply will fail to meet employment demand in the coming decade. Such an imbalance can be crippling to economic progress, put strain on governments, and leave millions unemployed

Keywords

HR Review, Human Resources, Labor Market, Globalization, Training, Workforce, Staffing

Disciplines

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CORNELL HR REVIEW

A Multilateral Approach to Bridging the Global Skills Gap

Matthew P. Olson

In 2012, McKinsey & Company forecasted a troubling outlook on the labor market through the year 2020. The report highlighted three talent shortages across the globe: nearly 40 million too few college educated workers in the global labor market; a 45 million shortfall of workers with secondary and vocational education in developing countries; and up to 95 million workers that lack the skills needed for employment in advanced economies.[3] This global crisis is known as the skills gap. It impacts nearly every industry, job and employer. Simply put, critical talent supply will fail to meet employment demand in the coming decade. Such an imbalance can be crippling to economic progress, put strain on governments, and leave millions unemployed.

Causes of the Skills Gap

With such a bleak outlook, it is difficult to understand how those impacted did not see the skills gap coming. That is because there is no single cause of the phenomenon. It is a by-product of multiple global trends that include corporate cost savings initiatives, loss of employer loyalty, technological advancement, globalization and a defunct educational system.[6] For classification purposes, these trends can be summarized into two areas: economic conditions leading firms to institute rigorous cost management strategies and modern-day skill requirements outpacing education. By understanding these issues, companies can learn to combat the skills gap and develop strategies to protect from future skill deficits. The following sections of this essay will analyze these causes and offer a host of solutions to ensure a steady supply of talent into the future.

Economic Conditions & Cost Management

The first driver of the widening skills gap are the financial decisions that companies make in response to globalization, increased competition, global economic events, and investor growth expectations. These factors have intensified in recent decades forcing corporations to operate with thinner profit margins and make long-term skills development concessions in order to meet short-term financial goals. While this practice is necessary for corporate survival, intense cost management has led to a drop in skills development programs like apprenticeship programs and training and development budgets.

Such a cutback was evident following the 2008 financial crisis when companies cut six percent from training budgets.[7] Additionally, amid intensifying off-shoring and union decline in the 2000s, the U.S. Labor Department estimated a 40% drop in formal on-the-job mentorship, training and apprenticeship programs.[12] While not all firms are short-

sighted, there is a significant proportion of companies that simply cannot remain in business and fund comprehensive training programs given current global pressures.

Skill Requirements Outpacing the Education System

A second contributing factor are the changes to the skills required in the modern workforce. Employers now require skills such as "knowledge work, teamwork and the use of technology." [4] Manufacturing has become more automated requiring traditionally low-skill workers to possess advanced mathematical skills. [10] Additionally, according to the Bureau of Labor Statistics, high-technology jobs such as software developers are growing at nearly 20% per year. [11] The issue is that current education systems have not kept pace with the demand for these skills. Many students pursue education outside of science, technology, engineering and mathematics (STEM), are ill-equipped to take on knowledge work and teamwork, or pursue four-year degrees over vocational education. [2]

Overcoming the Skills Gap

Now that the causes of the skills gap are understood it is time to review combative strategies. Current research and best practice points to three remedy areas. First, a firm must gain a comprehensive understanding of its own skill supply and demand through rigorous workforce planning. Second, firms need to engage in external partnerships to develop talent sources. Finally, companies must refine internal talent attraction and assessment practices to widen talent pools. These three recommendations are discussed in depth.

Understanding Skills Supply & Demand

Companies must begin by understanding their own local skills gap through well-defined workforce planning. It starts with a clear understanding of the talent requirements to meet organizational growth goals. Human resources' role is to then implement a data-driven workforce planning process that predicts the company's short and long-term hiring needs. Understanding supply and demand allows companies to strategically allocate resources to bridge skills gaps in the most critical areas. [8]

When forecasting demand, companies should move beyond traditional demand planning practices (e.g. leader input and hiring ratios) and adopt more sophisticated approaches like statistical regression that forecasts staffing needs based on expected growth and output figures. Human resource professional should take a similar approach on the supply side of the equation by using techniques like Markov analysis and predictive statistics capable of forecasting employee attrition and transition. [5] Leveraging data-driven approaches will allow human resources to articulate the importance of talent investment and the criticality of executing the following two recommendations.

Developing Talent Sources Through External Partnerships

The magnitude of the skills gap should leave no one firm solving the issue alone. Companies need to recognize that bridging the skills gap requires multilateral participation from employers, governments and educational institutions. As such, companies need to get comfortable partnering with competitors, industry, education and government stakeholders.

Competitors

It may seem counter-intuitive to partner with an adversary in the "war on talent," but it is essential. By creating partnerships and alliances with competitors, companies can pool resources to develop third-party programs that create mutually beneficial talent pools.[8] Partnering by industry also allows scale when interacting with government stakeholders or educating prospective students on professional areas. An example of such a partnership would be a collection of industrial firms teaming together to educate high-school students on the breadth and volume of job opportunities in its industry.

Education

Perhaps the biggest mistake a company can make is to stand idle and expect the education system to provide the skills of the future. Companies must get involved by dedicating resources in the form of money, time, and people. Firms should play an active role in influencing curriculum by networking with faculty members and sitting on advisory boards. They should also provide students with hands-on training by donating equipment, offering real-world projects and funding vocational training programs.[10] This type of partnership ensures that education systems are aligned with employer demand while gaining the added benefit of building intimate relationships with job candidates.

Government

A third actor requiring partnership is the government. Government stakeholders play an important role in funding skills development and pushing education reform. Unfortunately, most employer-government relations to date have focused on lobbying for tax incentives and cheaper labor.[9] Employers should move beyond this conversation and focus on long-term skills development in the community. These practices should mimic systems already in place in countries like Denmark, Sweden, Germany, Ireland, Japan, and Singapore where government and employers, "share an approach to education and training of their workers and to high-productivity work organizations." [6]

Revising Internal Talent Attraction and Assessment Practices

Once a company understands its skills supply and demand and has established a sustainable talent pool, it is time to close the skills gap with sound staffing practices. This is accomplished by revamping talent attraction, talent assessment and talent development systems.

Talent Attraction

When battling for highly sought-after talent, a firm needs to be proactive about talent attraction and position itself as the best place to work in its industry, trade or

region. Attraction takes place at the firm level through job postings, advertisements and information sessions and at the macro-industry level. Additionally, companies should remain conscious to the fact that wages will rise when demand outpaces supply. As such, rewards strategies and employer value propositions need to be continually assessed to remain competitive.

Talent Assessment

With limited talent supply, firms need to widen the selection pool by looking beyond traditional indicators of candidate success. Such a practice omits the resume and focuses on statistically valid and reliable candidate predictors of future performance. For example, companies can hire individuals based on general competencies, biographical data and aptitude testing rather than years of experience, education or certifications. This type of approach allows companies to access traditionally untapped talent pools.[5]

By leveraging big data, firms should analyze traits and backgrounds of current high performers and then revise the selection process to screen for these traits. Google uses this methodology and now has internal algorithms that predict successful candidates based on a series of biographical data rather than schooling, certifications or years of experience.[5]

Talent Development

The final piece of the skills gap puzzle is to create and revise training programs that fill the gaps identified in the workforce planning process and are sourced by talent pools developed through external partnerships. Programs should include both in-house development for re-skilling and externally focused apprenticeship programs. If all of the pre-work is done appropriately then companies should have a healthy supply of candidates to fill the training programs.

Conclusion

The skills gap poses a genuine threat to global economic progress and has the potential to leave nations stalled, millions unemployed and prosperity dwindling. Although this essay is written from the employer's perspective, it is not only an employer problem. It is a societal problem that requires multilateral participation from many stakeholders - employers, government and education. Employers can do their part by engaging in thoughtful planning, reaching across boundaries, and getting sophisticated about staffing practices. ⌘

Matt Olson is completing his second year of a Master in Industrial and Labor Relations at Cornell University. While at Cornell, Matthew serves as a Research Assistant for Cornell's Center for Advanced Human Resource Studies (CAHRS) and is the President of Cornell's Human Capital Association (HCA). Before graduate school, Matthew worked in corporate human resources for Tyco, General Electric and Sonepar in a number roles in talent management, organizational development and talent acquisition. Matthew is originally from West Windsor, New Jersey and holds a Bachelor of Arts from Purdue University.

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