

The skills gap: time to take action

There is a skills gap problem in the developed economies and organisations have two ways of dealing with it: buy in talented people, or develop them.



However, not all skills gaps are the same. Some are inevitable. They are shortages caused as new technologies or methodologies emerge.

In these areas, skills will be at a premium until the skills base widens in the general population to meet demand, as it always does over time. But other skills gaps appear to exist where skills are already distributed across the working population.

To overcome both these skills gaps, organisations typically spend money and time recruiting and onboarding new employees. This can sometimes be the right approach, but, more often than not, there are less costly, faster and more effective alternatives.

In this white paper we set out the context for today's skills gaps, identify the causes and suggest a new perspective for the build vs. buy dilemma.

Plus, we outline the steps you need to take to move to a more strategic approach to building skills in your organisation.

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What's the problem?

The nature of work is changing, rapidly. Globalisation and the shift to a service-based economy are making work increasingly boundaryless. Global demographic and workforce trends, such as an aging population and the growth of the task-based economy, have shifted the way many people work. The rise in disruptive technologies such as artificial intelligence, robotics and automation more generally, is transforming some roles completely.

All this means that the skills employers need are evolving. If the skills required to do a job do not match those that are available, a skills gap results. [McKinsey reported](#) in early 2020 that 87% of companies globally are either currently facing skills gaps or expect gaps to emerge in the next five years. The financial impact of the global skills gap [is estimated to reach \\$8.5tr](#) by 2030, with 85m unfilled vacancies worldwide.



In the UK, employers reported that [almost one in four vacancies in the year 2019/20](#) were hard to fill specifically due to skills shortages, especially for roles such as computer programming.

In some cases, the risks associated with low skills levels are acute. [Two in five businesses](#) in the UK report having cyber security breaches or attacks in the last 12 months with an average cost of £8,460. Poor understanding by non-technical employees and the lack of highly skilled cybersecurity professionals is a [significant factor](#) in the rise of data breaches.

1. According to the cited article, hard data skills include: basic IT skills, information management, analysis skills, data ethics, programming, database management, data processing, data literacy, data visualisation, advanced statistics, machine learning, and data communication skills.

Taking IT skills as an example, almost half of businesses are recruiting for roles that require hard data skills¹ but [46% have struggled to recruit](#) for these roles over the last two years.

Consider one specific example: cyber security. [50% of UK businesses](#) in 2021 have a basic technical skills gap and 33% have an advanced skills gap.

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[Marco Dondi](#), of McKinsey, points to 56 foundational skills or 'Deltas' (distinct elements of talent – a mix of skills and attitudes) that show the skill groups associated with better pay and prospects for individuals in the changing world of work. The key areas are interpersonal skills and digital skills.

This shift, accelerated by the pandemic, is part of a larger digital transformation in work and society generally. It demands both wider and more shallow digital skills (such as enough digital proficiency to work effectively online) and more [interpersonal skills](#), principally adaptability, coping with uncertainty, synthesising messages and achievement orientation.

What's the answer?

Conventionally, the answer to an organisation skills gap is a choice between 'buying or building' – hiring new talent or developing those skills within the organisation.

Generally, recruiting costs more than developing the same talent. Josh Bersin [lays out the economics](#): the cost of recruiting a mid-career software engineer (who earns \$150,000–200,000 per year) can be \$30,000 or more including recruitment fees, advertising and recruiting technology. This new hire also requires onboarding and has a potential turnover two to three times higher than an internal recruit. By contrast, the cost to train and reskill an internal employee may be \$20,000 or less.

In addition, there is a greater risk of a new, external hire leaving – around [20% of all new hires](#) leave their job in the first two months, while internal candidates passed over for a role may also be [more likely to leave](#). If the new hire stays, it will take them time to fully integrate with their new company culture and get up to speed in their role – two whole years, according to an [Administrative Science Quarterly study](#).

The impact of getting the buy/build decision wrong can be high.

Consistently hire new talent when you could be developing your existing employees and you risk employees feeling overlooked and undervalued and, eventually, leaving the organisation for one that offers better prospects along the talent pipeline.



However, not all skills gaps are the same. With new technologies, it may be that an organisation does not have the time to develop the skills needed, and that they are in short supply. New technologies in particular will always create a gap in skills, with some able to use them well, and exploit that ability for premium payment. In the late 1990s it was possible to charge several thousand dollars to set up a simple website. Now, with a far wider skills base and simpler tools, a basic website can be created by anyone without any technical skills.

As Wayne Shurts, former EVP and CTO, Sysco Corporation, points out in [Deloitte: The Future of Work in Technology](#), highlighting the transient nature of premium skills, and the need for constant reskilling in the technical sphere:



“Twenty years ago, people branded themselves as SAP experts and even focused on a specific module, and that was going to be the focus of their entire IT career. Those days are gone.”

A fresh perspective

Rather than think of skills gaps in terms of a simple buy/build (or grow/recruit) dichotomy, there is a benefit to considering it in two dimensions, to accommodate the idea of the transient premium attached to emergent technical skills. On one dimension is the choice of how to source talent – by growing or recruiting for it. On the other is the type of skills needed. These may be existing skills, so widely established that they are effectively commodities, or they may be rare new skills which command a financial premium. Where the Grow/Recruit choice is a dichotomy, skills can exist anywhere along this horizontal axis.

While IT skills often receive the most attention, the premium skills gap is not limited to the fields of data and cyber.

For example, the energy sector is facing a [critical skills gap](#) due to an aging workforce and insufficient training in the surging green energy market, especially for increasingly complex renewable energy sources such as green hydrogen and offshore wind.



This perspective recognises that either building or buying talent can be the right approach, depending on circumstances. It also illustrates when either approach may be misguided.

There will always be times in the emergence of a new technology or methodology when skills are rare and at a premium commercially. There may also be other reasons for a genuine deficit of skilled people. In these exceptional cases, external recruitment may be the most sensible move, especially if speed is important, as the quickest way to fill the gap.

However, there is a risk in confusing a general rarity of skills with a more specific, apparent rarity of skills in an organisation.



Taking a Talent Grid perspective encourages a more nuanced approach to filling skills gaps.

There are four actions within the grid, each of which has economic and temporal implications.

The person with the skills you need may already work for you, you just don't know where they are in your organisation.

The danger lies in organisational structures making it procedurally easier to put a hire request into HR than to find someone internally. The larger the company is, the more likely this is to happen – but, equally, the more likely there will be someone in the organisation who fits the bill, or who would do with the right training.



Target and train:

this is a longer-term solution. If you are convinced that there are new skills that are strategically crucial for your organisation then it makes sense to identify and train people as part of a company-wide, ongoing capability programme rather than fighting for talent in a competitive open market. Take Procter and Gamble, which has invested heavily in its own people by building a perpetual learning culture and created an enterprise-wide Digital Genius Academy to upskill the entire organisation. The downside to 'target and train'? It takes time and high-level commitment to keep maintaining it during downturns.

Discover and develop:

a less costly way to grow your own talent is to discover and develop your own people and improve their skills levels in line with tactical goals. To do this most effectively, and in a timely manner, requires the right skills infrastructure. This makes it possible to understand the skills needed for each role, which employees have those skills at what level, what skills are needed now and for future roles, and which interventions will get employees from here to there.

Recruit expertise:

this may be your best option if you need particular expertise quickly or if, for strategic reasons, you would prefer to add outside experience to your team. However, this should always be a conscious, thought-through decision rather than the default action.

“At one point, we started hiring external digital talent to accelerate our capability, but then we realised the biggest tech companies were heavily recruiting our people (around 800) for their commercial expertise. While it still made sense to selectively bring in external hires, we already had great talent and simply needed to invest more in training and development to raise their digital IQ.”

FD Wilder, former senior vice president of global go-to-market strategy & innovation at Procter & Gamble



Recruit to fill:

do not confuse your local skills gap with a need to 'recruit expertise' and fail to see that the talent you are looking for exists in your own organisation.

It is notable that most organisations default to acting below the horizontal line in the diagram. As mentioned, when there is an urgent need for rare skills, or a need to bring in an outside perspective, recruiting may be a sensible choice. However, the key is to make the decision to recruit a conscious one, aware of two risks associated with external hiring. One is, as mentioned, the cost and risk of churn with newly hired employees. The other is the missed opportunity of building loyalty by consistently hiring from within. Implementing a learning culture leads to a workforce that feels more valued and will repay the investment with greater engagement and retention.

Taking action

To move from the more expensive and less efficient lower two quadrants to the more effective, longer-term upper two quadrants, organisations need to take a more strategic approach to skills. The key steps, outlined here, are covered in further white papers in this series.

1. Build a common language of skills

Your organisational capability has, at its heart, your employees' skills. To understand those skills, first define them by creating or selecting a skills framework. If you devise it yourself, you retain complete control and develop something uniquely defined for your organisation, but developing a good framework is never simple, or quick, and always comes with the additional task of maintenance to ensure continued relevance.

The complexity of developing a framework comes from the nature of its contents and from the political reality of change.

And don't be lazy! It may be much simpler to hire for a few positions than it is to put in place the skills/talent infrastructure to plan strategically but it is also much more expensive and is a short-term quick fix. Instead, look to 'Discover and develop', which provides candidates with less churn and a lower cost.





A framework must be both complex enough to be useful and simple enough to be usable

– never an easy balance to strike. In addition, the process of developing it must involve and engage enough influential people within the organisation that it attracts support after its development and throughout its deployment. This calls for adept project management and considerable diplomacy.

2. Identify the skills gaps in your organisation

A good framework deals with observable actions that you can see people doing. Once these are in place, with clear definitions for each level, you can begin identifying the skills required, and at what level, for particular roles. You can also start to understand the skills of each individual.

This provides the data for skills at an individual, team and organisational level, and for any skills gaps. These gaps need not only be for current roles, but also for future roles envisaged in the organisation’s strategic plans.

While the strategic value of this data is undeniable, it’s important not to overlook the additional, tactical value of a considered, organisation-wide approach to skills. Once there is a common language of skills, defined clearly for all to see, it is possible for managers and employees to have open conversations about skills and for them to establish training and development goals that match the aims of both employee and employer.

It is not surprising, perhaps, that many organisations prefer to use existing frameworks, either in their entirety, or as the starting point for an adaptation.

For example, for IT skills, many organisations begin with the Skills Framework for the Information Age ([SFIA](#)), established in the early 2000s, and now an international standard for the profession.

Similarly, [IBM Watson Talent Frameworks](#) offer a wide set of skill definitions, covering over 3,000 job profiles across many industry sectors. This takes a lot of the initial work out of creating a framework.



3. Define your organisation's highest priority learning and development needs

Because these skills goals are agreed by managers and employees, they have the aims of the business baked into them, but there will always be more demands for development than resources to fulfil them. This is where the Learning and Development function (L&D) has to prioritize.



L&D has two key roles: to ensure people can carry out their current roles, but also, crucially, to understand which skills gaps will prevent an organisation reaching its objectives.

4. Plan and deliver

Once the focus areas of development have been identified, L&D can work with the recruiting function to establish the approach to planning for the future. Here the Talent Grid comes into play. If a general set of skills needs developing (eg a need for all employees to have a basic level of knowledge of digital tools) then almost certainly a combination of 'above the line' training approaches is called for. Where the business requires a specific set of deep skills (eg cyber security), then recruiting may be the answer. In many cases L&D, the recruiting function and management will need to agree a combined training/recruiting strategy, always drawing on skills data.

Prioritization, planning and delivery are part of an iterative cycle that never finishes. This constant process requires regular engagement between L&D, managers, the talent function, and strategic planning. It needs data from both within and without the organisation, and it is a very long way from the traditional world of L&D as the department that simply designs and delivers courses.

About the author

Donald H Taylor is an influential organiser, writer and researcher in the field of adult learning, skills and technology. He has chaired the Learning Technologies Conference since 2000, and since 2014 has produced the L&D Global Sentiment Survey annually. From 2010 to 2021 he was chair of the LPI, where he continues to chair the advisory board. He now focuses on bringing together people and ideas, and creating space for useful conversations in learning to occur – through organising events, research and writing.



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About Lexonis

Lexonis helps organisations world-wide implement successful talent management. With over 20 years' experience, Lexonis delivers skills frameworks, consulting services and technology that help organisations understand the skills they have and how best to develop and deploy them. Typical outcomes include identifying skill gaps and learning needs, creating career development paths and reporting on workforce capability analytics.

Lexonis is an IBM Business Partner and supplies the IBM Watson Talent Framework Library and is also a SFIA (Skills Framework for the Information Age) Global Partner.

Contact Lexonis to start understanding, developing and better deploying the skills in your organisation.



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