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Are we long—or short—on talent?

By looking at their supply of skills and talent in a new light today, organizations can take actions that better prepare their companies for tomorrow's challenges.

by Megan McConnell and Bill Schaninger

CEOs and HR leaders worried about the viability of their talent strategy may be excused an occasional sleepless night. After all, there's a closetful of bogeymen to pick from as disruptive technologies such as digitization, automation, and artificial intelligence combine with demographic forces to continue transforming the nature of work, how it gets done, and by whom. The resulting job displacement could be massive—think Industrial Revolution massive—affecting as many as 800 million people globally by 2030 and requiring up to 375 million of them to switch occupational categories and learn new skills.

Companies are already feeling the heat. Fully 60 percent of global executives in a recent McKinsey survey expect that up to half of their organization's workforce will need retraining or replacing within five years. An additional 28 percent of executives expect that *more* than half of their workforce will need retraining or replacing. More than one-third of the survey respondents said their organizations are unprepared to address the skill gaps they anticipate.[1]

[1] McKinsey panel survey, November 2017 (n = 1,549); for more, see "Retraining and reskilling workers in the age of automation," McKinsey Global Institute, January 2018, McKinsey.com.

The competitive implications are profound. Organizations that expect to benefit from a digital transformation or a promising new strategy won't get very far if they lack the people to bring the plans to life. What might seem like an irritating talent gap today could prove a fatal competitive liability in the not-too-distant future.

How can organizations better prepare for what's coming? For starters, they should embrace a more expansive and dynamic view of their talent supply—one that tosses out the usual preoccupation with titles and traditional roles and looks instead at the underlying skills people have. Indeed, we find that when companies start with skills—the ones they need, the ones they have, and how the mix may change over time—they can free up their thinking and find more creative ways to meet the inevitable mismatches.

In this article, we'll show how forward-looking organizations are grappling with these challenges and highlight ways that CEOs and senior leaders can spark progress that is tangible, practical, and quite often beneficial for both employer and employee alike. Oftentimes, taking the first step can be as simple as asking: For our five most important skills, are we long—or short—on talent?

Shift happens

Consider the European bank whose market position was threatened by new, more digitally savvy rivals. The shifting competitive landscape required action, but when the bank's leaders compared their proposed strategic response with a three-year projection of the bank's talent pool, they saw a mismatch. The plan made sense, but executives feared that their people couldn't execute it.

For example, the bank would soon have serious skill gaps in its retail-banking unit, particularly among branch managers whose roles needed to change to encompass areas such as sales expertise, customer orientation, and digital capabilities, given the new strategy. Meanwhile, the bank's IT group faced both undersupply and oversupply: programming skills would be too scarce, while IT infrastructure skills would be too plentiful. To complicate matters, the bank faced strict regulatory and labor restrictions that prevented most layoffs. Any solutions would require flexibility and creative thinking.

To respond to the imbalances, the bank developed a range of interventions. For example, the bank is rolling out upskilling programs to help prepare its retail bankers for the aspects of their jobs that are changing; elsewhere, reskilling and retraining programs (including new digital and analytical skills) are helping employees secure new roles in the company. Still other employees have been offered part-time positions, an option intended to appeal to those nearing retirement.[2]

Finally, for some employees, the bank is exploring secondment opportunities with selected not-for-profit organizations. Under the arrangement, both organizations pay a portion of the employee's salary. In principle, this benefits everyone: the not for profit (which gets a talented employee for less money), the employees (who are doing meaningful work using skills that are in high demand), and even the bank (which pays less for skills it already has in surplus, while potentially enhancing its visibility in the community).

While the bank's overall approach is still a work in progress, its example is instructive not only for its breadth but also for the outlook of its leaders. Instead of just looking at its talent supply through the lens of its traditional jobs or roles, which after all are changing, the bank's executives pushed themselves to take a more objective, skills-based look. Similarly, the bank's experience underscores the importance of setting aside long-held assumptions about which roles are most important, as prevailing opinion may be outdated or biased.

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Adjusting the skills of a workforce requires a blend of rigor and creativity; it also requires dedicated commitment and attention from senior management. One way to spark a fruitful C-suite conversation about talent supply is to borrow a page from the dismal science and look at skills in the context of surplus and shortage.

Starting with a thought exercise such as this can help break down an otherwise intractable problem into smaller chunks that can be approached with discipline. At the same time, testing potential interventions using the logic of microeconomics can help managers see a wider portfolio of options beyond reskilling at one extreme, and layoffs at the other (exhibit).

The following snapshots highlight ways that organizations have addressed both talent gaps and overages.

We're short on talent: Build, acquire, or rent?

While talent shortfalls arise for many reasons, the supply-side remedies can be summarized in just three watchwords: Should we *build* on our existing skills? Should we *acquire* them? Or should we *"rent"* them?

[2] Of course, not all employees will find such offers appealing. Indeed, many baby boomers are eschewing retirement to remain in the workforce long after they might otherwise need to, a demographic trend that adds an additional level of complexity to any company's efforts to get a handle on skills imbalances.

Exhibit

Five methods offer a variety of ways to adjust the shortage or surplus of skills in a workforce.

Build	Redeploy	Acquire	Release	Rent
Reskill, upskill, retrain	Rent out workers	*Today:*	Terminate thoughtfully	Form strategic partnerships
Increase deployable hours	Shift unneeded skill sets	Hire individuals	Encourage voluntary attrition	Outsource functions
Centralize staffing		Rent-to-acquire individuals	Divest business units	Contract out to organization or individual
Reshape jobs and projects		Acquihire entire organizations	Create options to end contracts	Activate gig economy
		Tomorrow:	End contracts	Open-source assets
		Create and recruit from new pools		
		Recruit for intrinsics		

A global manufacturer investigated these options as it looked for ways to fill several looming skill gaps. One of the most acute shortfalls was in data science, a problem complicated by the company's suspicion that it was losing ground to high-tech firms as an employer of choice.

On closer look, their fears were justified: a talent-supply forecast that used machine learning to predict the likelihood of employee attrition found the company's data scientists would be eight times more likely to leave than other colleagues. Clearly, the company couldn't simply hire its way out of the problem; filling the skill gap would also require better employee retention.

Subsequent analysis helped the manufacturer spot opportunities in both areas, starting with a plan for more meritocratic career paths and redesigned leadership tracks to keep employees engaged and happy. The company is now working on simple changes to its recruiting and interviewing processes, to be more responsive and to help make candidates feel more valued throughout the process.

Of course, another way that companies can acquire skills en masse is through M&A, an approach pioneered in the tech industry, where it was given the portmanteau “acquihiring.” It has since become common in other industries. Walmart used it in 2011 when the company bought Kosmix, a social-media company, to form the nucleus of what would become Walmart Labs, the retailer’s digital-technology unit.

Companies can also start nurturing skills today that they may benefit from later. In 2015, Mercy Health, a US-based not-for-profit healthcare system, partnered with local community colleges in the state of Michigan to fill a skill gap among medical assistants by creating a paid apprenticeship program. Apprentices spend two days a week in class and three days working in physicians’ offices for a salary that is underwritten, in part, by a grant from the US Department of Labor. The results are encouraging, with Mercy Health hiring nearly all the alumni of its first two graduating classes. Moreover, the company is exploring the launch of three new apprenticeship programs for other occupations.

Programs such as this are intriguing to employers, because it lets them tap a new pool of talent and then create and shape the specific skills they need. The approach also holds considerable social promise, as it can be designed to support underemployed groups, such as young people or military veterans.

Finally, companies can obtain skills by “renting” talent; for example, through outsourcing partnerships that bring specialized skills or by tapping the gig economy, where the rise of digital platforms has rightly captured executives’ attention. IBM, for its part, has worked with Topcoder to crowdsource software developers and other experts, who have helped IBM complete more than 35 application-design and -development projects.

We’re long on talent: Redeploy—or release?

Invariably, the changing nature of work will create skill overages that even the most inspired corporate upskilling or reskilling programs can’t manage. In these cases, companies must choose whether to redeploy workers or to find thoughtful ways to let them go.

As the case of the European bank demonstrated, there may be regulatory reasons to consider the redeployment of workers by offering their skills to a third-party organization for a fee. There might also be cultural, financial, strategic, or even social reasons for redeploying skills. For example, Deutsche Post recently teamed up with a provider of elderly care services in the city of Bremen to test a program that uses postal employees to provide support and referral services to the city’s pensioners. In addition to the social benefit, the program, which runs through 2019, offers a new source of revenue for

Deutsche Post, as well as the potential to secure additional jobs, an outcome that pleases the trade union.

In the private sector, meanwhile, the video-game industry has long “loaned out” the specialized skills of software engineers to other video-game companies, including competitors, when their own projects hit unforeseen snags. While the approach may seem counterintuitive, the arrangement helps the sponsoring company maintain ready access to skills that are particularly rare and hard to recover once lost. The engineers, meanwhile, appreciate the change of pace and the chance to work on high-visibility projects with talented counterparts.

To be sure, redeployment programs such as these tend to be the exception rather than the rule. And no program can forestall all the job separations that come with technological change. Amazon seeks to address the issue thoughtfully through a voluntary severance package it calls “The Offer.” Every year, the retailer tempts each customer-service and warehouse worker with up to $5,000 to quit. Intriguingly, the approach may be helping Amazon strengthen its workforce by shedding less-committed workers and improving retention among others.[3]

It’s no coincidence that the employees to whom Amazon extends the agreement are in roles particularly susceptible to automation. Other companies can learn from this and even consider including voluntary attrition in certain contracts proactively, as part of a broader process of aligning financial benefits (such as early-retirement packages) with the company’s changing needs for talent.

Work, adapt, repeat

As Amazon’s example suggests, the nature of the evolving workplace confronts leaders with the need to think quite differently about people’s relationship to work. In this vein, we are particularly intrigued by concepts such as “lifelong employability” that prioritize helping people successfully adapt—again and again, if necessary—as the economy evolves.

Yet if companies are to bring ideas such as these to fruition, and truly reorient their organizations around skills and not just roles, they will need more than just a mind-set shift. Many, if not most, companies will find their people-operations infrastructure and talent-management system creaking under the strain of new challenges. Designing a winning employee value proposition, for instance, is much harder when career paths are themselves in flux.

[3] Alana Semuels, “Why Amazon pays some of its workers to quit,” *Atlantic*, February 14, 2018, atlantic.com.

Indeed, HR will need to sharpen its *own* skills, not only in traditional areas, like employee retention and performance management, but also in new ones, such as managing the risks associated with gig work. In this respect, HR leaders are no different from those in any other function—all of whom must be prepared to evolve if they are to be effective in helping the larger enterprise adapt to the changing nature of work.

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