

Organization Practice and McKinsey Accelerate

Beyond hiring: How companies are reskilling to address talent gaps

As potential skill shortages loom, a new survey finds that many companies are using multiple tactics to close gaps and that reskilling efforts are paying off.



As technologies and business models continue their rapid evolution, companies are experiencing a step change in the workforce skills they need to thrive and grow. Previous research has shown that as many as 375 million workers globally might have to change occupations in the next decade to meet companies' needs and that automation could free employees to spend as much as 30 percent of their time on new work.¹ Now, in a new McKinsey Global Survey on future workforce needs, nearly nine in ten executives and managers say their organizations either face skill gaps already or expect gaps to develop within the next five years.²

Although most respondents say their organizations consider it a priority to address skill shortages, few say their organizations understand how to equip themselves with the workforce skills they will need most. In fact, only one-third of respondents say their companies are prepared to cope with the work-

force disruptions resulting from technology and market trends. Most respondents say their organizations are hiring employees in an attempt to prepare for potential skill gaps, and some have made efforts to build skills in their workforces: about one-third of respondents say their organizations have begun reskilling efforts.³ Among them, many report early progress and provide insights into what these programs look like.

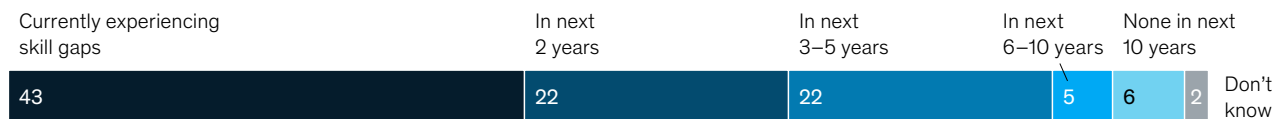
Skill gaps have appeared, and companies are trying to close them

The findings from our survey suggest that companies lack the talent they will need in the future: 44 percent of respondents say their organizations will face skill gaps within the next five years, and another 43 percent report existing skill gaps (Exhibit 1). In other words, 87 percent say they either are experiencing gaps now or expect them within a few years.

Exhibit 1

Respondents expect to see skill gaps as market and technology trends alter organizations' talent needs.

When skill gaps are expected to occur within organizations, % of respondents¹



Share of organizations' current roles at risk of being disrupted by market or technology trends in next 5 years, % of respondents¹



¹Figures may not sum to 100%, because of rounding; n = 1,216.

¹ "Jobs lost, jobs gained: What the future of work will mean for jobs, skills, and wages," McKinsey Global Institute, November 2017, McKinsey.com.

² The online survey was in the field from May 14 to May 24, 2019, and garnered responses from 1,216 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures.

³ We define "reskilling" as a programmatic effort that supports employees in building new skills so they can adapt to the fundamentally changing requirements of their roles or move into new roles.

Respondents expect market and technology trends to play a big part in these shifts. Three in ten say at least one-quarter of their organization's roles are at risk of disruption in the next five years by these trends. Looking at respondents by industry, those in financial services and in high tech and telecom are the most likely to expect this level of disruption, while those in healthcare services and pharmaceutical and medical products are the least likely.

Respondents see a need for their organizations to address potential skill gaps in a wide range of business areas. When asked where the greatest need exists, they most often say data analytics, followed by IT management and executive management (Exhibit 2). Similarly, when looking at the specific skills with the greatest mismatch between

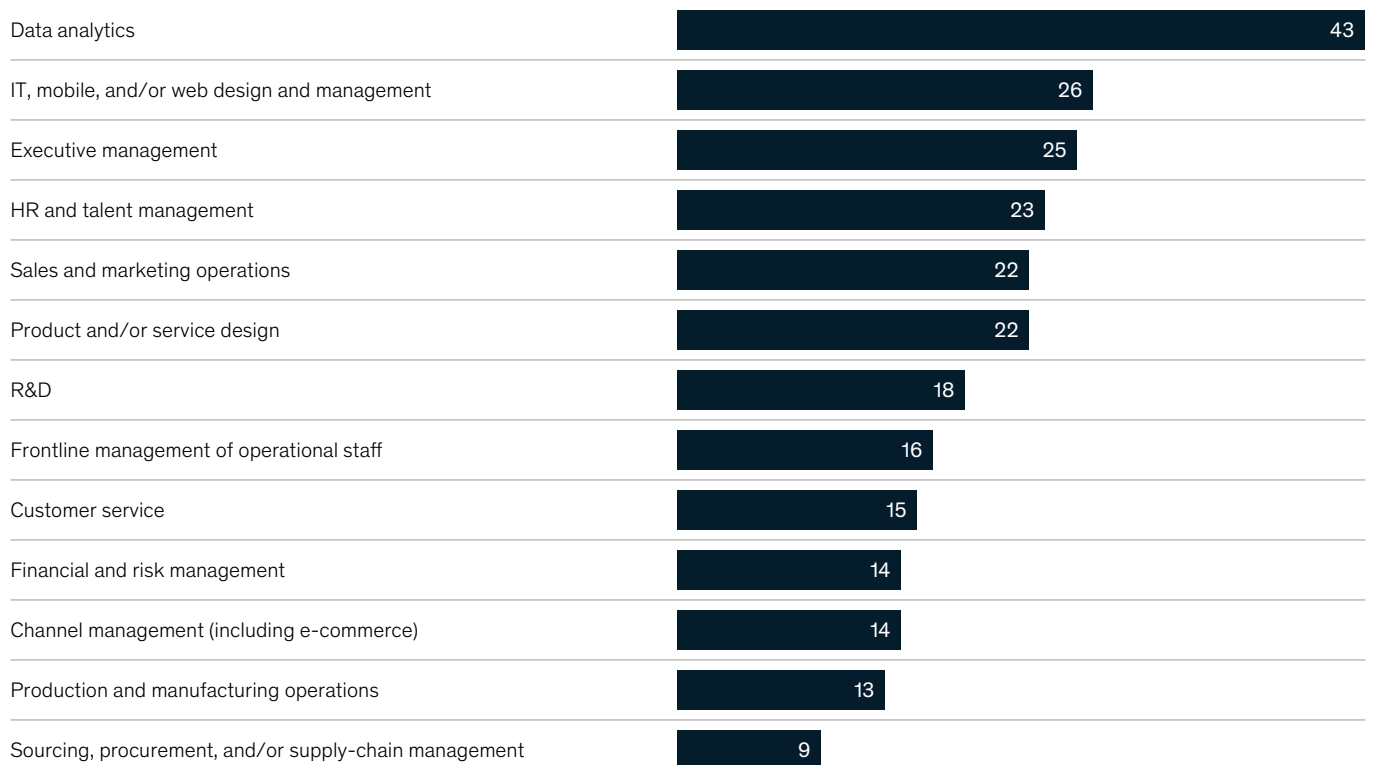
current supply and what will be necessary in the next five years, respondents expecting skill gaps to open during that time most often identify advanced data-analysis and mathematical skills.

Nearly all respondents classify closing potential skill gaps as a priority for their organizations, and about one-third say it is among the top three priorities. However, relatively few indicate that their organizations are ready to respond. One-third say their organizations are prepared to address potential role disruptions, and a smaller share—28 percent—say their organizations make effective decisions on how to close skill gaps. A potential hurdle to effective decision making is a lack of visibility into the skills of the existing workforce and the effects that the disruptions will have on workers'

Exhibit 2

Respondents report that potential skill gaps need to be addressed in data analytics and a wide range of other business areas.

Business areas with greatest need to address potential skill gaps, % of respondents¹



¹ Question was not asked of respondents who said they did not expect skill gaps within next 10 years. Respondents who said "other administration," "other," "not applicable," and "don't know" are not shown; total n = 1,145.

roles. Fewer than half of respondents say their organizations have a clear sense of their current skills, and just 41 percent report that organizations have a clear understanding of the roles that are likely to be disrupted.

Nevertheless, most organizations are taking steps to address their talent needs, often through a mix of actions such as hiring contract or freelance workers and redeploying employees into new roles.⁴ The survey suggests that the most common tactic for addressing skill gaps over the past

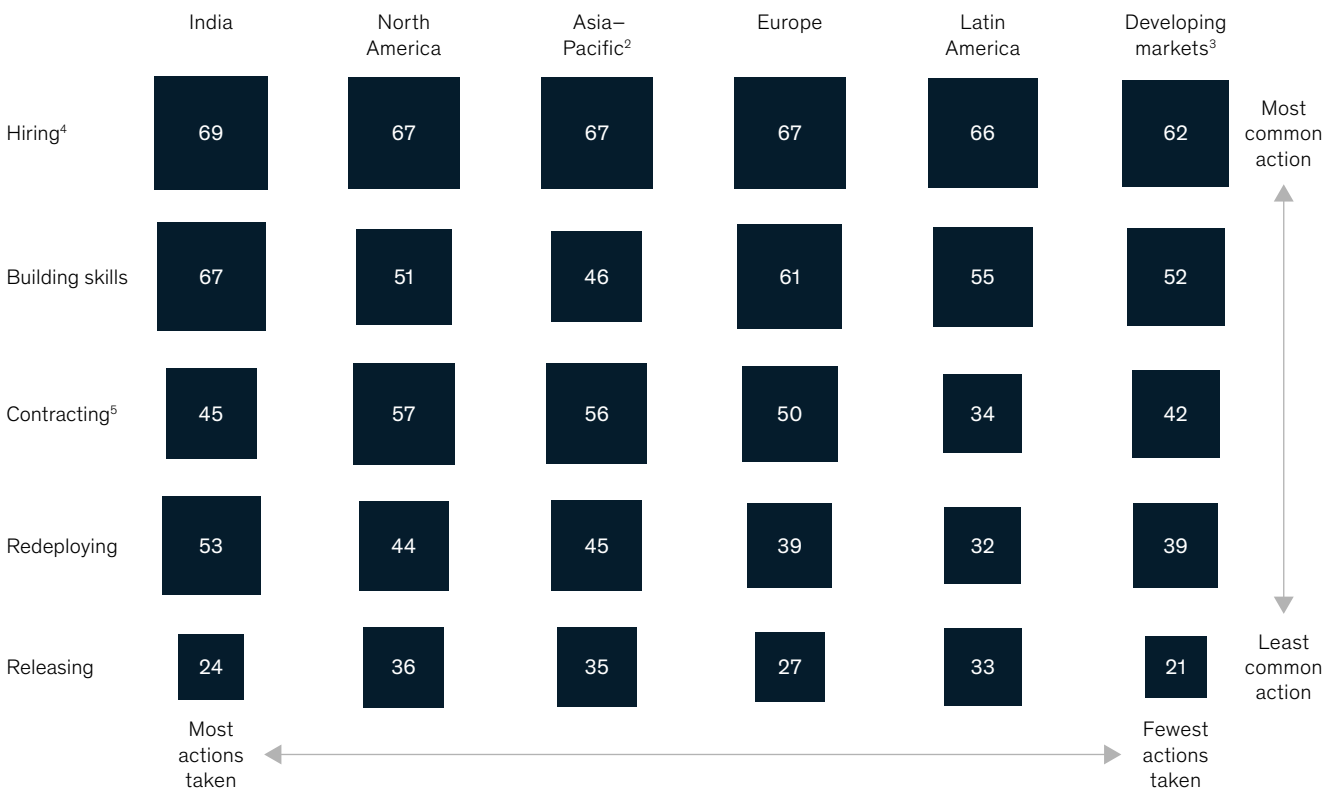
five years has been hiring, cited by two-thirds of respondents. The second-most common tactic, cited by 56 percent of respondents, is skill building, as accomplished through reskilling programs and other efforts. On average, respondents say their organizations take at least two actions to close potential gaps.

While hiring is the most commonly reported tactic in all regions, the use of other measures to match skills to needs varies by region (Exhibit 3). Respondents in Europe are more likely than those in North America

Exhibit 3

The measures that organizations have taken to address their skill needs vary by region.

Actions taken to close potential skill gaps in past 5 years, % of respondents¹



¹ Respondents who said "not applicable; we have not taken any of these actions" and "don't know" are not shown. In India, n = 83; in North America, n = 325; in Asia-Pacific, n = 119; in Europe, n = 434; in Latin America, n = 114; and in developing markets, n = 141.

² Includes Australia, Hong Kong, Japan, New Zealand, Philippines, Singapore, South Korea, and Taiwan.

³ Includes China, Middle East, and North Africa.

⁴ Acquiring external talent through hiring and/or acquisition of other companies.

⁵ Engaging freelance and/or contract workers.

⁴ The survey asked respondents whether their organizations are hiring (acquiring external talent through hiring or acquisition of other companies), building skills, contracting (engaging freelancers or contractors), redeploying (shifting employees to new roles in the organization), and releasing (separating individuals from the organization).

to say their organizations are building skills in their workforces, whereas respondents in North America are more likely than their peers in Europe to report that their organizations have released individuals. While respondents in developed Asia-Pacific are less likely than those elsewhere to say their organizations are prioritizing skill building, those in India are the most likely to report skill-building activities at their organizations.

Respondents whose organizations are building employees' skills are more likely to say their organizations are prepared to address role disruptions than are respondents whose organizations address gaps through other methods. Of the respondents from organizations working to build skills, 44 percent say they are prepared, compared with 19 percent of those at organizations taking other actions.

Looking ahead, respondents are much more likely to cite skill building, rather than hiring, as the most effective way to close skill gaps in the next five years.⁵ Half of those who expect skill gaps in the

years ahead say skill building will be the most effective action for their organizations to take, whereas 31 percent cite hiring as most effective.

The who, what, and why of reskilling programs

To address talent needs, more than one-third of respondents say their organizations either have reskilled at least one group or have a pilot or a program to do so currently under way. Another one-third say their organizations have plans to launch reskilling efforts. The most commonly cited purpose of these efforts (57 percent of respondents) is to enable the implementation of a new offering, business model, or strategy. The second-most cited reason (53 percent of respondents) is reacting to emerging technological disruptions.

Among industries, respondents in high tech and telecommunications are the most likely to say their organizations have already reskilled part of their workforce: 23 percent say their companies have

Respondents are much more likely to cite skill building, rather than hiring, as the most effective way to close skill gaps in the next five years.

⁵ Similarly, a 2017 survey found that executives at companies in Europe with more than \$100 million in annual revenue were more likely to say addressing skill gaps would require retraining than to say it would require hiring. For more, see "Retraining and reskilling workers in the age of automation," McKinsey Global Institute, January 2018, McKinsey.com.

reskilled at least one group or class, compared with 13 percent of respondents in other industries.

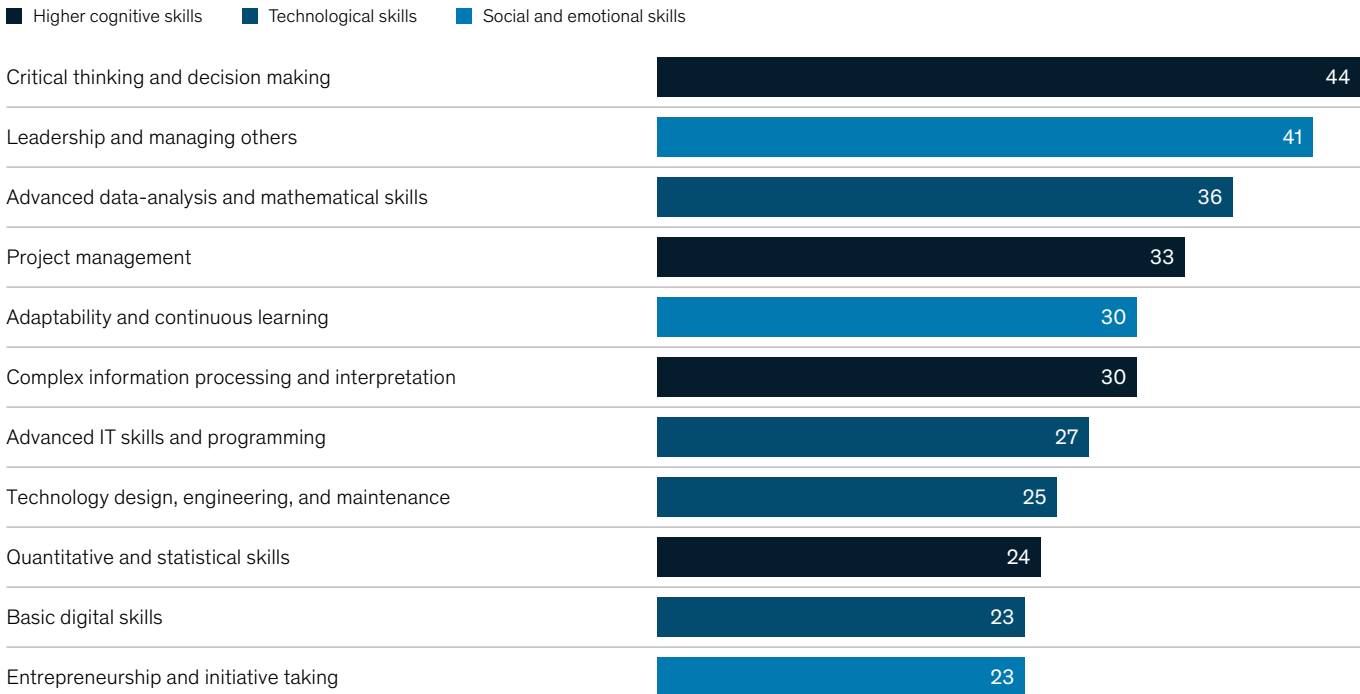
According to respondents, reskilling programs most often focus on building employees' skills in critical thinking and decision making, leadership and managing others, and advanced data analysis (Exhibit 4). All are skill types that previous research has found will be in greater demand in coming years.⁶ These programs also tend to focus on building multiple skills: on average, respondents at organizations with reskilling programs say those efforts have prioritized five skills.

While a majority of respondents at organizations with current or planned reskilling programs are confident in their organization's abilities to choose employees to train and skills to teach, most say their organizations lack the capabilities for designing other aspects of the programs. Nearly six in ten say their organizations are good at selecting which employees to reskill and have effectively prioritized the skills to address. But fewer than half say their companies have strong capabilities in curriculum design, and only one-quarter say their organizations designed the programs' incentives well. Four in ten say designing the programs'

Exhibit 4

Reskilling programs most often focus on building employees' skills in critical thinking, leadership and management, and advanced data analysis.

Skills prioritized to address through reskilling, % of respondents¹



¹ Out of 35 skills included in survey question. Question was asked only of respondents who say their organizations have a reskilling program currently under way or have already reskilled ≥1 group or class of employees; n = 394.

⁶ For more on the skills expected to be in increasing demand in the future, see "Skill shift: Automation and the future of the workforce," McKinsey Global Institute, May 2018, McKinsey.com.

communications plans is a strength for their organizations, and fewer than one-quarter say the same about plans to engage external stakeholders.

Reskilling programs face other obstacles, too. Among respondents reporting current or planned reskilling programs, 53 percent say the most significant challenge has been balancing their programs' needs with those of current business operations. Measuring the programs' business impact is another common challenge, cited by 41 percent of respondents.

Despite these challenges, respondents expect further reskilling efforts in the next five years. Of the respondents whose companies have delivered a reskilling program, 46 percent say their organizations will reskill more than one-fifth of their workforce in the years ahead. Nearly three-quarters of respondents say they expect their organizations

to invest more in learning and development over the next five years.

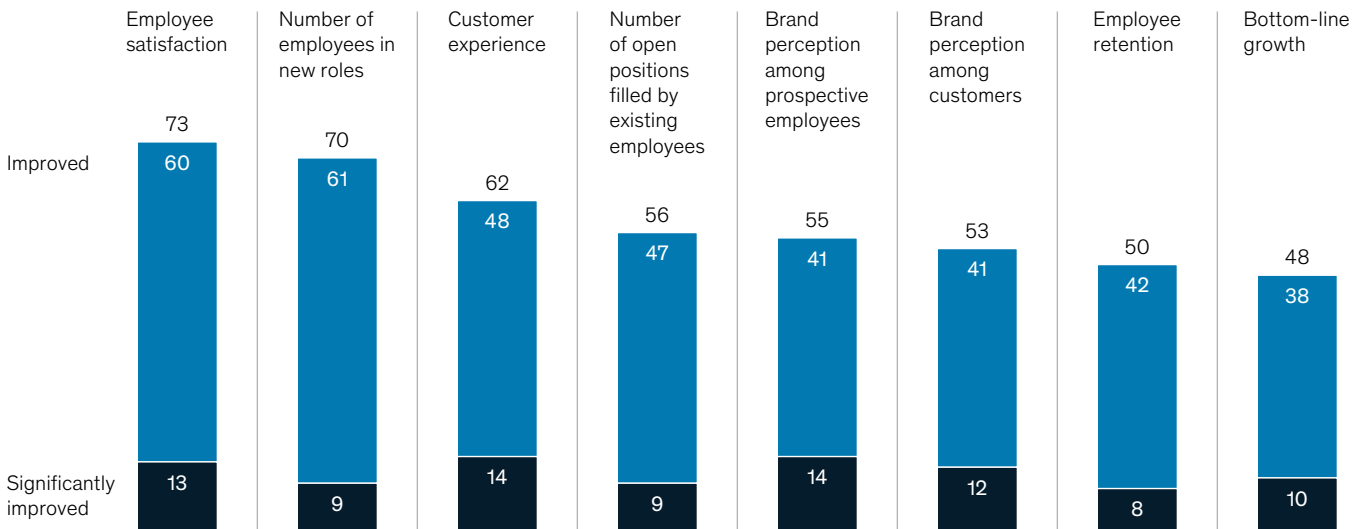
Early reskilling efforts appear to pay off

Although reskilling programs are generally at an early stage,⁷ many organizations are already seeing positive results from them. Nearly seven in ten respondents reporting reskilling say the business impact from the programs has been greater than or equal to the investment in them. What's more, 48 percent say the programs are already enhancing bottom-line growth. Respondents also see other benefits: most say their organizations' reskilling efforts have improved performance on seven other key performance indicators, including employee satisfaction and customer experience (Exhibit 5). Further, respondents reporting reskilling efforts are more than twice as likely as other

Exhibit 5

Respondents say their organizations' reskilling efforts have improved performance in a variety of ways.

Effect of organizations' reskilling programs on given key performance indicator, % of respondents¹



¹ Question was asked only of respondents who say their organizations have a reskilling program currently under way or have already reskilled ≥1 group or class of employees; n = 394. Respondents who said "significantly declined," "declined," "no change," and "don't know/not applicable" are not shown.

⁷ "Learning innovation in the digital age," *McKinsey Quarterly*, September 2017, McKinsey.com.

respondents to say their organizations are prepared to address potential role disruptions (53 percent, compared with 24 percent of all others).

Respondents who say their organizations have successfully reskilled (by virtue of being effective or very effective at delivering reskilling programs and achieving impact that matches or exceeds their investment) offer clues as to how other companies might run reskilling programs. These respondents tend to credit the engagement of leaders and employees: 48 percent say having the senior-management team sponsor the programs helped them succeed, and 43 percent say having high levels of employee engagement set their programs up for success.

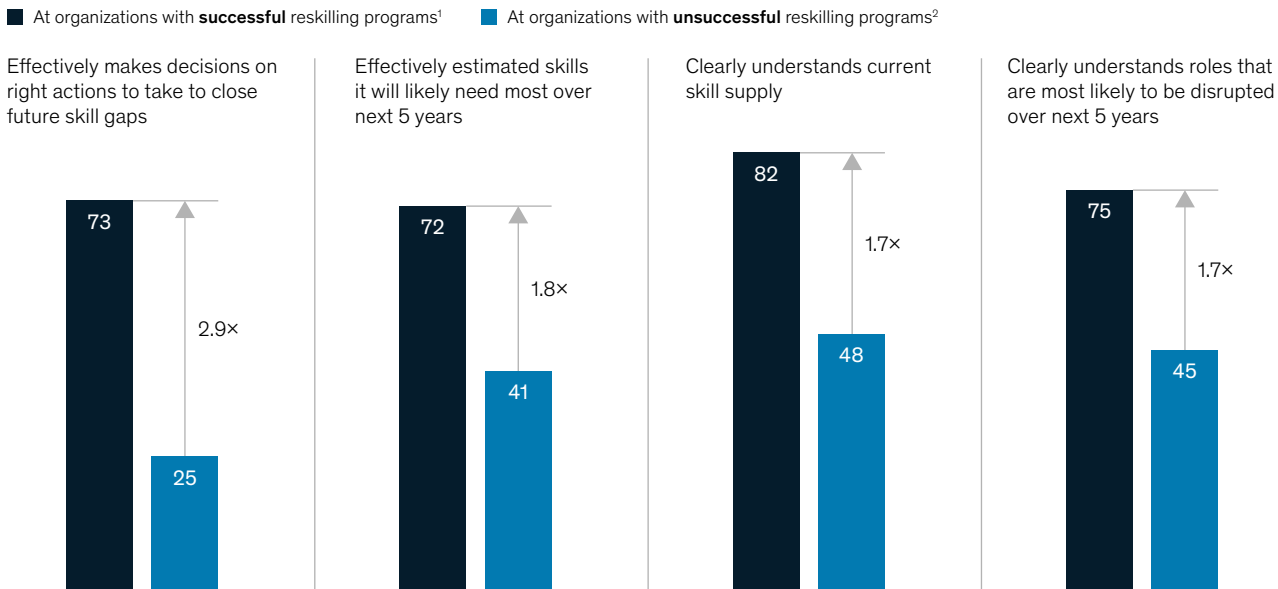
Respondents reporting success at reskilling are likelier than others to say their organizations have a culture of lifelong learning. Eighty-four percent of respondents reporting reskilling success say their companies have such a culture, compared with 58 percent of those from organizations with unsuccessful programs.⁸

Additionally, respondents from organizations with successful reskilling efforts are more likely than others to say strong skill-management practices are in place (Exhibit 6). For example, respondents reporting success are about three times likelier than those with unsuccessful efforts to say their organizations effectively make decisions on the right actions to take to close future skill gaps.

Exhibit 6

Respondents reporting successful reskilling efforts are more likely than others to say their organizations have strong skill-management practices.

Organizational practices in place, by reported success at reskilling, % of respondents



¹ Respondents who said their organizations have been effective or very effective at delivering their reskilling programs and the programs' business impact has been equal to or has exceeded their investment; n = 172.

² Respondents who said their organizations have been ineffective or very ineffective at delivering their reskilling programs or the organizations' investment in their programs has exceeded or significantly exceeded the programs' business impact; n = 69.

⁸ We define an unsuccessful reskilling program as one that, according to respondents, has been delivered ineffectively or very ineffectively, or where the investment in the program has exceeded or significantly exceeded the program's impact.

Looking ahead

As more tasks become automated and companies redesign jobs to encompass different activities,⁹ it will be critical to enact strategies that help employees develop the new capabilities needed. This will be a major undertaking. Our survey results suggest that most companies will prioritize learning and development as they try to close skill gaps. Companies that have not yet begun reskilling their employees should consider taking these actions:

- **Understand which skills you need.** Companies might not recognize skill gaps in their workforce, but they probably have some already. A diagnostic can show which skills the workforce possesses and which will be necessary in the future. Understanding which skills to develop in the workforce requires a rigorous, empirical approach to comparing the supply of each skill with the business's strategic needs.
- **Be strategic in how you close gaps.** Companies must decide what actions they should take to address each gap. Filling most gaps will require a mix of approaches, such as hiring and reskilling. For each approach, it is necessary to decide which specific programs or initiatives

to implement to gain the right skills in the workforce. This decision also includes candidate selection: Which employees should be reskilled first? Meanwhile, companies should prepare the workforce for change by explaining the reskilling agenda, including each employee's future role and reskilling options.

- **Build training capabilities and partnerships.** Applying the science of learning will improve the outcomes of any reskilling effort. Companies should structure the learning journey to help employees retain new skills and apply them to their role. To do so, the reskilling curriculum should blend in-person and digital learning opportunities. Employees should be assigned to train in a cohort of employees with similar experiences and should be involved with projects that allow them to practice skills while they learn. Because organizations may need to cultivate a broad range of workforce skills, they will likely need to assemble learning resources from multiple providers—for example, online platforms, universities, and technical organizations. Fostering a culture of lifelong learning also can encourage employees to develop new skills.¹⁰

The survey content and analysis were developed by **Sapana Agrawal**, an associate partner in McKinsey's London office; **Aaron De Smet**, a senior partner in the Houston office; **Pawel Poplawski**, a senior research science analyst at the Polish Knowledge Center; and **Angelika Reich**, a partner in the Zurich office.

They wish to thank David Mendelsohn and Giulia Perin for their contributions to this work.

Designed by Global Editorial Services
Copyright © 2020 McKinsey & Company. All rights reserved.

⁹ "Jobs lost, jobs gained," November 2017.

¹⁰ Jacqueline Brassey, Katie Coates, and Nick van Dam, "Seven essential elements of a lifelong-learning mind-set," February 2019, McKinsey.com.