The Future is Skills: Transforming Work with Skills-Based Organizations

PwC's Point of View on Skills-Based Organizations

> **"As we look to the future, organizations must embrace a skills-based approach to stay competitive. It's about identifying and nurturing the skills that drive innovation and growth, rather than just filling roles."**
>
> – Leena Nair
> (CEO of Chanel, former CHRO of Unilever)

Rapid advancements in technology, like automation and AI, are changing the workplace along with shifts in the economy. As a result, there is less demand for jobs requiring manual labor and routine thinking, while the need for workers who have a mix of tech skills, social abilities, and advanced thinking is growing. In fact, recent surveys by PwC reveal that 28% of CEOs were worried about the availability of skilled workers in 2021. By 2022, this figure had jumped to 55%. Likewise, in 2023, over half of CEOs believed that labor and skill shortages could impact their industry's profitability in the next decade, adding up that in 2024, 45% of the CEOs are not confident, their company would survive another decade without reinvention. Estimates suggest their fears are well-founded: By 2030, around 85 million jobs globally could remain unfilled due to a lack of skilled candidates.

> Only about **10%** of the DAX companies mention the term "skill" in their 2023 annual reports. When focusing specifically on skills-based organizations, only two companies stand out: A major energy provider as well as a leading telecommunications provider.
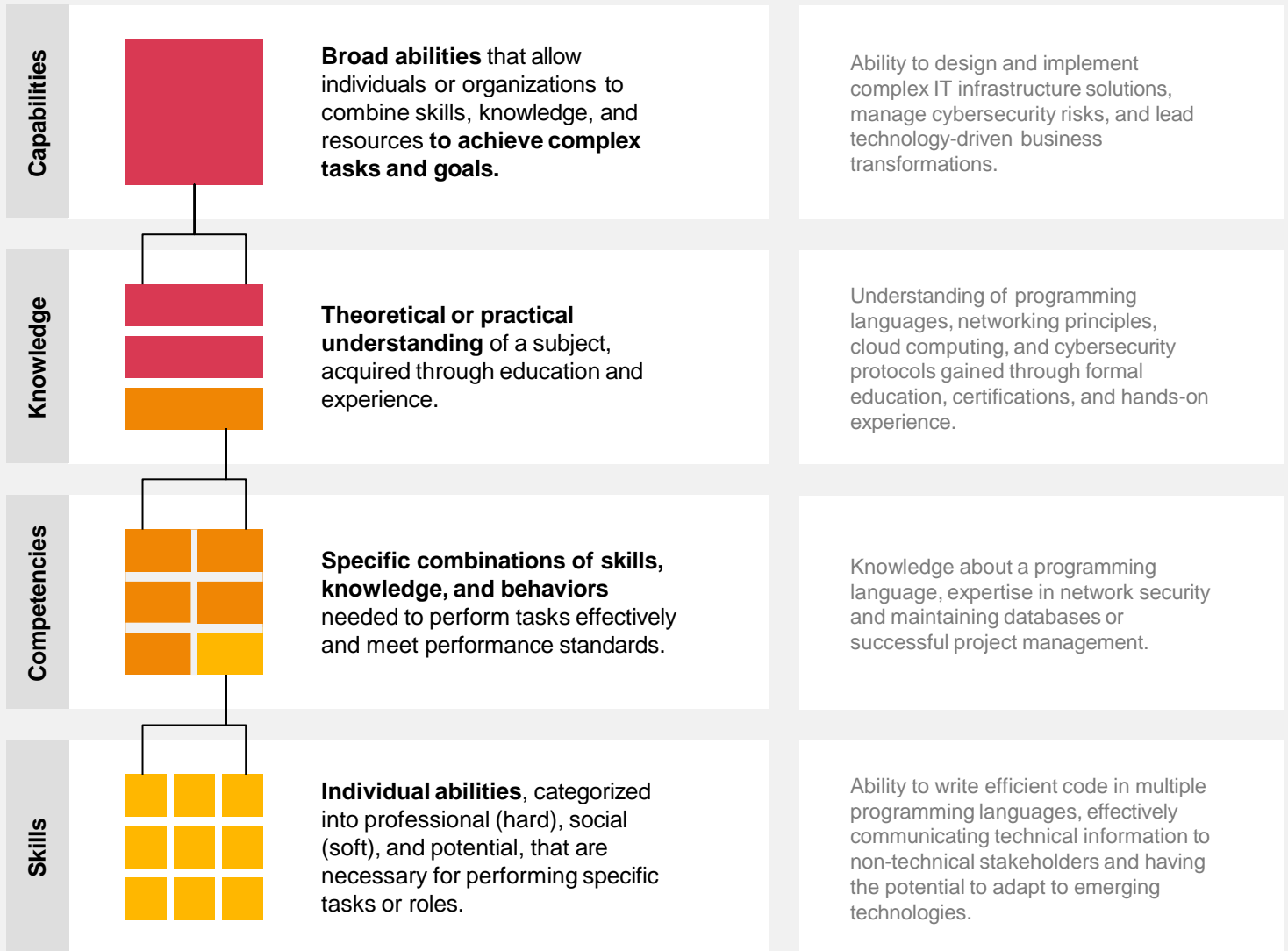
The future of work clearly favours adaptation to new technologies, collaboration across disciplines, and continuous more self-directed learning. Traditional organizations, still relying on fixed HR processes focused on job titles and descriptions, will be hard-pressed to compete. Take the example of the shift towards project-based work environments. Where skills-based organizations can deploy employees with project management, data analysis, and other cross-functional skills to meet business needs, a traditional organization could find talent trapped in rigid roles ill-suited to evolving project management needs.

Surprisingly, only 10% of DAX[1] listed companies mention "skills" in their 2023 annual reports. These companies stand out as leaders in the shift toward skills-based organizations. According to an internal report, a major energy provider is focused on identifying employee skill gaps using a structured taxonomy. Another notable example is a leading telecommunications provider that has created skill transparency through a global job architecture while launching various upskilling and reskilling initiatives. They've also introduced an AI-driven platform to support more dynamic and personalized recruitment as well as skill management. In short, the shift from job titles to skills across the employee lifecycle is set to redefine how companies attract, manage, and develop talent, helping them stay competitive in an ever-evolving market. This article explores what skills-based organizations are, the benefits they bring, and the challenges involved in creating them, as well as some tips on how to move your workplace toward becoming a skills-based organization.

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[1] The DAX (Deutscher Aktienindex) is the most important stock market index in Germany. It includes the 40 largest and most liquid companies listed on the Frankfurt Stock Exchange. The DAX serves as a barometer for the German economy and is often used as an indicator of the country's economic health.

First things first: What does skills-based mean?

Terms like skills, capabilities, knowledge, and competencies are frequently used interchangeably and without precise definitions. However, each term has a distinct meaning and implications.

Capabilities	**Broad abilities** that allow individuals or organizations to combine skills, knowledge, and resources **to achieve complex tasks and goals.**	Ability to design and implement complex IT infrastructure solutions, manage cybersecurity risks, and lead technology-driven business transformations.
Knowledge	**Theoretical or practical understanding** of a subject, acquired through education and experience.	Understanding of programming languages, networking principles, cloud computing, and cybersecurity protocols gained through formal education, certifications, and hands-on experience.
Competencies	**Specific combinations of skills, knowledge, and behaviors** needed to perform tasks effectively and meet performance standards.	Knowledge about a programming language, expertise in network security and maintaining databases or successful project management.
Skills	**Individual abilities**, categorized into professional (hard), social (soft), and potential, that are necessary for performing specific tasks or roles.	Ability to write efficient code in multiple programming languages, effectively communicating technical information to non-technical stakeholders and having the potential to adapt to emerging technologies.

Graph 1. Understanding Skills-Based Organizations: the relationship between capabilities, knowledge, competencies and skills.

Skills-based organization describes an approach to talent management that emphasizes a person's skills and competencies – rather than degrees, job histories or job titles – when attracting, hiring, developing, and re-deploying talent. Similarly, the organization is structured around skills rather than job families or hierarchies.

The result: The future of work will shift from assigning individuals to specific job titles or roles to allocating them based on their unique skills and strengths. This change will have a profound impact on organizations and society as a whole, fostering a more dynamic, adaptable workforce. Instead of rigid career paths, people will be valued for their abilities to contribute across different areas, leading to greater innovation, job satisfaction, and personal growth.
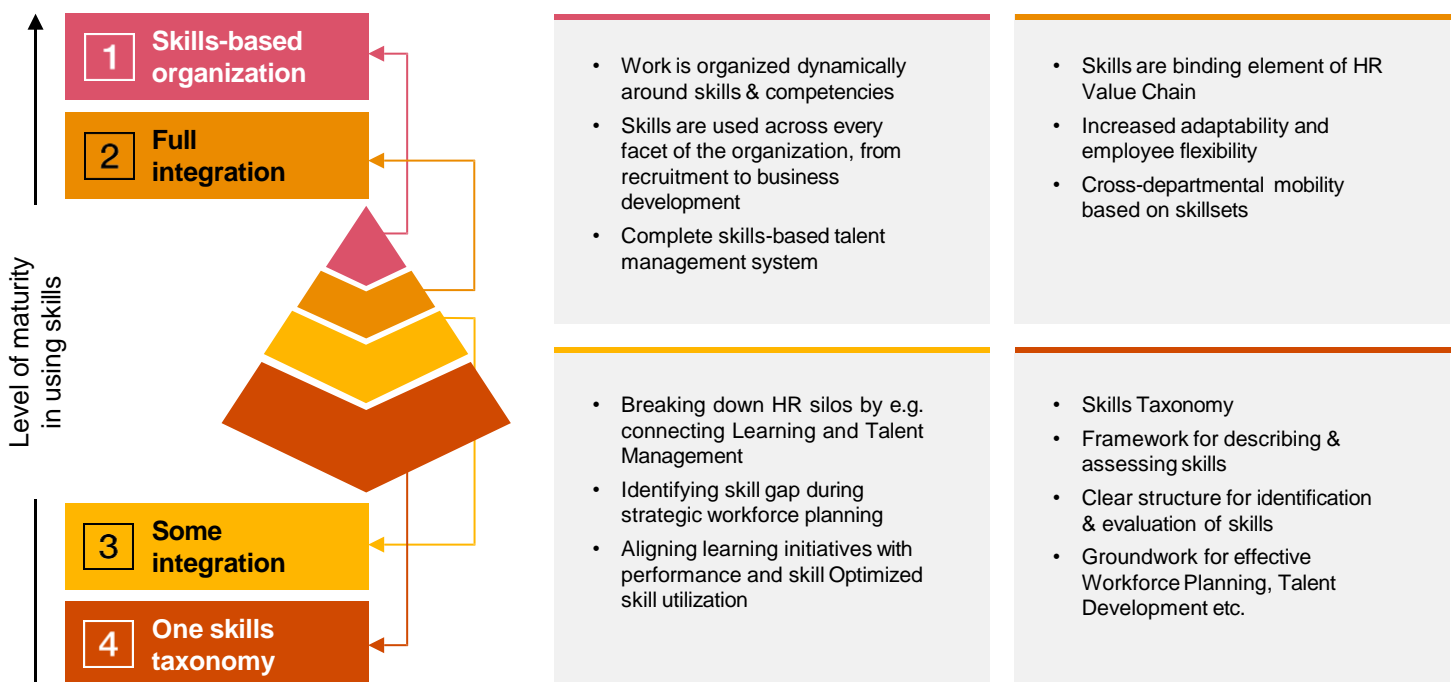
Traditional organizaitons

Job

Skills

Unused skills

Only specific job-related skills are used, others remain unused.

Skills-based organizaitons

Skills pool

Business needs

All available skills are deployed where they are needed most.

Graph 2. Moving from traditional organizations to Skills-Based Organizations: using the full suite of skills.

Now that we know the terms, what are the different stages along the journey to building a skills-based organization?

A skills-based organization goes beyond just putting skills at the heart of the Workforce and Talent Management strategy . In the past, skills were linked to specific job roles, but now companies understand that as jobs change quickly, skills provide more flexibility. Employees' skills can be used in different roles, making them more adaptable and valuable in a constantly changing workplace. **A skills-based organization allows to quickly adapt to customer needs by allocating always adequately skilled employees to specific projects/ tasks.**

Embarking on the journey to becoming a skills-based organization is a continuous process, not a standalone feat. The first step on the journey is defining the business rationale and desired goal. Organizations can target different levels of maturity in using skills, ranging from 1) One skills taxonomy (setting the foundations) to 2) Some integration (Medium), 3) Full integration (advanced skills-based organization), and 4) Skills-based organization (progressive setup). A full transformation may not be necessary or feasible for your situation!

Level of maturity in using skills

1 Skills-based organization

2 Full integration

3 Some integration

4 One skills taxonomy

- Work is organized dynamically around skills & competencies
- Skills are used across every facet of the organization, from recruitment to business development
- Complete skills-based talent management system

- Skills are binding element of HR Value Chain
- Increased adaptability and employee flexibility
- Cross-departmental mobility based on skillsets

- Breaking down HR silos by e.g. connecting Learning and Talent Management
- Identifying skill gap during strategic workforce planning
- Aligning learning initiatives with performance and skill Optimized skill utilization

- Skills Taxonomy
- Framework for describing & assessing skills
- Clear structure for identification & evaluation of skills
- Groundwork for effective Workforce Planning, Talent Development etc.

Graph 3. Stages of building a skills-based organization: a progressive journey that highlights the increasing maturity levels of a skills-based organization.

Setting up a skills-based organization, with skills as the central element of the HR value chain, unveils an entirely new HR structure.

Talent Acquisition

Prioritizes skills over job titles or degrees. Candidates are evaluated based on skill profiles and soft skill assessments, making the hiring process more flexible and purpose-driven.

Career Paths

Career paths in a skills-based organization are flexible, focusing on skill development rather than traditional roles. AI-powered tools suggest career moves based on skills and interests, enabling employees to advance through personalized, skills-driven career lattices.

Learning Management

Skills-based learning targets skill gaps and connects employees to continuous learning and personalized training opportunities aligned with business and market demands.

Succession Management

Succession pools to address ongoing skill needs. The focus is on collaborating with talent management to develop skills internally rather than relying on external hires.

Total Rewards

The reward system is based on skills, not job titles, and adjusts dynamically to reflect changes in skill clusters. Project-driven incentives can be implemented for decentralized performance measurement as well as centrally managed rewards.

Performance Management

Agile, strength-based performance management culture in which regular coaching and performance dialogues lead to the maximalization of employee satisfaction through promoting skills-based development and performance evaluations.

Internal Mobility

Skills-based internal mobility empowers employees to move vertically or horizontally, enhancing their skills while increasing retention. Talent marketplaces match employees' skills to opportunities, fostering upskilling, reskilling, and cross-skilling.

Graph 4. Interconnected but Distinct HR Functions in Skills-Based Organizations – Each piece represents an individual HR function, illustrating how they connect and interlock to create a cohesive skills-based organization.

Let´s take a look at other companies, how do they transform their organization towards skills-based organization?

A leading **information technology and digital communications company** based in Germany, with 112,000 employees and $30 billion in revenue, focusing on digital transformation and workforce development.

Pain Points:	Journey:	Result:
Challenges in recruitment, workforce planning, and skill development due to a lack of a unified skills framework, and the need to adapt to rapid technological changes accelerated by the COVID-19 pandemic.	The company launched a Skills Transformation Program, creating a unified skills taxonomy and an interface tool for skills-based learning. This initiative integrates skills into talent management processes from hire to retire, enhances recruitment by focusing on specific skills over degrees, and promotes targeted upskilling across the organization.	Account executives who completed the Year 1 Customer Success program saw a 55.5% increase in productivity, including a 24% rise in deals won. The program aims to reach 26 million people by 2030, with early pilots already reaching up to 50,000 participants, leading to a five-fold increase in learning event registrations and a 92% satisfaction rate.

A **global financial services** firm with 24,000 employees across 65 countries and £7.4 billion in income, focused on enhancing internal career development and mobility.

Pain Points:	Journey:	Result:
High employee attrition due to a perceived lack of career opportunities, with 50% of the workforce feeling they lacked relevant career prospects within the company.	The company launched a skills-based career framework supported by a talent marketplace. This initiative aimed to enhance transparency, improve internal mobility, and align individual career ambitions with development plans. It also streamlined 25,000 jobs into 1,100 distinct profiles to better match roles with required skills.	Eight months post-launch, 38% of employees engaged with the platform, leading to a projected 15% increase in internal mobility and a 20% reduction in external hiring costs. The initiative also provided employees with clear visibility into career opportunities, fostering a more engaged and empowered workforce.

Global tech firm with over 220,000 employees and annual revenue exceeding $328 billion, known for its innovation and extensive international operations.

Pain Points:	Journey:	Result:
Relying on traditional qualifications led to missing skilled candidates and limited diversity in hiring.	The company revamped its recruitment strategy by shifting to a skills-based hiring model. It replaced traditional qualifications with practical assessments, projects, and quizzes to evaluate real-world skills. Job descriptions now emphasize skills over degrees, and hiring managers were retrained accordingly. This overhaul involved substantial investment in new tools and training.	The skills-based approach expanded the talent pool, attracting diverse candidates with relevant skills, improving hire quality, job performance, and employee satisfaction. Diversity and inclusion metrics improved, and hiring efficiency increased, reducing time-to-fill positions.

A major **financial services firm** in the UK with 83,000 employees and $16.3 billion in income, focusing on adapting to technological advancements and evolving client needs.

Pain Points: ◎	Journey: ⤢	Result: 🗂
Outdated roles due to technology, shifting workforce structure, lack of continuous learning culture, and rising recruitment costs.	Transformed into a skills-based organization by deploying an AI-driven learning platform, establishing Future Skills Academies, and launching an AI-enabled Talent Marketplace. Emphasized reskilling and upskilling employees for emerging roles through targeted learning initiatives.	Increased productivity by $6.1 million, grew learning platform engagement by 54%, and improved average learning days per employee from 2.8 to 4.7. Reskilled over 2,000 employees, with 93% certified for their roles and 86% employed in other target positions.

A leading **multinational consumer goods company** with over 150,000 employees and €50 billion in annual revenue. Known for its extensive brands in food, beverages, home care, and personal care, the company operates in over 190 countries and is dedicated to innovation, sustainability, and employee development.

Pain Points: ◎	Journey: ⤢	Result: 🗂
Traditional job titles limited internal mobility and underutilized employee capacity. There was a need for a consistent understanding of skills and proficiency levels across the organization, along with challenges in gaining organizational buy-in for a skills-based approach.	The company adopted a skills-first strategy by implementing a system that focuses on 600 endorsed skills, using a central learning hub to facilitate development. Employees self-assess their skills, which are then validated by managers, and hiring decisions are now based on matching these skills with job requirements. The company engaged senior leadership, addressed key stakeholder concerns, and consistently communicated the benefits of this approach.	The skills-first approach is expected to unlock 50% of trapped capacity within the workforce. It has improved internal mobility by making the process more equitable and transparent, while enabling better tracking of the business impact of learning and development efforts. The company has successfully fostered a culture where skills are recognized and trusted, setting a foundation for future growth.

Technology firm with over 288,000 employees and annual revenue surpassing $62 billion. The company is renowned for its advanced technology solutions and extensive global reach.

Pain Points: ◎	Journey: ⤢	Result: 🗂
The firm faced challenges with outdated compensation methods, which were often based on static market benchmarks and historical data. This approach led to inefficiencies and discrepancies in compensation decisions, as it did not adequately account for real-time market demand, internal skill forecasts, and attrition data.	To address these issues, the company implemented an AI-powered system designed to enhance compensation decisions. This system analyzes various factors, including market demand for specific skills, internal forecasts, and attrition trends related to skill clusters. By integrating these dynamic data points, the company aimed to create a more responsive and accurate compensation strategy.	The AI-driven compensation system significantly improved the accuracy and fairness of compensation decisions. It allowed the company to better align salaries with current market conditions and internal skill requirements, leading to more competitive compensation packages. This approach enhanced employee satisfaction and retention by addressing compensation discrepancies and ensuring that pay scales reflected real-time market and skill demands.

Traditional	Accelerated	Quick start	
Hire for jobs/filling jobs	Skills added as a hiring criterion	Active sourcing for skills and targeting talent	**Talent Acquisition**
Predetermined learning curriculum based on job	Hybrid of self-directed and predefined learning	Continuous learning (never stop learning)	**Learning Management**
Annual performance review, foster individual performance	Annual review extended with regular check-ins	Continuous development dialogue &team goals and performance	**Performance Management**
Focus on external marketplace to fill job gaps (buy)	Considering internal movement as an option	Use internal talent marketplace to fill Skill gaps (Build)	**Internal Mobility**
Reactive career development based on function/leadership ambition	Implementing vertical and lateral career movements	Proactive career/skills development(skills t-shape)	**Career Paths**
Compensating for static jobs and rewarding achieved performance	Rewards are allocated more agilely and grouped more flexibly	Compensating dynamic role and rewarding development and collaboration	**Total Rewards**

Graph 5. Shift from traditional to skills-based organization: broken down along the parameters of the HR value chain.

If the transformation to a skills-based organization involves a cultural shift and requires significant time and financial resources, **why should an organization move towards becoming more skills-based?**

In short, changing to a skills-based organization can make a company more agile, help fill talent gaps more effectively, boost performance of employees and company at the same time. And finally, even increase diversity by focusing on individual skills rather than strict job titles or old qualifications.

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A skills-first approach can deliver sustainable economic, business, and societal outcomes. Accessing alternative talent pools to address today's skills and labor shortages enables business model reinvention, fuels profitable growth, job creation and more inclusive employment opportunities."

Bhushan Sethi,
Strategy&, Partner, PwC US

Improved agility. Assigning talent to tasks based on employees' skills allows the workforce to be deployed or redeployed based on skill sets independent of job title or functional area. The ability to quickly reallocate skilled employees to meet immediate demands makes the organization nimbler and better equipped to handle dynamic market conditions.

Optimized talent utilization. By concentrating on skills rather than rigid job descriptions, organizations can deploy talent where it can have the greatest impact. Research by PwC reveals that 58% of workers feel they have valuable skills that are not reflected in their formal qualifications or job history. The skills-based organization approach broadens the perspective on employees' capabilities, rather than confining the talent pool to those with specific backgrounds and job histories. Further, the organization and employees alike can better respond to skills gaps utilizing internal resources with the required skills or upskilling internally, thereby reducing the need to hire externally.

Performance improvement. Aligning workers' skills, capabilities, preferences, and interests

with job requirements through a skills-based approach enhances organizational effectiveness and efficiency, not to mention the strong link between productivity and the effective application of skill. By optimizing workforce performance to leverage technical and interpersonal skills, organizations improve talent-to-task alignment. This strategy enhances productivity and job satisfaction while promoting continuous learning and adaptability to improve competitiveness in dynamic markets.
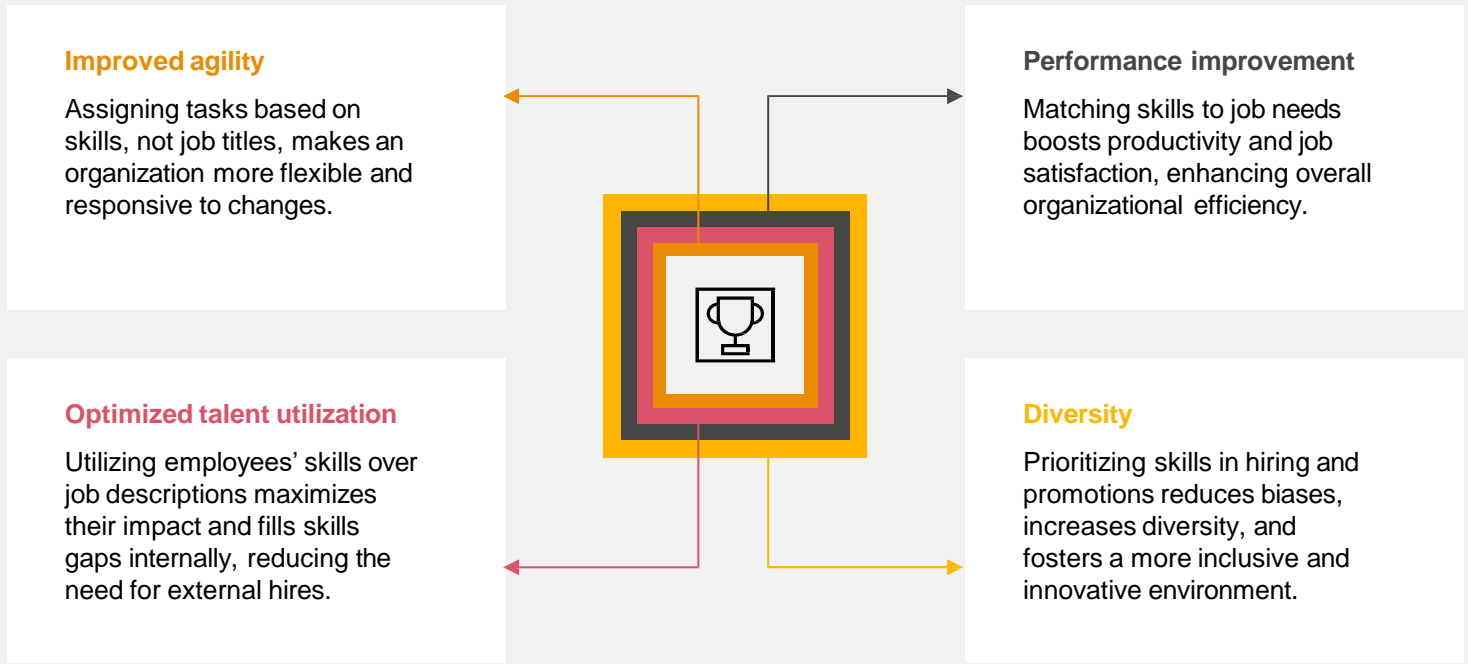
Diversity. Prioritizing skills over tenure, job history, or personal networks during hiring, promotion and development can help democratize access to opportunities and remove unintended bias from the recruitment process. According to LinkedIn data, implementing a skills-based hiring approach can lead to a 24% increase in the proportion of women in the talent pool compared to men, especially in fields where women are typically underrepresented. By embracing a skills-first mentality, companies can cultivate a more inclusive environment where talent thrives, contributing to enhanced innovation and organizational success.

[2] https://www.pwc.com/gx/en/issues/upskilling/first-skills-report/report/wef-putting-skills-first-2024.pdf

[3] Organisation for Economic Co-operation and Development (OECD), "Using people's skills more effectively to raise productivity in Tlaxcala, Mexico", in OECD Skills Strategy Tlaxcala (Mexico): Assessment and Recommendations, OECD Press, 2023, https://www.oecd-ilibrary.org/sites/5ac9bb58-en/index.html?itemId=/content/component/5ac9bb58-en.

[4] https://economicgraph.linkedin.com/research/skills-first-report.

Improved agility

Assigning tasks based on skills, not job titles, makes an organization more flexible and responsive to changes.

Performance improvement

Matching skills to job needs boosts productivity and job satisfaction, enhancing overall organizational efficiency.

Optimized talent utilization

Utilizing employees' skills over job descriptions maximizes their impact and fills skills gaps internally, reducing the need for external hires.

Diversity

Prioritizing skills in hiring and promotions reduces biases, increases diversity, and fosters a more inclusive and innovative environment.

Graph 6: Why should organizations move towards becoming more skills-based: Showcasing the multifaceted benefits of a skills-based organization.
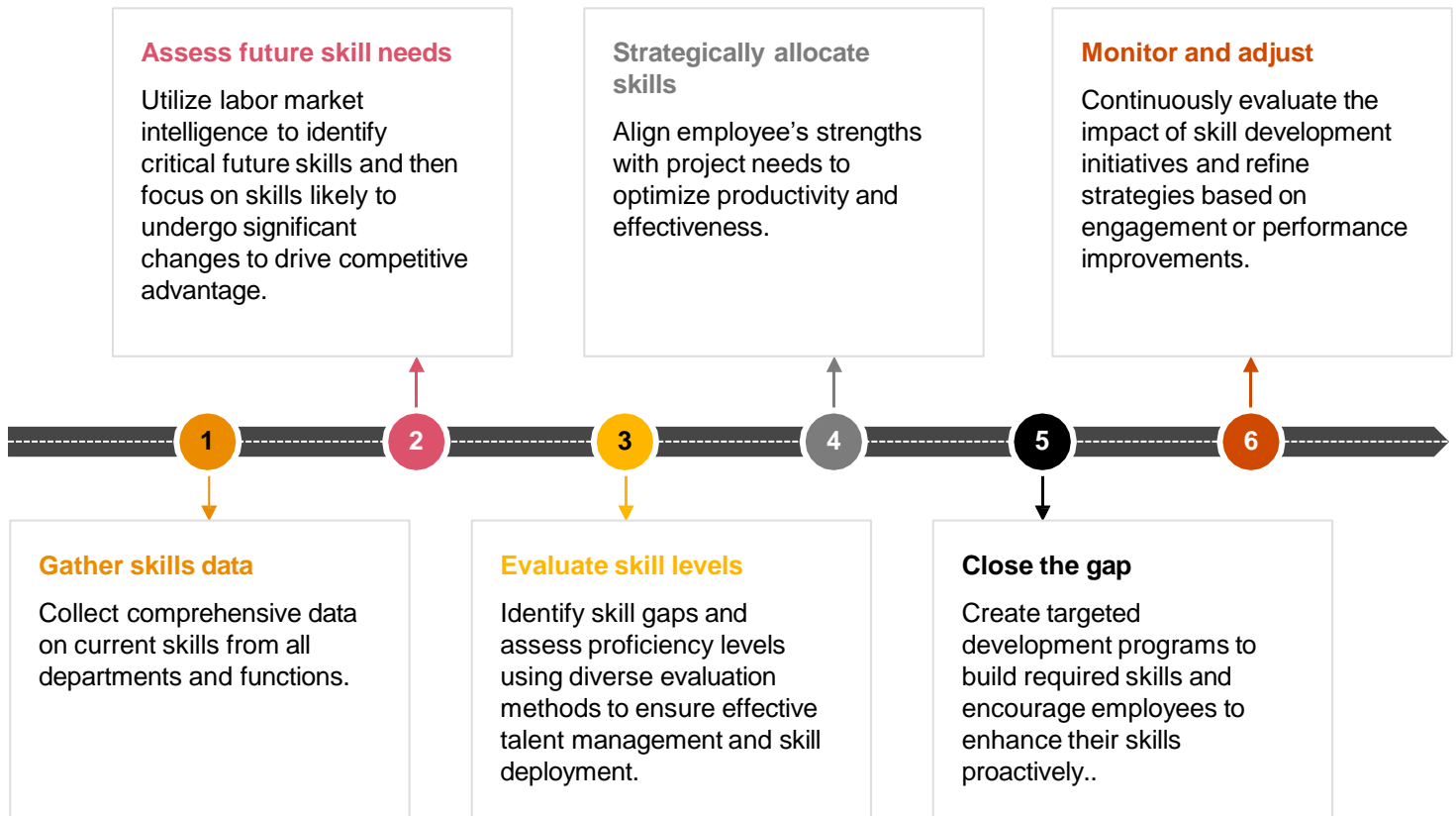
Sounds great! How can I set myself up for success?

The following three principles should be followed for building a successful skill -based organization: 1) Link skills to business and business strategy, 2) Establish a detailed and agile but pragmatic skills taxonomy, 3) Establish an integrated tech ecosystem.

Link skills to the business & strategy	• **Focus on a critical area** where skills are essential like recruitment with **a pilot project** before wider implementation to ensure effective and sustainable integration of skills into the business strategy • Incorporate the alignment of skills with business goals into the annual planning cycle by **linking KPIs to business metrics.**
Detailed and Agile Skills Taxonomy	• **Categorize and define all relevant skills** within the organization in a comprehensive and dynamic **skills taxonomy** to assess current capabilities and identify gaps. • **Keep it flexible** to quickly adapt to evolving business needs and industry trends. • Utilize the support of **external partners** like Eightfold or Workday.
Integrated Tech Ecosystem	• Aim to **implement a seamless technology ecosystem** that supports all aspects of skill management, from tracking and assessing skills, to AI-supported and data-driven insights, to facilitating learning and development.

Graph 7. Fundamental principles for building a successful skills-based organization.

With these success factors in place, you can follow these six steps to start your transformation journey:

Assess future skill needs

Utilize labor market intelligence to identify critical future skills and then focus on skills likely to undergo significant changes to drive competitive advantage.

Strategically allocate skills

Align employee's strengths with project needs to optimize productivity and effectiveness.

Monitor and adjust

Continuously evaluate the impact of skill development initiatives and refine strategies based on engagement or performance improvements.

1 **2** **3** **4** **5** **6**

Gather skills data

Collect comprehensive data on current skills from all departments and functions.

Evaluate skill levels

Identify skill gaps and assess proficiency levels using diverse evaluation methods to ensure effective talent management and skill deployment.

Close the gap

Create targeted development programs to build required skills and encourage employees to enhance their skills proactively..

Graph 8. High level journey to set up a skills-based organization: a six-step roadmap to begin your transformation.

1) Gather Skill Data, 2) Assess Skill Needs, 3) Evaluate Skill Level, 4) Allocate Skills, 5) Close the Gap and 6) Monitor & Adjust.

The time to act is now!

The future of work is not just approaching - it's already here, and it's transforming the business landscape at an unprecedented pace. In today's rapidly changing world, embracing a skills-based approach is no longer optional - it's essential. As technology advances and the demand for new skills grows, those who fail to adopt a skills-based approach will struggle to attract top talent, drive innovation, and maintain profitability. Whether you're just starting to explore this journey or already have experience in implementing skills-based strategies, the time to act is now. Adopting a skills-based framework allows you to stay competitive by unlocking the full potential of your workforce. This approach empowers you to better align talent with business needs, adapt to market changes more effectively, and build a more diverse, agile, and resilient organization.

At PwC, we are a community of solvers dedicated to tackling today's most pressing workforce challenges. Whether you're starting your journey toward a skills-based organization or enhancing existing initiatives, we're here to support you. From defining critical skills to executing a full-scale transformation, our deep expertise and collaborative approach will help ensure your organization not only keeps pace but leads in the future of work. Let's work together to build a resilient, agile, and future-ready workforce.

Your contact persons

We are happy to support you in identifying your opportunities and implementing the necessary actions optimally. Please feel free to contact our experts for a non-binding conversation!

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