

The Ultimate Guide to **Skills-based Hiring**



**TALENT
TECH LABS**

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WHAT IS SKILLS-BASED HIRING AND WHY IS IT IMPORTANT?

“Skills-based hiring” is an approach that involves the identification and measurement of candidate skills as the foundational layer in finding and hiring talent. It stands in contrast to traditional processes like relying on educational credentials, and places value on what’s important: the skills a candidate possesses, which enable them to succeed at a job. Most who are familiar with the term “skills-based hiring” are bullish on its potential but don’t see a realistic path to implementation, at least in the short term.

There is recognition in the talent management and recruitment industry that such a model for assessing and hiring staff would help solve many of the industry’s greatest challenges — from retention to representation to time-to-hire to pay equity. It could enable employers to fulfill their talent needs more quickly, precisely, and more cost effectively than traditional methods. Skills-based hiring can enable candidates to better chart their future careers, pursue their goals, and maintain their relevance in the job market, particularly if skills-based hiring is enabled with smart technology.



The challenge is putting skills-based hiring theory into practice. That is because, until quite recently, skills-based hiring faced some significant practical, technological, and organizational challenges.

Those who haven’t revisited the subject in a while, however, may be surprised by just how much has changed. New technologies — including and beyond generative AI — are making skills-based hiring more feasible, while rapidly changing business and labor market conditions are both making the shift to skills-based hiring more urgent than ever and increasing the potential return on investment. **Five years ago, there wasn’t a single organization successfully doing technology-enabled skills-based hiring; today, there are dozens – and the impact has been transformative.**

This report is intended to convert a theoretical understanding of skills-based hiring into something truly actionable, by providing a clearer picture of what it looks like, a practical guide to adoption, and best practices for ensuring a successful implementation. Along the way we’ll provide an update on the current technology landscape, address many of the common challenges businesses run into during implementation, and demonstrate why now is the time to start taking meaningful steps towards making skills-based hiring a reality.

HISTORY OF SKILLS & COMPETENCIES

The concept of using skills as a predictor for workplace success was introduced to the business community in 1973 by American psychologist David McClelland, when he published an influential study in *American Psychologist* titled **“Testing for competence rather than for “intelligence.”** The report outlined how traditional modes of measuring achievement and intelligence were poor indicators of future job success. McClelland concluded that organizations would be more successful if they defined the competencies required to perform a given job, and matched those with a candidate’s actual abilities, rather than their academic and professional history.

By 2013, it was estimated that between 70% and 80% of Fortune 500 companies used some form of competency modeling within their talent management programs.

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The past decade has seen the rise of “skills technology,” various kinds of cloud-based software designed to help organizations better use skills in hiring and talent management decisions by using vast amounts of data, smart AI, and user-friendly interfaces. This technology is the key difference between manual competency-based organizations of yesteryear, and skills-based organizations of the future.

UNDERSTANDING THE DIFFERENCE BETWEEN SKILLS AND COMPETENCIES

Before moving forward, it’s important to establish a distinction between skills and competencies, two terms that are often used interchangeably but have different meanings in the field of skills-based hiring.

“Competencies” are broad characteristics that often incorporate a range of skills, as well as additional behaviors, attitudes, habits, and even personality traits that define successful performance in a role. For example, “Ability to manage a global P/L” is a competency that has many underlying skills involving management, financial analysis, and strategy.

“Skills” are the molecular capabilities that a candidate possesses or what is required to perform a job. For example, “Excel” is a skill, as is “public speaking.”



The terms can be difficult to distinguish because competencies are often a demonstration of skills. For example, “leadership” is a competency that incorporates skills like communication, team building, language, empathy, decision making, and presentation. “Always showing up early and prepared” is a competency that demonstrates skills like time management, organization, and attention to detail. What’s important for our purposes is that it can take many skills to demonstrate a competency, while a single competency can demonstrate many skills.

Furthermore, while consulting firms and Fortune 500 companies have engaged in competency modeling for decades, skills-based hiring leverages new tools and technologies to take this concept a step further and deliver even more powerful results.

WHY NOW?

Skills-based hiring has long been an aspiration for talent professionals, but one that many believe exists beyond the realm of practicality. Recently, however, the costs, limitations and barriers have lowered, while the benefits, needs and opportunities have increased, driven by rapid advances in underlying technology. Before, pursuing a skills-based approach meant spending large amounts of time and money manually building an internal skills taxonomy, managing multiple product integrations, and dealing with how skills are coded in various products.

Since the pandemic, organizations have been at the mercy of rapidly changing labor market dynamics. Talent remains scarce, but also more demanding, desiring more equity, more transparency, more flexibility, more mobility, and more career opportunity. Employees want to work for organizations where they feel they are in the driver’s seat of their career development.

The main point is that the labor market itself, by virtue of its dynamism and changing candidate preferences, is rewarding organizations that approach hiring with a skills-based approach.



With a skills-based hiring approach, organizations break down their operational needs into tasks, projects or gigs, identify the skills required to complete them, and tap their networks of employees, candidates, and others to find an individual with matching abilities.

THE BENEFITS

This seems like a lot of work, but the payoff is worth it – with benefits for a company, its candidates, and employees alike. The benefits of a skills-based approach include:



Reduces total time-to-hire. A 2023 TestGorilla survey reported that at least 55% of their respondents reported skills-based hiring reduced their time-to-hire by at least 18%, with 19% of respondents claiming a 51% reduction.



Reduces mis-hires, improves retention rates. According to a Deloitte study, 66% of workers say they would be attracted to and would remain at an organization that values and makes skills-based decisions.



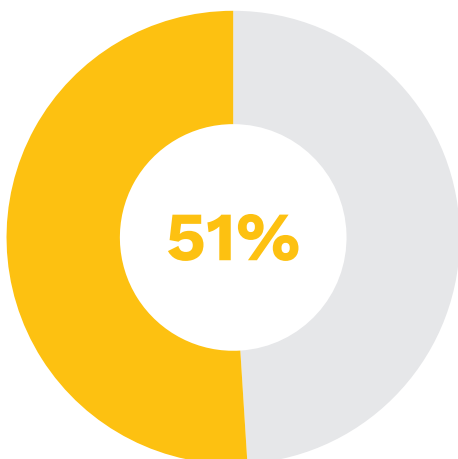
Improves quality of candidate hires, by ensuring they have the appropriate skills necessary for the role. The same Deloitte study shows that skills-based organizations are 107% more likely to place talent effectively.



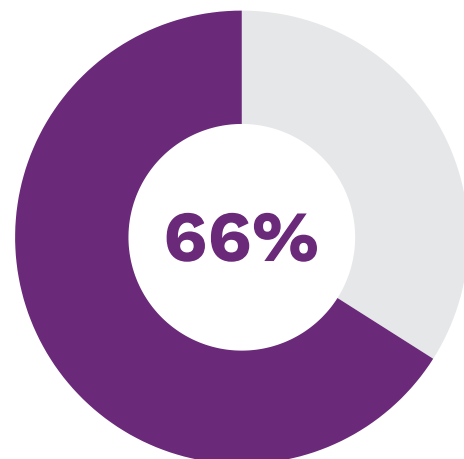
Improves diversity, equity and inclusion, by surfacing candidates who may not possess typical titles or degrees used to filter for the role and providing an objective criteria to reduce human bias.



Makes available skills and resources within your organization's workforce readily visible, helping with talent planning and employee upskilling.



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66% of workers say they would be attracted to and would remain at an organization that values and makes skills-based decisions.



Dramatically cuts project delivery timelines, by identifying known talent with validated skills against needed projects and requirements.



Identifies and nurtures a talent pool for a specific role, especially as the role changes with labor market shifts.



Improves hiring for niche, highly technical or specialized roles for recruiters, by leaning on AI to understand skills and requirements.



Reduces interview resources by identifying under qualified candidates earlier on in the process.
Helps businesses understand market changes in supply and demand for skills.

For candidates, skills-based hiring opens up an entirely new world of engaging with a potential employer:



Provides clarity in understanding roles and identifying personal skills gaps or reasons for rejection. 73% of workers, [according to this Deloitte study](#), say skills-based practices would improve their experience at work.



Allows candidates to allow candidates to navigate available jobs in an organization and analyze their skill match, receive AI-based recommendations on jobs to apply for, as well as personalized invitations from recruiters to jobs. This results in a greater number of applications, and a better match for both parties as candidates are more likely to discover and apply to roles aligned with their skill set and interests.



Enables the ability to participate in dynamic talent pools and stay engaged with the employer, even as a silver medalist or alumni, decreasing long-term job board or job advertising costs.

107%

*Deloitte study shows that skills-based **organizations** are **107% more likely to place talent effectively.***

73%

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Engages candidates and staff in a more holistic program that can help them chart their careers.



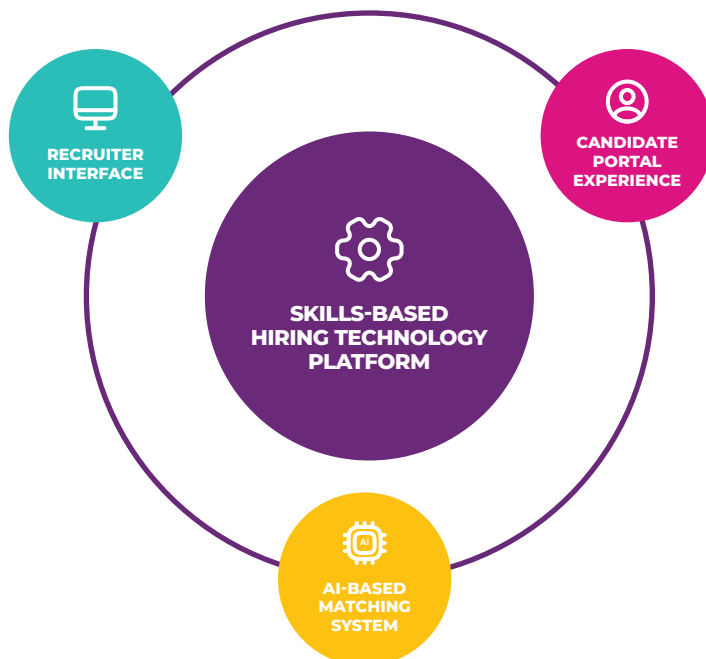
Supports identification and acquisition of in-demand skills to help boost earning potential, and work on projects that lean on their interests and abilities.

These benefits are so powerful that organizations of all shapes and sizes were pursuing skills-based strategies before technology put them in the hands of the masses. The biggest leap in the market is not from the potential of skills-based hiring, but how technology is enabling these strategies at scale for any organization that wishes to pursue it.

TECHNOLOGY

The technological landscape has improved dramatically in a very short time frame. The volume of data that employers can collect, manage, store and operationalize has increased exponentially, while new artificial intelligence (AI) tools are making that data readily accessible and actionable. Skills are changing at a faster rate than ever, and only technology that can interpret all that data in real time can help organizations stay ahead.

Simply put, the kind of data collection, analysis and utilization required to put skills-based hiring into practice was cutting edge five years ago, but is now becoming more table stakes by the day.



From a user perspective, there are three main components to a skills-based hiring technology platform: an AI-based matching system (the “brain” of a tool), a recruiter interface, and a candidate portal experience (the “storefront” of a tool).

In the context of skills-based hiring, the AI-based matching algorithms used are basically advanced statistical models that analyze billions of data points to predict skills based on job titles, work histories, and similar work-related contexts. This technology can harmonize skills data, and understand related skills, as well as the relationship of skills and jobs. Importantly, since these algorithms are trained on live and constantly updating data, they reflect real-time changes in the market.

The candidate portal is how a candidate interacts with the employer. The portal is powered by the same AI “brain,” and so candidates see more jobs that are relevant to their skill level and interests. This enables a better search experience (lowering candidate dropoff), reduces friction in the search process (identifying high quality job matches to candidates), and enables “rediscovery,” or the ability for a candidate to be considered for a role for which they did not initially apply.

Emerging capabilities that should be considered when evaluating a technology vendor include skills validation, generative AI (a new way of creating content using natural language and filling gaps in skills ontologies), and “explainability,” or the ability to understand how or why an algorithm came to a specific recommendation.

HOW TO HIRE FOR SKILLS: A PLAYBOOK

Changing the indicators and metrics used to evaluate candidates and employees will challenge recruiters and human resources professionals to change some of their most deeply ingrained practices. It requires developing a job architecture to help connect skills with roles, establishing a single source of truth in what is currently a fragmented landscape of candidate and employee data, market data, recruiting, source, onboarding, and redeployment data.



So, what does skills-based hiring look like in action? Here's a step-by-step guide.



Catalog what kind of work needs to get done within the organization. Identify the departments, types of projects, and day-to-day work that is completed.



Consider which skills are necessary to complete this kind of work. Catalog the roles and the business, management and cultural tasks involved with each role. Next, look at each task and break it down by the skills required to complete each task.



Update job descriptions by building out a skills database that works with your ATS, CRM and HRIS. Aligning your organization with a technological vendor that has job architecture capabilities (to match the identified skills to all the job descriptions) is key here. Some vendors, like Beamery, are able to automatically match skills to job descriptions in your CRM using their skills ontology and matching technology.



Re-train hiring managers and recruiters to utilize skills-based hiring resources. Hiring managers and recruiters alike need to be trained on getting the most from a skills-based hiring tool. Lean into a vendor's generative AI capabilities to produce job descriptions that take into account labor market trends and business priorities, for example. This training is typically a combination of change management practices as well as cultural change management. For many hiring managers especially, there is some effort involved in changing mindsets of scarcity to mindsets of abundance.



Select appropriate metrics to track to understand effectiveness of skills-based hiring, such as quality of hire, time-to-fill, and employee performance. It is extremely important to set the organizational “North Star” ahead of technology selection or rollout, to guide decision making and program performance management. If you can't measure it, you can't manage it. Identifying key metrics as an organization that aligns with your use cases for skills-based hiring is an important step in measuring the success of your efforts and building a strong case for executives. Some common metrics include time-to-fill, cost-per-hire, sourcing channel spend, quality of hire, talent diversity pipeline, number of internal hires, or new employee performance.



Iterate and adjust as necessary. Skills-based hiring, like all skills-centric approaches, requires iteration and time to adjust, especially as you challenge existing methods in an organization. Measure your pre- and post-implementation performance, and look for areas to improve and optimize.

As you implement a skills-based hiring approach, there will likely be substantial changes in process and even talent acquisition functional roles. It's important to be cognizant of these changes, and manage the human impact of that appropriately.

HOW TO GET INTERNAL STAKEHOLDER BUY-IN



As the technology becomes more sophisticated, the greatest challenge most organizations face in adopting a skilled-based approach is quintessentially the human element.

Those who have made this transition successfully tell us that the key to implementation is embedding tools into the manager's existing workflow (e.g. Teams, Slack, LinkedIn etc.). Recruiters can view a passive candidate's LinkedIn profile and see the roles that they may be suitable for, based upon skills match.

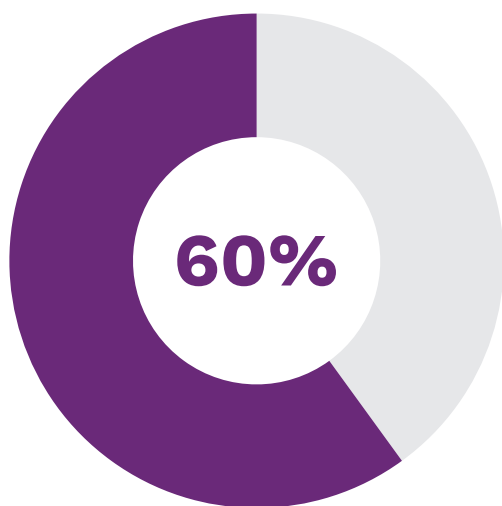
Furthermore, organizations can engage managers in the process by promoting a transition from a mindset of talent scarcity, to one of skills abundance. Reinforcing the reality that much of the human capital resources they need already exist within their workforce, candidate pool, silver medalists, alumni network, freelance roster, or elsewhere — and providing easy-to-use tools to identify those with all or most of the desired skills profile — can go a long way in changing this mindset.

For example, imagine a hiring manager who needs to fill a role for a new project as quickly as possible. They might traditionally look to their organization's recruiting team to help draft a job description and begin a talent search that could last months and cost significant sums.

What if, before looking to the open market, they first queried an internal, AI-powered skills database. They can offer a brief description of the skills they need, and have the software identify individuals within the organization that fit the profile, or are only a few training modules away from being a strong candidate. This would not only save the organization significant sums in recruiting costs, and help an individual contributor upskill and advance their careers, but it would enable the manager to move forward with the project in days, rather than months.

This example isn't entirely theoretical; many early adopters are already transitioning towards this kind of approach, and as the technology is further developed it will only become more feasible. Organizations can ensure a smoother transition by integrating these capabilities with the tools managers already use, by demonstrating the benefits of the skills-based approach, and by encouraging an abundance mindset.

HOW DO YOU VALIDATE SKILLS?



More than 60% of employers rejected otherwise qualified candidates simply because they did not have a bachelor's degree.

Most organizations use education and experience as an indicator of current skills and abilities but studies show this approach can leave many qualified candidates slipping through the pipeline.

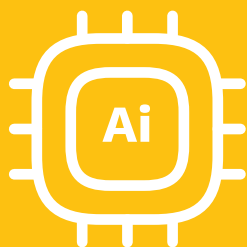
For example, in a 2017 study by Harvard Business School and Accenture, more than 60% of employers rejected otherwise qualified candidates simply because they did not have a bachelor's degree.

Some organizations take the additional step of requiring a skills test, which can be an effective means of verifying their abilities, but may also be burdensome to applicants. Furthermore, the data produced from those evaluations is rarely used beyond the recruiting process.

Skills-based hiring, however, challenges organizations to formalize their skills verification techniques and processes. In a more dynamic job architecture framework, human resources and talent acquisition teams will use both traditional and more advanced methods for verifying and validating candidate and employee capabilities. It will require them to better track skills validation history, and define a hierarchy of validation. This can be more or less automated with technology, with varying degrees of human intervention depending on the desires and goals of the organization.

Perhaps the lowest level of validation is the self-proclaimed abilities listed on a job application. Next may be validation based on prior experience, such as a prior role that likely required that skill. Even more valuable is a specific academic program, degree, or even micro-credential that certifies a skill. Skills can also be verified by a human source, such as an instructor, colleague, or other reference. Future state skills validation will use actual work output to analyze and validate skills. This already exists in certain technical fields (e.g. Github can be used to assess a programmer's skills and output). As more work becomes digitized, the domains across which this methodology can be adopted will grow.

As skills-based hiring moves from the theoretical into the practical, organizations will need a solution for not just collecting employee and candidate skills data, but also validating it. While skills tests are always an option, it will likely prove impractical to validate every employee's every skill through individual evaluations.



As we move towards a skills-based future, organizations will need to consider not just how they will collect and store skills data, but how they can validate those skills at scale. Current skillstech vendors are investing deeply in skills verification options such as skills passports or stronger AI algorithms that are able to make assessments based upon contextual data.

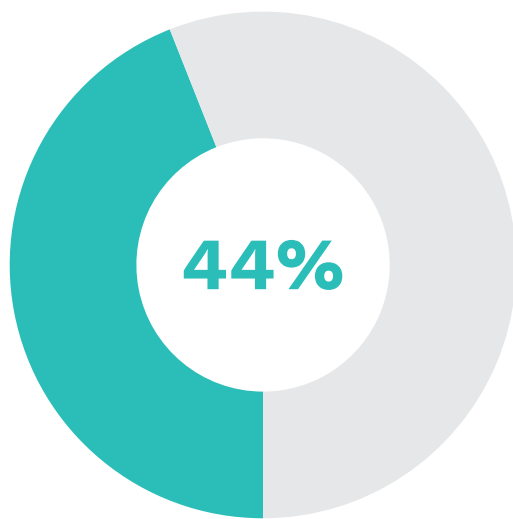
OTHER CONSIDERATIONS

Finally, skills-based hiring offers organizations an opportunity to better manage an increasingly volatile business environment. Today many organizations are finding themselves hiring for positions they've never employed before, sometimes because they didn't exist. According to the World Economic Forum, employers estimate that 44% of workers' skills will be disrupted in the next five years.

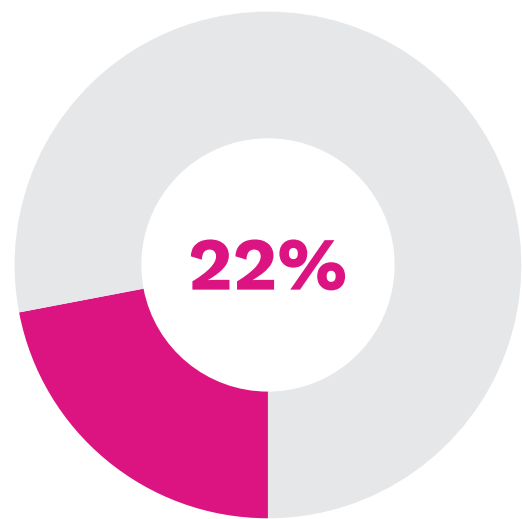
For example, several years ago, when blockchain was gaining traction, the finance industry found itself scrambling to find suitable candidates for a skillset that no academic institution offered formal programs on, and the only experienced candidates were in academia. As such, many mapped out the skills and competencies they felt would be beneficial to the new positions and used it as a guide for identifying potential candidates.

To make matters even more complicated, however, even those who have a relevant academic background may not have up-to-date expertise, as what they learn over a four-year degree could be obsolete by the time they graduate. According to research by Labor Market Intelligence provider Lightcast, one in five skills (22%) requested for the average US job was an entirely new requirement in that occupation in 2022.

Organizations need to manage a labor force as dynamic as the business landscape itself, and the velocity of change is only expected to increase with time.



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SKILLS-BASED HIRING FOR EARLY, MIDDLE, AND EXECUTIVE CAREERS

Skills-based hiring is most effective for early- and mid-career professionals, particularly in technical roles. At the earlier and middle stages of the career journey, it may be more difficult to distinguish between the validated abilities of different candidates or employees who graduated from the same academic program or had similar entry-level roles. As a result, many hiring managers fall back on the traditional indicators of capabilities, such as the prestige of the academic institution they attended, or the reputation of their first employer, despite those being both biased and poor indicators of actual ability. This is where skills-based hiring has the most potential.

That said, in a future where skills-based hiring is the norm, there will still be roles that lean more heavily on traditional indicators of education and particularly experiences, most notably at the higher end of the pay-scale and seniority spectrum. That's because as individuals make their way through their career those past experiences tend to carry more weight. To illustrate, a board probably doesn't care if an incoming CEO is "skilled" at "Microsoft Word," but probably cares a lot about her experience scaling the company from twenty people to more than a thousand. These senior level experiences tend to be harder to disaggregate into skills.



In certain industries such as manufacturing or healthcare, skills-based hiring can add agility to the process. This is accomplished by expanding candidate pool size by including adjacent skills and reducing the time a candidate spends in the pipeline and getting them to offer faster. **A major factor in getting skills-based hiring right is identifying which populations and roles would get most benefit from it.**

CONCLUSION

Hiring isn't the only process where a skills-based approach offers benefits to the traditional model, but it's one with great potential, impact, and offers the most manageable entry point.

Technology has trailblazed new organizational capabilities that hundreds of the world's largest and most innovative firms are now beginning to realize.

Organizations have an opportunity to enrich the candidate experience in ways that serve to benefit both the applicant and the employer. As demonstrated by early adopters, employers can now offer candidates a more engaging application experience through skills-based candidate portals that understand their interests, validate their skills, and match them with opportunities accordingly.

Rather than applying to specific roles on a company's website and getting a binary yes or no response, or waiting for a suitable job requisition to open, the dynamic, skills-based platform approach offers candidates the ability to set up a profile independent of a specific role (and have that profile be findable by recruiters). Once they have done so, they can easily see a dashboard of potential opportunities with an explanation of their match, a skills gap analysis, learning and up-skilling recommendations, peer networks, and more. This portal framework, as demonstrated by Beamery's Talent Lifecycle Management platform, keeps interested candidates engaged in opportunities – and offers even those that are rejected a path to future employment.

Skills-based hiring at scale has long been a pipedream within the talent acquisition community, but technology has made it a readily attainable reality. Early adopters are already seeing results, including improved candidate conversions and quality of hire, and such investments have set the foundation for even broader, transformational skills-based talent strategies.

Successfully implementing a skills-based hiring strategy is not easy and requires the right organizational mindset, technology and data, and willingness to change. But, the organizational rewards are many. The firms who ignore this trend will unfortunately be left behind. The good news is, technological innovation has made it easier than ever to get started on a skills-based hiring journey.

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