

Skills-Based Hiring Will Continue to Grow Despite Challenges



HRO Today Flash Reports are a series of ongoing research initiatives that address today's topics of interest in the HR community. These are focused briefs that can be used to support business decisions and discussions among industry practitioners and thought leaders.

This report examines the perceptions of Talent Acquisition leaders regarding the importance of skills-based hiring in their organizations, the expected benefits of it, and the challenges faced when implementing the practice.

Background

Many organizations are exploring the implementation of skills-based hiring. The goal is that by assessing candidates on their abilities and potential, rather than degrees and job histories, skills-based hiring can help relieve talent shortages, increase diversity, and strengthen internal mobility in the workplace.

While the potential for this approach is high, organizations face challenges implementing it. What are the barriers that Talent Acquisition leaders face in moving the organization towards skills-based hiring? How will technology have to change to fully support this initiative? This report examines these areas and others related to skills-based hiring.



Methodology

Between 13 November and 9 December 2024, a series of emails were sent to subscribers of *HRO Today* magazine and *HRO Today* newsletters, inviting them to take part in an online study. Respondents were of manager level or above within their Human Resources departments. They were screened to ensure their company had significant involvement in their organization's talent acquisition activities. Study respondents were from the North American and EMEA (Europe, Middle East, and Asia) regions.

Respondents were not aware of Morgan McKinley's sponsorship of the study, and all responses were confidential.

KEY FINDINGS

There were seven key findings from this study:



Skills-based hiring will become even more important over the next two years. Seventy percent of senior TA leaders consider it important today. The percentage indicating skills-based hiring will be important in two years increases to 77%.



The greatest benefit of skills-based hiring for organizations is a more highly skilled workforce, as indicated by more than two-thirds (69%) of TA leaders in this study. A broader talent pool was specified by 44%, the second most anticipated benefit.



The most prevalent challenge TA leaders face with skills-based hiring is the lack of hiring manager confidence or experience conducting skills-based interviews, according to nearly three-quarters (72%) of study respondents.



The most prevalent obstacle in moving towards skills-based hiring is changing the way organizations assess candidates, as indicated by nearly two-thirds (65%) of respondents. Addressing potential gaps in formal knowledge (63%) is also a major obstacle in moving towards skills-based hiring.



There is a wide array of areas where technology will need to be enhanced to better enable skills-based hiring. The area in most need of change is accurately measuring and verifying skills, according to nearly two-thirds (61%) of TA leaders.



Most (72%) feel it will be challenging to change HR's own perceptions about the need for using education levels as a hiring criterion to fully embrace skills-based hiring.



The importance of traditional secondary learning institutions has diminished:

Skills-based hiring is viewed as a better long-term solution to address an organizational skills gap than traditional colleges and universities. Over three-quarters (76%) agreed that skills-based hiring emphasizes an individual's competencies and practical abilities over formal educational credentials.

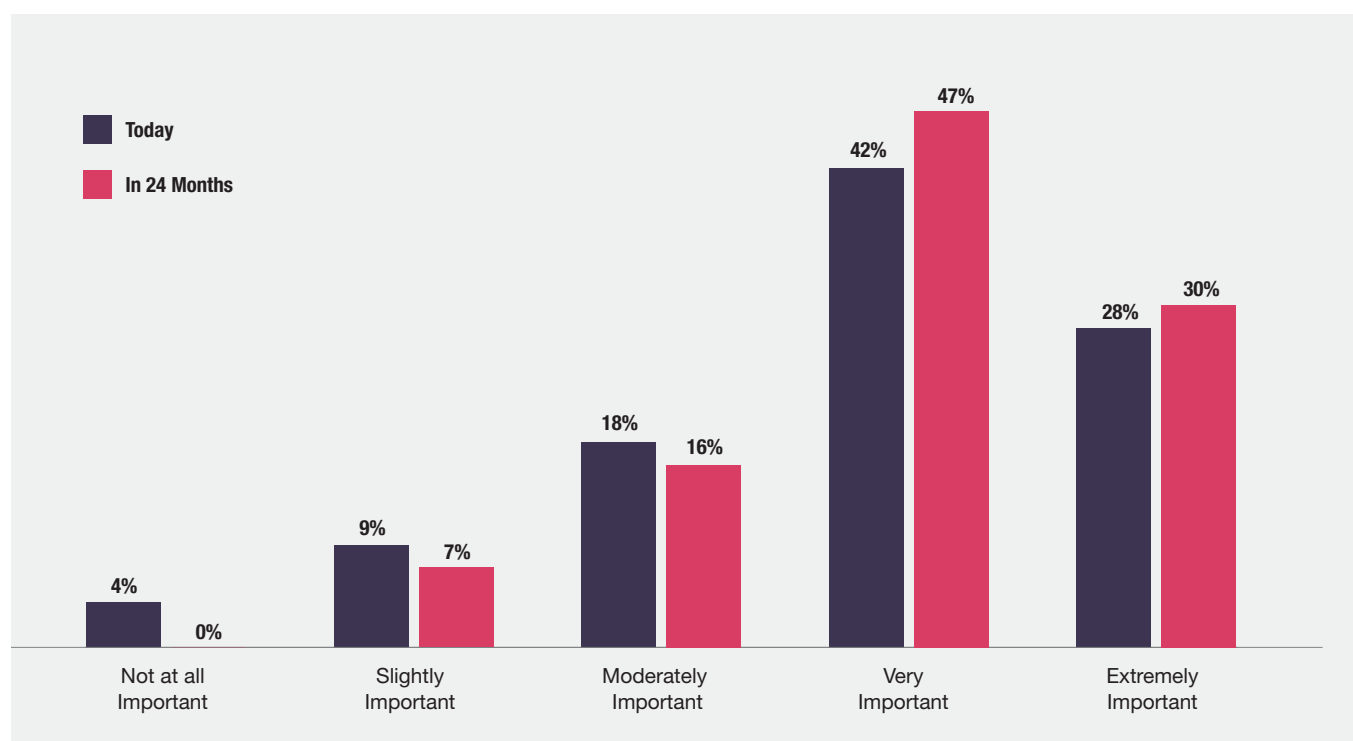
Candidate education and credentials are not as important in talent acquisition as they were ten years ago. While less than one-third (29%) agreed that they were as important, 43% disagreed, suggesting an overall decline in importance.

DETAILED FINDINGS

Importance of Skills-Based Hiring

How important do you think skills-based hiring is in your organization today and will be 24 months from now?

Study participants were asked to indicate how important they think skills-based hiring is today and then forecast its importance in 24 months. In total, 70% consider skills-based hiring very important today. The importance will increase to 77% in 24 months, a seven-percentage point change.



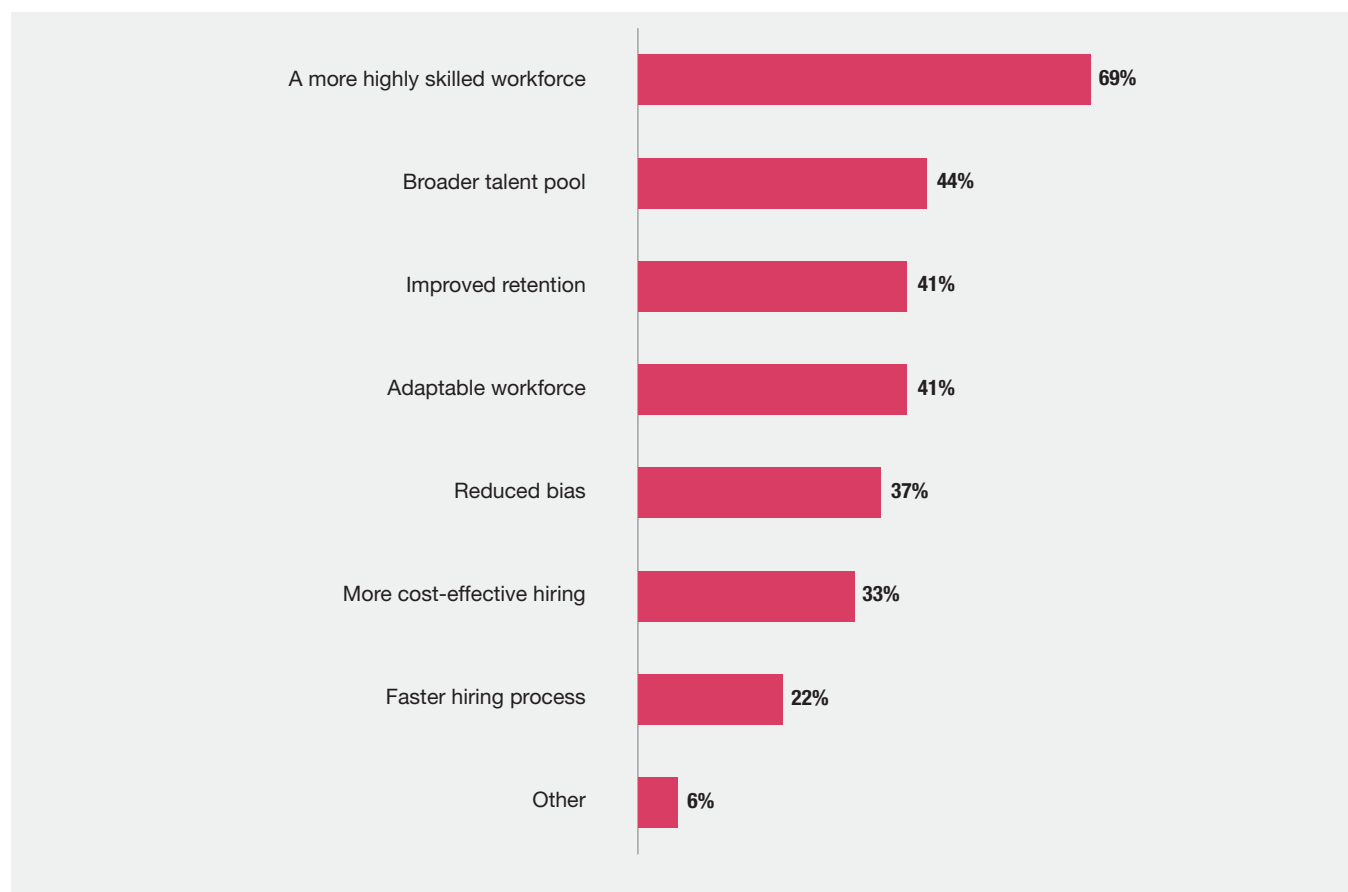
Benefits of Skills-Based Hiring

What benefits do you anticipate skills-based hiring will have on transforming your organization? Please select all that apply.

Respondents were asked to choose from a list of seven benefits that skills-based hiring could have on transforming their organization. The most selected area is a more highly skilled workforce, with over two-thirds (69%) choosing it. Removing strict degree requirements opens opportunities for individuals who have gained relevant skills through alternative routes, such as vocational training or work experience. This inclusivity allows employers to tap into a broader and more diverse range of qualified candidates.¹

A broader talent pool was indicated by 44%. Organizations can consider a wider range of applicants, including those from non-traditional backgrounds who possess the necessary skills but may lack formal credentials.

Improved retention was indicated by 41%. Selecting candidates based on skills can lead to better organizational performance and retention rates, as new hires are more likely to excel in roles that match their competencies.²



Obstacles for Hiring Managers with Skills-Based Hiring

What are the obstacles for hiring managers when considering skills-based hiring? Select the top 3.

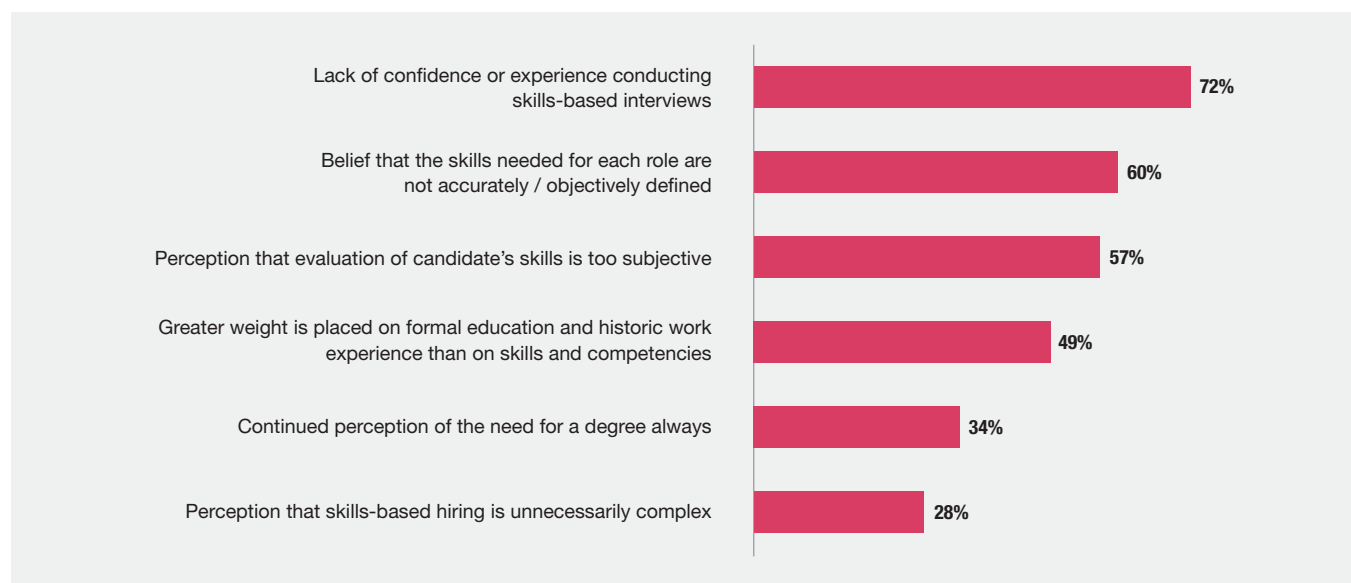
HR executives face multiple challenges in supporting hiring managers. Chief among them is a lack of confidence or experience conducting skills-based interviews, as indicated by nearly three-quarters (72%) of study respondents. To address hiring managers' lack of confidence or experience in conducting skills-based interviews, HR departments can implement several strategies. They can offer comprehensive training programs that cover effective interviewing techniques, focusing on skills-based assessments. This equips hiring managers with the necessary tools to evaluate candidates' competencies accurately.³

Thirdly, technology should be brought into the process to create objectivity and consistency at this interview stage. There are a wide range of tools in the market that create a constructive candidate report delivering value to the individual being assessed as well as the organization.

The second most common obstacle is the belief that the skills needed for each role are not accurately or objectively defined, selected by 60%. Working closely with hiring managers in accessing clear definitions of the skills needed to succeed in a role is key, which results in greater hiring manager equity of the recruiting process. Use of Standardized Skills Assessments provides quantifiable data, reducing reliance on subjective judgment. AI-driven platforms that analyze candidate data can also provide objective insights into the candidate's suitability for the role. These tools can help mitigate human biases and enhance decision-making.

The last area where at least 50% of respondents indicated a challenge in supporting hiring managers is the perception that the evaluation of candidate's skills is too subjective, as indicated by 57%. Again, obtaining hiring manager input on job descriptions as well as skill assessments may help alleviate this concern.

Obstacles for Hiring Managers with Skills-Based Hiring



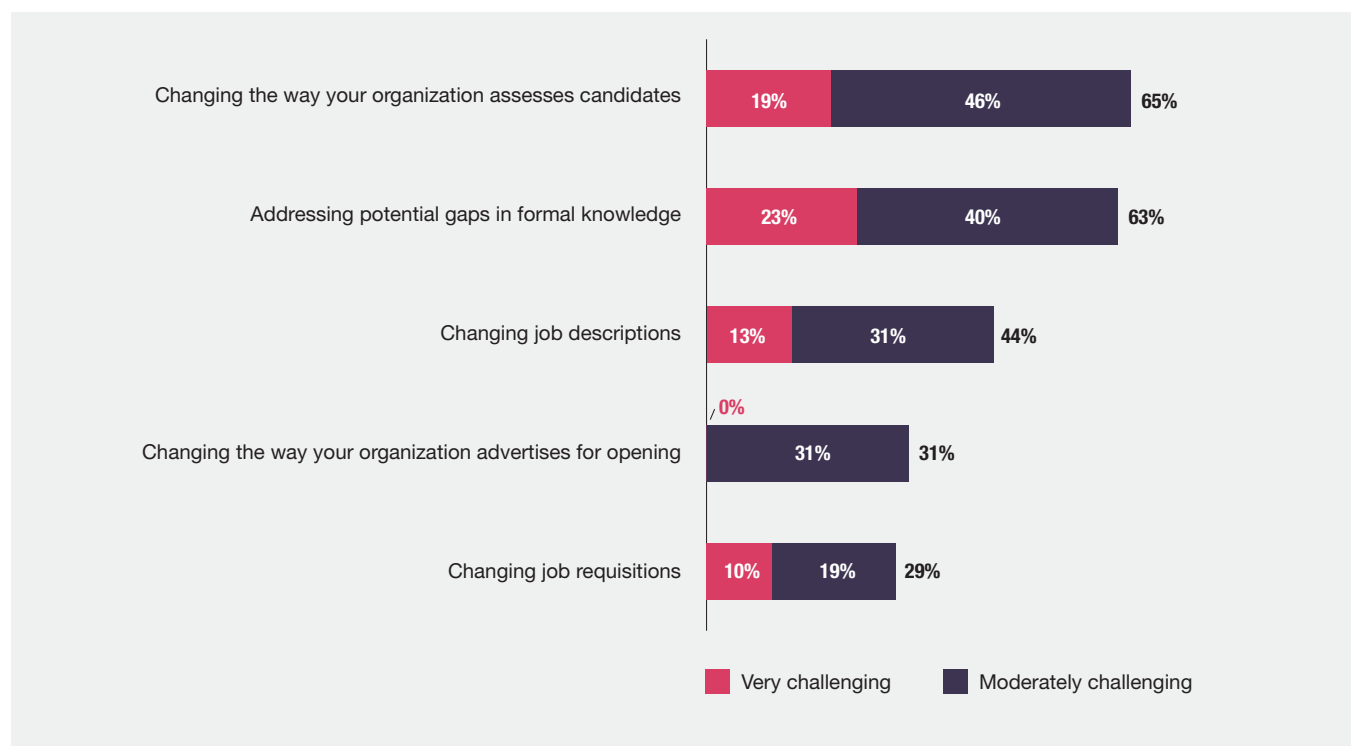
Extent of Challenge in Moving Towards Skills-Based Hiring

How much of a challenge do you anticipate each of the areas below will be in moving more towards skills-based hiring?

Study respondents were asked to gauge the extent of challenge in five different areas related to moving towards skills-based hiring. The area with the greatest challenge is changing the way organizations assess candidates, as indicated by nearly two-thirds (65%) of respondents who found the area very or moderately challenging. Traditional hiring often emphasizes degrees and prior job titles. Shifting to a skills-based approach requires significant changes, such as implementing pre-interview testing and adopting structured interviews, which can be resource-intensive.⁴ Further, moving away from conventional hiring criteria can encounter resistance within an organization. It requires a cultural shift toward valuing demonstrable skills over formal education and experience, which can be a gradual and challenging process.⁵

The second area most regarded as very or moderately challenging was addressing potential gaps in formal knowledge (63%). Job candidates who were selected through skills-based hiring may excel in practical competencies but may lack certain formal knowledge areas. Organizations must be prepared to offer targeted training programs to bridge these gaps, ensuring employees can perform their roles effectively.⁶

Extent of Challenge in Moving Towards Skills-Based Hiring



Technology Change Needed for Recruiting with Skills-Based Hiring

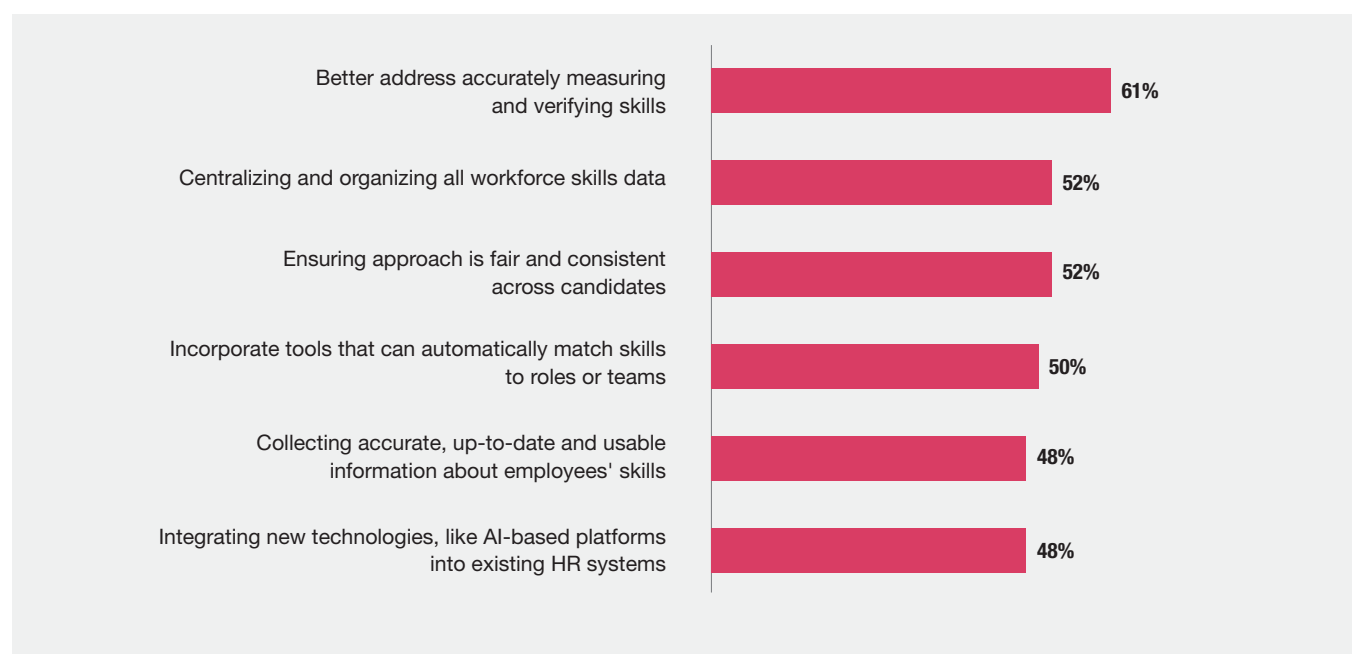
How will technology have to change for recruiting with skills-based hiring? Select all that apply.

Study participants were asked to select all of the areas they thought technology would have to change to better enable skills-based hiring. There was a wide breadth of areas, with five of the six selected by nearly, or just over, one-half of respondents.

The technology most in need of change is that which addresses the need to accurately measure and verify skills, as selected by 61% of TA professionals. Skills assessment platforms offer a range of tests to evaluate specific abilities relevant to the job. Other evaluation tools are tailored to assess coding and technical skills, sometimes including psychometric tests and cognitive evaluations, to measure various skills and aptitudes and ensure a holistic candidate evaluation.

Integrating new technologies, such as AI-based platforms, into existing HR systems was selected by nearly one-half (48%) of the respondent base. But AI could help enable each of the technologies shown below.

Technology Change Needed for Recruiting with Skills-Based Hiring



Extent Changing HR Perceptions About Need for Education Levels Will Be a Challenge

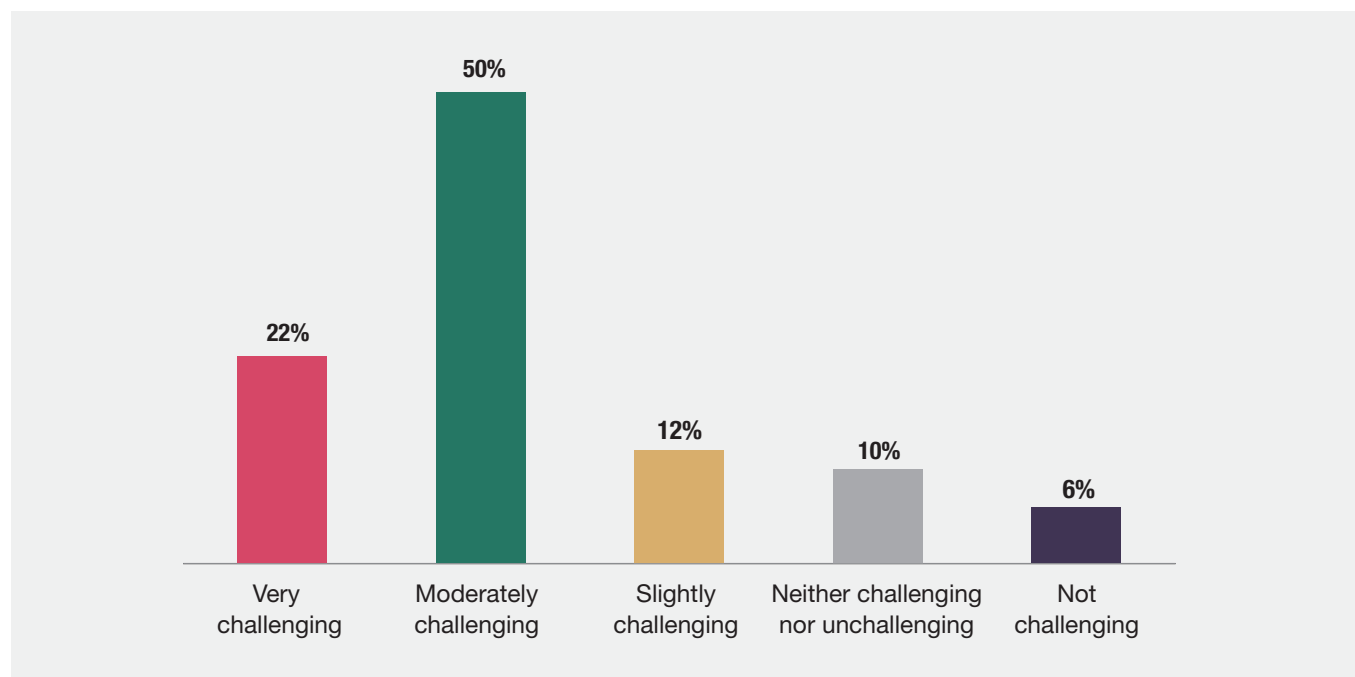
To what extent do you feel changing HR perceptions about the need for education levels will be a challenge?

Respondents were asked to indicate the extent to which they feel changing HR perceptions about the need for specific education levels will be a challenge. Overall, nearly three-quarters (72%) of respondents feel it will be very or moderately challenging.

Transitioning to skills-based hiring requires HR departments to shift their focus from traditional educational qualifications to candidates' demonstrable skills and competencies. This change can be achieved through several key strategies.⁷

- Revise job postings to emphasize specific skills and competencies rather than formal educational requirements.
- Utilize standardized assessments to objectively evaluate candidates' abilities, ensuring that hiring decisions are based on actual competencies rather than educational backgrounds.
- Develop a comprehensive change-management strategy to guide the organization through the transition, addressing potential resistance and ensuring alignment with the new hiring approach.

Extent Changing HR Perceptions About Need for Education Levels Will Be a Challenge



Skills-Based Hiring is a Better Long-Term Solution

Skills-based hiring is a better long-term solution to address the skills gap than traditional colleges and universities.

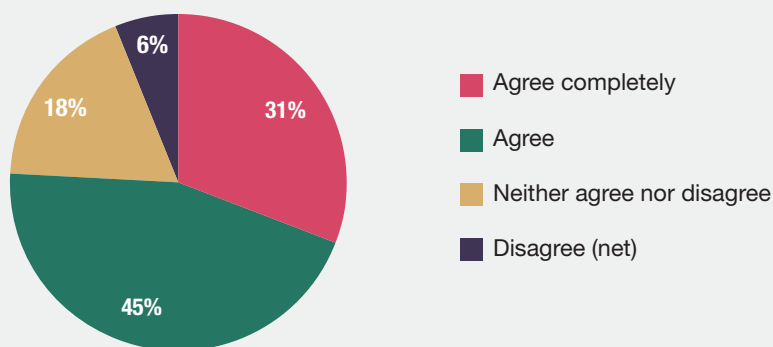
There is extensive agreement that “skills-based hiring is a better long-term solution to address the skills gap than traditional colleges and universities.” Over three-quarters (76%) of respondents agreed with this statement, nearly 13 times as many as those who disagreed (6%).

Skills-based hiring emphasizes an individual’s competencies and practical abilities over formal educational credentials, offering several advantages in addressing the skills gap compared to the traditional reliance on college degrees.

A recent study by Boston Consulting Group (BCG) found that employees who are selected through skills-based hiring perform on a par or better than those selected based on educational credentials. Notably, these employees often exhibit longer tenure and higher engagement levels.⁸

Another benefit is a broader talent pool and enhanced diversity. Approximately 50% of the workforces in the U.K., Ireland, Singapore and the U.S. lack a college degree, and skills-based hiring enables these individuals to compete for positions that match their abilities. This approach also promotes inclusivity, benefiting demographic groups less likely to hold degrees, such as certain minority communities and those from rural areas.^{9,10,11}

Skills-Based Hiring Is a Better Long-Term Solution



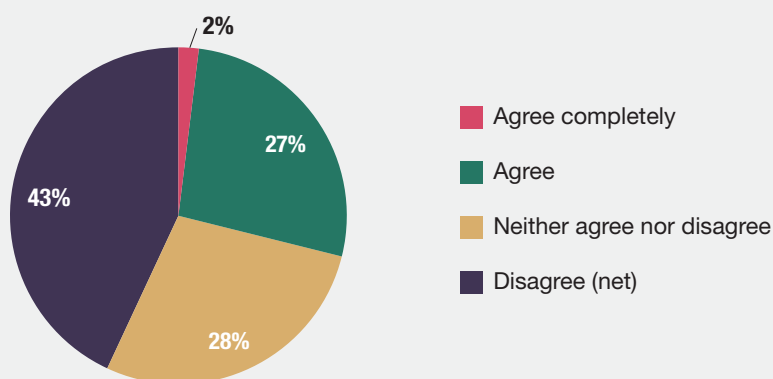
Importance of Education and Credentials Versus 10 Years Ago

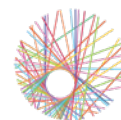
Education and credentials are as important in talent acquisition as they were ten years ago.

Education and credentials are not as important in TA as they were ten years ago. Less than one-third (29%) agreed that they were, while 43% disagreed.

In recent years, the emphasis on talent acquisition has shifted from traditional educational credentials to a greater focus on skills and practical experience. The rising number of degree holders has led to credential inflation, diminishing the value of a bachelor's degree. Consequently, employers are seeking additional qualifications or relevant experience to differentiate candidates.¹² Further, many roles, particularly in technical and creative industries, demand practical experience and specific competencies that may not be covered in traditional academic programs.

Importance of Education and Credentials Versus 10 Years Ago





NOTES

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