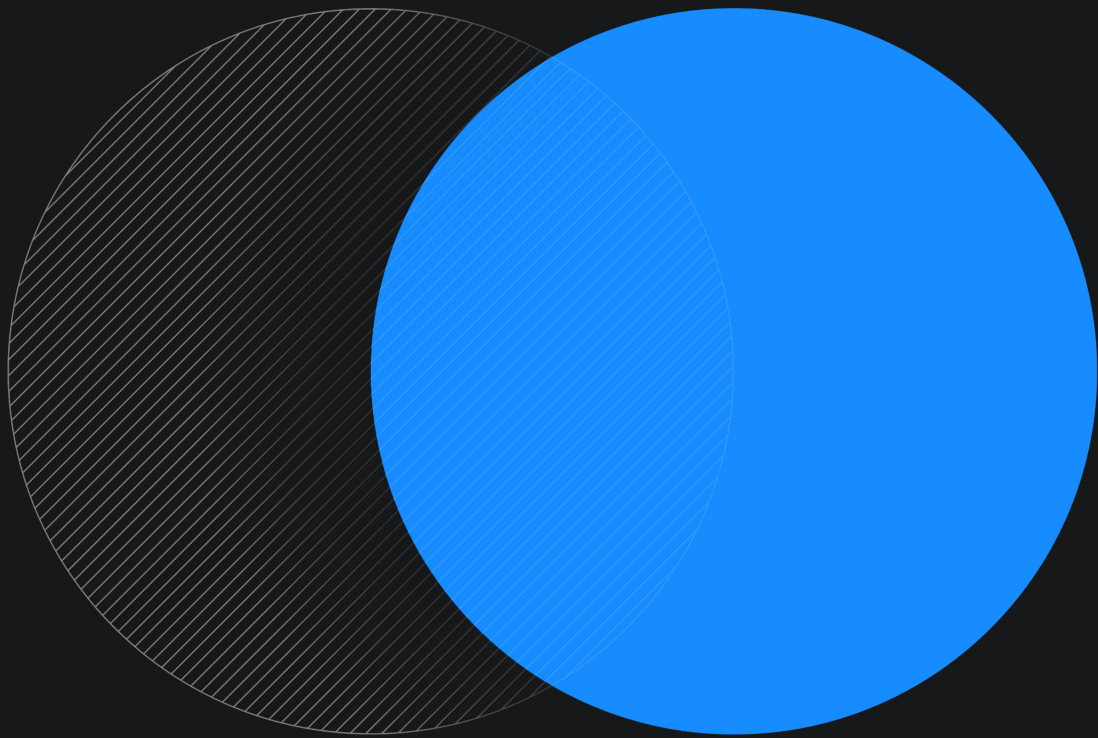


SKILLS GAP ANALYSIS

Learn the what, why, and how of skills gap analysis and start building your foundation for strategic workforce development



VALAMIS

About this guide

In a constantly evolving business world, organizations need to assess the abilities of their employees and identify strategies to get the most out of every hire. With the growing trend of digital transformation and new technologies becoming widely available for a range of applications across different sectors, employees now need a level of digital competency in order to be effective.

Most business activities now integrate technology in some capacity. As a result, it is spreading to almost every aspect of modern business, whether it is automating an entire process, using tools to track and monitor workflows, or new communication and feedback systems.

Retraining employees to meet the realities of new digital-based work processes is a significant undertaking that organizations across the board are learning to deal with. Therefore, how do organizations understand the current capabilities of their workforce, identify their future needs, and develop a plan to transition from the former to the latter?

The answer is skills gap analysis.

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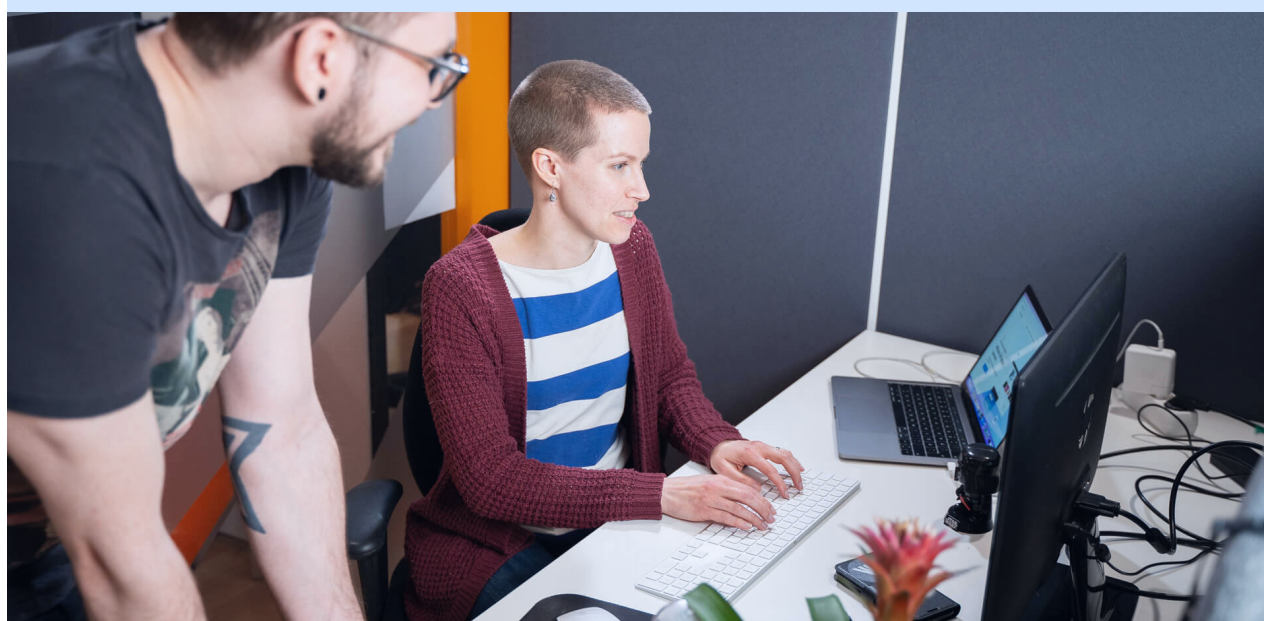
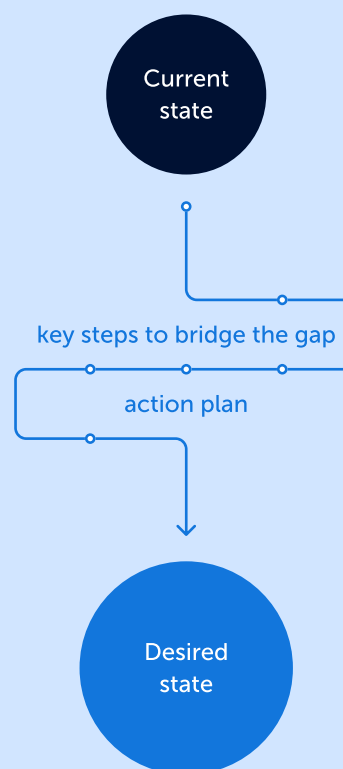
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What is a Skills Gap Analysis?

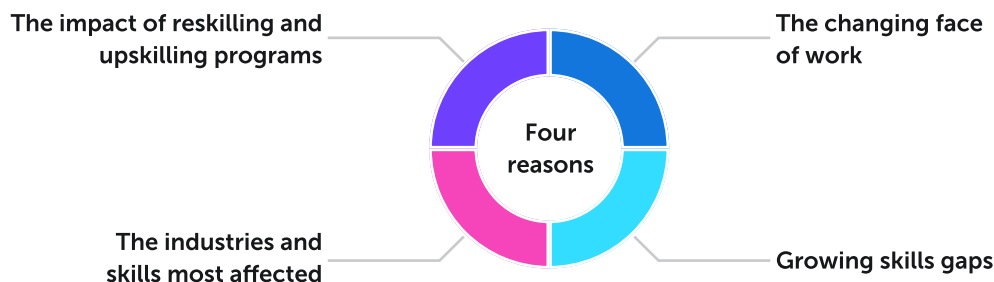
Skills gap analysis assesses employees to identify the gap between current and desired skill sets.

Organizations use a skills gap to understand factors affecting company performance. This could be common deficiencies across the workforce or specific skill sets missing within teams or particular roles.

Information gathered through skills gap analysis forms the basis of future workforce planning, whether employee development programs or new hiring strategies.



Why should you conduct a Skills Gap Analysis?



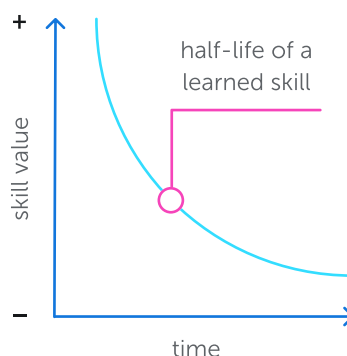
The changing face of work

Skills gap analysis is a critical tool for organizations wanting to develop their workforce and gain competitive advantages over their competition.

With digital transformation and new technologies changing operating modes, **skills gap analysis has received increased focus**. Through understanding knowledge and expertise gaps, organizations can identify current employees and future hires with the digital literacy needed to operate in the modern business world.

A way of tracking the growing need for skills gap analysis is through a concept called **"the half-life of skills."** It estimates the time a skill remains valuable, i.e., after the specified period, the value of the skill is deemed to have halved.

With technology continually evolving, research from **IBM¹** shows the half-life of professional skills has dropped from 10-15 years to only five years. When it comes to technical skills, this figure is even lower at around **2.5 years²**. This means technical skills learned today only have half the value in just 2.5 years. Practical skills gap analysis can help companies maintain the relevant skills needed for modern workplaces, particularly those in technical sectors.



The half-life of professional skills

Before **10-15 years** → Now **5 years**

The half-life of technical skills

Before **10-15 years** → Now **2.5 years**

Growing skills gaps

The shift to the digital economy and the resulting integration of technology means organizations now need very different skills. The scale of transformation we live through is laid out by the [World Economic Forum](#)³ (WEF), which states more than 1 billion employees need to reskill by 2030.

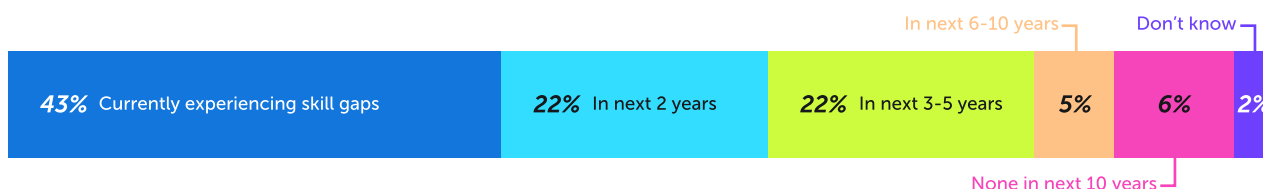
1 billion employees need to reskill by 2030

WEF went on to say large-scale upskilling/reskilling programs with greater private-public collaboration have the potential to bring an additional [\\$6.5 trillion](#)⁴ to the global GDP by 2030.

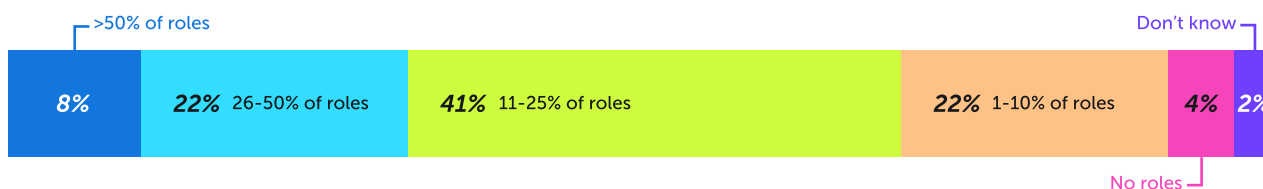
\$6.500 billion to the global GDP by 2030

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

When skill gaps are expected to occur within organizations



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

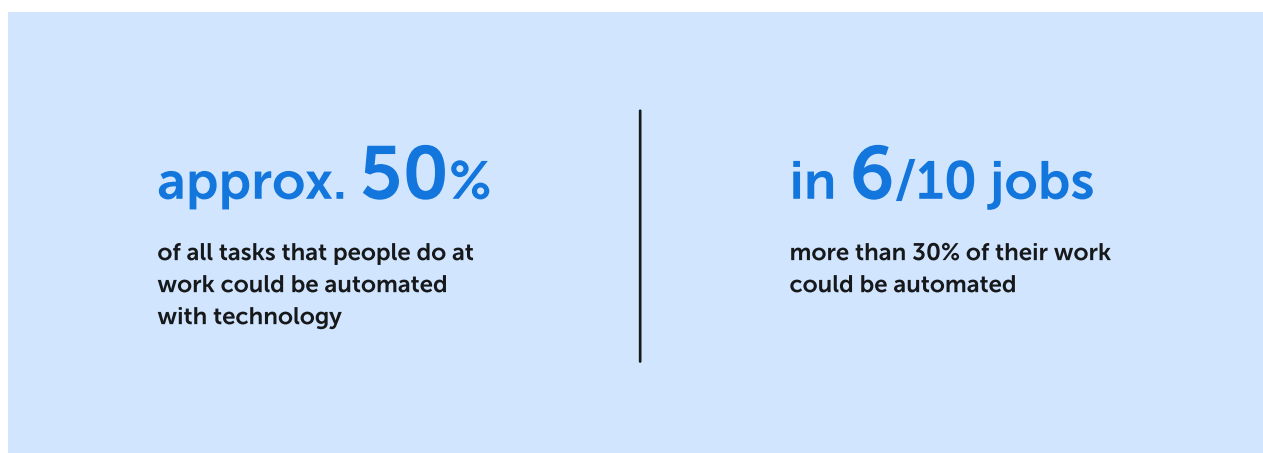


A [McKinsey Global Survey](#)⁵ of executives and managers found that 87% of respondents currently face a skill gap or expect to have one within five years. In addition, 96% of organizations expect to have roles at risk of being disrupted due to new technology markets or trends in the next five years. With 8% expecting more than 50% of their employees to be affected and 22% expecting between 26% and 50% of roles to require change.

They also found only a third of respondents believe their organization is prepared for workforce disruptions from market and technology trends. Most stated their organization is hiring in response to potential skills gaps, and a third have already begun internal reskilling programs to alleviate its impact.



At the forefront of these disruptions is the greater use of automation. [Research](#)⁶ shows roughly half of all work activities performed by the global workforce are technically automatable using current technologies. This corresponds to 6 out of 10 occupations with more than 30% of their associated activities potentially automatable.



To respond to the new digital economy and the growing skills gap, organizations must analyze their workforce and plan initiatives to fill positions with digitally literate staff capable of performing everyday activities.

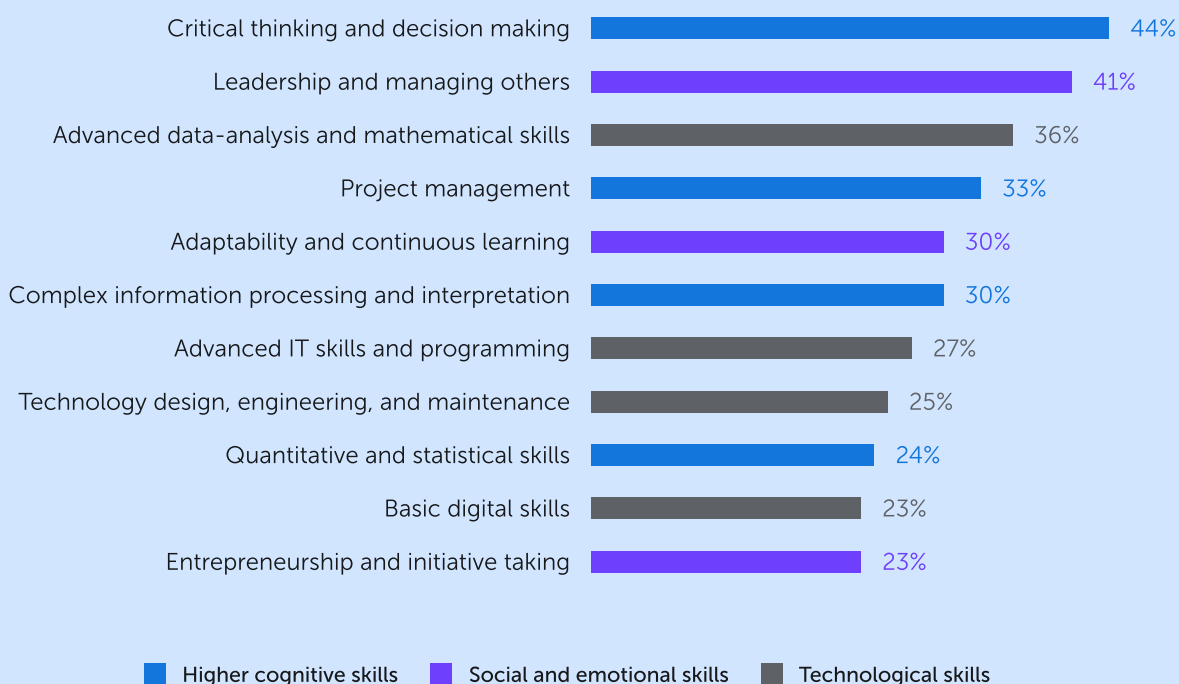
The industries and skills most affected

Unsurprisingly the McKinsey Global Survey found organizations in **high-tech** and **telecommunications sectors** (industries requiring technically advanced skills) were the most likely to have already begun reskilling programs.

For example, 23% of respondents in these industries have reskilled at least one group or class compared to the average of 13% across other sectors.⁵

Financial services, high-tech, and telecommunications are the three industries that expect the most significant disruption by changing market and technology trends. In comparison, the sectors expecting the least disruption include healthcare services, pharmaceuticals, and medical products.

Skills prioritized to address through reskilling

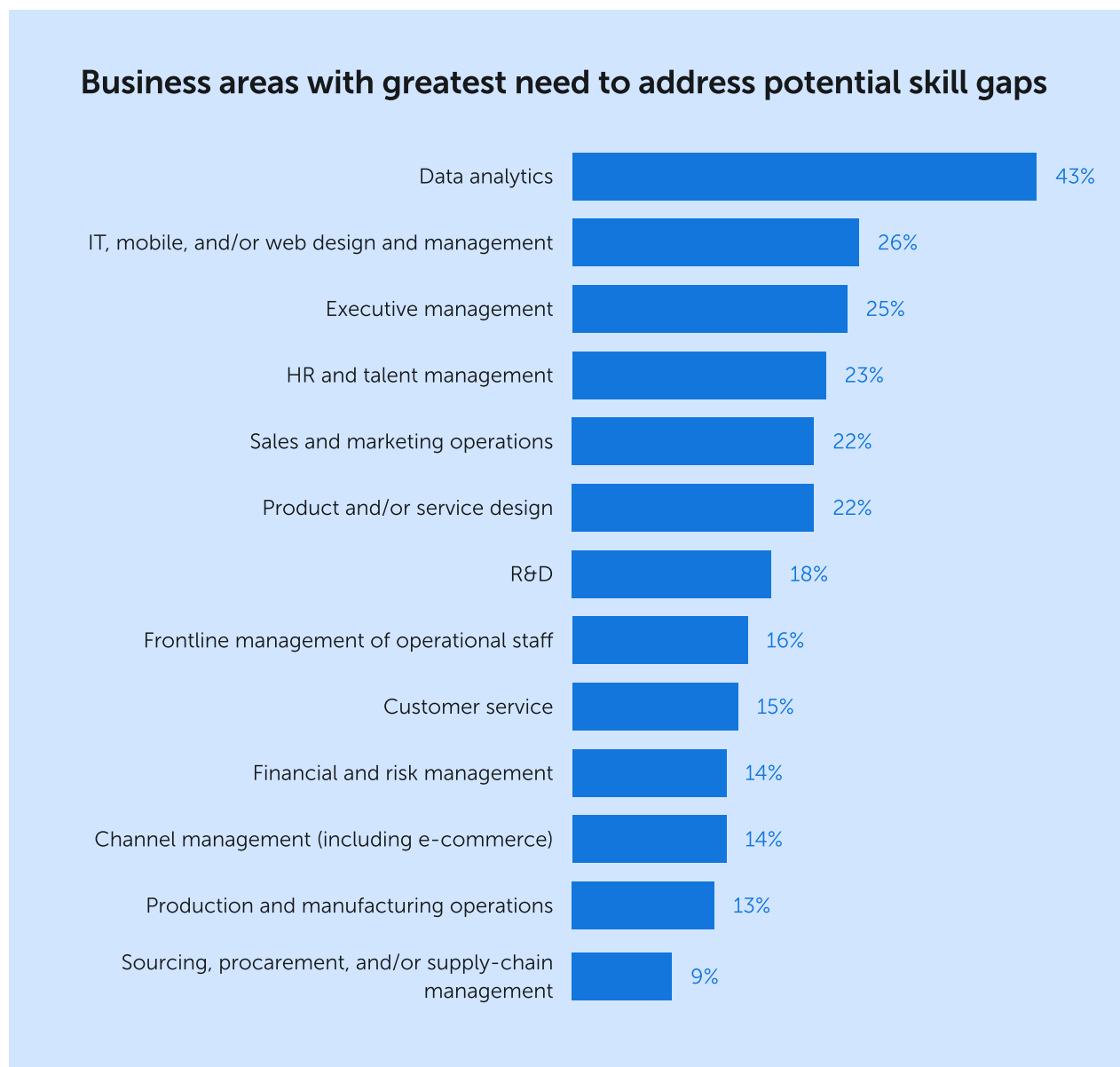


Reskilling programs most often focus on building employees' skills in critical thinking, leadership and management, and advanced data analysis.⁵



The top two factors current reskilling initiatives focus on are soft skills.

However, there is a disconnect between what current reskilling programs focus on and what respondents state they most need. The skills gap analysis shows the significant gaps exist for **technical skills** such as data analytics and IT management.



Respondents report that potential skill gaps need to be addressed in data analytics and a wide range of other business areas.⁵

The impact of reskilling and upskilling programs

While reskilling and upskilling programs to meet the new capabilities required in the digital economy are at an early stage, and much more work is needed, early results are impressive.

approx. **70%**

of the [McKinsey Global Survey](#)⁵ respondents report that their programs' business outcomes are equal to or greater than their investment

approx. **50%**

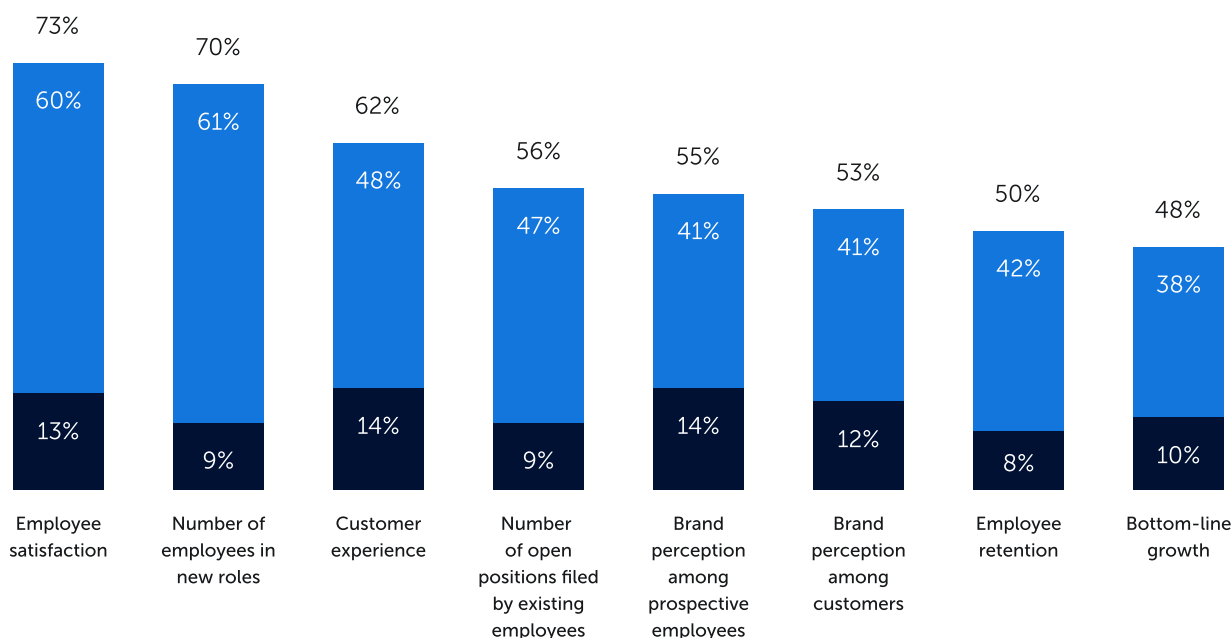
of respondents stated they saw improvement across a range of key performance indicators, **such as:**

- Employee satisfaction
- Number of employees in new roles
- Customer experience
- Open positions filled internally
- The brand perception among potential hires and customers
- Employee retention

48%

state they already see improvements in their bottom line growth

Effect of organizations' reskilling programs on given key performance indicator



Respondents say their organizations' reskilling efforts have improved performance in various ways.⁵ For these programs to be successful, organizations must first undergo a skills gap analysis to understand the areas to target.



Why is Skills Gap Analysis Important for L&D Professionals?

L&D vs. hiring

L&D professionals are primarily responsible for the success of skills gap analysis and the resulting employee development programs. While [succession planning](#) and new hiring practices are crucial outcomes of skills gap analysis, there is evidence that much of the widening gap needs to be closed by training existing staff rather than finding new employees or contracting freelancers.

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The [McKinsey Global Survey](#)⁵ shows hiring is currently the most popular option across regions, cited by roughly two-thirds of respondents. Hiring is followed by "skill-building" through reskilling or other L&D programs, contracting, redeploying, and releasing.

Trends across the globe show European respondents are more likely to turn to skill building than North America. India is currently the most likely to close skill gaps through skill building, with Asia-Pacific the least likely.

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

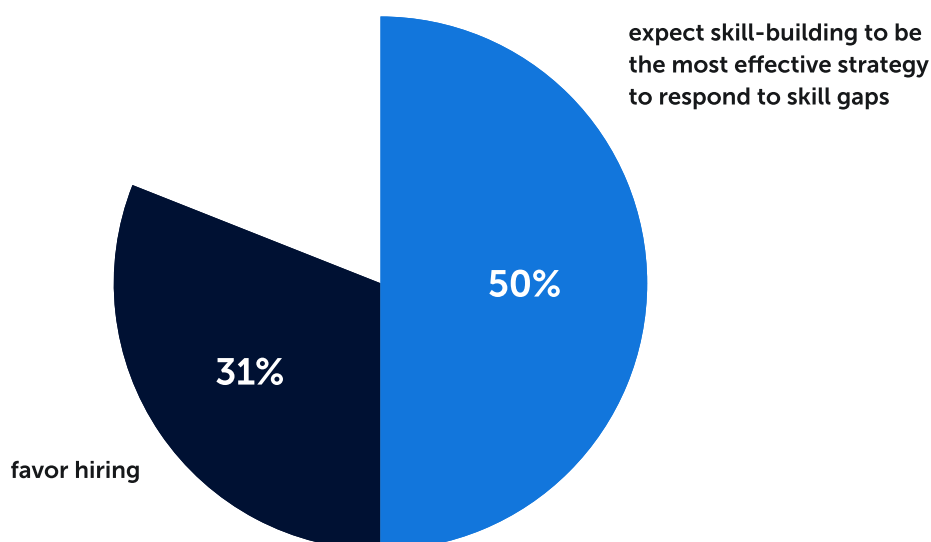
	India	North America	Asia-Pacific	Europe	Latin America	Developing markets	
Hiring	69	67	67	67	66	62	<div>Most common action</div> <div>↑</div> <div>↓</div> <div>Least common action</div>
Building skills	67	51	46	61	55	52	
Contracting	45	57	56	50	34	42	
Redeploying	53	44	45	39	32	39	
Releasing	24	36	35	27	33	21	
	<div>Most actions taken ←</div> <div>→ Fewest actions taken</div>						

However, with limits on available talent and organizations competing for new similar skills, it is challenging to close gaps primarily through hiring. A report from the [US Chamber of Commerce Foundation](#)⁷ found that 74% of hiring managers are experiencing a lack of skilled talent within the available workforce.

74%

of hiring managers are experiencing a lack of skilled talent within the available workforce

Although hiring is currently the most popular solution, McKinsey found organizations are significantly more likely to build up their skill-building efforts in the future. Half of the respondents expect skill building to be the most effective strategy to respond to skill gaps, compared to 31% favoring hiring.



There are also financial incentives to develop employee skills internally rather than hiring new people. For example, [Gallup](#)⁸ estimates the cost of replacing a single employee is 1.5 to 2x their annual salary. In addition, [LinkedIn's](#)⁹ survey of L&D professionals found that 79% believe it is less expensive to reskill current employees than hire new ones.

1.5-2x
annual salary

cost of replacing a single employee

79%

believe it is less expensive to reskill current employees than hire new ones

Creating successful L&D programs

The need for skills gap analysis creates pressure on L&D staff to conduct successful investigations and design effective training programs. From McKinsey, only a third of organizations say they are prepared to address disruptions to their workforce needs, and fewer still (28%) say their organization is making effective decisions regarding closing skill gaps. Less than half of respondents stated they clearly understand the current skills at their disposal, suggesting a need for improved skills gap analysis.

<50%

stated they have a clear understanding of the current skills at their disposal

28%

say their organization is making effective decisions regarding closing skill gaps

1/3

of organizations say they are prepared to address disruptions to their workforce needs

Further **obstacles** to successfully reskilling employees include creating impactful training programs

Fewer than half of organizations have strong curriculum design capabilities	Only a quarter of organizations say they design their programs' incentives successfully
Only four in ten stated having strong capabilities for developing training programs' communication plans	More than half of organizations have significant challenges balancing their L&D programs with existing business needs
41% struggle with measuring the effectiveness of their programs	

Correctly implementing skills gap analysis is critical for L&D staff to maximize a program's impact and how it affects the company's bottom line

Skills gap analysis is the foundational process that sets the starting point for organizations looking to reskill employees and smoothly transition to a more efficient, digitally oriented way of working.

Why is Skills Gap Analysis Important for Your Workforce?

Beyond organizations and L&D staff, skills gap analysis is also vital for the employees themselves. [Deloitte](#)¹⁰ research found that the combination of longer professional careers and shorter half-life of skills means employees must continually retrain and upskill to remain valuable in the business world.

Organizations are constantly evolving, chasing new growth opportunities, and implementing new work models. Therefore, to remain attractive candidates, employees must regularly update their skillsets to match new technologies and market conditions.

Skills gap analysis is an excellent tool for organizations to understand their future needs, but it can also show employees what employers are looking for.

Plus, implementing extensive reskilling programs demonstrates an organization's commitment to its staff. In return, this can create [employee engagement and boost retention](#). LinkedIn found learning and growth are the primary driver of great workplace culture and improved employee engagement. Also, the internal mobility that comes with robust training programs increases employees' time at an organization, rising to an average [of 5.4 years from 2.9 years](#).



When Should You Use Skills Gap Analysis?

Skills gap analysis is an extensive process that requires considerable time and investment. However, when performed correctly, they can completely redefine your workforce and modernize your operations.

Deciding when to take the leap and thoroughly analyze your workforce for skills gaps is not an easy decision, and there can be many triggering factors:

Triggering factors for the skills gaps

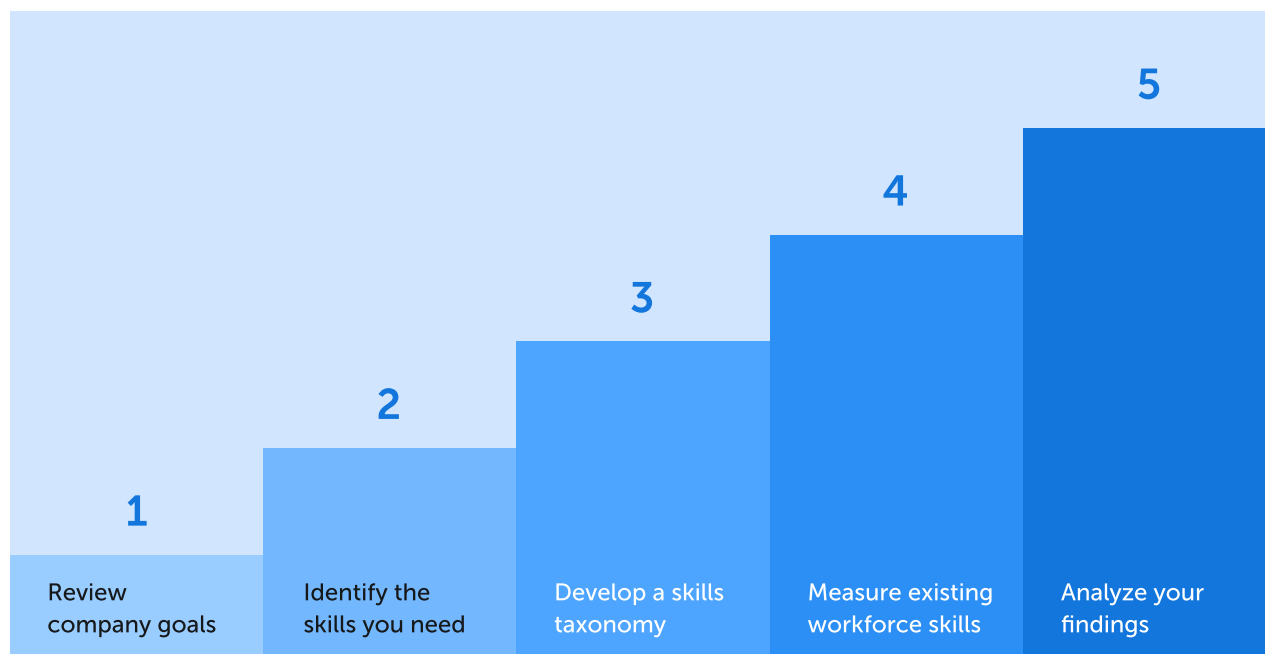
Growth	Missed opportunities	New business strategy	New tools
Maybe you're looking to expand into a new area and want to better understand the new skills you'll require.	Perhaps your organization is missing targets or consistently underperforming expectations.	Times of change, such as implementing a new business strategy, is an ideal opportunity to assess workforce capabilities and plan for the future.	Similarly, if you are changing over to new tools or technology, it is imperative that you understand whether employees can efficiently adapt or whether significant technical gaps exist.

According to McKinsey, the most common purpose of launching reskilling efforts is implementing a new business model or strategy, closely followed by adapting to disruptions from new technology.

It is important to remember that skills gap analysis is not a one-time fix that will set you on a path toward guaranteed success. Instead, it is a part of the churn of running a business.

*Even if you don't want change,
the market always will, and to stay competitive,
you'll need to ensure you have employees with
the skills to thrive.*

How to Conduct Skills Gap Analysis in 5 Steps



1 Review company goals

The first step is to set the goals you want to achieve.

You can't measure the size of a gap without knowing where you want to get to. Defining clear company goals provides the framework for your skills gap analysis. It lets you identify the future skills you need, setting the benchmark to assess existing skills.

While company goals offer broad insights into evaluating your workforce on a large scale, it is essential to filter this through and understand what this means for specific teams, even down to the level of individual employee skill sets.

For example

Your goal may be to double company sales in five years by implementing new technology. This goal means raising the level of the management (e.g., leadership, collaboration, etc.) and sales (e.g., communication, confidence, etc.) skills required. However, it also means developing current employees or hiring new staff with specific technical skills in order to implement the new tools.

2 Identify the skills you need

With your goals in mind, identify the specific skills you need in order to achieve them.

Good questions to ask yourself at this stage include

What skills get the organization closer to its goals?
What skills will employees need to perform their job successfully in the future?
What new positions will your future workforce require?
What skills are your competitors targeting in the job market?
What roles have the potential for automation or digitization?
What will your industry look like in five or ten years, and what skills are growing in importance?
What new technologies will you rely on in the future?
Which skills are critical to success?

To determine whether a particular skill is critical or not, consider whether its absence prevents an employee from completing a task to a high standard. While many skills are desirable in the workplace, if an employee can successfully perform a role and collaborate with others without it, it is not a critical skill to future success.

When identifying the skills, you want to target, try to be as specific as possible. For example, it is easy to identify communication skills. However, employee development is improved when it is as targeted as possible.

Questions worth asking

What does an improvement in communication skills look like for a specific employee? Who are they going to need to communicate with? (Colleagues, supervisors, leadership, business partners, or customers) And what will the nature of this communication be? (written or verbal? In-person, over the phone, or online?)

3 Develop a skills taxonomy

Before assessing your existing workforce, a helpful step is to build a system for your desired skills, separating them with regard to the factors most relevant for your skills gap analysis.

The system can be based on

Department
Soft vs. technical skills
Remote vs. on-site staff
Internal vs. customer-facing
General vs. specific

Tip: Often it is helpful to divide your taxonomy into a series of general skills expected of each employee and a shorter list of skills specific to each business area or position.

Your taxonomy should identify the most critical skills to achieve your goals and be based on multiple sources. They are:

Existing taxonomies – any previous work analyzing the workforce, taxonomies from similar companies, or even collating information from the organization's job descriptions, core values, and mission statements.

Analytics – gathering and analyzing data from job boards and professional social media sites such as LinkedIn can build a database of the most relevant skills others are looking for.

Experts – Listen to expert opinions from both inside and outside the company. This includes industry experts and their predictions for the future of your sector.

4 Measure existing workforce skills

Assessing your existing workforce skills and the gaps present can take many forms.

Methods to measure skills

Surveys or tests to evaluate employee capabilities.	Examining KPIs for each employee to infer skill sets
Employee interviews	Data from previous performance reviews
Group workshops with activities to help estimate employee skill levels	Implementing skills management software
Implementing comprehensive feedback tech that tracks each interaction and output of an employee	

Your goal should be to find the right combination of methods to most accurately reflect the reality of your workforce. These approaches can increase the time and resources needed for skills gap analysis. However, the more accurate you are at this stage, your outcomes will improve.

While it can be difficult to accurately quantify the skills exhibited by each employee, it is a superior method to simple qualitative approaches. With complex numbers assigned to each employee in various categories, it is easier to apply analytics in step 5.

5 Analyze your findings

Now that you have all the data, it is time to analyze and characterize the existing skills gap in your workforce.

The best approach is to input all your findings into a single, searchable database with assigned skills for each employee. While larger organizations will find it challenging to assess information at an employee level, with a comprehensive database, you can group information and begin to identify trends. This helps determine the scale of various skill gaps present and begin to formulate areas of focus for L&D programs.

Beyond forming the basis for these programs, analyzing skills gaps can help reveal the root causes behind them and areas where your organization is currently underperforming. Perhaps the onboarding process is failing to provide newer staff with all the information they need, or maybe particular teams are repeatedly underperforming at a given task. With all the information at your fingertips, you can gain actionable insights to define your plan for closing skill gaps.

What Next?

SOLUTION 1

Train and/or hire for skill gaps

After analyzing your findings, the next step is determining the best strategy for closing the skills gaps you uncovered. Your two long-term options to acquire missing skills are training or hiring.

Training

The best solution is to train staff to develop the skills you need in-house. In a marketplace where companies compete for similar skills within a limited talent pool, developing existing employees can be more prudent financially.

There are many approaches you can take to reskilling L&D programs, and the precise nature of your efforts will depend on the skills you are trying to obtain. Perhaps the expertise is already present within the workforce; it just needs to be better communicated and dispersed among staff members. In this instance, you run mentorship or apprenticeship programs to facilitate knowledge transfer or design training content based on internal expertise.

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In many scenarios, you will also need to **source expertise externally** to develop the required skills. This can be achieved by investing in your employee's external education, perhaps through formal training courses at universities and industry-specific events, or purchasing access to externally created course material or relevant industry publications.

Hiring

When skills gaps are too wide to bridge through training alone, organizations must bring in new talent to freshen up their workforce skills.

Skills gap analysis results should become an integral part of recruitment, modifying the process to screen for the specific skills you currently lack.

This could be through

A skills assessment stage during the screening process	Structured interviews
Headhunting qualified candidates with ideal skillsets who might not be actively searching for new employment	

SOLUTION 2

Develop a skills strategy

Organizations must adapt their training and hiring practices to become part of a holistic skills strategy focused on closing current gaps and preventing future ones.

This includes identifying a portfolio of training initiatives best suited to teach existing employees.

For example

What format will they take and how and when will they be delivered?	Also, what roles are no longer required or need redesigning?
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Communicating your findings with employees and making all stakeholders aware of the new skills strategy is critical. Informed employees can work with L&D staff to develop individual learning pathways that help them acquire new skills suited to how they learn. This includes the fine details of how much time they can assign to reskilling and how these new skills will be applied in their day-to-day work.

Reskilling at scale can be challenging, and many organizations achieve better results by starting with a smaller pilot program.

By focusing on a single department or team in your organization, you can see how the new skills strategy looks in action before tweaking it for a wider rollout.

This can help you identify the infrastructure, tools, and environment you need to create for building skills at scale.



RECOMMENDED DOWNLOAD

We prepared a [simple skills matrix template](#) that can help you start developing a skills strategy by building your own skills matrix first

SOLUTION 3

Create an environment for building skills

Executing new skill building strategies at scale requires cultural and operational changes as well as the help of L&D tools. With dedicated organizational structures available to support, encourage, and track learning, businesses can better understand the results of skills gap analysis.

This can include fostering a more dedicated culture of learning, one which makes employee development a core focus of business operations and actively seeks to support staff looking to acquire new skills.

Organizations can also enhance learning environments by identifying the right tools and technology to create, deliver, and track the delivery of educational content.

Tools and Technologies

Learning Management Systems (LMS) to create, distribute, and store training material

Learning Experience Platforms (LXP) to generate personalized learning programs

Authoring tools to help L&D staff build the material required for reskilling initiatives

SOLUTION 4

Analyze your training effectiveness

While skills gap analysis offers the information needed to revamp your workforce, successful outcomes and whether or not you achieve your goals depend on the effectiveness of the training delivered.

With that in mind, you need clearly defined learning metrics that assess operational improvements, behavioral changes, and the financial impact (i.e., ROI) of your skills gap analysis and reskilling efforts. You want to be able to point to clear differences before and after skills gap analysis.

What new skills did employees learn, and more importantly, how are they applied in the workplace?

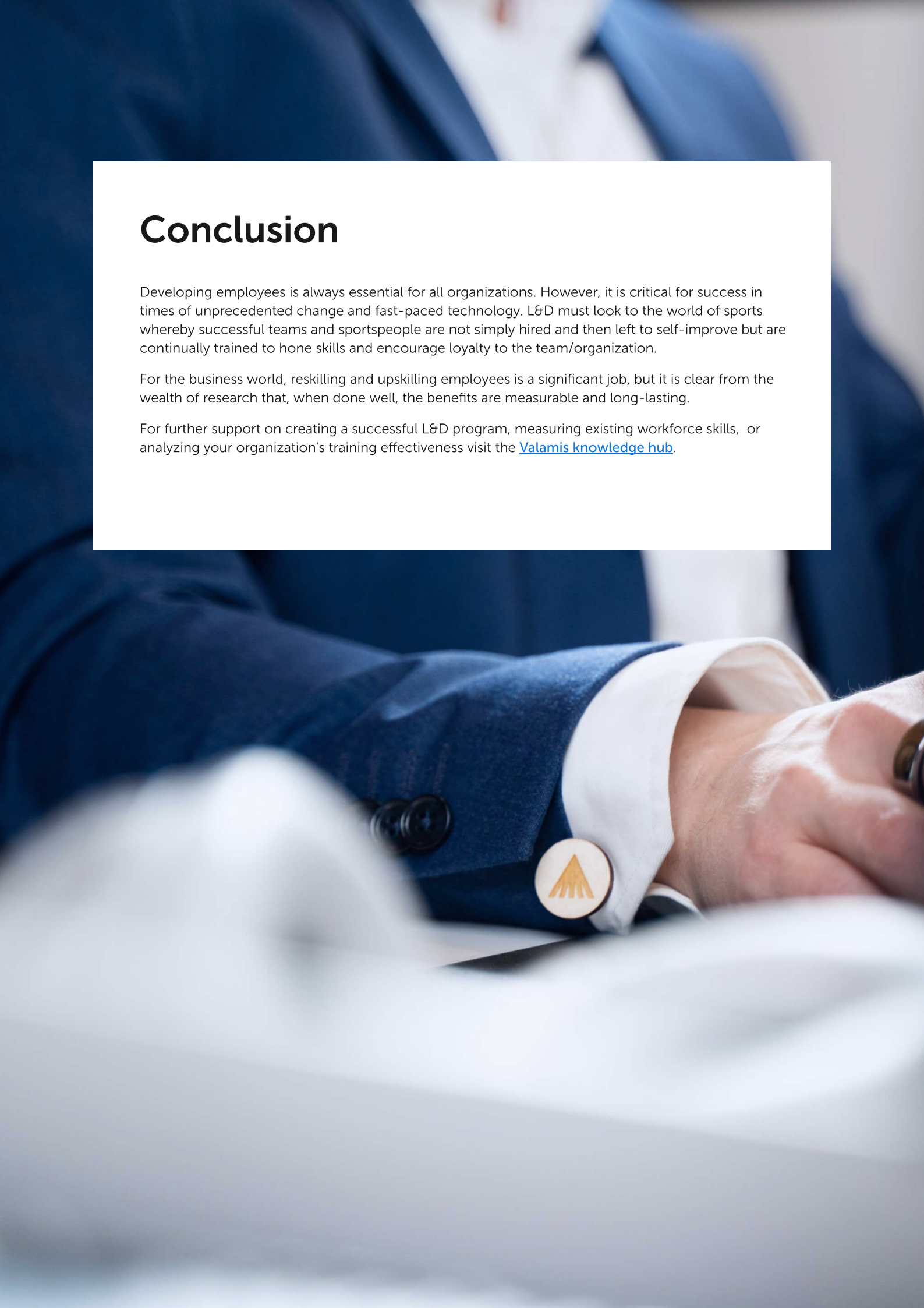


Conclusion

Developing employees is always essential for all organizations. However, it is critical for success in times of unprecedented change and fast-paced technology. L&D must look to the world of sports whereby successful teams and sportspeople are not simply hired and then left to self-improve but are continually trained to hone skills and encourage loyalty to the team/organization.

For the business world, reskilling and upskilling employees is a significant job, but it is clear from the wealth of research that, when done well, the benefits are measurable and long-lasting.

For further support on creating a successful L&D program, measuring existing workforce skills, or analyzing your organization's training effectiveness visit the [Valamis knowledge hub](#).



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