Mercer

welcome to brighter

Using skills frameworks to initiate a skills-powered organization

A study by Mercer

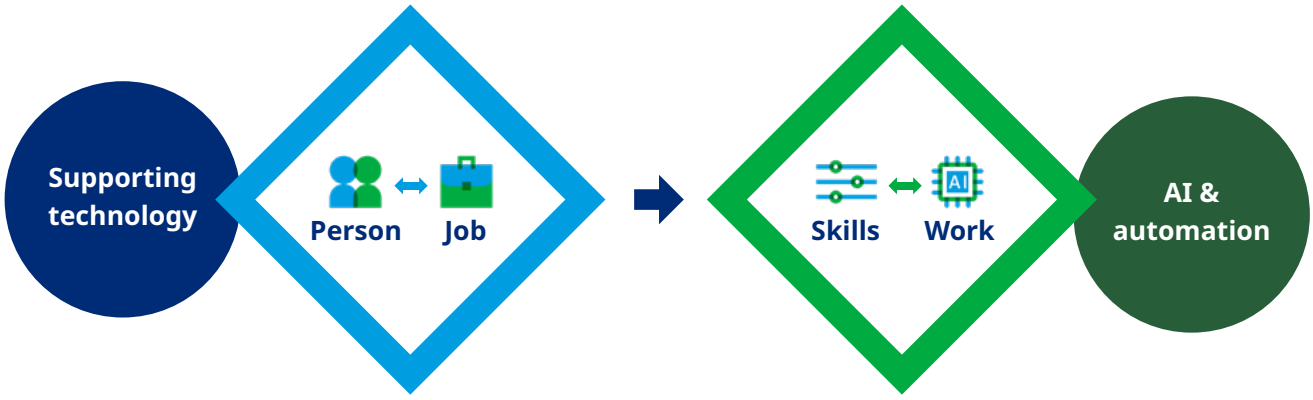
Executive summary: Insights from the frontier of skills evolution

Skills are no longer just a list of bullet points on a résumé or job description. No longer tethered to a person or role, they have become the primary building block for how our teams and businesses operate. In many companies, skills have actually begun to supplant jobs as the primary currency of work.

In recent years, especially post-pandemic, companies have been racing to make this transition — building processes and rolling out artificial-intelligence (AI) based technology to help them better navigate supply and demand, and visualize, understand, nurture, deploy and forecast skills within their organizations.

This transition is fundamentally transforming how we think about our work and the technology that supports it. But many companies are still struggling to turn that understanding into an infrastructure they can use to power productivity, talent development and growth — a skills framework.

Work is reconfigured with a new talent supply and demand equation



- Employee
- Single job
- Linear career path/ experiences based on skills required by job (demand)
- Technology built to support in jobs

- Internal and external talent
- Jobs, work tasks, projects
- Variety of experiences based on skills required for work (demand) and skills and iterests of person (supply)
- Automation becomes a "work partner" to substitute, augment and transform work

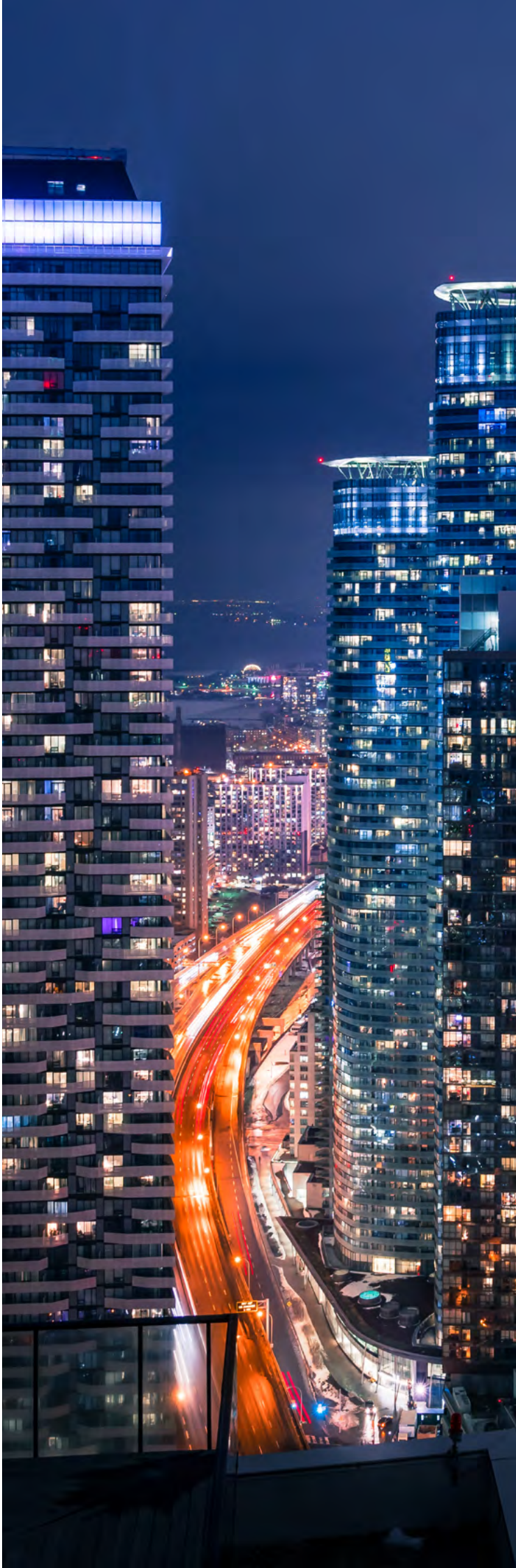
Source: Jesuthasan R, Boudreau J, *Work Without Jobs*, 2023.

All of these changes raise questions. What are the best practices for becoming a skills-powered organization? Are the challenges that companies are facing common or unique? What lessons can they learn from their peers to shorten the learning curve? Exactly how far behind are they on this journey — and should they worry?

Building on our own expertise in the intersection of skills and workforce management, we interviewed 21 large multinational organizations who are on the skills journey. We talked about their experiences to understand how they are approaching these challenges.

As you will see, our research was guided by several key considerations, including the:

- Structure of skills frameworks
- Motivation for adopting such frameworks
- Critical skills identified
- Approach to skills governance
- Technology and intellectual property (IP) used
- Challenges faced
- Lessons learned



In the sections that follow, we share what we heard from respondents. Among the key themes and findings were the following.

Aligning skills development to business needs

Organizations are increasingly connecting their skills development strategies to their business needs — one of the primary reasons for becoming a skills-powered organization. That means aligning to business strategy, but also ensuring the vision and case for skills resonates with employees, line managers, HR and many other stakeholders to maximize engagement and adoption. One organization realized average savings of $47,000 per person by focusing their efforts on reskilling and redeployment rather than hiring and redundancy.

Using pilots to prove ROI

Most organizations began with a use case focused on reskilling in response to pressure to build more capabilities in areas deemed critical or in short supply in the market. Most organizations are initiating their skills journey with this sort of use case, aiming to expand past a chosen pilot area once the framework has been appropriately calibrated to the business.

Emphasizing change management

Organizations that have prioritized stakeholder management and communication over detailed design work have had more success. The prevailing approach involves developing a minimum viable product and improving it incrementally based on user feedback to reflect the gradual learning and adoption of the users. This approach aims to deliver value to the business faster while trying to avoid the trap of seeking perfection.

Understanding the unique situation at decentralized companies

We carefully considered what unique value sat at “group” level, as opposed to with the business unit or entity. Engaging with entities and incorporating their experience into group projects has proved beneficial in elevating strategic thinking for many organizations. Involving, engaging and exploring how different entities or even smaller teams have innovated and then involving them in the larger project has helped teams improve and broaden their thinking more successfully at the group level.

Establishing data management and a single ‘source of truth’

Identifying a definitive answer for skills data management has proved challenging. Many organizations currently select a well-developed data source (for example, a job architecture with skills attached to each profile/family) and export this to other data sources (for example, tagging those skills to learning pathways). One-way data flow and the ability to update such a manual process efficiently remain significant challenges.

Creating the technology to house skills frameworks

In addition to challenges around data, we saw companies struggling to find the right way to operationalize those data. They are struggling to align myriad types of technology — often with very different taxonomies and degrees of transparency — across the various organizational skills ecosystems.

Why are companies becoming skills-powered?

Mercer's *Global Talent Trends Report* has consistently reported a focus on improving workforce planning around skills. "Designing talent processes around skills" was a top-three priority for HR in 2023; "Improving workforce planning to better inform buy/build/borrow strategies" came in second; and "Investing in workforce upskilling and reskilling" was in sixth place.[1] To be clear, this emphasis on skills is not a new or fleeting concern: Reskilling was the number one agenda item for executives in 2022, coming out of the gauntlet of the "Great Resignation."

But organizations and employees have not yet settled on a blueprint for bridging the skills gap. Our research shows that 91% of employees are actively seeking to learn new skills, but 98% of HR personnel still report significant skill shortages in their companies.[2]

Developing a skills-powered approach requires a new work operating system that supports organizational agility and talent fluidity. Research by Jesuthasan and Boudreau found four key principles driving this transformation:[3]

Four principles for the new shape of work

1

Start with the work (current and future tasks) and not the existing jobs

2

Achieve the optimal combination of humans and automation

3

Consider the full array of human work engagements (e.g., employment, gig, freelance, alliances, projects, other alternative arrangements)

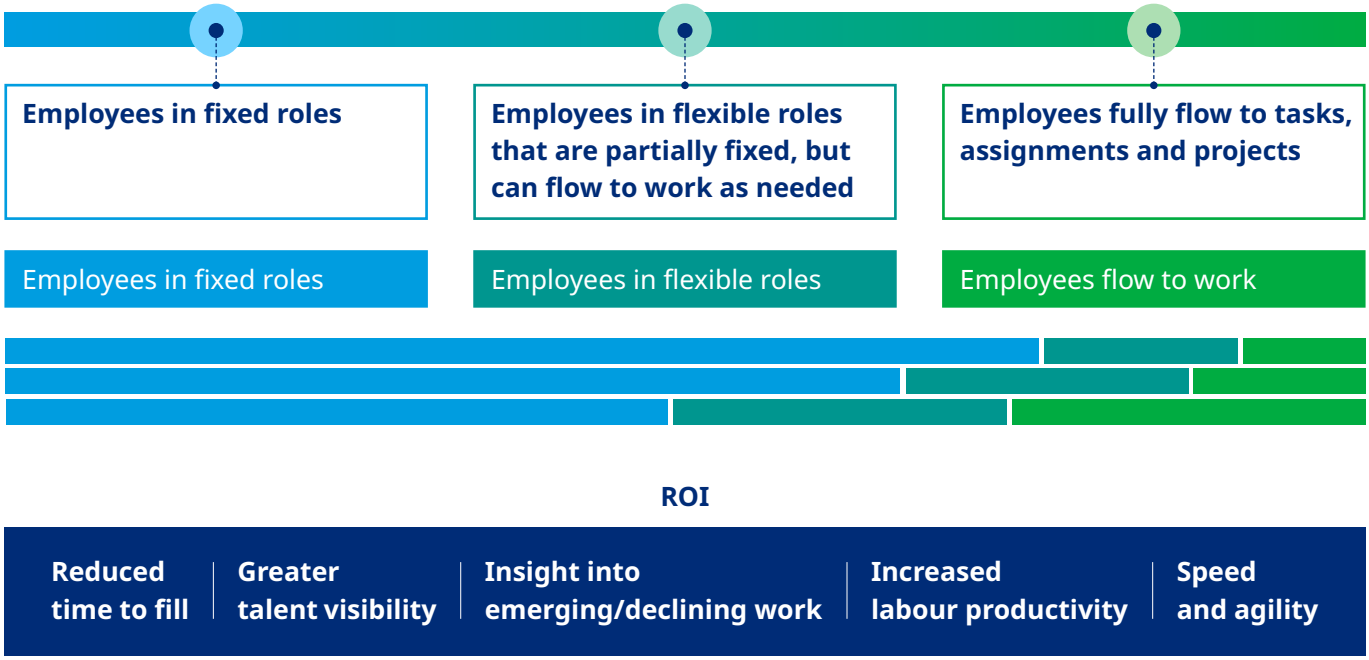
4

Allow talent to "flow" to work versus being limited to fixed, traditional jobs

Source: *Work Without Jobs*, 2023.

As skills maturity develops, we are seeing companies use this sort of paradigm to shift from fixed roles to more flexible, task-based constructs. This approach promises greater talent visibility, more insight into emerging work trends, increased productivity and improved agility, signaling a new talent-management era in which skills-to-work equations replace traditional person-to-job matches.

As skills maturity develops, a greater proportion of the workforce will embrace moving closer to the flow of work.



Source: Jesuthasan and Boudreau, *Sloan Management Review,* Spring, 2021

What do skills frameworks typically look like?

One of the first observations we made in our inquiry related to stewardship. Skills management is primarily being driven by HR rather than by the business itself. Many of the respondents to our study (as the owners of "skills") were in or adjacent to the HR team. This may have overrepresented the HR perspective, but we believe that bias was mitigated by the fact that the respondents had a significant interest in skills, frequently leading the HR centers of excellence that reflected the primary use case for the skills frameworks.

As much as we would like to share a "silver bullet" that these organizations have found for designing an optimal skills framework, no such consensus yet exists. We did see many commonalities and trends beginning to emerge, but the companies we interviewed are still taking diverse approaches to thinking and talking about skills frameworks.

This extends even to what the various companies call their frameworks. Skills taxonomies, ontologies, libraries, dictionaries and lexicons are just some of the labels we heard, sometimes with different definitions or meanings. This kind of variability can create some frustration, as skills practitioners find they have no common vocabulary with vendors or peers.

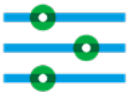
Similar diversity was common across every aspect of skills framework origin and design, reflecting a lack of industry standardization in this area. Many companies are still in the early stages of developing their frameworks, multiple technical players are flooding the space and an established best practice has yet to solidify.

> **We spent a lot of time getting caught up in labels and that hasn't made any difference to the end user. What we call it is less important than needing to say what is regulatory-driven or what group needs and what local entities need.**
>
> Survey participant

Different origin stories

What counts as a "defined skill" varies across companies. The most common approach is to leverage the skills framework embedded in vendor technology, but some companies have taken very different approaches — such as building a custom in-house framework, designing a framework in conjunction with a job architecture, or simply tapping publicly available sources for skills definitions, such as Wikipedia.

Inheriting an existing framework



Custom in-house framework

Adopting technology vendor framework

Using publicly available frameworks

Developing framework alongside a job architecture

Different definitions

Our study revealed mixed views on the importance of developing clear and agreed definitions. Most frequently, skills were categorized and labeled as transversal, technical or leadership (or some form of those definitions). Many organizations focused on bypassing a semantic morass and achieved broad alignment quickly on terms.

"Transversal" skills
Skills present in many different functions and businesses with some volume of demand (e.g., project management, presentation)

Technical or product skills
Specific skills needed in more specialized professional areas (e.g., Microsoft Excel, underwriting)

Leadership or behavioral skills
Skills around people and leadership, some of which are easier for AI to identify than others (e.g., leading teams, inspiring people)

Keep the skills list tight. No one says they do not have enough — most have too many, so focus on what can differentiate you or hurt you, because the competition can do it.

Survey participant

Different scales of proficiency

Around half of the companies we interviewed said they use proficiency levels, often on a 1–5 scale, with the higher levels representing a greater level of expertise. However, proficiency levels are not always correlated with seniority, as leaders might delegate skilled tasks over time.

Example approach to proficiency

Levels 1–3
Covering the skill sets of a majority of employees (e.g., 1 = familiar with the skill, 2 = independently competent, 3 = proficient enough to coach others)

Levels 4–5
Often reflecting a publicly acknowledged level of expertise inside or outside the company (e.g., 4/5 = a published author, industry lead, conference speaker)

Different levels of detail

How detailed should a skills framework be? Detail varies across organizations, often dependent on stakeholder views, scarcity or demand. Interviewees agreed that some areas of the business demanded more detail.

Different scope for skills catalogs

The size of skills catalogs also varied significantly, from 12 to the thousands. Organizations just introducing skills can choose how many to introduce, whereas others have inherited more skill labels and are trying to scale back. Some organizations were also trying to fine-tune how narrowly to focus their skill taxonomy (for example, “digital” is broader than “cloud-based”).

What are the drivers behind adopting skills frameworks?

Many of our interviewees spoke of skills frameworks being propelled, especially by those in positions like Head of Talent or Learning & Development, as they pursue reskilling. Several of the other catalysts pushing organizations to consider skill frameworks included:

- **Initiation by a problem statement:**
  This might be sparked by a concerning KPI, such as a poor engagement survey score related to growth opportunities, or a specific business need, like a shortage of digital analysts.
- **Lack of business case integration:**
  Often, we saw no clear sense that "skills" were a fundamental part of the business strategy; that is, as a means to boost productivity or achieve cost savings.
- **Market trends or leadership direction:**
  Sometimes, the push toward skills frameworks was as straightforward as "others/the market are moving in that direction" or a directive from a high-ranking officer like the Chief Human Resources Officer.
- **Other initiatives:**
  We saw various other use cases driving the development of these frameworks. The most common, in order of prominence, were:
  - Reskilling or upskilling
  - Acquiring skills-powered technology
  - Linking skills to job architecture
  - Undergoing strategic workforce planning (including the identification of future skills)
  - Assessing skills
  - Supporting company-stated values
  - Paying for skills

How do companies prioritize skills?

As companies build out skills frameworks, many are trying to prioritize skills within the organization, identifying certain high-value skills as critical. Here, many organizations have yet to achieve clarity. Some skills are still emerging and have been difficult to articulate properly.

What skills are seen as critical?

Digital (frequently mentioned)

- Digital thinking
- Data analytics
- Machine learning
- Security
- AI
- Customer-focused AI
- Tech skills (full stack development, cyber)
- Cloud skills
- User experience designer

Data (frequently mentioned)

- Use of data insights
- Data science
- Data strategy
- Telling stories with data
- Data analytics

Change management (frequently mentioned)

- Resilience
- Preparation for change

Environmental, social and governance

- Sustainability
- Environmental sustainability
- Diversity, equity & inclusion

Agility

- Strategizing beyond the operational
- Continuous learning
- Problem-solving
- Strategic thinking

Communication skills

- Communications with colleagues
- Active listening
- Concise communication
- Executive presence

Others

- Consumer-centricity
- Analytical thinking
- Critical thinking
- Project management
- Actuarial
- Underwriting
- Claims
- Sales
- Distibution

Many respondents shared that they have been unable to facilitate or arrive at a company-wide consensus on a standardized skills priority list. For some companies, this is not a hurdle — they were able to build individual priorities by business unit rather than standardizing organization-wide. Additionally, some companies have been challenged to connect skills priorities to company strategy — in fact, six companies specifically called this out as a particular challenge.

We started with a structure that used verbs so managing cloud, creating cloud, etc. were all different skills. This fundamentally caused a large number of skills to be developed.

Survey participant

What does skills governance look like?

In enterprise companies, governance is a key factor in the successful implementation and management of skills frameworks. Often, we see a designated individual overseeing the skills-related work, such as those we interviewed. To ensure the effectiveness and adaptability of skills frameworks, these champions commonly initiated pilot programs to test out ideas and approaches.

Some of the stakeholders involved early in the process included:

- Local business units or subject matter experts
- Local HR business partners or local business unit HR center-of-excellence specialists
- Internal subject-matter experts
- Senior leadership

As focus has evolved, some told us they shifted from product-focused efforts to prioritizing mindset changes and managing change effectively, and this change led to higher engagement. Some enterprises have invested considerable time and resources into specific technology pieces to generate interest and excitement around skills. For others, a "light touch" governance approach has been taken to align with the gradual adoption and mindset shift within their organization.

The biggest difference was the CEO sharing success stories in various forums and getting behind it. Sharing data publicly to say who had done more to set up skills-based projects in their businesses. The CEO has an active interest in talent, engagement, career development, mobility and diversity.

Survey participant

What role does technology and IP play in skills frameworks?

Participants in the interviews indicated their companies were implementing or leveraging a huge range of technology or IP to build or support skills. This reflects a very active segment of the market, with a large number of both new entrants and existing providers pivoting to focus on skills — and no clear emergence of a market leader.

When implementing technology and data around skills frameworks, some survey respondents noted the importance of selecting the right tools before developing a taxonomy. The underpinning belief was that retraining some technology to speak a different taxonomical language was too difficult an ask. Some companies believed that technology companies needed to get better at adapting to their (and other companies') taxonomies if they were going to stay relevant in the market.

However, most cautioned against rushing out too quickly and adding another tech platform that might end up underutilized. Many interviewees commented that certain sections of their organization have mistakenly believed tools could deliver the entire skills strategy. They also acknowledged that despite their aspirations, their existing technology was often lagging. The current focus for many is to integrate the various tools effectively.

They specifically called out lessons around:

- **User experience:** For AI-based tools, increasing user engagement is crucial for data collection and AI improvement. And a superior user experience is essential for encouraging more usage.
- **Platform compatibility:** The diverse application and use of technology pose a challenge, particularly in regards to skills communication between platforms. This involves not just technological compatibility (for example, application programming interfaces, or APIs), but also establishing a common skills language and ensuring effective two-way data flows.
- **Legal considerations:** As AI and machine learning is increasingly used in job and career decisions, certain US states and the European Union are enacting laws to regulate these practices.
- **Skills maintenance:** Although systems driven by employees or line managers, such as talent marketplaces, often require a skills framework to support it, respondents indicated that what employees consider important might not align with the strategic needs of the organization and must be managed and adjusted.
- **Agile development:** Respondents advised adopting an agile development approach: start small, learn on the go and build incrementally, rather than aiming for system perfection from the outset.
- **Global talent strategy:** Aligning the skills model with the technology roadmap is vital. Some respondents highlighted the challenges faced when their talent and people strategies did not align with their tech vendors' capabilities.
- **Long-term thinking:** The creation of numerous APIs for connectivity led respondents to note that tech partners need to understand how their products fit with others in the ecosystem. They warned of the risk that some tech companies, focused on gaining market share but slow in responding to clients' needs, might develop solutions that could later conflict with the organizations' requirements.

What challenges did participants face?

In the quest to establish a comprehensive and effective skills framework within their organization, our interviewees agreed on several recurring challenges. In the early stages of the journey, many organizations reported struggling with establishing consistency and centralizing the right technology, taxonomy and processes. In the implementation stage of the journey and beyond, those challenges shifted to focus on stakeholder buy-in, change management, adoption and sustainability.

The hurdles organizations have faced in implementing a robust skills framework include:

- **Centralization of data sources:** Establishing a two-way data flow from a primary source of information can be challenging. Organizations are often manually updating data from one selected platform to other data sources, creating a one-way data flow.
- **Standardization of skills language:** The varied structure, approach and language across different skills vendors make it difficult to develop a common skills framework.
- **Transparency with vendor algorithms:** Certain vendors with AI and built-in skills taxonomies restrict organizations' access to their skills algorithms, hindering understanding of skill judgments.
- **Defining emerging skills:** Organizations have struggled to detail and structure “sunrise skills” (newly emerging skills in the market), whether from internal experts or external vendors.
- **Promoting a skills-powered mindset:** Shifting internal experts and business leaders from role-based beliefs to skills-powered understanding and foresight can be complex.
- **Balancing AI insights and ownership:** Anxiety around AI-driven conclusions regarding skills and people may lead to concerns about the loss of control over decision-making or final say over what is really important to stakeholders like hiring line managers.
- **Technology onboarding:** Interviewees noted issues around the organization's ability to adopt new technologies, especially in regulated businesses, and the employees' capacity to learn and embrace new tools.

- **Managing skills-transition expectations:** Stakeholders need to understand that the shift to skills is a continuous process, not a one-time event.
- **Securing resources for skills framework:** Securing adequate funds, time and help/resources for the skills agenda can be a continuing challenge.
- **Applying skills framework to daily practices:** Ensuring the theoretical skills framework is implemented into day-to-day processes like talent acquisition via assessment design, manager interview questions, etc. can be difficult.
- **Vendor's global support limitations:** Vendors' local support or language translation may not be available to match the organization's global footprint.
- **Communicating the value of skills framework:** Demonstrating the value and ROI of a skills framework to various stakeholder groups can be a hurdle.
- **Managing change efforts:** Often, the level of change management (in terms of mindset shift, process redesign, engagement, communication, etc.) required to activate a skills-powered culture is underestimated.
- **Sustaining skills framework over time:** Organizations may struggle to keep the skills framework updated, accurate and relevant over time amid changing local business requirements and new skill developments.
- **Clarifying governance and role expectations:** Without clear definitions and communication, members of an organization may assume higher levels of involvement than intended in the skills framework development.
- **Dealing with localized initiatives:** Resistance can arise from parts of the business that have developed their own projects and resist change or centralization.
- **Navigating regulation concerns:** Balancing compliance with various regional labor laws and data-security regulations with the creation of a conducive culture and mindset for skills framework implementation is not easy.

What advice did participants share?

Participants in this study offered invaluable insights on effectively planning, building and deploying a skills framework — including actionable advice covering myriad areas — from formulating realistic skills plans to demonstrating ROI.

The following are some of the key strategies they suggested based on their experiences.

Formulate a realistic skills plan

- Set achievable goals considering your team's capabilities and timeline.
- Build while you learn, start small, and enhance over time.
- Use relevant business subject-matter experts to enrich content; take control of the development process while incorporating business expertise.
- Opt for an ontology-based approach and avoid creating an overly granular job architecture.
- Keep the project manageable and adopt an iterative process.
- Initiate with a manageable scope and expand gradually.
- Consider outsourcing or collaborating to avoid excessive in-house workloads.
- Start with certain critical parts of the organization to expedite board-level approval.

Guide AI-based frameworks

- Understand that no AI is perfect yet; input from human users is crucial to improving data quality, which in turn leads to better AI decisions.
- Enhance user experience and encourage better use of AI tools; always convey the functions of your AI framework in understandable terms.
- Ensure the quality of AI tools being used and the data they generate.
- Encourage proper tool utilization for more effective data collection and decisions.
- Clearly communicate the details of your AI framework to all involved.

Implement clear governance

- Ensure everyone understands their roles and responsibilities from the get-go.
- Create a diverse decision-making team, including HR, IT and analytics professionals.
- Focus on identifying skills that set you apart or pose a competitive opportunity/risk.
- Involve business and IT teams in the development process.
- Maintain a tight list of skills focused on strategic differentiation.

Prioritize change management

- Invest more in stakeholder management, engagement and communication than overly detailed design work.
- Involve individuals in the review and testing process to increase engagement, adoption and communication.
- Adopt a change mindset so that you can adapt as new developments arise.
- Identify short-term and long-term wins to maintain enthusiasm and momentum.
- Understand the work absorption capacity of the team and plan accordingly.
- Strive for simplicity and clarity in your approach.

Simplify and focus on value creation

- Keep the skills framework as simple as possible.
- Always prioritize value creation in talent acquisition, development, etc., over data accumulation.
- Understand your organization's culture and capability for absorbing new work, and design the framework accordingly.

Address business problems

- Gain high-profile leadership buy-in by addressing their areas of interest and demonstrating competitive advantages.
- Make sure your approach is geared towards solving business challenges, not just HR issues.

Engage proactively with unions

- Incorporate the perspective of unions by consulting them in advance; their input can prompt useful questions and create a more holistic view of the workforce.

Demonstrate ROI and relevance

- Divide work into clear, manageable tasks with tangible outcomes to demonstrate value.
- Show how reskilling and redeployment can lead to significant cost savings over redundancy and hiring.
- Continually monitor the market to ensure skill relevance.
- Provide business-focused case studies, comparing proficiency levels and business-critical skills to competitors.
- Compare the cost savings of reskilling and redeploying vs. redundancy and hiring.

Test with a pilot program

- Deploy a small, end-to-end pilot program that can be completed within a year to demonstrate ROI and effectiveness of the skills-powered framework.

How Mercer can help

At a time when the ability to reskill and upskill is critical to maintaining competitiveness and resilience, Mercer's approach to skills-powered talent models can help companies navigate the uncertainties around formulating the right approach to skills frameworks.

Mercer's proven experience in strategic advice and our data-centric approach uniquely positions us to help your organization develop a robust skills framework. Our research underscores the importance of a shift from just upskilling/reskilling to approaching the entire employee lifecycle with a skills lens. Furthermore, we have a nuanced understanding of the importance of "social learning" and appreciate how innovative methods like personalized and gamified content can help your business create engaging and effective learning environments.

The insights garnered from our research and client work contribute to a deep understanding of the evolving skills landscape and the necessity for agility and adaptability in today's workforce. Our partnership with the World Economic Forum and notable publications in the *Harvard Business Review* and the *Sloan Management Review* reflect our forward-thinking approach and commitment to staying at the forefront of emerging trends and strategies. And our wealth of knowledge and expertise is instrumental in helping organizations not only identify the skills they need but also devise effective strategies for building them.

By leaning on Mercer's expertise, multinational enterprises can build a more vibrant and resilient talent ecosystem that aligns with future needs, making skills the true currency of their labor market. We help organizations remove barriers to internal mobility, enable a circular talent economy and future-proof the careers of employees, ensuring organizations are competitive and attractive to talent in the new world of work.

Connect with us today to discuss your skills journey

Marcus Downing
Partner, Workforce Transformation, UK & Europe
marcus.downing@mercer.com

Ravin Jesuthasan
Senior Partner,
Global Transformation Services Leader
ravin.jesuthasan@mercer.com

Lewis Garrard
Partner, Workforce Transformation, Singapore
lewis.garrard@mercer.com

Paul Habgood
Partner, Workforce Transformation, UK & Europe
paul.habgood@mercer.com

Brian Fisher
Global Solutions Lead, Skills
brian.fisher@mercer.com

At Mercer, we believe in building better futures.

Together, we're redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. We do this by meeting the needs of today and tomorrow. By understanding the data and applying it with a human touch. And by turning ideas into action to spark positive change.

For over 75 years, we've been providing trusted advice and solutions to build healthier and more sustainable futures for our clients, colleagues and communities.

Welcome to a world where economics and empathy make a difference in people's lives.

Endnotes

[1] Mercer. *Global Talent Trends Report 2022–2023*, available at www.mercer.com/insights/people-strategy/future-of-work/global-talent-trends.

[2] Mercer, 2023.

[3] Jesuthasan R, Boudreau J. *Work Without Jobs*, Cambridge: MIT Press, 2023.

A business of Marsh McLennan

6013840-CR