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# Understanding The ROI Of Skills-First Talent Practices



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Over the past several years, skills-first talent practices have quickly gained momentum across the private and public sectors. More than [72% of companies](#) now say they practice skills-based hiring and at least [10 governors](#) have made a commitment to softening degree requirements for state roles. According to [new research](#) from Burning Glass Institute and Harvard Business School, there has been a nearly fourfold increase in the annual number of roles from which employers have dropped degrees in the last decade.

It is increasingly clear that many employers who are seeking to transform into skills-first organizations are doing so based on their business

needs, often directly related to talent shortages in hard-to-fill or in-demand roles.

What is less clear as this model takes hold is how companies can quite literally account for its financial impact on the business. What costs go into the shift to skills-first talent practices? How should businesses measure these costs? And what financial benefit can they expect to gain? Moreover, how do shorter term human capital metrics translate into longer term company performance measures, such as stock price or gross revenue?



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Through hosting a [peer learning group of human resources executives](#) committed to skills-first talent practices, we have learned that anecdotal success stories abound. A large retailer discovered, for example, that increased engagement scores among non-degreed talent translates directly into increased customer satisfaction. Similarly, a large technology

company found significantly higher retention among skills-first hires compared to their overall workforce.

But are these stories the exception or the rule of skills-first hiring? More engagement from businesses and researchers alike is needed to answer some of these questions on an aggregate or even industry level.

That engagement is crucial to proving the business case for skills-first talent management, but it won't happen overnight. In the meantime, we can begin to break down the cost drivers and potential benefits of a skills-first transformation across three phases: finding, hiring, and growing talent:

### **What goes into a skills-first transformation?**

Nine core practices – and many other ancillary ones – underpin the shift to a skills-first talent approach.

#### **Finding talent:**

- Removing 4-year degree requirements from select roles and writing skills-based job descriptions
- Launching or expanding work-based learning (such as internships and apprenticeships)

- Building diverse sourcing partnerships with talent providers (such as community colleges and non-profit organizations)

### **Hiring talent:**

- Training hiring teams on skills-first hiring
- Creating standard interviewing rubrics
- Leveraging skills-first candidate assessments

### **Growing talent:**

- Building and expanding upskilling programs
- Developing clear career paths grounded in skills
- Creating mentorship and sponsorship opportunities

The main costs employers are incurring as they make these shifts fall into three buckets:

- **Administrative and training costs.** Whether redeploying existing staff or making new hires, skilled leaders are needed to drive the practice and policy changes above, and deploy effective communications strategies to help internal stakeholders navigate the change. The most successful employers in our working group have built cross-functional teams to drive

the skills-first strategy, and invested in the training necessary to equip leaders and hiring managers with tools to succeed.

- **Technology costs.** Building a skills taxonomy - an analysis of an organization's roles and the skills required for each - is a critical upfront investment for a skills-first strategy that often brings technology costs when new software is needed to inventory roles and skills. In addition, building a data infrastructure that will capture incumbent worker skill profiles and map them to potential opportunities is a particularly important technology investment for companies interested in boosting worker reskilling and mobility. AI has the potential to introduce cost savings to this technology infrastructure, but it will take time to understand how it is best deployed.
- **External partnerships.** Building new talent pipelines that include work-based experiences for candidates without degrees requires formal partnerships with training providers. There is a wide range of apprenticeships and other similar models, and the costs associated with them, depending on which elements of the program are managed by the external partner versus managed internally.

For companies investing heavily in upskilling, tuition fees and professional development funds can be an additional variable cost to consider.

The potential tangible benefits of a skills-first approach fall into five main categories:

- **Reduced time to fill talent shortages in high demand roles.** Research from LinkedIn found that talent pools expand by 10X when using a skills-first approach, offering employers a more robust, diverse group of candidates to choose from when seeking talent for hard-to-fill roles.
- **Reduced time to productivity or proficiency among skills-based hires.** Research from OneTen found that 82% of hiring managers report that skills-first hiring results in more motivated candidates, while 79% of hiring managers report experiencing a reduction in mis-hires as a result of implementing a skills-first approach.
- **Increased retention among skills-based hires.** Burning Glass Institute found that at “Skills-Based Hiring Leader firms,” non-degreed workers have a retention rate 10 percentage points higher than their degree-holder colleagues. When turnover can cost up to 100% of an employee’s salary, investing in skills-first approaches to hiring to ensure the right

people are hired for the right roles can yield significant savings.

- **Increased diversity among skills-based hires.** Because requiring a 4-year degree automatically excludes 75% of Black/African American adults and more than 80% of Hispanic/Latinx adults, skills-first hiring can dramatically increase workforce diversity, which we know leads to improved business performance.
- **Increased employee engagement among skills-based hires.** Culture Amp found that 54% of immediate retention is associated with an employee's belief that their employer contributes to their professional development, while, over time, people who feel they have access to the upskilling they need are 21% more engaged than their colleagues.

While not captured in the above analysis, it's also important to note that this shift may bring more intangible benefits to employers, such as positive impacts to their brand reputation, improving their contribution to economic opportunity and mobility in their local communities, and strengthening their workforce agility and future competitiveness.

Understanding *just how much benefit* can be realized from *what level of investment* will be a unique calculation for each company and one that

warrants further documentation and study.

Moreover, the metrics above are grounded in a human resources-focused ROI equation; there are further connections to be drawn between these findings and broader business performance. For example, employee welfare and diversity are shown to contribute to financial performance, while happier employees generally lead to happier customers. Excellent work is being done by firms like JUST Capital and Harvard's Impact Weighted Accounts Project to study these connections more closely, and prior work from the Lumina Foundation has documented the ROI of similar talent initiatives.

It's worth noting that a proven ROI is not necessarily going to be a silver bullet to a successful skills-first transformation. For some companies, having this data in hand might prove a useful accelerant. For others, clearer internal communications and storytelling focused on the human impact could be equally powerful at inviting the full company into the change. The drivers of each company's unique business case for skills-first practices will be different.

Human resources executives can start to gather the above data by understanding what is currently captured in HRIS systems and dashboards, and filling in the gaps. A critical step is aligning internally to create a roadmap for measurement and reporting as data often lives across multiple