



# THE IMPACT OF SKILLS MANAGEMENT ON BUSINESS PERFORMANCE – A WHITE PAPER

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## Executive Summary

As early as 2003, human resource managers at IBM realized that having a proper inventory of employee skills and knowledge could tangibly improve their business and help ensure they stayed ahead of the competition. As a multinational with hundreds of thousands of employees, among other things, IBM needed a way to know who knows what. And although a skills inventory had practical value at the time, IBM was looking beyond that time into potential business trends, and they realized that “advanced information and computing capability” was, and would become ever more vital to the growth and success of companies. Hence they invested heavily in the Workforce Management Initiative.

Besides IBM, many companies, large and small, have also come to realize that employee skills can be better utilized and positioned to help achieve business performance goals if skills are tracked. Initially, some companies tried to track skills by having employees rate themselves on paper. However, it quickly became clear that this method was not going to work since they essentially ended up with a large amount of paper documents that cannot be queried to know which skills are available or lacking, or who has what skill.

Other companies took advantage of spreadsheets which made it possible to produce dynamic skills matrices that, to a good extent, could also be queried. However, although spreadsheets were clearly better than paper based assessments, it also soon became obvious that they cannot be managed when the amount of data increases, and that they lacked many necessary functionalities.

As a result, some companies decided – like IBM – to design unique management systems for this purpose. Many others have taken advantage of commercially available skills management systems. These systems provide a unique set of tools and functions to help personnel managers understand the skills they have in the company, and the skills they need for business success.

Quite some time has passed since the early days of workforce and skills management – enough time to determine if and how skills management has improved businesses, and that is the purpose of this white paper. In the body of this work, I will be analyzing research results and company experiences in order to establish the impact skills management has had on business performance, and the potential it has for preventing and solving future skill problems.

## Bridging the Skills Gap

Modern technology has transformed the way many business activities are performed. As a result, skills and qualifications that were once sufficient have increasingly become less useful, and in some cases, completely passé. This and many other factors have led to the current skills gap.

In an employer survey report published by CEDEFOP (2008), the observation was made that “Skill gaps and skill shortages have significant economic consequences for affected employers. They can be highly damaging to company productivity, turnover and profitability, and certainly to organisational competitiveness. Skill shortages and gaps may prevent employers from filling posts or make employers accept staff with sub-optimal skills. The result will usually be that the organisation adopts sub-optimal working arrangements, and endures production cuts, lost orders, and dissatisfied customers.”

Companies can however mitigate, or even avoid the skills gap problem and its effect on productivity with the right tools and the right data. When employee skills and talents are tracked, it will be easy to see which skills are lacking right now, and using this information, training programs can be positioned to ensure the organization has the skills it needs going forward. Employee skills information can also help organizations *predict future skill needs* and plan for them beforehand.

IBM observed that the system helped them to understand skill needs and link these to training programs to ensure current gaps were filled and future gaps were avoided.

“IBM’s 40,000 learning assets (such as internal and external classes, online instruction, etc.) are tagged to specific skills and capabilities, providing a direct path to skill gap closure.”

Another major way skills management helps prevent skills gap is the effect it has on employee development, which makes it possible for open positions to be filled quite easily from within a company, and this brings us to the next point.

## Effective Employee Development and Succession Planning

Many organizations implement employee development programs in order to grow people who have the skills and experience needed to handle business challenges, and help the business succeed. However, a report by Korn Ferry suggests that employee development programs that are generic and not in tune with each employee’s unique capabilities may not be effective.

On the other hand, a clear awareness of employee skills and capabilities will make it easy to identify their strengths and to build on them. The result of this skills management approach is a clearly defined career path for employees, and a more reliable workforce for the organization.

Managers at IBM were quickly able to see the effect of workforce skills management on employee development. “As a manager, you now have a fact-based way to describe where an employee is versus where they want to go. It adds significant substance to development planning that was not there before. No longer is it vague and informed only by what the manager may know. Development

options now present themselves to you if you're on the system because the Taxonomy translates your assessment and aspirations into gaps that can be addressed by accessing our learning assets."

Skills management also aids proper succession planning. The Korn Ferry report mentioned above also stated that many organizations are unable to fill higher management positions from within, which indicates that the development programs on ground are not quite as effective as they should be.

However, a skills management system provides information that can make employee development and succession planning a clearly defined process. For example, such systems make it easy to identify those who are close to having the necessary skills for promotion to open positions, and any further training they may need.

Additionally, by identifying each employee's unique skills and talents and weaving them into development programs, employees can be groomed for leadership positions right from the start of their careers.

## Getting the Right People into the Right Positions

Each employee is a unique individual with abilities that make them suitable for some roles and projects, and unsuitable for others. Business managers are quite aware that they have to get it right when selecting people for projects or placing them in job roles.

Ramu (2014) made the point that poor placement of employees is detrimental both to the organization and to the individual. He stated that "one of the big disasters in any company would be placing people in wrong roles and making failures of successful people."

However, such disaster can be avoided with proper skills management. Watson (2004) identified increased productivity due to people being better matched to their job roles as one of the advantages of a skills audit. Because skills management systems can be queried to find people who have the right mix of skills needed for projects or open positions, HR and project leaders are able to make decisions that are backed by solid, reliable data.

In designing their system, IBM planned to use it to simplify this matching decision. "IBM Global Business Services (GBS) would use job roles and job role skill sets to deploy their employees to appropriate contracts and positions based on the skills listed in client contracts and project descriptions."

Another problem that skills management addresses is when a company has people with a particular skill, but hires external help when that skill is needed for a job. Speaking about a client he worked with, Andy Andrews of Salary.com said "they were spending too much money on contractors and external resources. They had in-house skills but they did not know where they were in the organization. It was easier for them even if more expensive to go out and hire external resources." For such companies, skills management can help them cut down expenditure, and better utilize and develop their workforce.

## Financial Benefits

The major reason new tools and processes are implemented is to benefit the business financially. The question that then arises is how can workforce skills management improve the finances of a company?

First, skills management can help a business to cut down on unnecessary expenditure. In the example mentioned above, the company that was spending huge amounts on contractors despite having the same talents locally was able to reduce this spending by implementing skills management. With the system in place, they knew the skills that were available in the company, and the people who had those skills. They could thus utilize their people and reduce external contracts. IBM had a similar experience. When they chose to implement the workforce management initiative, “one question on the minds of the HR leaders was how they might show tangible financial and accounting payoff .... There was significant attention to utilization rates, particularly among the full-time employee ranks. One goal of the WMI was to improve those utilization rates. In fact, the rates were improved by the new system. IBM’s calculations showed that the ‘billable utilization rates’ improved 9 percentage points between 2003 and 2008.”

Secondly, skills management improves the quality of your workforce. It is a known fact that an organization can only be as great as the people who work in it. Thus, a well developed, high quality workforce would mean a more productive and financially stable organization.

Thirdly, skills management provides data that supports financially savvy decisions. Projects can be better performed because the people with the right skills are involved, day to day activities run smoothly because people are in the right positions, trainings are better positioned to help employees acquire skills that are critical to business success, etc.

After using the workforce management system for a while, IBM saw that although it had cost millions to implement, “it paid for itself just in the hard savings from better contractor management, not counting the improvement in full-time employee management.”

## Conclusion

This paper has been able to show the impact workforce skills management has had on business performance. The research works and company experiences considered have shown how skills management can improve businesses in four pivotal areas – skills gap closure, employee development and succession planning, getting the right people into the right projects and positions, and improving business finances.

It has been established that skills management can help businesses close current skill gaps and prevent future gaps. And by providing reliable data about each employees capabilities, skills management makes employee development and succession planning a defined, data supported process.

Companies have also experienced considerable financial benefits after implementing skills management, and this is so because skills management helps ensure the right people are in the right

positions, employee skills are fully utilized, and jobs are only contracted out when the needed skills are unavailable in the organization.

Indeed, enough time has passed to assess the impact of workforce skills management on companies, and the evidence indicates that companies that have implemented this initiative have been improved as a result.

If you would like to try out a skills management solution to see how it works and what functions it provides, then I suggest you sign up for Skills DB Pro's 45-day free trial. Skills DB Pro is a unique and powerful skills management solution that is quite simple to setup and use. It provides a complete set of tools to help you wrap your head around your workforce' skills, and optimize your people.

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