

Skills-first HR: a key enabler of future global strategy

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ABSTRACT

Skills-first HR is an important emerging option for managing people in the volatile and challenging environment currently faced by organisations globally. Benefits of skills-first HR include greater internal mobility of employees, meaning that more vacancies are filled by current employees, who are generally more productive and less costly to recruit than external hires. We present a business case supporting the adoption of skills-first HR as a key enabler of future global strategy. Drawing on our extensive research we identify four essential building blocks for implementing skills-first HR and highlight critical success factors for enabling this change. While implementation challenges abound, the potential rewards for those successfully making this transition appear considerable in terms of sustainability of employment, empowerment of employees and even the viability of many organisations.

Organisations globally are struggling to develop the employee capabilities required to adapt and change at the pace necessitated by the current volatile and unpredictable external environment. Illustratively, PWC's 2024 annual CEO pulse survey found that 45 % of CEOs globally felt that their business would not be viable in 10 years if it continued its current path (up from 40 % a year earlier). The lack of relevant skills in the workforce is one of the biggest barriers to reinventing their organizations identified by these CEOs. Policy makers are equally concerned. Labour productivity data from the US Bureau of Labour Statistics, Eurostat and the UK Office of National Statistics all point to similar patterns across Western economies. Labour productivity growth has slowed significantly post-Pandemic, with worrying implications for medium term growth and prosperity if this trend continues. While many factors affect labour productivity, the availability of skills is a critical challenge currently. Overall, there is compelling evidence that the capability to efficiently identify, source and deploy skills will be essential for organisational prosperity and economic performance in the short and medium term.

The skills imperative is increasingly recognized by C-suite executives, and this positions human resource (HR) professionals at the heart of organisational strategy. It also calls into question whether current HR models are fit for purpose. Ravin Jesuthasan and John Boudreau recently highlighted the shortcomings of traditional job-based HR models, which have been a cornerstone of organisational design since the industrial revolution. The limitations of job-based HR practices have

long been recognised but have become particularly apparent in the context of the increasing need for organisational agility in response to the pace of change in the external environment.

We propose that organisations seeking enhanced strategic agility should consider a shift towards skills-first HR. A skills-first approach focuses on the individual skills required to complete key work projects and aims to break down traditional boundaries exemplified by restrictive job hierarchies. Matching skills to demand across the organisation is thus key. We define skills-first HR as:

An approach to enabling an organisation's strategy that positions skills at the centre of HR strategy. It offers a more agile approach to matching worker skills with available and potential opportunities. Skills-first HR values skills over education and experience, while data and technology enable mapping of current employee skills profiles to emerging skill demands.

Table 1 Highlights some key differences between traditional and skills-first HR.

Skills-first HR offers significant potential benefits for both organisations and employees.

From the organisational perspective, it is well-established that internal hires typically outperform external hires and are paid less too, reinforcing the value of internal mobility. Skills-first HR increases the proportion of roles filled through internal redeployment, reducing the risks posed by tightening global talent markets. From a global talent

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Table 1
Comparing traditional and skills-first HR.

	Traditional HR	Skills-first HR
Core unit of analysis	Job description	Employee skills profile (skills passport)
Criteria for selection/hiring	Knowledge (education and qualifications); abilities (experience), personality	Skills (developed through practice, education and training)
Job Design	Hierarchy, job families	Broad, open (guilds)
Mobility/careers	Generally through a job hierarchy structure, upward career trajectory	Fluid, aligned with career aspirations and work demand
Employee agency/career management	Low to medium	Medium to high
Talent planning	Critical roles, succession planning	Analysis of skills data using AI to understand current and changing availability and demand
Filling talent gaps	Primarily external hiring, some development	Primarily internal, redeployment, development, some external hiring

that comes with job deconstruction; and balancing detachment and inclusion for workers in the absence of traditional job structures and employment relationships.

We recognize that skills-first HR is a relatively nascent HR topic and that few organizations will be ready to fully embrace this shift. Indeed, we do not necessarily advocate a full shift to skills-first HR but rather see it as one potential strategy for HR leaders to consider in responding to a very dynamic global business context. Illustratively, a recent Deloitte study found that while 98 percent of business executives planned on moving towards become skills-first organisations, fewer than one in five were adopting skills-first approaches across their organisations in a clear and scalable way. Our framework is developed based on research funded by Skillnet Ireland and the Learning and Development Skillnet focused on how best to incorporate skills-first HR into organisational strategy and operations. We conducted 38 interviews in 24 firms,¹ based in Germany, Ireland, Sweden, Switzerland, and the USA and operating in sectors as diverse as aviation, agribusiness, tech, manufacturing and professional services. We also surveyed over 150 HR and L&D professionals. This paper summarises key findings from the report we published from that research.

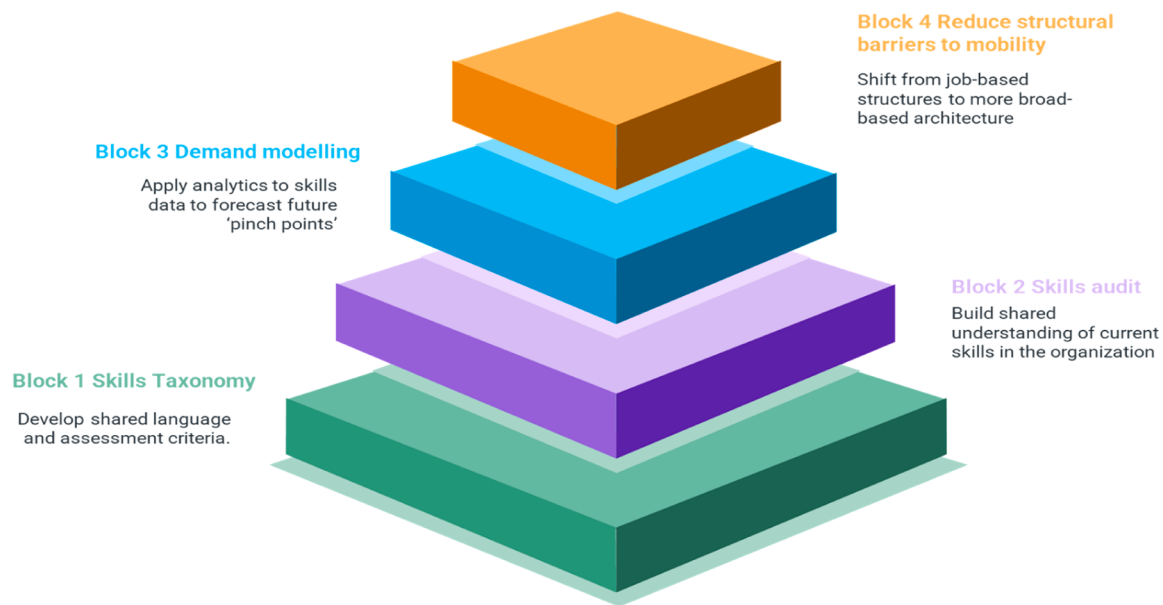


Fig. 1. Four building blocks of skills-first HR.

management perspective, internal talent marketplaces play a key role in enabling more fluid deployment of talent including providing opportunities to engage in projects or “gigs” across organizations and geographies; this strategic agility can yield competitive advantage as the pace of change and levels of uncertainty increase. While skills-first HR offers many potential benefits for organisations, it is by no means a ‘quick win’, and in this paper we report on ways that the multinational companies (MNCs) in our research are tackling the implementation challenges involved in shifting to skills-first HR.

For employees, skills-first HR has the potential to empower them via timely, high-quality information that can identify internal career opportunities and the best ways to pursue them. However, skills-first HR also creates potential pitfalls for employees who are already concerned about role ambiguity and workload stretching. As one of us (Collings) recently argued in research with Philip Rogiers, when considered through the lens of worker experience any such move presents paradoxes that must be reconciled to enable sustainable change in HR models. Key challenges include addressing how workers can simultaneously find growth and stability; balancing worker autonomy and managerial control as managers often resist the employee autonomy

In the remainder of this article, we summarise these findings, first by presenting four key building blocks of skills-first HR while highlighting some of the benefits and challenges faced by firms. We then highlight critical success factors identified in our research that can illuminate a practical pathway for practitioners not only in avoiding some pitfalls on their journey to implementing skills-first HR, but in taking early advantage of the opportunities it offers.

Four building blocks of skills-first HR

Our research identified four key building blocks that constitute a roadmap for any MNC beginning the journey towards skills-first HR. We present these in the sequence in which, for practical reasons outlined below, we suggest they should ideally be tackled, while recognising that not all organisations will start their journey from the same point. (Fig. 1)

¹ Of the 24 firms, 23 were MNCs and the findings reported here draw on these firms.

Building block 1 - Skills taxonomy – a shared language and assessment criteria

An essential foundation for any MNC seeking to move to skills-first HR is agreeing a shared language and framework for describing and mapping skills across the organisation. The term skills taxonomy describes a classification system for all the skills – interpersonal and technical – that employees in an organisation may need. A skills taxonomy typically includes definitions of each skill, as well as descriptors that can be used in calibrating an employee's skill level. A shared language for describing skills and skill levels is essential to realise the potential benefits of a skills-first approach by enabling internal mobility and greater visibility of internal career opportunities. The logic is simple; for internal mobility to work across organisational and geographic boundaries, any given skills assessment must be accepted as legitimate across all parts of an MNC. For example, if an employee in Singapore (a high context culture) is assessed as having “advanced interpersonal communication skills”, how does that compare to a similar assessment in other geographies such as the US (a low context culture) and should the assessment include the individual's ability to adapt their communication skills for the cultural context in which they are to be deployed to be truly useful?

While the attractions may be obvious, our research suggests that an agreed skills taxonomy can be challenging to achieve in practice. We found that the introduction of skills taxonomies can generate significant resistance across the organisational hierarchy. We identified tensions amongst senior management teams (SMTs) in some MNCs around the principal of introducing a single taxonomy, highlighting the cultural challenges involved in gaining widespread agreement on a taxonomy. Some perceived that the taxonomy was an attempt to centralise power over key areas of the organisation by reducing regional or functional autonomy. Others worried that non-expert HR professionals were imposing standards on experts in areas (such as technology) that they didn't understand. Those organizations that better navigated this resistance framed their skills projects as a strategic business programme rather than a HR initiative. Where the SMT not only recognises the need for skills-first HR, but publicly owns the challenge of implementing it, the risks of resistance of the types described here can be significantly reduced.

A further key consideration for any organisation considering introducing a skills taxonomy is understanding the trade-offs between building a bespoke organisation-specific taxonomy versus sourcing a skills taxonomy from the market. Building a taxonomy can engage a wide range of stakeholders in the process who may be committed to the outcome. However, developing a bespoke skills taxonomy is a major undertaking requiring substantial time and resource investment. Ensuring the taxonomy remains updated and captures the emergence of new skills must also be considered. Alternatively, there are some relatively advanced and user-friendly taxonomies available in the marketplace offering viable options – some free of charge. The external sourcing of skills taxonomies was far more common among the MNCs in our study. Key factors considered in evaluating this decision included timeliness, cost and availability of a relevant taxonomy in the marketplace

Building block 2- Skills audit – a shared understanding of current skills in the organization

A recent Redthread research report defines skills validation as “Confirming that someone has a skill, and often the extent to which they have it”. The process of identifying what skills are available across the organisation is typically referred to as a skills audit or a skills inventory. An effective skills audit can create value for employees and management

alike. For an individual employee, a validated skills profile can support them in comparing their profile against areas of growing opportunity in the organisation, or to identify ‘adjacent’ roles for which they already have a significant proportion of required skills. This enables employees to target their skills development to enhance their fit with those opportunities, thereby taking ownership of their own internal mobility. Reflecting this, one MNC in our study refers to their employees' skills profiles as their ‘skills passport’.

For organizations, aggregating such individual skills profiles, and applying increasingly sophisticated analytics techniques can generate dynamic heat maps of skills gaps and surpluses in the organisation which are a key input to strategic planning. Such analytics are only as effective as the data on which they are based however, and skills audits have been identified as a roadblock for organisations seeking to perfect data quality. Indeed, a 2022 McKinsey report identified validating skills as among the top challenges in implementing skills-first HR practices. Redthread's analysis suggests seven methods for validating skills, ranging from self-assessment to inference from work data. Their survey results suggest that many organisations combine methods, for example performance feedback combined with inference from work data, to validate key skills. Our research supports the view that organisations at the early stages of their skills journey rely primarily on self-assessment by employees for initial skills validation, sometimes combined with input from managers through existing processes such as performance feedback conversations. Important considerations in deciding on how to validate skills include the type of skill being assessed and the criticality of the skill to business performance.

Some respondents reported that achieving a consensus across the MNC on how to manage skills validation proved difficult and time consuming, with concerns about data quality, and data protection in the EU, to the fore. This is an area where we argue that perfection can be the enemy of the good, and we emphasise the importance of building good enough data to get the skills project up and running.

Building block 3 – Demand modelling

High quality and timely internal skills data and analytics can significantly reduce dependence on external labour markets to achieve strategic objectives. While skills audits focus on supply of skills internally, skills-first HR also requires an understanding of demand trends. Demand analysis can inform the identification of skills ‘pinch points’ over time and provide insights into how to optimise the blend of development, redeployment, and external hiring used to fill them.

We saw a range of skills-first actions under this heading, ranging from strategic workforce planning to externally sourced expert analyses of geographic patterns of demand and supply of key skills in global labour markets. We saw evidence that the sophistication of skills trends analysis is increasing dramatically. For example, one insurance organisation has invested significantly in developing evidence-based predictions about skills trends in their workforce. They partnered with a specialist vendor, and the resulting analysis became a key input to their talent strategy. While the analysis highlighted some gaps around analytics and technology that they would have already been aware of, the analysis also highlighted several other areas in which skills gaps would emerge if action was not taken. This analysis identified 15 % of jobs that would become redundant owing to technological advances and a further 50 % that would be disrupted over the coming five to ten years but also where those roles were located.

External trend data was used to support skills-first HR by MNCs in our study. For example, tracking sectoral trends in skills requirements through job advertisements provided predictive indicators of skills that were emerging as particularly relevant within sectors. This facilitated organizations in identifying and then developing relevant emerging skills to prepare for emerging demand. We also saw external skills data being used to identify skills availability globally. Through these analyses MNCs could identify cities or regions where critical skills would be

available and also evaluate labour costs in these areas. These data were central to decision making in terms of where particular units or teams should be located or indeed in identifying regions to target for employees who could work virtually for the firm. These examples illustrate that understanding internal data on skills and capabilities is only part of the requirement for skills-first HR. As organisations develop higher levels of sophistication in data insights around skills, such external data becomes an increasingly important input to strategic planning.

Building block 4 - Reduce structural barriers to mobility

Traditional job-based architectures where careers unfold within geographic and functional divisions, with progression typically vertically through those hierarchies, are at odds with the goal of enhanced mobility and agile redeployment of skills to where they are most needed by the wider organisation. Thus traditional job architectures can be considered a potential roadblock in the transition to skills-first HR. To realise the benefits of investing in skills-first HR practices, MNCs need to review their structures and find ways to reduce barriers to mobility by broadening their organisation's architecture.

Significant changes in job design are already evident. Illustratively, a 2022 Deloitte report points to widespread changes in how jobs are designed. 79 % of HR respondents to that research reported the expansion of roles to make them bigger and more integrated, often by embedding adjacent job functions. 43 % of respondents reported reducing the number of job levels and layers, and 34 % reported a reduction in the number of job types. For example, organizations are using broader job titles such as "engineer" for all engineers in the organization. Specific roles and responsibilities are reinforced via regular communications between employees and line managers, which is the common practice in many organisations already. However, a key change is that the use of unwieldy job descriptions containing outdated information is greatly reduced if not eliminated.

Complex job descriptions can become quickly outdated, can result in job demarcation, and are often a cumbersome basis for deploying/redeploying skills at the pace demanded by rapidly changing markets, yet they remain widely used. Such shortcomings have led to predictions of 'the end of the job' as a key building block of organisations.

Mastercard is an organization that has developed a more broad-based global architecture as a key component of their wider sustainability strategy. They report that all roles in their organisation are attached to one of just 11 'Guilds' (for 33,000 employees) each of which is supported by a Learning Academy. The goal is to provide sustainable career opportunities for employees by enabling career mobility within and between these Guilds. While the potential benefits of the shift to broad-based architectures may be clear, we also saw challenges for those seeking to make such a shift. The cultural and behavioural challenges of gaining managerial and employee support for any change in organisation structures are well documented. For senior and middle management stakeholders invested in the status quo, a move towards more broad-based architecture can be viewed as a threat rather than an opportunity, as the number of managerial roles and layers in the hierarchy are reduced. For employees, how to detach themselves from their jobs while continuing to be and feel included in their organization is a critical consideration. Illustratively, one global pharmaceutical organisation in our study described how, while they recognised the desirability of broader structures from a skills and mobility perspective, they had to balance this against the very rigorous legal and compliance standards in their industry and across various geographies. This example highlights the continued importance of job descriptions and job hierarchies as standard operating procedures in some industries and professions.

Implementing the building blocks

There is no doubt that a shift toward skills-first HR is a major transformational change programme. For organisations already

struggling to cope with the pace of change driven by technology, changes in work practices, and much more, the prospect of undertaking a further disruptive change programme is likely to appear unattractive at best. We argue that a move towards skills-first HR does not have to be organisation-wide or disruptive, and identify significant potential benefits in tackling this transition in bite-sized chunks. In the remainder of this article, we will shift the lens from concept to implementation, sharing insights on critical success factors that will be of value to any organisation seeking to devise a practical plan for moving towards skills-first HR.

We should note that the concept of skills-first HR is by no means new; researchers in the early 1990s advocated a skills-first approach to HR, predicting widespread adoption of this approach, which ultimately did not happen. We identify several key contextual factors that limited skills-first adoption in the past but are now much more favourable. These factors include a more dynamic and unpredictable global business environment, greatly increasing the competitive advantages offered by strategic agility; global labour markets in which demand for talent will continue to exceed supply for the foreseeable future; the pace of change of skills in organisations with a falling half-life of skills in critical areas; and major advances in technological and analytical capabilities, making the tools required for skills-first HR accessible to a much wider range of organisations. Skills-first HR may well now be a viable option for many MNCs.

Critical success factors in implementing skills-first HR

We identify two broad factors, mastering change and HR alignment, that are critical for MNCs in reducing resistance to the shift toward skills-first HR and ensuring the sustainable implementation of skills-first HR.

Mastering change

Three key areas of change management emerged as critical in implementing skills-first HR— tackling this challenge in bite-sized chunks, positioning skills-first as a business initiative, and enabling cross-functional collaboration.

1. Tackle skills-first HR in bite-sized chunks

The oft-quoted advice to organisational strategists to "eat the elephant one bite at a time" was critical to tackling the implementation of skills-first HR. Those who reported the most progress in their implementation journeys strongly advocated piloting skills-first HR in critical areas of the business, which offers several potential benefits to the change manager. First, a pilot can be used to refine tools and processes such as skills taxonomies and skills inventories based on stakeholder feedback – a key step in adapting externally sourced content and processes for specific organisational needs. A successful pilot can also build positive momentum for wider organisational adoption of skills-first HR by developing in-house use cases which also support the business case for investment in skills-first HR. In terms of identifying where best to conduct such pilots, these were often areas which are critical to the business strategy and/or with the potential for generating significant additional value, including but not limited to those currently facing acute shortages of key skills.

2. Position skills-first as a business initiative

We discussed several ways in which the implementation of skills-first HR might be perceived by key stakeholders as a threat to their interests or position above. For example, moves to develop a single organisational skills taxonomy could be perceived by regional or functional leaders as reducing local autonomy, while broader organisational architectures may be perceived as a potential threat by middle managers. While no change process will eliminate all resistance, positioning skills-first HR as a strategic business imperative rather than a HR initiative is a key means of enhancing

stakeholder buy in. This suggests that sustainable implementation requires positioning skills-first HR as a solution to a major strategic challenge, owned and led by the CEO and the senior leadership team. While such positioning is easier to advocate than achieve, the increasing level of awareness at C-suite level of the centrality of skills to organisational survival suggests that HR may be pushing on an open door in this respect. Combining this focus with the momentum from successful pilots of skills-first HR practices can significantly enhance the probability of sustainable implementation of skills-first HR across the organisation.

3. Enable and support cross functional collaboration

Building on the theme of ensuring that skills-first HR is positioned as a business solution rather than HR initiative, we also identified the importance of cross-functional collaboration or communities of practice. A HR leader from a MNC in the insurance sector in our study described how their skills-first transition benefitted from a 'HR Data war room' in which analytics experts from the actuarial team of the business worked with the HR team to add value through wider people data, including skills data. This type of cross-functional collaboration is very much in the spirit of skills-first working. Indeed, Spotify has embraced "communities of practice" which have proven to be very beneficial impacts especially in supporting culture change there. Our research suggests that communities of practice should be actively encouraged as a feature of the journey to skills-first working.

HR functional alignment

While positioning skills-first HR as a business initiative may be key to success, the reality is that the HR team must be core to any implementation plan. While the scale and pace at which the HR function will need to change will be linked to wider implementation of skills-first HR, we identified three ways, data mastery/skills, temporal orientation of the HR team, and HR function structure and roles, in which adaptation will be required of the HR function to fully support the transition to skills-first HR.

1. Data mastery in the HR team

Several of our respondents referenced the fact that their HR teams were ill-prepared for the shift to data-based HR required to enable skills-first HR. HR teams face two interrelated challenges when it comes to data and skills. First, having the data to understand the skills of employees, and second, ensuring that the HR team has the skills to use that data to support decision making by employees, HR, and the wider business. The building blocks identified above identify the range of HR skills and expertise required, many of which were not core to supporting traditional, job based HR processes. In this sense the HR function typifies the wider organisational challenge, with the advantage that the types of future skills required by HR are relatively clear. HR leaders should model the behaviours expected of the wider organisation leadership in managing the re-skilling of their own workforce to meet these changing needs, and in doing so ensure the sustainability of their team's positions into the future.

2. Temporal orientation of the HR team

A skills-first approach to HR also requires a shift in the temporal orientation of HR teams. Take the example of a traditional approach to identifying and addressing skills needs in a business. Typically, the business comes to the L&D team with an identified need and requests a programme or solution to address that need. This is a reactive and relatively cumbersome approach to skills development. A skills-first approach requires a more proactive approach in which the HR team is embedded in the business. The point of departure for identifying skills needs is the organisational strategy, by developing a clear shared understanding between HR and the business about the skills required to deliver on that strategy. This proactive approach aims to

put organisational capabilities on the front foot and proactively build skills to enable achievement of the strategic vision.

3. HR function structure and roles

A key challenge for many organisations in pivoting to this skills-first approach is that people processes, and the structure of their HR organisation, is at odds with that ambition. Most HR functions are set up in a relatively 'siloed' way, where centres of excellence lead key areas of HR practice, such as talent attraction, learning and development, or reward. In contrast, the skills value chain should cut across these traditional HR silos. For HR leaders this highlights the importance of reflecting on the structure and reporting relationships in their HR organisation, and identifying potential roadblocks to embracing skills-first approaches to HR and tackling those directly presents a further opportunity to model change leadership for the wider organisation.

Conclusion

We introduce an alternative approach to HR, skills-first HR, and our research supports the opportunity for MNCs in deploying skills-first approaches. We identify four critical building blocks for implementing skills-first HR in any organisation and highlight critical success factors for implementing this change. We identify skills-first HR as an important emerging alternative for managing people in the volatile and challenging environment currently faced by many organisations. Our findings offer a compelling business case for organisations to begin their journey to skills-first, if they have not already done so, and for those who have already begun, to persevere despite the many obstacles they must overcome. The potential rewards for those successfully making this transition appear considerable in terms of sustainability of employment, empowerment of employees and even the viability of many organisations.

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Declaration of Competing Interest

No conflicts of interest to declare.