



WHITE PAPER

How to Combat the Talent Crisis



Executive Summary

Today's economy demands a highly skilled workforce that is able to pivot quickly and adapt to the continually changing marketplace. Unfortunately, there is a massive shortage of talent to fulfill today's requirements—to characterize this shortage as anything less than a crisis would be an understatement.

Many companies are frivolously throwing technology at the talent crisis without developing their current roster of employees. Organizations are scrambling and can no longer depend on traditional talent management practices to grow and retain employees. This white paper covers the scope of the talent crisis, including the industries and regions affected; its causes; and steps HR leaders can take to combat it.

A Talent Crisis with a Big Impact

Companies are feeling the pressure of a 50-year low unemployment rate and scrambling to fill job vacancies.¹ The pervasive assumption, however, is that normal cycles of the labor market will eventually ease the pressure. Yet economists say otherwise, predicting increasing labor shortages globally over the next decade. Companies relying on short-term fixes—like luring workers with higher salaries or turning to freelancers to fill gaps—will soon run low on resources.

The prevailing misconception among corporate leadership is that technology will soon solve the problem. The advent of the Fourth Industrial revolution increases the need for workers who can harness technology to drive innovation. This means that HR's strategic leadership is pivotal to ensuring business survival.

The talent crisis is here, and it will get worse.

A recent Korn Ferry study estimates there will be a global talent shortage of 85.2 million skilled workers by 2030. This gap will result in about \$8.5 trillion of unrealized annual revenue, an amount equivalent to the combined GDP of Japan and Germany. "A major crisis is looming over organizations and economies throughout the world," the report warns.² Recent record-low unemployment in the U.S. is just the start of a decades long talent drought that companies will face nearly worldwide.

¹ "Job Growth Underscores Economy's Vigor; Unemployment at Half-Century Low." Nelson D. Schwartz, *The New York Times*, May 3, 2019.

² "The Global Talent Crunch." Korn Ferry, 2018.

What is Causing the Talent Crisis?

Several factors are contributing to the impending crisis: changes in demographics, technology and the very nature of work are coalescing to produce an “HR Perfect Storm.” The digital economy has triggered a spike in demand for highly skilled labor while lowering the demand for low-skilled workers. The World Economic Forum’s Future of Jobs Report warns that more than half of the global workforce will need significant reskilling by 2023.³

None of this is news, but the scale of it is shocking, and most business leaders do not realize the immensity and compounding nature of it.

Changes in Demographics

The U.S. is on the precipice of a dire talent shortage, which is further exacerbated by an ageing population. Baby Boomers—who comprised the largest generation in the country until 2019—have been retiring at the rate of 10,000 people every day for the past nine years and will continue retiring at that rate for the next decade.⁴ The labor deficit will strike nearly all countries by 2030 and will be equivalent to 11% of the world’s workforce.⁵ Countries facing acute labor shortages between 2020 and 2030 include Brazil, Japan, and Indonesia, and significant deficits will affect the U.S. and China.

The U.S., however, will be the chief victim of the global talent shortage, in terms of economic impact. According to a 2019 SHRM study, there are currently only 6.3 million job seekers to fill 7 million job openings and it’s not simply a lack of candidates that’s the problem. 75% of HR professionals who report difficulty recruiting say there is a shortage of skills among the available candidates.⁶ Without a skilled talent pool, all companies will struggle to meet growth goals.

³ “The Future of Jobs Report 2018.” World Economic Forum, September 17, 2018.

⁴ “Baby Boomers Retire.” Russel Heimlich, Pew Research Center, December 29, 2010.

⁵ “The Global Talent Crunch.” Korn Ferry, 2018.

⁶ “The Global Skills Shortage.” SHRM, 2019.

Changes in Technology

At the root of the global talent shortage is a fundamental change in the way work is done, driven by changes in technology. Technology will automate some low-skilled jobs and render others obsolete. Entire industries may meet their demise in the face of tech-fueled competition. A case in point is the downfall of the traditional brick and mortar department store. As technology increases the availability and economic efficiency of cloud-based retailers such as Amazon, companies like Macy's and Sears find themselves obsolete and unable to compete with the modernized retail industry.

The manual labor that powered the industrial age cannot drive the digital economy. The labor needed to propel business performance in the digital age is knowledge-based. Companies require employees who can leverage new technologies to increase efficiency, innovate products and empower agile teams.

Key Industries Impacted by the Crisis

In particular, the talent shortage negatively impacts three key industries: finance, technology and manufacturing. Over the next decade, these sectors will experience a massive loss of highly skilled workers.

Finance

The talent shortage will hit the financial sector most severely. According to a study by PwC, the limited availability of skilled workers is a major concern of 72% of global CEOs in the financial sector, landing ahead of threats like shifting consumer behavior and competition from market newcomers.⁷

⁷ "Ahead of the curve: confronting the big talent challenges in financial services." PricewaterhouseCoopers, 2017.

Technology

Technology supports and propels all industries, but the technology sector itself is facing major skill shortages. Every year since 2010, the tech industry has generated 200,000 jobs in the U.S. alone.⁸ Though the growth of the tech industry seems inevitable, the demand for skilled tech labor has outstripped the supply. This lack of tech talent may soon stymie technology's rocket-ship growth.

Manufacturing

The manufacturing industry is a core component of developed nations' economies and crucial to the viability of developing markets, which depend on it to create the tools and products needed in other sectors.

A 2018 study by Deloitte and The Manufacturing Institute estimates that 2.4 million manufacturing jobs will go unfilled over the next decade—equivalent to about \$2.5 trillion in unrealized revenue.⁹

The Awareness Gap

The reality of the crisis is startling, but unfortunately, many leaders don't understand its severity. As the Korn Ferry report warns, this is a "crisis that will blow up, not blow over." Though the study found that the talent shortage will more than quadruple between 2020 and 2030, executives believe that labor shortages are cyclical instead of systemic: 66% of leaders agree there will be a deficit of highly skilled talent by 2020, but only 52% predict there will be a shortage by 2030.¹⁰

In the U.S., where businesses are feeling the crush of the talent shortage already, there's a higher awareness than in other regions: 79% of executives in the U.S. believe there will be a shortage of highly skilled talent by 2020, while only 47% of U.K. executives predict a similar scarcity. The awareness gap could cause further problems in countries like China and Russia, where there will be a delay before they feel the brunt of the talent shortage.

⁸ "U.S. Technology Sector Added Nearly 200,000 Jobs In 2017." *Business Facilities*, March 27, 2018.

⁹ "2018 Deloitte and The Manufacturing Institute skills gap and future work study." *Deloitte, The Manufacturing Institute*, 2018.

¹⁰ "The Talent Shift." *Korn Ferry*, 2018.

Most business leaders acknowledge that their future success depends on increasing the proportion of highly skilled employees in their workforce, but only half of them believe there will be a lack of this talent, and a third don't think that talent shortages will limit their growth anyway.

An apparent lack of preparation evinces this lack of alarm: a recent study by Axonify found only 41% of employees say their employers are training them for the future of work.¹¹

Clearly, there's a glaring gap between the future as perceived by executives and the predicted scale of the looming global talent crisis. Heading for a perfect storm, many global business leaders are not prepared for the dire straits awaiting them.

Technology Won't Solve the Talent Crisis

Technology may soften the severity of the crisis—and, ironically, may have indirectly catalyzed the crisis—but it will not solve it. Unfortunately, even executives who are aware of the impending crisis seem to think that technology will save them.

In a recent CEO survey conducted by Gartner, 47% of respondents mentioned that investing in technology is one of the top two ways to increase productivity, while only 18% of CEOs named talent management as a priority.¹² A Korn Ferry survey similarly found that 67% of CEOs believe technology will be their primary value producer in the future of work—not *people*.¹³

¹¹ "Axonify Releases Third Annual State of Frontline Workplace Training Study." Axonify, August 22, 2019.

¹² "Gartner Survey Reveals That CEO Priorities Are Slowly Shifting to Meet Rising Growth Challenges." Katie Costello, Gartner, 2019.

¹³ "The Global Talent Crunch." Korn Ferry, 2018.

Undoubtedly, technology has enabled immense increases in productivity. Just look at SAM 100, the Semi-Automated Mason. While a human mason can lay an average of 60 to 75 bricks per hour, the SAM 100 can lay 300 to 400 bricks per hour.¹⁴ This \$500,000 brick laying machine can drastically increase the productivity of a commercial construction company. However, unless the company's crew knows how to operate the robot, they can't take advantage of the tool.

Leveraging new technologies appropriately requires workers who are trained to use it. Companies need employees who excel at critical thinking, too—in addition to those well-versed in AI and machine learning.

Automation creates human work that is interpretive, service-oriented and involves a high-degree of problem solving. It also demands workers to be good communicators and listeners, as well as workers who are empathetic and collaborative. These “higher-level skills are not fixed tasks like traditional jobs, so they are forcing organizations to create more flexible and evolving, less rigidly defined positions and roles.”¹⁵

A SumTotal/HR.com study similarly admonished against the reliance on technology to bail companies out: organizations that named technology and automation as most important to digital transformation at their companies—and downplayed the people-centric skills of critical thinking and innovation—were more likely to already be lagging behind in the process of digital transformation.¹⁶

As technology continues to transform industries and the very nature of work, organizations must not emphasize technology itself as the panacea for their labor woes at the expense of developing key competencies in their people.

¹⁴ “SAM is a construction robot that can lay bricks 6 times faster than you can.” Luke Dormehl, *Digital Trends*, March 29, 2017.

¹⁵ “From jobs to superjobs.” Erica Volini, Indranil Roy, Jeff Schwartz, *Deloitte*, April 11, 2019.

¹⁶ “The Role of Learning in Digital Transformation.” *HR.com, SumTotal*, November 2018.

What Can Companies Do to Combat the Crisis?

Organizations cannot recruit their way out of this crisis. The talent pool is shrinking, recruiting is expensive and salaries will surge as companies compete for labor.

Before companies start calling for marketing campaigns to increase birth rates—for example Denmark and Japan—there's an important distinction here. The imminent global talent crisis is a shortage of skills, not a shortage of people; this is the silver lining. Rather than increasing the population of the workforce itself or continuing to look externally for help from freelancers or consultants, the solution is simpler. Organizations must develop the talent they need from within their ranks.

Put Talent Strategy at the Center of Your Business Plan

Talent strategy needs to be at the core of every business plan and retention is the keystone of talent strategy. Retention is less static than the word itself suggests. It's not about keeping employees where they are; it's about catalyzing their career mobility *within* the organization. The company grows as a result of employee development, at a fraction of the price of hiring externally. More broadly, this positively impacts employee engagement, which in turn lowers turnover. To effect internal talent development, companies first must adopt an employee-centric business ethos.

4 Steps to Combat the Talent Crisis



1. Align HR with the CEO and CFO

HR cannot be a solely operational department, separated from strategic initiatives. HR must actively be involved with the C-suite and assert the need for investment in employee development. Talent strategy should fuel—and inform—overall company goals.



2. Start Succession Planning

HR needs to have a view of who's next—not only for executive roles but also for mid-level roles throughout the organization. The same technology that can enable succession planning can power career planning for employees, increasing engagement and giving them a clear future at the organization.



3. Hire for Potential

Start with the raw materials and build the talent the organization needs. It is important to remember—no one candidate will have all of the skills—companies should be hiring for aptitude. The right people can be trained and upskilled. Furthermore, streamlining manual recruitment processes with automated technology provides organizations with the ability to hire valuable talent, fast.



4. Reward with Learning Opportunities—Not Just Salaries

Relying on salary increases and bonuses to attract and retain top talent is unsustainable. Many companies have started offering perks like remote or flexible work. Talent development programs, however, have the added benefit of appealing to workers who highly value such learning opportunities: top performers.

Become a Talent Incubator

Organizations seeking to thrive amidst the labor shortage should aim to become Talent Incubators. While internally cultivating the talent they need, they will organically build attractive employer brands, compounding the effect of their learning investment. This leads to higher employee engagement and consequently, a reduction in turnover.

2 Key Goals of a Talent Development Initiative



1. Instill Digital Mindsets in All Employees

Cultivating digital mindsets in employees is essential to capitalizing on opportunities and catalyzing innovation. It may be the opportunity to make a process more efficient, or it may be the chance to introduce a game-changing product to the market.

To thrive in the digital age, businesses must innovate these timesavers, as well as gamechangers. Gamechangers are the flashy products that elicit admiration and elevate the top line; timesavers are the optimizations that happen behind the scenes but have high impact on the bottom line. Digital skillsets and digital mindsets are needed to come up with the next iPhone (gamechanger), as well as the digital equivalent of the Henry Ford assembly line (timesaver).

Organizations need to review existing business processes to look for inefficiencies that could be improved through technology. Not all processes will necessarily be candidates, however, identifying existing processes will increase the success of any platform upgrades or additions. Technology will reduce or remove steps, but the only way to know is to assess the current state.

Prime your workforce to recognize opportunities and leverage new technologies. This is how innovation happens.



2. **Build Effective Managers:**

To attract and retain top talent, companies need better managers. As the talent drought intensifies, more individual contributors will be promoted without managerial experience or the skills to lead. When companies promote workers, who have little leadership know-how—though they may have been talented individual contributors—their ineffective management often drives employees away.

Effective managers are those who act as coaches and mentors to their employees, not like distant authoritarians. Millennials—the largest sect of the global workforce—demands frequent feedback and meaningful interaction with their manager. Coaching/mentorship gives organizations a competitive edge as it promotes creativity, increases productivity and boosts resilience. Successful organizations recognize that coaching digs deeper. It connects an employee to their boss so that they can personally achieve career goals and reach their peak performance.

In the current labor market, employees will no longer suffer poor management or toxic work environments. Developing emotionally intelligent leaders (who can lead digital teams) is now essential to retention and should be central to an organization's talent strategy.

There is no quick fix to the talent crisis. Retraining employees can't be a one-off effort; it must be a continuous, sustained endeavor. If companies construct the framework now, they can develop the programs needed to train and retrain employees at scale—to remold workers into the highly-skilled workers they require. Employees demand this—development is a key incentive. Without adequate development opportunities, many will move to an employer that will provide a chance for growth.

As organizations stare down the talent crisis, they must realize that it's not a passing storm—and start building the infrastructure to grow talent from within.

How SumTotal Can Help

SumTotal provides a holistic, end to end, talent development solution that includes onboarding, learning management and talent management. We believe that learning is critical to effective talent development—from structured to self-directed learning & development—to continuous onboarding, career pathing, performance and succession planning.

Innovative capabilities come together with a scalable, modern and personalized learning experience, to boost your organization's ability to deliver learning in a way that engages learners, grows capabilities and supports career development. To solve this, SumTotal delivers a learning and talent solution that supports the employee lifecycle.

Leading organizations are succeeding by pairing learning and development programs with comprehensive human capital management to understand the true impact of learning on talent. SumTotal is partnering with progressive organizations at the cutting edge of these changes. By understanding global trends in talent development and identifying best practices for the future, SumTotal can help drive the success of talent agility in your organization.

Attract, Develop, Engage & Retain





Learn how SumTotal can help you attract, develop, engage and retain today's multi-generational workforce.

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About SumTotal

SumTotal Systems believes that learning-centered talent development is the heart of HR and HR Technology, and that building a culture of learning is critical to business growth and sustainability. SumTotal provides a unified Talent Development suite that delivers measurable impact across the entire employee lifecycle. Built on award-winning technology that powers talent acquisition, learning management and talent management, SumTotal solutions are used by companies of all sizes and industries, including airlines, financial services, healthcare, manufacturing and pharmaceuticals. SumTotal is committed to continuous innovation with a focus on consumer-grade user experience and robust mobile capabilities to drive employee engagement. SumTotal leverages the latest standards, including xAPI and CM15 to deliver seamless integration with leading content providers. Learn more at www.sumtotalsystems.com.

 U.S. and Canada: +1 866 933 1416 | U.K. and Europe: +44 (0) 1276 401950 | Asia Pacific: +91 (0) 40 6695 0000
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