

Staying Ahead of the Curve

Harnessing the Power of Skills-First Practices
During Economic Uncertainty



ONETEN



Executive Summary

In 2023, organizations of every size and across nearly every industry faced the same challenges: how to navigate inflation and how to find the qualified talent they needed to continue to succeed as a business.¹ As leaders continue to confront these challenges head-on, they've also begun to recognize the importance of fostering an inclusive workplace—including its potential economic impact.

Research highlights staggering potential loss: non-inclusive work environments can lead to higher employee turnover as well as decreased productivity and engagement, potentially costing U.S.-based companies up to \$1.05 trillion annually.²

For these reasons (and many more), companies have turned to skills-first hiring, a strategy that prioritizes a candidate's skills and abilities over traditional factors such as educational background, years of experience or job titles. Adopting this hiring practice can help businesses mitigate economic losses and cultivate a more diverse, adaptable workforce.

A strategic shift to skills-first practices can unlock numerous opportunities and enable your company to:

- **Reduce time-to-hire and cost-to-hire** by streamlining the recruitment process and quickly identifying the most skilled candidates
- **Increase retention and internal mobility** by investing in skills-based career pathways, allowing companies to

advance their current workforce

- **Increase company adaptability in a volatile market** by expanding learning and development opportunities to reduce skill gaps and future-proof your workforce
- **Optimize productivity** by increasing worker engagement and performance
- **Create a more motivated and satisfied workforce**, which can help your company weather economic challenges

Overcoming Entrenched Biases

As outlined in [prior OneTen research](#), adopting a skills-based approach can come with challenges, including battling existing bias. While business leaders increasingly recognize the benefits of a skills-first approach, there remains concern about overcoming entrenched legacy mindsets and hiring practices. It's critical, therefore, that organizations proactively confront biases associated with using college degrees as the sole measure of durable skills.

In years past, while facing an economic downturn and inflationary periods, businesses have needed to pivot, downsize or undergo significant changes, leading to an increased demand for soft skills. These capabilities, also known as "durable skills," include things like adaptability and creativity. But when it comes to hiring people with such skills, screening for a college degree isn't the right move. In fact, evidence suggests that degree

qualifications are inadequate indicators for durable skills, leading to [direct and indirect costs](#) for employers hiring college graduates for middle-skills positions. Companies who want to mitigate existing bias and better align skills with job requirements—so they can fit the right talent for the right position—can start by adopting more objective methods such as prescreening assessments, standardized rubrics, behavioral interviews and more.

Throughout this report, you'll learn more about the business benefits of a skills-first approach, including its potential to help create a more equitable, resilient workforce, as well as its essential role in helping organizations like yours maintain a competitive edge, particularly during inflationary periods. This approach protects business performance and safeguards employees who are most vulnerable to negative impact, aligning with dual bottom-line objectives.

Degree Inflation and Key Takeaways from the Great Recession

In recent years, automation and technological innovation have all fueled degree inflation, widened the gap between middle-skills talent supply and demand in the U.S. and led to a shift in job requirements towards interpersonal skills, driving up the value of durable skills among middle-skills workers.^{3,4} Employers began using the college degree as a validator for durable skills in jobs that previously did not require one, a phenomenon that gained momentum during the Great Recession as workers with higher credentials, faced with a precarious labor market, began applying for positions for which they were overqualified.^{3,5} In turn, employers were able to raise the education level of employees they hired without inducing

additional pressure on wages.³ This degree inflation, which continues in today's fluctuating labor market, limits access to good jobs—and overall economic mobility—for those without bachelor's degrees.

The truth is, there are many high-quality, well-paying jobs that can be done well by those without a higher degree. The key to unlocking those opportunities? Skills-first hiring. *Figure 1*, seen below, highlights the differences between traditional hiring methods and a skills-first approach, underscoring the necessity of adjusting hiring practices to meet the evolving demands of contemporary businesses and talent pools.

Figure 1. Limitations of Traditional Hiring Methods vs. Skills-First Hiring

Traditional Hiring	Skills-First Hiring
<ul style="list-style-type: none"> • Evaluates candidates based on educational background • Rejects potential hires who don't meet qualifications-based criteria • Focuses on past experiences and current skills rather than potential/transferable skills • Limits candidate pool • Entails time-consuming and costly resume sorting and screening • Weak indicator of job performance/durable skills 	<ul style="list-style-type: none"> • Evaluates candidates using pre-employment assessments, tests and job simulations • Considers candidates with transferable skills even if they lack formal degree requirements • Focuses on candidates' potential without resume bias • Expands access to diverse pool of candidates • Reduces time-to-hire and cost-to-hire • Effective indicator of job performance

The Business Case for a Diverse Workforce

By focusing on skills rather than traditional qualifications, employers can access candidates with a wider range of backgrounds and experiences, promoting greater diversity and inclusion in the workplace and building pathways for those most likely to be disproportionately affected by economic downturns. Decades of research has shown that workers with lower levels of education—along with those with other barriers to employment, such as members of racial and ethnic minorities—are among the first laid off during an economic downturn (See *Figure 2*), yet the last hired during a recovery.^{6,7,8}

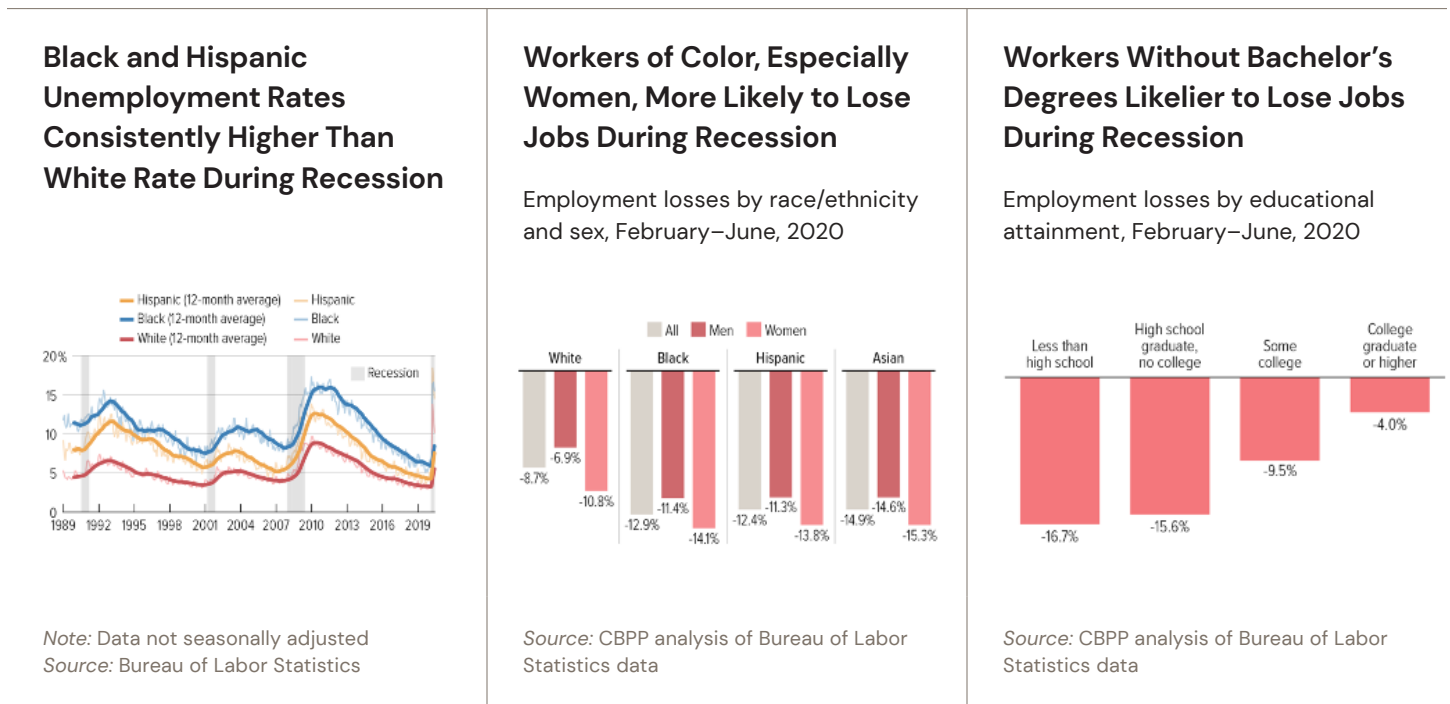
Creating a workforce that includes people with a wide variety of backgrounds and experiences not only benefits those hired, but also enhances organizational performance. Research consistently shows that diverse workplaces tend to surpass less diverse peers in profitability, a trend that becomes more pronounced over time.^{9,10}

Companies in the top quartile for racial and ethnic diversity:

- Are 35% more likely to surpass industry medians in financial returns⁹
- Make decisions twice as fast and achieve 60% better results¹¹
- Possess superior problem-solving capabilities¹²
- Boast enhanced reputations¹³
- Exhibit higher creativity¹⁴ and improved customer orientation¹⁵

In contrast, companies with non-inclusive work environments have experienced staggering economic losses—upwards of \$70 trillion over three decades.¹⁶ With such statistics, organizations that wish to stay competitive should consider harnessing a skills-first approach to overcome legacy mindsets and eliminate biases and barriers that hinder inclusive practices.¹⁶ Doing so will not only help them diversify their talent pipeline but help unlock innovation, enhance adaptability and improve retention and engagement, thereby bolstering both economic and social bottom-lines. This is especially important in periods of economic uncertainty, during which diversity, equity and inclusion initiatives are often the first eliminated.^{17,18}

Figure 2. Periods of Economic Precarity Disproportionately Impact Workers Without Degrees and Workers of Color



The Top Five Business Benefits of Skills-First Practices

Implementing skills-first hiring practices during uncertain economic times can benefit both employees and employers (See Figure 3).¹⁵

By adopting a skills-first hiring and people approach, employers can:

1. **Decrease Costs While Increasing Hiring Efficiency:** In times of economic volatility, companies need to optimize budgets while meeting hiring needs. Embracing a skills-first approach streamlines recruitment by utilizing objective testing methods before the interview stage, which helps recruiters find the right candidate by quickly and effectively by ranking applicants based

on their relevant, quantifiable skills.²² This not only decreases the time and costs associated with hiring, but also allows organizations to reduce the risk of mis-hires by identifying the right candidates with the right skills and abilities from a larger, more diverse talent pool.²⁰ For companies facing external economic pressures, this is a particularly significant advantage,²³ since mis-hires can cost a company five to 27 times the employee's annual salary.²¹ A reported 74% of organizations using skills-first hiring report a reduction in cost-to-hire, while 82% report a reduction in time-to-hire and 88% indicate a reduction in mis-hires.²⁰

Figure 3. Executives and Workers Want a New Approach to Jobs and Work

Many workers feel their employers value job experience and degrees over skills



59% of workers say their organization values job experience and degrees over demonstrated skills and potential



36% of executives say their organization values job experience and degrees over demonstrated skills and potential

Workers want skills-based practices and will vote with their feet to get them

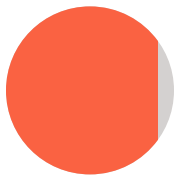


73% of workers say skills-based practices would improve their experience at work

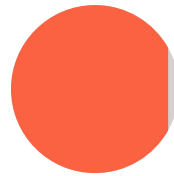


66% of workers say they would be more likely to be attracted to and remain at an organization that values and makes decisions based on their skills and potential rather than on jobs and degrees

Executives say their organizations are moving toward a skills-based approach



89% of executives say skills are becoming important for the way organizations are defining work, deploying talent, managing careers and valuing employees



~90% of executives say they are now actively experimenting with skills-based approaches across a wide range of workforce practices

Adapted from Deloitte Skills-Based Organization Survey, May-June 2022

2. Increase Retention and Internal Mobility: Economic downturns often lead to high employee turnover, which can be costly as well as disrupt business operations. Implementing skills-based practices can help employers not only find the best workers but also retain them: workers without degrees tend to stay in their jobs 34% longer than workers with degrees.²⁷ Investing in skills-based career pathways for employees can also enhance retention rates. Studies show that 94% of employees report that they are more likely to stay at a company longer if the company were to invest in their career development.²⁴ Furthermore, workers who have made an internal move at their organization at the two-year mark have a 75% chance of remaining there, compared to 56% for those who haven't.²⁵ Establishing internal pathways for employees helps employers build more highly skilled teams, create a more resilient workforce and reduce employee turnover, leading to overall cost and resource savings during an economic downturn.²⁷

3. Reduce Skill Gaps While Increasing Adaptability: Economic uncertainty increases the need for skilled workers.²⁸ As organizations allocate budgets, trim spending or even resort to workforce reductions to preserve the health of the business, workloads are often distributed across fewer people. This elevates the demand for specific hard skills, particularly those essential to key job functions, alongside durable skills. Embracing a skills-based approach to both hiring and upskilling is imperative for organizations to acquire the skills demanded by a shifting economy. Prioritizing skills in hiring can enhance a company's agility and sustain its competitive edge by quickly configuring their workforce to align with evolving market demands. This approach also ensures better job matching and helps "future-proof" the company by hiring individuals possessing specific skills, especially those the company believes will be most pivotal in the future.²⁹ This can be accomplished in a variety

of ways, including by skills mapping and integrating continuous data tracking into recruitment strategies, among others. In addition, adopting skills-based practices broadens access to learning and development opportunities for employees, which can help cultivate a more broadly skilled workforce capable of filling roles when needed and lessening the reliance on external hires.²⁵ As industries evolve, workers who undergo reskilling or upskilling are better equipped to transition into new roles, which reduces unemployment and offsets the negative impacts of economic downturns.³⁰

"Hiring based on skills is five times more predictive of future performance than hiring for education and 2.5 times more predictive than hiring based on work experience."³¹

4. Increase Productivity: Hiring based on skills is five times more predictive of future performance than hiring for education and 2.5 times more predictive than hiring based on work experience.³¹ In fact, education has been found to be the weakest predictor of performance next to experience and reference checks, while cognitive ability assessments, structured interviews and work samples, all integral to a skills-based hiring approach, are proven to be stronger performance indicators.³² Employers report comparable productivity levels and higher levels of engagement among employees without degrees.³³ Given that prior research has noted higher productivity during the Great Recession,³⁴ using a skills-based approach during economic uncertainty cultivates a workforce filled with engaged and high-performing



individuals, significantly enhancing overall output and productivity.

5. Improve Employee Engagement and Motivation: Employees hired based on their skills are more likely to be motivated and engaged because they feel competent and capable in their roles, leading to improved job satisfaction. Approximately seven out of 10 workers report that skills-based development and hiring would improve their experience at work,³⁶ while 72% of employees who were recruited via skills-based hiring reported being either "happy" or "very happy" in their current roles, compared to only 62.9% who were not recruited via skills-based hiring.²² An engaged workforce yields improved retention, higher productivity, increased innovation, a positive workplace culture and a stronger employer brand.³⁵ Ultimately, skills-first hiring practices can help companies weather the external and internal effects of inflationary periods more effectively by retaining more engaged, motivated and satisfied employees.

The Emerging Significance of Durable Skills

As artificial intelligence, automation and robotics continue to transform how we work—and replace some jobs altogether—durable skills are expected to hold tremendous value in the labor market. Projections suggest that durable skill-intensive occupations will encompass two-thirds of all jobs by 2030, with their growth outpacing other jobs by 2.5 times.³⁷ Adaptability, creativity and communication, among other durable skills, are projected to be increasingly vital, particularly

during periods of economic uncertainty. Employees who possess these skills are better equipped to bounce back when businesses need to pivot or downsize.³⁸ Companies can help their people refine their durable skills through technology and micro-credential pathways, as well as by offering durable skills assessments to identify strengths and areas for improvement, encouraging continuous workplace feedback and establishing mentoring and volunteering programs.⁴³



Overcoming Barriers to Skills-Based Transformation

While more companies are beginning to adopt a skills-based framework, some leaders remain concerned about the potential challenge of overcoming legacy mindsets and traditional hiring practices.¹⁵ [OneTen's research](#) has found that approximately a quarter of hiring managers cite difficulties in changing organizational culture, with an additional quarter reporting challenges garnering support from senior leadership.⁴⁰ Any significant workplace culture change must start with leadership, from executive champions and HR

and talent acquisition leaders to hiring managers responsible for implementing such shifts.⁴¹ An effective skills-based approach requires a long-term plan encompassing an organization's entire talent acquisition and management systems.⁴¹ Employers can kickstart this process by establishing a robust skills framework defining necessary and transferable skills, including proactively forecasting skill demand and the skill profiles required.⁴²

Degree Qualifications Are a Weak Proxy for Durable Skills and Incur Costs for Organizations

“Knowledge may be power, but ‘knowledge from college’ is neither a predictor nor guarantor of success.”

—Michael Schrage in his Harvard Business Review article “Higher Education Is Overrated; Skills Aren’t”⁴³

Emerging insights show that while recruiters value durable skills such as curiosity and learning orientation over college degrees,⁴⁴ there is a lack of critical thinking, communication and general interpersonal skills among college graduates,⁴⁵ a trend that was exacerbated during the pandemic.⁴⁶ In addition, including a college degree requirement for roles that can be effectively filled by non-degree holders results in significant direct and indirect costs, as outlined in *Figure 4*. Employers report paying a premium of 11-30% for college graduates to fill middle-skills positions, even though non-graduates with relevant experience perform comparably on critical business indicators related to productivity, promotion and required supervision. It’s also important to note that seeking college graduates for middle-skills jobs can heighten recruitment challenges, elevate turnover rates and reduce engagement levels.³

As already outlined, organizations with non-inclusive work cultures face staggering losses, making the integration of skills-first practices into the heart of HR strategies an economic imperative. By dismantling biases favoring college degrees in middle-skills positions, organizations have the unique opportunity to spearhead the

skills-first movement and redefine the future of work. This paradigm shift not only champions equitable hiring practices but also fortifies bottom lines, future-proofs skill sets and workforces, and shields employees—particularly those most vulnerable to economic downturns. A skills-first approach does more than increase operational efficiency and agility; it fosters a workplace that is diverse, inclusive and ultimately more successful.

But it’s important to remember that significant cultural transformations take time. Companies that commit to adopting a skills-first strategy, particularly in inflationary environments, need to proactively:

- Identify current and future skills needs and map them to work tasks
- Create skills-based career pathways
- Tailor job descriptions to lead with skills and competencies
- Evaluate skills through targeted exercises and assessments
- Implement skills-based learning and development programs
- Educate HR teams on the benefits and techniques of skills-first hiring
- Expand candidate sourcing channels, including forging partnerships with organizations empowering untapped talent

By applying these recommended strategies, businesses can find the talent they need to achieve their business goals while actively creating a more inclusive, resilient and successful company.

Figure 4. Direct and Indirect Costs of Using Degree Requirements to Hire College Graduates for Middle-Skills Positions³

Direct Costs	Indirect Costs
<ul style="list-style-type: none"> • Employers report paying between 11-30% more for college graduates • Employers report that non-graduates with experience perform nearly or equally well on critical business indicators such as time to reach full productivity, time to promotion and level of productivity 	<ul style="list-style-type: none"> • Exclusively seeking college graduates make many middle-skills jobs more difficult to fill • College graduates demonstrate higher turnover rates and lower engagement levels

How OneTen Can Help Your Company in Your Skills-First Journey

Since its inception, OneTen coalition member companies have hired or promoted more than 100K skilled talent without four-year degrees into family-sustaining careers. OneTen customizes its approach to align with your organization's specific hiring demands and skills-first goals. Our focus includes:

- Practice change to accelerate the adoption of skills-first hiring and advancement practices
- Human capital management via our extensive, integrated network of partners and our Career Marketplace platform
- Best-in-class insights informed by Fortune 100 and 500 member companies, combined with rigorous internal and external data analysis



For more information on how OneTen can help power your skills-first strategies, please visit oneten.org or sign up directly at oneten.org/skills-first

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