How business can solve the forever labor shortage

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Economists now confirm what hiring managers have long suspected: The US is facing a Forever Labor Shortage of skilled workers. A rising wave of Baby Boomer retirements, combined with a tech revolution that is dramatically changing the workforce talent needs of employers, means the current hiring crunch is expected to continue for years.

The reality: Unemployment rate and labor force projections

As Business Insider reported, "In April, the unemployment rate declined to its lowest level since 1969 — meaning there are few available workers left to hire. Despite all the talk of how "no one wants to work anymore," there's actually a higher share of 25- to 54-year-olds with a job today than before the pandemic.

And the shortage is just getting started. The Congressional Budget Office projects the potential labor force to expand by a mere 3.6% between 2022 and 2031 — one-eighth of the pace in the 1970s. Over the following decade, that growth is projected to slow even more, to 2.9%. That means employers face decades of an essentially stagnant labor pool."

Luckily there are specific working solutions for employers who want new talent – and there are specific solutions for existing employees who want better jobs.

Though the employer solutions include initiatives like creating skills-based organizations, internal talent marketplaces, an upskilling culture, and skills-focused job promotion, all these improvements center on one reality: It's almost always better and cheaper to build talent internally than to buy it externally through recruitment and hiring.

From talent gap to talent opportunity

One key is to stop viewing the labor shortage as a talent gap. Instead, it's a talent opportunity that can build loyalty, boost morale, and produce a much more nimble and potent business organization. As the Harvard Business Review recommends, "Treat skilling as a business investment, not an expense."

The cost of external hiring

Many studies by numerous experts have examined the daily dilemma of hiring managers: Should business talent come from outside the company or inside? Though it occasionally makes sense for a business to attract new blood, evidence is clear that hiring from the outside costs more, adds delays, and hurts morale for existing workers.

SHRM and University of Phoenix

The Society for Human Resource Management (SHRM) says it typically costs six to nine months of salary to replace an employee. That means companies must pay up to $45,000 to recruit and train a $60,000 per year worker. For entry level employees, the rule of thumb is that companies spend 50 percent of a worker's salary to find and prepare a replacement. Despite all the evidence that internal hiring makes more sense, a University of Phoenix survey of 300 HR leaders and 300 knowledge workers across America found that fewer than half of all open roles are filled by internal talent today.

Too many companies have created a culture where it seems easier to overlook existing employees and instead devote the time, effort, and money to an outside hire. Inertia is a powerful force in major corporations. Remember: It wasn't that long ago that Old School CEOs like Jack Welch were being hailed for running Darwinian survival outposts that called for managers to fire 10 percent of their employees every year.

Retention and engagement challenges

Clearly the business world has changed since then. Employers now worry more about retaining employees than meeting annual quotas of firing them. Modern labor shortages put a new burden on employers to boost retention by figuring out what employees want.

Suffice to say that employees today want more than just the assurance that they're safely outside Jack Welch's targeted 10 percent.

Though the Great Resignation may be in the rear-view mirror, employees still have not put the brakes on quiet-quitting and job-switching.

In a Korn Ferry survey of 4,000 professionals in 25 industries, nearly half said they now think of their careers in terms of months, not years. One in four say it will be normal to work for their employer no more than two years. Eight of ten of those professionals said they'd leave their job if paid more or featured better benefits.

55% Gallup

The worker loyalty and job retention issues are greatest with millennial's. Calling them the "job-hopping generation," a Gallup poll found millennial's are three times more likely to switch employers than other generations. Millennial job turnover costs the U.S. economy $30.5 billion a year, Gallup said.

Most millennial's (55%) are not engaged at work, the worst rate of all generations, the poll found.

"Not engaging millennial workers is a big miss for organizations," Gallup concluded. "The millennial workforce is predominantly 'checked out' -- not putting energy or passion into their jobs… For leaders, the current challenge is twofold: They must understand how to attract the millennial workers who are looking to leave their current organizations, but they must also understand how to retain their existing millennial employees."

Why are so many employees so disengaged at work?

The No. 1 reason cited by employees who quit a job is: no opportunity for advancement, according to a Pew Research Center study. (The 63 percent who left because of career roadblocks was equal to the 63 percent who left because of low pay.) The vast majority of workers who left a job said it was easy to find employment elsewhere.

Investing in upskilling and internal advancement

Few people want to work a dead-end job. So it's important for managers to be direct and transparent about what it takes for employees to move ahead. It's also crucial for employees to be given the opportunity – and to understand they have that opportunity – to acquire the skills to earn a more advanced job.

"Focusing on professional development is a good place to start," concludes a Korn Ferry survey on the future of work. "It shows you're investing in your people and putting them on a clear career path. It also empowers your teams to own their own progression – giving them control in an uncertain time."

Unfortunately, there often is a big gap between what companies say about upskilling and what they do. For example, 77 percent of business executives agree their organization should help workers become more employable with relevant skills, but only 5 percent strongly agree they are investing enough to do that, says Deloitte.

Focus on skills and transparency

To adapt to new labor realities, Deloitte recommends employers transform into a "skills-based organization." The idea is for businesses to place more importance on employee skills than credentials, and to deploy workers based on company needs instead of job titles. By breaking down work to its components, smart businesses can allocate expertise based on the talent required – much more nimble than assigning employees based on their pay grade or business cards.

"Confining work to standardized tasks done in a functional job, and then making all decisions about workers based on their job in the organizational hierarchy, hinders some of today's most critical organizational objectives: organizational agility, growth, and innovation; diversity, inclusion, and equity; and the ability to offer a positive workforce experience for people," Deloitte says.

Increasing numbers of companies are matching skills with work by setting up internal talent marketplaces, which have been designed and managed by companies for two main tasks. The first is to serve as a kind of internal LinkedIn, or job-posting site. The other relies on algorithms to automatically pick up employee skills and match them with business needs across the corporation.

What's important is to not be intimidated by the size or complexity of the challenge. Some companies do best by taking the first step, building an organizational skills foundation, with a skills taxonomy, skill-mapped jobs and an assessment of the skills of the current workforce, and then scaling to grow from there with an internal talent marketplace. Other companies do better by going all-in on an overall culture shift, but the most successful efforts should be tailored to meet company, and employee needs. The emergence of Artificial Intelligence (AI) has also opened the door for new approaches that leverage technology to help.

Deloitte

If the AI monitoring of employees is done with proper transparency – workers should know how skills are being checked, and when, and why – then the risk of an anti-Big Brother backlash drops dramatically. Eight of 10 workers say they are completely open to having data collected on their skills and capabilities, a Deloitte survey shows.

Investing in front line workers

While developing a skills-based organization, smart managers should highlight and develop the careers of frontline workers, who often are the unappreciated face of the business. According to McKinsey, fewer than 40 percent of hourly frontline workers believe their employer takes an objective, empirical view of performance and promotion. More than 70 percent of frontline workers want to be promoted within their companies, McKinsey found, but only 4 percent make the leap to corporate.

Frontline workers are a natural talent base. They already know the culture, goals and procedures of their companies – it can be a seamless progression for these workers to be trained for a career shift onto a management track. Someone who works inside sales might be a good candidate to be trained for a move into marketing – they already have a strong base in communications and customer service.

Though many frontline employees offer great potential for additional training, employee tuition benefits are one of the least-used corporate perks – fewer than 10 percent of eligible employees take advantage of the subsidy. Managers can and should do better explaining how employees can boost their own skills – and their pay and career prospects – through company-financed training programs. Tuition-assistance programs reduce turnover and help businesses identify their most productive workers, according to the Center for Human Resources at the University of Pennsylvania's Wharton School.

With the continuing talent crunch, hiring managers will need every implement in the corporate toolbox to attract, promote, and develop the skills required by the business. To keep pace with the rapidly changes in the economy and workplace, more than half of all employees around the world will need to upskill or reskill in the next three years, says the World Economic Forum.

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