

Eliminate the Skills Gap

The holes in the workforce may indeed get worse before they get better.

It all depends on your point of view. Most experts agree that there is a skills gap in the American workforce. But, depending on that point of view, the cause, severity, and solution can be argued.

Secretary of Labor Elaine Chao told *Time* magazine recently that the nation has seen the creation of 4.5 million jobs since 2003. “The majority require higher skills and higher educational levels,” Chao said. The government’s job “is to make sure that we provide the training and work with the private sector to train the workforce.”

“Eighty-one percent of respondents to the 2005 Skills Gap Survey of the American Manufacturing Workforce (Deloitte and The Manufacturing Institute, 2005) said they couldn’t find qualified workers to fill their open positions. As far as manufacturers are concerned, the skills gap is upon us,” notes Stacey Jarrett Wagner, managing director, Center for Workforce Success, at the National Association of Manufacturers.

“Manufacturing job applicants, in many cases, lack the technical skills needed to work in today’s modern manufacturing workplace—a workplace that uses the latest in technology and lean processes, is well-lit, well-paying, and clean. Manufacturing also faces a dearth of skilled workers because of an outdated image and a lack of understanding about the types of skills needed to work in jobs such as robotics technologist, production technician, machine tool operator, engineer, CAD/CAM designer, or research scientist.”

And it is not only manufacturing positions that are going unfilled. “Almost every company today will tell you that there are positions they have a very difficult time filling, like Sarbanes-Oxley compliance, security-cleared engineering, allied health, software development, and quality assurance professionals,” explains Dave Lefkow, senior director of strategic partnerships for Jobster, which helps employers target, qualify, and build relationships with prospects. “The time it takes to fill these types of positions is creeping upwards, and the costs spent and measures being employed to find them are growing rapidly.”

By Rex Davenport

Lefkow says that while it is impossible to predict the future, demographic trends suggest even greater staffing challenges in the year 2011 and beyond as the first wave of baby boomers begin retiring. "There are strong indications that the skills gap will get much worse before it gets better," Lefkow adds.

Why now?

As much as many experts agree the skills gap is real and dangerous for the United States, most disagree on how it came to exist. People mean different things when they speak about a skills gap, explains Peter Cappelli, a professor at The Wharton School—University of Pennsylvania. "It is important to be clear about what you mean when you use that term. People talk about a labor shortage. There is no evidence of that whatsoever. There is nothing going on in the demographics (to prove that). There is nothing going on in the demographics of the United States that (would indicate) there will be anything like that."

The labor force is projected to grow at a slightly faster rate than the available openings. "Then, after 10 years, it only begins to slow its rate of growth by a quarter of a percentage point," he adds. Only a very low unemployment rate could create a gap between job openings and available workers, Cappelli explains.

"If there is no shortage of people, then the issue is some sort of mismatch between the skills a company needs and the ability to find those in the outside market," Cappelli adds. "What I think is going on here, and it is a problem, is that companies are not training their people. Because of that, when anyone who is trained leaves—at least anyone who knows their stuff—it becomes a big problem. It has nothing to do with national demographics. If employers lose the experienced worker, they have no way to get the next generation up-to-speed."

Cappelli, who is often painted as doubting that a skills gap even exists, says that he does not doubt that employers are finding it difficult to find workers with the training they need on day one of the job. "I am not skeptical about that," he says. "There is something to that. It comes down to the fact that companies aren't training their own people."

"Companies are not providing training, particularly entry-level job training. They are expecting people to come to them with the skills they need (for entry-level jobs). Companies' behavior has changed. It's not something that has happened in the labor market. They are not providing training and they are expecting (workers to come to them) already trained. And they are not finding people who have the skills and are ready to go to work. The general question is: Are employers able to find workers with the skills they want? They complain that they can't. And they are probably right. The reason

for that is what they want and what they are willing to do about it are vastly different."

Look at the numbers

But others say the skills gap is quite real and it is a demographic challenge. "If you look at the production of educated and trained workers in America and you project it, as the Bureau of Labor Statistics has, it is pretty clear that demand exceeds supply," says Anthony Carnevale, a senior fellow and authority on workforce training at the National Center on Education and the Economy. "Then you say we will be short 7 to 10 million workers who will have skills beyond those of a high school graduate in America."

Will the shortage actually occur? "As skill becomes more valuable, the wages go up for skill, which has been going on throughout the 1990s and continues to hold," Carnevale adds. "As long as the wage differential is so high, it will encourage more people to get the skills or the education they need."

"One response from labor economists would be: If we project a shortage, what we are really talking about is a labor market in which wages will rise for skills. And, therefore, more people will go out and get the skills needed and the shortage will disappear. Historically, that has operated fairly well, with lags and spot shortages appearing here and there."

Eventually, Carnevale explains, those gaps get closed. "Or, employers do what they have always done, they take the skilled labor that is available to them—the people with the most potential—and if they don't have the specific competencies required, they have the potential to learn them on the job, either through formal training or just doing the job."

But companies were not thinking long term, says Cappelli. "This then became a collective problem. It is perfectly fine for one company to stop training its people and just hire (the talent it needs) from the competitors around them. But CEOs have told me 'Why should I train people when there is the talent we need in competitor companies?' When everybody does that, and there was no reason to expect that wouldn't happen, then you have a real problem. And I think we do have that real problem."

"That is the extent to which I am sympathetic to the skills gap. It is the case that companies have a hard time finding skilled workers in the outside market."

Companies, heal thyself

Carnevale and others suggest that organizations need to solve their own skills gap training problems. "It behooves employers, in a tightly competitive environment, to reduce the training costs by making the search and selection the emphasis of their human resources strategy," Carnevale explains. "But compa-

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nies still need to train. You still have to do management training because people need to understand the leadership function of the company and the business it is in, and to develop people for future promotions. You need technical training because people need to keep up with technology. You need skill training because people have to keep up with changes in the processes of work. You need safety training because it is regulated. You need sales and marketing training because the payoff is very high and because product knowledge is at the core of that. There are a lot of company-specific kinds of knowledge that is difficult to buy—you have to make it.”

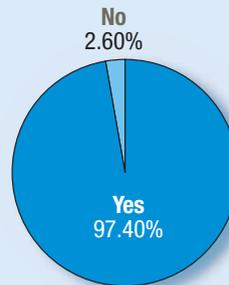
Companies often take a new approach to solving their skills gap problems—a more mobile approach. Carnevale says that skills are no longer a fixed resource, and some employers can deal with the issue by expanding their geography. “You can pick up your

plant and move it to the South. The footprint for your recruitment expands greatly,” he notes. “More and more employers do that. As skills requirements go up, American employers are in competition for skilled workers. It has always been the case that the competition for skilled workers is geographically more expansive than the competition for unskilled workers.”

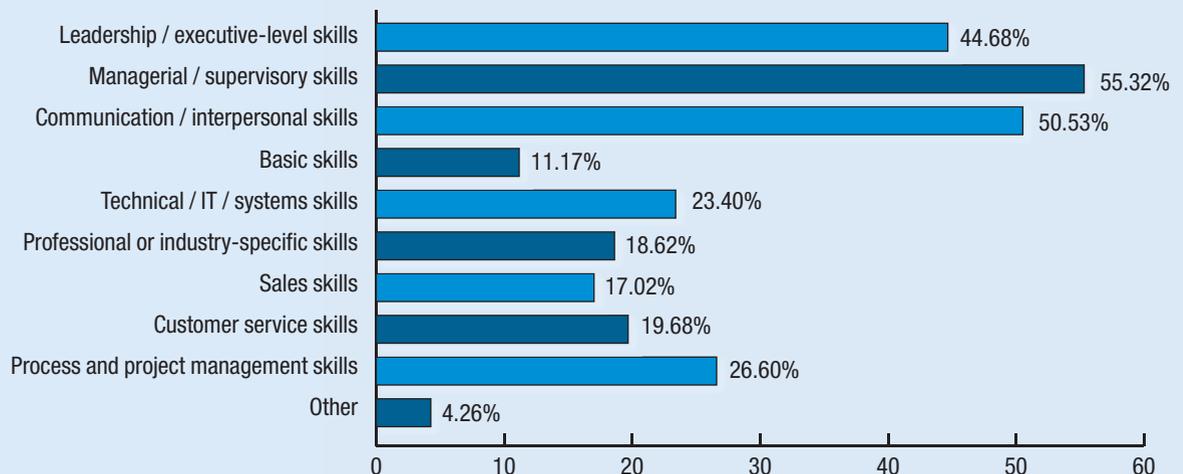
But not every organization can just open a new plant or move one to population-rich areas. Should companies deal with the skills gap by retraining the current workforce or by seeking different employees? “Both,” says Vince Serritella, vice president, employee development director, Grainger Inc.’s learning center. “Where it is appropriate, retraining is the thing to do, assuming new competencies and performance standards are defined. When the situation dictates, companies may need to seek new employees with the appropriate skill set where retraining the existing

Is there a skills gap within your organization?

1. Is there a skills gap within your organization now or is one expected within the next year?



2. What types of skills gaps are your organization experiencing? (Choose the top three.)



Compete and thrive

American manufacturing companies suggest that the United States needs to focus on raising the education and skill levels of its citizens so that Americans and American businesses can continue to compete and thrive in the global economy and to prevent a “race to the bottom.” The Center for Workforce Success, the education and workforce arm of the National Association of Manufacturers, recommends that the following actions be undertaken to stem the tide:

- Educators must emphasize science, math, and technology-related programs in K-16 curricula, invest more in effective

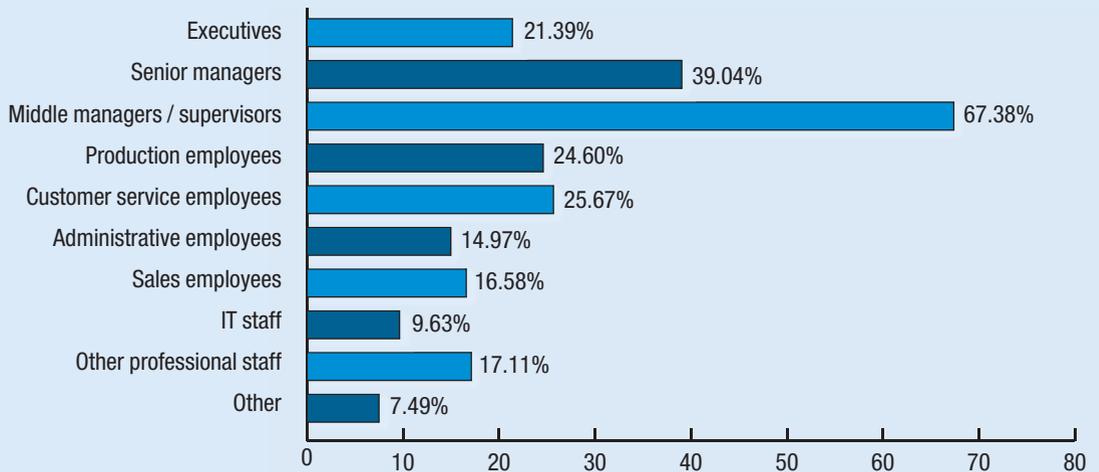
teacher education focused on math and science, and ensure that programs regarding career opportunities and requirements for graduation are geared for 21st century employment.

- Employers should invest at least 3 percent of payroll, whenever possible, to provide training opportunities for their current employees.
- State and federal governments should invest in the capacity of community and technical colleges to prepare individuals for careers in high-growth industries.
- State education standards should include career education as a measurable criterion for K-12 success.
- The Higher Education Act and its

funding mechanisms should provide increased access for adult learners.

- Individuals must take responsibility for their own careers and employability by earning relevant industry certifications and formal education credentials.
- The public workforce system, companies, and their business associations must strengthen their mutual engagement in order to better advise Workforce Investment Boards on rising and declining economic conditions, business investments, skill needs, and employment requirements.
- Public and private partnerships should be encouraged to support career awareness campaigns.

3. Which employee groups in your organization are experiencing the most significant skills gap? (Choose the top three.)



4. What action(s) is your organization taking now to remedy the skills gap? (Choose the top three.)



workforce is not feasible.

“Companies must either invest in the company human capital value chain and continuously build competency or lose competitive advantage. Either drive the truck or serve as road kill. When employees perceive that their company would rather churn their workforce instead of investing in their performance and competencies, their attachment to the employer is tenuous and their commitment to performance erodes.”

Other avenues

Solutions for many of the skills gap problems often involve steps that may resonate with stockholders, but seldom make for good public relations.

Offshoring is rife with its own set of challenges. In countries where much of the work is headed, competition for skilled workers is additionally complicated by high turnover. And, despite the drumbeat of the media, not every job can be easily offshored. And, anecdotal evidence suggests that due to quality concerns, some companies are limiting the offshoring of certain types of work, such as customer service, that had been offshored in recent years.

“For decades, hiring immigrant workers has been the magic bullet for any skills gaps. Yet without serious shifts in U.S. government strategy and policy, im-

migration actually has the potential to be more of a problem than a solution over the next several years,” says Jobster’s Lefkow. “Due to security concerns following 9/11, the United States has enacted the tightest immigration laws in recent times, reducing the number of H1-B visas from almost 800,000 in 2000 to approximately 80,000 in 2005.

“Meanwhile, rising economies and standards of living in countries such as China, India, and Singapore, have made them more appealing to their expatriate populations, who are beginning to return to their homelands. It’s also hard for a country like the United States to compete with their cost of living—an Indian repatriate, for instance, can live in a five-bedroom house in an upscale neighborhood with servants, landscapers, and a chauffeur for the same cost as a cramped apartment in the majority of U.S. cities. We may also see an eventual brain drain of U.S. citizens reaching all the way up to the executive suite.”

Lefkow cites a study by the Association of Executive Search Consultants that notes that more than 50 percent of U.S. executives would relocate to China, and approximately 35 percent would go to countries such as India or Russia, all of whom would be hungry for the experience executives have building and operating successful companies in the United States.

According to the National Association of Manufacturers, the use of immigrant workers, under-employed or disadvantaged workers, and delayed retirements will be part of the skills gap solution. “The real problem is not one of finding bodies—it is a problem of finding the right skill sets,” Wagner explains. “An emphasis needs to be placed on the education of our future generations, the most effective ways available—or perhaps not yet conceived—in retraining our existing workforce, and rethinking our human resource policies and practices to accommodate a more diverse workforce that will probably be working well past what we now see as retirement age.”

The major underlying force that is creating the skills gap is not demographics or the ability of organizations to anticipate their needs. It is the changing nature of work, says Jobster’s Lefkow. “Jobs are becoming highly specialized, and companies are increasingly recruiting from the outside versus promoting from within. Virtual work-teams are being formed around mission critical projects. Rapidly mobilizing and capitalizing on a company’s best talent has become a strategic imperative, and workers can no longer be treated like interchangeable or disposable parts.”

Lefkow suggests that the skills gap is the by-product of a knowledge- and innovation-fueled global economy in which the specialized skills needed to succeed are highly coveted. “In an industrial economy, the demographic challenges we face would have

Illinois funds program training for Caterpillar

Last month, the State of Illinois awarded a \$500,000 workforce training grant to Peoria-based Caterpillar Inc. as a part of its economic development strategy designed to spur economic growth and create jobs across the North Central region and throughout Illinois.

The grant was awarded through the Employer Training Investment Program and will be used to upgrade the skills of 2,200 workers at hundreds of the company’s suppliers across Illinois. Caterpillar is using the \$500,000 multi-company ETIP grant to train employees at its suppliers in skills such as design, assembly, print reading, casting and forging, statistics, and computer training. The grant is being used to train 2,200 employees from 350 of Caterpillar’s preferred suppliers.

“These investments are helping companies, both large and small, increase their productivity and competitiveness, and, ultimately, positioning the region and the state for continued job growth today and tomorrow,” Gov. Rod Blagojevich says.

The Employer Training Investment Program is a new generation of employer-focused, customized training grants created through the state’s 21st Century Jobs training initiative. The Illinois Department of Commerce and Economic Opportunity administers the ETIP grants, which reimburse companies and organizations for up to 50 percent of the costs of training their employees.

Indiana addresses workplace literacy

The Indiana Department of Workforce Development is seeking companies in Indiana to help develop a new training program aimed at raising the workplace skills level of workers.

The new 21st Century Workplace Skills Initiative is a demonstration project that could be a forerunner of a larger state effort designed to address the state's workplace basic skills gap. A study released recently by the Indiana State Chamber of Commerce found that up to one-third of the workers in Indiana had workplace literacy skills below nationally identified minimum standards necessary for successful employment in a knowledge-based economy.

The effort is designed to tackle more than just literacy. "It gets into digital literacy and critical thinking," explains Ron Stiver, director of the State of Indiana's Department of Workforce Development. "It focuses on applications of math, science, and reading, but all in workplace context."

While Indiana looked to other states and organizations when it created its request for proposal or RFP, it is open to new ideas. "That is, to some extent, what we are waiting to see in the proposals," adds Stiver. "No state has really figured out how to tackle this problem exhaustively. There is no one model or best practice out there to replicate. We want to put out a round of funding to bring in innovative practices from throughout the regions.

"We structured the RFP after talking to thought leaders across the country, from workforce development entities and community colleges. One thing that will be key is employer involvement. The goal of skills training is to make Hoosiers more employable. And who knows better what those skills need to be than employers themselves. In the traditional adult education systems, there has been a detachment between the employer community and traditional (post-secondary) offerings. We want to bring those two together."

Stiver says that while government can't solve the skills gap, it can play a critical role. "What government can do is to provide the incentives and the information to encourage both employers and employees to pursue training and higher education," he explains. "As we move from an industrial economy to a knowledge economy, the skills and the improved quality of our workforce is going to be necessary. From providing structured incentives to providing information around what jobs are in demand and what are the educational requirements of those jobs, both with the existing workforce and the emerging workforce, we can encourage additional training and participation in education."

little impact on the economy or create any type of skills gap, because we would be able to easily shuffle in an entirely new set of less experienced or foreign workers to replace the departing ones."

Boomers still the focus

Baby boomers are, in the minds of many, either the cause or the solution to the skills gap problems. The Wharton School's Cappelli doesn't believe the baby boomers will have much of an impact either way. He says that there is no demographic proof that the boomers are indeed leaving the workforce in such numbers that their departure will have an impact.

"It hasn't been true for a long time," Cappelli says. "People retire at different times. For the most part, companies have been trying to get rid of that generation. (Companies) call them early retirement programs, but basically they are an effort by companies to downskill their workers and to dump higher salaries.

"Today's older workers are not planning to retire. They may not stay in their current job, but they are not planning to leave the workforce."

The National Center on Education and the Economy's Carnevale disagrees. With the baby boomers reaching retirement, "a substantial share of skilled workers will be unavailable to us progressively over the next 20 years," Carnevale claims. "The production of skilled workers has been flat since the mid 1970s.

"The baby boom was a much more highly educated generation than any before it. Because they were more highly educated than the generations before them, the level of skill in the workforce jumped up with the baby boom. But after achieving that level, we have made no improvements. The generations that come in behind the baby boom will be trained at roughly the same level, but there will be a lot fewer of them. And in the end, that is what creates the problem. We got kind of flat performance out of our schools and our training systems."

"I believe many boomers—like me—are still experiencing productive, interesting careers, have better health than our parents, and can't perceive playing shuffleboard as a permanent way of life," says Grainger's Serritella. "We are part of the 60s generation that for the most part, regardless of our political affiliation, was pretty much engaged in the world around us. As long as the work remains challenging and the pay competitive, easing off is better than easing out." **TD**

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