

# Rethinking Talent Acquisition :

## The Rise of Skills-Based Hiring in Indonesia

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# Foreword

Indonesia is facing a strategic turning point in its workforce evolution. As businesses navigate digital transformation, automation, and increasingly complex market demands, talent has become a defining factor of organizational competitiveness. Yet despite a large and growing labor force, many organizations continue to face a fundamental challenge: the inability to secure talent with the right skills at the right time.

For years, recruitment practices have relied heavily on academic credentials, job titles, and years of experience as proxies for capability. While these indicators once served as useful benchmarks, they no longer reflect the realities of today's dynamic and skills-driven work environment. Organizations are now encountering higher recruitment costs, longer hiring cycles, and persistent skill gaps, despite an abundance of available candidates.

Skills-based hiring represents a strategic shift in how organizations approach talent acquisition. By focusing on demonstrable skills, practical competencies, and future capability potential, companies can move beyond traditional limitations and build a workforce that is more agile, inclusive, and aligned with business objectives. Globally, this shift is already reshaping how leading organizations identify, develop, and retain talent.

This whitepaper, *Rethinking Talent Acquisition: The Rise of Skills-Based Hiring in Indonesia*, reflects a leadership perspective on the future of recruitment. It brings together global insights and local context to offer a clear, actionable framework for organizations seeking to modernize their hiring strategies. More importantly, it is intended to support leaders in making informed decisions that strengthen workforce readiness, sustain performance, and position their organizations for long-term growth in an increasingly skills-driven economy.



## Chapter 1

# Introduction: The Talent Mismatch Problem in Indonesia (2024-2026)

The issue of talent mismatch has become one of the most persistent labour-market challenges in Indonesia between 2024 and 2026. Despite a steady increase in tertiary educated graduates, employers continue to report difficulties finding candidates whose skills align with modern business needs, especially in areas that demand digital fluency, analytical capability, and cross-functional adaptability. This phenomenon is not unique to Indonesia; recent labour-market studies across ASEAN show a structural imbalance where graduate supply grows significantly faster than the availability of high-skilled roles.

Regional evidence demonstrates that oversupply, overeducation, and skill-related underemployment are rising simultaneously, signalling a deeper inefficiency in how talent is being produced and absorbed by the labour market. The following section outlines this imbalance, drawing from recent empirical findings that reflect broader trends relevant to Indonesia's talent ecosystem.

## 1.1 Overview of Indonesia's Talent Market Imbalance (Oversupply vs Undersupply)

Recent ASEAN labour-market insights reveal a widening imbalance between the number of graduates entering the workforce and the availability of high-skilled employment opportunities. A 2024 study highlights that the rapid growth of tertiary graduates has not been matched by proportional expansion in professional or high-skilled job creation, resulting in an escalating skills mismatch issue. Low & Mah (2024) said that the rapid increase in graduate output has not been matched by a proportional rise in high-skilled job opportunities, leading to a growing trend of overeducation.

This situation has resulted in a structural gap where graduates outnumber the skilled positions available in the market. As a consequence, a significant portion of graduates are unable to secure roles that match their qualifications, pushing them toward semi-skilled or low-skilled positions. These findings mirror the situation in Indonesia, where:

- 1 The number of graduates increases annually,
- 2 Job creation remains concentrated in semi-skilled roles, and
- 3 The demand for digitally capable, industry-ready talent grows faster than the supply of such skills.

This imbalance represents a fundamental issue within Indonesia's labour market, such as continuous oversupply of formal qualifications but an undersupply of high-skilled, job-ready talent. The trend contributes to rising underemployment, talent inefficiency, and widening gaps between educational outcomes and industry expectations.



## 1.2 Misalignment Between Educational Outcomes and Industry Needs

The misalignment between what Indonesia's education system produces and what industries genuinely need has become one of the core contributors to the country's widening talent mismatch. As organisations accelerate their digital transformation, expand automation usage, and rely increasingly on cross-functional roles, the supply of graduates entering the labour market has not evolved at the same pace. Many still emerge from tertiary institutions with qualifications that are either misaligned with emerging job demands or insufficiently grounded in the applied competencies required by modern businesses.

Across ASEAN, similar patterns appear. Recent regional labour-market research highlights a structural oversupply of graduates in generalist disciplines, contrasted with a persistent undersupply of candidates capable of filling specialised, high-skill roles. This creates an environment where thousands of degree holders compete for positions that do not require their qualifications, while critical roles in areas such as data analytics, digital marketing automation, engineering, quality assurance, supply-chain operations, or hybrid HRIS-enabled HR functions remain difficult to fill. Indonesia mirrors this imbalance closely, especially in industries experiencing rapid scaling such as fintech, logistics, hospitality, and digital-first services.

The roots of this misalignment can be traced to the education pipeline itself. Longitudinal studies show that young people often make academic decisions without a clear understanding of the qualifications or competencies required for the occupations they aspire to. When students underestimate or misunderstand the skills needed for future jobs, they risk pursuing pathways that do not match labour-market realities, ultimately entering the workforce underprepared or overeducated for available roles. This dynamic reinforces the structural mismatch: graduates enter a labour market that did not request their skill profile, while employers struggle to secure candidates who are truly industry-ready.

Compounding this issue is the slow adaptation of formal curricula. While companies increasingly require digital mindset, analytical capability, and applied problem-solving, educational institutions continue to emphasise theoretical frameworks and siloed academic content. Practical exposure, internship integration, apprenticeship models, and industry-aligned project-based learning remain inconsistent in quality and reach.

As a result, even high-performing graduates require significant post-hire training before achieving expected productivity levels, raising onboarding costs and extending ramp-up periods for employers.

Vocational pathways also play a role in the misalignment. Studies show a substantial gap between youth who aspire to technical or vocational careers and those who actually pursue vocational education. This indicates systemic confusion around pathway requirements, unclear signalling from industry, and limited collaboration between employers and training institutions. Indonesia experiences similar constraints: vocational graduates often lack industry-specific practice, while industries requiring technical talent, such as manufacturing, hospitality, and automotive, struggle to find candidates with the appropriate skill depth.

Taken together, these factors of curricular lag, uninformed academic choices, weak industry alignment, and oversupply in specific academic fields, create a structural inefficiency that keeps Indonesia's talent pipeline out of sync with its market needs. International evidence reinforces this pattern, about when educational outcomes do not align with occupational requirements, long-term labour-market mismatch increases, productivity suffers, and organisations face longer hiring cycles and higher training burdens. For Indonesia, addressing this misalignment is essential not only to reduce recruitment bottlenecks, but also to prepare the workforce for the rapidly evolving demands of the digital economy.





## 1.3 Growth of Hybrid Digital Roles Requiring Cross-Functional Skills

The acceleration of digital transformation has fundamentally changed how roles are designed and how work is executed within organizations. Rather than relying on siloed, function-specific positions, companies increasingly require hybrid roles that combine technical, operational, and strategic capabilities across functions. This shift reflects a broader transformation in how value is created, such as digital initiatives no longer sit within IT or technology teams alone, but span across HR, operations, finance, marketing, and business leadership.

Research on digital transformation consistently highlights that organizational success is closely tied to cross-functional collaboration. As digital systems integrate data, workflows, and decision-making processes, employees are expected to understand not only their functional expertise but also how their work interacts with other functions. The journal on cross-functional collaboration emphasizes that digital transformation initiatives often fail when organizations maintain rigid functional boundaries, but succeed when capabilities are distributed across teams that combine business understanding with technological literacy.

This dynamic has driven the emergence of hybrid digital roles, positions that sit between traditional functions. Examples increasingly seen in the Indonesian labour market include HR professionals with HRIS and analytics capabilities, marketers who manage automation platforms and performance data, operations managers who work with digital dashboards and process automation, and finance roles that integrate business insight with data visualization tools. These roles are no longer “nice to have”, but they are becoming core requirements for organizations aiming to scale efficiently and remain competitive.



The demand for such hybrid roles, however, has outpaced the availability of talent equipped with cross-functional skills. Education systems and traditional career paths continue to produce functionally siloed professionals, while organizations now seek individuals who can collaborate across disciplines, translate data into decisions, and adapt to continuously evolving digital tools. Research shows that the lack of cross-functional capability creates bottlenecks in digital transformation, slowing innovation, weakening coordination, and increasing dependency on a small group of highly skilled individuals.

From an organizational perspective, cross-functional skills are also closely linked to agility and resilience. Studies on digital transformation indicate that organizations with stronger cross-functional collaboration are better able to respond to change, implement new technologies, and align digital initiatives with business objectives. This reinforces the shift away from narrowly defined roles toward hybrid profiles that can operate across boundaries and support continuous transformation.

For Indonesia, the implications are significant. As companies adopt ERP systems, HRIS platforms, CRM tools, automation technologies, and data-driven decision models, the talent gap is no longer limited to technical expertise alone. The real shortage lies in professionals who can bridge functions is individuals who understand both the business context and the digital tools that enable it. Without deliberate strategies to develop, attract, and retain hybrid talent, organizations risk widening the gap between digital ambition and execution capability.





## 1.4 Acceleration of Hiring Complexity Due to Digital Transformation

Digital transformation has significantly reshaped recruitment processes, promising faster hiring cycles, broader talent reach, and more data-driven decision-making. However, rather than simplifying recruitment, digitalisation has fundamentally increased the complexity of hiring. Organisations are now required to navigate not only talent scarcity, but also technological, analytical, and governance-related challenges embedded within modern recruitment systems.

The shift toward digital recruitment platforms, applicant tracking systems (ATS), and AI-assisted screening has dramatically increased the volume of applicants per role. While this expands access to talent, it also creates a paradox, because recruiters face information overload, making it more difficult to identify high-quality candidates efficiently.





As recruitment becomes data-heavy, decision-making shifts from human judgment alone to a combination of algorithms, analytics, and recruiter interpretation could introducing new layers of complexity into what was once a largely relational process.

Research on digital recruitment highlights that automation does not eliminate human involvement, instead, it changes the nature of recruiter work. Recruiters are now expected to interpret system-generated rankings, manage algorithmic screening outcomes, and ensure alignment between automated shortlisting and actual job requirements. This increases dependency on recruiter digital literacy and analytical capability, while also raising the risk of misinterpretation or over-reliance on automated tools.

Another major source of complexity arises from fairness, bias, and data governance concerns. Digital recruitment systems rely heavily on historical data, which can unintentionally reinforce existing biases related to education background, employment history, or socio-economic factors. As organisations adopt AI-driven tools, they must balance efficiency with ethical hiring practices, compliance with data privacy regulations, and transparency in decision-making. This adds governance and risk-management dimensions to recruitment that were previously less prominent.



Digital transformation has also altered candidate expectations. Job seekers increasingly expect faster processes, transparent communication, and seamless digital experiences. At the same time, candidates compete in more crowded applicant pools, often applying to multiple roles simultaneously. This dynamic intensifies competition for high-quality talent while increasing candidate drop-off rates, forcing organisations to redesign recruitment journeys continuously.

In emerging markets such as Indonesia, these challenges are further amplified by uneven digital maturity across organisations. While some companies have adopted advanced recruitment technologies, others struggle with fragmented systems, limited HR capability, and insufficient training. As a result, hiring complexity is not only driven by technology itself, but by the organisation's readiness to integrate digital tools with sound recruitment strategy and human judgment.

Ultimately, digital transformation has shifted recruitment from a transactional activity into a complex capability that requires strategic alignment, skilled recruiters, ethical governance, and continuous adaptation. Without addressing this complexity holistically, organisations risk faster processes but poorer hiring outcomes, that reinforcing the very talent mismatch they aim to solve.





# Drivers of the Skills Revolution (Global & Indonesia)

## 2.1 AI Adoption and Automation Reshaping Job Roles

AI and automation are really shaking things up in how we work, both everywhere and right here in Indonesia. The World Economic Forum's Future of Jobs Report points out that these technologies aren't just taking away the repetitive tasks, they're also opening up new jobs that need sharp thinking, data savvy, and working alongside machines. This means we're moving away from just having a job title to focusing more on what skills you actually have. In Indonesia, you can see this happening more and more as things go digital, especially in banking, making things, moving stuff, and government services. McKinsey Global Institute figures suggest that tons of workers in places like Indonesia will have to learn new skills because of automation. Jobs that are mostly about admin and day-to-day operations are likely to disappear, while there's a growing need for people who can analyze data, build AI, and manage digital products. This all adds up to a big need for a proper national system to help people learn new skills. If we don't step in with training programs, industry partnerships, and government working with companies, the gap between the skills we have and the skills we need could get much bigger, hurting Indonesia's chances of doing well economically in the age of AI.

## 2.2 Rise of Borderless Work and Global Talent Competition

Cloud computing and collaborative tools took off, it really shook up the way we think about work and borders, when digital technology. Coming dashing across the globe to a new job isn't necessary anymore, thanks to the rapid growth of cross-border remote work since the pandemic, according to a World Bank report, and is now a permanent feature of the way many global companies operate.

This has meant a highly competitive global labour market. For Indonesia, this presents both the carrot and the stick. Indonesian workers can send their skills across borders without having to physically move, but their local companies must compete with international companies in the battle to attract and retain the best digital talent. Well-known OECD research suggests that countries that don't pump up their digital literacy won't be able to hold onto their best workers, even if those workers stay in the country. An Indonesian success story, therefore, lies in strengthening digital competencies, global literacy and cross-cultural communication.



## 2.3 Increased Corporate Demand for Agility and Digital Readiness



Large firms today face unpredictable conditions, fast shifts in markets, plus constant tech changes. According to a Harvard Business Review study, only flexible teams with strong digital skills tend to last. Because of this trend, employers want more than experts - they seek people who pick up new things fast, handle challenges well, or work together across departments. In Indonesia, such needs rise steadily alongside expanding digital businesses and startup activity. A recent study from PwC Indonesia reveals firms face challenges hiring workers skilled in digital tools, despite rising numbers of university graduates. This gap suggests what schools deliver doesn't fully align with market demands. As a result, businesses are stepping up efforts through in-house learning initiatives, dedicated training units, or collaborations with online education providers. Being quick to adapt and tech-prepared is now central to company success, rather than an optional extra.





## 2.4 Upskilling Pressure Driven by Rapid Technology Cycles

Shorter tech lifecycles push workers to learn more across the globe. Tools like generative AI, blockchain, or IoT evolve quicker than school programs adapt. A UNESCO study shows current abilities may fade within five years without ongoing refreshes. In Indonesia, IT, digital finance, yet creative fields face especially intense demands. Data from the Ministry of Manpower indicates many employees require new training due to shifts in digital tools, systems, or work practices. Instead of being optional, continuous learning is now essential by design. Therefore, education frameworks should move away from fixed paths toward adaptable, bite-sized, job-focused modules. Where nations or businesses neglect ongoing skill development, performance may plateau while economic progress slows.



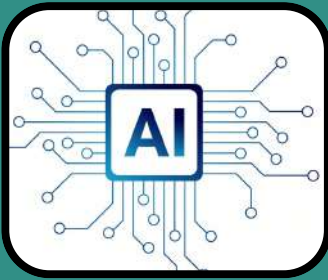
## Chapter 3

# Key Component of Skill Based-Based Recruitment

### 3.1 Development of Role-Specific Skill Taxonomy and Competency Frameworks

A skill-based recruitment model begins with a clear, structured understanding of what success in each role requires. Organizations must develop role-specific skill taxonomies that categorize technical, functional, behavioral, and leadership skills essential for performance. These taxonomies should be aligned with a broader competency framework that defines expected proficiency levels, observable behaviors, and progression pathways. By standardizing competencies across roles, companies reduce hiring ambiguity, improve fairness, and ensure that recruitment outcomes are directly tied to organizational capability needs

## 3.2 AI-Assisted Screening and Predictive Assessment Tools



Modern recruitment benefits significantly from AI-enabled tools that enhance efficiency and decision-making. AI-powered screening systems help identify candidates whose skills match job requirements through automated CV parsing, keyword analysis, and alignment with predefined competency models.

Predictive assessments such as gamified skill tests, cognitive ability evaluations, and behavioral analytics could provide deeper insights into a candidate's potential job performance. This approach not only shortens hiring lead time but also reduces bias by relying on data-driven indicators rather than subjective judgment.

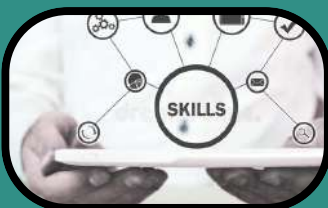
## 3.3 Competency-Based Interview Structures with Standardized Scoring



Skill-based recruitment replaces unstructured interviews with structured, competency-based interviews focused on real behaviors, achievements, and applied skills. Each competency is assessed through targeted behavioral questions (e.g., STAR or BEI method), allowing interviewers to evaluate capability through evidence rather than impressions.

To ensure fairness and consistency, interview panels use standardized scoring rubrics detailing scoring criteria, proficiency descriptions, and rating anchors. This ensures that every candidate is evaluated against the same expectations, leading to more reliable hiring decisions and clearer justification for the selected candidate.

## 3.4 Integration of Micro-Credential and Certification Verification



As skill development becomes more flexible and digitally enabled, candidates increasingly rely on micro-credentials, online course certificates, and industry-recognized badges to demonstrate capability.

Skill-based recruitment systems integrate verification mechanisms, such as digital credential platforms, blockchain-based certificates, and automated validation tools to ensure authenticity. This integration allows organizations to recognize non traditional learning pathways while maintaining quality assurance. It also widens talent pools, making recruitment more inclusive and aligned with continuous professional development trends.

### 3.5 Job Architecture in the Context of Skill-Based Hiring



Competency-based job structure (competency architecture) is an important reference for implementing skills-based hiring effectively, because ignoring the required capabilities can have serious consequences. Many companies create job criteria based on formal requirements, for example through educational background, which usually does not reflect the actual capabilities needed.

This results in longer position fulfillment, reduced competency diversity, and performance scores that do not align with company expectations. To ensure fairness and consistency, interview panels use standardized scoring rubrics detailing scoring criteria, proficiency descriptions, and rating anchors. This ensures that every candidate is evaluated against the same expectations, leading to more reliable hiring decisions and clearer justification for the selected candidate.

### 3.6 Skills Data Infrastructure (Integration of Skill Data in ATS - HRIS)



In many companies, data related to candidates and employees is often not stored in a standardized format within HR systems. Employee data is often scattered across various locations, CVs in different formats, ATS systems that only archive initial candidate resumes, or HRIS systems that store administrative data without competency context.

The lack of integration makes it difficult for HR to perform objective skill comparisons, which can result in delays in data-driven decision-making.



To avoid this, companies can take several steps:

## 01 Digitization of Skill Taxonomy in ATS & HRIS

By integrating a standardized Skills Taxonomy into ATS and HRIS systems, candidate skills can be accurately identified during the screening and career management processes. Additionally, the ATS system should be able to evaluate candidate skills based on portfolios, tasks, or other data so that skills can be compared objectively.



## 02 Dynamic Storage and Updating of Skill Data

Through the HRIS system, employee skill data will be stored in the LMS (Learning Management System) and continuously updated as employees complete digital or in-person training. This system can serve as the primary reference to indicate the validated skills within a company.



## 03 Utilization of Analytical Capabilities and Insights


Once skill data is organized, management can analyze talent by evaluating the available internal capabilities, identifying competency gaps, and considering long-term competencies. This data can also serve as a foundation for designing career paths based on competencies and appropriate development programs.



In this way, companies can broaden their talent pool by referring to validated competencies rather than merely considering formal backgrounds. Additionally, it facilitates the alignment of position requirements with the abilities of candidates/employees and enables more flexible workforce planning to quickly adapt to changing needs.



## Chapter 4



# The Changing Skills Landscape: Hard, Soft & Hybrid Skills

The pace of technological change and advancements in technology like automation and new business models are transforming skill requirements for the new workplace. Today, organizations do not depend simply on technical skill sets (hard skills) or social skills (soft skills), nor even a combination of both. Rather, new skill synergy, technological knowledge combined with human skills, offers the most potential. In this whitepaper, a brief description is given for each of these three types of skill sets.

### A. Hard Skills: Foundational but Fast-Changing



Hard skills refer to technical job-specific abilities that include things like data analysis and coding. These skills are always useful in performing one's job and always important for one's occupation. Unfortunately, they have a constantly decreasing life span because of technology advancements. In today's setting, organizations face increasing threats of obsolescence of skills and talent shortages. As a result, talent acquisition approaches in terms of hiring and developing people today are moving away from "expertise" and instead focusing on learnability, which refers to acquiring new hard skills.



## B. Soft Skills: The Human Differentiator




Examples of soft skills include communication, adaptability, critical thinking, teamwork, leadership, and emotional intelligence. The skills are harder to computerize compared to technical skills and are highly transferable. In a more digital and distributed workplace, these skills are crucial for collaborating, making good decisions, or changing effectively. Though more difficult to measure or define, these skills have come to be seen as more integral to long-term results.

## C. Hybrid Skills: The New Core Capability



Hybrid skills combine hard and soft skills into an integrated capability. Examples include translating data into business insights, applying technical expertise while managing stakeholders, and using digital tools with strategic and ethical judgment. As work becomes more complex and cross-functional, hybrid skills are emerging as the most valuable capabilities, bridging the gap between technology and people, strategy and execution.

### 4.1 Implications for Organizations and Individuals



Organizations are challenged by the evolving skills environment to adopt skills-based workforce management and learning platforms and performance management systems emphasizing outcomes and behaviors. For people, the sustainability of a career is based on the development of balanced skill sets, upgrading technical skills, and developing human skills. People with hybrid skills will be most sustainable in the world of work. Hard skills remain essential, soft skills are increasingly critical, and hybrid skills represent the future of high-impact performance. Investing in integrated skill development is key to sustaining competitiveness in an uncertain world of work.



## Chapter 5



# Challenges in Implementing Skills-Based Recruitment

## 5.1 Challenges in Implementing Skills-Based Recruitment

As a relatively new approach in hiring, skill-based recruitment is not without its own challenges. Organizations that seek to adopt this approach must navigate a range of operational, technological, and cultural hurdles to ensure that skill-based hiring delivers its intended outcomes. The following sections outline the most significant challenges faced by employers, along with their implications for successful implementation.



**01**

## **Lack of structured method to validate the candidates' competencies**

One of the most fundamental challenges in skill-based hiring is the absence of a clear, standardized method to identify, measure, and validate candidates' competencies. When academic degrees and formal credentials are no longer treated as primary indicators, employers must rely on alternative benchmarks to assess skills objectively. Without a well-defined framework, assessments risk becoming inconsistent and subjective with actual job requirements.

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**02**

## **Uncertainty in Selecting Appropriate Tests and Assessments**

Employers often struggle to choose assessments that accurately reflect role-specific skills. The wide variety of available tools, with varying levels of validity and relevance, can result in fragmented or ineffective assessment practices.

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**03**

## **Concerns Over the Quality and Integrity of Assessments**

Even when assessments are in place, employers often express concerns about their quality and integrity. Questions regarding whether assessments truly measure required skills, and whether results can be trusted, remain common. Without robust validation processes or clear assessment design standards, organizations may hesitate to fully trust assessment outcomes.

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**04**

## **Difficulty evaluating assessments from a large number of candidates**

For organizations with high applicant volumes, reviewing skill-based assessments can be resource-intensive. Skill-based hiring often generates richer data, such as test scores, project outputs, or simulation results, than traditional CV screening. Without automation or clear scoring criteria, the evaluation process may slow hiring timelines and reduce efficiency.

## 05

### **Concerns About Adding Additional Stages to the Hiring Process**

Skill-based hiring is often perceived as adding complexity and length to recruitment processes. Poor integration of assessments into existing workflows can increase time-to-hire and discourage both candidates and hiring managers.

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## 06

### **Lack of Supporting Software and Digital Infrastructure**

Many organizations lack the necessary platforms to administer assessments and manage results effectively. In the absence of suitable software, processes may be handled manually or across disconnected systems, which limit scalability and increase the risk of inconsistency.

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## 07

### **Budget Constraints**

Budget limitations remain a practical barrier, particularly for small and medium-sized organizations. High-quality assessments, specialized platforms, and assessor training often require upfront investment. When budgets are constrained, employers may opt for lower-cost solutions that compromise validity or abandon skill-based initiatives altogether.

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## 08

### **Lack of buy-in from internal stakeholders**

Resistance from hiring managers or leadership can hinder consistent implementation of this new approach. Without internal alignment, organizations may revert to traditional credential-based decision-making.



These challenges demonstrate that skill-based hiring requires more than new assessment tools, it demands structural clarity, adequate resources, and organizational commitment. Addressing these interconnected barriers holistically is essential for realizing the long-term value of skill-based recruitment.



## Chapter 6

# Benefits of Implementation

### 6.1 Improved Accuracy in Talent Selection & Job-Role Alignment

A core strength of skills-based hiring lies in its ability to match actual competencies to job requirements, rather than relying on proxies such as degrees or past job titles. In practice, employers using skills-first recruitment often combine structured assessments, technical tests, work samples, case simulations, or behavioral tasks to evaluate whether a candidate can perform the actual duties required by the position. This clarity leads to higher hiring accuracy: companies are better positioned to understand whether a hire is truly capable, reducing the gap between “promised skills on paper” and “actual performance on the job”. Particularly in fast-changing industries (tech, digital services, etc.) where skill needs evolve quickly, this alignment ensures that hires are relevant to current and future business demands. For companies in Indonesia, this means fewer mismatches between what is advertised (or assumed) and what the employee can deliver leading to better productivity and role satisfaction from day one.



## 6.2 Reduced Turnover via Better Skill–Role Matching

When new hires actually have the competencies needed for their roles, they're more likely to succeed and more likely to stay. According to a survey by a leading assessment provider, 89% of companies that adopted skills-based hiring reported improved employee retention. Skills-based hiring reduces the risk of “mis-hires”, employees who leave early because their abilities or expectations don't match the job. One provider noted that organisations saw significantly lower “churn and retention costs” with such hiring methods. Because skills are assessed upfront, onboarding tends to be smoother, and employees require less remedial training or role adjustments, which also decreases attrition associated with frustration or poor job fit. For Indonesian employers, this means cost savings (less expenditure on re-hiring, training, onboarding) and greater workforce stability, especially valuable in competitive or fast-evolving sectors.



## 6.3 Enhancing Workplace Diversity Through Competency-First Evaluation

By shifting focus from credentials (degree, alma mater, previous employer) to actual skills, skills-based hiring opens the talent pool to individuals from non-traditional backgrounds, bootcamp graduates, self-taught professionals, career-changers, or those from less privileged educational tracks. This reduces gatekeeping based on socioeconomic status, demographic background, or educational pedigree, helping organizations build more inclusive and diverse teams. In the context of Asia / Southeast Asia, where educational background may not always reflect true job readiness, such a shift can help tap into underutilized human capital. A recent industry overview notes that skills-based hiring is gaining traction across Southeast Asia. For Indonesian firms, embracing skills-based hiring can support diversity, equity, and inclusion, and bring in fresh perspectives, backgrounds, and talents that might otherwise be overlooked under traditional hiring practices.



## 6.4 Stronger Employer Branding in Competitive Talent Markets

Companies that adopt skills-first hiring are often perceived as more modern, progressive, and fair, a significant advantage in markets where talent is scarce and candidates have many choices. In Asia-Pacific, firms emphasising skill-based hiring are seen as more attractive employers. According to a recent study from Indonesia, effective employer branding in the era of Industry 5.0 involves aligning corporate values (e.g. growth mindset, fairness, inclusion), leveraging digital channels, and promoting employee value proposition, factors which resonate strongly with younger generations (Millennials, Gen Z).

By signalling that they value real ability over formal credentials, such employers can attract underrepresented talent (e.g., non-degree holders, career-switchers), expanding their potential candidate pool and improving employer reputation. For businesses in Indonesia competing for top talent, adopting skills-based hiring can bolster employer brand, not just as a hiring channel, but as a differentiator that attracts, retains, and engages a broader, more diverse workforce.

## Concluding Thoughts

Adopting a skills-based hiring strategy, particularly in Indonesia and across Asia, brings tangible benefits: more accurate hiring, stronger retention, better diversity, and improved employer brand in competitive markets. As industries across the region continue to evolve rapidly (digitalization, new technologies, shifting market demands), focusing on what candidates can do rather than only what credentials they hold becomes increasingly critical. By doing so, organizations invest not just in filling vacancies, but in building a resilient, inclusive, capable workforce ready for future challenges.



## Chapter 7

# Stakeholder Implications

Indonesia's employment ecosystem has undergone a significant transformation in recent years. The recruitment process has gradually shifted from a degree-based approach toward one that prioritizes practical experience, expertise, and demonstrable skills. This transition stems from industries' growing demand for an adaptive workforce amid rapid digitalization and automation. A skills-based hiring approach marks a paradigm shift in how organizations perceive talent. Candidates are no longer evaluated solely on educational background but on how relevant their competencies are to the roles they pursue. This transformation affects all key stakeholders—employers, regulators, educational institutions, and the workforce—and shapes a new direction for talent management in Indonesia.



## 7.1 Impact on Employers and HR Leaders



For companies and HR leaders, the move toward a skills-based system has reshaped how talent is assessed and managed, aligning recruitment with business needs. A study conducted by Asri et al. (2025) at PT Mega Mandiri found that implementing a structured talent acquisition system increased recruitment efficiency and accelerated new employee integration.

Such an approach enables organizations to identify candidates who match real business needs, rather than relying solely on formal qualifications. Technological advancement has further accelerated this shift. Research by Sewang, Ainun, and Misrah (2024) shows that the application of artificial intelligence (AI) in recruitment can speed up candidate screening by up to forty percent and improve selection accuracy. The adoption of digital systems has made recruitment processes more objective and efficient, although maintaining a balance between algorithmic assessment and human judgment remains essential to ensure fairness and sensitivity to organizational culture.



## 7.2 Impact on Policy Makers and Regulators



For policymakers and regulators, the emergence of skills-based hiring creates an imperative to realign labor and employment policies. The Talentics Report (2024) highlights the urgency of “recruit and retrain” strategies to address Indonesia’s growing skills gap. The government plays a strategic role in strengthening continuous training systems, competency certification programs, and cross-sector

collaboration to ensure the workforce can meet the fast-changing demands of industry. Additionally, national analyses such as the Diklatkerja (2024) article emphasize that future recruitment will shift from seeking the “ideal candidate” to identifying the “relevant candidate”—those with practical skills and adaptability. In this context, public policy must focus on recognizing cross-sector competencies and expanding access to vocational education and workforce training opportunities.



### 7.3 Impact on Education and Training Institutions



Educational and training institutions have become key actors in bridging industrial needs with workforce readiness. The move toward a skills-driven economy requires universities and training centers to re-examine their approaches. According to Diklatkerja (2024), outcome-based learning models are more effective in preparing job-ready graduates than conventional, theory-heavy methods.

Meanwhile, Talentics (2024) underscores the importance of continuous upskilling and reskilling initiatives to ensure curricula remain aligned with industry demands. Close collaboration with employers is essential to guarantee that the competencies taught in classrooms match real-world requirements. Education is no longer a one-time phase in life but an ongoing process throughout a professional career.



### 7.4 Impact on the Workforce



For workers, the shift to skills-based recruitment presents both new challenges and substantial opportunities. Employees are now expected to demonstrate verifiable skills rather than rely solely on degrees or past experience. Industry reports stress the importance of lifelong learning as a key success factor in the digital era.

Workers who actively update their skills have a greater chance of adapting to technological change and evolving market demands. At the same time, the integration of AI into recruitment requires individuals to understand how digital systems assess professional behavior and capability. Ethical considerations, data privacy, and algorithmic transparency have become critical issues to navigate. Consequently, digital literacy, communication skills, and adaptive thinking are now essential competencies for the modern workforce.

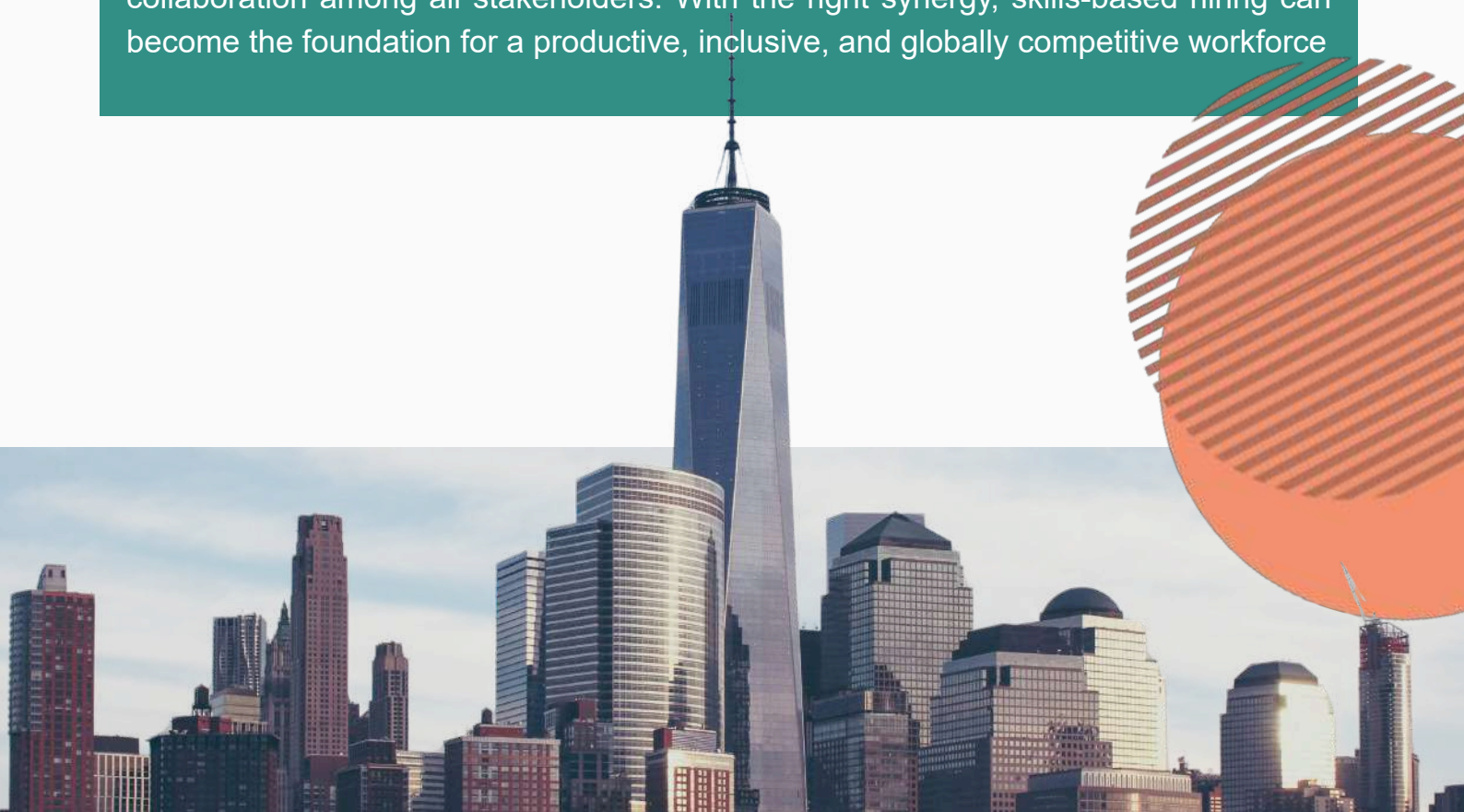


## 7.5 Building a Skills-Driven Ecosystem



The transition to a skills-based recruitment model represents not just a procedural change but a paradigm shift in the world of work. Employers are expected to operate more objectively and efficiently; policymakers must align labor regulations with skill development; educational institutions are encouraged to innovate to remain relevant to market needs;

and workers must embrace continuous learning to stay competitive. We believe that Indonesia's success in navigating this skills revolution will depend on strong collaboration among all stakeholders. With the right synergy, skills-based hiring can become the foundation for a productive, inclusive, and globally competitive workforce





## Chapter 8

# Practical Implementation Guide for Indonesian Companies

### 8.1 Why Skills-Based Hiring is Fundamental for Indonesian Companies

Companies in Indonesia face a rapidly changing labor market dynamic due to digitalization, automation, and increasingly complex new competency requirements. According to a World Economic Forum report (2025), approximately 36% of Indonesian workers' core skills are expected to change in the next five years. At the same time, the Bappenas–WEF (2025) report highlights a significant skill mismatch between the education sector and industry needs. This situation means that traditional recruitment systems based on degrees and past experience are no longer able to identify candidates who truly have the relevant competencies.

Globally, the trend is also very clear. The State of Skills-Based Hiring 2024 reports that 81% of companies worldwide have adopted skills-based assessments because they are considered more capable of attracting high-performing talent and significantly expanding the talent pool. In Indonesia, various HR publications such as Talentics, Jalin, and Jobseeker note that companies are beginning to realize that academic degrees are not always an indicator of practical abilities. Therefore, skills-based hiring is becoming an increasingly relevant approach to strengthen the competitiveness of companies while reducing the bias that often arises in traditional selection processes.

### 8.2 Foundations and First Steps of Implementation

The implementation of skills-based hiring must begin with support from top management, as this change involves not only recruitment methods but also how the company views employee competencies. There needs to be an understanding that skills are the primary “currency” of talent, and that the company's success in facing digital transformation depends on its ability to assess skills in a measurable way. Once commitment has been secured, the next step is to map skill requirements through skills mapping. Companies can start with a few priority positions and work with line managers to identify the hard and soft skills that truly determine performance. The results of the mapping are compiled in a skills dictionary containing competency definitions, proficiency levels, and behavioral indicators.

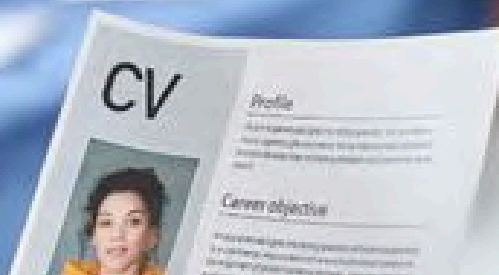


The next step is to update job descriptions to highlight the actual competencies required. Instead of writing “Bachelor’s degree in Engineering” or “3 years of experience,” companies can compile job descriptions based on achievements and skills that candidates must be able to demonstrate. This approach not only makes the recruitment process more transparent, but also helps candidates understand what will be measured during the selection process. From this stage onwards, the company’s focus shifts from “who the candidate is” to “what the candidate can do.”

### **8.3 Implementation, Integration, and Continuous Strengthening**

Once the foundation is in place, companies need to develop objective and consistent skill assessment mechanisms. Technical tests, case studies, work samples, or competency-based interviews using the STAR method are effective tools for measuring candidates’ actual abilities. Many Indonesian companies have also begun to utilize digital assessment platforms for more standardized and bias-free initial screening. However, implementation should not stop at the selection stage. Skill data from candidates and new employees must be integrated into the talent management system so that companies can compile a skills inventory, design more targeted training, and open competency-based career paths for internal mobility.

The success of this approach also depends on change management. Companies need to socialize the benefits of skills-based hiring to all units, provide training to HR and hiring managers, and begin implementation through pilot projects before expanding to the entire organization. With a gradual, data-driven approach, companies can build a recruitment culture that is more equitable, adaptive, and aligned with the needs of the future industry. Ultimately, skills-based hiring is not just a selection method, but a comprehensive strategy to create a stronger, more competitive, and resilient HR structure in the face of digital economic challenges.



## Chapter 9

# Strategic Recommendations for Enhance Quality

Many companies still apply human resource management strategies that are no longer relevant, such as evaluating candidates solely based on educational degrees, age, or even gender. In addition, job descriptions are often poorly defined and competency standards for specific roles are unclear. As a result, phenomena such as the experience gap and age gap emerge, creating misalignment between employee competencies and organizational needs.


To improve the quality of HR management while ensuring organizational readiness to face dynamic business environments, integrated and long-term strategic recommendations are required. This approach not only emphasizes process improvement, but also capability strengthening, technology utilization, and sustainable talent development. By integrating competency mapping, HR analytics, upskilling programs, and proactive workforce planning, organizations can build a talent ecosystem that is more adaptive, effective, and highly competitive.



### 9.1 Build an enterprise-wide skills framework & internal mobility pathways

Developing an enterprise-wide skills framework is a strategic step to ensure organizations have comprehensive and consistent skills mapping across all functions. This framework enables the identification of core competencies, technical competencies, and behavioral competencies required for each role. With a standardized skills mapping system, organizations can optimize internal mobility by placing employees based on skill fit and development potential.





The initial step involves developing a comprehensive competency dictionary complete with behavioral indicators and proficiency levels. This allows companies to conduct regular skills assessments to identify gaps and individual potential. The assessment results are then integrated into performance management systems and succession planning, enabling transparent, competency-based career paths and internal mobility. This approach enhances talent management effectiveness, increases competency relevance, and strengthens alignment between HR strategy and business direction.



## 9.2 Invest in talent analytics, AI recruitment tools, and capability development

### 01 Talent Analytics

Talent analytics is a strategic approach in human resource management that leverages data and statistical analysis to understand, manage, and optimize workforce performance and potential. It involves collecting, processing, and interpreting employee-related data such as performance, skills, engagement levels, and career movement



Through talent analytics, organizations no longer rely solely on intuition in HR decision-making, but instead use more objective and measurable empirical foundations. The implementation of talent analytics offers numerous benefits, including improved HR decision quality, more accurate identification of skills gaps, and enhanced recruitment and employee development effectiveness.

Talent analytics spans all stages of the employee lifecycle, from recruitment needs and selection to development, retention, and succession planning. This analysis helps organizations identify trends, design better recruitment strategies, and improve overall talent-related decisions. Talent analytics operates through several key stages. First, organizations collect data from multiple sources such as HRIS, performance evaluations, employee surveys, and recruitment data. Second, the data is analyzed using predictive methods to identify patterns and trends, such as turnover risk or future skill requirements. Third, the analytical insights are used as a basis for strategic decisions including workforce planning, employee development, and targeted training program design.



## 02 AI Recruitment Tools

Recruitment processes can now be supported by technology that enables digitalization and automation across various selection stages. Processes that were previously manual and time-consuming such as resume screening, interview scheduling, and candidate assessment can now be conducted more efficiently and systematically through digital platforms such as applicant tracking systems (ATS), online assessments, and applicant data analysis. This technological adoption transforms recruitment from a purely administrative activity into a data-driven strategic function.




Furthermore, the use of AI recruitment tools enhances efficiency by automatically screening candidates based on competencies, experience, and organizational fit. In addition to reducing time-to-hire and recruitment costs, AI helps minimize subjective bias in early selection stages and improves assessment consistency, enabling organizations to acquire talent more objectively and accurately. Many global companies have adopted AI recruitment tools, including multinational firms such as Unilever, which utilizes AI in early recruitment stages through video interview analysis and game-based assessments to evaluate candidate potential.

## 03 Capability Development

Capability development refers to a systematic process designed to enhance workforce competencies in alignment with business needs and the increasingly dynamic work environment. Research shows that employee training and development significantly contribute to organizational effectiveness and competitiveness, as structured learning improves productivity, technical skills, and non-technical skills such as leadership and adaptability. Examples include reskilling, upskilling, and continuous learning tailored to individual employee needs and organizational objectives.





Thus, capability development serves as a bridge between talent analytics and effective HR strategy implementation. Data from talent analytics systems identifies skill gaps, while systematically designed capability development programs provide appropriate learning pathways to address those gaps. As a result, organizations can meet current skill requirements while preparing the workforce for future demands, improving retention, and sustaining competitive advantage in rapidly changing business environments.



### 9.3 Establish continuous upskilling programs aligned to business goals

Workforce capability development through continuous upskilling should be designed as part of a broader organizational strategy rather than as ad hoc training initiatives. Continuous upskilling enables organizations to proactively respond to technological change and market dynamics by strengthening critical current and future skills. Effective upskilling must be aligned with business goals, such as driving innovation, improving operational efficiency, or supporting digital transformation, so that learning directly contributes to strategic objectives. Studies indicate that organizations integrating skills transformation into workforce planning and business strategy can enhance competitiveness and create sustainable skill development pathways, particularly when supported by competency data and regular skill needs evaluations.

Strategies for implementing upskilling programs include:



Conduct general skills gap analyses to identify priority skills.



Develop skill development roadmaps directly linked to business growth plans (e.g., digital transformation).



Foster a continuous learning culture through internal and external learning platforms (e.g., microlearning, online courses).



## 9.4 Align recruitment strategy with long-term workforce planning

Aligning recruitment strategy with long-term workforce planning is a proactive approach that considers not only current staffing needs but also future skill requirements. Strategic workforce planning encourages HR to analyze business trends and labor market conditions, then adjust recruitment strategies to support expansion, digital transformation, or innovation initiatives.

This alignment helps organizations identify skill gaps early and determine whether to fill them through external hiring, internal development, or a combination of both. This approach has proven effective in reducing skill mismatches, improving recruitment effectiveness, and creating stronger succession pathways for internal talent.

Workforce planning practices for long-term implementation include:



Applying long-term workforce forecasting to estimate the number and types of skills needed over the next 3–5 years.



Integrating strategic planning data into recruitment processes and job design to avoid reactive talent responses.



Using workforce analytics to predict turnover trends, recruitment needs, and skill gaps, enabling more targeted recruitment strategies.



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