

Learning while Working - How skills development in SMEs can be supported UEAPME Background Note

The purpose of this background note is to contribute to a better understanding of the reality of SMEs in Europe.

The great diversity of SMEs in Europe

When talking about SMEs, i.e. companies with up to 250 employees, it is essential to consider the composition of this very diverse group. The vast majority of SMEs, which count for more than 99.8 % of companies in Europe and provide for 67.4% of employment, are small and micro businesses. As a matter of fact, 92% of SMEs in Europe are companies with less than 10 employees, most often run by the owner, counting for 29% of employment in Europe. Besides the size difference, SMEs present a great diversity of types of companies: from high-tech businesses to start-ups more turned towards international markets, from more traditional companies such as crafts companies active on local markets to family businesses.

These fundamental characteristics have a strong impact on strategies for skills development, as the challenges SMEs face when coping with human resources management differ accordingly.

A key issue for all SMEs: lack of skilled labour

Already before the economic downturn, SMEs were facing numerous challenges. With the crisis, the competition has been further exacerbated. The race for talents has become a reality for SMEs as well, mainly because human resources and the quality of staff skills play a key role in the innovation capacity, productivity and competitiveness of small companies.

The main concern of SME employers is the availability of skilled workers able to adapt to and cope with new challenges. They have two main ways to tackle this concern, either through new recruitment or by investing in continuous learning for their staff.

Furthermore, most small companies are confronted with the difficulty to attract and retain not only qualified workers but also young graduates because they less promote their full potential towards this target group. One direct consequence is that SMEs tend to hire a higher proportion of less qualified people and are obliged to invest more in basic skills that these persons are lacking, before investing in more advanced generic and/or technical skills.

How to overcome the various obstacles for skills development in SMEs

The crisis has created a momentum in SMEs for skills needs. According to the most recent surveys, entrepreneurs and small business owners are well aware of the significance of skills needs.

They recognise that this trend increased rapidly in the last ten years and will further develop in the next decade. According to a study by the European Commission's DG ENTR¹, there is a general consensus among small entrepreneurs that more systematic approaches would be useful for planning skills needs, but this is not reflected in practice.

SMEs, notably the smallest, have difficulties to overcome the traditional existing external and internal barriers and obstacles for skills development, among which the most common are:

- Problems of limited financial resources
- Problems in sending people off on training

¹ "Identification of future skills needs in micro and crafts (-type) enterprises up to 2020" - EC, DG Enterprise and Industry, January 2011
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- Lack of training programmes and methods suited to the size and needs of such companies
- Lack of knowledge of training offer
- Lack of motivation of workers for further training
- Risk that well-trained workers leave the company immediately after the training completion.

Despite all these barriers, SME managers are increasingly aware of the importance of improving workforce skills for their innovation capacity.

The importance of non formal and informal training

Non formal and informal training are very common in micro and small enterprises, but they are never taken up in official statistics. On the job training is the most widespread form of continuous learning in small businesses. It is particularly relevant in companies where alternating training represents an important part of initial vocational training. In fact, companies well acquainted with “on the job learning” tend to more easily apply it for continuous training. Not surprisingly, many employers see it as the best form of specific training available. As reported in the DG ENTR study, they value it as “easily taught, highly specific, can be applied at the exact time and place needed and enhances the productivity of employees and of company immediately”. Employers see it as one of the best ways to overcome the classical obstacles for continuous training and workers can see its direct application at work. However, one cannot deny that it also poses the question of validation of learning outcomes, which is high on the European agenda, notably for fostering mobility of workers and upgrading skills.

Moreover, it must be remembered that most workers in small businesses are multitaskers due to the limited number of employees and enjoy more autonomy and responsibility. With a less hierarchical organisation, team work is a common form of work organisation in SMEs. However, what is new and less obvious for SMEs is to formalise a strategy for developing skills and to investigate for the near future.

A shared responsibility of all stakeholders for mobilising and optimising resources

The CEDEFOP report states that “Public policies on adult learning and company training actions may serve contradictory goals, where governments aim at aiding, through continuing training, the employability and mobility of workers across enterprises, sectors and eventually occupations, while companies tend to focus on higher ranking employees and on very specific training needs related to work processes”².

According to SMEs’ views, the goals of companies and of public policies might be different but not necessarily contradictory. On the contrary, small companies largely benefit from higher broad transferable skills. Public policies should acknowledge these different goals and companies should not be held accountable or declared responsible for training in such broad skills. Companies’ decisions on whether or not to train a person in a particular field are based on efficiency criteria – the return on investment – and public policy needs to build upon this company logic.

Public policy should intervene where this “efficiency approach” leads to a suboptimal allocation of training. This is the equity logic that should lie at the heart of public policies and where governments can intervene by providing training at a lower cost in general skills, ensuring notably the training of the unemployed, inactive population or certain groups at risk with a view to reintegrating them in the labour market.

Instruments addressing companies in pursuing the equity goal, such as training rights and other obligations, mainly lead to an inefficient use of companies’ funds. This is particularly true in small businesses, unless workers’ training is accompanied by specific measures for company strategy development.

² CEDEFOP “Learning while Working – Success stories on workplace learning in Europe” – 2011, Executive summary p.9

Therefore, public policy should not request companies to pursue equity goals, but rather support companies and notably small businesses in following their own logic to training (for instance through tax incentives, support a functioning market of training providers, ensure transparency in this market etc.).

Continuous training is a joint responsibility of companies, workers and public authorities. This responsibility should be clearly divided according to the type of training and the main goal of training measures.

- Employers are responsible for developing competences of staff needed to face new customers' requirements and market activities, new work processes or changes in work organisation aimed at increasing competitiveness.
- Workers and individuals themselves should be responsible for their own development, inside or outside of the workplace. Employability is a precious factor that has to be taken care of and which cannot be entirely delegated to others.
- Public authorities have a key role in preparing the integration of youngsters, inactive people or the unemployed into the labour market and to tackle social inclusion, notably through modern and responsive education and training systems.

Public policies should strengthen the different stakeholders to assume this responsibility:

- For companies, by setting up financial incentives such as tax reduction and other incentives to train their workers for where the company identifies a training need (company logic);
- For individuals, by providing incentives such as learning accounts for individually chosen training (individual logic);
- Publicly financed continuous training for special target groups: low qualified etc. (social logic).

SMEs require tailor made support measures and services

Even if small companies are well aware of the need for and relevance of skills, they have difficulties to identify more precisely future skills needs. In general, they react to customers or employee demands.

- *Priority to small business employers*

SMEs rarely have a human resources department. The main person in charge of human resources is the entrepreneur/owner, who in most cases is not in a position to set up and implement strategies for skills development. Therefore, if the manager is not convinced about the relevance of further investments in human resources for business productivity and competitiveness, he/she will not be ready to engage in skills upgrading.

There is a clear role for business organisations, chambers and professional bodies to propose tools for a tailor made analysis and comprehensive strategies. Several examples exist in different countries where SME employers/owners are the target group for setting-up human resources strategies, such as in France (APCMA with COMAFOA) or in Germany (with Elbcampus).

- *Role of guidance and counselling*

Small business employers should be accompanied by experts and professionals from the same sector who are able to guide them, to give advice and to find out the most suitable forms and content of training to their specific case. These "training ambassadors", mainly based in professional organisations, should also support them in the validation of non formal and informal learning.

Furthermore, small businesses should be supported through a complete process consisting of clearly differentiated stages, from the identification of skills needs, to the appropriate training of workers and finally ensuring a real implementation of the company's development strategy. .

- *Importance of social dialogue*

Anticipating skills needs require a strong dialogue between employers and workers. While social dialogue between employers and workers representatives is well structured in larger SMEs, in smaller companies it is less formalised due to the closer ties between employers and workers at the workplace. As a consequence, the assessment of skills needs to set up a company plan might be used as a good opportunity for a dialogue with each employee.

- *Relevance of acting at local level*

Many small employers are significantly influenced by the practices of similar companies in their immediate vicinity. The creation of company networks can strongly contribute to convince reticent employers to do more for continuous training of their staff. These networks might be supported by local or territorial local authorities and organise peer learning activities to encourage continuous training.

- *Role of training offer and training providers*

The training supply should be customised to the reality of small businesses and meet their specific training needs. A company with a limited number of employees should benefit from tailor made support in terms of content and methods of training. Training institutions should strongly adapt to the diversity of companies. In countries where alternate training is well anchored in initial vocational training schemes, such as the dual system and apprenticeship system, the professional organisations, mainly skilled-craft chambers, play a key role in providing the tailored continuous training offer for small businesses. This is especially the case in Austria, France, Germany or Poland. Unfortunately, more and more training institutions are investigating this new market without necessarily ensuring high quality, professionalism and adequacy to SMEs' needs.

- *Adequate financial incentives fitting to the reality of SMEs*

The financial dimension plays a crucial role for further training of workers. The sectoral training funds jointly managed by social partners are one of the many possible solutions. However, this type of mechanism does not always fit the reality of small businesses. It very often lacks flexibility, remains too bureaucratic and consequently is still not sufficiently attractive for these companies. It is therefore time to rethink the functioning of such funds for small businesses. The same should apply for the different financial incentives, which are generally insufficiently used by SMEs.

Conclusion:

- The economic crisis has created a political momentum that should be taken up to transform the need for better skills into a reality implemented on the ground.
- The SME dimension will require more attention when discussing about skills development for workers. Furthermore, the "Think Small First" principle should be fully applied. Small and micro-companies should be better considered when speaking about anticipation of training needs and developing skills strategies.
- SMEs are facing a number of well known barriers that could be overcome through a tailor-made approach at local/sectoral and territorial level. However, they need tailor made support and services from various stakeholders, including business organisations, chambers, training providers and public authorities.

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