



**PACT FOR  
SKILLS**

# **PEER LEARNING ACTIVITY – “Introducing skills management in SMEs”**

Background Note | April 2024

## Introduction

Small and medium-sized enterprises (SMEs) are the backbone of EU's economy, representing 99% of all businesses in the EU, and employing around 85 million people<sup>1</sup> -almost 44% of all employed people in the EU (196 million)<sup>2</sup>.

Like any business, an SME's ability to thrive relies heavily on the skills and competences of their workforce. Yet SMEs face greater challenges compared to larger companies in managing the skills of their workforces which adversely affects their ability not only to recruit, upskill and reskill labour but also to remain agile, innovative, and competitive. Encouraging SMEs to enhance their skills management capabilities is thus crucial not just for individual enterprises but for Europe's wider social and economic evolution.

The Pact for Skills PLA on Introducing Skills Management in SMEs provides an opportunity for Pact for Skills members to learn more about the challenges and opportunities of introducing skills management into SMEs. At the event, Pact members will hear from experts, and will discuss with other stakeholders across Europe to exchange ideas and upscale good practices to further enhance upskilling and reskilling in their day-to-day work and better address current and future skills needs.

This background paper aims to offer insights into the current state of play with regards to skills management in SMEs. The paper also provides an overview of what is meant by skills management, the benefits it can bring at company and individual level, and outlines some of the key challenges faced by SMEs.

## What is skills management and why is it needed?

Skills management comprises the whole gamut of business processes concerned with how firms manage the skills of their workforce and involves identifying, evaluating, and developing the skills and expertise of employees. Effective skills management enables enterprises to have a clear view of the skills, qualifications and credentials held by employees and how they can be deployed within the organisation to maximise the benefits for both the business and the individual workers involved.

Skills management can support the work of SMEs both at an operational and strategic level. From an operational perspective, it allows companies to gather information about existing skills sets, and consequently identify relevant skill gaps to be addressed. In turn, from a strategic standpoint, implementing successful skills management processes ensures that

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<sup>1</sup> See [https://single-market-economy.ec.europa.eu/document/download/b7d8f71f-4784-4537-8ecf-7f4b53d5fe24\\_en?filename=Annual%20Report%20on%20European%20SMEs%202023\\_FINAL.pdf](https://single-market-economy.ec.europa.eu/document/download/b7d8f71f-4784-4537-8ecf-7f4b53d5fe24_en?filename=Annual%20Report%20on%20European%20SMEs%202023_FINAL.pdf)

<sup>2</sup> See [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU\\_labour\\_market\\_-\\_quarterly\\_statistics#Employment\\_rate\\_up\\_and\\_Labour\\_Market\\_Slack\\_down\\_in\\_the\\_EU](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_labour_market_-_quarterly_statistics#Employment_rate_up_and_Labour_Market_Slack_down_in_the_EU)

SMEs can invest in developing the expertise they need to be successful and sustainable, particularly in the context of an ever-changing labour market.

Several inter-related aspects of skills management can be identified<sup>3</sup>:

- **Analysis and planning** involves identifying current skill needs in the workforce and comparing these to business needs in the short, medium and longer term. Activities involve business environment and workforce analysis (e.g. training needs analysis), the identification of skills gaps and the development of gap-closing strategies.
- **Skills utilisation** aims to maximise the effectiveness of how employees' existing skills are used in the workplace based on analysis and planning. It involves activities such as the redesign of roles and the (re-)assignment of employees into positions where their skills can be most effectively deployed.
- **Skills development** aims to increase skill levels within the company and involves determining training requirements based on skills gaps identified through analysis and planning and providing appropriate skills development opportunities whether through formal vocational education and training or less formal activities such as coaching and mentoring.

## Benefits of effective skills management

Effective skills management is widely recognised as having the potential to deliver a broad range of benefits - for companies, individuals, and in our societies and economies – especially for SMEs which typically face difficulties in attracting, deploying and retaining staff.

For **SMEs**, effective skills management can bring about a generally better understanding of skill needs and how to recruit more effectively and efficiently in the labour market to meet those needs. Internally, better skills management can improve the match between employees' skills and production and delivery tasks and provide employers with a better understanding of staff performance which in turn can deliver improvements in terms of productivity, growth, and competitiveness. Better skills management can also raise rates of innovation since skills have a vital role in innovation and lack of appropriately skilled employees within an enterprise is a very important barrier to innovative activities. Skills management also enables SMEs to design and implement clearer career/progression structures for their staff, which, combined with better skills utilisation, can lead to reduced staff turnover.

For **individual employees**, skills management offers the possibility for improved skills development and greater job satisfaction, motivation and confidence that stems from better

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<sup>3</sup> European Commission, Directorate-General for Employment, Social Affairs and Inclusion, Gausas, S., Christenko, A., Mosoreanu, M. et al., *Feasibility study for a (self-) assessment tool on skills management practices in SME's*, Publications Office of the European Union, 2022, <https://data.europa.eu/doi/10.2767/039248>

skills utilisation in the workplace. Employees also face the prospect of better progression opportunities being opened up. More effective skills management also means that employers have a more comprehensive and accurate understanding of employees' training needs and how to enhance their performance which is likely to lead to improved job satisfaction and increased commitment to the enterprise amongst employees.

These 'micro-level' changes within SMEs are likely to lead to wider benefits for the **society and economy**. If SMEs become better at determining more accurately their skill needs, there is likely to be an aggregate improvement in the matching of supply and demand for skills, improving the functioning of the labour market. Enhancing SMEs' capacity for skills development also opens up more and better opportunities for upskilling and reskilling, which will enable a more effective response to the green and digital transitions. Overall, by enhancing company performance, improved management of skills provides a critical support to the goal of developing a healthier, more productive economy, with a better skilled workforce able to generate higher incomes.

It is worth highlighting that, significantly, many of the benefits outlined above are inter-related – and many represent win-wins for companies and their employees. For example, better skills utilisation through greater clarity around job roles can lead to improved company productivity whilst also enhancing job satisfaction for employees. More generally, building effective skills management is an essential part of business development; without it, SMEs struggle to grow.

## Challenges facing SMEs

Despite the manifold benefits that flow from good skills management, SMEs can face a range of challenges when they try to enhance their capacity in this area, which are illustrated in this section. These challenges can be both internal to the organisation and external, though in practice there can be much overlap between these dimensions.

Some of the '**internal**' challenges to more effective skills management faced by SMEs are well known. For example, typically SMEs lack the time and resources to put in place appropriate procedures or develop their capabilities. It is not uncommon for a SME to lack a full-time, professional human resource capacity to lead on skills management: senior managers often add it to their other day-to-day tasks. SMEs also suffer from information deficiencies about the benefits of skills management and how they might address the topic, relying instead on perceptions around the relative costs and benefits of doing so. SMEs also operate in a competitive environment for labour and often this means there is a risk that workers who they train will be 'poached' by other employers, which can act as a powerful disincentive to invest in skills.

SMEs also operate in the context of a range of broader '**external**' conditions which can act as challenges to developing their skills management capabilities. In low-skill, low-value

markets, where SMEs compete with one another on cost more than quality, there is hardly any space for investment in skills. Moreover, sectors and regions vary in how far they engage in skills management which has much to do with tradition and how sectors/regions are organised in terms of training and skills. General economic conditions also shape how far SMEs are involved in skills management, e.g. training budgets are typically amongst the first in line to be cut during economic downturns. SMEs may also rely on private providers from which they ‘buy in’ support, perhaps on an hoc basis for skills development – but it can be difficult for SMEs to find appropriate solutions for their needs, since private providers often tailor their offer to larger companies (a form of market failure).

The challenges faced by SMEs in this area are thus many and complex. The examples presented above make it difficult for businesses to weigh up the costs and benefits of skills management accurately and to move beyond taking a short-term approach to skills which stems from the systemic market conditions in which they often operate. It should also be noted that, in general, the challenges are likely to be most acute amongst smaller companies in the ‘SME’ category.

## Towards solutions

To address the challenges they face, SMEs need appropriate support. They need help to tackle **specific immediate needs** (e.g. short-term recruitment issues stemming from new contracts related to the green transition); but they also need clear developmental pathways to help them move from their current situation, e.g. where (basic) HR functions are carried out by SME directors and senior managers (with minimal or no training in HR), to a position where they have a **well-developed, properly resourced, longer term, strategic approach to staff management**.

Providing solutions requires action by a range of agencies and measures from **incentives and subsidies** that enable SMEs to access the advice they need to **direct support** (e.g. providing training). In some countries, SME capacity and scale issues are addressed through self-organised collaboration: organisations like inter-company training centres have been established to provide support and training to SMEs regarding skills. Other types of support include publicly funded enterprise support instruments such as SME-development agencies and associated packages of support. Such enterprise support interventions are often organised regionally as part of wider regional development strategies and measures. Both Member State and European funds (like the European Regional Development Fund<sup>4</sup>, the

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<sup>4</sup> [https://ec.europa.eu/regional\\_policy/funding/erdf\\_en](https://ec.europa.eu/regional_policy/funding/erdf_en)

European Social Fund Plus<sup>5</sup>, Digital Europe<sup>6</sup>) feature in the landscape of action on skills management for SMEs.

**Partnerships and collaboration** are often a notable feature of the solutions around skills management and may embrace both the public and private sectors including organisations like Public Employment Services. As noted, there is a large corporate market that can support the needs of SMEs, and although products are often tailored to the needs of big companies, the HR technology market is growing rapidly and offers the prospect of being able to better meet the needs of SMEs - small businesses are the fastest-growing segment of new HR technology buyers<sup>7</sup>.

## Peer Learning Activity

The PLA will provide Pact for Skills members with the opportunity to discuss challenges and solutions to the obstacles facing SMEs, with the benefit of real-life examples shared by other Pact members representing SMEs and/or supportive/representative organisations.

Participants to the PLA will discuss how to develop effective and sustainable practices for SMEs around skills management, and develop their understanding of the ingredients for successful interventions.

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<sup>5</sup> <https://european-social-fund-plus.ec.europa.eu/en>

<sup>6</sup> [https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/digital-europe-programme\\_en](https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/digital-europe-programme_en)

<sup>7</sup> p. 55. European Commission, Directorate-General for Employment, Social Affairs and Inclusion, Gausas, S., Christenko, A., Mosoreanu, M. et al., *Feasibility study for a (self-) assessment tool on skills management practices in SME's*, Publications Office of the European Union, 2022, <https://data.europa.eu/doi/10.2767/039248>