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CREATING A COMPETITIVE EDGE: PROMOTING SME SKILLS

The European Union's '2020' growth strategy underlines why small and medium-sized businesses (SMEs) are the cornerstone of the EU's drive for employment and economic growth. Likewise, SMEs in EU neighbouring regions are critical for job creation and economic development. With increasing evidence that quality staff is key to the competitive edge of SMEs, this briefing considers a number of challenges to improve enterprise skills in ETF partner regions. It puts forward a number of options to improve both policy and practice for up-skilling SMEs. Given that the skills' agenda comprises a range of stakeholders, the briefing is addressed to policy makers in education, economy and employment, including organisations representing the interests of the SME sector.

WHY ARE SMES SO IMPORTANT TO THE GROWTH AND JOBS AGENDA?

Europe's interest in more competitive SMEs is a hallmark of the EU2020 growth strategy. The strategy argues for more developed human capital to boost national economies. In ETF partner countries SMEs account for the lion's share of overall businesses (e.g. 99% in the EU pre-accession region; 94% in the EU's Southern Neighbourhood; 95% in the EU's Eastern Neighbourhood). They also provide the main source of jobs. ETF partner countries have adopted the Small Business Act for Europe (SBA). This includes specific provisions for improving skills' prompting reflection on the training needs of start-ups, early phase and growing enterprises. Additionally, creating conditions to allow firms to trade internationally brings added-value to national economies. Improving SME skills is critical to the wider drive for growth, prosperity and employment.

WHICH SKILLS ARE IMPORTANT?

Enterprise skills comprise business skills (e.g. marketing and finance), entrepreneurship as a key competence (e.g. creativity, innovation, risk management) and vocational skills (e.g. professional skills for specific sectors). All three areas are necessary to effectively deliver company business plans and for companies to operate effectively in increasingly open economies. An enterprise's demand for skills varies from start-up to growth phase. More ambitious businesses operating in international markets require specific knowledge and skills to meet international trading standards for their respective sectors.



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SMEs account for the lion's share of businesses in ETF partner countries. They are also the main source of jobs.



CONTENTS

- Why improved intelligence on skills is critical for effective SME policy?
- The importance of SMEs for growth
- The challenges of improving enterprise skills
- Skills to improve the international trade of SMEs

CHALLENGES FOR THE EFFECTIVE PROMOTION OF SKILLS

Various ETF studies addressing SME developments in ETF partner regions point to common challenges to be addressed if the objective of a better performing enterprise sector is to be achieved. Firstly, there is an insufficient stock of quality skills, particularly for growing enterprises and export-oriented companies. This is a result of the weak response of the education and training community to the interests and demands of SMEs. Secondly, effective policy-making for business development requires systematic intelligence on the SME workforce to allow governments and the private sector to establish the necessary policies, support structures and training measures to reinforce the human capital of SMEs. Further, poor skills' intelligence leads to low demand and mismatch of skills. Thirdly, improvement in policy coordination and synergies, particularly between government bodies responsible for education, training and the economy is important. Finally, SME readiness to devote time and money to staff training is weak. SMEs need to be convinced of the value of investment in skills. The combination of all four factors undermines the potential of enterprise human capital with knock-on implications for enterprise productivity, the national economy and jobs.

WHAT SHOULD BE DONE?

The skills concerns of SMEs should be addressed at each level of a business's development if scale, in terms of productivity and employment, is to be achieved. The objectives and contents of training provision differ from start-ups through to ambitious businesses competing in international markets. The training community should be aware that inputs at one level should build on earlier human capital investment in the company as well as recognising skills acquired outside formal education e.g. know-how developed on-the-job. A business plan is therefore a key driver of a company's workforce development. It is a primary reference point to determine the degree of a company's interest in skills' development and which skills should be addressed.

A) TRAINING FOR START-UPS

All ETF partner countries offer a range of training provisions to support start-up training. Providers include Chambers of Commerce, regional development organisations, SME agencies, public and private training bodies and specialist NGOs. A review of start-up training (policy and practice) in each partner country is a necessary starting point for improving quality and standards for start-up training services.

With concerns to improve the employability of young people across all ETF partner regions, more concerted efforts to promote entrepreneurship as a key competence will be important to build a creative, problem-solving and team-working generation necessary for a more entrepreneurial economy. But particular efforts will be important to develop start-up skills for those following vocational, higher and tertiary education. Consideration should therefore be given to contextualizing business start-up courses to the wider curriculum. Adjustments to education policy, curriculum, teaching and assessment will be necessary but should borrow on good policy and good practice already available.

The contribution of career guidance to self-employment and business creation is a policy blind-spot in all ETF partner countries. Career guidance services should systematically advise school-goers and university students of entrepreneurship as a serious career option. Further, education career services should co-work their information and advisory services with wider business support organisations. This will ensure coherence and consistency in advice, sign-posting and start-up support.

Finally, the entrepreneurial transition from school, college or university to self-employment and business creation must be managed and supported. Structured cooperation between education and SME support services is important to ensure that budding entrepreneurs leaving the education system with viable business plans have access to more developed advisory assistance and finance (e.g. credits, guarantee schemes). More effort is required in all countries to ensure that education and training interfaces with banking services that provide start-up finance. Development banks working through intermediaries, therefore, have a

role in promoting cooperation between the education and the banking sector. In turn, start-up training providers must work with their local banking communities to ensure that business plans developed through their training support are both technically sound and financially feasible.

B) FROM EARLY PHASE TO GROWING ENTERPRISES

Once operational, new businesses should optimise knowledge and skills to ensure survival and early-phase development. Secondly, more developed training support for established businesses that already demonstrate growth potential (defined by factors such as extended client base or product innovation) provide an important leverage for a nation's economic growth and employment. Three areas need specific attention.

Firstly, more developed mentoring support to business owners and managers would help businesses with common challenges (e.g. changes to markets and sales or technology support). Sector/cluster-oriented business modules and coaching could be considered to meet more developed know-how requirements. Given that access to finance is a barrier to companies, training and financial support could be better linked. Support to business in acquiring financial support at all stages of a firm's development is important. A firm with a better trained workforce makes for more successful financial investment in the company. This requires that the training community is directly engaged in a country's wider investment efforts.

Secondly, vocational up-skilling is important for the development of both early-phase and growing businesses. However, evidence points to a disconnect between what businesses require in terms of skills and what the training provider market offers. While one-off, project-driven training needs assessments are common, a more developed system-based tracking framework for SME skills is required. To address this issue, businesses need to recognise and take ownership of their own staff development requirements. This can be helped by more developed quality assurance frameworks for training as well as greater innovation and flexibility in training design and delivery to make the training offer more relevant and appealing to SMEs. Business intermediary organisations should play a more pro-active

role in gathering skills' intelligence from their members and to ensure that this intelligence is regularly articulated to the education and training system. The objective should be a more comprehensive 'fit' between market demands and training offer.

Where available, sector skills' councils could more effectively address supply-demand concerns. Government has a role in facilitating and supporting multi-stakeholder cooperation in intelligence build-up. In particular, outputs (e.g. skills audits, foresight analyses) allow for more informed policies and more focused resource allocation for training.

Thirdly, vocational schools should examine the potential for extending training services to local businesses. This would ensure permanent links to the local economy and allow schools to regularly adjust training to the more immediate interests of local businesses. Relevance of skills to the market could be improved through apprenticeship. Apprenticeship training is under-developed in most ETF partner countries. A particular barrier is that SMEs rarely have the capacity to accommodate apprentices. An apprenticeship support framework to assist SMEs with apprentices could be considered (e.g. trainee assessment, support/training of mentor already employed in the business, apprenticeship advisory services for SMEs). Further, favourable tax arrangements for SMEs to systematically

engage in apprenticeship schemes could be considered.

Finally, with the increasing availability of communications' technologies, training communities should pay more attention to on-line training, ensuring greater access and cost-effectiveness. Training for e-commerce, for example, will be important particularly for ETF partner countries as their trade arrangements develop with an increasingly digital economy within the EU.

C) LEARNING THROUGH INTERNATIONALISATION

Evidence from SMEs within EU countries underlines a direct link between a business's international activities (importing, exporting or inter-business cooperation) and performance (employment, enterprise growth, competitiveness and sustainability). Moreover, through direct cooperation with international business partners, firms are able to innovate by sourcing knowledge, ideas and market information leading to new products and services. The case for 'learning by internationalisation' is equally important for SMEs in ETF partner countries.

Two issues should be addressed to support SMEs in improving knowledge and skills for international trade. Firstly, enterprises in ETF partner countries do not sufficiently network to allow for exchanges of

knowledge and know-how which would build a culture of innovation (human, organisational, technological). Government support to the SME sector to build networks and networking skills will be important to create access to markets. This in turn would create demand for new skills. Networks for key economic sectors (e.g. agri-goods, transport, bio-tech, energy, textiles, tourism) could be linked to each country's drive to develop commercial partnerships and access to business opportunities within the EU. In this regard, links to the sector groups of the European Enterprise Network, where a number of partner countries are already members, would bring value. Furthermore, the innovation potential of SMEs, particularly in technology improvements and testing, could be improved through better engagement and cooperation with universities.

Secondly, businesses seeking greater access to the EU markets must ensure that their products and services meet the necessary trade and environmental standards. This makes significant demands on an enterprise's know-how and expertise. Life-cycle product management will increasingly become standard practice. Training for managers and employees is important from procurement, through manufacturing, packaging and transport processes, to application and eventual product disposal.





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CONCLUSIONS

With increasing pressures on national governments and their enterprise communities in ETF partner countries to head-off competition, continued skilling of managers and staff will be necessary to sustain jobs and to grow businesses. Learning opportunities are business opportunities. Business opportunities make for a greater potential for economic growth and jobs. ETF support to its partner countries will focus on:

- **Skills intelligence:** support partner countries in building skills' intelligence through public-private partnership;
- **Young people's enterprises:** promote exchange of policy know-how and good practice in start-up training and early-phase mentoring services;
- **Learning through internationalisation:** support multi-country business learning networks in sectors of common interest with linkages to EU networks and platforms;
- **Policy support:** through regular reviews of policy and measures to support skills' development, provide customised advice to partner countries and other partners with an interest in the skills development agenda (e.g. European Commission, bi-lateral donors).

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