Skills shortage and recruitment in the SME sector

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Introduction

The Institute of Personnel and Development (IPD) launched a major initiative “Managing People: The Changing Frontiers”, to investigate the key issues facing personnel management. The IPD has recognised the importance of small and medium-sized enterprises (SMEs) in terms of their contribution to the economy and as a source of innovation in people management. It is in the tradition of recognition that may conveniently be dated from the Bolton (1971) Report.

As part of the “Changing Frontiers” initiative, they commissioned from the Professional Development Foundation a study of people management in organisations employing between 20 and 200 people. Over 300 companies co-operated in the research. In this article we concentrate on those findings which relate to skills shortage and recruitment.

Skills shortage and recruitment

This is an area of fundamental importance to the SME sector, and is a key area for human resource management (Vinten, 1996). There are two distinctions which affect human resource management in SMEs; first, that between internal and external labour markets and secondly between local and national labour markets (Mahoney and Decktop, 1986). In larger firms there is a greater possibility of development and emphasis on an internal labour market to fill training needs. Such firms can also draw on national labour markets. It is often claimed that the SME employer is less likely to have the clearly articulated promotional prospects to attract equivalent talent.

The assumption of a high degree of dependency in SMEs on outside factors for their human resource supply ignores the extent to which this can be moderated by the effect of local influences or fresh initiatives. A region may harbour a tradition of inter-firm collaboration, say through subcontracting, which could moderate the external labour movement. There remains considerable disagreement on the employment opportunities offered by SMEs compared to larger firms. Some authors refer to the less formal and more personal forms of relationships in SMEs as being critical to increased efficiency through improved employee relations (Schumacher, 1989). However, others have questioned the view that interpersonal relationships are necessarily better in SMEs (Rainnie, 1989).

It is apparent that a clear understanding of how SMEs recruit and select staff is needed. The SMEs in fact may have some advantages in the extent to which they can use flexible working patterns. The patterns of working, methods used to recruit and factors taken into account to fix pay levels when recruiting were considered in the questionnaire.

A large number of companies now use part-time workers, job-sharing and a considerable number use contracting out. However, full-time working was still the most common form of employment.

Smaller organisations tend to rely on local advertisements and personal recommendations to recruit new staff. Some use is also made of recruitment agencies. Not surprisingly little use was reported of national advertisements. Among respondents with dedicated personnel staff, 46 per cent said they would not consult a personnel specialist for the recruitment of staff. Virtually all organisations used personal references when selecting staff. However, while application forms are a popular selection tool, they are not used by all organisations – 11 per cent of organisations reported not using them at all. Psychometric tests were used by 17 per cent of organisations and 29 per cent used personality assessments. On at least some occasions job samples or aptitude tests were used by 35 per cent of organisations surveyed. Those respondents with personnel training were noticeably more likely to use psychometric tests or personality assessments. However, they were used as a regular part of selection only in about 1 in 10 cases.

The most popular method for establishing pay levels was shown to be the value of the job to the organisation, and the abilities or skills of the new employee. Comparison with salaries paid to others in the industry was also used, but less often. In contrast with practice in larger organisations, previous pay levels of the new person and the previous incumbent were
Companies operating in specialist areas and particularly newly emerging industries did report problems in some parts of their operation. The minority that were suffering a skills shortage were dealing with it by attempting to retain and retrain existing staff and by recruiting from wider areas. Attempts to ensure that staff stayed with the company was stressed by some. More creative approaches based on job design methods were also utilised. One approach was to remove unskilled tasks from skilled workers already in the company, thus allowing them to concentrate on their skilled tasks. A further trend seemed to emerge in that companies were changing their emphasis from finding the skills to fit the job, towards fitting the job to the available skills:

We look after [our staff] and they stay with us. (Director – marketing company)

...do a lot of our own training. Obviously this sets us back in terms of responsiveness. (Personnel Officer – software House)

Adapt the job to the person rather than the person to the job. (Finance Director – engineering based manufacturer)

When asked what would be useful in dealing with the skills shortage the majority response again was that there was no issue to tackle. However, among those who were facing a problem there was a feeling that individuals should leave education better equipped to understand and make a contribution to the industrial sector, and have a practical understanding of the world of work.

A strong area of concern was that the education system still appears to actively discourage students from entering the industrial/manufacturing sector, with the attitude that to do so is a last resort if exam results are not good enough for anything else:

...need a change of emphasis in the careers function. Rather than pushing people into Banking which has too many people, push them towards industry which is where the jobs are. (Personnel Director – engineering company)

We need a change of image for manufacturing in the UK. (Managing Director – technical products manufacturer)

Many firms felt that the phasing out of the apprenticeship scheme removed what was previously a viable and respectable alternative to the academic path. The current set of vocational training initiatives was not viewed as providing the equivalent quality of training as the apprenticeship system:

We are producing a generation of managers with no-one to manage. The abolition of the apprenticeship system has been disastrous for all industries, like ours, with a need for skilled manual labour. (Managing Director – technical services company)

These views have important echoes for the UK Plc. As Keep and Mayhew (1994) have pointed out, the Government has placed particular emphasis on the SME sector and the enterprise culture as a way to revitalize Britain; Unfortunately, for those who embrace hopes of a high-skill, high-tech UK economy competing successfully in world markets, there are indications that significant sections of the revitalised small firms sector do not chime particularly well with this vision.

Keep and Mayhew (1994) point out that many small firms are established in non-tradable areas, with only 1 per cent of sales made outside of the UK. These areas do not suggest a massive increase in demand for higher skills or qualifications. Several industries have already indicated that the National Education and Training Targets are wildly optimistic with little chance of achievement.

Many of the companies in this study were operating in high skills areas and were growth oriented firms with strong export markets or potential. Few had anything positive to say about the current national approach to training.

Case studies of effective companies

Examples have been chosen of effective companies to illustrate a number of the key themes from the research relating to recruitment and remuneration.

Case study – Encom

Encom is a cable and telephone company based in Docklands in East London. It operates as a separate business, but is owned by major shareholders in the same industries. It has grown very rapidly over two years from a staff of 45 to its current size of just under 500. The company provides a good example of a proactive management style, in which the values of a “company of the future” are a fundamental part of how it seeks to operate. The company does not claim to be there yet, but is committed daily to finding ways to improve based on feedback from customers, its community and all its staff.
Recruitment
Recruitment is an issue for the company since it is a new industry, there are skill shortages, and it provides a 24-hour service. Local people are preferred, but specialist skills are imported. At present expatriates are used to fill key positions if needed, but a policy of developing and growing staff in-house is in place. A succession planning system is now in development to further enhance this. Continuous improvement is one of the core values, and models to assist career planning in the company are being introduced. Recruitment methods cover a wide range of tools, although psychometrics are only just being piloted to see if they add value to the process at a senior level.

Remuneration
Remuneration is very much market led. The market for people management issues changes very rapidly, and an updated salary survey is needed to ensure the rates are in line with the market. Attempts to grade and band pay within jobs are in place. The bonus system is team based and linked to specific targets. The benefits package is part of the attempt to recruit staff as well as being part of the core value system.

Classic entrepreneurial companies: case study – property company
Company Y is a wholly privately owned independent property database and property database training organisation. The company started trading five years ago as a one-person organisation. It has since grown to the size where it employs 30 people on a full-time basis and several on a part-time basis. It is quoted as one of the top 100 of smaller companies in the UK.

It is distinguished from other smaller companies by the similarities to larger organisations with respect to people management systems. The company has a philosophy that employees make the difference between business success and failure and consequently it is a high company priority that fair and equal people management systems are in place. It provides a good example of an emergent style of people management.

Recruitment
The main criteria for the recruitment of:
• technical staff, is the skills they possess in order to do the job;
• secretarial staff, is the experience of doing the type of work;
• “inputers”, is the ability to type – experience of this type of work could not have been gained in other work experience – the company provides further training.

Whether the individual is local or not is of little relevance.

The company has used agencies and also local and national advertising. They have had the most success recently from a local paper advertisement where the company is aiming to attract a broader age range of staff to input data on the database. Present recruitment methods will remain in use in the future as the procedure in place has assisted in growing the business.

Remuneration
The company tends to set pay levels according to the existing skills of those recruited. However, they also stress that it has to relate to what people are already paid in the organisation. It is difficult to recruit someone who is looking to earn £14K when there is already someone in the organisation doing the same work for £12K. In order to set initial levels, the company looks at market rates and relates these to levels in the organisation. Contributions are measured on an ongoing basis with the use of annual appraisals. This is supplemented by the continuous assessment of staff by their managers. While the Managing Director of the company does retain the ultimate decision-making authority for remuneration, it is rarely enforced.

The process adopted is that the MD informs managers of the amount available for distribution and they then decide on levels to be set.

Case study – Card Protection Plan
Card Protection Plan is a privately owned company. Its core business is providing a loss reporting service to card issuers for their card holders. The company is quoted as one of the top 100 performing private companies in the UK. Its success has mushroomed since formation in 1980. The company currently employs around 180 people. The company provides a good example of a proactive management style which seeks to align the management of human resource issues with the achievement of the business strategy.

Recruitment
Recruitment is skills driven, not industry nor locality driven. Previous experience of working in the industry is not essential; however, the skills for the job are important and would be expected. The key personnel are the telephone customer care operators.

The type of individual recruited is changing. The company has started to recruit groups of multi-skilled individuals as opposed to single skill. The idea is to have individuals who are able to function in a variety of work settings. This will be of benefit to the company as it will rotate skills to the areas in need at the time, and to the individual in terms of
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Career development and gaining experience of a wide variety of tasks. The company uses a range of selection procedures – all administered on an in-house basis. These include the use of: psychometric tools – verbal and numerical, letter writing and data inputting exercises; role plays; multi-skills group interview sessions; and personality questionnaires. The criteria for jobs is detailed in competency terms with skills broken down into component parts.

**Remuneration**

At the moment pay levels are set according to the existing skills of those recruited and their contribution to business goals. However, this is likely to change as the HR Manager has put a proposal forward for a job evaluation scheme to look at the value of core skills and how they are perceived as contributing to business success.

The way in which contributions were set during the last pay round was for a team supervisor to assess the team by giving a rating on competencies and skills. This involved a process of looking at the hierarchy of competencies. This was then used to level out the differential in clerical positions.

The Managing Director does hold ultimate authority for remuneration in the company but this is delegated to the Operations and Finance Director and last year no adjustments were made by the MD.

**Case study – a publishing company using specialist staff**

The company publishes a prestigious high quality fine objects magazine. It is a wholly owned subsidiary of a privately owned publication corporation.

It provides a good example of a reactive style of people management. The company is treated like a subsidiary by the parent company, but it behaves like an independent unit. It has difficulty in staying within the parent company’s administrative and organisational framework. These tend to stifle the initiative that an organisation like Company X needs in order to produce a high quality, “top of the range” magazine with excellent international credentials. There is conflict of opinion as to how things should be done between the parent company and this one.

There is strict control over costs and spending by the Directors of the company. Spending cannot take place without the Directors’ approval. As far as the product is concerned – the production of a high quality magazine – there is direct intervention from senior management in terms of the quality of the production. The management takes a “hands on” approach.

There are systems in place to check for consistent quality and through the process of signing off proofs, staff are made accountable for their work.

There are few management meetings. Organisation of the work is fairly casual and informal. The organisation is described as open and flat with no middle management posts. This is seen to facilitate open and direct communication between members of staff and senior management.

The organisation is divided into two areas of responsibility between the Managing Director and the Sales Director. The former is responsible for the creative/production side of the business while the latter is responsible for the financial side.

**Recruitment**

The main criterion for recruitment is the ability to do the job. Whether the individual is local or not is not of importance.

Individuals are recruited in order to help expand the business or maintain the quality of the product. For example, the company is interested in developing additional products based on the current product. In order to evaluate the resources necessary for this the company is in the process of appointing a specialist Information Technology (IT) consultant to research this area. If successful this person would be brought on to the staff to head up the new division. Recruitment is considered in order to grow the business.

Methods of recruitment for this company will not change in the near future. The company looks inside its own industry for staff because of the specialist nature of the business.

Recruitment generally tends to be low. This is because it is company philosophy to try and keep staff happy and motivated in their work. There are currently five people with five years’ service in the company and another five people with ten years’ service.

**Remuneration**

Pay levels are set by Head Office and do not relate to the existing skills of those recruited. It is felt in the company that there are individuals who should be paid significantly more than they are being paid. This leads people in the company to feel that they are not valued for the contribution they make. This attitude is felt at all levels from the top down.

Initial contributions are set by Head Office and measured on an annual basis by the Managing Director and the Financial Director. These are linked to management accounts and also by looking at cost expectations against budget. The financial/expenditure side of the company is tied very closely to their management accounts.
Case study - design company

The company is a graphic design firm who were nominated for this survey by a leading national institution. They were commended for quality of service, customer care and attention to detail in complying with client requests. They are based in the North West and were established in 1975.

There are no problems in this area and it is not foreseen as a area of skills shortage. There is an abundance of freelance professionals available.

Case study - Graphic Electronics Ltd

Graphic Electronics is a well-established company of some 25 years’ experience. They manufacture high technology printed circuit boards. At present they have a workforce of 118, making them the largest employer in the small town of Crediton in Devon which is their base.

As a hi-tech company, Graphic Electronics do suffer from the increasingly problematic skills shortage, in one area particularly. The HRD Co-ordinator has decided to take steps to tackle this problematic area, and is proposing to work with the local employment service to attempt to overcome the problem.

While the local level support has been encouraging, the company feel that the Government could be doing more to ease the situation. In particular they feel that there is too great an emphasis on commerce and service industries. Graphic Electronics would like to see the Government attempt to heighten public awareness, and acceptance, of the crucial role of manufacturing industries to the country’s economy and future role in the world marketplace.

Case study - Technical Engineering

This technically based company has been operating in the Midlands since 1919, but has been acquired from the original owners by a British entrepreneur. With a workforce of 97, it is well established and respected in the local community.

As they have a need for technical expertise, the company often have considerable difficulty recruiting suitable personnel. They use a variety of channels for recruitment, including advertising, agencies, friends of friends – all of which tend to prove more or less inefficient. This leads back to the central role of training in the organisation, which is thus far the most effective means they have encountered for tackling skills shortages. This is not a satisfactory long-term solution to the problem, however, as this degree of training is both expensive and time consuming.

The only long-term solution the company can see is a change of emphasis in the education system. Currently, they see a massive emphasis on graduate training, predominantly geared towards the service industries. Having graduated, very few people are willing, or able, to enter craft industries as they lack even basic craft skills. The company, in line with almost all others interviewed in the manufacturing/industrial sector, feels that a return to apprenticeship schemes is the only way to achieve integration of world class values into British industry in the long term.

To quote the Managing Director, “The phasing out of the apprenticeship scheme is quite simply disastrous. In one fell swoop it has set in motion the erosion of the essential skills base of the manufacturing industry”.

The company observes that young people, particularly the more promising ones, are now very reluctant, and actively discouraged from leaving school at 16, or even 18, to start practical craft training. Rather, they are channelled to university to be trained in management just at the time, the company suggests, that the role of management is diminishing.

The only way they can see to overcome this is to train current staff. Unfortunately, as this is extremely time consuming, it will reduce the company’s ability to respond to opportunities.

Conclusion

The SME approach to recruitment and remuneration is comparable to that in the larger PLCs. It is certainly not unsophisticated, and displays diverse responses to trends in the labour supply market. Those in manufacturing bemoan the loss of respect for the sector in the country. There was some concern about the demise of the apprenticeship system and its replacement with National Vocational Qualifications which were not regarded as being in the same league of effectiveness.

References


