

HUMAN CAPITAL AND RESTRUCTURING: A FOCUS ON SME INVESTMENT

A highly skilled and knowledgeable workforce is a precondition for the successful development of European economies and societies. Investing in human capital^[1] is therefore a vital component in realising Europe's desire to become a competitive and knowledge-based economy. There are a range of barriers to improving levels of human capital and the issues facing small and medium-sized enterprises (SMEs) – lack of resources, poor economies of scale, lack of capacity to anticipate skills needs – are well documented. These challenges are compounded by the issue of industrial restructuring as Europe's economies move from being based largely on manufacturing to the provision of services and the commercialisation of knowledge.

This paper focuses on the ways in which SMEs can be supported and encouraged to invest in the human capital of their workforce – particularly in sectors and regions dealing with the questions posed by industrial restructuring. It also highlights many of the answers proposed through experience from the EQUAL programme.

BUSINESS SURVIVAL NOW, HUMAN CAPITAL LATER

The world is becoming a more competitive place to do business! The economies of nation states – and the firms within them – are becoming increasingly linked and inter-dependant, and less developed countries, such as China, are growing rapidly. European firms are therefore finding it ever more difficult to remain competitive: especially when attempting to compete on cost alone, which is often the case in some areas of manufacturing.

In order to retain a competitive advantage, and to achieve the ambitious economic and social goals of the Lisbon agenda, Europe's firms must play their part in investing in the development of their employees. Furthermore, the motivations for doing so are likely to intensify as the transition from a manufacturing to a knowledge base continues: levels of human capital assume an even greater importance when economic growth depends upon the commercialisation of ideas and knowledge and the pace of technological change gathers.

Yet SMEs are not investing enough in their human capital to improve skills and adaptability. From their perspective, investment in training is often considered to be risky, at best - and a waste of money, at worst. SMEs underestimate the strategic importance of investment in human capital and this position is reinforced by the lack of tailor-made and relevant training and tools that they can use. SMEs also do not benefit from the economies of scale of large firms (when creating tailor-made training for example), and from more evolved Human Resource Management systems. Another key issue for SMEs is the maintenance of production or services in the absence of staff that are receiving training – the result is that investing in the development of employees often appears to be a significant cost with little direct benefit. For firms facing the challenges of restructuring, these issues are magnified as short-term survival often takes precedence over longer-term investments in improving employees' knowledge and skills.

Activities within EQUAL have directly addressed all of these problems by promoting demand-led and innovative systems for investment in human capital and lifelong learning, which can easily be set up by SMEs. Learning from these experiences can prove useful to organisations concerned with the interests of SMEs and their workforce.

THE EUROPEAN POLICY AGENDA: SMEs, RESTRUCTURING AND HUMAN CAPITAL

The European Employment Strategy's guidelines call for actions to attract and retain more people in employment, to improve the adaptability of workers and enterprises with a better anticipation and positive management of change, and to increase investment in human capital through better education and skills. These priorities have particular relevance in situations of restructuring, as set out in the 2005 European Commission's Communication on [*Restructuring and Employment*](#).

The Communication placed restructuring at the heart of the re-launched Lisbon Strategy - calling on the EU and Member States to tackle the negative consequences of restructuring by active labour market policies, lifelong learning and the anticipation of change in industrial sectors. Similarly, the new European Social Fund (ESF) Regulation for the 2007-2013 programming period mentions the need for assistance in 'increasing the adaptability of workers, enterprises and entrepreneurs with a view to improving the anticipation and positive management of economic change.'^[2] In particular, it aims to anticipate and manage economic and structural changes to ensure more and better jobs for Europe: creating the conditions for flexibility and security which will support human capital and employment protection: the qualifications of the workforce, including their transferable skills; the internal flexibility of companies, including issues such as multi-skilling and working time arrangements; and external flexibility in the form of company outplacements, for example.

SMEs have a major stakehold in the above European agenda on restructuring. As explained by the Commission's Restructuring Forum, 'small and medium-sized enterprises (SMEs) are a major component of the European economy. The EU's 23 million SMEs constitute 99% of all businesses and account for up to 80% of jobs in some sectors, such as textiles, construction and furniture. Although their base is local or regional, SMEs, just like large companies, must adapt to factors such as increasing international competition, movements of capital and its globalisation, the speed of technological change and the rapid cyclical shifts which characterise modern economies. However, in dealing with these transformations, they do not have the same support structures, in terms of either financial or human resources, as large companies. What is more, the changes affecting them are largely unknown. This insufficient level of awareness can be seen as the corollary to the media coverage given to major restructurings in high-profile companies.'^[3]

In summary, although SMEs may not be under the media spotlight, they have a critical role to play in dealing with restructuring and the wider issues of structural and economic change. An important part of this role is investment in human resources – in other words, ensuring that the skills and knowledge capital of the SME workforce is maximised, both for the benefit of the employee and the company concerned during periods of economic pressure and change.

The challenges faced by SMEs have been addressed by many of the Development Partnerships (DPs) funded under EQUAL. Moreover, these projects have often supported SMEs in acute restructuring situations. As such, the EQUAL experience is highly suited to the current European policy agenda.

THREE APPROACHES FROM EQUAL

EQUAL DPs has been particularly innovative and effective in attempting to develop a culture of continuous learning in companies in order to benefit disadvantaged people, employees at risk of exclusion and/or redundancy, the company in question and the economy in general. In particular, they have pursued three main approaches to encourage investment in human capital by employers, and particularly SMEs, to quickly respond to restructuring and industrial change:

1. Anticipating and analysing human resource needs;
2. Developing company-wide strategies and support; and
3. Tailoring training to specific needs and taking a 'blended learning' approach.

Each of these approaches should not be seen in isolation. On the contrary, they should work together to form a tailor-made "package" of support for SMEs.

It is worth noting that some of the approaches described below, such as job rotation, are not in themselves new. However, the processes through which they have been developed and delivered within EQUAL has enhanced their effectiveness and generated valuable efficiencies. The DPs have added value by creating more comprehensive interventions than those that existed before. By combining and building on many established concepts, EQUAL has created integrated, demand driven and relevant solutions - a selection of which are described below.

Anticipating and analysing human resource needs

As noted above, it is important to understand and to stimulate the demand for investment in human capital – especially in order to respond quickly to industrial change and/or restructuring situations. This investment can generate benefits for both the employees (professional and vocational growth) and employers (increased competitiveness and productivity). The starting

point for several EQUAL projects has been to provide tools to analyse and identify the skills that need to be obtained or updated. This has sometimes been achieved on a sectoral basis where, due to such analyses and the subsequent adaptation of training provision, competitiveness has been enhanced; for example: in fields of forging and foundry work[4], publishing,[5] manufacturing, automotive,[6] building,[7] commercial shipping/nautical and ship-building.[8]

Observatories are also an important part of the EQUAL projects' sectoral approach to needs analysis: in Spain, *GESSCANT* developed four sectoral development observatories at regional level acting as 'supervision points' or 'sectoral watchers'. The observatories acted as collectors of information such as: trends, drivers for change, different structural and macroeconomic indicators, statistics on workers affected by redundancies, as well as examples of innovative business practice. The observatories were very successful as they allowed the project to monitor the wider social and economic evolution of the sectors, and also to design development plans which would help SMEs develop their human resources in light of restructuring or industrial change.

Other DPs have developed methods with a regional dimension and have focused on anticipating regional economic and labour market needs (see several examples in Germany, the UK and Italy).[9] In these cases, the EQUAL projects have provided employers with an analytical background against which they have developed a business strategy specifically linked to regional characteristics, including migration trends and existing skills availability. A notable example is the 'e-barometer' developed by the *Unemployment Prevention System in Underdeveloped Areas* project in Poland.[10] This tool was an online portal providing regularly updated macroeconomic and regional business information, thereby enabling SMEs to forecast and adapt to changing circumstances. The 'work capability analysis' was another interesting case seen in the Polish *Making Change a Chance*[11] project. This focused very much on the employee dimension of restructuring, involving a review of the well-being of SME workers most at risk of marginalisation, followed up by training in areas such as ergonomics, and occupational health and safety.

Some DPs have developed different tools for assessment, including Information and Communication Technology (ICT)[12] and Web-based tools.[13] The tools are used to assess employees' skills, which can then be combined with analyses of what skills gaps exist - identifying specific employer's needs alongside the needs of the sector (*Phenix* project in France and *FARO* project in Italy).[14] In the port sector, new pathways for training were developed by adapting training in accordance with the findings of needs analyses and validation/certification - which all the relevant stakeholders developed together in cooperation.[15] An Italian project developed the function of "Business atmosphere advisors" who provided another way to interact with businesses; their role was to analyse the overall situation of the business organisation, as well as check the specific needs of each group through direct surveys in the workplace, in-depth interviews with the staff and focus groups. These advisors were then able to set up a rehabilitation and intervention plan, which contained actions that were designed to foster communication and trust within the workplace and, in the end, enhance the adaptability of the employees and the businesses.

The *MEIRG* project in Great Britain is a final example of company support for individual large corporates being specifically tailored and opened up to a wider group of companies across the Midlands region. This innovation was particularly beneficial to SMEs who, unlike their larger counterparts, lack the capacity and resources to offer services and options to their employees in restructuring situations: services such as careers guidance and new job training; and options such as relocation to another location or flexible working. A key success factor in *MEIRG*'s model was that it went beyond the usual package of support. It made the most of companies working together, such that a new set of reconversion options and services could be offered to employees; for example, particular SMEs could pool together vacancy information or collaborate accessing careers guidance, new job training or secondment options for their staff. Secondly, the redeployment unit itself was mobile - essentially a fully resourced and satellite-linked vehicle known as 'ERIC' - and therefore able to respond quickly and flexibly to need.

Developing company-wide strategies and support

An important dimension of human capital investment is working directly with companies – especially SMEs - to develop company-wide strategies and support. This not only ensures that there is management-level buy-in to the need for human resource development, but also a well planned and focused approach to addressing the changing needs of the company and its employees. It can include specific advice on markets, skills planning, as well as business development opportunities (two examples[16] in Germany). Some DPs have adopted a holistic

approach to human resources and business management based on a performance management system. This work has addressed the problem of the lack of human resource management in SMEs and has successfully created an "Integrated tool of Innovation" to both improve the workplace and the chances of business survival at the same time (Portuguese project *Glass Challenge* and the Spanish project *EN@E*)[\[17\]](#).

EQUAL projects have particularly illustrated the value of consultation and advisory services, particularly when they are highly tailored to the needs of the individual SME, delivered on-site and involve a high degree of face-to-face contact between the advisor and SME staff. The most important outcome of these highly personalised services seems to have been the fostering of trust, a critical ingredient to getting SMEs to "open up", share their concerns and start looking constructively at the business and human resource challenges that they face.

The *Relanz@* project[\[18\]](#) in Spain is worth highlighting as it demonstrates well the "advisor role", diagnostic services, and the tailoring of support to SME needs. This project specifically tested new ways of developing lifelong training for businesses: in-company training, e-learning, visits to successful enterprises, tutorship on the workplace, coaching, etc. In order to overcome the problem of access to information and resources for SMEs located in remote and rural areas, the project also developed Shared Resource Centres, which were places housing equipment, technical resources and specialised human resources. Interestingly, these Shared Resource Centres proposed two new roles to support enterprises: an enterprise tutor (a person in charge of the diagnosis of the enterprises, the detection of deficiencies and the design of enterprise improvement itineraries, both individualised and grouped) and a socio-corporate mediator (a person in charge of the fulfilment of social responsibility within companies).

Tailoring training needs and taking a 'blended learning' approach

Once human resource needs have been analysed, EQUAL projects have typically concentrated on finding or creating the right type and 'blend' of training tailored to SMEs' circumstances. This has often comprised shorter courses, preferably "on site", targeted at real work needs so that the training does not disturb the productivity of the company. Blending different types of learning - such as e-learning, virtual coaching, mentoring, and action learning - has provided a useful package of support for both managers and workers in the UK and in Spain.[\[19\]](#) The solutions have supported employers and employees in adapting to new technologies, making innovative use of multi-media materials and the latest e-learning platforms.

During a restructuring situation, the training must clearly respond and be sensitive to the needs of the individuals and the companies concerned - even more so because of the understandable concerns and anxieties of these people with regards to their future. In the remote Semily district of the Czech Republic, the *Facilitation of Lifelong Education in Rural Conditions* project[\[20\]](#) developed a training programme offering courses in foreign languages, ICTs and book-keeping (amongst others), all identified as being critical in strengthening small tourism businesses in the area. These courses were delivered in short modular format, offered outside of working hours, adjusted to seasonal work and family commitments, took place in local and familiar surroundings (such as schools and village halls), and were accompanied by support services in the form of childcare and loan of course materials.

The Job Rotation model has also been adopted by some EQUAL projects as an effective tool: providing employers with the opportunity to release existing staff for training, while maintaining production and/or service levels. *GENERA*[\[21\]](#) in Germany, which was active in a very traditional industry (forging and foundry sector), worked with SMEs with a high proportion of older, unskilled and semi-skilled workers and a growing shortage of young and qualified employees. The project developed a "Tandem" approach, which allowed the transfer of skills and developed competences without affecting production. The pairing of workers also enhanced the mobility and engagement of workers within the company; it created new synergies amongst the workforce which had positive influences, both on the staff and the company concerned.

For individuals still in employment, on-the-job training has come across as very popular mode of delivery, minimising disruption for both the individual and their employer. The *Route of the Professional Shipyard Worker in the Baltic Sea* project[\[22\]](#) in Finland targeting the marine technological industry illustrates this very well. Based on initial company research, it was clear to the project that the workers were not keeping up with the technological developments and safety standards in the industry. They therefore organised fire safety, IT and other types of training in the individuals' place of work, reaching in total over 1,700 workers in the industry.

POLICY MESSAGES

As this paper has shown, Europe faces significant challenges in attaining the ambitions it has set itself. Improving human capital is one of the central means by which success can be achieved, yet there are numerous barriers to doing so – particularly in the face of economic restructuring.

The creation of a culture of lifelong learning requires a collaborative approach between employers, employer representatives, trade unions and employees. Employers need to be convinced of the business case for investment in lifelong learning and the associated win-win benefits. Employers who begin to engage in these issues following changes in their attitudes and perceptions will subsequently generate demand for services that will, in turn, create a market for lifelong learning. EQUAL has demonstrated that an efficient way to convince the employer is to approach all relevant stakeholders at the same time. This enables a multi-faceted approach that allows for integration and concentration of resources towards the delivery of relevant and timely solutions that benefit all.

Key messages from EQUAL for **SMEs/business**:

- Discover the win-win of investing in human capital, using the full potential of all employees, including disadvantaged groups, and avoiding inequalities and discrimination - recognising that their investment is central to attaining wider societal goals;
- Develop tools for assessment of competences and analyses of training needs;
- Learn to be open about new solutions such as 'blended learning' approaches (e-learning, coaching, action learning) and innovative in-company and lifelong learning solutions such as job rotation; and
- Use all know-how gained to forecast business development and develop their staff and their business.
- Use the reconversion and redeployment services that are available to offer their workers the full range of options and services in a redundancy situation.
- Develop employees' soft, as well as hard skills.

Key messages from EQUAL for **social partners**:

- Initiate and encourage networking development in all conceivable ways - raising awareness of the benefits of, and ways to, investment in human capital.
- Use networks to reduce the burden on SMEs in particular, and to accelerate learning and the development of a market for lifelong learning itself.
- Be mindful that networks work most efficiently when there are close ties to local employment services, research and training institutions and agencies responsible for forecasting business development and industrial restructuring. Early intervention to anticipate and act on change helps businesses and workers including disadvantaged people.
- Be mindful that the quality of a partnership (whether sectoral or regional) is dependent on how demand driven and result-oriented it is. The stronger the bottom-up, demand driven, approach the better and more long-lasting the results are likely to be.

Key messages from EQUAL for the **European-level actors**:

- Support long-term preventive measures for traditional sectors and not only new technology sectors.
- Support traditional sectors through investment in human resources, lifelong learning and research for companies to adapt and remain competitive.
- Continue to view investment in the adaptability of labour as a key means of managing restructuring.

Key messages from EQUAL to **national and regional policy makers**:

- Support the development of more structures and tools to get all stakeholders' opinions about the future of the region and get them involved in the subsequent regional development process.
- Promote and disseminate the opportunities posed by restructuring as opposed to the threats and risks.
- Accompany and anticipate better structural changes,
- Help to resource more permanent reconversion and redeployment structures as part of a wider and longer-term restructuring strategy,
- Support the development of dynamic systems to capture and manage knowledge, as well as promote learning.
- Make provision for longer-term forecasting and planning via the establishment of observatories, particularly at the regional and sectoral level.
- Formulate and disseminate policy in a way that is clearer, simpler and far more user-friendly for SMEs.

Key messages from EQUAL to **all organisations** (including those above) concerned with support services to SMEs:

- Promote and support the provision of combined SME services, tailored to the needs of individual SMEs, or groups of SMEs from particular sectors and/or localities.
- Support structures that give time and space for communication and relationship building so as to generate trust and dialogue between SMEs, as well as between SMEs and other intermediaries.
- Seek to modernise training services and foster more innovative and flexible training provision.

[1] 'Human Capital' refers to the stock of productive knowledge and skills present in the labour force, it is one of the factors of production in an economy.

[2] [Regulation](#) (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999. *Official Journal of the European Union*. 31.7.2006

[3] [Presentation](#) for the Restructuring Forum event on "Adaptation of SMEs to Change"

[4] [GENERA](#) DP, Germany (link to the [case study](#))

[5] [EN@E](#) DP, Spain (link to the [case study](#))

[6] [MEIRG](#) DP, UK-Great Britain; [InoCoP](#) DP, Portugal

[7] [Master](#) DP, Italy

[8] [The Route](#) DP, Finland; [S.UP.PORT.](#) DP, Italy

[9] [MEIRG](#) DP; [G.LOCAL](#) DP, Italy; [MünchenKompetent](#) DP, Germany (link to the [case study](#))

[10] [Unemployment Prevention System in Underdeveloped Areas](#) DP, Poland (link to the [policy paper](#) "EQUAL and ESF Article 6: A Test Bed for Innovative and Socially Responsible Restructuring", case study on pg.42)

[11] [Making a Change a Chance](#) DP, Finland (link to the [case study](#))

[12] [Competence Euro-vision](#) DP, Belgium

[13] [The four-way model, 4T](#) DP, Finland; [EN@E](#) DP

[14] [Phenix](#) DP, France; [F.A.R.O.](#), Italy

[15] [S.UP.PORT.](#) DP, Italy

[16] [MünchenKompetent](#) DP and [K.E.R.Nige Offensive](#) DP, Germany

[17] [Glass Challenge](#) DP, Portugal

[18] [Relanz@](#) DP, Spain

[\[19\] Family Learning Works](#) DP, UK-Great Britain; EN@E DP

[\[20\] Facilitation of Lifelong Education in Rural Conditions](#) DP, Czech Republic (link to the [case study](#))

[\[21\] GENERA](#) DP, Germany

[\[22\] The Route](#) DP, Finland