The skills of the future and who will provide them

https://eurac.tv/9WL8
The radical transformation of the economy towards a more decarbonised and digital industry will change the skills that are in demand. But how can these skills be acquired in sufficient quantity and speed, and who is responsible for making this happen?

For more than a year, European companies have been sounding the alarm over labour shortages, especially concerning some important skills, like IT or technological skills, but shortages are also very acute in care jobs and other sectors.

On the one hand, a general skills shortage is an inherently unsolvable problem, because the more new jobs you fill, the more new demand and economic dynamism and thus new needs for skills you will create. On the other, trying to solve the shortage still makes sense because it creates economic growth and resilience.

The EU is particularly challenged in this regard as the EU as such does not have much power in education matters, member states differ widely in their education systems, and companies vary in how much resources they are able or willing to commit to training their employees.

In this mini-series of articles, Euractiv will shed light on some parts of this problem.
Employers stumble over own biases in looking for talents

By János Allenbach-Ammann | Euractiv.com

Companies are doing a disservice to themselves by increasing requirements for entry-level tech positions, the CEO of an education and skilling NGO told Euractiv in an interview.

Companies all over Europe are complaining about a skills shortage. Part of it is just an economy working as it should – one would expect companies to be short of workers in an economy with low unemployment.

Of course, especially for tech roles that need specialised digital skills, companies could absorb many more recruits than are available.

However, as a recent study by the education and skilling NGO Generation found, many employers are making their own lives harder than they should be.

In a survey of more than a thousand employers across eight countries, 61% of respondents said that they had added education- or experience-related hiring requirements for entry-level tech roles in the past three years. Moreover, the report finds that true entry-level jobs are a thing of the past, with 94% of employers saying that they required prior work experience in a related field for entry-level tech positions.

But why would employers increase the hiring requirements if they are already short of skilled labour?

“That’s the paradox,” Mona Mourshed, Generation CEO told Euractiv, saying that, even though there has been “a very big push on skills-based hiring” in the past year, this movement had not yet won the day.

The data, however, suggests that this should change.

According to the report, 62% of employers see a need to overhaul the entry-level tech hiring process.

Moreover, companies that have moved towards a skills-first hiring process and who have reduced requirements for entry-level tech positions seem not to have regretted it: 58% of companies that have removed work or education requirements have received more applicants than before. Also, 84% of the companies that have reduced the requirements say that applicants performed the same or better than peers.

However, Mourshed said, “change can be daunting”, arguing that the idea that applicants need a certain degree and that they needed a certain amount of work experience was deeply ingrained.

“Some employers do have a perception bias that a university degree means you’re going to learn faster on the job, or if you have work experience you will learn faster on the job,” she said. And with all the changes that are likely to come due to AI, many companies now think that this skill is all the more important.

“It’s a bias, but it’s a powerful one,” Mourshed said.

Middle management

An additional reason for companies to have higher requirements is their lack of middle managers, according to Mourshed: “Employers are saying, ‘No, I need someone with three years of work experience for this entry level role because they can’t need excessive management.’”

Asked whether she thinks companies will change their recruitment strategy, Mourshed remained cautious.

“In general, companies do things for a reason,” she said. “It is only when the talent crunch becomes significantly severe that it adversely affects growth or it adversely affects productivity and quality, whatever it might be. That’s when you have the real motivation for many companies to do something different than what they had done in the past.”

She stressed that a minority of companies had already changed their hiring policies towards more skills-based recruitment.

“But for a majority of companies external factors and also just internal growth factors are likely what is going to really drive a change in behaviour.”
Financially stretched
EU workers less likely to upskill than US workers

As European employers complain about skills shortages, a study shows that European workers feel financially stressed, that they are more unlikely to upskill than US workers and that they feel less confident that their employers will help pay for their further education.

The study, made by consultancy PwC, surveyed nearly 54,000 workers across the globe, including more than 15,000 from 14 EU countries, and found that workers in Europe and around the world feel financially more stressed than in 2022.

Only 36% of EU workers feel like they have any leftover money after paying the bills at the end of the month, which is seven percentage points lower than the previous year.

"People are feeling really stressed and that goes all the way up the income scale," James Morris, PwC’s director of global corporate affairs and advocacy said at an event in Brussels in early November. Clearly, inflation is being felt by workers even though the economy is still holding up quite well and unemployment levels are at record lows.

At the same time, workers seem to be willing to do something about this, with nearly a quarter of polled EU workers planning to change jobs in the next 12 months – a significant increase compared to last year. With unemployment at a low level and employers across the continent gripped about labour shortages, this openness to change could lead to rising wages.

Preparing for the future

However, the financial stress might also influence how employees plan and invest for their future, making them focus on short-term liquidity problems instead.

Compared to their counterparts in the US and in the Asia-Pacific region, EU workers are less likely to think that their job will require them to significantly change their skills in the next five years. Only 26% of polled EU workers were of this opinion in contrast to the 44% of polled workers in the Asia-Pacific region.

In the EU, this number varies widely depending on the level of specialisation of workers. Workers with specialist training are 3.5 times more likely to think that their required skillset will need to change than non-specialist EU workers, according to the study.

The study also finds that EU workers are less confident than US or Asian workers that their employers would support them in their efforts to get new skills.

The structure of the European economy might be one of the underlying reasons for this relative weakness. Speaking at the PwC event, Jobs Commissioner Nicolas Schmit said that most of the companies were aware of the need for investment, but not everybody was able to follow through on this awareness.

"When I talk to the big automotive companies, they are doing [the investments], really. When we are talking to some of their suppliers, they have more difficulties already," he said.

However, Schmit also sees an opportunity in the current labour shortages, arguing that while it used to be the employers who were "in the driving seat", the shortages now turned the table in favour of the employees.

"You cannot just say, ‘well, I will find an extraordinary guy or lady somewhere outside.’ So you have to invest much more in your existing workforce," Schmit said.

And, as SMEs are at a disadvantage when it comes to coming up with these investments, Schmit also called for support from public money to get this investment going.

"And when you are talking to many SMEs, well, they do not know exactly how they can manage it because sometimes they do not have the money for the investment of they do not have the staff."

The structure of the European economy might be one of the underlying reasons for this relative weakness. Speaking at the PwC event, Jobs Commissioner Nicolas Schmit said that most of the companies were aware of the need for investment, but not everybody was able to follow through on this awareness.

"When I talk to the big automotive companies, they are doing [the investments], really. When we are talking to some of their suppliers, they have more difficulties already," he said.
Think about how the EU can achieve its bold ambitions on climate and digital technology, and we often focus on investment, regulation and public opinion. But there is another component that is just as important and which could superpower the EU’s bold plan: the availability of necessary skills. But whether you look at the employer or employee side of the skills equation, challenges abound.

PwC’s latest CEO Survey sheds light on the challenges for employers. More than half (57%) of the circa 1,300 EU CEOs we quizzed said that labour and skills shortages will significantly impact profitability in their industry over the next 10 years. This finding is echoed in a survey of employers across eight countries looking for tech talent. The survey, by non-profit organisation Generation, found that more than half (52%) find it difficult to hire for entry-level tech positions.

What is less well understood is the dynamic within the workforce—the employee side. To help understand that challenge, we surveyed almost 16,000 workers across the EU to understand their views on upskilling, and compared them with a further 38,000 interviews with workers outside the bloc.

The first step to upskilling the workforce is for workers to understand the need for skills and lifelong learning. The survey suggested that awareness is not yet where it should be in the EU. While 44% of workers in APAC felt that the skills needed for their job will change significantly in the next five years, the EU figure was just 26%—well behind APAC and also three percentage points behind the US. There is a task for policy makers and employers to improve the flow of information so workers are better informed and better able to make choices about how to prepare for the labour market shifts that generative AI and the green transition will bring.

This should be important to policy makers thinking about how to set the economy up for success, but our research suggests it should be even more important for those concerned about inequality. The data from our survey shows that EU workers who say their job already requires specialist skills are 3.5 times more likely than those in non-specialist jobs to anticipate the need for change. They are 2.5 times more likely to have a clear sense of how those skills will change going forward. There is a risk of self-reinforcing loops as the skilled become more skilled, and those lacking skills get left further and further behind.

Business leaders have a crucial role to play to prevent this negative cycle. Our survey shows that EU workers are considerably less likely than US or APAC workers to feel confident that their employer will provide opportunities to develop key digital skills, for example, within the next five years.

Fortunately, there is a bold solution to some of these issues. It’s called a ‘skills first’ approach to talent, focusing on a person’s skills rather than the qualifications they have, what university they went to or what work experience they have gained.

The goal is to reduce mismatches in the labour market by reducing unnecessary barriers inadvertently created by employers, and giving workers more opportunities to use their skills. For example, our survey found that 34% of EU workers say they have skills that are not evident in their CV, showing there are skills not being accounted for in hiring processes.

The approach, outlined in our report with the World Economic Forum, suggests a straightforward ‘skills first’ framework of action to help businesses upskill and reskill their workforce. Companies should identify current and future skills gaps; highlight specific skills requirements in job descriptions; develop skills-based training programmes and pathways; and support lifelong learning.

But ‘skills first’ is just part of the solution. It isn’t appropriate for some kinds of jobs and does not address the need to inform workers about the scale of change to come. It is vital that employers and policymakers continue to find new ways to make progress—not just because it can address inequality and opportunity, but also for purely economic reasons. As my colleague Laurent Probst remarked as he closed a recent event on the future of skills: ‘Without skills, there is no business, there is no innovation’.
For information on Euractiv Event Reports...

Contact us

Marco VENOSTA
EU Affairs Manager
marco.venosta@Euractiv.com
tel. +32 (0) 2 226 58 19