

# SKILL GAPS & HR CHALLENGES FACING IRISH MANUFACTURING SMEs 2018



**Bank of Ireland** 

**HRM**  
TALENT MATTERS

## BACKGROUND TO THE REPORT

During the course of our many engagements with customers and stakeholders in the manufacturing sector across Ireland, we have observed the challenges and opportunities that SMEs face. These arise as owners and leaders seek to successfully grow and adapt their organisations to remain competitive and to win and retain customers. Despite many challenging international conditions, the leading sector indicators over the past few years show consistent employment growth and increased demand for Irish produced products in home and export markets.

While Bank of Ireland and HRM are vastly different businesses in sector and scale, they overlap in their determination to build great customer experiences. Both organisations achieve this by developing deep and unique insights in to the markets they serve. This report, **Skill Gaps & HR Challenges Facing Irish Manufacturing SMEs 2018**, focuses on Ireland's SME manufacturing firms and looks at the staffing related challenges these firms face, against a back drop of uncertain times. These challenges are in many ways exacerbated by a strong Irish economy, causing the competition for human capital to tighten.

Bank of Ireland and HRM believe that understanding the challenges our customers face is the key to providing high value products and solutions. We are pleased to share the results of this research in this report and hope that if you are an SME owner or leader, you find value in the content.

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## RESEARCH METHODOLOGY

Red C Research & Marketing were commissioned by Bank of Ireland and HRM to undertake this research into the SME manufacturing sector in Ireland. The report looks at the labour market challenges faced by these firms with specific focus on skills gaps, retention, training and development, and HR practices.

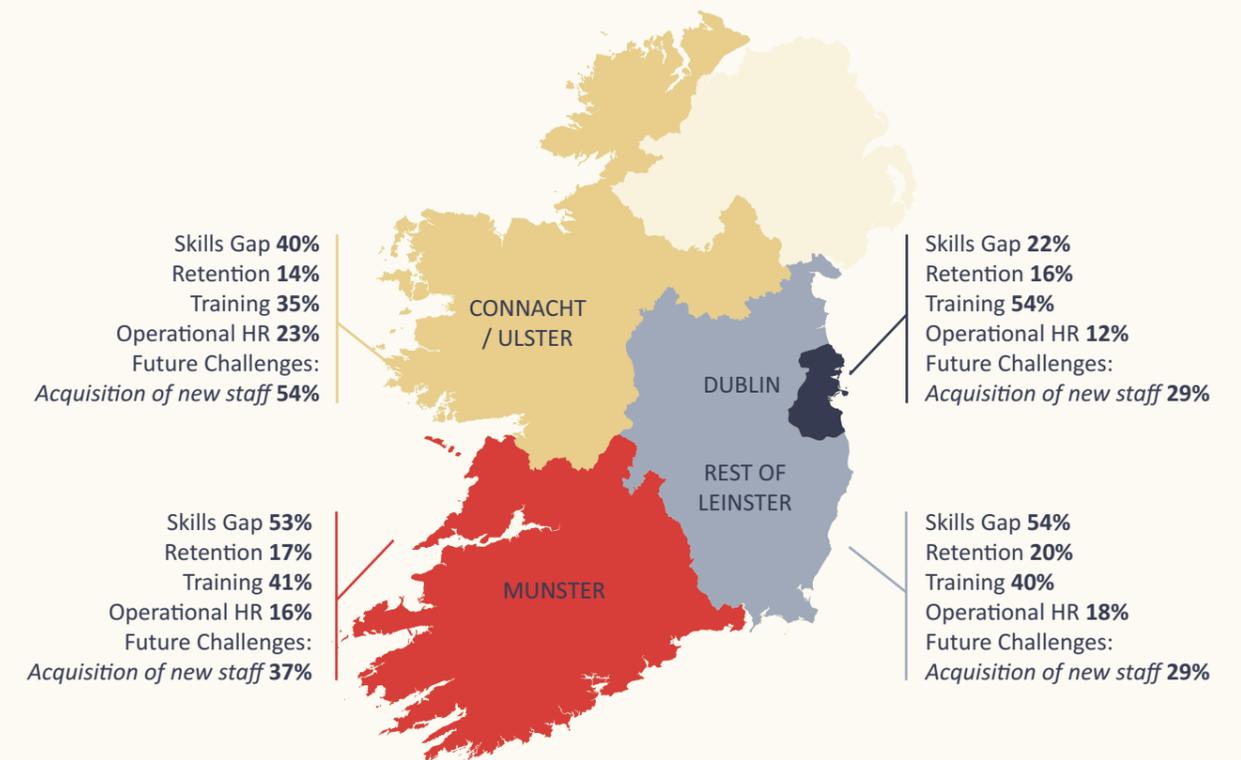
252 telephone interviews were completed between 8th-29th March 2018. Data was weighted to the known proportions of employee sizes within the manufacturing sector in Ireland. SMEs are divided into the following classifications and according to headcount, as follows:

- Micro - (1-9 employees)**
- Small - (10-49 employees)**
- Medium - (50-249 employees)**

The participant base was spread across the 26 counties in the Republic of Ireland with 22% being in Dublin, 27% Rest of Leinster, 30% in Munster and 21% in Connacht / Ulster. Firms surveyed were involved in a range of manufacturing activities with the top 5 sectors being Building Materials and Products 19%, Print and Packaging 19%, Equipment Assembly 9%, Wood and Timber Products 9% and Food Producers 8%.

**We sincerely thank all participants for their highly valued time and contribution during the research phase.**

## CHALLENGES AS REPORTED BY REGION

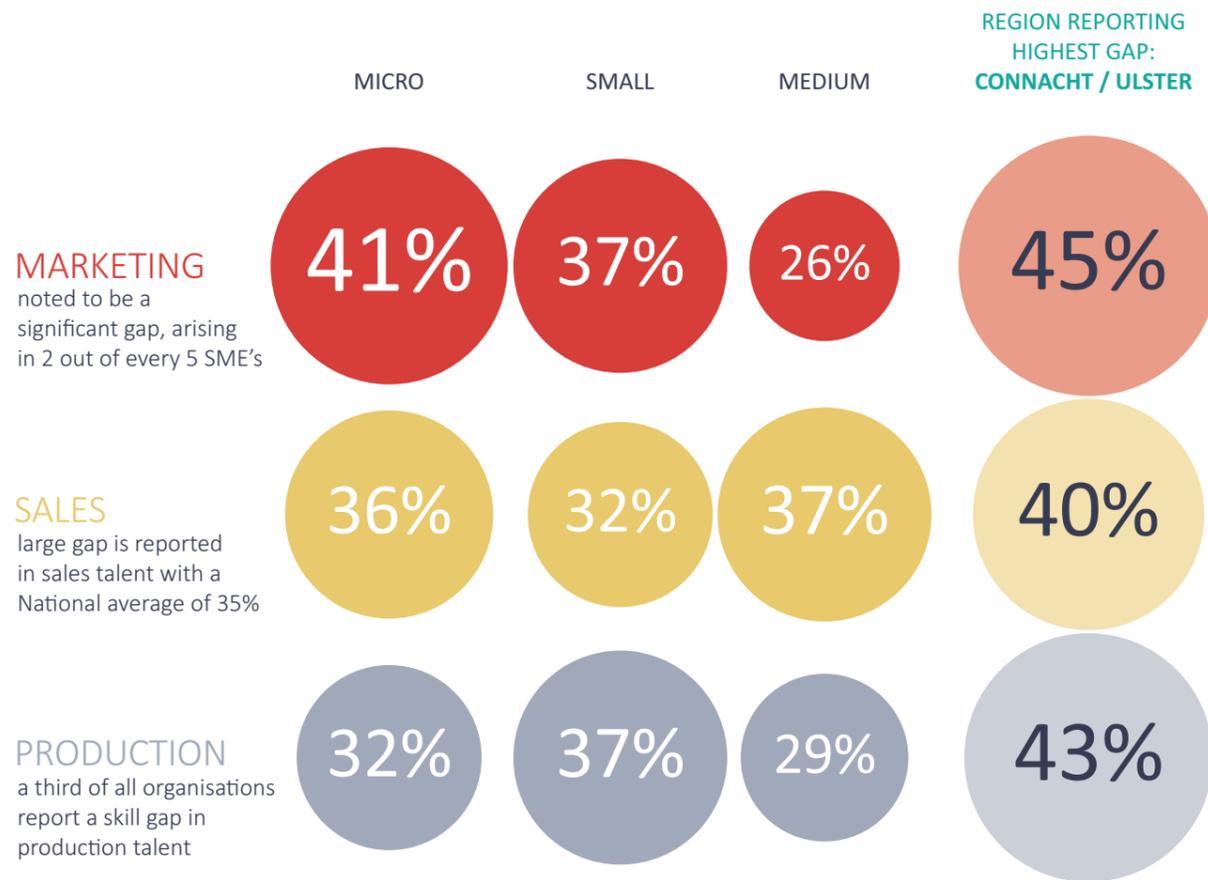


### REPORT SUMMARY

- 1 in 4 companies have increased employee numbers since the start of 2018.
- Skills gaps vary according to company size however Marketing is noted to be a significant gap, arising in 2 out of every 5 SMEs. Production and Sales also highlight large gaps with just over a third reporting an extreme or moderate gap.
- Acquisition of new staff and retention of current employees are the biggest current and future HR challenges for manufacturing SMEs.

## SKILLS GAPS AMONGST SMEs

The attraction and retention of talent is a substantial challenge facing organisations at all levels, but perhaps more concentrated for SMEs who may not have dedicated resources to address it. The cost of lost opportunities and overburdening existing employees can be hard to quantify but can be significant.



Skills gaps for R&D, Planning, Finance, Quality, Maintenance and Engineering are also of concern.

### BY FUNCTION

We know that talent is a key differentiator for nearly all organisations and so it is perhaps concerning that the core functions for Marketing, Sales and Production are those that provide the biggest skills challenges for SMEs. Given that founders of SMEs often originate their

enterprises through a strength in one of these functions, it may suggest that the absence of additional talent in these areas might limit expansion or imply longer-term succession challenges.

### BY REGION

Analysis of SMEs by region indicates that R&D talent gaps exist in over a third of firms in Rest of Leinster. Planning and Maintenance gaps arise in Connacht / Ulster firms at 30% and 26% respectively. Munster employers see Quality 27%, Engineering 25% and Finance 25% as their next biggest talent challenges.

Participants were asked whether skill gaps would be more or less problematic in the future. Rest of Leinster and Munster report the highest concern as per the graphic below at 54% and 53% respectively. 29% of Dublin firms believe the challenge will be less problematic.

### RESPONDENTS EXPECTING A SKILLS GAP TO BE MORE PROBLEMATIC IN THE FUTURE



### RESPONDENTS EXPECTING SKILL GAPS TO BE LESS PROBLEMATIC IN THE FUTURE



### THE FUTURE

At National level 40% of organisations predict the challenges posed by skill gaps will increase in the future. Micro firms are the most optimistic with a fifth of firms expecting skills gap challenges to lessen.

MUNSTER BASED SME MANUFACTURERS SEE QUALITY, ENGINEERING AND FINANCE AS SIGNIFICANT SKILL GAPS.

## RETAINING EMPLOYEES at SMEs

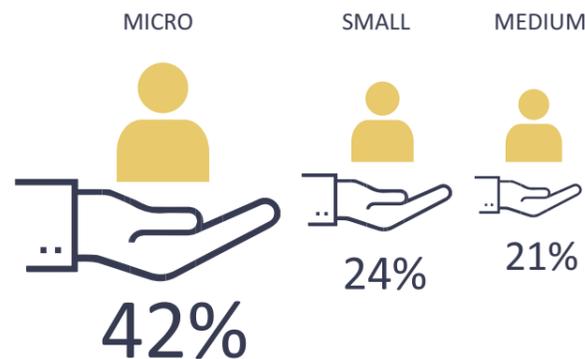
Employee turnover represents a considerable cost for business owners and leaders in time, money, productivity and the potential for contagion. Turnover has the capacity to impact directly on customers and weaken employer branding, making future hiring more challenging. The value of focussing on culture and comradery as a retention strategy for SMEs is highlighted below.

### RETENTION FACTORS

Despite the high dependency on a small number of talented employees that Micro firms rely on, the data suggests this grouping find it easiest to retain staff. This may be due in part to the personal relationships that often exist between colleagues. The data also shows that concern around retention rises as headcount increases across our survey participants, pointing to culture as a vital cog in any organisation's retention strategy. SME firms in Connacht / Ulster find retention marginally easier than other regions which may be due to lower density in competition for talent.

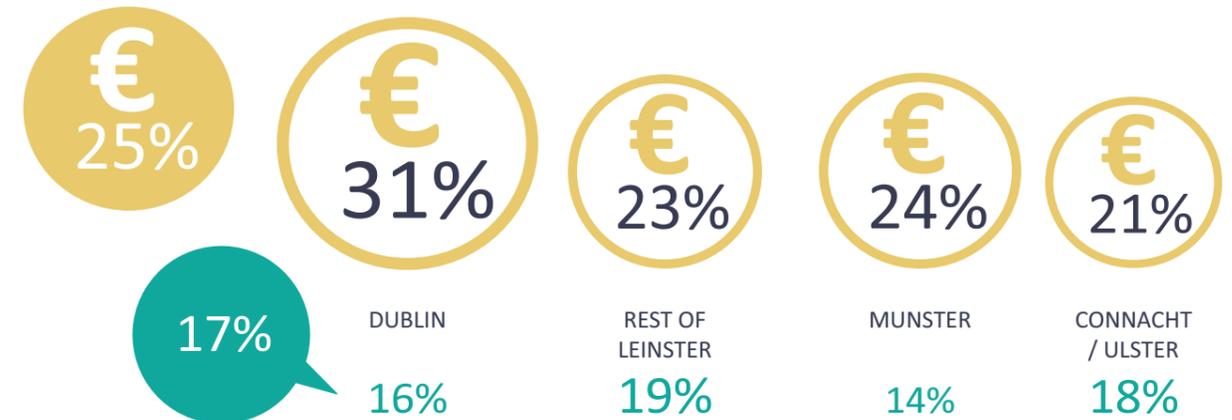
Production / Operations remains the biggest retention concern for enterprises outside of Dublin, while Sales based employees are the main worry in the capital. Apprehension around the retention of Engineering talent is highest outside Dublin and in particular with Medium sized manufacturing SMEs at almost 40%.

### EASE OF RETENTION BY SME SIZE



42% of micro SMEs find it much easier to retain staff compared with Small and Medium sized SMEs. Regions show little variance, however Connacht / Ulster based firms find it marginally easier to retain employees than the rest of Ireland.

### MOST COMMON STAFF RETENTION FACTORS USED - SALARY & LOCATION



Wage increases are the most commonly relied upon staff retention strategy, used by 1 in 4 companies. 1 in 6 SMEs surveyed, say the location of their operation is a primary pull factor.

Salary / wage increases are the most common tactic used in the retention of staff, relied on by 25% of Irish SME manufacturers nationally, rising to 31% of firms in Dublin. Reliance on wage increases to keep employees can be costly. Such firms can struggle with their competitiveness and be squeezed at both ends. Location of business at 17% and overall good morale / work environment at 16% are also considered

important factors. We know from our own research, that the respect shown for employees by leaders in a business is number one in an employee's decision to stay or leave a firm.

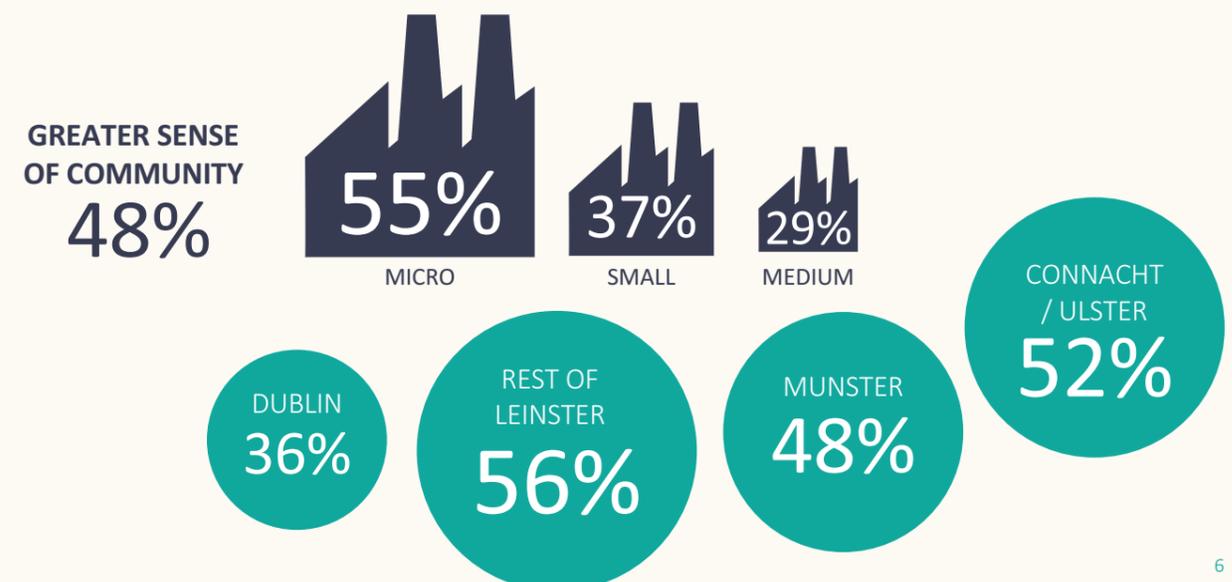
The table below demonstrates the % of firms that place importance on "greater sense of community" offered by SMEs in their effort to both attract and retain employees.

## A GREATER SENSE OF COMMUNITY / COMRADERY IS PERCEIVED AS A LARGE BENEFIT TO WORKING WITH A SMALL COMPANY.

### ADVANTAGES OF WORKING IN SMES OVER LARGER FIRMS

Supporting the theory of culture being a primary retention factor for employees, SMEs report a greater sense of community / comradery as a real benefit of working with a smaller firm. The firms surveyed see a less formal work place, more scope of responsibility, better progression and recognition, ready access to top management and staff not being just another number as the top related advantages.

### % RESPONDENTS CITING GREATER SENSE OF COMMUNITY AS A FACTOR IN ATTRACTING & RETAINING EMPLOYEES, BY SME SIZE & REGION



## TRAINING & DEVELOPMENT at SMEs

We know from a range of studies that generally SMEs are less likely to participate in skills development than larger firms. While this is not unique to Ireland, several important initiatives exist here designed to counter this challenge. Participation in training and development is key to addressing current and future skills gaps, as well as improving overall workforce performance.

### FORMAL TRAINING PLANS & INVESTMENT

While investment in training can appear hard to justify for SMEs, we know from our own research that commitment to an employee's development, is a high factor in their decision to remain with a firm. It is a win-win option, provided the training is relevant and planned, given the firm can benefit from the increased capability of the employee(s).

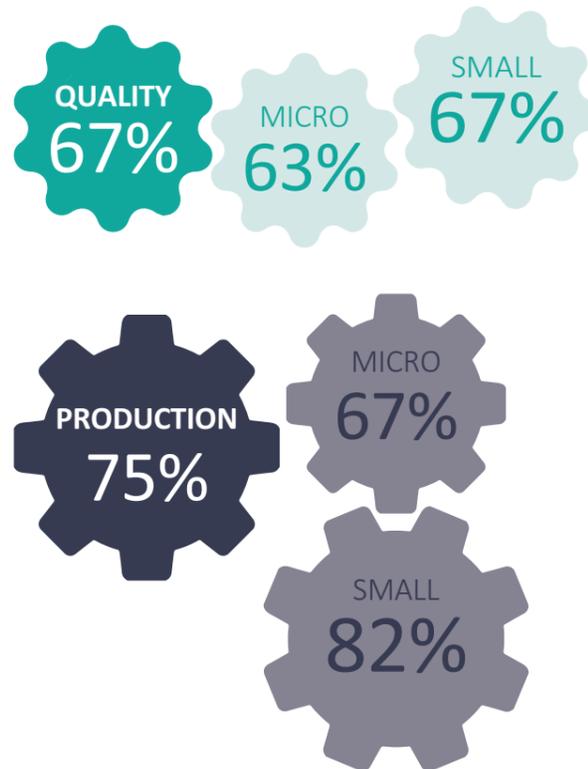
Despite this over 40% of participating firms say they have no form of training plan in place. A further quarter indicate they train some functions, most frequently Production related and only a third of Irish SMEs have training in place for all employees. Occurrence of training commitment rises with the headcount size of an organisation.

Production employees and leaders are the most likely to experience formal training. Employees in Quality are next in line.

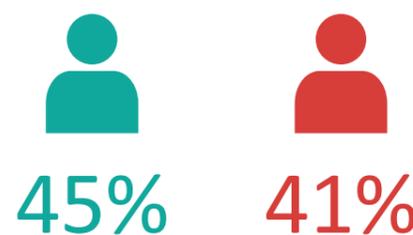
Of the firms who choose not to invest time or money in training, 45% say they recruit employees that are trained already. A further 41% of these companies say they do not regard investing in training as being valuable to them. The expense of training is not reported by any organisation as being a significant issue.

Dublin based firms are least likely to have formal training in place, while SMEs in Connacht / Ulster are those most likely to invest. The relative high absence of formal training amongst SMEs may point to wider future challenges if skills gaps are not addressed through succession or internal development.

### MOST COMMON AREAS FOR FORMAL TRAINING



### WHY SMES CHOOSE NOT TO TRAIN

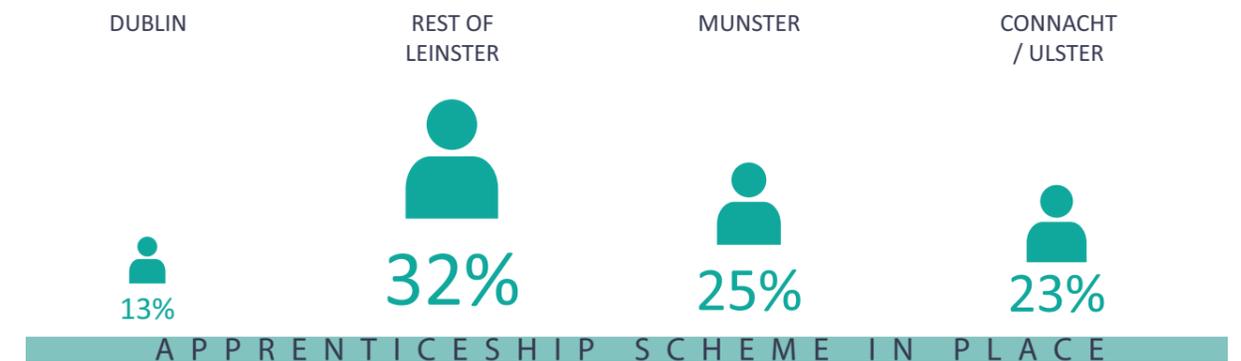


Employing staff who already have the necessary skills or a perceived lack of value from training are the core reasons as to why SMEs do not have formal training in place.

## APPRENTICESHIP SCHEME PARTICIPATION

The structured learning format of apprenticeship schemes, combines highly flexible off the job learning blocks with a minimum of 50% on the job training. Apprenticeships provide a valuable stream of future talent for SMEs across an increasing range of industries and sectors.

### UPTAKE OF APPRENTICESHIP PROGRAMMES BY SME MANUFACTURERS, ACCORDING TO REGION.



### NATIONALLY, A QUARTER OF IRISH MANUFACTURING SMEs ENGAGE IN SOME FORM OF APPRENTICESHIP SCHEME

#### APPRENTICESHIP SCHEMES

A quarter of firms surveyed are taking part in apprenticeship schemes, though this doubles among the Medium SMEs. Dublin based organisations are the least likely to engage in such a scheme at 13%, while Rest of Leinster are the most likely at 32%.

Apprenticeship schemes are rising rapidly again in their uptake by school leavers. We note the Government recently published the 2018 National Training Fund (NTF) Expenditure Report showcasing how over €415 million is being invested in programmes throughout 2018. The report shows the significant increased investment in apprenticeships to meet the Government's intention to double the number of annual apprenticeships and traineeships enrolments to 14,000 by 2020.

A new apprenticeship website [www.apprenticeship.ie](http://www.apprenticeship.ie) has also been launched. While a majority of current programmes are technical in nature, a number of new apprenticeship areas in Finance, Engineering and IT have also been created. They represent a significant opportunity for SME's to meet future skill needs.

## OPERATIONAL HR at SMEs

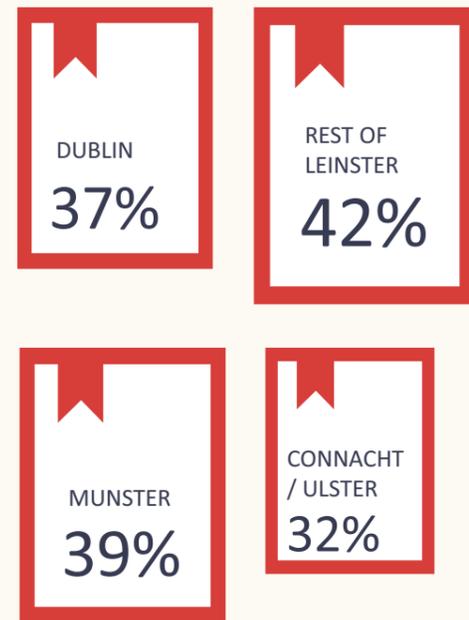
HR processes and policies are essential to all organisations but even more so to SMEs. Well structured operational HR ensures a firm achieves higher engagement and better return on its compensation investment through performance management. The alternative reliance on informal policies rarely stands up to much scrutiny if called upon.

1 in 6 SME firms employs at least one dedicated HR professional. This figure rises significantly when the Micro firms are removed from the calculation. More than half of Medium firms have a full time HR role deployed. The risk and consequences of HR policy breach and the cost of investment made in wages and related expenditure mean more organisations understand the need to have HR effectively managed. The number of firms that still have HR value to leverage through tighter performance, compensation planning and employee engagement remains quite large.

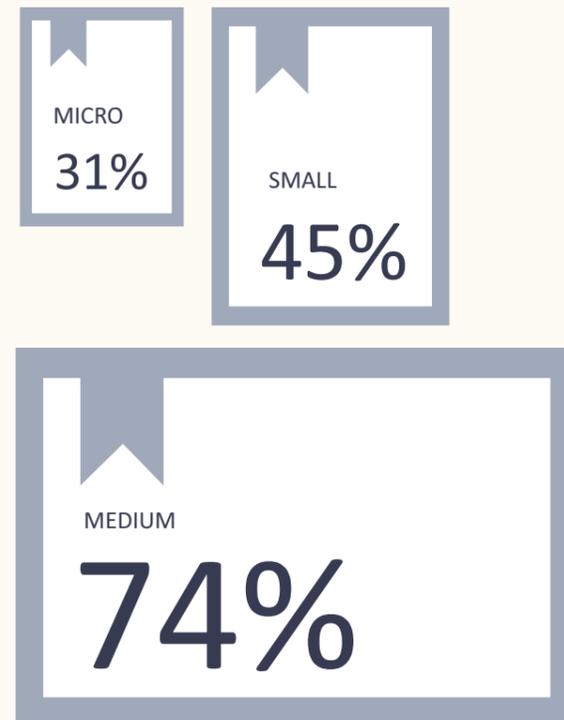
Three quarters of Medium SMEs have formal appraisal and performance feedback systems in place. We know feedback to be a key retention factor for employees. This compares with only 45% of Small firms and 31% of Micro firms. Firms in Connacht / Ulster are least likely to have formal appraisal systems in place at 32%. The graphic below displays the occurrences of formal appraisal which are in place amongst SME firms by region and size.

### FORMAL APPRAISALS

#### FORMAL APPRAISALS IN PLACE BY REGION



#### FORMAL APPRAISALS IN PLACE BY SME SIZE



### BASIS OF PAY REVIEWS, BONUSSES & BENEFITS

1 in 3 SMEs do not offer either formal pay reviews or bonuses. This includes 52% of SME manufacturers in Connacht / Ulster as per the graphic below. Where standalone bonuses are paid, just one fifth of firms link these to performance, with Micro firms being the slight leader in this. 51% of firms do not make performance a consideration when reviewing salaries or setting bonus payments.

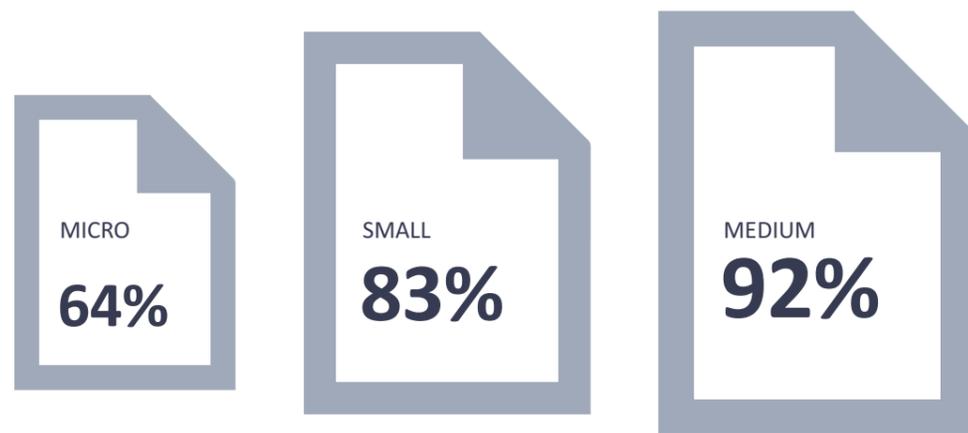
Just over half of SME manufacturers provide additional benefits to employees on top of base pay. One third provide Flexitime (35%) and / or Pension (34%). We know both benefits are highly valued by employees, Flexitime in particular. Dublin businesses are the least likely to provide Flexitime to their employees.

As the table below indicates, Connacht / Ulster based manufacturing SMEs are the most likely in three areas to provide benefits to their employees including Flexitime at 43%, Pension at 37% and Health Insurance at 24%. As employee size grows, so does the likelihood of Pensions being provided with Micro, Small and Medium firms offering this benefit at 23%, 51% and 63% respectively.

#### PERFORMANCE BASED SALARY REVIEWS & BENEFITS PROVIDED BY REGION & SME SIZE

MUNSTER	REST OF LEINSTER	DUBLIN		REGION REPORTING HIGHEST CONNACHT / ULSTER	MICRO	SMALL	MEDIUM
28%	32%	24%	PERFORMANCE BASED REVIEWS	52%	21%	19%	18%
32%	34%	31%	PENSION	37%	23%	51%	63%
14%	12%	14%	HEALTH INSURANCE	24%	10%	22%	39%
37%	36%	25%	FLEXITIME	43%	34%	39%	34%

## FORMAL HR POLICIES IN PLACE BY SME SIZE



7 out of every 10 SMEs in the manufacturing sector, have written HR policies / handbooks in place.

## FORMAL HR POLICIES / HANDBOOKS

Written HR policies / employee handbooks to deal with HR related challenges are in place for 71% of all SME manufacturing firms. It now amounts to being an essential requirement to have written policies (and employment contracts) accessible to all employees.

## EMPLOYEE ENGAGEMENT AT SMES

1 in 4 SMEs measure employee engagement in a formal way, this is broadly consistent with manufacturing companies across Europe. Focus on Employee Engagement is a rising feature of competitive firms seeking to retain employees and leverage their discretionary effort. While we notice little regional variation in the level of employee engagement measurement, it is more common in Medium SMEs, rising to 37% of these firms.



1 in 4 manufacturing SME businesses actively measure employee engagement. This number is 50% higher in medium SMEs.

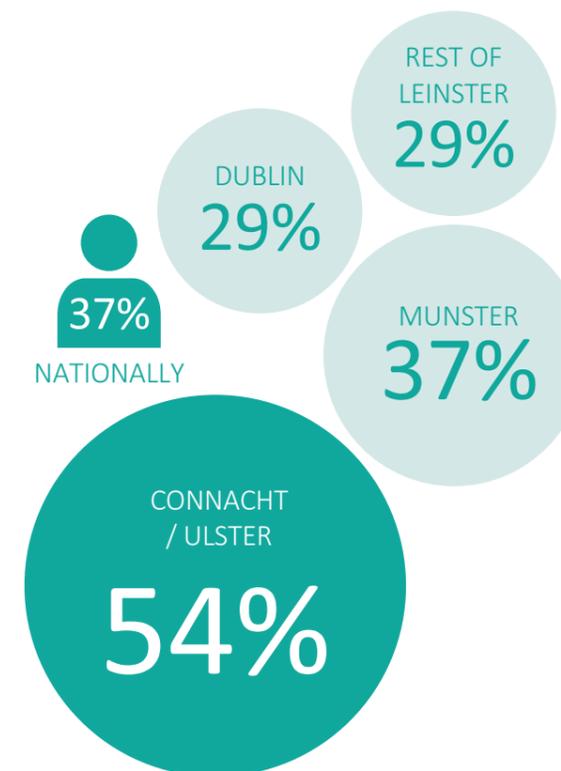
## FUTURE HR CHALLENGES FOR SME MANUFACTURERS

SMEs in general make up over 90% of businesses in Ireland and employ more than 70% of the national workforce. We know that Irish manufacturing SMEs are hiring, seeking to address skill gaps and yet attraction and retention is anticipated to be a significant future HR challenge.

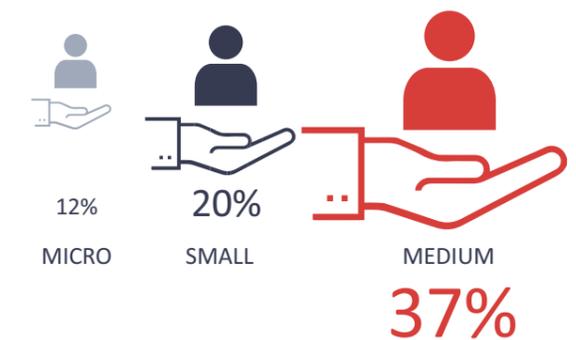
Several current challenges face SME manufacturers. The most obvious are well documented such as Brexit, the threat of tariffs and increasing legislative requirements from Europe, though the full impact of these is as yet unknown. Some, such as the pace of technological advancement, the need for continuous innovation and the changing dynamics of supply chain management are just as hard to predict. In the face of so many distractions it can be extremely challenging to plan HR for performance. Yet for SMEs, the cost of getting HR wrong can be particularly high. Acquisition of new staff and retention of current employees are the

biggest current and future HR challenges for manufacturing SMEs. To futureproof against these risks, it is important that firms are taking action now. These involve the investment in the development of current employees including the use of apprenticeship schemes and the implementation, where not already done, of HR operational structures. The key to attracting and retaining staff for SMEs lies in the development and communication of a strong employee value proposition (EVP) established around the community based culture enjoyed by these firms, which provides an essential differentiator when competing for talent against larger organisations.

## CONCERN AROUND ABILITY TO ATTRACT NEW STAFF BY REGION



ACQUISITION OF NEW STAFF IS THE LARGEST HR CONCERN FOR MANUFACTURING SMEs, PARTICULARLY IN CONNACHT / ULSTER AND AMONGST MEDIUM SIZED SMEs.



STAFF RETENTION AS A KEY ISSUE BY SME SIZE

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