

BRIEFING NOTE

Skill mismatch: more than meets the eye

Skill deficits do not cause unemployment; Europe's most talented workforce is being wasted

The global financial and economic crisis has led to alarmingly high unemployment and underemployment in many European Union (EU) countries. Yet, surveys still find that more than one in three employers has problems filling vacancies. The latest European company survey, in spring 2013, found that about 40% of firms across the EU had difficulties finding staff with the right skills. A 2010 Eurobarometer survey found some 33% of employers identifying a shortage of applicants with the right skills as their main challenge in filling vacancies ⁽¹⁾. Manpower's 2013 survey also found that, on average across 17 Member States, more than 25% of employers reported recruitment difficulties. Some 34% of these employers cite a lack of technical competences while 19% believe candidates also lack workplace skills.

Many employers and policy-makers argue that these problems are because young graduates and other workers are ill-prepared. They claim that endemic skill mismatch in Europe's economies is responsible for high rates of unemployment. However, there is evidence that factors other than skill deficits are mostly responsible for rising unemployment coexisting with difficult-to-fill job vacancies.

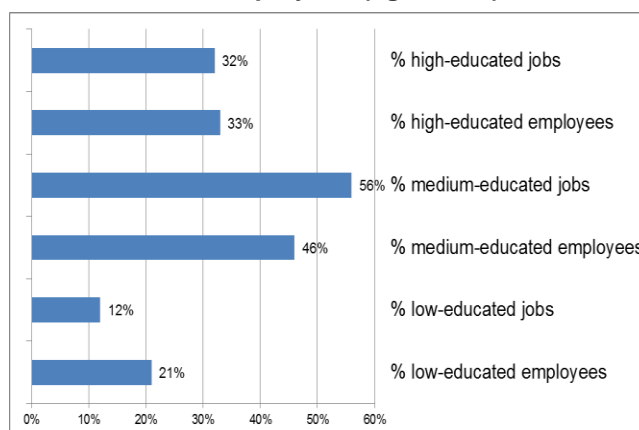
Skill mismatch in the labour market

With imperfect labour markets it is inevitable that all economies have some imbalance between supply of and demand for different skills.

Broad skill demand and supply trends indicate that there are more low-educated employees in the EU than there are jobs at that level (Figure 1). The number of jobs usually requiring a tertiary qualification is roughly in line with the number of highly-educated employees available. But a significant imbalance lies between jobs requiring medium-level qualifications and people qualified at that level. Often the labour market adapts to these imbalances.

⁽¹⁾ Eurobarometer survey (2010). *Employer's perception of graduate employability*.

Figure 1: **Imbalances in the EU labour market, adult employees (age 25-64), 2011**



Source: Cedefop based on EU labour force survey micro data.

But skill mismatch is not just about skill shortages. It also concerns the extent to which people work in jobs matched to their qualifications and skills (Box 1). And data indicate that current skill mismatch is not due to a lack of skills. Weak employment demand is increasing competition for jobs and people are more willing to accept jobs which do not match their level of qualification. In the EU, around 29% of highly-qualified workers are in jobs usually requiring medium- to low-level qualifications, making them overqualified.

Box 1: Understanding skill mismatch

Skill mismatch is often used indistinctively to describe various forms of mismatch between supply and demand in the labour market.

Employers having difficulties filling vacancies with the right talent, despite offering market-clearing wage rates, face **skill shortages**. However, **qualification or skill mismatch** is also where individuals take jobs in which their educational qualifications and skills are inadequately used.

To understand skill mismatch better, in 2014, Cedefop will undertake the first pan-European skills survey (eu-SKILL).

Some 48 000 adult employees across all 28 Member States will be surveyed to quantify incidence of educational and skill mismatch to see how it develops during individuals' careers. The survey will examine drivers of skill development and mismatch, in relation to changing complexity of people's jobs. It will also consider initial and continuing vocational training's capacity to mitigate skill mismatch.

Some qualification mismatch is due to people's preferences and/or personal circumstances. Some mismatch is temporary as people move to new jobs. When, however, high levels of mismatch become persistent they can have significant economic and welfare costs.

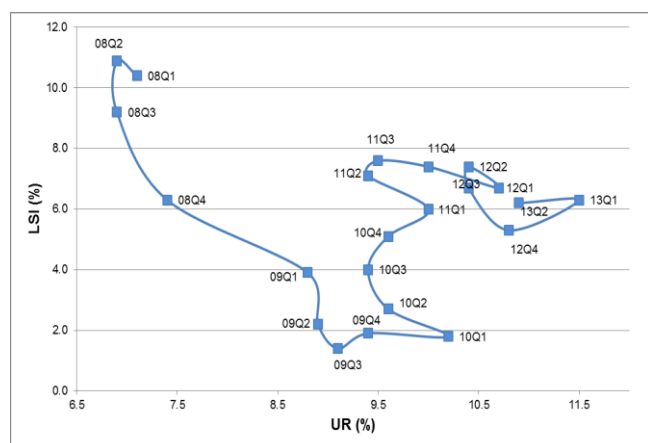
Overqualified workers are more likely to suffer wage penalties, lower job satisfaction and higher turnover than people in jobs matched to their qualifications. More than a third of overqualified workers, particularly vulnerable groups notably migrants, female and younger workers, underuse their skills. They are frequently trapped in jobs where they cannot develop and fully exploit their abilities. Overqualification can also scar a person's job prospects in the long term.

Labour shortages and rising unemployment

Those arguing that the EU workforce's skills are not matched to labour market needs point out that signs of economic recovery and more job vacancies have not seen a corresponding fall in high levels of unemployment.

However, there has been no widespread collapse in skill levels since 2008 that would justify skill deficits causing unemployment. In most EU countries current labour shortages are well below pre-crisis levels. Although labour shortages edged up slowly until end of 2011 (Figure 2), they have fallen back again over the past two years. Recruitment in all sectors is much lower than in 2008. According to Eurostat, job vacancies in 15 Member States in the third quarter of 2013 are still 25% below those in 2008.

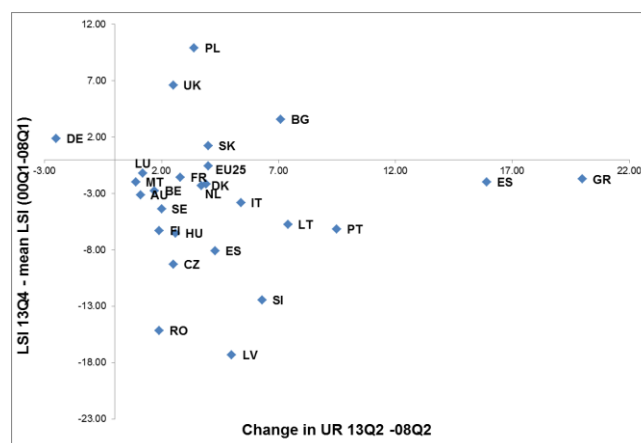
Figure 2: **Beveridge curve: unemployment and labour shortage indicator rates, EU-27, 2008Q1-2013Q2**



Source: Eurostat.

Data on overall labour shortages in Europe also mask big differences between Member States. At end 2013, the labour shortage indicator (LSI) was above its pre-crisis average in only five Member States (Bulgaria, Germany, Slovakia, Poland and UK) (Figure 3). Only in Germany is the LSI higher and unemployment lower than at the peak of the crisis.

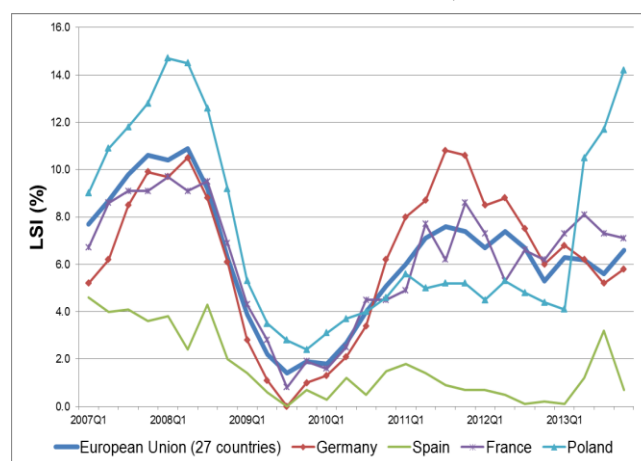
Figure 3: **Change in labour shortage indicator (LSI) and unemployment rates (UR), EU-25**



Source: Cedefop based on Eurostat data.

Since 2010, differences in labour shortages between EU countries have widened considerably, marking emergence of a two-speed Europe in terms of a return to employment growth (Figure 4).

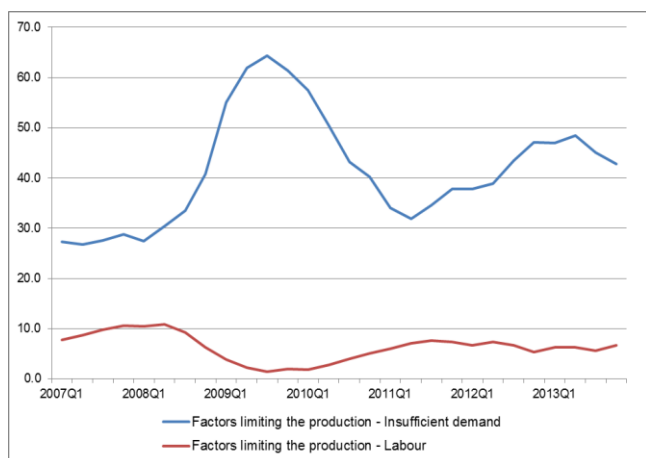
Figure 4: **Trends in labour shortages, EU and selected Member States, 2007-13**



Source: Euroind database.

More than 40% of EU manufacturers consider that insufficient demand is the primary factor limiting their production; only 6% blame labour shortages (Figure 5). Accordingly, expectations of low demand rather than lack of skills are more likely to reduce recruitment.

Figure 5: Trends in production bottlenecks, EU-27, 2007-13



Source: Euroind database.

Unfilled vacancies, skill shortages and labour market friction

Some employers say they cannot fill vacancies because even highly-qualified candidates have the wrong skills. They claim education systems ‘educate graduates of tomorrow in the skills needed in the industry yesterday’. Many employers are concerned that applicants lack ‘soft skills’, such as interpersonal, communication and problem-solving abilities. This complements a belief that jobs in growing sectors such as health, education and other services require different skills than those acquired by unemployed people who worked in declining sectors, such as agriculture and manufacturing.

Certainly some firms, for example industry leaders in innovation and product quality, have temporary recruitment difficulties for some professions, such as ICT developers. It is also difficult to attract people to some occupations. Recruitment bottlenecks are often reported for doctors, nurses and midwives and for jobs requiring specific vocational skills, notably engineering. But in many instances recruitment difficulties reflect labour market friction such as low labour mobility, seasonal shifts in demand, for example in tourism, lack of information and wage rigidities. These affect efficiency of matching job-seekers and firms, but are not directly related to lack of skills.

Firms can experience recruitment difficulties if they offer poor wages and unattractive working conditions. Only 6% of respondents to the 2013 Manpower survey say that they improve benefits to attract applicants for hard-to-fill vacancies. Only 5% increase

starting salaries. Inability to offer a competitive starting salary is cited by about 25% of employers in the 2010 Eurobarometer survey as a reason for unfilled vacancies. Another 11% of firms say limited resources inhibit their ability to market their graduate vacancies. Some firms, particularly small- and medium-sized ones with fewer resources for recruitment and training may have difficulties in hiring or developing talent. Taken together, credit and cost constraints are as much of a barrier to filling vacancies for firms as lack of skilled workers, particularly in, for example, Bulgaria, Greece, Spain, Croatia, Latvia, Hungary, Poland, Portugal, Romania and Slovakia.

Mobility, or rather lack of it, can also cause recruitment problems. Some occupations, such as health professionals, are mobile. Many skilled people move to work in more affluent areas or countries. But, overall, European labour market mobility tends to be low, not only due to language barriers and unwillingness to move, but also to lack of information on job opportunities. Obstacles to recognising qualifications gained in other countries also persist.

Inefficient recruitment and training strategies have also been identified as culprits for vacancies being difficult to fill. The 2013 Manpower survey found some 24% of employers complaining about lack of experience and work attitudes of young applicants. However, firms fail to engage in on-the-job or dual training programmes that would improve young people’s job-readiness or enable employees to acquire necessary work-related skills. Eurostat data show that only about 33% of employees in the EU received training provided or paid for by their employers in 2010. And most employees were already highly-skilled individuals.

Weak employment demand can also lead to exacting recruitment criteria. Faced with oversupply of highly-qualified job candidates, employers prefer to wait for the perfect applicant rather than provide training, good working conditions and pay to attract talent ⁽²⁾. The 2013 Manpower survey found only 7% of employers willing to redefine qualifying criteria, even though this would make recruitment easier. Only about 13% of employers indicate they recruit more widely to address recruitment difficulties. Employers tend to overlook possible candidates from outside the region or country as well as young people, women and older workers. Many in this pool of unexploited talent are

⁽²⁾ Cappelli (2012). *Why good people can't get jobs: the skills gap and what companies can do about it*. Wharton.

skilled workers. Around 40% of unemployed people were previously working in high-skilled or skilled non-manual jobs.

In some countries, for example the UK, less than 20% of unfilled vacancies are attributed to skill deficits among applicants. Only 10% of firms find that their newly-recruited university graduates lack the necessary skills, although in some countries such as the Czech Republic, Estonia, Lithuania and Slovenia skill deficiencies tend to be more pronounced.

Tackling all types of skill mismatch

Despite high levels of unemployment, firms continue to report difficulties finding the people they want. However, when examined more closely, the argument that this is largely due to skill shortages is not wholly convincing. Weak labour market demand and high unemployment is making other types of skill mismatch, notably overqualification, more prominent.

This does not mean that efforts to bring education and training and the labour market closer together should stop. On the contrary, they should be reinforced with strong commitment from employers. This includes policies to increase high-quality apprenticeships and internships. Evidence shows young people on such schemes are more likely to acquire useful skills and attitudes to find suitable work. Nor does it mean that people no longer need to learn. Both employed and unemployed adults need continuous development and use of skills throughout working life. Firms must invest in and offer learning opportunities to their workforce.

Cooperation between governments, employers and unions in managing education and training systems should also be strengthened to adapt curricula quickly to meet changing skill demands. Such cooperation should develop VET at all levels, including tertiary, and cover short-term training to address swiftly skill deficits, for example in innovative sectors. Better labour market intelligence to identify skill mismatches and anticipate future needs can also improve labour market relevance of education and training. It can also support high-quality career guidance to help people make well-informed choices about their learning and careers.

In addition, closer scrutiny of all problems of matching skills to labour market needs is required. This includes encouraging firms to review their recruitment practices, extend training strategies in the workplace and broaden their recruitment pools.

It is claimed that despite high unemployment, there are still two million vacancies in the European economy. But in 2012, about 25.3 million people in the EU were unemployed, some 45% of which were long-term unemployed. Another 20.4 million were underemployed, constituting a potentially discouraged or marginal labour force. This means around 20% of the EU's total labour force – some 46 million people – are currently unemployed or underemployed, many of which are educated at above upper-secondary level or have prior experience in skilled jobs. At the same time, about 23.4 million young Europeans aged 18 to 24 are continuing to invest in education and training.

Consequently, the concern must be that unless the low demand driving high unemployment is reversed it will foster and perpetuate skill mismatch and skill obsolescence through overqualification and unemployment which, eventually, will lead to a lack of skills becoming entrenched.

The World Economic Forum has published a paper on skill mismatch to which Cedefop contributed substantially ⁽³⁾. The paper points out that skill mismatch is mainly an outcome of structural rigidities in labour markets, but is also influenced by the cyclical gap between demand and supply. Job creation is fundamental but all aspects of skill mismatch must be addressed. If not we may only prolong the jobs crisis as people will fail to have opportunities to develop the skills required by the jobs the economic recovery creates.



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⁽³⁾http://www3.weforum.org/docs/GAC/2014/WEF_GAC_Employment_MatchingSkillsLabourMarket_Report_2014.pdf.