

SMEs: Equipped to Compete

2,100

SMEs surveyed

46%

Are hiring actively to support growth strategy

39%

Find it increasingly hard to hire skilled workers to match business needs

The Human Factor

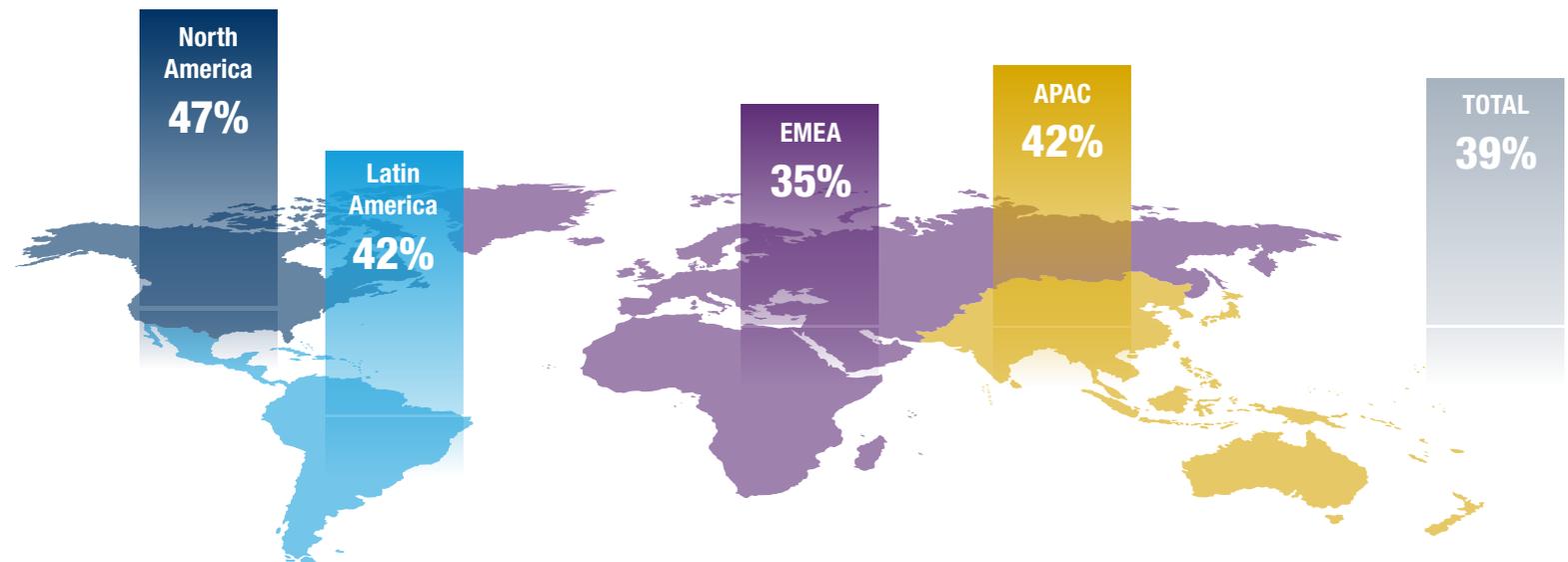
In a technology-dependent global economy, human factors remain critical to success for SMEs. Access to talent and an affordable supply of skilled workers are prerequisites for growth, as is a healthy company culture that focuses on innovation, prepares employees to master the latest digital tools, and fosters confidence in management's ability to navigate change.

Our study of 2,100 executives from small and midsize firms in 21 countries shows that SMEs pay close attention to these issues. Almost half (46%) of respondents are actively hiring new employees to support growth, a strategy complicated by the fact that 39% find it increasingly difficult to recruit employees with the right skills to match their business needs (the skills gap is especially pronounced in North America).

Over one-third (34%) cite creating a culture of innovation as a strategic priority of transformation efforts. Establishing that culture requires more than just purchasing new technology: Although SMEs are nearly three times more likely to be early adopters than reluctant ones (35% vs. 13%), getting employees to use tools such as social media and mobile technologies can be difficult.

SMEs confront a skills gap

Firms that find it increasingly difficult to recruit people with the right skills for their business



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As researchers Krishna Kishore, Mousumi Majumdar, and Vasanth Kiran say in their paper “Innovative HR Strategies for SMEs,” published by the International Organization of Scientific Research *Journal of Business and Management*, “It is important to understand how to manage human resources so as to maximize productivity and enhance creativity as well as control the costs.”

SMEs are responding to these challenges with creativity and purpose. With demand for skilled workers outpacing supply, just 20% of respondents say acquiring digital skills through hiring, training, or acquisitions is a transformation priority, suggesting that collaboration with third parties is a growing trend. Meanwhile, nearly two-thirds (64%) believe senior management is equipped to drive transformation, and most believe they have the technology prowess to out-compete their rivals.

The search for skills

Zanzini Móveis, a Brazilian furniture-maker with \$41 million in annual revenue, sometimes struggles to find employees to help drive its growth strategies. “It has not been so easy for us to hire workers with digital skills,” says Paulo Graef, the company’s Coordinator of Management Systems. “Often we find we have to train existing workers to take on more advanced roles.” Zanzini also turns to consultants and third-party firms to fill these gaps in its internal workforce.

Zanzini is far from alone in the search for suitable talent. Many SMEs have problems finding skills related to cloud computing (34%) and data analysis (32%), with larger companies (\$500 million–\$750 million in revenue) especially likely to be concerned about the lack of analytics skills. Like Zanzini, many SMEs are tapping third-party resources as a way to add the digital skills they need to support growth. Two-thirds of larger SMEs are forming partnerships with suppliers and other vendors in foreign markets as a strategy for expanding their global presence; North American companies are most likely to pursue this strategy.

Technical skills aren’t the only employee-related challenge facing SMEs. Rising labor costs are cited as a major concern, especially in the Asia-Pacific region. And training itself has become a major point of focus for many firms. For VSI Nearshore, a professional services company based in Barraquilla, Colombia, preparing workers is part of overall strategy. “We plan around talent supply for the long term,” says CEO Esteban Reyes. The company, which specializes in business process outsourcing and IT services for banks, maintains an internal training organization and works with the Colombian government on talent development.

Zensar invests in human capital

Human factors are critical for Zensar Technologies, a \$310 million professional services company based in Pune, India. As a provider of business process outsourcing and IT services in Asia, Europe, and the US, Zensar is in the “people business,” and its recruiters are always on the lookout for talent in India and abroad. Once hired, employees must be trained and kept engaged, says CEO Ganesh Natarajan, as the company needs to get full value as wages increase. In India, “the cost of manpower is going up at a rate of 7% to 8% a year,” says Mr. Ganesh, “so productivity improvement becomes very important.” The goal is to make future revenues less dependent on additional personnel by creating new products and new intellectual property, but employee costs will remain an important consideration.

Recruiting qualified talent requires a major investment. “Finding the right people is a large task,” says Mr. Ganesh. Hiring at a rate of 10% of everyone interviewed, Zensar must screen almost 8,000 people per year. And those with potential may still require additional education to master the skills needed for the job. Training efforts in multiple countries, from Africa to Europe and the US, are an important part of Zensar’s strategy. “We are investing a lot of time and a lot of effort and money in building local talent.”

Zensar works hard to keep its associates engaged in order to avoid the heavy turnover that plagues many of its competitors. “The ability to train them quickly and deploy them on projects earns revenue for the company, and it is also a motivator,” says Mr. Ganesh. “We are in an industry where the attrition levels can range from the high teens to 50%, but our company has been able to keep attrition down below 10%. Motivating people becomes the most critical aspect of managing the human force.”

The new SME culture

Technologies such as business management software and analytics, once the domain of large enterprises, have become increasingly available to SMEs. At the same time, newer tools such as social media, mobile, and the cloud have become essential almost overnight. Along with the opportunities afforded by these technologies come some significant cultural challenges.

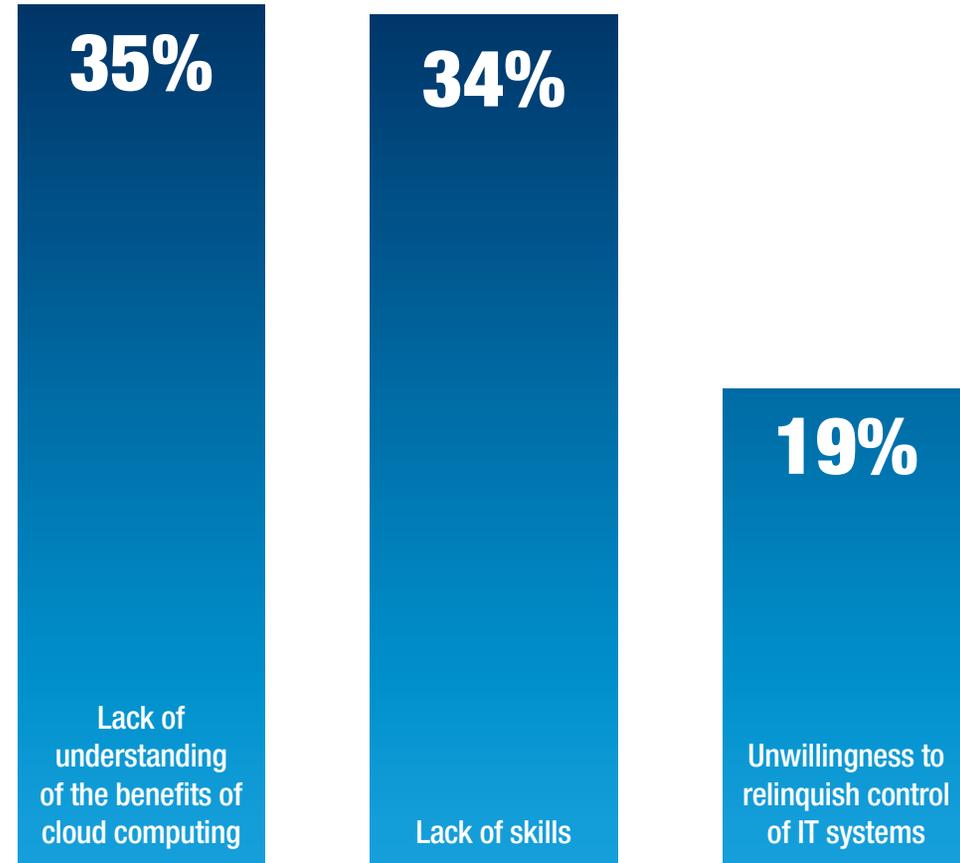
For example, more than one-third of respondents (35%) say their adoption of cloud computing—an innovation that enables SMEs to more cost-effectively adopt enterprise software and free up resources for innovation—is hindered by a lack of organizational understanding of the technology’s benefits. Another one-fifth (19%) cite employees’ unwillingness to cede control of IT systems. In both cases, Latin American firms are most likely to encounter such obstacles.

Encouraging employee adoption of social media has also proven to be a struggle, and defining viable social strategies is a demanding job. Those strategies can be overly narrow, too: Nearly one-third (31%) of SMEs believe improved customer service is the biggest benefit of social media, while just 12% cite improved innovation, a gap that shows a missed opportunity for improved internal collaboration and communication. Social media use among SMEs is expected to grow 22% over the next three years—more than half (51%) of all SMEs and nearly two-thirds (66%) of those in Asia Pacific will have social technologies deployed in that time.

Surprisingly, given the deep and broad penetration of mobile technologies into everyday life, these tools present cultural problems, too. Despite the fact that 48% of SMEs expect mobility to provide strong competitive advantages and 42% expect revenue gains, nearly one-third of SMEs cite challenges getting employees to use mobile solutions, with more firms in Asia Pacific (39%) struggling with this than in any other region.

Human factors impede cloud adoption

Key challenges companies face in adopting cloud computing



64%

Say senior management is equipped to drive transformation

59%

Say their firm is more innovative than rivals

56%

Say they are more nimble than competitors

SME leadership and culture

Successful businesses are built on strong leadership and culture, and SMEs largely believe that their leaders are steering them in the right direction. In addition to their overall confidence in senior management's ability to drive transformation, most SMEs believe their firms are more innovative (59%) and nimble (56%) than their key competitors. That self-assuredness is especially high among the most profitable SMEs, and in Latin America, where respondents are more likely than their peers in other regions to see themselves as nimble (74%) and innovative (70%).

SME culture is bullish on technology. Fewer than one-third (33%) believe their firms' technology capabilities lag those of their larger competitors, and just 29% say they struggle to understand how technology can deliver measurable benefits. Even the smallest SMEs—who are most likely to lack expertise in business technologies—share that confidence, with only 32% of firms earning less than \$100 million in revenue saying they struggle to grasp their technologies' ability to deliver measurable impact.

Still, SME leaders can find some room for improvement. More than one-fourth of respondents (26%) say that senior-level buy-in is an obstacle to adopting business management software, which also happens to be the technology category SMEs say they are most likely to invest in over the next three years.

SME culture is positive about technology

● Firms with 0%–8% profit

● Firms making more than 15% profit



Conclusion

Technology has changed many things for SMEs, including the way they address human factors such as personnel needs, management focus, and company culture. Whether developing a culture of innovation, finding creative ways of obtaining relevant skills, or gauging the effectiveness of executives, SMEs have placed technology squarely at the center of their people-related activities. The reality facing SMEs is that the degree to which they can effectively manage human factors and weave technology into their cultures will go a long way toward determining how successful their businesses can be—and how well a global economy that depends on SMEs for growth will perform. “Our business culture has an important role in the company’s success,” says Zanzini’s Mr. Graef. “What differentiates us from other firms is our people.”

About the research

The Global SME Mindset is one of four papers based on an online survey of 2,100 SME senior executives conducted in April 2013. Respondents came from 21 countries around the world. Industries represented include discrete manufacturing, professional services, consumer products, retail, and wholesale. Revenue at respondent firms ranged from US \$20 million to \$750 million. In addition to the survey, interviews were conducted with 12 SME executives around the world.

The contrasting tales of manufacturing and retail

Manufacturing SMEs face the most daunting staffing difficulties among industries surveyed; retailers, meanwhile, are paying a price for being technology laggards relative to other verticals.

A tale of two industries



Manufacturing firms are the most likely (42%) to be early adopters of technology, and also most likely to be actively hiring employees to support growth (55%). They are most likely to struggle to recruit people with the skills they need (47%), which has apparently caused them to partner with overseas suppliers and vendors (61%), as well as collaborate online with other firms (59%), more than SMEs in any other industry.

The opposite is true with retailers, which are less likely (26%) to be early adopters than their peers in other industries. That risk-averse profile comes at a cost: Retailers are more likely than SMEs in other industries to lack the skills needed to adopt cloud computing technologies (39%), and to struggle with developing data analysis skills (36%) and encouraging employees to use social media (49%). Their lack of cutting-edge technologies has also made it harder for retailers to change their internal cultures, with 19% citing this as a challenge.