

# Company practices to tackle labour shortages

## Introduction

The scale of labour shortages in the EU has been increasing for over a decade and remains high despite the economic slowdown in 2023. Labour shortages affect growth, innovation and the EU's ability to achieve its digital and green targets. They can also contribute to a vicious cycle, whereby the existing workforce experiences intensified work, increasing the likelihood of stress and burnout, leading to absences and exits that exacerbate the situation.

This report centres on the recruitment and retention measures that organisations have deployed to address labour shortages, based on 17 case studies in different sectors and across 13 Member States. The report includes an update to previous Eurofound research on trends in labour shortages and labour market slack (the unmet demand for labour in a given population). It also describes the impact of labour shortages on companies and their experiences of skills shortages.

## Policy context

The European Commission adopted an action plan on labour and skills shortages in March 2024, which specifies five priority areas for action:

1. supporting the activation of underrepresented people in the labour market
2. providing support for skills, training and education
3. improving working conditions in certain sectors
4. improving mobility for workers and learners
5. attracting talent from outside the EU

The priority areas reflect the key categories of measures identified in previous Eurofound reports on labour shortages: attracting labour (priorities 3–5), activating underutilised labour (priority 1) and enhancing the use of existing labour (priority 2).

The plan acknowledges the social partners' key role in addressing labour shortages and emphasises the

Commission's commitment to supporting capacity building and social dialogue solutions at national and subnational levels.

## Key findings

### Labour and skills shortages and labour market slack

- The EU job vacancy rate decreased slightly from 3% in the second quarter of 2022 to 2.6% by the third quarter of 2023. However, it remains significantly above pre-pandemic rates. Vacancy rates remain at or above 3.5% in Austria, Belgium, Czechia, Germany and the Netherlands.
- Labour market slack has decreased slightly, mostly as a result of reduced unemployment. However, changes in other components of slack (such as underemployed part-time workers and people available for work but not looking for it) are more muted. This demonstrates that organisations are working, by and large, within a constant supply of labour, which implies that further actions are required to increase the pool of available labour.
- Job vacancies appear increasingly to have been filled by workers moving jobs, thereby gaining better wages and conditions, rather than by unemployed people entering employment. This could indicate ineffective activation policies, particularly for those outside the labour market or underemployed. At the same time, more remains to be done to update education and initial vocational training curricula and invest in ongoing training.
- Around 80% of EU employers struggle to recruit workers with the right skills. The skills of one in three employees are mismatched with their job: 17% are overqualified and 13% underqualified.
- In 2023, a quarter of EU companies recruited workers without the required skills. An additional 18% report fewer than one in five recruits having the necessary skills.

- One source of the skills shortage is lack of training in companies. Countries with high proportions of underskilled workers also have lower shares of companies providing employee training. Between 2015 and 2020, the share of EU companies providing training decreased (although 2020 data were potentially affected by the pandemic).
- To address shortages, 42% of small and medium-sized enterprises (SMEs) seek to better use existing talent, 33% to invest more in training and 32% to increase job attractiveness by improving benefits. Fewer than 10% recruited candidates from outside the EU in 2023.
- Drivers of shortages vary between sectors and occupations, with some sectors particularly affected by low job quality, recruitment struggles in a tight labour market or changing skills requirements, including as a result of the twin transition.

### Organisational measures

- Better matching of supply and demand remains a concern. Employers are scaling up their work with partners in educational and vocational training and public and private employment services to better target training to their needs and ensure early, direct contact with graduates. The offer of ongoing training and routes to career progression is also key.
- Greater competition means that employers must increasingly work harder on marketing and employer branding, offering better pay, non-wage benefits and good working conditions. These include working time flexibility, remote working, and assistance with housing and childcare. Such benefits are increasingly critical to employee retention. Employers in sectors with limited ability to improve certain working conditions (for instance, where remote work is not possible) have to rely on other types of benefits (such as assistance with finding accommodation, childcare or private health insurance).
- Smarter recruitment is increasingly important. Employers are reconsidering recruitment tools and pathways and turning, for instance, to social media, employee referral programmes and recruitment catchment areas. More emphasis is being placed on soft skills and personality traits that fit organisations, rather than just formal qualifications.
- Companies' willingness to use mobility and migration recruitment routes is currently greater than actual use – due to administrative barriers but also to challenges regarding recognition of qualifications and the skills required, including language skills.
- Some EU companies have developed initiatives to employ people displaced from Ukraine. However, they face issues arising from non-recognition of qualifications, lack of language skills and uncertain duration of stay.

### Policy pointers

- The persistence of components of labour market slack other than unemployment means that more must be done to enable involuntary part-time workers to work additional hours and inactive individuals who can work to return to the labour market. This requires enhanced public policy regarding care provision; integrating people not in employment, education or training (NEET) and people with disabilities; and introducing more effective targeted activation policies (for example for low-skilled and migrant workers). Public policy intervention in this area should be combined with the greater involvement of the social partners and employers, since among the latter active engagement with the integration of underutilised groups is currently more limited.
- Effective public policy, social partner and employer strategies should provide targeted approaches that address specific drivers of shortages depending on the nature of the sector and organisation, while considering differences between countries, including in relation to the scale of shortages and the level of unemployment and labour market slack. Where job quality is low, improved wage and non-wage benefits, as well as enhanced working conditions, are important. In the pandemic's aftermath, so is geographical and temporal flexibility, where feasible. Where skill shortages are widespread, active collaboration between employers and education and training providers as well as employment services must be enhanced to match skills supply and demand through initial and ongoing training.
- Effectively integrating Ukrainian refugees and third-country migrants will entail addressing barriers to sustainable recruitment, including avoiding skills underutilisation. Solutions include streamlining processes to regularly update the identification of shortage occupations for the purposes of granting work permits to third-country nationals as well as the recognition of qualifications gained abroad and the offer of language training and integration services with the involvement of the social partners.

#### Further information

The report *Company practices to tackle labour shortages* is available at <https://eurofound.link/ef24020>

Research manager: Tina Weber

[information@eurofound.europa.eu](mailto:information@eurofound.europa.eu)