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# Re-skilling Europe for the new global knowledge economy



By Karen Cho

**Europe today is suffering from a skills shortage, made even worse by the economic crisis. Over the past decade, many business leaders have stressed that Europe is simply not producing, attracting, or retaining sufficient numbers of scientists, engineers and IT specialists to meet the requirements of its industries, and the ambition of its 'Lisbon Agenda' - that is, to lead the global knowledge economy.**



Focusing on this critical issue, INSEAD wrote the background report for the recent European Business Summit. The report, entitled *“Who Cares? Who Dares? Providing the Skills for an Innovative and Sustainable Europe”*, calls for Europe’s government and business leaders to turn their attention to the importance of strengthening skills, and recommends a set of practical actions to help Europe face its most urgent challenges in this area.

## The skills pyramid

Drawing on data from collaboration between the INSEAD eLab team - led by director [Bruno Lanvin](#) and senior research fellow [Nils Fonstad](#) - and the World Economic Forum, the report shows that global competitiveness and a strong set of skills are strongly correlated. So a skills pyramid comprising three types of skills - literary and basic skills; occupational skills; and global knowledge economy skills - was developed to better understand how Europe fared with the rest of the world.

While Europe as a whole gets a ‘B’ grade for literacy and basic skills, and a ‘B-’ for occupational skills, it scores an alarming ‘C’ for its global knowledge economy skills, an area in which most European countries trail behind countries such as South Korea, the US, Japan and Singapore.

In the report, Lanvin and Fonstad underscore that this means that Europe is under-equipped in terms of managers and leaders of innovation. In fact, the capacity to manage change, think innovatively about products, processes and usage is still scarce across Europe's companies and public entities; the ability to manage across multi-cultural (and often virtual) teams is also insufficient in many parts of Europe.

## **A six-point action plan**

To encourage action in the development of skills across Europe, the INSEAD eLab team devised a six-point action plan: the European Skills Pact (ESP). The first priority of this Pact is to combine forces across Europe's public and private sectors to help businesses retain as much of their workforce as possible during the crisis, and to use times of turbulence to re-skill their staff, and prepare them for post-crisis times.

Another important recommendation of the Skills Pact is to allocate more of Europe's stimulus packages to those sectors which can best help build Europe's leadership after the crisis abates, especially through the provision of appropriate skills.

The Pact also recommends making scientific, engineering or technical careers more attractive for the younger generation, especially girls.



“It is quite striking that, on the one hand, we see Europe’s gender gap diminishing in many areas, for instance in political representation or in the media, while, on the other hand, it seems to be growing when it comes technical and scientific studies,” stresses Lanvin.

Another action item calls for the generation of a talent pool with the skills to tap the new global knowledge economy. “One of the lessons that emerges from the ESP recommendations is that innovation will be even more important in post-crisis times. If older economies, like most European economies are, want to take advantage of the fact that they have had universities for 900 years, they will have to, first, grow the entrepreneurship drive that other parts of the world like the US have, and, second, focus on innovation.”

“They have to find the ways by which they can retain value, based on brains, because the commoditisation of a growing array of activities will make them go to lower-wages economies. That's part of the game called globalisation. To stay ahead of the pack, all economies - old and new - have to build brain-based comparative advantages, and be hubs of innovation,” adds Lanvin.

Jean-Philippe Courtois, president of Microsoft International and a member of the Science Business Innovation Board, which is looking to help reset the innovation agenda in Europe, also believes that innovation is going to be the key driver of economic recovery.

“At the end of the day if we want Europe or the countries across the continent to re-balance more quickly, they need to actually narrow the gaps on skills and in particular on innovation skills,” he told INSEAD Knowledge in an interview.

“Innovation is not just technology, it can be in processes. It's actually very related to people-skills again and you have to bring that together to actually be the number one, or one of the top leaders in your group, in your industry. And (now's) the time to do it.”

Courtois, however, laments that governments may not be giving innovation their full attention, given the backdrop of the crisis. “I think innovation skills are not on the agenda. I think if you look at the stimulus package measures, in Europe in particular, there's not much frankly about accelerating innovation and taking a leadership position which the US is doing now as it

tries to build these new, smart, dream industries and for leadership in the world.”

## **A united Europe**

A separate action item calls for skills mobility within Europe, as well as between Europe and other parts of the world. This is required by the existence of what the report calls a ‘European skills divide,’ with Scandinavian countries overall tending to fare better in the global knowledge economy categories than the rest of the EU countries.

As Fonstad explains: “One of the things that comes out when you grade such a set of countries is the striking difference between a sub-group of countries which grades very high on the skills pyramid (for example, the Nordic countries) versus a sub-group which lags behind (such as Bulgaria). It is important for Europe as a whole to address this gap, in particular through keeping its internal and external borders sufficiently open. In times of crisis, this message is worth the emphasis we give it in the report .”

Currently, there are some 18 million unemployed people across Europe. However, the simultaneous existence of four million unfilled job vacancies indicates a serious mismatch in skills sets. Things are not all gloom and doom for Europe, however. “There are a host of best practices that are just begging to be expanded and taken advantage of,” adds Lanvin.

So for the EU to lead in the global knowledge economy, the Lisbon Strategy must be reaffirmed and upgraded, with due consideration to the many ways in which the current economic crisis might limit its impact.

“The re-skilling of Europe’s labour force should be a priority during the crisis: without it, the skills shortage, which was already increasing before the crisis, will constitute a major handicap in post-crisis times, holding back Europe’s ability to innovate and compete on global markets,” says Lanvin in the report.

*The 7th European Business Summit was held in Brussels, March 26-27 2009.*

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