

The Challenges of Building a Talent Pipeline for Small and Medium-Sized Enterprises and Low-Cost Solutions

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Abstract. Small and medium-sized enterprises (SMEs) face prominent challenges in talent echelon construction due to limited capital resources, imperfect human resource management systems and an unfavorable external market environment. This study systematically analyzes core dilemmas restricting talent cultivation and proposes targeted low-cost improvement solutions. Based on qualitative observation and practical research on typical SME daily operations, existing key problems include insufficient strategic attention from management, rigid employee career mindset, inadequate corporate culture construction and imperfect supportive industrial policies. The feasible low-cost strategies cover a "one-post, two-backups" performance-linked incentive mechanism, systematic regular post rotation, lightweight digital HR transformation relying on AI and free online management platforms, as well as a standardized five-year staff development plan. Relevant research findings prove that these practical measures effectively cut external recruitment costs, strengthen team stability and greatly boost employee retention rates. In short, SMEs are able to build a long-term sustainable talent echelon via reasonable internal incentive design and low-price digital tools without massive capital investment.

Keywords: Small and medium-sized enterprises, talent echelon construction, low-cost solutions, one-post two-backups, post rotation

1. Introduction

Research on talent echelon construction has primarily focused on large enterprises, where abundant resources and specialized HR departments enable systematic talent development. In contrast, small and medium-sized enterprises (SMEs) face unique constraints such as limited budgets, weak organizational structures, and a lack of professional HR tools. Existing studies often overlook the specific dilemmas of SMEs, leaving a gap in practical, low-cost solutions that fit their operational realities. This paper addresses that gap by focusing on talent echelon construction within SMEs. The specific research questions to be explored are the following: what are the main internal and external barriers preventing SMEs from building an effective talent pipeline, and what low-cost strategies can be implemented to overcome these barriers? A qualitative analytical method will be adopted, drawing on case-based reasoning and observations from typical SME operations. The research examines existing problems, including insufficient strategic attention, rigid employee mindset, weak corporate culture, and unsupportive policy environments. Based on this analysis, this study proposes

several cost-effective solutions, such as a "one-post, two-backups" performance-linked mechanism, regular post rotation, digital transformation of HR management, and a five-year talent development plan. The significance of this research lies in offering SMEs actionable, low-cost tools to enhance operational stability, reduce recruitment expenses, and improve employee retention. Future implementation of these strategies is expected to help SMEs build a sustainable talent echelon without heavy financial investment, thereby strengthening their long-term competitiveness.

2. The importance of talent pipeline development in SMEs and existing challenges

2.1. The importance of talent pipeline development in SMEs

Talent is the driving force behind a company's competitiveness and the key to its sustained and stable operation in today's business environment. The vital role of talent pipeline development in SMEs is manifested in the following ways: Firstly, it enhances the company's core competitiveness; a well-developed talent reserve system can prevent issues such as staff vacancies, project disruptions and operational difficulties arising from staff resignations or transfers, thereby enabling the company to achieve new breakthroughs in its operations and development [1]. Therefore, SMEs should prioritise the development of a robust talent pipeline, as this is a key competitive advantage for ensuring the company's stable operations and revenue; secondly, it can enhance operational efficiency, as a clear career progression path allows employees to see their professional development prospects, thereby motivating them and fostering a sense of ambition. The power of teamwork is formidable; it enables employees to foster a cohesive and proactive working environment, improves team synergy, boosts operational efficiency, and cultivates a sense of unity within the organization; thirdly, it can reduce staffing costs for SMEs. Typically, a comprehensive recruitment process involves a series of cumbersome tasks, such as advertising on recruitment channels, arranging interviews and conducting background checks. Consequently, particularly for SMEs, a clear career progression path enables employees to have stable expectations for their development. This can reduce staff turnover, thereby lowering the company's labor costs and stabilizing its operational model.

2.2. Problems in the development of talent pipelines in small and medium-sized enterprises

Firstly, there is a misperception regarding the importance of building a talent pipeline, and a lack of emphasis is placed on it. The operations of SMEs are often driven by the outstanding personal capabilities of the founder or chairman, with teams typically led by the chairman alone. Consequently, rather than establishing dedicated recruitment departments, recruitment is often handled on a part-time basis by the founder or other staff members. This results in inadequate implementation of management and recruitment processes, making it difficult to meet the growing needs for personnel and business development in today's business environment [2]. If small and medium-sized enterprises fail to steer their talent pipeline development in the right direction and rely solely on the personal capabilities of their leaders, the company's growth and expansion will stagnate and eventually decline. Secondly, a lack of initiative among employees and rigid thinking are prominent issues that arise during the development of talent pipelines in small and medium-sized enterprises, manifesting in various practical work scenarios. Most employees are accustomed to carrying out their duties according to established procedures and traditional models; they are content to handle basic tasks at hand and lack a proactive mindset, rarely taking the initiative to learn new business skills, management knowledge or cutting-edge industry developments. When faced with

extended job responsibilities, cross-departmental collaboration tasks, or opportunities for rotational training, most adopt a "better safe than sorry" attitude. They are unwilling to actively participate in developing their capabilities, nor do they proactively seek promotion or training opportunities, making it difficult for them to develop into reserve talent. At the same time, employees' mindsets are rigid and conservative; they persist in relying on outdated work experience to solve problems and resist the new management approaches, working mechanisms and training programs introduced by the company. They demonstrate low levels of acceptance towards initiatives that foster talent development—such as job rotation, cross-functional training and digital working practices—and are reluctant to step outside their comfort zones to alter their working habits [3]. Furthermore, employees generally lack long-term career planning; they focus solely on their current salary and benefits, failing to recognize the value of personal and organizational growth, and are unaware that their own professional development is closely linked to career progression and the development of the talent pipeline. They neither proactively plan their own career paths nor are they willing to cooperate with the company on talent development initiatives; this passive and uncooperative attitude severely hinders the cultivation and development of the company's talent pipeline [4].

3. Analysis of the causes of problems in talent pipeline development in small and medium-sized enterprises

3.1. External factors

3.1.1. Socio-cultural environment

The vast disparity in scale and resources means that SMEs are unable to compete with large corporations; the majority of high-calibre talent flows to large enterprises, limiting the talent pool available to SMEs. In recent years, with the slowdown in global and domestic economic growth, a marked divergence has emerged in the trajectories of Chinese SMEs and large enterprises. Among young job seekers—the future talent pool of today's society—there is a widespread preference for employment in the civil service, public institutions, state-owned enterprises and well-known large corporations. Seeking employment with SMEs is often viewed as a second-best option. This mindset is subtly instilled in this demographic through families, schools and the media; even when SMEs offer equivalent or higher salaries, job seekers still opt for large enterprises. Consequently, the task of building a talent pipeline for SMEs remains a long and arduous one [5].

3.1.2. Imbalances in the policy environment

Numerous policy resources—including subsidies, talent schemes and tax incentives—are clearly skewed towards large enterprises, high-tech firms and specific state-owned sectors, leaving SMEs at a disadvantage when it comes to accessing talent support. At the same time, whilst labor laws protect employees, they also objectively increase the costs for SMEs associated with trial and error and the dismissal of unsuitable staff, leading SMEs to exercise greater caution when developing future talent [6].

3.2. Internal factors

3.2.1. Lack of cohesion in corporate culture and low employee sense of belonging

The development of talent pipelines requires prospective leaders to dedicate additional time to learning, participating in projects and collaborating with teams, on top of fulfilling their core duties [7]. However, SMEs often lack a clear, healthy and inspiring corporate culture. Typically, decision-making rests solely with the owner, communication is opaque, and while there is a culture of overtime, emotional support is lacking. Furthermore, a healthy talent pipeline culture requires an open atmosphere of knowledge sharing; many SMEs have not established a mentoring culture, with senior staff viewing "mentoring new recruits" as a burden rather than a means of preserving and developing the corporate culture. Without positive cultural guidance, talent pipeline development lacks emotional bonds and social support, becoming merely a set of task-based targets that struggle to foster corporate cohesion. Therefore, when building talent pipelines, attention must be paid to corporate culture.

3.2.2. Weak foundations in human resources management and a lack of specialized tools

Many SMEs lack a dedicated human resources department, with personnel matters often handled by administrative or finance staff. Even where HR staff are present, they generally lack the necessary expertise to identify genuine talent for succession planning. Training is typically a "one-size-fits-all" approach, lacking specificity in talent development, resulting in low training efficiency and a waste of resources. To achieve corporate objectives, an organization's human resources strategy must be closely aligned with its overall development goals, providing systematic support for the implementation of corporate strategy. This requires meticulous management of human resource investment to drive the development of talent pipelines within SMEs [8].

4. Low-cost solutions

4.1. Implementing a "one role, two backups" talent assessment system

In small and medium-sized enterprises, when certain positions become vacant or staff leave unexpectedly, this may lead to business disruption, security risks or significant financial losses. Even under the traditional "one position, one backup" system, risks persist in extreme scenarios, necessitating a more robust redundancy design. Through methods such as mentoring schemes and rotational training, two candidates capable of meeting job requirements can be developed within a reasonable timeframe, thereby reducing recruitment costs and enhancing the company's resilience to staff turnover. However, if backup roles are merely designated in name without proper assessment, the organization would need to assign dedicated staff to frequently check the candidates' capabilities, resulting in high supervision costs. By linking performance assessments, the incumbent's performance and promotion prospects are tied to the backup candidates' attainment of standards. Furthermore, the incumbent and backup candidates share a portion of the role's performance bonus, creating an internal dynamic where all three parties mutually motivate one another. This approach ensures quality control whilst significantly reducing ongoing supervision costs. The "one role, two candidates" approach reduces the handover period from "weeks of recruitment" to "hours of transition". The cost savings far outweigh the resources invested in training two candidates, making it a low-cost, high-leverage solution from a total-cost perspective.

4.2. Regular job rotation system

SMEs commonly face practical challenges such as employees possessing limited skills, a high risk of workplace misconduct, and operational disruptions following staff turnover; these issues form the basis for implementing regular job rotation. Traditional views hold that job rotation leads to training downtime and increased management costs; however, when combined with a performance-linked mechanism, it can be transformed into a low-cost, high-return tool for revitalizing internal talent. The low-cost measures for implementing regular job rotation can be summarized as follows: selecting closely related roles and setting reasonable rotation cycles; having staff in their original roles draw up simple handover checklists and conducting brief handover sessions to reduce learning costs. A two-way performance linkage is implemented: new rotators undergo an adaptation assessment, the results of which are tied to performance-based rewards and penalties; simultaneously, the quality of the handover by the incumbent is subject to a joint liability assessment. Job rotation is integrated with the "one post, two backups" system, requiring candidates to complete the rotation to the target position and pass the assessment within a specified timeframe; failure to do so results in the revocation of their candidature [9]. Finally, a points-based system is used to record rotation outcomes and link them to promotion criteria. A simple ledger is utilized to manage rotation records, and regular internal reviews are organized to update handover procedures. The aforementioned measures do not rely on external training or additional staffing; instead, they achieve the normalization of job rotation through institutional redesign and the use of internal performance incentives.

4.3. Advancing the digital transformation of corporate human resource management

The digital transformation of corporate human resource management is not merely a technological upgrade, but an inevitable choice to address the shortcomings of traditional management through innovation and reform; it is also a key pathway for enterprises to respond to competitive pressures in the market and drive strategic upgrades [10]. In the contemporary corporate recruitment process, the application of artificial intelligence technology helps to replace cumbersome and complex manual operations, thereby significantly improving the overall efficiency of recruitment whilst ensuring the accuracy of candidate-role matching. In the context of digital training, as part of the digital transformation of human resources, enterprises can leverage digital twin technology to expand online training resources. On the one hand, they can establish flexible online training platforms and develop modules, such as standardized courseware, gamified learning, daily practice sessions and QR code-based live streaming to facilitate the internalization of knowledge among employees. On the other hand, by surveying employees' individual needs, organizations can enrich digital resources through a combination of in-house development and external procurement, dynamically optimizing these based on feedback. Simultaneously, they can utilize AI and big data technologies to analyze learning behaviors and precisely adjust the direction of resource development. Furthermore, a digital evaluation system covering the entire training process should be established, combining formative and summative assessments to systematically identify shortcomings and drive continuous improvement.

4.4. Developing a five-year talent development plan

When developing a five-year talent development plan on a low-cost basis, small and medium-sized enterprises should not simply replicate the systematic models of large corporations. Instead, they

should proceed in phases and prioritize key areas, taking into account their own business rhythms and staff turnover patterns. In the first year, the focus should be on assessing the competencies required for key roles, and identifying high-potential candidates through internal mentoring schemes and job rotations; in the second and third years, step-by-step learning pathways should be designed for these high-potential individuals. For example, two practical knowledge-sharing sessions led by internal key staff could be arranged each quarter, combined with small-scale projects to hone their team-leading and problem-solving skills; from the fourth year onwards, the scope of development should be gradually expanded to a broader group of frontline key staff, thereby forming a dynamically updated talent pool. Throughout the five-year cycle, the company should flexibly adjust the following year's development priorities annually based on practical indicators, such as business objectives and staff turnover rates, thereby avoiding the wastage of resources. At the same time, low-cost alternatives such as free or low-cost online learning tools and internal knowledge repositories can be utilized to replace expensive external training courses. This approach not only ensures the continuity of the program but also enables SMEs to steadily build a resilient internal talent pipeline capable of tackling tough challenges without increasing their financial burden.

5. Conclusion

This study investigates the dilemmas and low-cost solutions for talent echelon construction in SMEs. The findings confirm that a well-designed talent echelon is essential for improving SMEs' core competitiveness, operational efficiency, and labor cost control. However, several internal and external obstacles hinder its effective implementation.

Externally, SMEs face a social culture that favors large enterprises and public sector jobs. Moreover, government subsidies, talent projects, and tax incentives tend to be allocated to large corporations and high-tech industries, leaving SMEs at a disadvantage in attracting and retaining qualified personnel. Internally, the main problems include insufficient awareness of the importance of talent echelon construction, weak employee initiative accompanied by rigid thinking, low cultural cohesion and a lack of belonging, and underdeveloped human resource management with limited professional tools.

To address these challenges within tight resource constraints, this study proposes a set of low-cost yet practical solutions. First, implementing a "one-position, double-backup" mechanism with performance-linked assessment reduces hiring costs and enhances operational resilience. Second, regular job rotation, combined with mutual performance accountability, turns internal personnel into a flexible talent pool at near-zero marginal cost. Third, advancing the digital transformation of HR management—such as AI-assisted recruitment and digital training platforms—improves efficiency without large investments. Finally, a five-year talent development plan, phased step by step from key position mapping to structured learning paths, ensures sustainable pipeline building.

These measures rely not on heavy financial input or additional headcount but on internal performance incentives, process redesign, and gradual digitalization. The key for SMEs is to avoid copying the systematic models of large enterprises. Instead, they should start with flexible, binding, and iterative practices aligned with their own business rhythms. Future research may further examine the long-term effectiveness of these low-cost strategies across different industry contexts.

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