

Executive Summary

One major way of boosting economic development and fighting global poverty is to create productive and sustainable job opportunities. Job-related events – finding or losing a job, or experiencing a substantial change in job-related income – are crucial factors in pushing people into poverty or saving them from it.¹ Worldwide, more than 200 million people of working age are unemployed. Over the next 15 years, on account of population growth and demographic change, 600 million additional jobs need to be created to keep current employment rates stable.²

Nine out of ten jobs in developing countries are provided by private-sector companies. Yet globally, 38% of private-sector employers report difficulties in filling vacant positions owing to the unavailability of adequately trained staff.³ The result is a serious mismatch: on the one hand, all those job vacancies; on the other, vast numbers of job-seekers who do not have the skills (private) employers are looking for. These so-called skills gaps – the difference between the skills needed for a job and those possessed by a worker – represent a major constraint on development.

Since the public education system in many countries is often unable to provide a sufficient number of qualified people and to equip graduates with the skills required by employers, private-sector companies need to step in to bridge the gaps in hard and soft skills. Yet, companies are sometimes reluctant to invest in closing skills gaps, since the costs are tangible and clearly visible, whereas the benefits are often intangible and accrue only over time. In addition, the companies often cannot reap the (full) benefits of their investment, if the newly upskilled workers then leave the company to realize a higher income somewhere else.

It is the aim of the initiative “Let’s Work” to provide effective solutions to the global jobs crisis, by harnessing the potential of the private sector to create more and better jobs in emerging and developing countries. In that spirit, this report – which takes the perspective of practitioners from the private sector – has the following objectives:

- to demonstrate that there can be a business case for private-sector enterprises in emerging and developing countries to tackle skills gaps, and that there can be a win-win situation for companies and society;

- to present good practices, and examples of their application, by and for private-sector companies on three different levels: the current and prospective workforce, along the value chain, and in the local community;
- to present and showcase hands-on methods for assessing the costs and benefits of initiatives to bridge skills gaps;
- to provide concrete recommendations for identifying and addressing skills gaps step-by-step, by means of a practitioners’ guide based on good practices that are applicable in various sectors and regions.

Introduction: Skills gaps and the private sector

Private-sector investment in bridging skills gaps can produce substantial benefits for the company, its employees, its suppliers, its clients, and the local community. The company itself can secure a more qualified, motivated and loyal workforce. The employees can increase their salaries and enhance their career prospects. The suppliers can improve their competitiveness and gain access to international markets. The clients can sell and repair their products more efficiently, thereby increasing revenues and strengthening their market position. And the local community benefits from the increased employability of its residents, leading to higher and more regular incomes for them as well as to an increase in local consumption and tax payments. If well planned and structured, measures to close the skills gaps constitute a win-win situation for companies and society – establishing a business case for the company and mitigating a constraint on development for society as a whole.

Specifically, engagement on all three levels will generate considerable benefits for the implementing company:

- Investment in workforce development increases the productivity of the employees and leads to better production quality and higher levels of innovation. Other positive effects include improved work safety, increased employee satisfaction and motivation, lower attrition rates, and lower operational risks. In addition, workforce development enhances the company’s reputation, and can improve its relations with government and community alike.
- Skills development along the value chain improves the product quality and productivity of suppliers, and enables clients (such as distributors) to sell and repair company products more reliably. It further addresses the reputational risk by improving work safety at suppliers.

- Finally, investment in closing skills gaps in the broader community – often forming part of the Corporate Social Responsibility (CSR) activities of a company – not only leads to better community relations and secures the social license to operate, but also fosters close ties with the (local) government and enhances the company's reputation. Additionally, investment in schooling supports the long-term supply of qualified employees. As shown in the case studies, these benefits frequently outweigh the costs of the measures – providing a positive business case for the company.

Good practices: How companies have successfully addressed their skills gaps

Companies worldwide have successfully implemented measures to address skills gaps. And while their responses are always specific to their situation, a lot can be learned from them. The study presents three frameworks of good practices – for closing skills gaps in the workforce, in the value chain, and in the community. The frameworks include a total of 59 good practices, which were identified in a bottom-up process from more than 200 company initiatives addressing skills gaps. The good practices are supported by nearly 70 respective examples, illustrating their application in a real-life context and highlighting their practical use.

The first framework for workforce development is structured along the HR value chain, which was established by BCG, and relates to the five typical steps of HR management – plan, recruit, identify and assess, train and develop, and retain and engage – plus the more holistic aspect of optimizing leadership models and systems. The good practices relate to these six HR elements, and are classified into two topics for each element:

- First, in the planning phase, workforce planning – for example, aligning production and capacity planning, strategic workforce planning and succession planning – allows you to detect potential skills gaps as early as possible, and to develop adequate countermeasures. In addition, active demand management – for example, by increased automation – provides an important lever to reduce the demand for certain skills.
- In the second step, recruiting, a sophisticated hiring strategy can attract additional applicants. Developing a positive employer brand is a good practice here. Professional seeking and sorting of applicants – for example, by leveraging employee and alumni networks – increases the number of applicants you can choose from.
- The third step is to identify and assess talents. Talent identification – by ascertaining the competencies and development potential of your employees – is one topic. The other is structured performance assessment – for instance, by defining company-wide performance standards, or collecting structured and transparent feedback.
- The fourth step deals with training and development of the workforce. A professional training environment encompasses,

for instance, clearly defined career paths with aligned training plans. The implemented skills-development measures should be tailored to the needs of the company and the target group.

- The fifth step concerns the retention and engagement of employees. A comprehensive retention strategy involves monitoring the level of employee satisfaction and engagement. A further aid to retention is a positive working environment – for example, through strong personal networks within the company.
- Lastly, the leadership model and systems can also contribute to closing skills gaps. Enhanced systems allow you to integrate HR key performance indicators (KPIs) into the balanced scorecard, and thereby to incentivize managers to address skills development. In addition, cultural adjustments – such as establishing a people-centered HR culture that recognizes and rewards employee performance – will foster engagement and retention.

The second framework for skills development along the value chain groups the good practices into the four typical steps involved in setting up a structured skills-enhancement program:

- The first step is to develop a comprehensive strategy on which all further activities are based. A strategy is crucial for aligning all your supplier and client development activities and thereby maximizing their effect.
- The second step involves selecting suppliers and clients for cooperation. The selection process should be centrally coordinated, and should focus on a few critical suppliers and clients rather than trying to support everyone.
- The third step involves planning the skills-development measures, ideally on the basis of standardized training programs and individual training plans for each client and supplier in the program. Here the focus should be on supporting those areas where your company has its core competences.
- The last step is the implementation of the training measures. A train-the-trainer approach has proved successful in training a large number of people; and external partners, such as local institutes, can bring in the required infrastructure and the latest know-how.

The last framework for closing skills gaps in the broader community is based on BCG's established CSR approach, and is structured in line with a three-step process:

- First, definition of a strategy: closing skills gaps in the broader community should be embedded into a comprehensive CSR strategy, in which clear guidelines for the selection of projects are set.
- Second, selection of concrete activities: you should focus your support on activities that exploit the core competences of your company, and that maximize the benefits for the community, your company and its employees.
- Third, the administration: it is essential to establish clear responsibilities on your side and on the side of the beneficiary, as well as to secure long-term financing to achieve sustainability.

Assessing costs and benefits: A hands-on approach to evaluating the business case for investments to bridge skills gaps

A thorough analysis of the costs and benefits of an initiative helps to get the buy-in from the management to invest, to secure external financing, to identify problems, shortfalls and lessons learned, and to showcase your success.

Analysing a measure's costs and benefits can be done either before the implementation decision, to ensure that there is a net benefit, or during and after implementation, to evaluate its success. The initiative's costs are often well-documented in accounting data, but the benefits are generally much harder to estimate beforehand. Accordingly, this report introduces an approach for companies to conduct a cost-benefit appraisal of their measures to address skills gaps – in their own workforce, in the value chain and in the local community. Since the report's objective is to provide hands-on solutions for companies, the methods presented here for assessing costs and benefits do not correspond exactly to the discussions on “cost-benefit analyses” in some streams of academic literature.

The report proposes a three-step approach for a cost-benefit appraisal:

- First, identify and quantify the costs and benefits as far as possible. Here the report offers some helpful tools – for instance, a way of assessing benefits along a logical chain of effects, a list of potential KPIs, and the application of driver-trees to put a monetary value on both costs and benefits.
- Second, choose – on the basis of data availability and quality – and apply the most appropriate method to compare the costs and benefits. The methods presented range from capital-budgeting methods, such as Net Present Value (NPV) calculation, to a purely qualitative comparison of costs and benefits. The methods take account of the (often problematic) availability of quantitative cost-and-benefit data as well as their specific advantages and disadvantages. In any case, every quantitative assessment should be supported by a qualitative assessment, as the numerical outcomes can be very sensitive to the choice of input parameters.
- Third, extend the business perspective by measuring the social impact of an initiative. This social impact should be included in a comprehensive cost-benefit appraisal, since knowing the community benefits of your engagement will clarify how and where social actions might indirectly support company objectives – for instance, by enhancing government and community relations, securing the social license to operate, further improving the overall company reputation, and attracting financing from Development Finance Institutions (DFIs) and other socially-oriented investors. Taking these benefits into account can even turn around cost-benefit appraisals. This report suggests establishing a logical-effect chain for key initiatives. To round off the analysis, it is worth undertaking a qualitative assessment of the social impact along a set of potential levers.

Company case studies: Learning from others

The case studies present in detail how five different companies from different sectors in Asia, Latin America and Africa successfully addressed their skills gaps. The measures implemented by these companies range from establishing vocational training centers and employee training courses, to implementing well-structured supplier-development programs and broad-based client-support initiatives, to investing in local primary and secondary schools. An analysis of the costs and benefits indicates that most measures present a positive business case to the company – or could be turned into one when some adaptations are made.

Engro Corporation Ltd. is a Pakistani conglomerate active in the fertilizer, food, energy and chemicals businesses. Located in a district with low education levels, its fertilizer business unit faces skills gaps for properly trained local people, so it has to hire workers from other regions – something that draws criticism from the local population and media. Being one of the few fertilizer producers in the country and constantly growing its business, the company also finds it difficult to recruit experienced production personnel and managers. Moreover, in selling fertilizers and in buying unprocessed rice and milk from small-holder farmers for its food business, the company is directly involved in the agricultural sector, which is plagued by low productivity levels. To address these skills gaps, Engro has implemented several initiatives for its current and prospective workforce (e.g. a technical training college for chemical and mechanical trades) and in its value chain (e.g. training for rural farmers). In order to secure its social license to operate for its sensitive (fertilizer) production, it also fosters education of the local children by adopting local schools and training teachers. For Engro, the initiatives improve community relations, enable it to develop talents internally, improve the quality of its inputs, and increase the demand for its products. Its employees benefit from good internal development opportunities, the livelihood of its suppliers and clients improves substantially, and the community enjoys higher-quality education.

Hape Holding AG, a German wooden-toy manufacturer with production facilities in China and Romania, is facing a skills gap for qualified wood-mechanics with an understanding of wood as a material and the technical ability to handle the increasingly complex machines. As a high-quality producer, the company also depends on the quality of its supplies. To address these gaps and to give back to society, Hape has implemented a number of initiatives for its own workforce (e.g. a vocational training center with a three-year training program for wood-mechanics in China and a cooperative venture with a technical school in Romania), for its suppliers (e.g. a training program for its bamboo-product suppliers), and for people in the community (e.g. running the Hape Experience Center and building a bamboo kindergarten). Through its initiatives, Hape benefits from a better-educated and highly motivated workforce, product inno-

vations, and higher quality of its supplies and final products. Employees have better career opportunities at Hape, with the prospect of higher earnings and an increased “market value”. For suppliers, the initiatives opened up new earning opportunities, and enhanced the safety and efficiency of their production. And finally, the community profits from more and better jobs and access to modern early-childhood education.

Hospital Sírío Libanês (HSL), a private hospital operator in Brazil, has no difficulty in attracting highly qualified doctors and healthcare specialists, but it does struggle to recruit and retain low- to medium-qualified operational workers – those involved in auxiliary medical tasks, nursing work, and technical support functions. HSL invests heavily in systematically assessing training needs and providing employee training. In addition, the hospital has invested in a multi-disciplinary qualification center, which uses simulation techniques to train new hires and existing staff to work effectively in multi-disciplinary teams. To address the relatively high attrition rate among low-skilled auxiliary medical staff, HSL initiated a neighborhood qualification project, which provides three months of training to people from the local area to work in catering, hygiene, or other auxiliary services. These measures enable HSL to maintain its high quality standards, fill positions internally, and bridge its skills gaps. For its employees (especially the low-to-medium-skilled), the initiatives help to improve their career prospects and increase their salaries. By involving employees in its community-development initiative, HSL not only realizes the initiative at low cost, but also instills a sense of pride among the employees. For the community, the neighborhood qualification project boosts employment locally; and the training of healthcare professionals contributes to improving the Brazilian public healthcare system as a whole.

JMS Holdings Ltd. is one of Bangladesh’s leading manufacturers of ready-made garments in the low-to-medium price segment. The company’s particular challenge is a skills gap in production mid-management – i.e. line supervisors and line chiefs who require a deep understanding of modern production layout and techniques, and a technical understanding of the different machines, as well as strong leadership and communication skills. At the level of machine operators, JMS can easily recruit a sufficiently large number of workers, but they must be trained internally to fulfill the efficiency requirements and to comply with health and safety standards. In order to address the gaps, JMS organized training courses for productivity as an integral part of a comprehensive program of production optimization. In this context, JMS introduced a separate training station for providing practical training for new hires and refresher sessions, without hampering the actual production process. JMS also offers practical training at the training station as part of a three-month technical-vocational-education-and-training (TVET) course for sewing-machine operators. In the local community, JMS supports a pre-primary school, as well as a school and a college. JMS’s workforce development has led to a substantial increase in productivity and quality. For employees, the

initiatives also proved to be highly beneficial in leading to higher wages by virtue of higher efficiency. The community, too, benefits: directly, through the provision of education for local children; and indirectly, through the availability of more and better jobs – the majority of which are for women – and through the increased employability of young women from local villages via the TVET course, with substantial secondary benefits on family income, health and education.

Ohorongo Cement (Pty) Ltd. is Namibia’s first and only cement-producing company. When setting up production, Ohorongo’s German mother company Schwenk faced the challenge that cement-specific skills were not available on the Namibian labor market. In particular, the company is reliant on qualified control-room operators (CROs) and foremen to manage the production process of its plant. Well before production started, Namibian CROs and foremen were recruited and sent to Germany for an intensive five-month initial training course combining theory-based and simulation sessions with practical experience. Given the lack of experienced supervisory and management candidates, Ohorongo also develops these skills internally through a comprehensive employee training program for workers and management. Ohorongo strives to retain key employees with a retention strategy involving various financial and non-financial measures. To ensure a sufficient supply and adequate training of CROs in the future, the company is building a CRO training center to train current and prospective staff as well as employees from other manufacturing and mining companies. The business case for the initiative appears to be negative if the center trains only Ohorongo’s own new hires, but it could become positive if the training capacities are fully utilized and the running costs are shared with other companies. Ohorongo’s skills-development initiatives enabled the smooth ramp-up of production, and continue to ensure a sufficient supply of qualified personnel. Ohorongo’s employees benefit from the initiatives through higher skill levels, allowing them to move up the career ladder and earn a higher salary. By training CROs in excess of its own demand, Ohorongo also contributes to the skills development in the country; and by addressing the serious undersupply of qualified CROs in this way, the company reduces the risk that qualified personnel will be enticed away to other companies.

A guide for practitioners: How to bridge skills gaps step-by-step

The report provides a six-step guide for practitioners who are facing skills gaps; the guide makes use of the three good-practice frameworks and the methods for assessing costs and benefits developed in the previous chapters of the report. The guide is concerned mainly with the skills gaps within a company’s own workforce, but is easily transferable and applicable to skills gaps in the value chain or in the local community.

The first step should always be a thorough review to ascertain what the skills gaps actually are – both quantitatively and qualitatively. The report provides self-assessment templates for a structured approach. To identify the main pain-points and to focus your efforts, you should then prioritize the skills gaps identified, using well-established criteria such as the breadth of the gap and its criticality for business success. The next step – before drawing up measures to address the prioritized skills gaps – should be to analyze the underlying causes, i.e. establish exactly why the skills gap is there in the first place. The possible reasons are numerous: the company's poor reputation as an employer, which lowers the number of applications or an uncompetitive salary scheme, which prompts a high attrition rate among employees – to mention just two.

Once potential measures have been identified, you should conduct an ex-ante assessment of the anticipated costs and benefits. An investment in skills development is no different in essence from any other investment that the company may decide on, such as buying new machinery, expanding production facilities or acquiring a subsidiary company – where a cost-benefit appraisal is a standard requirement for getting management approval. Yet, companies tend to avoid conducting the same rigorous analysis in the case of measures to address skills gaps – perhaps because the benefits are sometimes hard to capture and even harder to quantify. A thorough assessment using one of the methods presented will prove extremely valuable: not only will it enable you to select the most beneficial and cost-effective measures, but it will also indicate ways of designing and refining the measures in order to maximize the benefits and to minimize the costs. Investing in the development of skills does not only benefit companies, but also their employees and the local community. These benefits should also form part of a comprehensive assessment. Showcasing the positive social impact of your engagement helps to foster the company's reputation and enhance its relations with government and community.

Based on the cost-benefit appraisal, a decision can be taken on which measures to implement to address your company's skills gaps. Before implementation, you should dedicate some time and effort to carefully plan the initiative. The ideal level of planning depends on the measure's complexity and riskiness. An analysis of DEG's portfolio of skills-gap measures identified 16 key success factors for the set-up, implementation and sustainable operation. In the set-up phase of the initiative, for instance, it is essential to get the backing of top management and to establish ownership and clear responsibilities, both within the company and with external partners. In the implementation phase, make sure to publicize early successes to partners and within the organization; this will help in maintaining their support. It is equally important to ensure the buy-in of local authorities – for example, by engaging the relevant education authorities early on to discuss the certification of the training program. For the sustainable operation of the initiative, strive to secure long-term financing, either from internal or from external sources – for instance, by sharing the running costs with partners or training beneficiaries, or by committing funds for several years.

After a given skills-development measure has been implemented, you should then conduct an ex-post analysis to evaluate the outcomes and to identify the lessons learned using the same methods. It turns out that companies often struggle to measure the concrete benefits accurately, however, owing to a lack of adequate data. To avoid that problem, the KPIs should be introduced before implementation, and should be collected throughout and after the time that the measure is under way.



Notes

¹ Let's Work (2014), A global partnership to create more & better private sector jobs.

² World Bank (2015), Working together for jobs.

³ Manpower Group (2015), Talent Shortage Survey.