

A Question of Quality

Assessing Workforce Potential in Emerging Economies

The term “emerging economies” first appeared about 25 years ago as a means of distinguishing third-world countries that exhibited greater economic potential than that of their counterparts. While that remains a useful distinction for investors, HR professionals in emerging economies need to hire, train and retain workers with more than just potential – they need workers who can get the job done today.

by Damien DeLuca & Han Hu

But which of the world’s emerging economies are likely to fill the bill in a hyper-competitive global market? The obvious answer may not be the best one, for in its rush to tap the human resources of the rapidly growing “BRIC” countries (Brazil, Russia, India, China) the business world may be guilty of short-sightedness. Sustained business success requires more of a “bifocal” view on sourcing human capital. While the talent, opportunities and challenges of the BRIC countries may be in the foreground today, the talent pools of other countries around the world are gaining rapidly in relevance.

In fact, some non-BRIC countries already are better positioned to meet many business goals, and they are poised to attract the first waves of corporations seeking to find a lower-pressure environment (in terms of cost and competition) than the BRICs. But before committing to workforce development in these emerging economies, companies should make sure they are working with the right standards and measures to ensure success.

What's emerging

Although cost, availability and other metrics are important factors in any business location decision, matching the needs of your business to the quality of the workers available is critical.

From an HR perspective, emerging economies are ones where an increasing number of workers are demonstrating an ability to function effectively in the business world – specifically, your business. A growing population or recent pool of collegiate graduates is often another sign that a country is progressing on the emergent path. But these two signs, in and of themselves, provide too narrow a perspective for many business needs.



A useful, more HR-centric definition of emergence may be applied to those countries that demonstrate sustained growth in the knowledge, skills and abilities of their workforces. Emerging countries come in many shapes and sizes – progressing through three stages of development as workers build on their prior experiences. The most robust have growth at the entry level, in the overall business experience of the workforce (a wealth of managers with 10 years of experience, for example), and in niche specialties or industry experience.

As countries grow into these different stages over time, they present growth opportunities to different companies.

The first-stage countries – India and Vietnam, for example – have had a recent influx of young people, particularly college graduates, in the workforce. Many other countries, such as Poland and Slovakia, entered that stage of development years ago and have kept up the pace of growth. Other countries – South Korea and Singapore, for example – have built solid workforces and are now seeing the emergence of specialty skills and highly refined industrial experience in their workforces.

While some degree of all three stages of emergence exists in every country today, a third stage takes years to develop on a large scale. For example, India, which has pockets of highly specialized workers (in computer technology and health care, for instance) and continually growing pools of freshly minted talent, has yet to develop a large contingent of specialized skills or the sort of long-term industry experience many businesses require of their workers.

Logically, these different stages of emergence are best suited to different businesses. Call centers or highly compartmentalized tasks are best for a first-stage country (low-cost, largely entry-level workforces). Many back-office financial or digital processing operations can take advantage of current wage differentials by moving into countries entering the second stage of development. And for organizations that require a well-stocked talent pipeline with years of prior industry experience or highly specialized skills, the third-stage countries are worth investigating.

Labor-pool quality

Two indicative and readily available measures organizations can use to help gauge which stage of emergence different countries are in, or are soon to enter, are educational attainment and foreign direct investment (FDI). These relatively easy-to-find measures can assist in distinguishing



which countries will have labor quality levels compatible with your needs. Specifically:

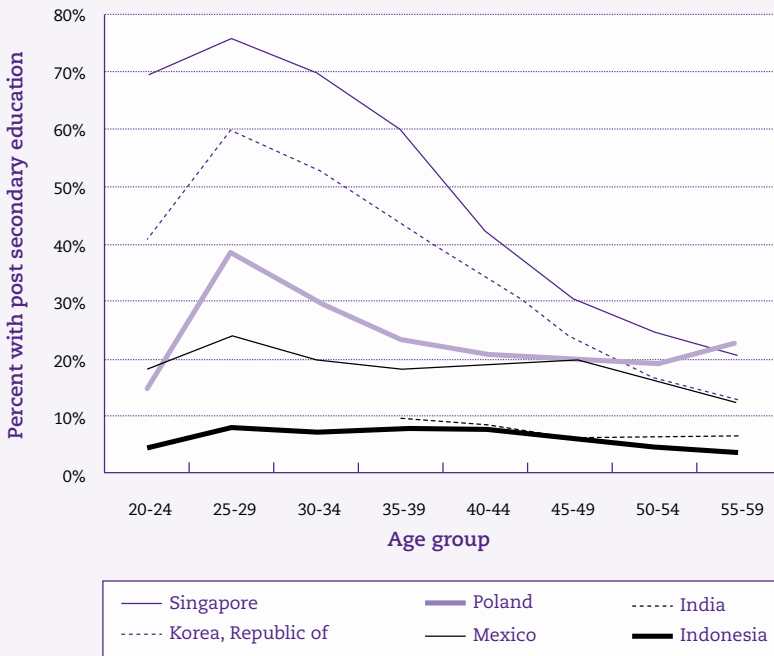
- ◇ Educational attainment measures people age 25 and older with a post-secondary or post-high school level of education.
- ◇ FDI is a starting point for gauging the volume of other organizations that already have entered the marketplace (larger investment tends to align with larger workforces doing “international” work).

Educational attainment

Since it is not only the education of entry-level workers that matters, it would be helpful to look at the educational attainment of more experienced worker cohorts as well. For some emerging economies such as Poland, even more experienced workers (age 35 and older) have a post-secondary education attainment rate of higher than 20%, indicating a more established knowledge and skill foundation in the workforce, compared to other emerging economies. On the other hand, the more developed countries such as Singapore and South Korea have witnessed a steady growth of educational attainment over time, resulting in a large proportion of the workforce with post-secondary education. This could be a path that emerging economies take to reach the third stage of development as defined above.

FDI in a country implies the extent to which workers are exposed to international work, another labor quality measure to assess job experience in addition to educational attainment. Despite their smaller economic scales than BRIC countries, emerging economies have started to approach the level of FDI that BRICs are attracting. Two outstanding examples are Poland and Slovakia,

Exhibit 1 Percentage of labor force with post secondary education by age group



Data Source: International Labor Organization (ILO) database of labor statistics, yearly statistics 2006.

whose ranking of FDI in the globe jumped from below 120 in 1990 to 23 and 59, respectively, in 2005.

While an understanding of the stage of emergence of a country can give you a general idea of the quality of the labor pool, clearly there are aspects of this assessment of labor quality that are unique to each company.

Ultimately, each organization's (and manager's) definition of quality is different. For some, cutting-edge computer skills are the benchmark for quality, but for others it is a strong command of English with a Midwestern American accent, and for some it's a blind adherence to the supervisor's

Exhibit 2 Rank of countries by FDI stock

Country	Rank of countries by FDI stock		
	1990	2000	2005
Indonesia	32	37	55
Malaysia	26	22	38
Mexico	16	16	14
Philippines	44	51	62
Poland	124	28	23
Slovakia	129	70	59
Vietnam	57	44	47
Brazil	13	15	15
China	18	9	10
India	56	49	40
Russian Federation	Not available	29	19
United States	1	1	1

Data source: United Nations World Investment Report 2006.

point-of-view. However, at its most general, labor quality speaks to how efficiently an individual can perform the job, whatever that job may be.

Often companies must get creative in assessing the quality of the labor pool available to them. If your business requires workers with prior experience, investigate what jobs are being filled or government statistics on the occupations in which people work. If there are only a handful of workers in the jobs you will need to fill, look elsewhere or brace your organization for a substantial investment in initial training programs. Many organizations also have undertaken more sophisticated quantitative and qualitative assessments of labor quality to allow the comparison of locations that are not readily apparent from published sources – giving a sense of perspective of how much better or worse quality is to where they currently operate.

Know where quality workers are emerging

Countries emerge for different industries at different times. Often, skill clusters will develop at different paces within a country. Noticing when feeder industries are becoming entrenched in a country – to act as an effective bridge to more complex and value-added assignments – can help you gauge where and when the right workers will be available. Not every country is a perfect fit for every business, obviously. Consider the following assessment, based on Mercer's research:

- ◆ Mexico – Half of Mexico's direct investment has been toward manufacturing, and Mexico is losing market share in medium- or high-technology industries. Mexico is an emerging country for organizations seeking skilled manufacturing workers and that see value in paying a premium for employees with prior industry experience.

- ◆ Vietnam – Multinational electronics companies have been showing an increasing interest in Vietnam (especially after a recent \$1 billion pledge by Intel toward a packaging plant) on top of prior growth in the garment, footwear, furniture and other manufacturing sectors. Vietnam is an emerging country for organizations seeking entry-level workers in high-tech manufacturing and, in the future, to those seeking entry-level high-tech engineering.

- ◆ Poland – Poland has been attracting sizable manufacturing sector investments, particularly those for auto builders. Poland is an emerging country for organizations seeking experienced, skilled manufacturing workers, and could soon be a formidable player in the field of engineering design.



- ◆ Slovakia – Slovakia has been receiving investment from manufacturing organizations, as well as banking and insurance. LCD manufacturers such as Sony, Samsung and Chi Mei have major production facilities in country, as does Ford. Slovakia is emerging as both an entry- and mid-level source of talent in manufacturing and banking.
- ◆ Philippines – Due in large part to its English-speaking population, the Philippines has seen a rapid influx of call centers and business-processing operations. Over the coming years, the Philippines is poised to emerge as a center for business process outsourcing operations.
- ◆ Indonesia – Manufacturing-sector investments are beginning to give way to service-sector cash. Indonesia's workforce is showing signs of emerging into the entry-level services industry – particularly those requiring little knowledge of English.
- ◆ Malaysia – In addition to seeing entrances from a host of manufacturing operations, Malaysia also has seen Motorola, Ericsson, IBM, Shell, DHL and HSBC locate regional service centers there. Similar to the Philippines, Malaysia's workforce likely will emerge into higher-order business process outsourcing operational work over the coming years.
- ◆ South Korea – South Korea is seeing organizations like Google entering the marketplace to take advantage of the customer base and the well-developed skills of the workforce. South Korea is emerging for organizations seeking a well-established workforce with industry know-how – particularly if the industry is related to high-tech components.

- ◇ Singapore – Singapore has seen a decline in call center operations (as workers seek out industries offering better pay, training and career paths) but is emerging as a hub for regional headquarters and business intelligence firms, such as market research organizations.

Set a realistic quality bar

In addition to being realistic and informed about the type of workers that will be emerging in different countries, be realistic about the degree to which your organization is willing to train and develop new hires, and what type of workers it truly needs to be successful. Be careful of imposing artificial barriers on the type of worker that could perform “quality” work for your organization, if provided the opportunity. While call center representatives may need to have good functional English, do they also need a college degree? Do your accounting clerks need polished client skills if they never interact with your customers?

If your organization is able to make an investment in training, your tolerance for lower-quality workers could serve your business well. In many locations throughout the world, being a first mover into a country can offer cost advantages that do not disappear with additional training expenses. For some companies, where the luxury of a slower start-up time frame is possible, the cost savings overshadows the option of tapping a more experienced (and expensive) workforce. While for others, the extra costs and hassle of filtering through candidates, coping with turnover, and facing potential customer losses persuade them to seek out more experienced workforces.



Similarly, not every branch of your company has to work seamlessly with every other branch. Thoroughly consider how new operations need to coordinate with existing operations. A few questions you could ask:

- ◇ Will this new location substantially feed our executive pipeline in five years (for example, how soon will this workforce realistically be integrated with our existing operations)?
- ◇ Do all hires need to directly communicate and interact with colleagues (and customers) around the world?

Manage cultural differences

One type of artificial barrier disguised under the heading of quality is culture – in particular, the differences in culture from country to country. Culture covers a wide range of aspects, from hiring/firing regulations to how individuals go about accomplishing their jobs.



Overall, Latin American countries have some of the most rigid employment regulations, followed by East European countries. In contrast, Asian countries have more flexible labor market legislation, except for Indonesia. The regulatory restrictions of how employees can work, in part, limits how much their culture will align with how your other locations operate.

Another aspect of culture is how individuals go about accomplishing their jobs. There's no good or bad way, just different approaches. Some like more direction from managers, others like to talk through the issues, and still others are more focused on the outcome (versus the process).

Ultimately, a careful assessment of the different stages of emergence and how well they align with your business needs will help to focus your efforts on countries with the right mixture of quality and cost advantage. If there's a bottom-line lesson to all this, it is to beware of forgetting quality considerations or imposing artificial quality screens on workers in different countries. Instead, make informed decisions about developing the right workforce for your business in the right emerging economy.

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