

# 1. Introduction

## Skills gaps and the private sector

Despite high unemployment rates in many countries, employers struggle to find adequately qualified personnel to fill vacant positions – and a recent study by BCG predicts that the supply-and-demand imbalances are likely to increase over the coming decades.<sup>1</sup> Skills gaps – the difference between the skills needed for a job and those possessed by a worker – represent a major constraint on development at three levels:

- For the individual, skills gaps limit employability and deprive an individual of the opportunity to improve his or her living conditions.
- At the company level, skills gaps limit productivity, which can lead to higher costs and lower quality, and reduce the company's growth prospects.
- At the country level, skills gaps limit the nation's competitiveness and reduce economic and social development potential.

The situation in many developing and emerging economies is aggravated for companies and the country as whole by an increasing willingness of the young workforce to move abroad. Thus, if countries do not succeed in activating young people's potential, they run a rising risk that young people will turn their back on their homeland. According to a BCG study, globally 28% of young employees state they would work abroad to gain access to a better education system.<sup>2</sup>

Skills gaps are prevalent in many developing and emerging countries, because their public education systems often are not able to equip people with the right skills.<sup>3</sup> Despite the significant improvements in basic education and literacy achieved over recent decades, enrollment in secondary and tertiary education remains well below the levels of industrialized countries.<sup>4</sup> And even graduation from a college or university does not guarantee employability, as students often have not acquired the skills that employers demand. To succeed in the labor market, people need a broad range of both hard skills – such as knowledge of accounting practices or the ability to operate machinery – and soft skills, such as creativity or communication.<sup>5</sup> The relative importance of hard versus soft skills naturally depends on the job profile.<sup>6</sup> However, the vast majority of jobs demand a combination of the two kinds. By the same token, the specific types of skills required are determined by the work to be done: for example, wood-mechanics and seamstresses need a high degree of craft skills, whereas finance administrators and controllers need considerable mathematical skills. With regard to soft skills, the former require creativity and visual thinking, whereas the

latter require significant analytical capability – but both groups have to be able to work together with others in a (production) team.

Faced with a shortage of necessary skills, private-sector companies are investing in closing current and future skills gaps. Given the size of the gap and the increasing demand for highly qualified workers, however, much more private-sector investment is required.<sup>7</sup> Companies can engage the challenge on three different levels:

- Workforce-development initiatives include targeted training and qualification of potential candidates and the existing workforce to ensure an adequate supply of properly qualified workers tailored to company needs.<sup>8</sup> Examples of typical qualification measures include structured apprenticeship programs, vocational training programs, systematic on-the-job training, and partnerships with universities for management training. With nine out of ten jobs in developing countries being provided by private companies, these training initiatives play a vital role when it comes to matching people's qualifications with private employers' needs. In addition to training and qualification measures, companies can bridge skills gaps by other means – for instance, by increasing retention or reducing labor demand.<sup>9</sup>
- Skills development along the value chain comprises initiatives aimed at raising skills levels along the value chain in an effort to improve the products and productivity of suppliers and to enable clients (such as distributors) to sell and repair company products more reliably.
- Closing skills gaps in the broader community involves initiatives targeting the local population in the immediate neighborhood, and in some cases the wider region and even the entire country that the company operates in.<sup>10</sup>

Private-sector companies are a key factor in easing the skills-gap constraint on sustainable development. Therefore, many Development Finance Institutions (DFIs), which finance and support private-sector companies in developing and emerging countries, provide specific technical assistance and financing for measures to address skills gaps. With this report, the European Development Finance Institutions (EDFI) intended to identify successful initiatives by the private sector addressing skills gaps, and to demonstrate that implementing businesses can benefit immensely from these initiatives. The report itself was initiated by the Let's Work Partnership, which brings together 28 institutions that have the shared objective of creating more and better jobs and bridging skills gaps. The hope is that the report will contribute to their efforts in this endeavor.

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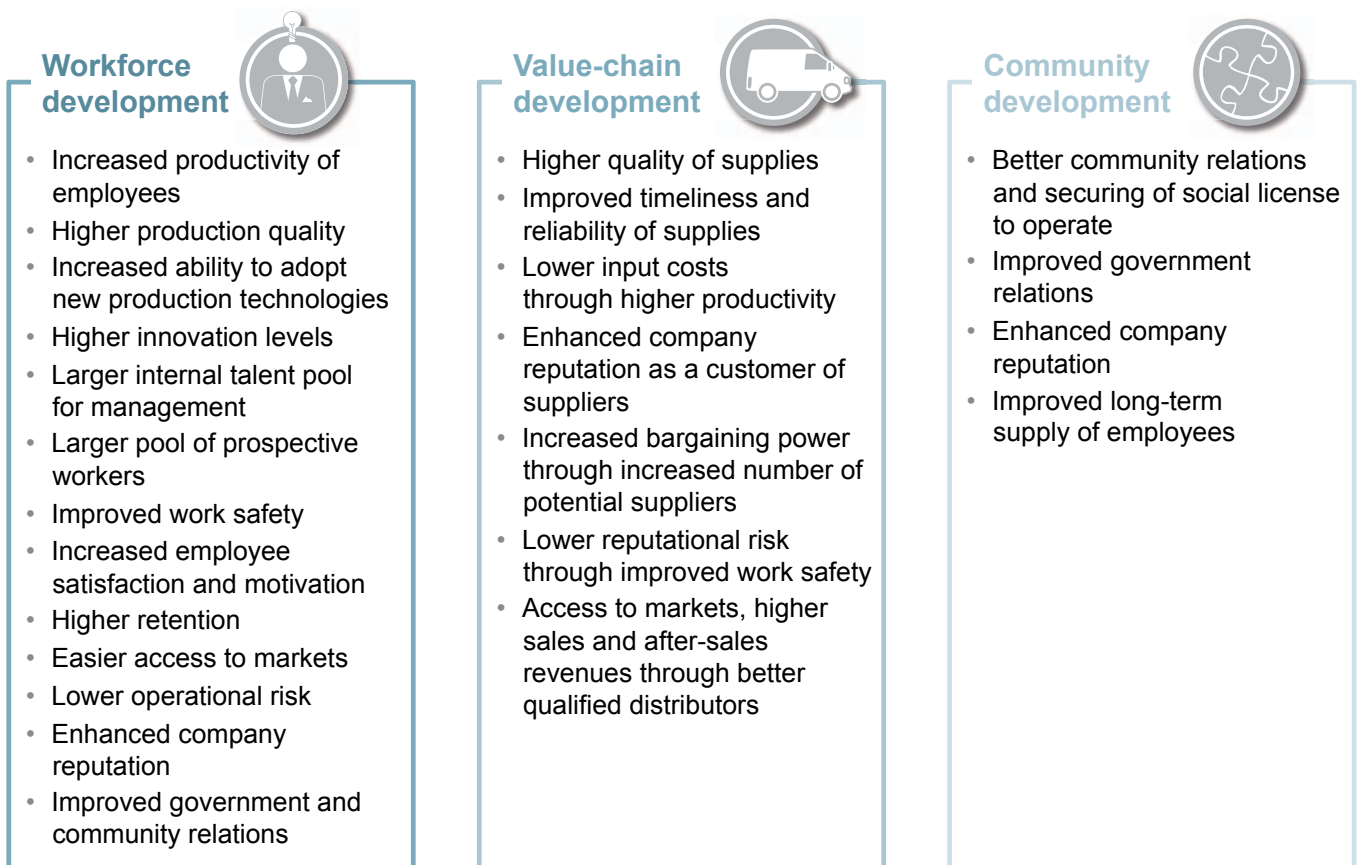
## The business rationale for investing in closing skills gaps

Companies are sometimes reluctant to invest in closing their skills gaps, since the costs are tangible and clearly visible, whereas the benefits are often intangible and accrue only over time. In addition, they are often unable to reap the (full) benefits of their investment if the newly upskilled employees then leave the company or if suppliers turn towards competitors. However, by closing skills gaps on all three levels – in their own current and prospective workforce, in the value chain, and in the community – private-sector companies can secure a wide range of benefits (Figure 1):<sup>11</sup>

- **Workforce development:** Training programs (especially when reinforcing improved production techniques) can increase productivity markedly and help to ensure higher-quality products. Moreover, skilled laborers facilitate the adoption of new technologies, so companies that actively upskill their workforce will generally have higher innovation levels. Training initiatives also tend to improve safety in the workplace, and thereby reduce lost-time incidents. Skills-development measures further increase employee satisfaction and motivation, and that, in turn, will increase retention. Furthermore, companies
- **Value-chain development:** When a company, along its value chain, helps small and medium enterprises (SMEs) to enhance their productivity and expand their business, it often derives direct gains for itself as well.<sup>13</sup> By training its suppliers or distributors, for example, the company will likely achieve sustainable improvements in timeliness and quality of its supplies, and potentially higher sales of its products.
- **Closing skills gaps in the broader community:** By undertaking skills-development initiatives for the local community, a company not only discharges an important social duty (improving general education or environmental standards, for instance),

that adopt training programs tend to acquire an enhanced reputation and to enjoy a competitive advantage when it comes to recruitment.<sup>12</sup> Employees who acquire higher skills and qualifications tend to raise the skill levels of other workers as well thanks to deliberate or inadvertent knowledge transfer. However, other kinds of measures too, not just training initiatives, can provide such benefits: for example, increased automation will not only reduce workforce demand, but can also boost productivity, safety and employee satisfaction (e.g. through a cleaner working environment). Other measures to address the skills gaps, such as a retention strategy, are directly linked to a specific benefit.

Figure 1: Company benefits from investing in closing skills gaps



but also furthers its own business interests: ensuring the long-term supply of employees, enhancing the company's reputation and community relations, and securing the social license to operate effectively and safely within the region. Community engagement often also enhances government relations and secures the goodwill and support of local authorities.

The various benefits are not independent of one another, but can be mutually reinforcing; for example, a training measure can increase retention directly if a retention agreement is signed with the participant, but also indirectly through increased employee satisfaction and motivation.

### Closing the literature gap: A practical approach for the private sector to bridge skills gaps in developing countries

This report is obviously not the first to investigate the skills-gap problem – there are numerous publications dealing with the

issue, as shown in the overview of selected reports in Figure 2. However, the recent literature seldom addresses the skills-gap challenge from a private business perspective. Many reports focus on deficient education levels, but few ask what the companies themselves can actually do to close skills gaps, i.e. few of the reports provide concrete solutions and recommendations. Moreover, while the vast majority of reports review skills gaps in the workforce, almost none of them discuss skills gaps in the value chain or at the community level. Only a few of the reports make a serious effort to identify good practices. And very few reports attempt a quantitative assessment of costs and benefits, in the form of a cost-benefit appraisal, to estimate the business benefit of skills-gap initiatives.

This report therefore seeks to complement the existing literature by taking a broad view of measures to close skills gaps – in a company's own workforce, in the value chain, and in the local community – in developing and emerging economies around the globe. The report takes the perspective of practitioners from the private sector, and provides a set of three frameworks with field-tested good practices and respective practical

Figure 2: Overview of recent reports on skills gaps

Year	Title	Developing countries	Emerging countries	Applies across specific target groups	Case studies	Good practices/ key success fact.	Quantitative cost-benefit appraisal	Workforce development	Value Chain development	Community development
2015	<b>Meeting the skills gap: lessons from the private sector</b> – World Business Council for Sustainable Development (WBCSD) and the International Finance Corporation (IFC)	✓	✓	✓	✓	✓	✗	✓	✓	✓
2015	<b>Assessing private sector contributions to job creation and poverty reduction</b> – IFC	✓	✓	✓	✗	✗	✗	✓	✗	✗
2014	<b>Global Workforce Crisis</b> – The Boston Consulting Group (BCG)	✗	✓	✓	✗	✗	✗	✓	✗	✗
2014	<b>Decoding Global Talent</b> – BCG together with The Network	✗	✓	✓	✗	✗	✗	✓	✗	✗
2013	<b>Skills and jobs: Lessons Learned and Options for Collaboration</b> – World Bank	✓	✓	✓	✗	✗	✗	✓	✗	✗
2013	<b>Investing in Women's Employment: Good for business, good for development</b> – IFC	✓	✓	✗	✓	✓	✓	✓	✗	✓
2012	<b>Youth and skills: Putting education to work</b> – UNESCO	✓	✓	✓	✓	✗	✗	✓	✗	✗
2012	<b>Solving the Skills Paradox</b> – Accenture	✗	✗	✓	✗	✓	✗	✓	✗	✗
2012	<b>Talent Mobility Good Practices Collaboration at the Core of Driving Economic Growth</b> – World Economic Forum (WEF)	✓	✓	✓	✓	✓	✗	✓	✗	✗
2012	<b>Creating People Advantage</b> – BCG together with World Federation of People Management Associations (WFPMA)	✓	✓	✓	✗	✓	✗	✓	✗	✗
2011	<b>A Better Measure of Skills Gaps</b> – ACT	✗	✗	✓	✓	✗	✗	✓	✗	✗
2011	<b>Bridging the Skills Gap</b> – Hays	✗	✗	✓	✗	✗	✗	✓	✗	✗
2011	<b>Global Talent Risk – 7 Responses</b> – WEF	✓	✓	✓	✗	✓	✗	✓	✗	✗
2006	<b>Bridging the Skills Gap</b> – American Society for Training & Development (ASTD)	✗	✗	✓	✓	✗	✗	✓	✗	✗
2015	<b>Bridging the Skills Gaps in Developing Countries</b> – BCG for the "Let's Work Partnership" of the European Association of Developing Finance Institutions (EDFI)	✓	✓	✓	✓	✓	✓	✓	✓	✓

examples. In addition, it presents five in-depth case studies – of companies supported by DFIs from different sectors and countries in East and South-East Asia, Latin America, and Africa – to suggest further ways of overcoming the skills-gap challenge. A further aim of the report is to provide guidance on structuring and conducting a cost-benefit appraisal – an exercise that is often neglected by companies – and to show that there is in fact a business case in investing in skills development. Finally, the report presents and showcases methods to assess hands-on costs and benefits of initiatives, and it formulates concrete recommendations in a practitioners’ guide that are applicable across-the-board in various sectors and regions.

## Structure of the report

The remainder of this report is structured in five main chapters.

**Chapter 2** presents good practices clustered into three analytical frameworks – for skills development in the workforce, the value chain, and the community. The frameworks include a total of 59 good practices, which were identified in a bottom-up process from a collection of more than 200 concrete measures drawn from a wide range of sources: analysis of DEG’s project portfolio, using internal reports and conducting interviews with DEG staff; high-level screening of the portfolios of selected members of the Association of European Development Finance Institutions (EDFI); the comprehensive project experience of BCG in the field of HR and workforce development; a review of existing literature; and a series of interviews and desk research conducted for the five in-depth case studies. Nearly 70 practical examples are presented in this report to illustrate the application of the good practices in a real-life context and to highlight their practical use.

**Chapter 3** explains how companies can assess the business case, and presents a social-impact assessment model regarding measures to bridge skills gaps. The chapter offers a detailed and systematic hands-on approach to assessing the costs and benefits of skills-development initiatives. Four different methodologies are described – ranging from quantitative approaches to a purely qualitative assessment – and their prerequisites and applications are discussed. Finally, the chapter offers an approach to evaluating not only the business effects but also the social impact of a skills-development initiative.

**Chapter 4** presents five detailed case studies of companies, in different sectors and geographies, that have successfully bridged specific skills gaps by adopting the frameworks, methodologies and approaches introduced in the previous chapters. The chapter derives concrete good practices, and identifies lessons learned from each company that are transferable across industries and regions. The companies are: Engro Corporation Ltd., a Pakistani conglomerate active in the fertilizer, food, chemicals and energy businesses; Hape Holding AG, a German toy manufacturer with production sites in Germany, China and

Romania; Hospital Sírío Libanês, a private hospital operator in Brazil; JMS Holdings Ltd., a local garment producer in Bangladesh, and Ohorongong Cement (Pty) Ltd., the Namibian subsidiary of a German cement producer. The case studies were compiled on the basis of in-depth interviews with key stakeholders in the companies, and through documentation provided by them and DEG. The various skills-development initiatives undertaken by these companies show that many initiatives already present a positive business case for companies, or could do so if adapted somewhat, while also having a positive effect on local and national skills gaps.

**Chapter 5** builds on the insights gained from earlier chapters to develop a practitioners’ guide that helps companies to assess and address their own skills gaps. The guide provides a systematic self-assessment approach that is easily applied across sectors, and a systematic step-by-step account of how to identify skills gaps and their root causes. Although the guide focuses on workforce development, it should also prove helpful in addressing skills gaps in the value chain and in the community.

**Chapter 6** provides a brief summary of the report by highlighting the need for and benefits of private-sector investment in bridging the skills gaps, and by recapitulating the proposed steps to develop appropriate measures from the practitioners’ guide.

## Notes

- <sup>1</sup> Boston Consulting Group (2014), *The Global Workforce Crisis: \$10 Trillion at Risk*.
- <sup>2</sup> Boston Consulting Group and The Network (2014), *Decoding Global Talent*.
- <sup>3</sup> Hanushek, E., Woessmann, L. (2009), *Do Better Schools Lead to More Growth? Cognitive Skills, Economic Outcomes, and Causation*, NBER Working Paper No. 14633, National Bureau of Economic Research, Cambridge.
- <sup>4</sup> World Bank (2015), *Secondary school enrolment; Tertiary school enrolment*.
- <sup>5</sup> OECD (2012), *Better Skills, Better Jobs, Better Lives: A Strategic Approach to Skills Policies*.
- <sup>6</sup> In this report, “skills gaps” refers to both hard and soft skills, as both skill types are highly relevant in a modern working environment, and can greatly increase employment opportunities and optimize production outcomes.
- <sup>7</sup> Boston Consulting Group (2014), *The Global Workforce Crisis: \$10 Trillion at Risk*.
- <sup>8</sup> In this report, workforce development covers all measures aimed at closing skills gaps, such as measures that increase retention, and is not limited to training measures.
- <sup>9</sup> International Finance Corporation (2013), *Assessing private sector contributions to job creation and poverty reduction*.
- <sup>10</sup> Let’s Work (2015), *Meeting the skills gap: lessons from the private sector*.
- <sup>11</sup> The benefits were identified from BCG project experience, a literature review, and the company case studies conducted for this report. The frameworks, figures and graphs in this report (unless otherwise specified) were developed specifically for the present study.
- <sup>12</sup> International Finance Corporation (2013), *Investing in Women’s Employment: Good for business, good for development*.
- <sup>13</sup> Let’s Work (2015), *Meeting the skills gap: lessons from the private sector*.