

Talent policy is a key question in economic development

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The biggest development problem in the path of knowledge-intensive businesses is finding people with the required skills. The world development trends let us conclude that the global competition for quality workforce will continue to sharpen. The forceful steps taken by countries and companies in order to attract well-educated and energetic people (talents) have started a war for talents. In such conditions, the search for a solution to workforce shortages should not be limited to the educational system only, i.e. quicker and more flexible means must be found, such as the implementation of selective immigration policy. Using tools with various effect and nature to manage the Estonian talent pool requires a wholesome talent policy across policy areas. This is the only way we can have a hope of not losing in the global talent rally and achieve the dream of making Estonia knowledge-based.

In the winds of changing times, the talent topic in Estonia is much more urgent. The concern about the shortage of specialists with higher education in all areas that require more complex skills is often voiced. The best upon whom we have built our future expectations: doctors, top specialists and the youth are leaving. At the same time, the new echelon of knowledge-intensive Estonian businesses with global ambition complain that they are unable to grow out of Estonia because it is impossible to find people in Estonia

that have the required education, but bringing talents from abroad is too expensive and bureaucratic. How should we approach this multifaceted problem and what should we do?

The structural changes in the economy and ensuing constant gap between people's education and expectations of companies have had a direct and major effect. The abrupt turnabout that started in the 1990s from the agricultural-industrial planning economy model towards a knowledge and innovation-based

market economy has meant a constant structural workforce shortage in Estonia. Several analyses^{1,2,3} have indicated that the problem is still unresolved because of the lack of IT, energy, etc. engineers and highly qualified employees; all of this is in a period where the unemployment rate stands at 13.3% in 2011.⁴

That the problem of workforce education and dynamics in Estonia is sharp is reflected in the fact that the salary gap between the areas that require highly qualified employees (IT, business services, engineers,

1 Estonian Development Fund, "Foreward!"- Annual Report to the Parliament, 2010.

<http://www.arengufond.ee/upload/Editor/English/publications/annual-report-to-the-parliament-2010.pdf>

2 National Audit Office of Estonia, Impact of state's enterprise support on the competitiveness of the Estonian economy, 2010.

<http://www.riigikontroll.ee/DesktopModules/DigiDetail/FileDownloader.aspx?FileId=11203&AuditId=2148>

3 Tartu University's Faculty of Economics and Business Administration working group's final report, Välisinvestor 2009, 2009 (in Estonian only).

4 Statistics Estonia.

business administrators) and jobs in the manufacturing industry is two times. A demand for highly qualified people is influenced by the rapid development of new knowledge-intensive businesses (especially in the IT sector). A survey in 2011 by the Estonian Information Technology Association revealed that 6,500 highly qualified IT specialists could find work in companies within three years.

When evaluating the situation in Estonia and searching for solutions, it is important to understand the wider context. We are not alone in experiencing talent shortage - a war for this most important resource of the 21st century has already begun. Therefore, it is good to understand the driving factors that determine the availability of talents in the future, including for Estonia.

A GENERAL SHORTAGE OF TALENTS IN THE WORLD

The topic of a qualified workforce has become the primary problem for enterprises around the world. The problem is acute in developed countries such as the USA and Japan and in emerging economies such as India and China.^{5, 6}

In the developed economies, talent shortage is haunting mainly due to the ageing of the population, the declining number of working age people and the growing knowledge intensity of businesses. In Europe, 2010 was the first year when the number of people entering the labour market was below the number

of retirees. While presently the gap is 200,000 people, by 2030 it will have grown to 8.3 million. By the end of the decade, several other large economies such as Russia, Canada, China and South Korea will have reached the same inflection point.⁷ In order to sustain economic growth in Western countries, the USA will need to add 25 million people and Europe 45 million people to the labour market by 2030.⁸ The sharpest shortages are for engineers, IT specialists, healthcare specialists and educators and construction engineers among highly qualified employees.⁹

In the emerging economies, the reasons for talent shortage include poor education opportunities for the young and the quality of education, together with the tradition that women are not participating in the labour market. Asia is losing around 47 billion dollars annually because of women's limited access to the employment market.¹⁰

FUTURE JOBS ARE CHANGING

The topic of talents is linked with the question of where new jobs will be created due to the development of society. This is influenced by the emergence of smarter systems and machines, increasing longevity and the growth of global networks. In the future, a demand for people with high technical and managerial skills will develop. At the same time, a demand is also higher for less skilled workforce. Due to technology, the number of jobs that require average skills and following standard procedure rules will decrease. It is forecast

that of the 15 million new jobs to be created in the USA over the next 10 years, altogether 45% of them will require higher qualifications.¹¹

For a large part, new jobs are created due to socio-economic challenges, meaning that a lot of jobs will be created in areas that resolve the problems of aging, climate change, environment pollution, energy crisis, etc. Presently, the future areas of growth identified in several labour forecasts (e.g. in the USA) are social and wellness services, healthcare, environmental monitoring, etc.¹² The losers in this game will be the regions that are unable to develop knowledge-based activities or offer cheap workforce.

TALENTS ARE INCREASINGLY MOBILE

The mobility of talents is growing concurrently with the increase in the mobility of labour. The general migration in the world has doubled since the 1980s. In past decades, the international migration of talents was the playfield of primary European and US-based international corporations, with the direction from West to East. Now, however, with globalisation and the rise of emerging economies, international companies have begun to search and use local talents in the target countries. In the future, we will see the growth of mobility and diversification of the mobility pattern, so-called brain circulation in the world.

This mobility is fostered by the cosmopolitan worldview of new genera-

5 McKinsey&Company, Winning the talent war in China, 2009. http://csi.mckinsey.com/en/Knowledge_by_region/Asia/China/Winning_the_talent_war_in_China.aspx

6 PricewaterhouseCoopers, Talent Mobility 2020, 2010. http://pwcias.com/webmedia/doc/634064113481631618_hra_mgt_tmr_ppl_apr2010.pdf

7 Ernst&Young, Tracking global trends, 2011. <http://www.ey.com/GL/en/Issues/Business-environment/Six-global-trends-shaping-the-business-world>

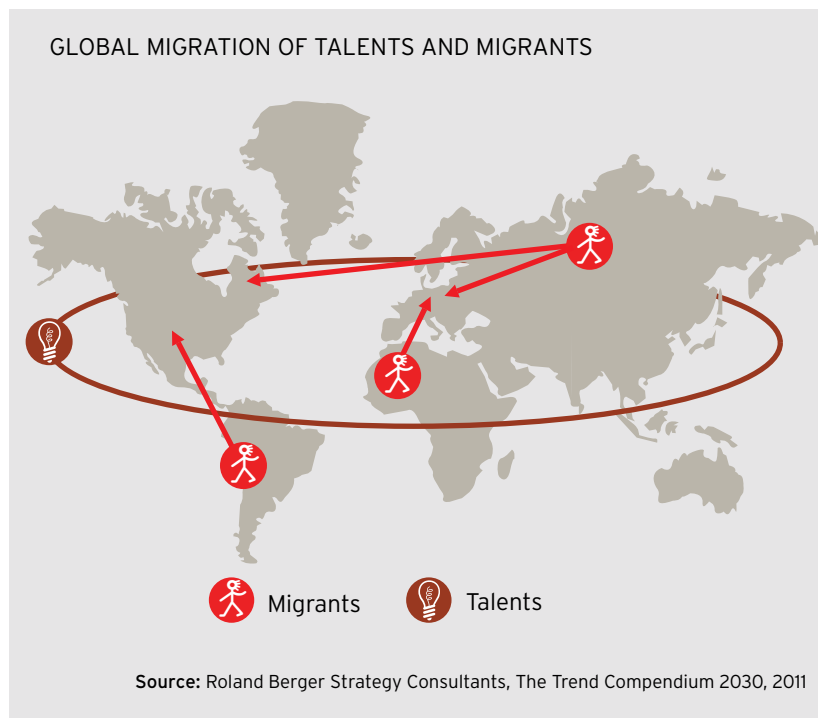
8 World Economic Forum & Boston Consulting Group, Stimulating Economies through Fostering Talent Mobility, 2011. http://www3.weforum.org/docs/WEF_PS_TalentMobility_report_2010.pdf

9 *Ibid.*

10 International Labour Organisation, Women and labor markets in Asia, 2011. <http://www.adb.org/documents/reports/women-labor-markets/women-labor-markets.pdf>

11 Bureau of Labor Statistics, Social Worker, 2011. <http://www.bls.gov/k12/help05.htm>

12 *Ibid.*



tions; for example according to a survey conducted by PricewaterhouseCoopers¹³, almost all millennials (16-34 year old) wish to have international work experience. As having talents has become the most critical success factor for the companies, it is believed that the global mobility of talents will become a standard. Talents and economic growth will concentrate in the world's large cities and the regions surrounding them. In the future, the current talent mobility pattern will be influenced by the emergence of new megacities, especially in Asia. For example, many traditional metropolises such as Paris, London and Moscow will be dethroned by Mumbai, Delhi and Dhaka.¹⁴

THE WAR FOR TALENTS HAS BEGUN

When searching for answers to the question of how to lead the USA's economy to growth, T. L. Friedman, one of the best known economy columnists in the USA wrote in the NY Times: attracting the world's most dynamic and high-I.Q. immigrants to enrich our universities and start new businesses.¹⁵ The global war for talents has begun. Entrepreneurs together with countries and regions are actively competing to attract and keep qualified workforce. To ensure increased competitiveness and improved innovation, the shortage of the required qualified workforce in home countries is alleviated with active employment and attracting into the country of foreign talents with the help of so-called selec-

tive immigration policy. This means that countries' migration policy is focused on stimulating the immigration of highly qualified people. In the past ten years, the countries' wish to limit migration has lessened and the donor countries of talent have started more actively to attract their own talents back home from abroad.

For the USA, this approach is not a new one. Since the 1990s, more than 900,000 specialists (mostly in IT field) from India, China, Russia and other countries have been issued work visas.¹⁶ In the US universities, 20% of all technical science doctoral candidates are immigrants. However, China has implemented a systematic higher education policy since the 1990s, an element of which is re-attracting research workers who have emigrated to the USA.¹⁷

The main argument concerning why countries are battling in this talent war is companies' competitiveness and growth opportunities. The surveys confirm that the main reason behind recruiting specialists from abroad is the shortage in their home country. And the main reasons why these companies do not recruit from abroad are the high costs of bureaucracy and adjusting difficulties of foreign specialists. These companies are very important for the country's economic development because they are more active on international markets.¹⁸ The consequence of the lack of a qualified workforce may be in the worst case moving the company and realising its growth abroad - in the best case, it may include more intensive training of the local personnel.

13 PricewaterhouseCoopers, Millennials Survey, 2010.

<http://www.pwc.com/gx/en/managing-tomorrows-people/future-of-work/millennials-survey.jhtml>

14 PricewaterhouseCoopers, Talent Mobility 2020, 2010. http://pwcias.com/webmedia/doc/634064113481631618_hra_mgt_tmr_pp1_apr2010.pdf

15 T. L. Friedman, Can't We Do This Right? - New York Times, 27.07.2011.

http://www.nytimes.com/2011/07/27/opinion/27friedman.html?_r=1&ref=thomasfriedman

16 M. Cervantes and D. Quellec, The brain drain: Old myths, new realities. OECD observer.

http://www.oecdobserver.org/news/fullstory.php/aid/673/The_brain_drain:_Old_myths,_new_realities.html

17 The Estonian Development Fund, Internationally Competitive Universities, 2010.

<http://www.arendufond.ee/upload/Editor/English/publications/Estonian-Development-Fund-Internationally-Competitive-Universities.pdf>

18 The Vienna Institute for International Economic Studies, Migration, Skills and Productivity, 2010. <http://ideas.repec.org/p/wii/rpaper/rr365.html>

The winners in the talent rally are primarily considered to be the USA, Canada, Australia, France and Singapore. According to the IFF International Migration Global assessment 2006¹⁹, the biggest losers in terms of emigration of qualified employees are Mexico, followed by

The global war for talents has begun in which besides companies also countries are competing.

Iran, Pakistan and Philippines. These countries have a sufficiently good infrastructure but they do not offer their talents many opportunities for self-realisation. The main donor countries in Europe are Russia and Ukraine. Consequently, simplifying the content of migration policy and accompanying bureaucracy may, for a short term, considerably improve the availability of a workforce for companies and through this support economic growth as a whole.

ESTONIA'S STARTING POINT IN THE GLOBAL TALENT RALLY

The availability of talents for Estonian companies is influenced by the general declining trend of the working age population that Estonia has to face in the near future. According to the Eurostat forecasts, Estonia will have a shortage of about 110,000 working age people in 20 years, when compared to 2008. This is the

time when the low birth rate generation starts to enter the labour market (in the forecast zero migration is assumed). Consequently, the loss of the work force could be even bigger if possible emigration and the continuance of the closed immigration policy are taken into account.²⁰ For example, in 2010 Estonian net migration was negative by 2,400 people.²¹

The stories about people leaving Estonia are true. However, these numbers are not drastically high. The statistics show that mostly young families and young specialists are leaving Estonia. For every 1,000 people, about eight leave Estonia every year. Mostly they go to Finland and half of the leavers have vocational or higher education.²² A study conducted by the Ministry of Social Affairs²³ reveals that the number of people intending to go to work in other countries has grown compared to the previous years. In the period after restoration of independence, Estonia has been hit by two waves of emigration. The first was in the 1990s and the second followed Estonia's accession to the European Union. If the current emigration potential is realised, we will be standing on the threshold of the third wave.

It is clear that when considering talent emigration Estonia is in a very vulnerable position because of its small size. In Estonia, every spring around 11,000 young people graduate from secondary school.²⁴ The economy of our small society and the development of the public sector depend largely on the decisions of those young people who graduate

with better results. Today, human assets are not consciously managed in Estonia, i.e. there are no adequate data on how many Estonians are obtaining higher education abroad and what they intend to do after they graduate.

The Global Migration Barometer²⁵ shows that compared to other European countries the need for immigration in Estonia is great. The conclusions are made based on the ageing of the population and the growth rate of the number of dependents. According to the labour market forecast of 2008, Estonia required 14,500 people annually to replace those exiting the labour market. When we take a look at the attractiveness of Estonia, our accessibility rating is 59th (laws and openness), and we lag behind the Nordic countries.

Migration policy hurts very hard the rapidly growing knowledge-intensive businesses due to the lack of specialists. This conclusion was dramatically highlighted during the background study of talents conducted among the Estonian Development Fund portfolio companies in the autumn of 2011. It transpired that recruiting top specialists from Europe is too expensive for a knowledge-intensive business starting its activity in Estonia. They can afford to employ people whose salary is similar to Estonian salaries, i.e. employees from Asia and Eastern Europe. However, it was revealed that the process of recruiting talents from third countries was too long for the pace of activity of start-up companies. In summary,

19 IFF, International Migration Global Assessment, 2006. http://www.un.org/esa/population/publications/2006_MigrationRep/exec_sum.pdf

20 Ministry of Social Affairs, Migration Potential of Working-age Population in Estonia in 2010, 2010.

http://www.sm.ee/fileadmin/meedia/Dokumendid/V2ljaanded/Toimetised/2010/series_2010Beng.pdf

21 Statistics Estonia.

22 University of Tartu, Estonian diaspora in Finland and return migration intentions. T. Tammaru *et al*, 2011.

<http://www.slideshare.net/Statistikaamet/tiit-tammaru-vljarne-soome-ja-eestise-tagasirnde-kavatsused> (in Estonian only)

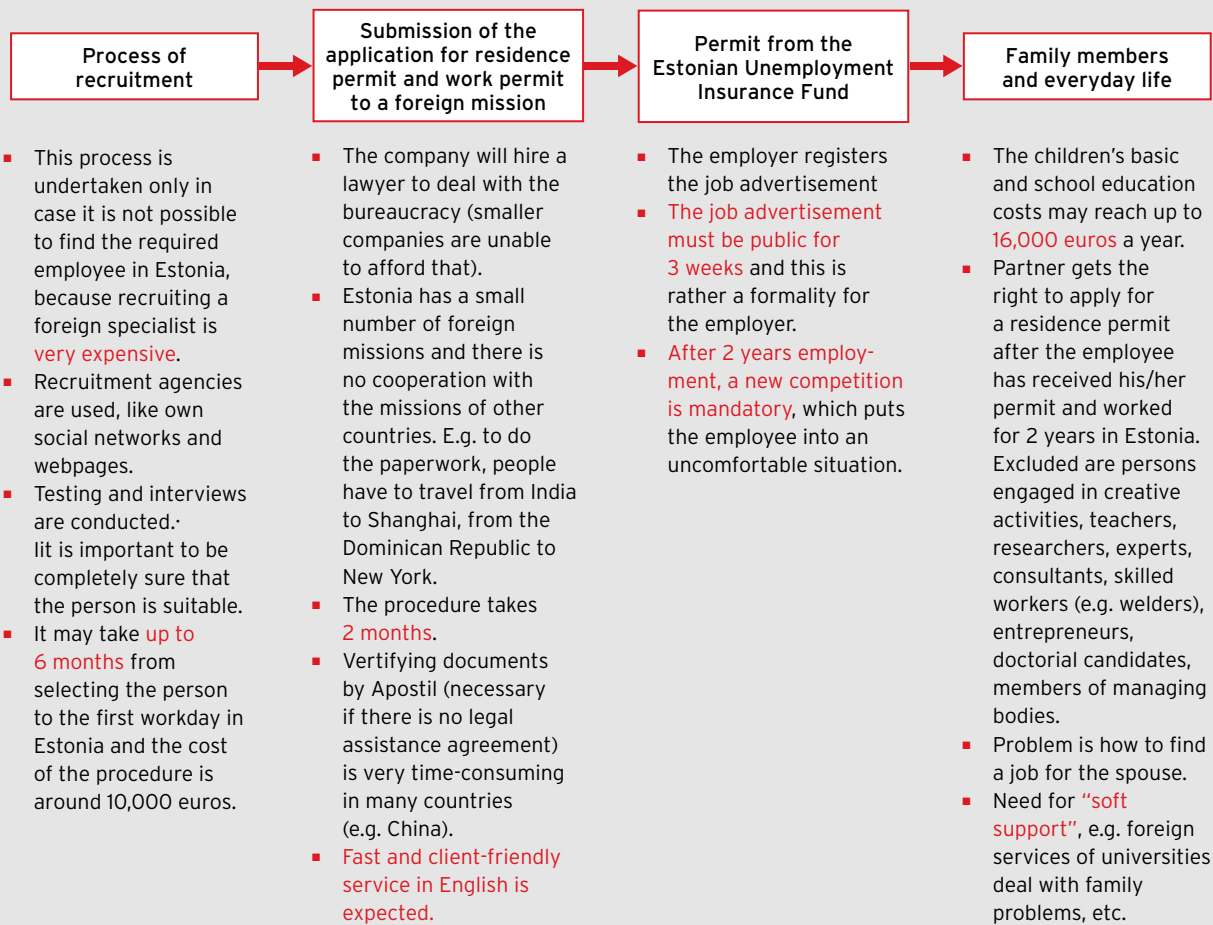
23 Ministry of Social Affairs, Migration Potential of Working-age Population in Estonia in 2010, 2010.

http://www.sm.ee/fileadmin/meedia/Dokumendid/V2ljaanded/Toimetised/2010/series_2010Beng.pdf

24 Statistics Estonia.

25 United Nations, Global Migration Barometer, 2008. http://www.un.org/esa/population/meetings/seventhcoord2008/GMB_ExecSumEIU.pdf

THE PROCESS OF AND PROBLEMS RELATED TO EMPLOYING FOREIGN SPECIALISTS FROM THIRD COUNTRIES: IT IS TIME-CONSUMING AND EXPENSIVE



Source: Estonian Development Fund, 2011

Estonia is a good place to establish a start-up company, but then it is more beneficial to move the company somewhere outside of Estonia. This will ensure a sufficient talent pool to form a team and grow the company. The main problems that need settling include reducing immigration bureaucracy for specialists and improving the attitude of officials towards talented immigrants. The figure shows the main hindrances for the companies revealed in the study conducted by the Estonian Development Fund when recruiting specialists from third countries.

In the beginning of the current year, the Aliens Act was amended (e.g. application of the act taking into ac-

count the European blue passport system). But from the standpoint of an entrepreneur or the client using the service, there are still too many details that make recruiting a foreign specialist time-consuming and expensive. When building up a flexible system that allows foreign specialists into the country, the general migration policy of Estonia must be strong to withstand the migration pressure of people with little skills from third countries. But resolving the migration problem is not enough. Generally, maintaining and growing a talent pool requires shaping and implementing a common economic, education, foreign and migration policy, i.e. a wholesome talent policy.

OBJECTIVE OF TALENT POLICY

Firstly, a need for a talent policy arises from the wishes of rapidly growing knowledge-intensive Estonian businesses to recruit highly qualified specialists. These specialists would preferably be from third countries because employing people from European countries with high standard of living is often too expensive for Estonian start-up companies. In the market penetration phase, a company needs specialists immediately to perform very specific work tasks, which is why it is impossible to satisfy this demand with state-commissioned education. Therefore, conditions should be created for the rapid recruitment of specialists and for

shaping a more attractive environment for them to live in Estonia (e.g. educational opportunities for their children, English-language information about public services, etc.).

Secondly, an important argument for dealing with talent policy is the globally growing demand for talents. This means that if this issue is not dealt with actively, the likelihood of Estonia becoming a talent donor country in the future is heightened.

Generally, the objective of talent policy is to satisfy more efficiently the demand from companies for the workforce with the resources of the state in respect of the availability of qualified labour. This means increasing the quality and attractiveness of living, education and the work environment in Estonia. Therefore, it can be said that education policy belongs to a certain extent in the framework of talent policy. As education policy is under higher scrutiny in Estonia, then the more immediate need for setting targets for talent policy are derived more from the inability of the current policy measures to fulfil the need of Estonian knowledge-intensive businesses for talents.

The success of the talent policy depends on how successful the clearly targeted cooperation is across policy areas (primarily foreign, migration, education and economic policy). With using the levers controlled by different ministries, conditions can be created to ensure the success of the state as a whole and the compa-

nies operating in the country in the conditions of a changing global talent rally. On the one hand, the levers of talent policy can be found in the global trends described above and problems apparent in Estonia; on the other hand, it is reasonable to use the knowledge regarding this topic available in the world when building up talent policy. For example, a working party of experts that were engaged at the World Economic Forum compiled a model comprising seven elements on how the risk of the talent shortage should be approached (see the next page).

When looking at the key levers of talent policy, it is clear that talent policy does not mean designing a new development plan or policy measure. This is a different approach that should be integrated into many existing policy measures to improve their focus. Talent policy solutions are hidden in the existing policy measures and uncovered when these measures are looked at from a different vantage point (e.g. migration policy from the vantage point of knowledge-intensive business needs and providing service to clients). Hence, a talent policy would create conditions for the more efficient resolving of socio-economic development problems that are present in society. The goal of the talent policy is to empower the Estonian economy with a qualified workforce in the light of future trends. This includes both attracting foreign specialists to and creating an attractive

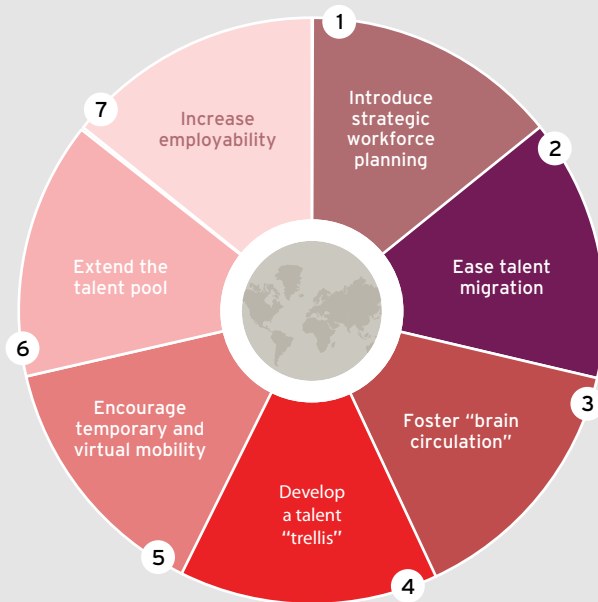
environment for them in Estonia as well as offering opportunities for the Estonian people for development and self-realisation. However, special attention should be paid to young people because the net migration of students is still negative in Estonia.

Estonia has a chance to be a winner in the global talent rally but this requires conscious and active policy planning. However, it is worth the effort because this will get us closer to our goal of an Estonia that has a strong economy and is internationally successful.

To start off the talent policy, the Estonian Development Fund will initiate a talent-related foresight process in the autumn of 2011 the opening event of which will be a Development Forum centred on this topic. The objective of this inclusive process of stakeholders and experts is to prepare suggestions for the basic principles of Estonian talent policy by spring 2012.

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TALENT CONCERN IS RESOLVED THROUGH A WHOLESOME APPROACH



1 Introduce strategic workforce planning

Traditional linear employment rate predictions describe the need of the existing economy and the ability to reach for additional workforce in order to develop on the expected development trail. Reality usually plays out different than predicted. Consequently, strategic future skills gap analysis should be derived from the current linear workforce need forecast.

2 Ease talent migration

In the context of an unstable world economy and looming structural unemployment, the governments of the developed countries have begun to search for solutions that would generate immediate gains. For example, they have started to cooperate with companies in resolving the issue of the immigration of specialists. The first wider topics include the creation of flexible work visa conditions and resolving the taxation issues of non-residents. In the future, this will include the simplification of visa procedures and residence permit requirements for highly qualified specialists and their family members working in areas that are important from the point of the economic development of countries.

3 Foster "brain circulation"

In the context of the countries' talent rally, the donor countries (including Estonia) are advised to focus on the "brain circulation" policy. The goal is to build a process where the model of sending talents to hubs and return-

ing them home ensures additional knowledge, technologies and contact networks from foreign countries.

4 Develop a talent "trellis"

The diversified development and use of talents is a key to ensuring a sustainable pool of qualified workforce for companies. This is why the governments and companies must also focus on building the skills of talents required for the jobs of the future, aside from the diversification of career models. The talents must be offered vertical (speciality) and horizontal (for moving from one field to another) education and career paths.

5 Encourage temporary and virtual mobility

Temporary mobility covers short-term work or study in another location. Relatively easy opportunities to access the required skills and knowledge in the new situation must be offered. People are not always required to be where the workplaces are located. It is possible to do almost 30% of the work of international corporations virtually. Fostering such mobility means opportunities for talents to work in a virtual work environment, regardless of their location.

6 Extend the talent pool

The extensive potential for finding talents is currently under-utilised (people with special needs, older people, women). Flexible work schemes and mentoring at the workplace represent the best solutions. A separate future challenge for talent policy is to find solutions on how to get older people back to school. In the USA, analyses show that universities are increasingly active in including the older generation as students.

7 Increase employability

In the increasingly rapidly changing world, closing the gap between employer expectations and employee qualification requires a constant effort by the governments and companies. Due to the constant need for people with a new set of skills, the governments have to pay attention to both the traditional education system and informal education to increase talent qualification. One possible choice is to invest in lifelong learning. This covers the educational path of people during their life to improve knowledge and skills as well as enhance competences. Lifelong learning is a key element of change and innovation, both in terms of the personality of people and society as a whole.