

A hands-on approach to youth unemployment

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The key to combating high unemployment among young people globally is forging stronger connections among employers, education providers, and youth themselves to build skills that lead to entry-level jobs in growth sectors.

Staggeringly high rates of youth unemployment are a major economic and social challenge in many countries. Yet employers in those same countries often report difficulty in finding candidates qualified for entry-level positions. Generation, the first program of the McKinsey Social Initiative (a nonprofit organization founded by McKinsey), is helping to tackle the problem by establishing intensive, boot camp-style training programs that equip young people with the skills they need to enter the workforce and succeed. In this episode of the *McKinsey Podcast*, recorded in December 2015, McKinsey director Mona Mourshed and principal Maria Novales-Flamarique describe the approach and early results from countries including India, Kenya, Mexico, Spain, and the United States. This interview was conducted by McKinsey Publishing's Simon London. An edited transcript of their conversation follows.

Podcast transcript

Simon London: Welcome to this episode of the *McKinsey Podcast*. I'm Simon London, an editor with McKinsey Publishing. Today we're going to be talking about youth employment, specifically the stubbornly high rates of youth unemployment in Europe, North America, the Arab world, and elsewhere. What can be done to get young people into jobs? And how is it even possible that employers can have millions of unfilled vacancies at the same time that millions of young people are without work?

To discuss these issues, we're joined from Washington, DC, by Mona Mourshed. Mona is a McKinsey partner, leader of the firm's education practice globally, and she also leads Generation, a global youth-employment initiative. Mona, thanks for being here.

Mona Mourshed: Thank you, Simon. Happy to be here.

Simon London: We're also joined from Mexico City by Maria Novales-Flamarique. Maria is also a McKinsey partner and is leading Generation in Mexico. Maria, thanks for joining us.

Maria Novales-Flamarique: Thank you so much. You're welcome.

Simon London: Mona, let's start with you. Step back and give us a sense of the scale of the issue globally. How many young people are we talking about in terms of unemployment? And why does this matter to businesses or to governments? Why is this something they should care about urgently?

Mona Mourshed: When you look around the world, there are 75 million young people who are unemployed and three times as many who are underemployed. Now that's at the macro level. When you look within specific countries and regions, it becomes even more extreme.

There are now multiple countries that have youth-unemployment rates that are upward of 50 percent. If you look at Spain, if you look at Greece, and if you look at the Middle East overall, youth-unemployment rates are anywhere from 40 percent to 50 percent and in some cases even higher, particularly in the more fragile countries of the region.

So what we're facing is both an individual tragedy and a community and social tragedy, as well as an economic one. I will quote Ronald Reagan a little bit here, which is that the best social-welfare program in the world is a job. Right? The ability to have income and to have the freedom that comes with that is core to being able to build thriving societies.

Maria Novales-Flamarique: Adding to your point, if I just look at Mexico, we have about 45 percent of our youth who are either unemployed or underemployed, so they're actually in the informal sector and they never actually have a positive economic or life trajectory.

Also, formal jobs are, essentially, competing against much higher-paying jobs in organized crime, et cetera. So being able to train and to form our youth to be able to have a formal entry-level job that will give them an opportunity to grow becomes an imperative, particularly in countries such as Mexico and others where there is actually a demographic bonus, where we have generations of youth coming of age over the coming years. Giving them the skills and the opportunities to be able to grow productively becomes super important.

Simon London: This is something where McKinsey has not only been studying and working with clients, it's something where we're actually trying to take an active role in creating solutions, through the Generation project, for example. Mona, why don't you just give us a quick overview of that.

Mona Mourshed: In 2014, McKinsey created an independent nonprofit entity called McKinsey Social Initiative. And our very first effort is Generation. Our goal with Generation is to support one million young people to achieve jobs and skills across five countries in five years.

And those countries are the US, Spain, India, Kenya, and Mexico. And through this effort, we're seeking to prove both scale and return on investment to employers and young people, both of which we believe are necessary for a systematic solution in the world.

Simon London: Maria, you're leading Generation in Mexico. What don't you explain what the situation is on the ground with youth employment in the country?

Maria Novales-Flamarique: We're talking about approximately seven million youths who are neither working nor studying in Mexico—and probably another double of that who are underemployed.

So we're talking about 45 percent of Mexico's youth population, which is either underemployed or not employed or studying. So it's a sizeable number of people who we worry are essentially the future of Mexico and who don't have the opportunity to become economically productive or to insert themselves into employment easily.

On the other side, when we talk to employers, lack of talent is one of the number-one issues they face. So we have two types of talent issues. One is for those employers, such as in the retail sector, who face significant amounts of attrition—we're talking about 100 percent attrition per year, and who are hiring 10,000 or 20,000 people every month. And then we have other professions where there is no talent, where the education system in Mexico may not have enabled students to actually develop skills in skilled trades, for example.

Simon London: The sort of layperson's view would be that this sounds like a sort of massive case of market failure. On the one hand, you've got a lot of idle resources—young people who want to work. And on the other hand, Mexico just being one case in point, you've got employers who are really struggling to attract and retain entry-level workers. Is market failure the right way to think about it?

Mona Mourshed: Certainly it is failure. I would describe it as an execution failure as much as market failure, and let me describe why. There are multiple parties that are required to make a solution happen for any particular young person. So you need, at the K-12 system, to have been able to achieve a certain level of literacy and numeracy, such that a young person, once they emerge from secondary school, actually does have the basics.

Second, at the level of employers, you have to have enough signals that are out there that say, "Here's what I need in terms of someone who's going to be successful in these particular roles." You need postsecondary-education providers who are working closely with employers to be able to produce such people and to dynamically know [which skills employers are seeking] as things evolve, as industry needs evolve. And overall, there needs to be a funding system—be it public or private—that can enable all of these things to happen.

So it's not a surprise, given the number of players in this space, that we do have the type of execution failure that we see. If I shift the question to, what do we see as being essential elements in order to make this complex environment work for more and more

young people—let me just describe a bit what the elements are that we have put in place in Generation on the basis of having seen the failures in programs and systems across the world.

First of all, there has to be a focus on middle-skill jobs that are either high scarcity or high churn. Why? These are the ones that employers care about. If it's something where someone can be trained over a number of hours, they're not going to invest in that. They're not going to build relationships with education institutions, because of that. They're not going to put their own resources against that.

So it's high-scarcity, high-churn roles where you can clearly make a link to business performance. Two, then, is an ability to understand not just what the skills are but also the activities that most get in the way of someone being a high performer or a low performer in this entry-level position.

And then on the basis of that, being able to create a program. And we would argue that boot camp-style programs that are anywhere from 5 to 12 weeks long and that enable repeat and intensive practice in precisely those breakdown moments that most get in the way of someone being successful on the job, are what is most needed. And that involves integrating technical skills, behavioral skills, and mind-set skills so that by the time someone comes out of that boot camp they are operating at peak productivity and quality for their tenure in that role.

In parallel to that, particularly for disconnected young people, there have to be social-support services—transportation allowance, stipend, access to child care. Because if they do not have that, then they are not able to participate in something that is full time and as intense as what a boot camp is.

And then finally, the ability to then work with employers to preconfirm vacancies so that it's not just training push. It's the very clear understanding that once you come out of that program, it's because there's a job on the other side. And then after that, to be able to measure the return on investment for both employers and young people. If these things are not true, we would argue that it is almost impossible to be able to arrive at a systemic solution that produces results.

Simon London: Maria, why don't you talk a little bit about the Mexico experience. Describe the boot camps, for example. Through Generation, what do we train young people to do and how?

Maria Novales-Flamarique: Our first program in Mexico was focused on the retail industry. Seeking to train our youth for the high-churn cashier position. It may not sound so attractive, but it's actually a position that's hard to get into. The large retailers in Mexico actually hire one out of ten people who show up at their stores for the position.

It sounds like a very low-entry job, but it's an entry-job position that enables youth to then grow to supervisor positions, which can actually lead to getting to the store-manager level. We also have quite a few cases where people who started as cashiers in Mexico are now the head of operations for half of the business, et cetera.

Our first program is focused on that. It's a four-week program. It's fairly intense. It's full time. We graduated 80 students in October. We had a great offering rate, with 91 percent of these students being offered a job. So, again, we're talking nine out of ten versus one out of ten had they gone the traditional route.

And what we've done there, as Mona was saying, is that we teach both the technical aspects of the job—so we actually have cash registers, we've got scanners, we've got keyboards to practice the memorization of the different types of codes for different types of fruits and vegetables.

And then we spend a huge amount of time on mind-sets and behavior. And we always link that back to the technical aspect of the job. For example, to be a good or a high-performing cashier, you need to have a great client-service attitude and really want to create a wonderful client experience for the customer—while ensuring that nobody's actually stealing money from you and that you're scanning the right things and giving back the right change.

One of the big sources of attrition in cashiers' jobs in Mexico, for example, is that if you net out negative, you have 24 hours to pay that money back to the supermarket. And that results in high levels of attrition. So it's also about teaching the students to be very careful and to be detail oriented.

What was super interesting throughout the boot camp is that we worked a lot with Gallup on the StrengthsFinder methodology. We had a group of very low-income youth—about 90 percent of our graduates were in the bottom rung of the pyramid in Mexico—who had never been told what they were good at.

With the StrengthsFinder program, they suddenly discovered that they have qualities that they can use. And that also builds up their confidence in themselves. We've also found youth who are willing to make a change, who realize that they really want to work and they want to grow. And they want to stop the wishy-washiness or being at home and not doing anything. And that really comes through the whole mind-sets and behavior part of the training program.

There are four clear mind-sets that Generation strives for: personal responsibility, a growth mind-set, future orientation, and perseverance. And those mind-sets are continuously reinforced throughout the program.

It actually changes their lives. What we hear from them is, "I never expected to have this opportunity. I am excited to be growing and to be working." Even some of the parents have come back to us and said, "What did you do? Our child has changed and is completely focused on trying to better their lives and get a job and everything else."

Mona Mourshed: Maria and I keep talking about how we can implement some of this with our own children.

Maria Novales-Flamarique: Just so you know, Mona, the executive committee of a large retailer in Mexico actually said that we should all go to Generation and that we might benefit from it as well.

Mona Mourshed: Indeed.

Maria Novales-Flamarique: It's a very positive experience. The feedback we're getting from the stores is that productivity levels and the technical stuff is on par or a little bit higher. It's too early to tell yet, but it's on par or a little bit higher than our control groups.

But from an attitude and a client-service perspective, the survey results are, "We want to hire more of these guys. We're really excited about the motivation and the attitude they bring to the workplace and we see them as potential leaders and growers of the company." So it's a very positive experience from that sense.

Simon London: Do you just want to say a few words about the institutional partners that we need in order to pull something like this together? You mentioned Gallup. Obviously, McKinsey's involved from the McKinsey Social Initiative. What are the other institutions involved, and what are the sectors that need to be represented to make this work?

Maria Novales-Flamarique: We wouldn't be able to do this by ourselves. We have a very small team on the ground. And we count on the support of a myriad of partners.

Hopefully I don't forget any, but we have everything from employers—so, for example, Mexico. Walmart Mexico has been absolutely great in helping us develop the program and taking a risk with us in developing the curriculum. And then we have several other retail employers that have joined the program as we've moved along—companies like Chedraui, Soriana, OfficeMax, and others that are currently and actively recruiting some of our graduates.

Mexico's retail association, ANTAD, has also been fantastic in ensuring we're connected to the right people, getting whatever equipment we need. They've been helpful in making sure we're speaking at the right forums to actually drive awareness, and by including us in job fairs, et cetera.

We have players such as TecMilenio University, for example, which is part of the Tec de Monterrey university system,¹ which has been very supportive with their campuses in Mexico City, as well as with their instructors for the program. And then also USAID,² who's also provided funding for this pilot part of the program.

As Mona was saying before, institutionally, this requires a lot of players.

Simon London: Not to belabor the point, but that really underlines the fact that this is a systems issue. You have to have employers, industry associations, education providers, government or nongovernmental organizations. And then you need somebody, by the sound of it, to play almost like a systems-integrator role.

¹ Monterrey Institute of Technology and Higher Education.

² United States Agency for International Development.

And if you don't have somebody to do that, I would imagine in some countries and some industries one will, naturally, emerge—an industry association, for example. But if somebody isn't playing that systems-integrator role, then, yeah, a lot of these issues are not going to be resolved. Mona, maybe you could just say a little bit about what else Generation is doing globally. What countries is the program in, and where are we?

Mona Mourshed: Today we are live in 11 cities around the world, across the US, Spain, Mexico, India, and Kenya. We have a 90 percent job-placement rate at this point.

But even more importantly, we have been able to demonstrate return on investment, both to employers and to our young people. So, for example, if I look at our program in Kenya, there we have now supported 500 young people to go through a sales program for banks and insurance companies.

It's a six-week program. Typically the banks will only hire university graduates, and they will only take about 10 percent of them. In the case of our program, we have 100 percent employment by graduation day for our students. Two-thirds of them have multiple job offers. Our students, by and large, have only a secondary-school certificate and they have a GPA level of C or below. Whereas banks are only taking 10 percent of university graduates, they're taking over 65 percent of our graduates.

If you look at attrition by the end of month three for the industry, attrition is typically somewhere between 35 to 50 percent. For our graduates, it has been less than 12 percent, all of which is voluntary. If you look at sales volumes, again, our students are out-performing university graduates. So this is how we begin to demonstrate the return on investment, such that we have employers coming to us to say, "How do we get access to this pool of people?"

For our certified nurse-assistant program in the US and in India, after just even 8 to 12 weeks on the job our graduates have already been promoted to the next level. You see at all of our graduations the children of our graduates, because many of our students are single moms or their partners have either left or they're incarcerated.

And you ask them, all of them, why they are here. They are here because of their children. They want to give their child a better opportunity. They want to see their child observing them working hard and making a better life for themselves. There is nothing more inspirational than watching the expressions and the journeys that our young people go through.

And so there's a lot of firefighting in the middle, but the graduation days and seeing the changes in their lives are some of the most special moments that I have ever experienced in my entire life.

Simon London: I don't want to be too much of a devil's advocate, because the personal stories are genuinely heartwarming. But the obvious question is does it scale? As you point out, we started by saying that this is a very, very big problem and you do need to touch—or society as a whole does need to touch—millions of lives to really make a dent in it. So what are we finding in terms of the scaling of the Generation methodology?

Mona Mourshed: Absolutely. Let me put it this way. In May, we had supported only 200 young people. In December, we added 1,000. So our pace of launching cohorts is now, every two to three weeks in one of our countries a cohort gets launched. One bit is how we turn Generation into a machine, such that we are at the level where every two to three weeks a cohort gets launched.

Two is in the design itself—we are a methodology. This becomes a franchise model whereby, literally, for any set of providers, and we do now have providers coming to us in these countries and in other countries to say, “How can we take your recruitment system, your curriculum, your ROI-assessment methodology and bake it into what we do?” That is precisely how this scales.

So if I think of the next six months, we’re going to be working very hard on the quality-assurance systems, which we have been doing, such that at any point in time, similar to how other great franchise models in business operate—you have security of the inputs that have gone into it, the quality assurance of whether the delivery is going according to plan, and then, most importantly, whether there is ROI for employers and young people. That’s our focus. That’s how this scales. If we are unable to do that, then we will be at the level of thousands per year, which is simply not good enough.

Simon London: Are there any countries that don’t need this kind of intervention? I know we’ve started a lot of education-to-employment systems, journeys, initiatives. Are there any countries that really stand out as already doing this very well?

Mona Mourshed: At the country level, I would say no. At the sector or ecosystem level, yes. For example, if I look at Apprenticeship 2000, which is in Charlotte, North Carolina, it’s focused on Mechatronics. For those doing advanced manufacturing, you need people skilled in Mechatronics—which is a combination of computer science, process engineering, electronics, et cetera—to be able to run the facilities off their iPad. Right?

So, essentially, you have eight manufacturers in different sectors, all of whom need Mechatronics skills and who have partnered with the local community college to be able to produce a steady cadre of these individuals. It costs roughly \$175,000 per student over four years to be able to produce such an individual. However, if you ask these employers what the cost of a bad cut is, they would say to you that it’s a quarter of a million dollars. So, yes, it’s worth it.

That’s an example of a high-scarcity type of profession. If you look at China, with China’s Vocational and Technical Education System—it’s responsible for about 60 percent of the new auto workers every year going to the automobile manufacturers. Even given the scale of a country like China, that’s a huge number.

And so, again, they have an entire division that is dedicated to industry relations and are continuously understanding what is happening with their graduates—how are industry needs evolving, feeding that back into the curriculum and so on. You can find examples for certain profession sectors. I would argue that at the country level, this is not done systemically anywhere.

Simon London: OK, so let's leave it there. Thank you very much, Mona and Maria, for a fascinating discussion. Best of luck with Generation on the ground in Mexico. And best of luck, Mona, with the project globally as it moves forward. If you want to learn more about Generation, visit generationinitiative.org. To learn more about McKinsey's work in education and employment, please visit mckinsey.com. □

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