



Responsible Labor Management in Costa Rican Technology Firms

Cámara Costarricense de Tecnologías de Información y Comunicación (CAMTIC)

Prepared by Tamar Benzaken Koosed under the supervision of Dr. Richard Feinberg, Professor of International Political Economy, University of California, San Diego

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About BSR

A leader in corporate responsibility since 1992, BSR works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. With six offices in Asia, Europe, and North America, BSR uses its expertise in the environment, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information.



About AED

AED encourages building CSR principles into business management models. It serves as a channel for companies to make strategic, socially-responsible investments and promotes public-private partnerships. AED has accompanied the Costa Rican business sector in self-evaluation processes, encouraging companies to build best practices into their management systems. Currently, AED's membership includes more than 80 business firms. As a Costa Rican chapter, it acts on behalf of major international organizations. Visit www.aedcr.com for more information.

Executive Summary

Costa Rica's information and communication technology (ICT) industry has experienced costly rates of employee turnover during its rapid expansion. In response to this challenge, BSR and the Asociación Empresarial para el Desarrollo (AED) partnered with the Cámara Costarricense de Tecnologías de Información y Comunicación (Costa Rican Chamber of Technologies of Information and Communication, or CAMTIC) to create a robust human resources program of responsible labor practices within six small and medium enterprises (SMEs), who are members of the chamber, to enhance employee retention. The goal was for these companies to serve as models for other CAMTIC members of the positive effects of responsible labor practices on employee turnover.

BSR and AED created a dialogue platform, by conducting regular meetings with participating companies to compare results, address implementation challenges, and discuss best practices of responsible labor programs. Immediate short-term results of the monthly meetings between AED and participating companies include: 1) institution of more employee-friendly policies, 2) implementation of regular employee-management meetings, including meetings focused on personal development, and 3) the reevaluation of employees' training needs and plans to increase the number of training hours. Anticipated longer-term outcomes for the project include increases in labor productivity and competitiveness of participating companies and significant drops in their employee turnover rates.

These long-term benefits can impact the sector of ICT service providers at large if CAMTIC prioritizes the promotion of this project among its remaining member companies. By reaching out to top management, CAMTIC can replicate this dialogue platform among several small groups of companies and enhance the competitiveness of the sector by improving employee retention rates in SMEs.

Opportunity

Costa Rica's rapidly expanding information and communication technology (ICT) industry now accounts for nearly 12 percent of the country's GDP and 27 percent of its total exports. The country has attracted major international corporations, like Intel, to undertake large greenfield, foreign direct investments, spurring the formation of an internationally competitive cluster of ICT service providers, whose exports in 2008 surpassed US\$650 million.

The ICT service sector's domestic growth has been largely driven by SMEs with fewer than 100 employees. As the industry expands rapidly, the supply of highly educated workers has not kept up with the demand for their services. In recent years, new courses for the ICT industry (in universities and technological institutes) have mushroomed, but not fast enough to accommodate labor market demands. This labor market imbalance results in prejudicial rates of employee turnover within SMEs.

About CAMTIC

CAMTIC is a nonprofit business association established in 1998 to strengthen and support the ICT industry. CAMTIC represents companies in software and component manufacture and ICT service providers. Its membership totals more than 170 companies.

CAMTIC's main activities and priorities include:

Training and education of workers and students in ICT careers,

Accessing new markets for member companies

Lobbying governments for policies and projects that will benefit both the country and the industry.

Participating CAMTIC Companies

ArtinSoft
Consorcio Sysco-eProm
DACTIV
Electromática
Hermes Soft
Logosoft

When firms have high turnover rates, their production declines, and they incur costs searching for and training new employees. High turnover rates can be symptoms of other workplace issues, such as dissatisfied workers, poor customer service, and high incidences of absenteeism, all of which translate into financial losses. They have been associated with increased average unit labor costs for Costa Rican electronic companies and can weaken firm competitiveness.

Implementing responsible labor practices that extend beyond legal requirements has improved retention rates in companies throughout the world. These practices can range from family-friendly benefits to a greater emphasis on employee training.

In response to this challenge, BSR partnered with local NGO Asociación Empresarial para el Desarrollo (AED) and the Cámara Costarricense de Tecnologías de Información y Comunicación (Costa Rican Chamber of Technologies of Information and Communication, or CAMTIC) to create a series of responsible labor practices that go beyond legal standards within six of CAMTIC's member companies. The objective is to reduce the companies' most pressing self-diagnosed problem—employee turnover—and for these six companies to serve as implementation models for other CAMTIC members. The six companies are all SMEs, with workforces ranging from 6 to 80 employees.

Strategy

The project's main steps in diagnosing the problem and creating a work structure were:

- 1 **Gap analysis of firms' human resources practices** based on site visits to participating companies and company self-evaluations.
- 2 **Employee surveys** (of 95 participants) about the work factors they value most.
- 3 **Benchmarking participating companies' practices** against those of ICT transnationals in Costa Rica and to BSR projects within the industry worldwide.

GAP ANALYSIS

The key findings of the gap analysis included:

- » **Cost per employee** for programs is higher in smaller companies.
- » **Limited upward mobility** in small companies can contribute to employee turnover.
- » Companies had limited knowledge of **compensation practices** within the industry.
- » None of the companies had **incentive-based pay systems**.
- » Companies lack **formal mechanisms for information sharing** with employees.
- » Four of the six participating companies have **training programs**, although their extent varies with company resources. Some provide sporadic training, for instance, totaling six hours per employee per year, while others have structured training programs that provide more than 30 hours of training to workers and grant employees 50 percent university scholarships.

Within the six participating SMEs, the gap analysis also uncovered factors that help support the implementation of responsible labor programs:

- » Informal systems to **address workers' grievances**, incorporating employee suggestions into company practices and promoting communication between management and workers.
- » Policies honoring **individual human rights**, including non-discriminatory hiring policies, and policies to treat all workers equally.
- » Minimal, inflexible, bureaucratic systems.
- » Lean structures making it easier to innovate and adopt new ideas.

EMPLOYEE SURVEYS

Employee surveys determined that, beyond salary, workers' top priorities when choosing a company included:

- 1 Company demonstrates concern and commitment to improve working conditions beyond the legal requirements (60.7 percent workers identified in the top three).
- 2 Company has a policy for worker retention (45.8 percent).
- 3 Company includes worker trainings in annual budget (35.1 percent).
- 4 Company practices transparency in information sharing with employees (28.7 percent).

INDUSTRY BENCHMARK

The industry benchmark revealed that participating companies score well on employee respect, but need to improve their policies regarding employee training, dialogue, and participation. Participating companies scored the lowest on compensation policies: Most had no formal guidelines for setting salaries, had no variable salaries to compensate individual or group performance, and did not provide noncash benefits beyond the legal requirements.

Implementation

Based on the gap analysis, employee surveys, and benchmarking, BSR and AED developed a set of recommendations on how to imbed responsible labor practices into human resources systems. BSR and AED focused on issues beyond salary. Although competitive salaries reduce employee turnover, salary increases are primarily driven by increases in firm productivity. BSR and AED's recommendations target programs that can be implemented immediately by CAMTIC and the SMEs, despite their financial constraints.

Recommendations for SMEs included:

- » **Build a participatory culture** to engage and commit employees. Some methods include holding regular company meetings to communicate company strategy, reevaluate goals, discuss financial position, and hear employees' opinions on these various topics.
- » **Estimate the cost of employee turnover** to better understand its impacts on a company's financial situation.
- » **Create a compensation policy based on rewarding employee efforts**, thus enhancing quality of work and productivity (i.e., individual and group bonuses and variable salaries).

Establishing Logosoft Values and Mission

Mrs. Silvia Álvarez, owner of Logosoft, has implemented regular company-wide meetings to review and educate employees on Logosoft's values and mission statements. The company has considered employee opinions and revised its statements accordingly.

Logosoft's values now include a focus on issues of personal employee development. The company plans to hold short weekly workshops on topics that improve employees' quality of life.



Mrs. Álvarez and local consultant Maria Fernanda at Logosoft



Programmers at Consorcio Sysco-eProm

Evaluations 360: The Example of ArtinSoft

Since participating in the project, ArtinSoft has implemented a series of responsible labor practices, among them a new form of evaluating employee performance and workplace satisfaction. Employees now fill out self-evaluations and are reviewed by peers and management.

From these evaluation results, employees and management identify the department and projects that best fit the employees' career goals and skills. Employees can also be placed in "internships," where their peers from different departments train them in new areas of the company's operations.

Although it is too soon to measure productivity impacts, the company reports improved employee satisfaction.

Recommendations for CAMTIC included:

- » Support associates by conducting a **survey on salary and human resources practices** among all its member companies.
- » Provide member companies with **workshops** to educate them **on legal health and safety requirements**.

These recommendations were presented to participating companies and a CAMTIC representative during a half-day workshop. Since then, companies and AED have held monthly meetings, totaling six as of the end of November 2009, to communicate and debate their implementation of responsible labor practices. Topics included:

- » **Existing practices:** Companies shared presentations on their existing human resource practices, including employee programs they believed increased worker loyalty.
- » **Implementation of non-costly responsible labor programs:** Companies brainstormed ideas for programs that fit their financial constraints (i.e., holding regular company meetings and establishing an open-door policy).
- » **Making use of economies of scale:** To negotiate better prices, companies chose to undertake certain projects jointly. Companies will sponsor a health fair with clinics and health service providers and will seek to negotiate corporate group rates for all employees, an event that could become CAMTIC-wide. Another group event companies are planning is the *TICnologo* day, a day of activities and recreation for all employees.
- » **Taking advantage of government policies and programs:** Companies have contacted the National Insurance Institute and requested a government-subsidized health and safety workshop.

In a recent monthly meeting, companies received a two-hour workshop from a law firm on different compensation mechanisms and associated legal obligations. This workshop addressed companies' doubts about how to set up individual and group bonuses and other noncash benefits for employees.

BSR and AED have also provided companies with a quantitative tool to assess the costs of employee turnover. It allows companies to input direct and indirect costs associated with hiring new employees and losing current ones and can also be used to quantitatively evaluate employees' input to projects and ensure that salaries reflect their contribution to company performance.

Results

One of this project's major accomplishments is opening up a dialogue in which companies can develop their capacity to implement responsible labor practices. By comparing results, addressing implementation challenges, and discussing best practices, human resources managers and company owners become better equipped to implement their individual responsible labor policies.

SHORT-TERM RESULTS

A series of responsible labor practices have emerged from these monthly meetings, contributing to the following short-term results.

- » Companies have instituted **more employee-friendly policies** (i.e., more flexible working hours, allowing employees to work from home, and formalized open-door policies)—which, according to companies' statements, have increased employee motivation, boosted productivity, reduced turnover time for projects, and increased customer satisfaction. Reductions in office supplies and other variable costs were also immediately recorded.

- » **Employee-management meetings** now take place more often and regularly.
- » Companies also increased the number of **workshops focused on personal development** (i.e., balancing personal and professional life and workshops on health related issues). These innovations have increased employee satisfaction and improved company image.
- » Companies are **reevaluating employees' training needs** and plan to increase the number of training hours per employee. Employees consider additional training as noncash benefits and, according to employee surveys, it influences whether they remain with a company.

Other immediate results of the project include enhanced company image, as participating firms took a leadership role on corporate social responsibility (CSR) and gained increased visibility among CAMTIC members, who include potential clients. According to CAMTIC's executive director, the project also successfully raised awareness of CSR issues within the chamber, modifying the organization's interpretation of social responsibility and demonstrating the positive connection between CSR and firm competitiveness. The chamber now has a permanent CSR working committee and plans to dedicate a section of its newsletter to the topic. The project will culminate in a presentation open to all CAMTIC members to showcase the experiences and successes of participating companies in implementing responsible labor practices in their human resources program.

ANTICIPATED LONG-TERM OUTCOMES

Anticipated long-term outcomes of the project include increases in labor productivity and competitiveness of participating companies as a result of better worker performance and higher satisfaction regarding their workplace. With productivity increases come higher profits and improved salaries, affecting the welfare of participating companies and their workers. Although a certain natural level of employee turnover is expected in a highly competitive industry with tight labor markets, these rates are expected to decrease in the long run, and consequentially reduce training and hiring costs.

To convince companies to continue implementing responsible labor policies, they should collect metrics associated with their new human resources programs, for example, keep accurate records of employee turnover, regularly administer employee and customer surveys to measure satisfaction, and estimate increases in productivity and revenue. As AED continues to support companies in implementing responsible labor practices and incorporating new CAMTIC members into the project, it can promote the value of and assist in the establishment of such metrics.

LESSONS LEARNED AND USEFUL TIPS

As CAMTIC moves forward to replicate this responsible labor project among other member companies, some useful tips include:

- 1 **Create a flexible dialogue platform for companies to address successes and challenges in implementing responsible labor practices.** The project was designed to carefully evaluate the deficiencies and advantages of participating companies, but did not impose a pre-set list of action items. Companies (of different sizes and financial capacities) came together and developed programs that best suited their own special needs. Firms were free to select among the proffered solutions.
- 2 **Use company-specific experiences as case studies for future implementation.** Develop learning materials based upon companies' experiences in embedding responsible labor practices within human

resources programs (i.e., PowerPoint presentations). Success stories from familiar companies can be especially compelling.

- 3 **Assign a point person to coordinate meeting platforms for companies interested in replicating the project.** It is important to have a CAMTIC staff member responsible for maintaining a fluid dialogue among companies and ensuring that deadlines are met and meetings are well attended. This person can also be responsible for promoting the program and enlisting companies to participate. Companies can be organized into small discussion groups, like the six-company group created by this pilot partnership.
- 4 **Engage decision-makers in the project.** Without the buy-in of senior level management, ideas for responsible labor programs may not be implemented. To reach out to top management, CAMTIC could sponsor roundtables to demonstrate the business case for responsible labor practices.
- 5 **Prioritize training programs when implementing responsible labor practices.** Employee surveys and follow-up visits showed that workers in the dynamic ICT industry see companies that provide regular training programs to workers as most desirable. ICT employees need to always be informed about the newest programs and technologies and therefore greatly value training and education as an important noncash benefit.
- 6 **Provide competitive salaries.** Companies should constantly evaluate their employees' salaries and strive to maintain them at or above market levels. Incremental salary increases may be less costly for the company than costs associated with high employee turnover rates. If the company's budget prevents salary increases, managers should inform employees of the company's financial state and make future company goals clear. Offering competitive salaries and engaging employees in the decision-making process can mitigate the problem of turnover rates.

About DR-CAFTA Project

This case was made possible by a grant from the U.S. Department of State to BSR for its "DR-CAFTA Responsible Competitiveness Project." The project works with producers, labor, government, and international buyers to promote responsible labor practices in countries of the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA). For more information, visit www.drcafta.bsr.org.