

## **Podcast Transcript: Doug Donahue and Jesus Mendoza, President, Bridge Consulting Group**

### ***“What’s Behind Mexico’s Ongoing HR Challenges,” June 2017***

**Doug Donahue:** Good morning, ladies and gentlemen and welcome to Entrada Group's ongoing series on manufacturing in Mexico. My name is Doug Donahue and I'm a Principal and Vice President of Business Development for the Entrada Group. Today, we have Jesus Mendoza with us, President of Bridge Consulting Group. Bridge Consulting Group works with international and Mexican companies in developing HR strategies for the Mexican market. Previously, Jesus worked with GE as well as Grupo Saltillo, a large Mexican manufacturing conglomerate with international operations. He also worked in the joint venture of Maytag and Grupo Vitro, a large Mexican multinational. Jesus, welcome.

**Jesus Mendoza:** Thank you very much, Doug. Good morning to everyone.

**Doug:** Well, as we know, HR is an ongoing challenge in Mexico. And we just want to bring our listeners up to date on what is going on in Mexico. So, let's just get started with the topic. What is the main topic these days or main topics that foreign manufacturers in Mexico are thinking about?

**Jesus:** I think there are two main topics going on right now in the HR environment, in the human capital environment. One of them has to do with having the right workforce in the right place, meaning availability in the right city, area, or state of the country. But also, I think the main issue that is affecting most of the companies is the ability to retain that talent. Companies are really having a very hard time with retaining the talent they bring in into their workforce.

**Doug:** So, let's dig down a little deeper on that answer. There's two things right there. First of all, let's address the first point of where to establish an operation in Mexico. Traditionally, people looked at the border or the border states. Today, if you're recommending companies in terms of HR to establish an operation, where would you have them look in Mexico? Obviously, there are multiple locations. And if you could describe where they are and what some of the advantages of them briefly.

**Jesus:** So, I can tell you that I no longer recommend any company to start an operation at the border. There aren't enough people. [The border cannot compete] with the inner part of the country. I would say that Operations need to be established in states in Coahuila state where we can still find some talent and in Zacatecas state. San Luis Potosi a bit, [though it's still competitive] as well as the Bajio zone, which is in the very center of the country. Nonetheless, in those areas, there are possibilities to get some talent. In my opinion, they are good spots [along] with San Luis Potosi, Aguascalientes,

Zacatecas, Guanajuato, Queretaro. And I would say those are going to be the states that I would recommend.

**Doug:** Okay. And then in your second point, you talked about one of the major challenges these days being the retention of labor. I'd like you to expand upon that a little bit, but I think it's important that we probably divide it into three categories. We have indirect or unionized, we have technical labor and then we have the management talent. Do you see challenges in all three areas or do you need to focus more on one area or the other?

**Jesus:** I think the three areas all have a huge challenge. Let me tell you, for example, on the indirect workforce. And I'm going to talk about engineers. [Looking at the] five or six of the largest cities in the country, one of them being Mexico City, the second being Guadalajara, the third one being Monterrey, the fourth one being Puebla. Then, the further you go on into either Tijuana or Ciudad Juarez. If you want to find the best universities, you will find them mainly in Mexico City, Monterrey and Guadalajara. And thirdly, I would say, in Puebla. So, you will have a fair number of engineers graduating from schools that are manufacturing-oriented, you can say.

**Doug:** So, if I'm establishing an operation in Mexico, I understand that I need to hire younger engineers and train them. But I also need seasoned and experienced engineers to help me get going. I just can't depend upon young guys to get it done. I need experienced engineers to help me establish and make sure things going. Are there any challenges with that?

**Jesus:** There are some challenges. People in Mexico, they tend to be very tied to their homeland, meaning the city where they were born. However, as the years have gone by in Mexico, I would say that that's been changing lately. You will find senior engineers, very good senior engineers, for example, that are from Monterrey that are now living in Toluca or are now living in Zacatecas. Through time, that's been changing. Now, is it difficult to find, for example, engineers in the center of the country? No, because the distances between each one of the states that I talked about earlier, such as Querétaro or Guanajuato, they're very close. So, you can say you have a good chance to find good engineers there, for example, in Querétaro. And they will move either to Guanajuato, Aguascalientes or even San Luis Potosi. They will have a chance. Now, talking about states like Zacatecas, the nearest will be [from] Saltillo, Monterrey and probably Durango, where you can find some engineers as well. That will be a challenge, to find not [just] good engineers, but to find good engineers with bilingual skills, meaning English-Spanish.

**Doug:** So, I got a group of experienced engineers and I got a group of young engineers. I got a successful operation. I do not want to lose these engineers. What do I have to do to retain my A-talent?

**Jesus:** Well, that's been the second and, I think, the most important challenge that we're facing on human capital. And not only human capital, the company itself. You need to build the culture where you have those people finding what they would like to become, meaning finding a potential future career in your company. They're given the right amount of coaching, opportunities for growth in terms of career, salary, opportunities to have a family as well and an excellent working environment. The companies are working on that right now. And that has been the biggest challenge. Because Mexico has a culture where family plays a big role. And different than other societies or other cultures, in Mexico you don't just work for a company. That company becomes somehow your second home. [Your manager -- you will try to make him] your friend, and friend in terms of having a friendly relationship, even a close relationship, so you can share with that person your concerns, the issues that you're facing, and you will like to be heard by that person and sometimes given some advice.

**Doug:** If you were advising me, how does that translate into actions and policy? Give me two or three things that I need to do to make my engineers feel part of my corporate family.

**Jesus:** For example, the onboarding process is extremely important. You [have] to show them [policy-wise] that you have a mentor for each person when joining the company, meaning you will assign someone to that person that will help them understand the company. In addition to the normal onboarding process, he will have a peer, which will be his mentor. And I'm not talking about a peer from the same area. Could be from other areas and sometimes a manager talking with him about the company, the culture and everything. So, you can say that the onboarding process takes longer in Mexico. And when I say it takes longer, it's not 30 days, it's not 60 days, probably goes well beyond the 90 day-mark or something. So, you work with the person to have them trained, well-trained and understanding what is the culture of the company. So, most of the company that are coming from abroad, need to adjust their culture to the country that they're doing business in.

**Doug:** So, let's move to direct labor. Mexico has always had a turnover problem, retention problem and companies just learn to adapt to it. What I feel in the market from talking and being out there, is that Mexico has developed to such a level that direct labor now has many different options. And they have the ability to move up the chain. And I'm feeling from some of our clients, as well as just being in the market, that there is now pressure on direct labor, that business as usual for the past 20 years is no longer acceptable. So, my question is two-fold. A, is that a correct statement that it's hard to get direct labor? And, B, how are companies going to adapt to that or how should they adapt to it?

**Jesus:** Okay, let me answer the first question [first]. I would say that, no, it's not quite that there [aren't enough] workers in the market. There are workers. The main issue is location. You will recruit people now not from the same cities. You will need to go around the cities and communities close by, [to source] staff. But you will find people, so

you can have your operation staffed correctly. Having said that, [recruiting employees] is one thing. The other part is what I just mentioned. Same as the indirect labor, the direct labor requires some type of leadership and peers that they can find the right spot where they continue working in the long run. So, they build friends there, so they can be confident about the quality of the company, that they will not be terminated in the short run, because there's a change in the production schedule. So, for Mexico, direct labor stability plays a big, big role. And, of course, to be paid according to market trends [with respect to] salary, wages and benefits. Even benefits, you have to be concerned with. But you also need to present very good leadership to involve these employees in your more critical operations and train them very well. I would say that I've experienced in the past in managing companies, [cases] where we build organizations, and I'm talking about direct workforce, we implemented those models successfully. And that was a great hit, because the employees tend to control themselves, in this case the workers, and they did a wonderful job in terms of quality. If you give them the responsibility, they will respond. So, going back to your initial question, if it is difficult to find [quality workers] – it is not easy. But you will find the right amount of people. What you find is [you have to have] a strategy to retain them. Because you're competing for them in the marketplace. As you said at the beginning, there's been a lot of development in Mexico. There are many companies coming to Mexico or already there even now. And not only from the U.S., but also from Europe and other different countries. For example, we have a lot of Germans in this business. We have a lot of French in this business; Japanese; and, lately, Chinese.

**Doug:** The type of company looking at Mexico now is no longer just looking at Mexico for low-cost labor. You have second- and third-tier companies, suppliers looking at Mexico that are much more capital-equipment-driven and they're going to supply the OEMs in the first tiers that have already established in Mexico. And what we've seen is that these types of operations need a higher level of technical skills. And our experience has been that there's somewhat of a bottleneck in the Mexican market on this. So, again, my question is, A, is that true? And, B, if it is true, how do you address it?

**Jesus:** Technical skills or technicians are not easy to find. That's the main [problem we are having right now in the area of] human capital. What is going on? As you said, we have gone from being a low-cost country and manufacturer to kind of a medium-cost manufacturer or even a high-cost manufacturer. The way that issue has been addressed by local or foreign companies [has been by the creation of] programs with technical schools to develop their own technicians and graduate as many as possible each year. Some universities in Mexico have very good technical schools like that in Nuevo Leon and in Coahuila. You build your own training centers. Now, there are also older companies that build their own training centers [demonstrating some very good successes]. So, they train their technicians to develop mechanical skills for the type of equipment they will be using in their processes. For example, machining centers or maybe in plastic mold making, adjusting all the components of those machines. So, they

develop programs and training is a huge part for these companies in terms of graduating very good technicians.

**Doug:** So, Jesus, I work a lot at the corporate level dealing with the executives who are making a decision to go into Mexico. And one of the very common questions to us is "We understand Mexico is different. And we understand we have to do things differently. But our corporate culture is very important to us. Our culture is what makes us successful. How do we translate our culture being sensitive to Mexico and the issues of Mexico, so that we have a global culture?"

**Jesus:** By adjusting not your principles, but the way you implement those principles. I worked for, as you said at the beginning, I worked for GE. I worked for Whirlpool. And those are very big companies, which came to Mexico in the early '80s, excuse me, late '80s, early '90s. And we had the same kind of issues in terms of not finding the right number of engineers. We solved it, by adjusting the policies and the principles, not the way we implemented those. For example, at GE, we used the Integrity policy, meaning – what were the principles that were going to be followed when conducting business, and that [meant] we were not going to be accepting nor giving bribes to anyone. In a country like ours, and in Asia it might be the same thing, you need to adjust those things that are not right. We need to work this way or, if you don't work like that, if you don't work under these principles, you will not be part of the company. So, you will train good employees on what are the pros and cons about working under those principles or values for the company. Your culture has some principles that you need to adjust depending on the audience. And I'm sure it does happen in every country, even all countries, they have differences among regions of their own. For example, you may have the same culture, the same principles in Texas, but it will be a bit different in California. You will accept some differences. And Mexico is no different. Mexico's a country that, by principle, we will respect the law. And when you work for a company like that and are provided that information about the beliefs of the company, the workers will work fine with those [beliefs]. We just came from a session with the general manager for a multinational company doing ceramic tiles here in Mexico. He gave us a speech about implementing ethics codes and how these impacted the workforce and the way we [behave]. And, in fact, there was no difference between Mexico and the States. You just adapt the way you implement it, not the concept, not the principles, not the very spirit of the situation. So, you need to learn – what do you mean when you are talking about a culture? What your principles, values, beliefs are and why you have them. Once you explain those and in very simple terms to your employees, you will be understood and accepted and followed.

**Doug:** Over the last 18 to 24 months again, at the corporate level, we've been having ongoing conversations about the peso and its devaluation, its effect on cost, whether it's going to appreciate, what that'll mean. All sorts of conversations have surrounded the peso. What I find interesting in these conversations is there's never somebody looking at it from the Mexican employee's point of view. Could you take a couple minutes and

tell us -- Do Mexican workers follow the peso? Is the peso devaluation important to them? How does what's going on with the peso, the fluctuation with it, affect the Mexican workers?

**Jesus:** Yeah, we do follow the fluctuations of the peso and the rate all year. And I want to talk to you from the indirect labor side and the direct labor side. Everything will be affected by interest rates. Manufacturers in Mexico, producers in Mexico, they need not only Mexican concepts. They need to import a lot of things. We do a lot of imports from the States, for example, in terms of food and [other goods] from different parts of the world. But we do export a lot. But those elements of our daily lives are being affected by the inflation, by if you need to buy food that's at a high price, you will need to pass that cost onto the consumer. So, the day-to-day person will be affected by that. That's on one hand. On the other hand, there will also be the issue that even though we are a local economy, we are open to a lot of price increases [driven by] foreign trade. And so, there are a lot of goods that are sold and bought in Mexico that [have fluctuating prices] because of the exchange rate. Cars, for example, will be impacted. On the direct worker, gas and diesel fuel will be impacted by the change in the rate. So, the inflation will be there. As of right now, we're experiencing a higher inflation rate than previous years, because we are afraid of the price war for fuels in Mexico.

**Doug:** So, can you give me two or three initiatives implemented by your clients or anybody that you saw that was interesting that, whether it worked or not, was unique, funny, interesting, something out of the ordinary, two or three initiatives in HR?

**Jesus:** Yes, for example, one way [is to focus on making] workers less stressed. We implemented this [when I worked] at GE and many other companies, not only GE. I mean we might have gotten the idea from GE, but these are success factors [that could benefit] local and multinational companies. Early in the morning, at the start of the shift when the employee was entering [the facility], as they were being transported... They had been transported to the plant. So, some of them were still [asleep]. So, we implemented workout sessions, gymnastics, in order to pump up the personnel to make them feel better. And, as you know, when you do exercise, you tend to be a happier person. So, that's what we did. And it was a very interesting and very successful initiative in terms of one, making them feel that they were not only coming to work, but that they are being taken care of in their health. Secondly, for safety. So, there was an incentive. People were more alert, were working better. And for that same reason, accidents went down. So, it was a great, great success. And many of the companies continued with this practice as well. So, more and more we need to [examine]: How can we help them lead a healthier life and issues like that.

**Doug:** Okay, that's great. Thanks. Again, I appreciate your time, Jesus. Again, Jesus is the President of Bridge Consulting Group. His contact information is on our website, if any of the listeners would like to talk to him. And, again, to the audience, we appreciate your time and if you have any questions about the Entrada Group, please feel free to reach out to me. Thank you.

**Doug:** Hey, Manuel, thank you for your time. I really appreciate it.

**Manuel:** Thank you so much.