Why Education Can Help Drive Investment Risk
By John Boudreau
Appeared in CFO Magazine, August 2012

Financial analysts typically consider a variety of factors when choosing regions in which to invest, including price stability, political stability, economic financial stability, and infrastructure quality.

A global analysis of talent markets over the next 10 years, and a "tsunami" in instructional design, suggest that it may be wise to add a new factor: Education.

A recent New York Times editorial by David Brooks noted the "tsunami" on college campuses caused by the growth of high-quality online learning and professors taking their classes to the web. "Udacity was founded by three roboticists who believed much of the educational value of their university classes could be offered online. A few weeks later, over 160,000 students in more than 190 countries enrolled in our first class, 'Introduction to Artificial Intelligence.'" In November, 2006, a hedge-fund analyst, Salmon Khan, placed on YouTube some of the videos he created to tutor his cousin in math. They proved so popular with students worldwide that he made more. Today, the videos receive more than 20,000 hits each. In 2009 the "Khan Academy" received the Microsoft Tech award for education. In 2011 the academy received a $2 million grant from Google. This approach turns the typical approach "upside down" because the students watch video lectures as "homework," and the teachers coach them individually at school.

The pace of education is important to which regions have talent surpluses or shortages, with surprising implications. The report, "Global Talent 2021" (on which I collaborated along with Oxford Economics, Towers-Watson and several leading companies) projects that demand for college-educated workers in executive, professional and technical (EPT) occupations will be greatest in emerging economies such as China and India, and smallest in developed regions such as the U.S. and Europe. Most people think this means that countries like China and India will be more difficult places to find talent compared to more developed regions.

This may be a misconception. The report suggests that in 10 years China and India will actually experience talent *surpluses*, while the U.S. and Western Europe will experience talent *shortages*. How can this be? The developing regions will educate their populations fast enough to achieve talent surpluses *despite faster economic growth and greater demand for workers*.

The fastest annual EPT talent pool growth will be in India (7.3%), followed by Brazil (5.6%), Indonesia (4.9%), Turkey (4.7%) and China (4.6%). Paradoxically, the biggest losers may be economies that have, in the past, made the greatest strides in access to education and labor market participation, since they will have less scope to boost talent supply. The U.S. and Canada will grow at EPT talent only 1.4% and 1.3% per year respectively, while France, the UK, Italy, Japan and Germany have projected growth of under 1%. Aging populations and an already high level of education in the population offer less room for improvement. Japan's economy is also largely closed to immigration, and so faces the second-largest talent deficit.

Global Talent 2021 focused on college educated workers, but education innovations like udacity suggest ways that developed nations might create a step-change in their rate of education. It may be their best hope to avoid significant labor shortages. Of course, such innovations are available worldwide, and other factors such as immigration and wage adjustments will also affect these projections. Still, naïve assumptions about future talent markets may create unforeseen investment risk.

Do you consider talent growth in financial analysis? Do you consider investing in education innovations and infrastructure a hedge to your investment risk? Doing so may help you avoid blind spots that could leave you without enough skilled talent to achieve your goals.

You can learn more about the Oxford Economics Global Talent 2021 analysis here:
http://ceo.usc.edu/news/global_talent_2021_1.html

You can read the David Brooks editorial here:
http://www.nytimes.com/2012/05/04/opinion/brooks-the-campus-tsunami.html?_r=2&smid=pl-share

The udacity website is here:
http://www.udacity.com/udacity

The Wikipedia site on Salman Khan is here:
http://en.wikipedia.org/wiki/Salman_Khan_%28educator%29

My thanks to Philip Thomas of Oxford Economics for comments on this column

###