

People and profitability *A time for change*

A 2009 people management practices survey of the manufacturing industry

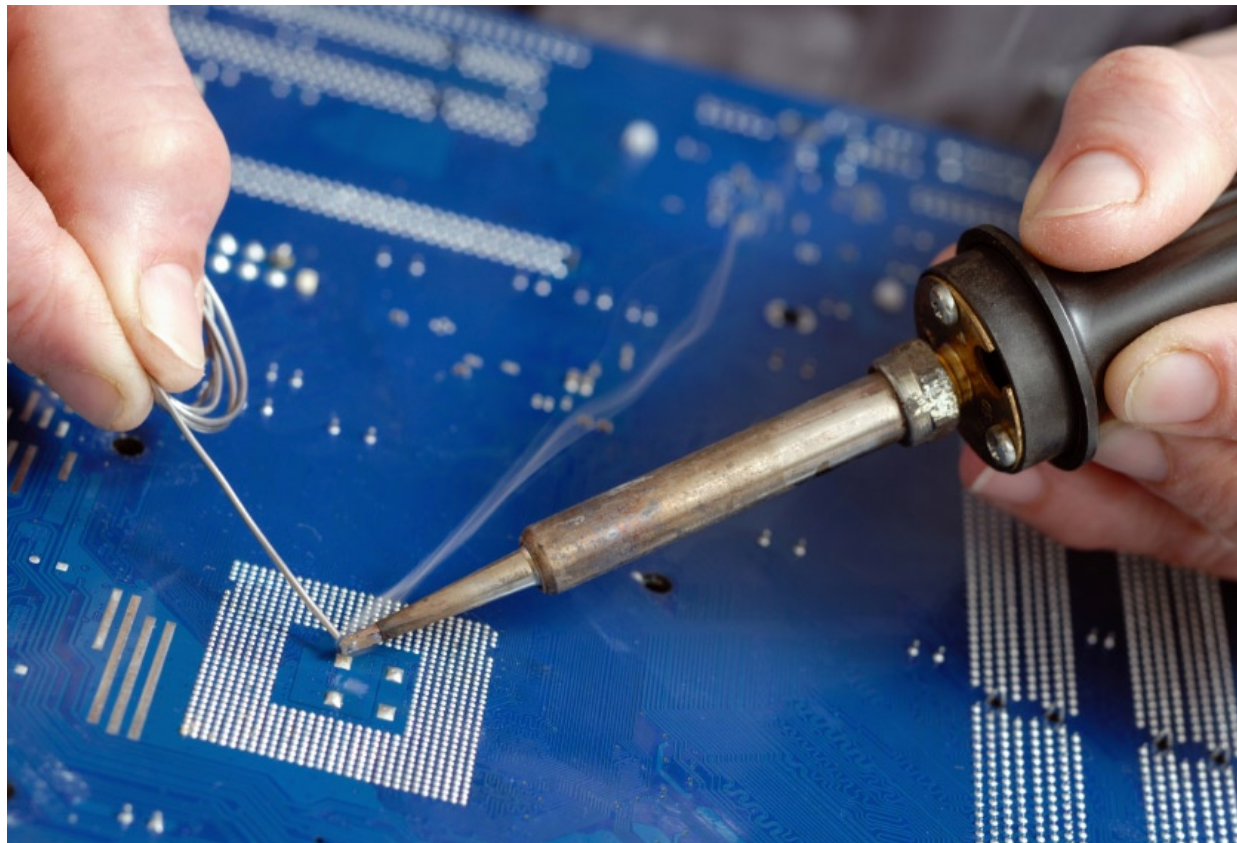


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In tough economic times with high unemployment and the loss of jobs, it is difficult to focus on workforce skills development. In reality, we have no better time.... True economic reform means not only righting our economic ship but also pursuing the strategies that will ensure we maintain our competitiveness — our manufacturing competitiveness — into the future.

— Emily DeRocco, President, The Manufacturing Institute

Executive summary: New aspirations, old tactics

In May 2009, Deloitte, The Manufacturing Institute, and Oracle jointly conducted a national survey of manufacturing organizations to assess the future importance of, and current performance of, “People Management Practices” relative to business success. These manufacturing organizations were also asked to identify the top drivers of their future business success, and to comment on talent shortages experienced today and expected within the next two to three years. We believe this report serves as an important supplement to the *2005 Skills Gap Report – A survey of the American manufacturing workforce* (issued jointly by Deloitte, the National Association of Manufacturers, and The Manufacturing Institute). This new report indicates an ongoing talent challenge facing manufacturing organizations and a continued need for them to embrace new and progressive talent strategies.

The key findings of this report are:

- A shortage of specific skills persists
- A high-skilled, flexible workforce continues to be recognized as critical to business success
- The most profitable companies consistently assign a higher importance to talent and People Management Practices compared to the least profitable companies
- Significant gaps exist between the future importance of People Management Practices compared to current performance

Even during this period of significant economic challenge and among this hard-hit industry group, the importance of careful talent management to business success is resounding.

Highlights:

- Skills shortages persist, especially for:
 - The most profitable companies
 - Aerospace and Defense and Life Science sectors
 - Skilled production workers and Scientists and Engineers
- Almost one-third of responding companies report some level of shortages today, and over one-half report shortages for skilled production workers, especially:

- In the Southwest region (Midwest reports least shortages)
- In the Aerospace and Defense sector (Automotive sector reports least shortages)
- Having a high-skilled, flexible workforce remains critical to business success over the next two to three years:
 - The top three drivers of business success are unchanged since 2005
 - New product innovation is now seen as the most important driver, which also requires a high-skilled, flexible workforce
- The most profitable companies place extra emphasis on having a high-skilled, flexible workforce, and assign a higher importance to People Management Practices
- Manufacturers are not acting on these stated priorities. There appears to be a serious disconnect between recognized value, and practice and performance
- Layoffs abound while talent shortages persist
- The largest gaps between future importance of People Management Practices and current performance are found in the following categories:
 - Strategy
 - Talent Acquisition
 - Talent Development
 - Performance Expectations
 - Technology Deployment
- In particular, large companies perceive large performance gaps relative to the importance they assign to technology deployment in support of talent management

Manufacturers, especially the most profitable, say they place high priority on having a high-skilled, flexible workforce, but they continue to rely on traditional approaches to managing and developing their employees. Layoffs are prevalent, and progressive management tactics seem to have gained little traction. Many manufacturing organizations are still guilty of “New Aspirations, Old Tactics” as originally diagnosed and described in the *2005 Skills Gap Report*.

Still, there are many reasons for optimism. A new Manufacturing Skills Certification System was recently

introduced. Powerful new technology tools are available to facilitate the sourcing, development, engagement, and deployment of talent. Manufacturers, especially the most profitable companies, seem to understand the importance of talent. The most profitable companies consistently assign higher importance to People Management Practices. More fundamentally, the survey data may suggest that participating companies are beginning to adopt a new approach to the employment relationship and are endeavoring to promote employee engagement through emphasis on communications, information sharing, company culture and values.

We believe a quantum leap is needed regarding People Management Practices with companies taking proactive steps toward preparing their workers for the challenges that lie ahead. People Management Practices may be championed by Human Resources (HR) executives, but must be embraced by all levels of leadership and line management. CEOs need to work together with CHROs to ensure people strategies are differentiating and clearly align with business strategy. CHROs need to identify those critical, scarce skills which will drive future business success and adopt People Management Practices designed to attract, retain, motivate, and develop these critical skills. CFOs need to help develop measures and analytics by which to measure the value of talent, and not simply the cost thereof. And CIOs need to help deploy the technologies available to support the attraction, development, and productivity of employees.

Manufacturers, especially the most profitable, say they place high priority on having a high-skilled, flexible workforce, but they continue to rely on traditional approaches to managing and developing their employees.

Perhaps additional emphasis and business rigor toward these practices will occur naturally as the current financial storm subsides. Hopefully, in the meantime, we have not mortgaged our future by neglecting our manufacturing talent base. Actions taken in the interest of short-term survival could lead to long-term inability to succeed.

The time to act is now!

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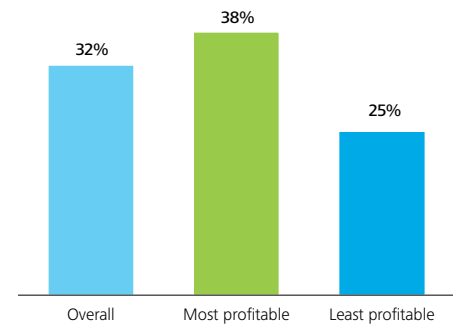
A shortage of specific skills persists

Manufacturing companies were asked to describe the current availability of qualified workers in specified workforce segments, and to describe anticipated changes to that availability over the next two to three years. When asked to comment on the availability of employees overall:

- 32% report moderate to serious shortages today, most of whom foresee increased shortages ahead
- 38% of all respondents foresee increased shortages ahead
- 38% of the most profitable companies see moderate to serious shortage today vs. 25% of the least profitable companies
- In the Midwest, 25% see moderate shortages and only 1% report serious shortages whereas in the Southwest, 45% report moderate shortages and 5% serious shortage
- This situation varies significantly by sector:
 - Automotive is the weakest sector — 98% report no shortage and 2% report moderate shortages
 - Stronger sectors report moderate to serious shortages — 63% in Aerospace and Defense, 45% in Energy, and 63% in Life Sciences

Moderate to serious shortages across all skills

Most profitable and least profitable companies



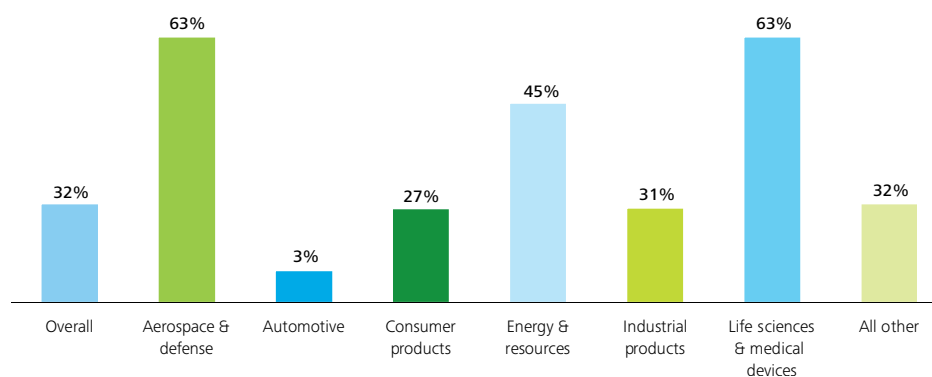
As reported in the *2005 Skills Gap Report* and again in this survey, we continue to see a shortage of critical categories of employees. Reported shortages vary significantly for specific categories of employees (or workforce segments):

- Unskilled production — 83% say no shortage today, of whom only 13% see shortages ahead
- Skilled production (machinists, operators, craft workers, distributors, and technicians) — 51% report moderate to serious shortages today, the vast majority of whom see increased shortages ahead

- Engineers and scientists — 36% report moderate to serious shortages today, the vast majority of whom see increased shortages ahead
- Sales and Marketing — 23% report moderate to serious shortages today
- HR/IT/Finance and Customer Service — only 9–13% report moderate to serious shortages today

Moderate to serious shortages across all skills

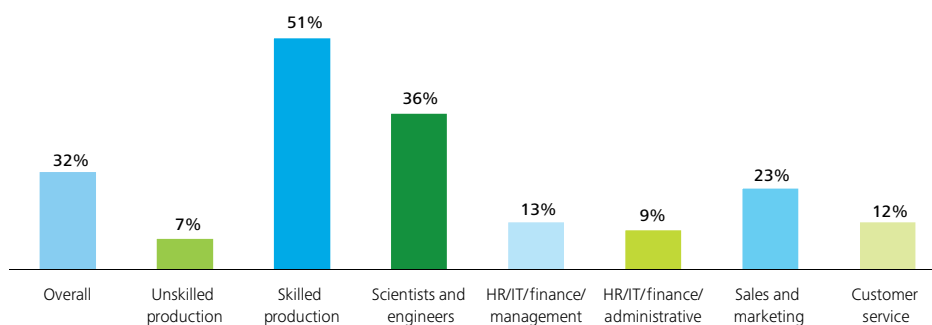
Sectors



The skills shortages for specific types of employees also vary by industry.

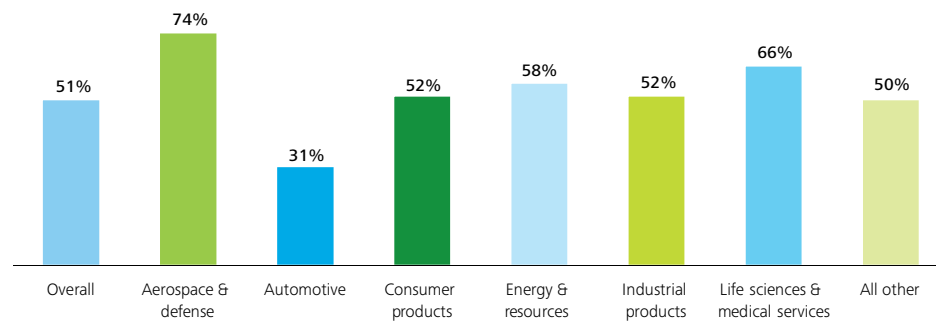
Moderate to serious shortages across all sectors

Categories of employees



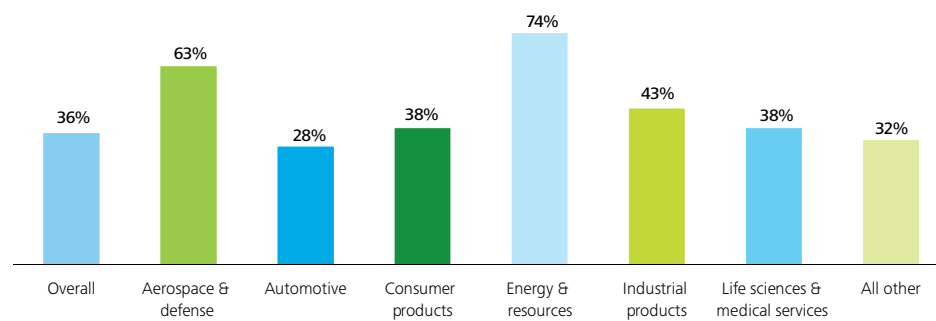
Moderate to serious shortages in skilled production

Sectors



Moderate to serious shortages among scientists and engineers

Sectors



Even in the beleaguered Automotive sector, 31% of companies report moderate to serious shortages today for skilled production workers, and 28% for Engineers and Scientists.

The focus is not on workers overall. The priority is on specific categories of employees, certain workforce segments, with particular skills and capabilities. It's not a worker shortage. For many companies, it's a talent shortage. The skills gap continues even in today's environment.

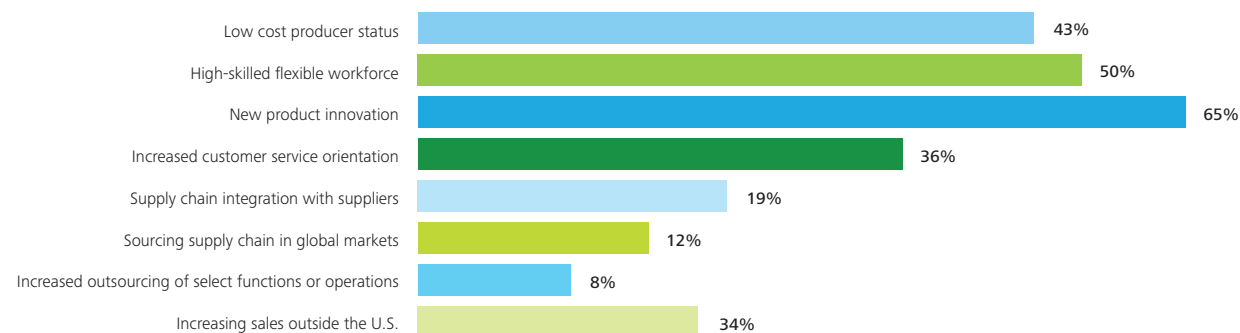
A high-skilled, flexible workforce is recognized as critical to business success

Companies were asked to select the top three drivers of future business success over the next two to three years, considering changes in the economy and business environment. This question mirrored a similar question posed as part of the *2005 Skills Gap Report*. Despite dramatic changes in the economy since then, including business results, tactics, and attitudes, the top three drivers remain the same since 2005:

1. New product innovation with 65%
(was #2 in 2005 with 49%)
2. High-skilled, flexible workforce with 50%
(was #1 in 2005 with 74%)
3. Low-cost producer Status with 43%
(was #3 in 2005 with 45%)

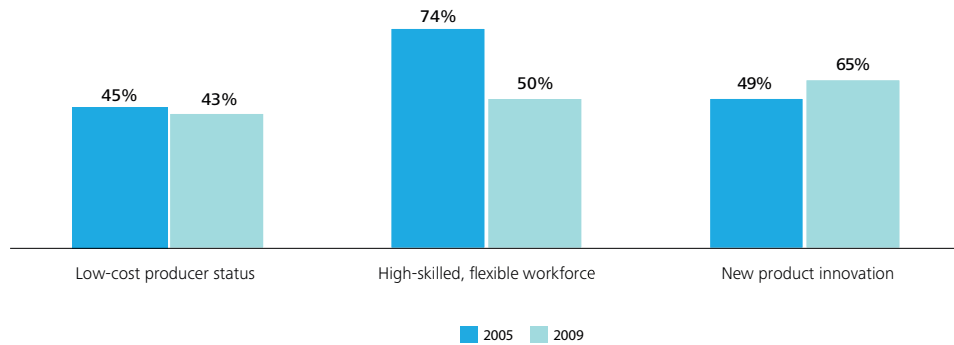
Future business requirements across all companies

Across all companies



Clearly the cost focus has intensified since 2005, particularly among the largest employers, for whom high-skilled, flexible workforce ranks #3. But the importance of a high-skilled, flexible workforce is indisputable, especially recognizing that the new #1 priority, new product innovation, also requires a high-skilled, flexible workforce.

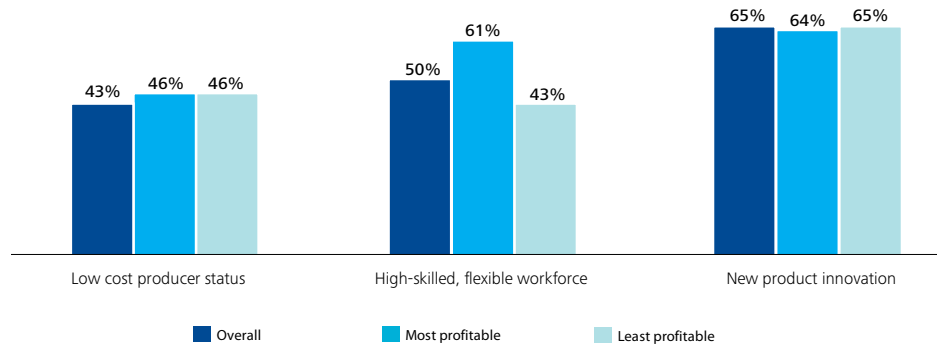
Top three future business requirements — 2005 vs. 2009



It is significant to note that a high-skilled, flexible workforce is valued more highly among the most profitable companies in the survey, compared to least profitable companies (61% vs. 43%). In fact, the only significant difference between the top three future business requirements identified by the most profitable companies compared to the least profitable is the additional importance the high profit

companies assign to having a high-skilled, flexible workforce. It also appears the most profitable companies may retain more of a growth orientation, and/or are seeking increased market diversification, and therefore place more emphasis on increasing sales outside the U.S. than do the least profitable companies (38% vs. 26%).

Top three future business requirements most and least profitable companies

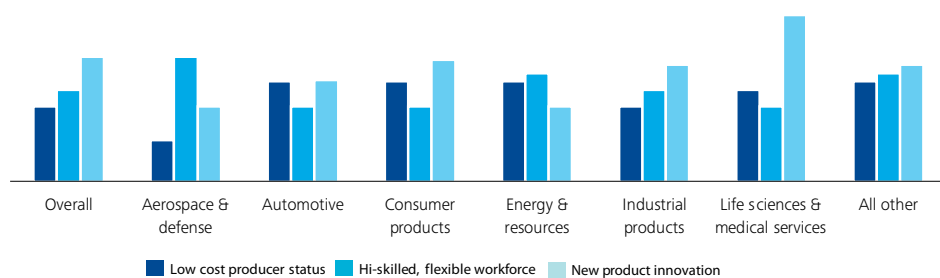


The data contains some interesting variations by sector. As might be expected, given the nature of jobs in these sectors, high-skilled, flexible workforce is ranked #1 for participating Aerospace and Defense companies and for

the Energy & Resources sector companies. Not surprisingly, given its strong retail orientation, the participating Consumer Products sector companies places strongest emphasis on new product innovation (75%).

Top three future business requirements

Sectors



Overall, across the board, participating companies profess that having a high-skilled, flexible workforce ranks high among their perceived drivers of future business success. As noted in 2005, this seems to reflect an enlightened view towards talent for many companies, and may disclose a disconnect between stated priorities vs. the tactics and People Management Practices they currently employ, as described in the following sections. In brief, many manufacturing companies may still be guilty of “New Aspirations, Old Tactics,” when it comes to talent management.

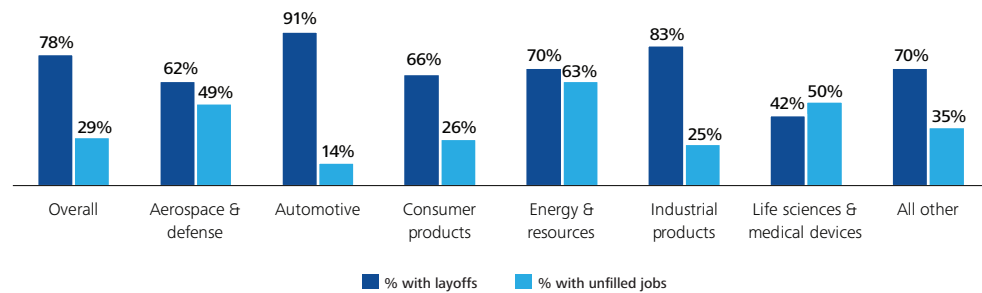
Layoffs abound while shortages persist

Talent, or employing a high-skilled, flexible workforce, is viewed as an important driver of business success and is correlated to profitability, but for such a valuable asset, it’s certainly been subjected to significant cuts and belt tightening. Among respondents, 78% report some level of a recent or planned reduction in force. The average depth of the reported cuts was 15%, with the steepest cuts (25%) reported in the Automotive sector.

But not everyone has conducted, or plans to conduct, such cuts; among respondents, 22% report no layoffs. Moreover, even in the midst of all these layoffs, nearly one-third of companies indicate they still have unfilled positions due to lack of qualified applicants. This may

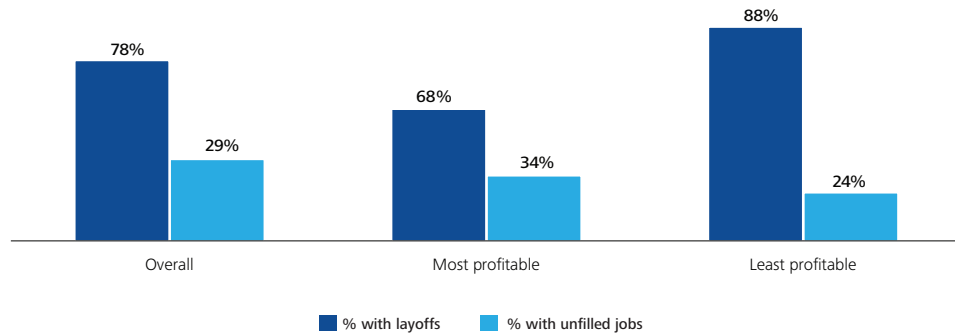
be counter-intuitive, but it appears that even among companies that have experienced layoffs, some of these same companies may be simultaneously recruiting for specific types of employees, with specific types of skills and capabilities, in specific locations.

Layoffs across sectors



Even among the most profitable companies, 68% report layoffs (versus 88% among least profitable companies).

Layoffs across most profitable and least profitable companies



Though the current financial storm appears to be passing, we believe a significant talent storm lies ahead. Future competitiveness depends on actions taken today.

A quantum leap is needed in people management practices

Companies were next asked to rate 36 separate People Management Practices, both with respect to future importance and to current performance. These 36 Practices were grouped into the following categories:

- Strategy
- Culture
- Communication
- Talent Planning
- Talent Acquisition
- Talent Development
- Performance Expectations
- Rewards
- Technology

Analysis of the data allowed us to identify the top priorities, the lowest priorities, and the largest gaps between current performance and future importance at responding companies. We were also able to identify differences by company size, industry sector, geography, and profitability.

The most profitable companies consistently assign a higher importance to talent and People Management Practices compared to the least profitable companies.

The most significant finding, perhaps even startling in consistency of this pattern, is that the most profitable companies rate every one of the 36 People Management Practices as more important to future business success than do the least profitable companies. Consistent with the section on Future Business Requirements, the most profitable companies place a higher value on talent, and assign a higher priority to People Management Practices.

The most profitable companies rate **all** items (every management practice) more highly than do the least profitable companies, as illustrated graphically in the Appendix. Because of the priority assigned to these practices, the most highly profitable companies simultaneously report larger gaps, on average, between current performance and future importance compared to the least profitable companies. In other words, the most profitable companies set a high bar for themselves.

Among participating companies overall, the top six People Management Practices rated most important to future business success are:

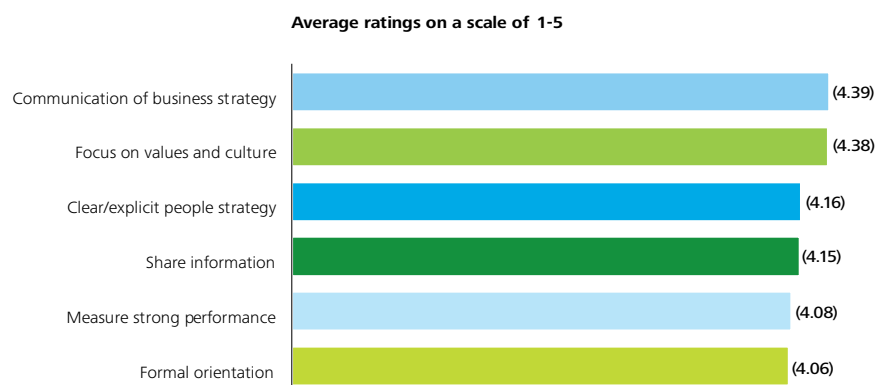
- Management clearly and consistently communicates the business strategy and objectives to employees
- Management has a strong focus on core values and corporate culture
- Management has defined a clear and explicit people strategy that is clearly linked to the business strategy
- Management regularly shares information with employees covering industry trends, company strategy, financial goals and performance, and customer developments
- Management consistently measures and recognizes strong performance, at all employee levels, using clear metrics and methods of evaluation
- New employees receive formal orientation and mainstreaming instruction including company values

Overall, the top six priorities suggest several important, interwoven, strategic themes, or guiding principles:

- Clarity of business and people strategies
- Ongoing communication and information sharing
- Emphasis on values and culture
- Explicit performance expectations and measurement

These themes suggest a more progressive and bilateral approach to the employment relationship, and may be reflective of an effort to enhance employee engagement or motivation.

Top six “Important” priorities across all companies



Significant gaps exist between the future importance of People Management Practices compared to current performance

Unfortunately, three of these top six priorities also represent three of the top six gaps in terms of how companies rate importance vs. current performance.

- Management clearly and consistently communicates the business strategy and objectives to employees
- Management has defined a clear and explicit people strategy that is clearly linked to the business strategy
- Management consistently measures and recognizes strong performance, at all employee levels, using clear metrics and methods of evaluation

Other People Management Practices that represent top gaps in terms of importance vs. performance include:

- Management regularly does formal succession planning across the workforce
- Problem solving skills and willingness to change are carefully evaluated in the company’s hiring process
- Adequate training is provided to employees in the next generation technologies (e.g., Web 2.0, and new design and manufacturing technologies) needed for the business to keep pace with technological advances

Parameter	Importance	Current performance	Gaps
1. Management clearly and consistently communicates the business strategy and objectives to employees	4.39	3.53	0.86
2. Management has defined a clear and explicit people strategy that is clearly linked to the business strategy	4.16	3.29	0.87
3. Management regularly does formal succession planning across the workforce	3.59	2.91	0.68
4. Problem solving skills and willingness to change are carefully evaluated in our hiring process	3.89	3.18	0.71
5. Adequate training is provided to employees in the next generation technologies (such as Web 2.0, and new design and manufacturing technologies) needed for the business to keep pace with technological advancements of manufacturing customers and/or alliance partners	3.44	2.77	0.67
6. Management consistently measures and recognizes strong performance, at all employee levels, using clear metrics and methods of evaluation	4.08	3.20	0.88

Compared to the guiding principles suggested above, these individual gaps suggest increased attention is needed as responding companies need to increase attention to clarify business and people strategies, communications, and performance measurement, as well as employee development with particular focus on the latest technologies, problem solving skills, and change readiness.

Presumably, the large individual gaps represent areas that will receive additional emphasis moving forward. Consistent with this observation, another recent survey conducted by Deloitte in conjunction with Forbes Insights (*Managing Talent in Turbulent Times: Part 3, Clearing the hurdles to recovery*), indicates that surveyed companies plan to place increased emphasis on onboarding and orientation, leadership and management development, and high-potential employee development.

Another perspective in assessing the gaps between future importance and current performance is provided by examining the People Management Practices in the nine categories around which the survey was constructed, as illustrated in the Appendix. The largest average gaps are observed in the following categories:

- Strategy
- Talent Acquisition
- Talent Development
- Performance Expectations
- Technology Deployment

As would be expected, large and small companies have different priorities due to differences in scale, cost structure, etc.:

- Formal orientation and mainstreaming instruction for new employees, including company values, is not ranked among top six among the small companies
- The small companies place relatively more importance on the willingness to pay top performers significantly more than average employees
- The large companies place relatively more importance on regular formal succession planning across the workforce
- The large companies perceive a large performance gap relative to providing rotational or stretch assignments to high performing employees
- The large companies consistently assign a higher importance to technology deployment practices
- The large companies perceive a large performance gap relative to technology deployment; Indeed, four of the six largest performance gaps noted by large companies pertain to technology deployment

Priorities vary by industry sector, as might be expected, based on the severity of the impact of the economic downturn, the nature of jobs and skill requirements, and perhaps the established culture:

- Explicit definition and evaluation of technical competencies are among the top six priorities for the Aerospace and Defense and Energy and Resources sector
- Willingness to pay top performers significantly more than average employees is among the top six priorities for Consumer Products sector
- Nontraditional and flexible work solutions are among the bottom six priorities for the Aerospace and Defense and Automotive sector
- Deployment of technology to support recruiting is among the bottom six priorities for the Consumer Products sector

The path to success

Based on our research, perhaps the most disturbing evidence of “New Aspirations, Old Tactics,” is the prevalence of companies that report recent or planned layoffs. In recent months, progressive companies have worked hard to explore alternatives to layoffs, including schedule reductions, furloughs, phased retirement, sabbaticals, and wage freezes or even reductions. These practices are neither simple nor uniformly popular at the time, but they can preserve precious talent that will be needed to respond to future business opportunity when markets improve.

In *Public Viewpoint on Manufacturing*, another recent joint Deloitte/The Manufacturing Institute survey, 71% of Americans viewed manufacturing as a national priority, but only 17% that were parents said they would recommend a career in manufacturing to their children. However, based on our research, the reality is that manufacturers offer high-paying jobs and rewarding careers in an environment that should no longer be viewed as “dark, dirty, and dangerous.” The task for the industry is to close the gap between perception and reality. We believe People Management Practices in the Manufacturing industry will have an increasingly high profile role in this solution.

Each manufacturer is encouraged to examine carefully its short and long-term talent needs, based on its unique business strategy. What products will be sold, to what customers, in what markets and, with what value proposition? How should work be organized and structured? What skills and capabilities are required to support this value chain under various scenarios? How will the requisite skills and capabilities be sourced, developed, engaged, and deployed?

Talent needs and strategies should be carefully planned, and appropriate People Management Practices should be designed and deployed on an integrated and aligned basis. Based on our survey results, areas that warrant increased emphasis for many companies likely include:

- Clear and consistent communication of business strategy and objectives to employees
- Development of an explicit people strategy in clear alignment with business strategy
- Use of clear metrics and methods of evaluation to measure and reward strong performance
- Formal and regular succession planning
- Additional rigor and emphasis in the recruitment process to evaluate problem solving skills
- Utilization of formal training programs and certification programs, including, in particular, the new Manufacturing Skills Certification System
- Providing training programs to employees on new technologies (e.g., Web 2.0)
- Recognition of the importance of diversity and generational issues related to talent management
- Identification of specific workforce segments that are most critical to the success of an individual business, and increased rigor applied to understand what motivates/engages those employees
- Much more extensive deployment of technology to support the entire spectrum of talent management, from how talent is sourced, selected, onboarded, developed, measured, rewarded, and deployed

These practices require commitment, careful planning, and a sustained long-term focus. The best time to plant an oak tree was 20 years ago. The second best time is now. Similarly, manufacturers need to act today to define their talent strategies and adopt progressive People Management Practices. The industry needs to get beyond the short-term focus. The collective future success of the manufacturing industry requires this. Other countries have been busy planting oak trees, and without a quantum shift in People Management Practices their manufacturing forests may overtake ours.

Demographics and methodology

The survey announcement was distributed in early May 2009 to the client and membership base of Deloitte, the National Association of Manufacturers, and Oracle, respectively. The survey was conducted via the web, on an anonymous basis, and 779 individuals responded.

The distribution of respondents was as follows:

- **Revenue:**

- Less than \$10 million — 32%
- \$10–\$500 million — 54%
- Over \$500 million — 14%

- **Employees:**

- Less than 250 — 69%
- 251–1,000 — 15%
- Over 1,000 — 16%

- **Primary industry sector:**

- Aerospace & Defense (A&D) — 6%
- Automotive — 6%
- Consumer Products — 9%
- Energy & Resources — 3%
- Industrial Products — 43%
- Life Sciences & Medical Devices — 2%
- All other — 31%

- **Region:**

- Midwest — 51%
- Northeast — 19%
- Northwest — 7%
- Southeast — 13%
- Southwest — 9%

In addition to questions regarding recent or planned layoffs, future business requirements, and current shortages of specific workforce segments, companies were also asked to self-report their profitability — Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) as a percentage of gross revenue. This enabled us to stratify responses to other questions looking separately at the upper quartile of respondents based on profitability versus the lowest quartile of companies.

Manufacturing skills certification system

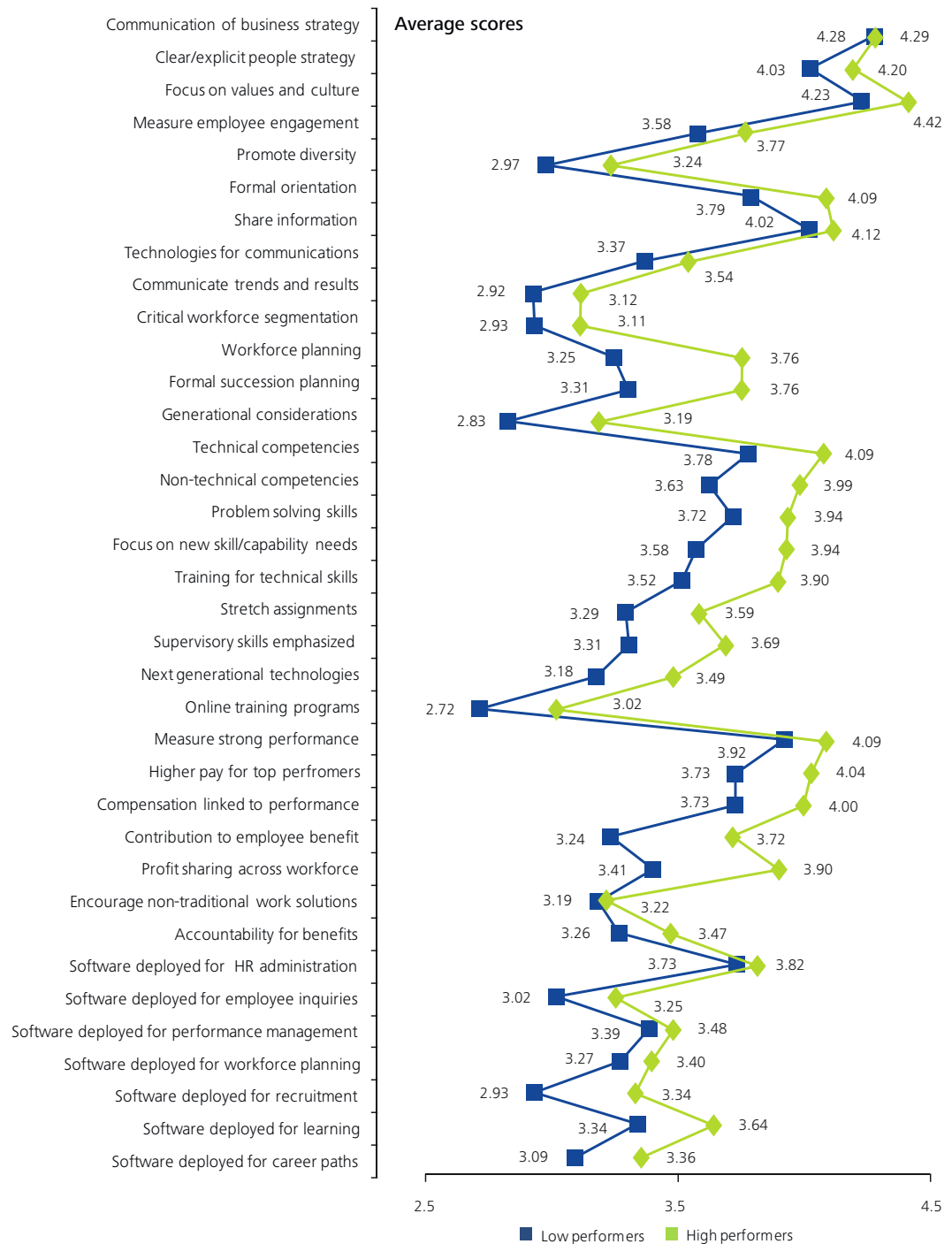
On March 4, 2009, The Manufacturing Institute launched the National Association of Manufacturers (NAM)-Endorsed Manufacturing Skills Certification System to respond to the deficit in the education and training for manufacturing careers, which is causing a shortage of skilled individuals who are marketable to industry. The first release of the NAM-Endorsed Manufacturing Skills Certification System focuses on entry-level skills and aligns to high school and community college academic programs to provide competency-based, customized education and training for a work-ready manufacturing workforce. Partners in the Skills Certification System are ACT, the American Welding Society (AWS), the Manufacturing Skill Standards Council (MSSC), the National Institute of Metalworking Skills (NIMS), and the Society of Manufacturing Engineers (SME). The NAM-Endorsed Manufacturing Skills Certification System will validate for employers that a student or entry-level worker has achieved core workforce readiness, academic, and manufacturing technical skills that enable individuals to swiftly enter careers ranging from aerospace to computers, metal fabrication to food processing, pharmaceutical to transportation and logistics. The Manufacturing Institute is now “building out” the Skills Certification System, focusing on higher-level sector and occupation-specific industry-recognized credentials that will align to baccalaureate and graduate degree programs of study. The development of a highly skilled and educated 21st century workforce will help maintain U.S. leadership in innovation and productivity, which are essential to the viability of manufacturing in the global marketplace.

Finally, organizations were asked to evaluate a series of 36 People Management Practices to indicate how important each of these practices is to the financial and operational success of their company in North America over the next 2–3 years and how well their company performs each of the practices today. A scale of 1–5 was used for each evaluation:

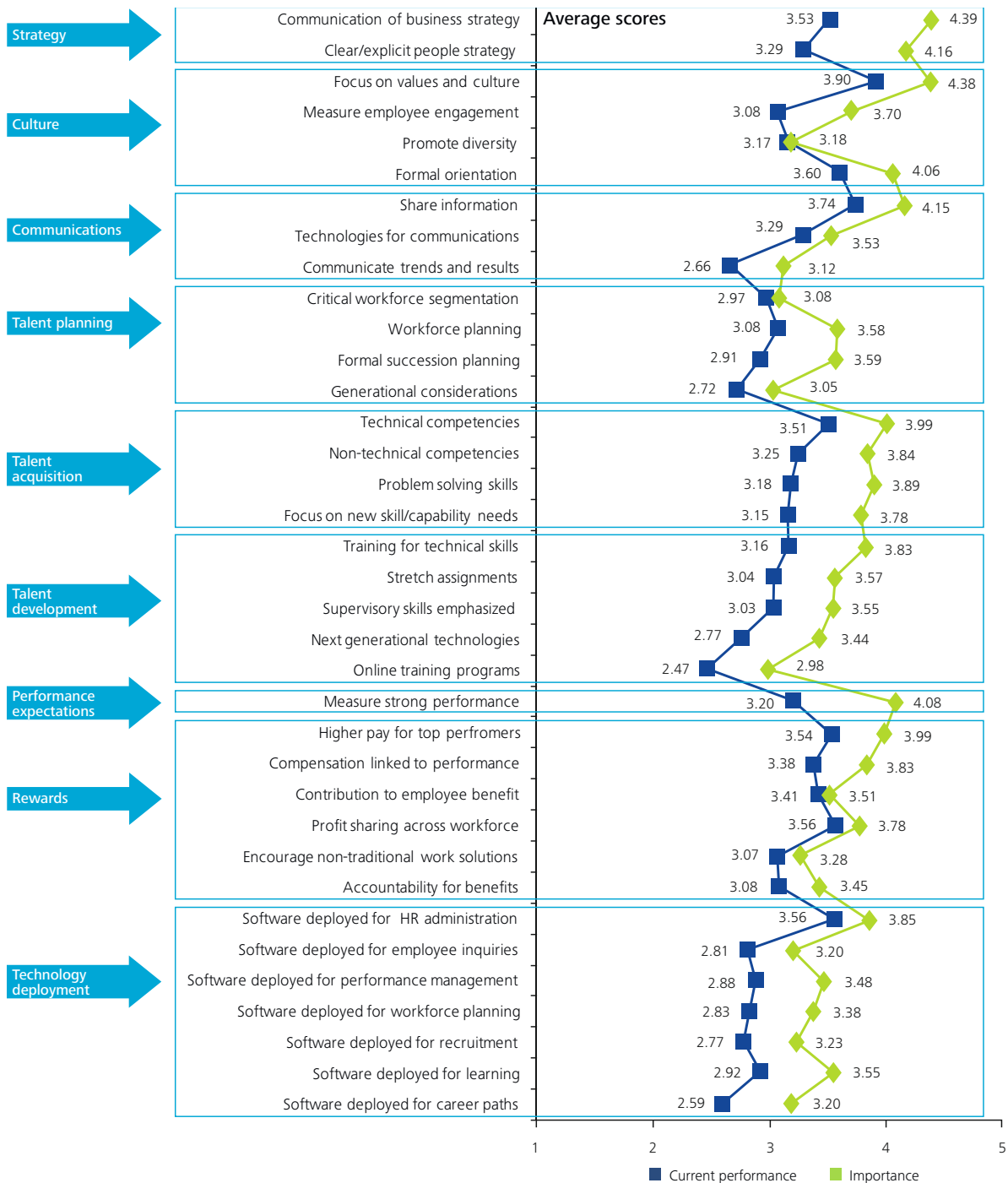
- Importance: 1 — Not Important to 5 — Extremely Important
- Current Performance: 1 — Poor to 5 — Excellent

Appendix

Importance across most and least profitable



Importance and current performance across all companies



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All survey data and statistics referenced and presented in this report, as well as the representations made and opinions expressed, unless specifically described otherwise, pertain only to the participating organizations and their responses to the Manufacturing Industry People Management Practices Survey conducted in May 2009.

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