

# Manufacturing Barometer™

## Talent management

Driven by the nearly universal concerns over the state of today's economy and its impact on corporate revenue within the industrial products industry, PricewaterhouseCoopers (PwC) surveyed senior executives at large US-based industrial manufacturers to assess human resources (HR) cost management trends and strategies, and to consider the effect such measures may be having on their short- and long-term talent management strategies. In addition, executives were asked about their efforts to identify, develop, and prepare rising talent within their organizations.

### Cost containment during the downturn

Almost all senior executives surveyed (95 percent) said their organizations adopted people-related cost-cutting strategies over the last six months. Nearly half (48 percent) have implemented across-the-board layoffs. But more often, companies relied on job freezes (88 percent), salary or bonus freezes (88 percent), and reduction in contractors (70 percent) to keep costs in check. Reduction in benefits (45 percent) and early retirement plans (32 percent) were offered less frequently.

Nearly half (48 percent) of the companies surveyed reported that their cost management strategies have affected multiple staff levels and functions. One-third of respondents say it has affected supervisory or management positions (34 percent), back-office jobs (34 percent), and skilled labor (32 percent). The areas least affected included senior management (16 percent), IT (14 percent), and engineers (9 percent).

A small portion of manufacturers (16 percent) now require that nonfactory employees take unpaid vacations or furloughs, typically for one to two weeks.

Chart 1. Which of the common options to manage costs, if any, have been implemented in your organization over the past six months?

Any (Net)	95%
Job freeze	88%
Reduction in contractors	70%
Across-the-board layoffs	48%
Early retirement plans	32%
Salary/bonus freezes	88%
Reduction in other benefits	45%
Other (Volunteered)	5%
None	5%

Chart 2. Which areas have been most affected, if any, by your company's recent resource actions?

Any (Net)	95%
Senior management	16%
Supervisors/managers	34%
Engineers	9%
Skilled labor	32%
Back-office	34%
or All equally effected	14%
Not certain	48%
None	1%

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## HR cost management efforts

More than half of senior executives surveyed stated concern over HR's cost-cutting efforts, with 52 percent saying HR is not doing enough to contain costs. Only slightly more than one-third (39 percent) of senior executives say they are confident in both their HR department's understanding of cost drivers and the department's cost management effectiveness. Nine percent are unsure or did not report.

PwC Saratoga's 2008/2009 US Human Capital Effectiveness Report<sup>1</sup> notes that labor costs are equal to 28 percent of revenue, and these survey results suggest that there may be further opportunities to manage HR-related costs. The reality is that there may be several potential improvement opportunities that reduce inefficiency and allow HR to spend more time enabling and/or meeting business demands for managing through tough economic times.

## Cutbacks result in skill gaps

While almost two-thirds (61 percent) of senior executives believe their workforce is properly aligned to meet their company's key business objectives over the next 12–24 months, the rest of the survey respondents do not appear as confident. More than one-third (36 percent) think they are aligned only somewhat well and 3 percent feel they are not well aligned.

Although most are confident in their workforce's alignment with company objectives, more than half (52 percent) of senior executives believe there is a need to fill skill gaps in managerial abilities so that staff is better equipped to lead the organization over the next 12–24 months.

Chart 3. How would you evaluate your HR department's ability to understand cost drivers and effectively manage costs?

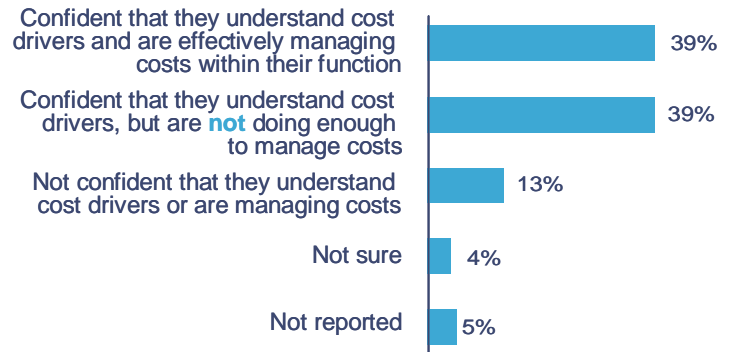


Chart 4. In your opinion, how well has your company aligned the current workforce it needs to the business objectives that must be met over the next 12–24 months?

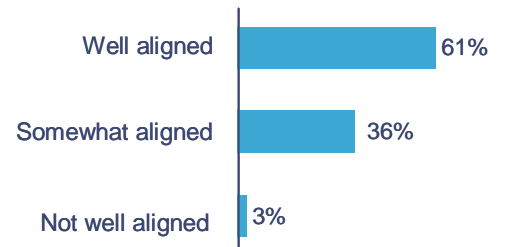
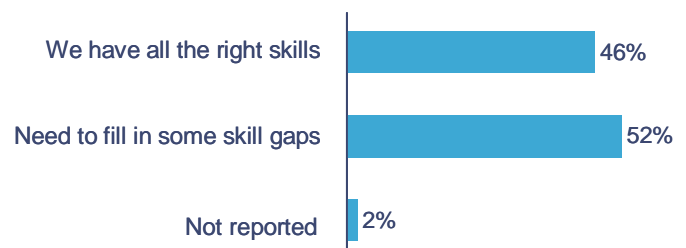


Chart 5. Do you believe your organization has the right skills at all management levels to effectively lead your company over the next 12–24 months, or is there a need to fill in some of the skill gaps?



<sup>1</sup> PwC Saratoga 2008/2009 Human capital effectiveness report, June 2009, [www.pwc.com/saratoga](http://www.pwc.com/saratoga)

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## Narrowing the gap

Unfortunately, these organizations might find it challenging to help staff refine their skills, because, in an effort to save money, industrial manufacturers have scaled back on training initiatives. More than three-quarters (77 percent) of senior executives reported reductions in skill development programs. Almost half (48 percent) experienced at least moderate reductions. This includes 29 percent reporting a moderate decrease, 5 percent cutting back severely, and 14 percent cancelling or delaying all nonessential programs. Twenty-nine percent of senior executives said their companies had only a minor decrease in training programs, and 23 percent said there was no change in the amount of training offered.

However, while organizations have reportedly cut back on the amount of skill development initiatives offered, nearly half of senior executives (48 percent) claim their companies are redesigning their training and development programs so the organizations are more efficient or better positioned when the economy recovers. On the other hand, a proportionate number of respondents (45 percent) are not taking action to redesign training, and 5 percent were not certain. In fact, of the 45 percent who said their companies were not redesigning, 36 percent (18 percent of all survey participants) said their companies cut investments in these training and development programs.

To achieve long-term corporate goals, it remains critical that organizations continue to ensure their employees are properly trained and equipped. In these times, investments should be made to ensure that training is provided to address not only the current skill needs, but also to narrow the gap between employees' current competencies and the competencies the company will need in the future to maintain and gain competitive advantage. In fact, leading companies encourage an integrated approach to employee training where the professionals who are responsible for the programs work closely with the leaders of every business unit and functional area to identify training needs and develop training programs that are important to the company's success.

Chart 6. How have your organization's skill development initiatives been impacted by the economic downturn?

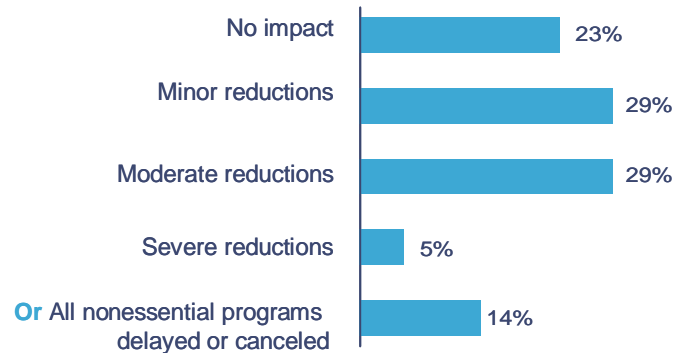
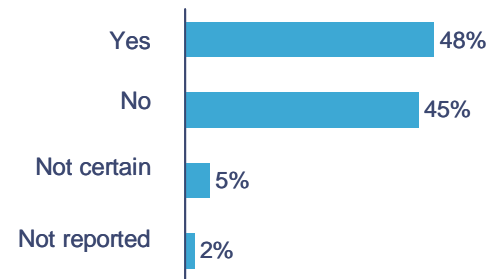


Chart 7. Is your organization currently redesigning training and development programs to be better positioned or more efficient when the economy recovers?



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## Looking for tomorrow's leaders

Even though US-based industrial manufacturer survey respondents are reporting skill gaps, particularly with respect to managerial aptitude, senior executives continue to seek pivotal talent — those game-changing employees whose performance can make or break the bottom line — among existing staff. More than two-thirds (70 percent) say their organizations have already identified future leaders beyond the next 36 months, and one-quarter of survey participants say they have identified some rising talent. Only 2 percent have not done so.

Despite the cutbacks in skill development programs, half of senior executives believe their training programs are designed to meet the values and expectations of their top talent. But almost one-third (30 percent) lacked confidence in their program's design, and 16 percent were not certain. The remaining 4 percent did not respond.

Interestingly, more than two-thirds (70 percent) of senior executives are unaware of the returns they are getting on their investment in pivotal talent. Only 11 percent claim they know their ROI. Of that 11 percent, a little more than two-thirds (67 percent) quantify ROI for talent on an annual basis, and the remaining (33 percent) do so every two years.

Considering that management is actively identifying rising talent, we believe it is important that they also certify that these individuals have the right skills to continue to grow within their organizations. It is also critical for companies to focus on employee retention so that valued staff, skills, and knowledge are retained.

Chart 8. Has your organization identified who its pivotal talent/leaders of "tomorrow" are (e.g., beyond 36 months)?



Chart 9. Are your company's training programs typically designed to meet the values and expectations of your pivotal talent?

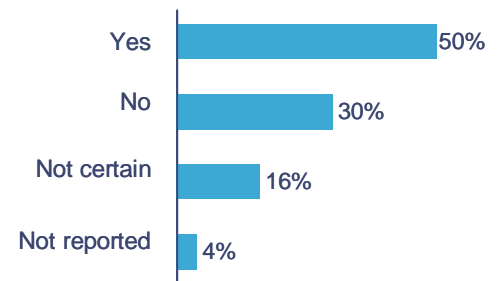
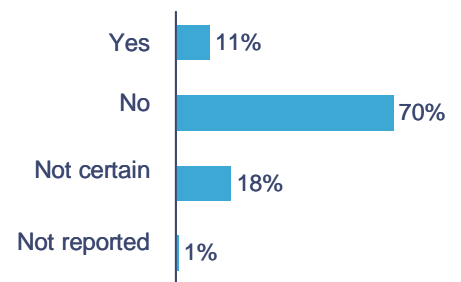


Chart 10. Do you know what return you are getting on your investment in pivotal talent?



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## Conclusion

Survey responses illustrate that challenging economic conditions are causing industrial manufacturers to adopt cost-management strategies within the human resources function. But we believe it is important to not lose sight of the potential drawbacks that can result from severe cutbacks and their effects once the economy recovers. Future success rests, in part, on how well organizations and their leaders plan today for the workforce needs and related HR support of tomorrow. Organizations that want to be in a position of strength 18–24 months from now should consider these steps.

1. Continually reassess pivotal positions and talent, including positions that are open and what talent is available in the marketplace. A competitor's headcount reduction or poor performance could lead to many high-quality candidates entering the job market.
2. Focus on employee retention. While compensation remains important, it is just the first step in retaining pivotal talent. To retain your pivotal talent, consider strategically exposing them to different areas of the organization, challenging them to solve new issues, providing them with cross-cultural and foreign assignment opportunities, and promoting them when they are ready.
3. Align talent to business objectives and risks, as it will be increasingly important to have the right professionals performing the right jobs to achieve your objectives and mitigate the risks associated with anticipated new regulations as well as the ever-changing business landscape.
4. Reassess the role of HR and redefine the expectations of the function and its leadership. HR must be able to reduce its own costs while also enhancing operational efficiency to emerge as a strategic partner to the business that can enable the execution of the overall talent strategy.

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### About the research

The Manufacturing Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The survey provides a view on the 12-month outlook for revenue growth, new investments, new hiring plans, emerging business barriers and more. In addition to the business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available from [www.barometersurveys.com](http://www.barometersurveys.com). To receive our survey results by email, visit: [www.barometersurveys.com/mail](http://www.barometersurveys.com/mail).

### Methodology

PricewaterhouseCoopers' Manufacturing Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. Our regular survey panel consists of senior financial executives from a geographically balanced sample of large companies in the United States. Ninety-five percent of the panelists hold titles such as president, CEO, CFO, VP of finance, treasurer, controller, internal audit director or other related title.

### Demographics

Who	Fifty-six senior executives of large multinational industrial manufacturing organizations
Average number of employees	6,075
Average business unit revenues	\$2.50 billion
Average enterprise revenues	\$9.90 billion
Market capitalization	\$8.30 billion

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