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Managing the Talent Crisis in Global Manufacturing

Strategies to Attract and Engage Generation Y



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Introduction

It's hard to miss the rising voices of concern about an impending talent crunch, or the clamor for new talent management strategies to deal with it. But all these alarms strike an odd chord in any discussion of manufacturing. On the face of it, productivity and output in manufacturing industries continue to grow even as manufacturing employment numbers drop in many countries. If layoffs, or reduced hiring, are the order of the day, then how relevant are concerns about talent shortages?

In fact, as our research reveals, talent management is fast becoming a major concern for the fundamental reason that available talent pools often do not match the global ambitions of manufacturers. Globalization, the relentless quest for productivity growth, and manufacturing's increasing service orientation are driving demand for higher skills.

Of course, no organization in manufacturing or any other sector can compete in the global economy without a highly skilled and motivated workforce. Developing, deploying and connecting employees and keeping them engaged, therefore, assumes more importance than ever before. To this end, firms – *manufacturing firms* – need a talent management model that factors in the expectations of the younger generation, leverages the older workforce's wealth of experience, and brings long-term benefits in enhanced employee morale and productivity.

A shortage of high-skilled workers and the aging of workforces in most parts of the world have resulted in a talent shortage for global manufacturing companies. Part of the answer to the growing problem may lie with Generation Y.

Generation Y is defined in this study as people born between 1982 and 1993, workers from around the world who are entering the workforce for the first time with primary, secondary, college, or graduate education. This generation will constitute a significant proportion of the working-age population in the coming years. Furthermore, we estimate that by 2025, 40 to 60 percent of workers across many of the world's most populous nations in both developed and emerging markets will come from Generation Y and younger generations. A failure to effectively attract and engage these new workers will therefore significantly hamper manufacturers' competitiveness in the long run.

Convincing Generation Y to pursue manufacturing jobs, however, is a challenge in itself. Manufacturing has a negative image in the eyes of many younger workers; it is no longer seen as a leading source of stable, high-reward career opportunities. Other industries afford attractive alternatives for talented young people. To succeed in attracting these new workers, the manufacturing industry needs a model of talent management that will address the unique characteristics of this generation while speaking to the larger workforce as well.

This is no small task. To provide some guidance in charting a new course for talent management, we have introduced a model – the “Develop-Deploy-Connect model” – which describes the actions that firms can take to cultivate talent in their workforces, create an environment conducive to effective deployment, and enable better connectivity between workers.¹

The Talent Paradox in Global Manufacturing: Survival of the Skilled

Manufacturing industries are shedding workers in most parts of the world. Yet, paradoxically, they are short on talent. For example, Cummins India aggressively reduced its workforce through two separate voluntary retirement schemes in 2002 and 2003.² But the company continues to recruit skilled workers to run its sophisticated manufacturing facility and makes innovative efforts to retain skilled graduate engineers. Similarly, Harley Davidson has a history of layoffs but donated US\$1 million in 2001 to help build the Lynde and Harry Bradley Technology and Trade School. It promised to use its workers and resources to help train students at the school. Harley Davidson made the donation because the company depends on schools like Bradley Tech for skilled workers. The company also wanted to tout its desirability to potential recruits.³

So what are the driving forces behind this talent paradox? Increasing labor productivity, adding higher value to work, globalizing operations, and increasing service orientation are hiking the demand for high-skilled workers across areas of production, R&D, marketing, sales, and service, to name a few.

Labor productivity in manufacturing continues to grow in most countries members of the Organization for Economic Co-operation and Development (OECD). From 1950 to 2000, the average productivity growth United States manufacturing was 2.8 percent per year, exceeding those of other sectors by more than one percentage point per year.⁴ In the past two decades, this growth rate has accelerated. Output and value addition in manufacturing also increased rapidly over the last three decades in many countries as a result of competitive pressures, the advent of new technologies, and product and process innovations.⁵ For example, manufacturing workers in the United States today produce four times as much per hour as they did 50 years ago.⁶

One consequence of increasing efficiency has been increasing complexity in job content as workers assume a broader span of responsibility and work with increasingly sophisticated equipment. An increasingly complex industry naturally requires higher-skilled employees. Indeed, contrary to common perception, the job of a modern assembly-line worker requires flexibility, multitasking, and problem-solving skills. Similarly, process plants require people who can troubleshoot and resolve problems with minimum supervision.⁷

Furthermore, there is a growing share of service-related occupations in manufacturing industries. They include sales, marketing, research and development, customer service, financial, and legal services. In fact, in 2006, only 41 percent of the manufacturing industry workforce in the United States was directly engaged in production.⁸ The remaining 59 percent comprised physical and engineering science technicians, physicists, chemists, IT professionals, mathematicians, statisticians, finance and sales professionals, managers, and business professionals.⁹ The skilled nature of these occupations suggests the extent of the shift toward high skills.

The complexities wrought by globalization pose new challenges for talent management. Customer-driven cost pressures, access to alternate sources of supply, consolidation of buying power, and low inflation are hitting manufacturers hard. In response to these pressures, companies are establishing global operations to access new markets, develop customized products, and realize cost efficiencies. This, however, creates fresh challenges:

- **Ensuring coordination among a globally dispersed workforce.** Managers must deal with the complexities of running global operations. Globalization amplifies the complexity of the value chain and requires tremendous effort by managers and employees in coordinating business across geographies, languages, technologies, regulations, and cultural differences.¹⁰
- **Managing a global workforce with varied demographic profiles, skill sets, and expectations.** The global workforce will have varying demographic profiles and expectations. It becomes necessary for firms to design talent management practices which can be adapted to local conditions.
- **Understanding the impact of changing demographics and skill sets in different locations and planning accordingly.** Failure to develop required talent over the years can create skill shortages in crucial locations. It is no longer sufficient to have human resources simply stock headquarters with the best and brightest and treat the balance of the company as a matter of aggregate numbers. Each location will have varying skill requirements over the years and will have a different demographic profile. Firms need to understand these location-specific requirements for grooming talent.

The Depleting Talent Pipeline in Global Manufacturing

The talent gap can pose a serious threat to the long-term global competitiveness of manufacturing firms if not properly managed. Demographic trends, especially aging workforces in developed economies, have begun to exacerbate this challenge. Between 2005 and 2025, the proportion of the population aged 20 to 64 is predicted to shrink in many countries: 14 percent in Japan; 12.5 percent in Russia; 5.7 percent in Germany; and 1.9 percent in France (Figure 1).

On the face of it, some talent pools seem enormous. There is no secret to why global manufacturers are targeting labor pools in countries like China and India that dominate the total global labor supply (Figure 2). Yet in many of the countries studied, these labor pools are shrinking; exceptions are India and the United States.

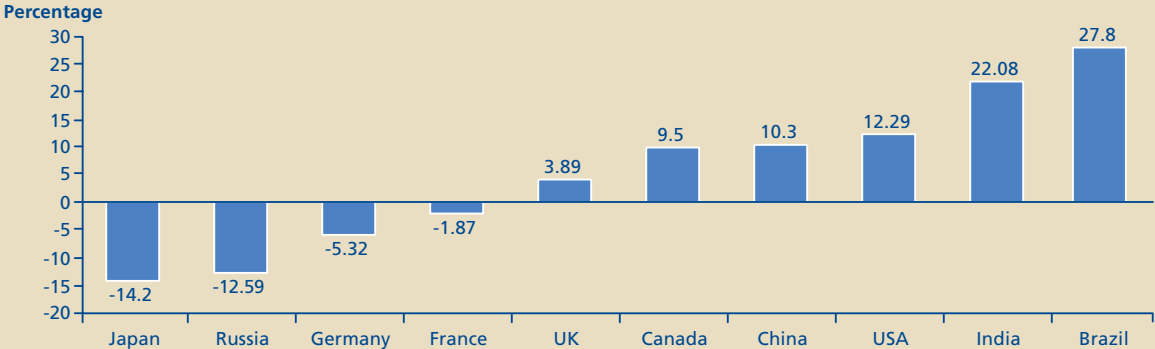
Furthermore, not all workers have the right skills for careers in manufacturing organizations. A recent survey of more than 800 U.S.-based manufacturers indicates that 90 percent face a moderate to severe shortage of skilled production employees; 83 percent indicate that a shortage of skilled manpower is affecting their ability to serve customers.¹¹

While this talent gap varies a great deal across manufacturing industries and geographies in terms of magnitude, age, and skill type, there are common elements. Managing these elements – such as lack of employability, negative image, education, job training, and availability of engineering graduates – should be a priority for global manufacturers.

Lack of employability

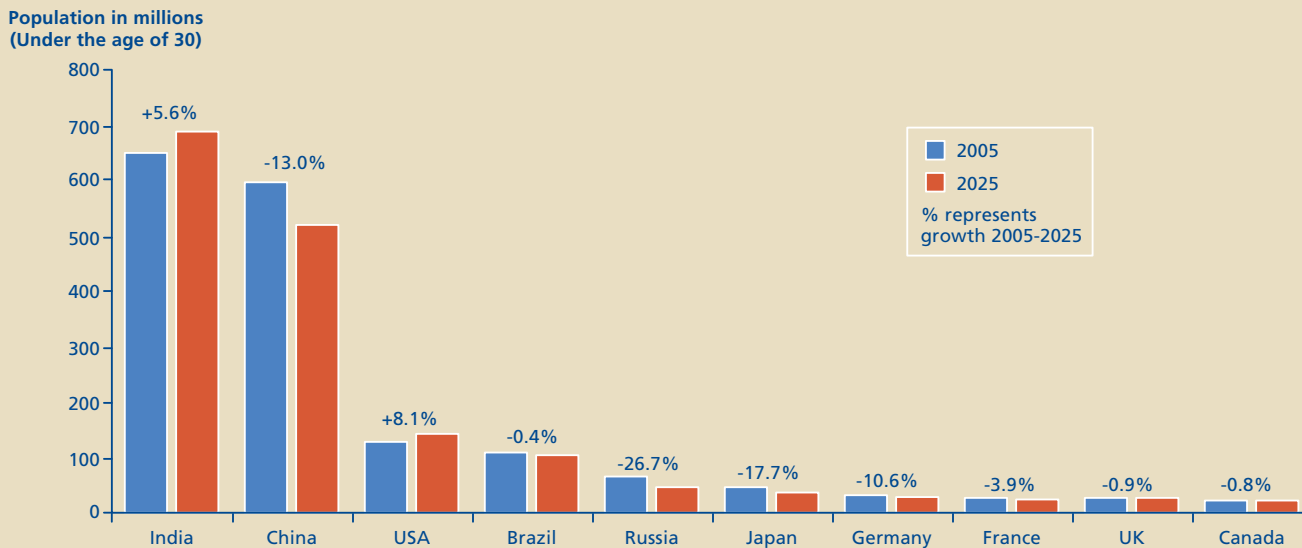
The lack of basic employability skills is considered one of the greatest deficiencies in today's workforce. Fifty-three percent of the executive respondents in a 2005 study of skills gap indicated that employees need to improve basic skills like attendance, timeliness, and work ethics.¹² A modern manufacturing facility also expects its employees to have exemplary team-building, multitasking, and problem-solving skills, apart from the ability to take up cross-functional responsibilities – all areas in which the current talent pool has gaps.

Figure 1. Change in Working Population (Ages 20 to 64) Between 2005 and 2025



Source: Deloitte Research, Based on Population Division of the Department of Economics Social Affairs of the United Nations Secretariat (2006). *World Population Prospects: The 2004 Revision*, New York: United Nations.

Figure 2. World's Talent Pools of Younger People (Under Age 30)
Shrinkage in most countries between 2005 and 2025 except India and the United States



Source: Deloitte Research, Based on United Nations Department of Economics and Social Affairs, Population Division, *Population Estimates and Projections* (New York: 2005).

Negative image

A key factor in the failure to attract high school and college graduates to manufacturing careers is manufacturing's negative public image. It is often associated with descriptors such as "dangerous," "dark," "dirty," "low pay," "slave to the line," "robot," and other negative characterizations. Consequently, fewer people are likely to seriously consider careers in manufacturing. Equally disturbing are the perceptions of parents and educators who see manufacturing as "requiring hard physical labor" and "paying poorly."¹³ Stories of mass layoffs only tarnish the sector's image further. Indeed, a central problem for manufacturers in attracting talent is a lack of confidence in the future of manufacturing because it is perceived as a stagnating industry. The perception arises from the reality that many manufacturers are shedding production workers in large numbers. As mentioned earlier, this workforce reduction in manufacturing companies is in many cases due to an increase in productivity and a shift to higher-skilled labor; these reasons are often lost in the debate. Given this background, it is perhaps not surprising that parents of Generation Y workers may be reluctant to encourage their children to pursue manufacturing industry careers.

Changing pattern in global supply of engineering graduates

In the United States, the number of bachelor's degrees in engineering awarded per year on average has increased by only 0.1 percent from 1980 to 2000. This is worrying when compared with the 7.3 percent projected average annual growth rate from 2002 to 2012 in the need for engineering graduates.¹⁴ The good news is that enrollment in engineering courses in the United States has been increasing since 1999 after a long period of decline.¹⁵ In emerging markets there is good news as well. In Brazil, the number of engineering

graduates grew at an average annual rate of 7.85 percent between 1995 and 2005 (although it remained low in absolute terms).¹⁶ In China, the annual number of engineering graduates increased from 73,000 to 252,000 between 1985 and 2002 – an average annual growth rate of 7.5 percent.¹⁷ More engineering graduates do not necessarily mean more talent for manufacturing, however, as the competition with other industries (e.g., software development, business process outsourcing, and other service sectors) is heating up around the globe.

In a recent survey of executives from 78 unique divisions within 58 corporations, 53 percent of the respondents said the acceptance rate of employment offers for United States engineers has remained unchanged over the past three to five years, while 20 percent of the respondents faced lower acceptance rates.¹⁸ But because of the competition with other industries and the increasing need for engineers in the coming years, simply maintaining the acceptance rates will not be sufficient to attract the talent needed in manufacturing.

Inadequacy of job-related continuing education

Job-related continuing education is proving to be inadequate in bridging the skills gap for employees. In the United States, only 12 percent of those who have not completed upper secondary education participate in non-formal continuing education and training, compared with 32 percent of those with upper secondary qualifications and 56 percent of those with tertiary qualifications.¹⁹ These findings seem to indicate a lack of access to continuing job-related training and education, and also perhaps a lack of motivation to pursue this education in the people who need it most.

The Challenge and Opportunity of Talent Management in Emerging Markets

The large younger workforce in emerging economies can seem like the panacea manufacturers need to resolve their global skills gap. The truth, however, is that there is a shortage of people with requisite skill sets in the emerging economies. Most manufacturers face an uphill battle in attracting and retaining talent in these countries.

Our global Innovation in Emerging Markets study looks at the talent strategies of 446 manufacturers operating in emerging markets and shows that many manufacturers face challenges in attracting and developing talent.²⁰ Roughly one-quarter of the executives surveyed said their company found it very difficult to attract qualified workers in China, India, Latin America, and Eastern Europe (Figure 3). Attracting talent for managerial/supervisory, R&D, and sales/marketing positions was rated the most difficult. Retaining qualified workers was deemed an even greater problem in China, India, and Southeast Asia, with roughly one-third of the executives rating retention as very difficult. Although the ratings varied by

location, the skills that were most often cited as insufficient were in the areas of leadership, team work, English language proficiency, and managerial capability.

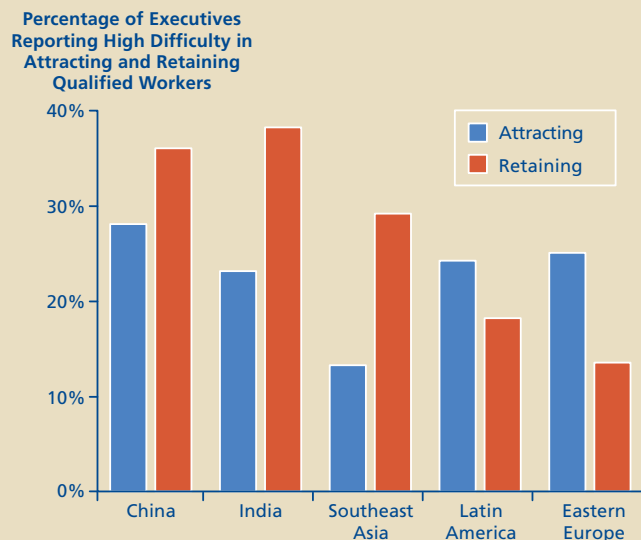
Given the skill shortages, no wonder many executives expect compensation levels in emerging markets to soar in the years to come. Forty percent of executives with operations in China and about one-quarter of those with operations in India and Eastern Europe expect labor costs to go up significantly over the next five years. Ensuring that productivity grows in step with compensation growth will be of paramount concern to manufacturers operating in emerging markets. Without such productivity growth, the long-term health of emerging markets operations will be jeopardized.

China: Plenty of oysters, few pearls

China's Generation Y accounts for nearly one-sixth of the Chinese population, equivalent to around two-thirds of the United States population in absolute numbers. Despite this enormous pool of potential recruits, manufacturers in China face a shortage of talent. There are several reasons:

- **Rapid economic transformation:** With the scorching pace of economic transformation, the supply of talent is failing to keep up with the demand.
- **Demographic shifts:** There will be fewer young adults in their twenties and thirties, with the population below 30 years of age shrinking 13 percent between 2005 and 2025 (see Figure 2).
- **Inadequate quality of the workforce:** While Chinese colleges and universities produce thousands of graduates, many lack the level of skills that global manufacturers expect.²¹ Firms face problems in finding people with adequate managerial skills and need to spend significant time and effort in training new and existing managers and employees. The Chinese education system does not inculcate independent critical thinking, which is a pre-requisite for working in today's competitive environment. Chinese managers often rely on traditional methods that are more

Figure 3. Manufacturers Face Difficulty in Attracting and Retaining Qualified Workers in Emerging Markets



Source: Deloitte Touche Tohmatsu, *Innovation in Emerging Markets: 2007 Annual Report* (New York: 2007)

appropriate for a centralized economy, and do not have experience working in the more complex decision-making environments that multinational manufacturers offer.²² Not surprisingly, more than 30 percent of the respondents surveyed in the Innovation in Emerging Markets study were not satisfied with the leadership skills, team work, English skills, problem-solving abilities, managerial skills, and reliability of the workforce in China.²³

- **Competition for talent:** The shortage of skilled people has created fierce competition for skilled employees and management talent. Recruiting expatriates and Chinese returnees from Taiwan, Hong Kong, and other countries is a short-term option exercised by many firms. But these employees are more expensive to hire and companies have to weigh the cost-benefits ratio in making such hiring decisions.²⁴

In an effort to strengthen the education of engineers and managers in China, Shanghai Jiao Tong University (SJTU) instituted an innovative dual-degree graduate program in 2006 that combines engineering and management. This China-Leadership for Manufacturing (LFM) program, modeled on a program at Massachusetts Institute of Technology (MIT), is focused on developing China's next generation of industrial leaders. A key component of the program is industry partnership. The program's nine founding partners — Dell, Honeywell, Intel, United Technologies, Caterpillar, China Longgong, Flextronics, Novartis, and GITI Tire — will work with SJTU to develop, operate, and grow the program. China-LFM's partner companies will have the first shot at recruiting program graduates.²⁵ The program will provide companies global operations leaders who have technical depth and managerial breadth, and who understand critical issues in globalization.

Southeast Asia: Dangers of a short-term view

Increasing competitiveness in the manufacturing sector in the Asia-Pacific region is putting pressure on Southeast Asia to reduce cost and improve productivity to remain competitive.

Some observers suggest that because businesses pursue even lower-cost locations elsewhere, a growing pool of less educated, older workers in this region are willing to work for lower compensation. Firms taking a short-term view, then, find less incentive to attract Generation Y workers here. But growing skill requirements in Southeast Asia indicate that in the long run firms that fail to connect to the younger generation will not be able to take complete advantage of migrating to high-value-adding industries.

For example, in Singapore the government has maintained gross domestic product growth by moving into new industries such as life sciences and petrochemicals. This has increased the overall revenue numbers of Singapore Inc. But these industries require more high-skilled workers than low-skilled ones. Because of the lack of high-skilled workers, technical, and managerial workers are increasingly being shipped in from abroad. The emerging markets survey further suggests that the majority of the respondents are dissatisfied with the leadership qualities, English skills, problem-solving capabilities, managerial skills, and technical skills of the workforce in Southeast Asia. A comparatively smaller percentage of executives face problems with the Southeast Asian workforce's aptitude for teamwork.²⁶

Because the talent shortage is also escalating wages, the impetus to develop Generation Y workers goes beyond the need to fill the current ranks. In a recent study, 66 percent of respondents from manufacturing firms in Singapore feel that talent shortages are forcing them to pay higher salaries for professional positions.²⁷ In the wake of the shortage in skills and increasing wages, it becomes even more important in the long run to groom Generation Y for high-skilled positions.

India: Fighting off the competition

In India, there is an abundance of skilled manpower – including Generation Y workers²⁸ – but manufacturing faces stiff competition from services and IT industries in attracting and retaining the white-collar workforce. Many skilled technicians also migrate to the Middle East for better pay. This affects manufacturing industries such as cement, steel, and chemicals.

Furthermore, the technical talent in India often needs significant training on best practices to better serve global manufacturers. Managerial talent in India needs international exposure and an understanding of global business issues. Relatively few respondents to the Innovation in Emerging Markets study were dissatisfied with the English-speaking skills of the Indian workforce, but reliability, leadership qualities, teamwork, and managerial skills still remain a source of dissatisfaction among executives.²⁹

Latin America: Middle management blues, technical skills shortage

Latin America is a mixed story. Currently in Brazil, shop floor skills in manufacturing are not scarce. It is also not difficult to find experienced Brazilian managers with global experience. But there is a severe shortage at the middle management level.³⁰ As mid-level managers move into leadership positions, there will be an even larger void in mid-level talent pools.

In Mexico, technicians (working in production, operations, engineering, and maintenance), assembly line operators, engineers, customer sales/service representatives, and maintenance managers appear on the list of “ten most scarce skills.”³¹ The Innovation in Emerging Markets study indicates that in Latin America 52 percent of respondents faced difficulty with English skills of the workforce; 37 percent with managerial and leadership skill, 33 percent with problem-solving skills; 27 percent with teamwork; and 25 percent with technical skills. Finding qualified R&D personnel appears to be particularly problematic in Latin America with 40 percent of the executives citing this as difficult.³²

Eastern Europe: The perils of accelerating wages

Of the executives participating in the Innovation in Emerging Markets survey relatively fewer faced difficulties with the technical skills of the workforce in Eastern Europe but, as in other emerging markets, they continue to face difficulties with the workforce’s levels of leadership, managerial skills, English proficiency, ability to work in teams, and problem-solving capabilities. As skill shortages become more apparent in the region, manufacturers feel increasing pressure to pay higher wages. Twenty-six percent of respondents expect wages to increase substantially in Eastern Europe over the next five years. For example, in the Czech Republic, wages were 10 percent higher in the second quarter of 2006 than they were the previous year — one of the highest rates of increase in the European Union.³³ Automobile manufacturers in central Europe, such as Skoda Auto, a unit of Volkswagen, are confronting higher demands for wages and fringe benefits as they face skill shortages.³⁴ Some manufacturers in the region, who are facing ever-shallower labor pools due to aging populations and emigration, have gone as far as importing workers from even lower-cost wage areas, such as China.³⁵

As more and more firms establish operations in emerging markets, they should avoid taking a short-term view of cost and benefits and not be misled by the size of the working-age population. They must understand the available skill sets and the changing demographic profile in these countries and formulate strategies to effectively engage talented people who can become strategic assets for their companies. Developing a flexible business model that is able to withstand dramatic changes in talent supply and rapid rises in compensation cost will be a litmus test of talent management capabilities in emerging markets. Those companies that can overcome the challenge of managing this diverse workforce through well-crafted human resource strategies will have created a unique competitive advantage for themselves.

Connecting to Generation Y

The aging of the workforce will pose problems for manufacturers in industrialized economies and select emerging economies around the world. The ratio of the 65-and-older population to the active labor force will increase to 36 percent from 25 percent across OECD countries between 2000 and 2020.³⁶

Seventy-eight million Baby Boomers – defined as the population born between 1943 and 1964 – in the United States will retire over the next 10 years. As far as the science and engineering workforce is concerned, about 800,000 bachelor's degree holders, 770,000 graduate degree holders, and 250,000 doctoral degree holders in the United States are nearing retirement.³⁷ The aging of the workforce is even more pronounced in Western Europe: By 2040, the median age of the population will be 52 years in Western Europe, compared to 36 years in the United States.

Generation Y is set to become the largest population group since the Baby Boomers to enter the workforce (Figure 4). According to our calculations, between 2005 and 2025, Generation Y as a percentage of the working population will increase from 17 percent to 28 percent in India; from 17

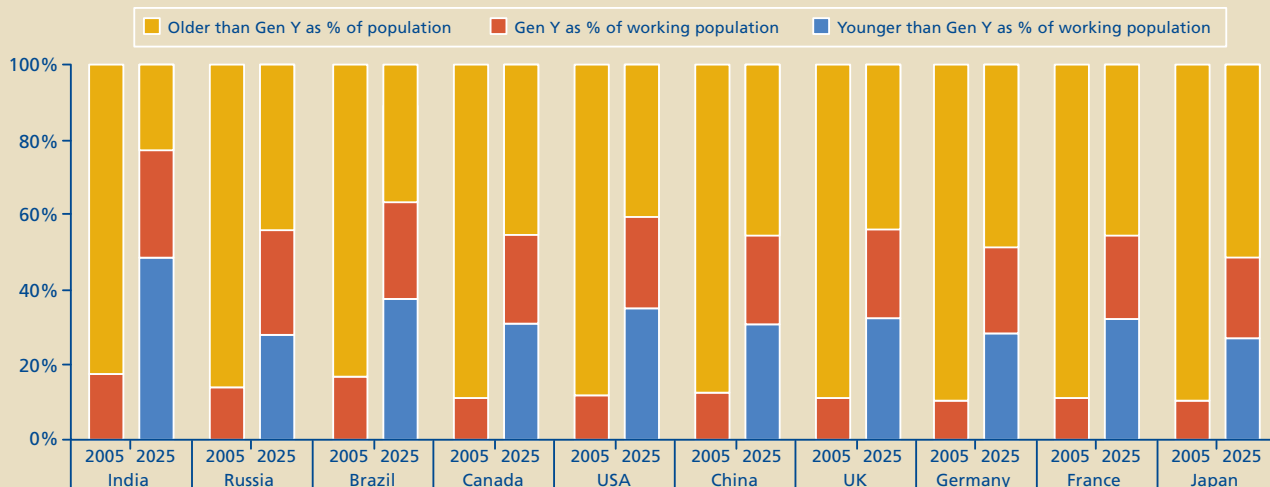
percent to 25 percent in Brazil; from 12 percent to 23 percent in China; from 14 percent to 28 percent in Russia; and from 12 percent to 23 percent in the United States.³⁸

In order to meet the needs of their growing industry, manufacturing companies need to build a talent management model that encompasses simultaneously the aspirations of the Generation Y labor pool and the aspirations of older workers. Such models will help attract and engage the younger workers that follow Generation Y. By 2025, more than 75 percent of the workforce in India will be from Generation Y and younger generations. In Brazil, similar cohorts will constitute more than 60 percent of the workforce.

Characteristics of Generation Y

To woo Generation Y, companies must respect values it holds dear, such as flexibility, work-life balance, and professional respect and accessibility.³⁹ Of course, generalizations about generations are never easy and remain generalizations; defining generations and comparing them with each other across different geographies and cultures are fraught with difficulty. Nevertheless, we believe that trying to pinpoint

Figure 4. Generation Y: Today's New Workforce and Tomorrow's New Leaders



Source: Deloitte Research, based on United Nations Department of Economic and Social Affairs, Population Division, *Population Estimates and Projections* (New York: 2005)

some of Generation Y's characteristics can help managers understand some of the variables they should consider as they decide on future business expansions around the world, and the recruitment and talent management models needed to support them.

Generation Y, defined here as the population born between 1982 and 1993, is often considered more self-reliant and self-managing than previous generations.⁴⁰ They are entrepreneurial by nature, enjoy electronic games, place a high value on innovation, and are comfortable working in teams. Generation X and Generation Y are the first generations to grow up with computers and the Internet as part of their lives. Living in a networked world has had a profound impact on their approach to problem-solving and collaboration. This next generation of workers is coming into the workforce with networking and multiprocessing skills, and a global mindset that their elders often did not possess. Experience with interactive media like instant messaging, text messaging, blogs, and multiplayer games has led many young people to develop new skills, new assumptions, and new expectations about their employers.

Current research suggests, for example, that gaming can be excellent preparation for business. Serious gamers (from Generations X and Y) are likely to be:

- More skilled at multitasking
- Agile in making decisions, evaluating risks, and managing dilemmas
- Flexible and persistent in the face of change
- Highly skilled in social networking and team activities⁴¹

All these characteristics have armed Generation Y with competency in developing virtual, global networks to utilize technology efficiently, and to incubate and develop ideas. These skills will be highly valuable for globally networked organizations, helping them to collaborate across borders, develop innovative practices, and improve efficiency.



New strategies aligning with the needs of Generation Y

Generation Y has unique characteristics that differentiate it from Baby Boomers and even from Generation X. Generational differences have real implications for how employers and employees work together. Research, in general, has shown that:

- Baby Boomers see work as an anchor in their lives.
- Generation Xers enjoy work but are more concerned about work-life navigation.
- Generation Yers often have different priorities: because of their deep reliance on technology, they believe they can work flexibly anytime, anyplace, and that they should be evaluated on work product – not on how, when, or where they get it done. Surprisingly perhaps, they want long-term relationships with employers, but on their own terms.⁴²

According to a 2004 study, the needs of Generation Y can be very different from those of existing workforce generations (Veterans, Baby Boomers, and Generation X).⁴³ The study's findings indicate that manufacturing firms need to consider the following needs of Generation Y:

- Long-term career development and multiple experiences within a single organization
- Sense of purpose and meaning in work
- Availability and access to mentors across the company. (The focus should not only be on making senior staff mentor younger associates, but also ensuring that people connect and share experiences across all levels of the organization, and across relevant departments and areas of expertise.)
- Work-life flexibility
- Tech-savvy work environment (for example, access to online problem-solving and learning tools)
- Open social networks that embrace open and honest communication

These are needs that older generations of workers can also appreciate, although they may not always have articulated them, or expected them to be met by their employers. Thus, by learning from Generation Y's expectations, a company may be able to rethink how it can develop talent across the entire workforce. This provides firms a unique opportunity to transform their human resource management function. They also will be able to better manage the transition from the retiring experienced workforce to the younger generation by developing suitable processes for bringing the younger generation up to speed on critical skills.

Shortcomings of current approaches to managing talent

In a tight labor situation, most organizations search for external candidates to fill their most critical jobs (acquisition) and try to convince current employees to stay (retention).⁴⁴ These companies offer money, perks, and new challenges. But this is more of a knee-jerk response than a clear strategy. Sometimes it works. But more often it only delays, or even fuels, the inevitable churn of good people (Figure 5).

In particular, companies pay too much attention to “acquiring” talent, the front-end of the process. It is understandable that it is far easier to phone an executive search firm or post openings on a Web site than it is to “grow” someone into a position or to deal with the internal politics of redeploying people from within. But such shortcuts are costly. The average cost to replace an employee is typically one and a half times her average annual salary because of costs from recruitment, productivity losses, training, relocation, and other costs. Candidates can take a year or more to master their jobs. Moreover, a company that focuses on external talent can erode the commitment of internal candidates who perceive a bias against them.



Figure 5. The Traditional Acquisition-Retention Talent Management Model



Organizations focus their energy on “acquiring” and “retaining” critical talent—especially when talent is scarce. This focus on the end points is problematic for many reasons. To begin, the resulting process is linear because employees are often ignored once they are recruited into an organization or project. As such, they can become pigeonholed without the opportunity for redeployment. Instead, individuals need flexibility to try on new roles and organizations need flexibility to shift to marketplace demands.

Attraction and retention are important metrics, or outcomes. But to be effective, talent management strategies must be built around the things that generate the most value and matter most to employees—the “customers” of this process. That is, their development and deployment—and connection to others.

Source: Deloitte Research, 2004

Common retention approaches are problematic. They are driven by metrics like employee turnover. But the numbers say nothing about why people leave. In exit interviews, those leaving frequently resist giving the true reasons for their departures for fear of burning bridges. Finally, turnover does not measure people’s commitment to the company. When jobs are scarce, it is easier to retain a non-committed workforce.

As a result, by focusing on the end points of managing talent (acquisition and retention) rather than on the middle ones (deployment and development), organizations ignore the things that matter most to employees. When this happens, companies set themselves up for inevitable churn, which becomes especially hazardous in a tight labor market.

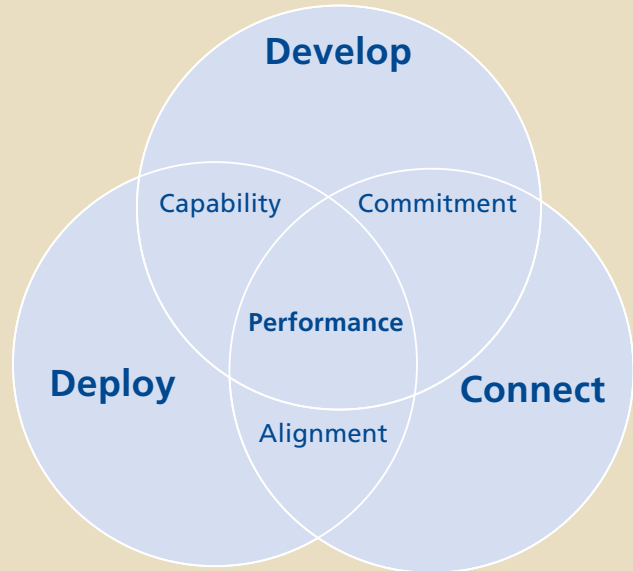
The Develop-Deploy-Connect talent management model

How do firms migrate from the traditional talent acquisition and retention strategy to one that will incorporate the expectations of Generation Y and also benefit the entire workforce? The answer, we believe, lies in creating a more holistic model for talent management, the “Develop-Deploy-Connect” model (Figure 6).⁴⁵ As we have seen, focusing on the end points of the talent management process – acquisition and retention – diverts attention from what truly matters to key employees. Companies do not focus enough on **developing** people in ways that foster growth, **deploying** them into roles that tap their strengths and interests, and **connecting** them in ways that enhance performance.

Among these three factors, “connect” is emerging as the most important in today’s competitive environment. Three types of connections matter most when it comes to performance: connecting people to people in ways that promote personal and professional growth, connecting people to a sense of purpose, and connecting people to the resources they need to do great work.⁴⁶



Figure 6. The Develop-Deploy-Connect Model for Talent Management



The Develop-Deploy-Connect model should be at the core of an organization’s talent strategy. By focusing on these three elements, organizations can generate capability, commitment, and alignment in key workforce segments, which in turn improve business performance. When this happens, the attraction and retention of skilled talent largely take care of themselves.

By “Develop,” we mean providing the real-life learning employees need to master a job. We don’t mean just traditional classroom or online education. As importantly, we mean the “trial-by-fire” experiences that stretch their capabilities and the lessons they learn from peers, mentors, and others.

By “Deploy,” we mean working with key individuals to (a) identify their deep-rooted skills, interests, and knowledge, (b) find their best fit in the organization, and (c) craft the job design and conditions that help them to perform.

By “Connect,” we mean providing critical employees with the tools and guidance they need to (a) build networks that enhance individual and organizational performance, and (b) improve the quality of their interactions with others.

Source: Deloitte Research. For more details on this model, please refer to the 2004 Deloitte Research Study: “It’s 2008: Do You Know Where Your Talent Is?”

What Does the Develop-Deploy-Connect Model Mean for Manufacturers?

How do manufacturing firms execute the Develop-Deploy-Connect model to engage the Generation Y workforce and bring about enduring changes in their talent management models? We broadly classify the initiatives into two categories: designing organizational roles and improving the work environment. Underlying the success of the Develop-Deploy-Connect model are the two pillars of rewards transformation and continuous communication.

Designing organizational roles

Companies that balance hierarchy with flexibility will be able to attract and engage employees at all levels. Manufacturing firms can take several approaches while designing organizational roles. The younger generation derives more sense of purpose in their work if they are provided the opportunity to work beyond their functional boundaries. Good examples of platforms to involve the younger generation include critical, large-scale, organization-wide initiatives, such as those around total productive maintenance, lean manufacturing, six sigma, supply chain optimization or global sourcing, R&D, and product launches.

Cross-functional teams with members from different hierarchical levels of a company can be formed to drive such initiatives. The challenge and the sense of accomplishment from working in such projects promote bonding and shared learning among employees. Furthermore, manufacturing organizations that involve talent across hierarchy and function boundaries in improvement initiatives are better able to identify their top performers and groom them for leadership positions.

Rotational programs across functions, business units, and geographies can help develop leaders and ease the pressure of succession planning for critical roles in the organization. Such initiatives communicate the firm's sincere efforts to groom talent.

While there is no "one-size-fits-all" solution here, we outline some specific initiatives around designing organizational roles that consider the expectations of the Generation Y and are likely to be of value to most other workers.

- **Foster long-term career development and provide multiple experiences**
 - Chart out a clear development path for all production and service personnel (for example, moving from a machine operator to a cell leader to a shift supervisor and so on). (Develop)
 - Enable career mobility to allow individuals to have multiple experiences. Young personnel should be encouraged to work in cross-functional teams, consisting of people from different generations. Combining Generation Y's innovative ideas and the practical experience and pragmatism of Baby Boomers and Generation X can result in a winning team. High-performing service personnel can be engaged in customer-facing marketing engagements like collecting "voice of the customer" information. Adequate attention should be paid to grooming talented people for leadership positions by connecting to the network of managers across global operations, customers and suppliers around the world. (Deploy)

For example, Samsung, as part of the Regional Specialist Program, selects talented assistant managers with more than three years of experience and sends them on multi-year sabbaticals to different countries to learn about the region.⁴⁷

- **Instill sense of purpose and meaning in work**
 - The Generation Y workforce should be encouraged to articulate what is meaningful for them and to get involved in designing the workplace. (Connect and Deploy)
 - The management should communicate to the workforce the importance and impact of their work. (For example, firms can clarify how the "Balanced Scorecard" approach relates to the work employees perform, and how improvement in their efforts contributes to the firm's overall performance.) (Develop and Connect)
- **Provide access to mentors and other company champions**
 - Firms should develop customized mentoring programs in which senior staff guide younger workers, specifically in problem-solving skills and linkages between organization and individual performance. (Develop and Connect)

At Lockheed Martin, for example, experienced executives are paired with less seasoned workers to help transfer crucial knowledge. Mentors and protégés learn from each other and generate new ideas. New recruits are coached to ask for specific examples, stories, and experiences to enhance their understanding.⁴⁸

Improving work environments

Firms can begin improvement with a work environment audit that examines the organization's people practices and philosophy. Leaders can engage in interactive discussions with the employees regarding what constitutes an ideal work environment. Here we talk about the initiatives that address the needs of Generation Y.

- **Ensure work-life flexibility**
 - The human resource function can develop systems to provide employees the right balance between work and life without disrupting work. For example, firms can identify some job profiles where “working from home” for some time can be allowed, but with provision for clear deliverables and continuous communication through emails or messaging systems. (Connect)
- **Provide tech-savvy work environment**
 - Knowledge sharing should be encouraged among employees through discussion boards and blogs with clear guidelines for usage. (Connect)
 - Specialized training should be provided for those of the Generation Y workforce (for example, science graduates) who handle sophisticated equipment in both process and discrete manufacturing industries. (Develop)
 - Generation Y engineers should be trained to use software-based planning and simulation tools for a real-life work environment. (Develop)

Transforming rewards

Designing a rewards program and linking it to strategic business objectives is another imperative, given Generation Y's unique expectations.⁴⁹ Firms should implement rewards systems that encourage productivity and focus on results, efficiency, creativity, and innovation within an ethical framework. In addition, firms will need to migrate from viewing rewards as a cost to considering them as an investment. While this may sound like common sense, in many cases manufacturers' rewards programs lag these ideal targets.

Understand the rewards customer: your employees

Through repeated surveys and focus groups, the company can learn how the employees perceive the current rewards program, what changes might make it more appealing, and how to evaluate it appropriately.

Our experience suggests that different rewards elements – base pay, bonuses, health and welfare benefits, and “intangibles” like training programs and career opportunities – all influence where employees choose to work and how much discretionary effort to expend. The more fully an employers understands

how their employees react to various aspects of total rewards, the more effectively they can design programs that motivate the right performance. And the same tools that companies use to measure their external consumers (surveys, focus groups, and so on) can help an employer make better rewards decisions.⁵⁰

Review the current rewards package

Firms can create a matrix listing the current reward offerings matched against the different generations. It can be used to identify which rewards are most attractive to each generation and help answer the following questions: How does the organization stack up in its compensation structure? How does this align with the firm's future workforce needs?⁵¹

Focus rewards investment on critical workforce segments

A key challenge in designing total rewards programs is managing the trade-off between satisfying employees' rewards preferences on the one hand and working with limited resources on the other. Few employers are likely to have the resources to create programs that suit the preferences of all of its employees. Given these resource constraints, we suggest that employers can boost the total returns by focusing on total rewards elements that increase commitment among “critical workforce segments” – employee groups whose retention and motivation are highly important to a company's achieving its financial objectives.

These are the people a company can least afford to lose, whether outright to a competitor or indirectly through a lack of commitment, effort, and productivity. There are obvious sensitivities around designating certain employee groups as more critical than others. However, the term “critical workforce segment” should be understood in its specific context of impact on corporate earnings, not as a broad value judgment. A workforce segment is critical to the extent that its work directly affects business value creation, its people are difficult or expensive to replace, and its skills are in high internal or external demand. Different workforce segments, therefore, may become more or less critical as the business strategy and the external environment change over time. Which areas are in need of immediate or long-term growth? Where would turnover or attrition be most harmful to the business plan? Where do talent, experience, and training have the greatest impact on business results? These and other strategic considerations will influence which workforce segments are considered critical at any given time.

Importantly, designing total rewards with an eye to critical workforce segments' needs does not mean that this comes at the expense of a company's other “core” employees. The rewards transformation approach to differentiation applies only to rewards **design**, not to rewards **magnitude**. Critical workforce segments may not necessarily receive more total rewards than others, but they should have relatively more influence over the nature and design of the company's incentive programs, the configuration of its benefits programs, and other aspects of the company's total rewards designs.⁵²

Communicating continuously

To derive maximum value from the above strategies, manufacturing companies should reexamine how they communicate with Generation Y along with the rest of the workforce and send a consistent message around the following: creating a unique and consistent brand and identity; designing organizational roles; creating a conducive work environment; and transforming the rewards process.⁵³

Branding and identity

To attract Generation Y, manufacturing organizations should communicate a consistent, positive, and realistic image, and provide real-life experience in a challenging and exciting work environment. Firms should develop communication and branding programs that involve high achievers as brand ambassadors. Initiatives that manufacturers need to consider include:

- Developing educational programs to promote careers in manufacturing
 - Getting involved in local universities' curriculum development specific to industry needs and contributing through teaching
 - Conducting plant tours and awareness programs for local high school students
 - Developing simulation games for manufacturing environments and providing visual representations to students about the complexity in manufacturing
- Partnering with local colleges and business schools to provide challenging internship assignments
- Fostering relationships with MBA and other graduate programs that offer relevant concentrations around manufacturing industries — such as operations management, marketing, sales, service, and R&D — to facilitate direct recruitment of graduates
- Developing a web presence to attract the tech-savvy talent pool of Generation Y

The brand ambassadors should speak to students about the challenging nature of the job, the satisfaction involved, and real instances from their careers.

Cummins India wanted to project itself as an employer that values the long-term career ambitions of its workforce. Recognizing the unique bond that parents have with their children in India, Cummins India has started involving parents of fresh recruits, based on a kit developed by the University of Pittsburgh. Parents are informed about the nature of the work and the work environment. The objective is to ensure that parents have an informed opinion if a fresh inductee decides to quit.

Cummins India found that it was losing trainee engineers who wanted to pursue management courses, so Cummins USA partnered with Indiana University's Kelley School of Business for a specially designed MBA program. People from India, China, and South America will join the program that is set to start in 2007.⁵⁴

Organizational roles

It is necessary for firms to design suitable organizational roles, as outlined earlier, and to communicate the message that people, irrespective of their position in the hierarchy, can contribute to the organization's success. Continuous feedback from employees regarding these roles will be beneficial to get maximum benefits from such initiatives.

Work environment

The quality — not quantity — of communication within the organization is the biggest indicator of the health of the work environment. Healthy work environments thrive on meaningful communication, where the information people share is honest and useful. People talk openly about their opinions and needs. Both leadership and employees know their ideas are heard.⁵⁵ Firms can use discussion forums — virtual or in person — to better understand the workforce's expectations of work-life flexibility and other issues.

Rewards transformation

Through a "rewards dialogue" with employees, an employer should regularly reach out to its employees for their views on rewards; the employer's response will demonstrate that it is listening in a meaningful way. This outreach should take place often enough for the employer to spot trends in employees' responses over time. Instead of conducting surveys once a year or less frequently, as many employers now do, an employer should take advantage of the many existing touch points between employer and employee — open enrollment periods for benefits, performance reviews, benefits inquiries, even informal interactions at work — to maintain an ongoing flow of information over and above formal survey efforts.

Regular communication with employees — informing them about changes to their rewards and giving reasons for the changes whenever possible — helps employers understand its workforce's changing preferences and manage employee expectations. A rewards dialogue can help an employer develop programs that are both tailored to employees' current needs and flexible enough to respond to future employee feedback without major redesigns. Building in such flexibility is crucial to striking a workable balance between responsiveness and stability, as it may not always be practical for an employer to change its total rewards programs in response to employee feedback. But with a consistent rewards dialogue, an employer can spot emerging trends and plan ahead to meet anticipated needs, thereby creating a flexible total rewards structure that can respond to a fluid environment.⁵⁶

Conclusion

For global manufacturers marching toward profitable growth through global expansion and productivity improvement, the significance of talent management will only increase in the years to come. Increasing requirements for a high-skill workforce and a shortage in the supply of requisite talent are forcing manufacturing companies around the world to evaluate and update their approaches to recruiting and managing talent.

Generation Y and younger generations will form the majority of the working population in the not-so-distant future. Companies need to understand the values of incoming generations and carefully rethink their strategies for attracting and engaging this talent as an integral part of their business models. Because the values and preferences of Generation Y are in many ways shared by a broader part of the workforce, catering to this generation has the potential to bring about fundamental changes in talent management practices across the enterprise.



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