

FARNBOROUGH PRIMER

How aerospace and defense
leaders fight the talent wars –
5 major trends and action plan

Webinar

Wednesday, July 11th

Presented by: Jon Barney, Senior
Partner



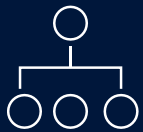
Agenda

Today we will discuss five key trends in the aerospace & defense sector, with insights from Korn Ferry research and a perspective on each, and provide an action plan for senior leaders on how to respond.

- 1 INCREASING COMPETITION AND THE WAR FOR TALENT
- 2 DEMOGRAPHICS REQUIRE NEW APPROACHES
- 3 DRIVING INNOVATION – IT'S NOT JUST TECHNOLOGY
- 4 INTERNATIONAL EXPANSION – GLOBAL COMPANIES OPERATING LOCALLY
- 5 ACTIVE M&A ENVIRONMENT– THE TALENT CHALLENGE



Korn Ferry... The synchronization of strategy and talent



Organizational
strategy



Assessment &
succession



Talent
acquisition



Leadership
development



Rewards &
benefits

Performance is our business

Reward data
on **20M**
professionals

Assessment
data on **6M**
professionals

Management
data on **114**
countries

Engagement
data on **6M**
professionals

Profiles of **8M**
candidates

Webinar background

- Survey of approximately 100 aerospace & defense leaders on market trends
- 35 heads of talent across multiple industries – benchmarking survey
- Market expertise across global aerospace & defense sector – aerospace, defense, government services, aviation, private equity
- Functional expertise - digital, diversity & inclusion, pay equity





1

**Competition and
war for talent**



War for talent: Strategic issues

- Emerging global competitors
- Entrants in autonomous, space, cyber outside A&D sector
- Recruiting and retaining top talent becoming harder



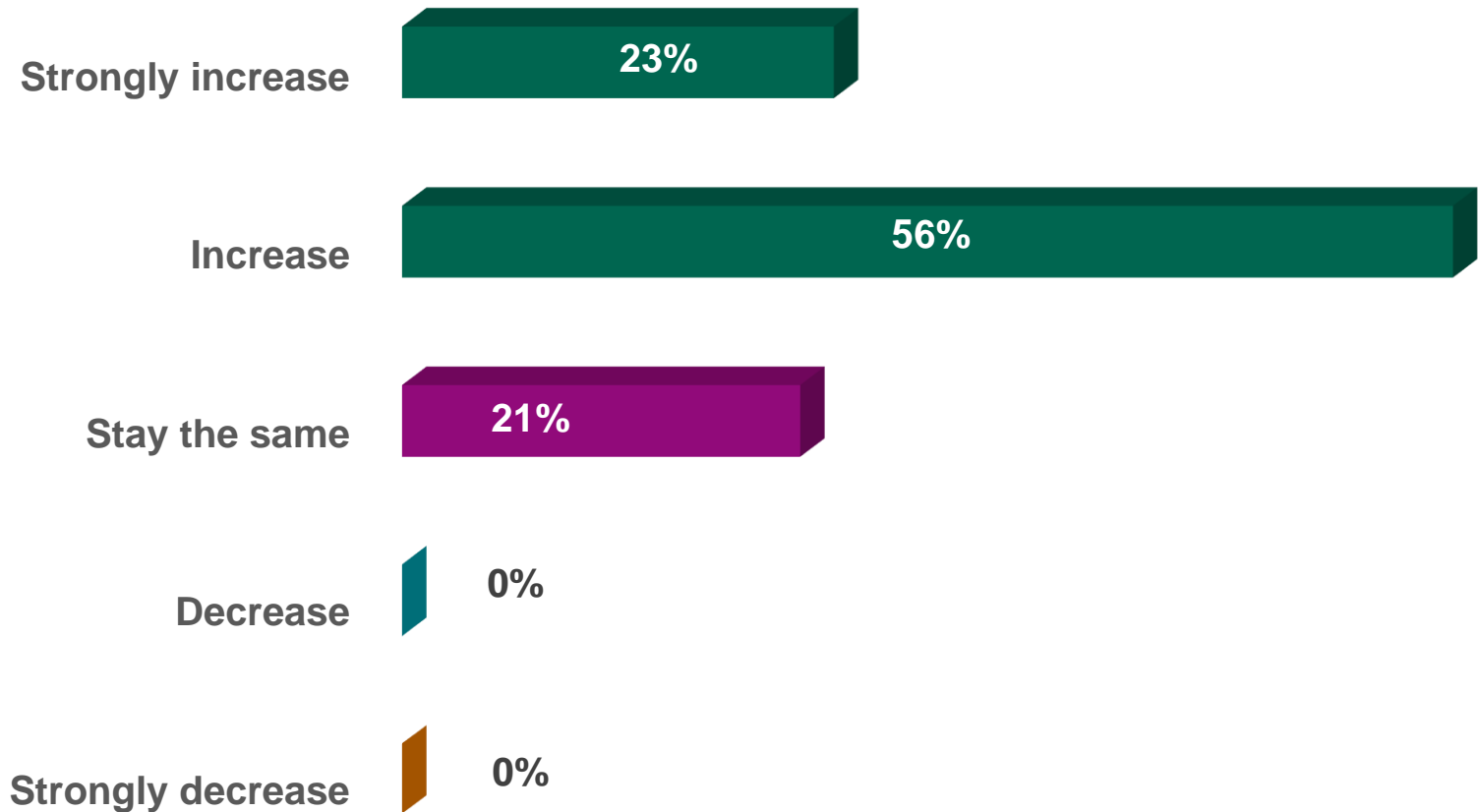
Aerospace & defense companies are operating in an increasingly competitive operating environment

Question: Overall, in 2018 I expect my competitive environment to:



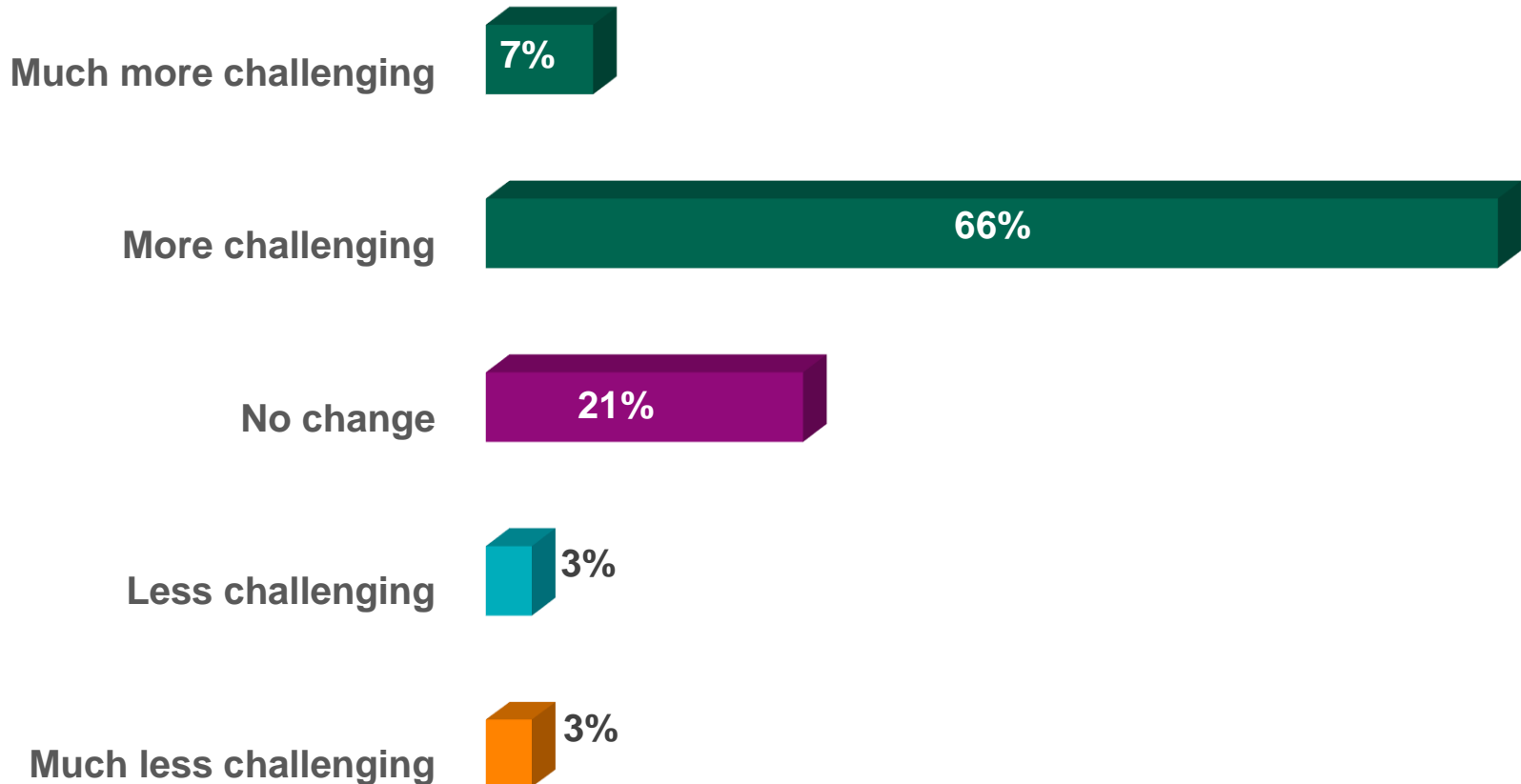
Specifically with respect to talent and human capital, aerospace & defense companies see considerable increase in the need to recruit

Question: Overall, in 2018 I expect my need to recruit talent to:



Recruiting and retention are becoming more challenging for aerospace & defense companies

Question: Over the last 12 months, retaining my organization's top talent has become:



Many challenges around recruiting and retaining talent but several rise to the top for aerospace & defense leaders

Overall, what is the #1 challenge you face today around recruiting and retaining talent?

- Finding qualified people (e.g. engineers, geography, cleared)
- New skills/job specific (pilots, specific trades, digital, soft skills)
- Retention/competition (non A&D companies, traditional firms)



In this competitive environment, certain companies are acknowledged for being leaders in talent and human capital

Within aerospace & defense

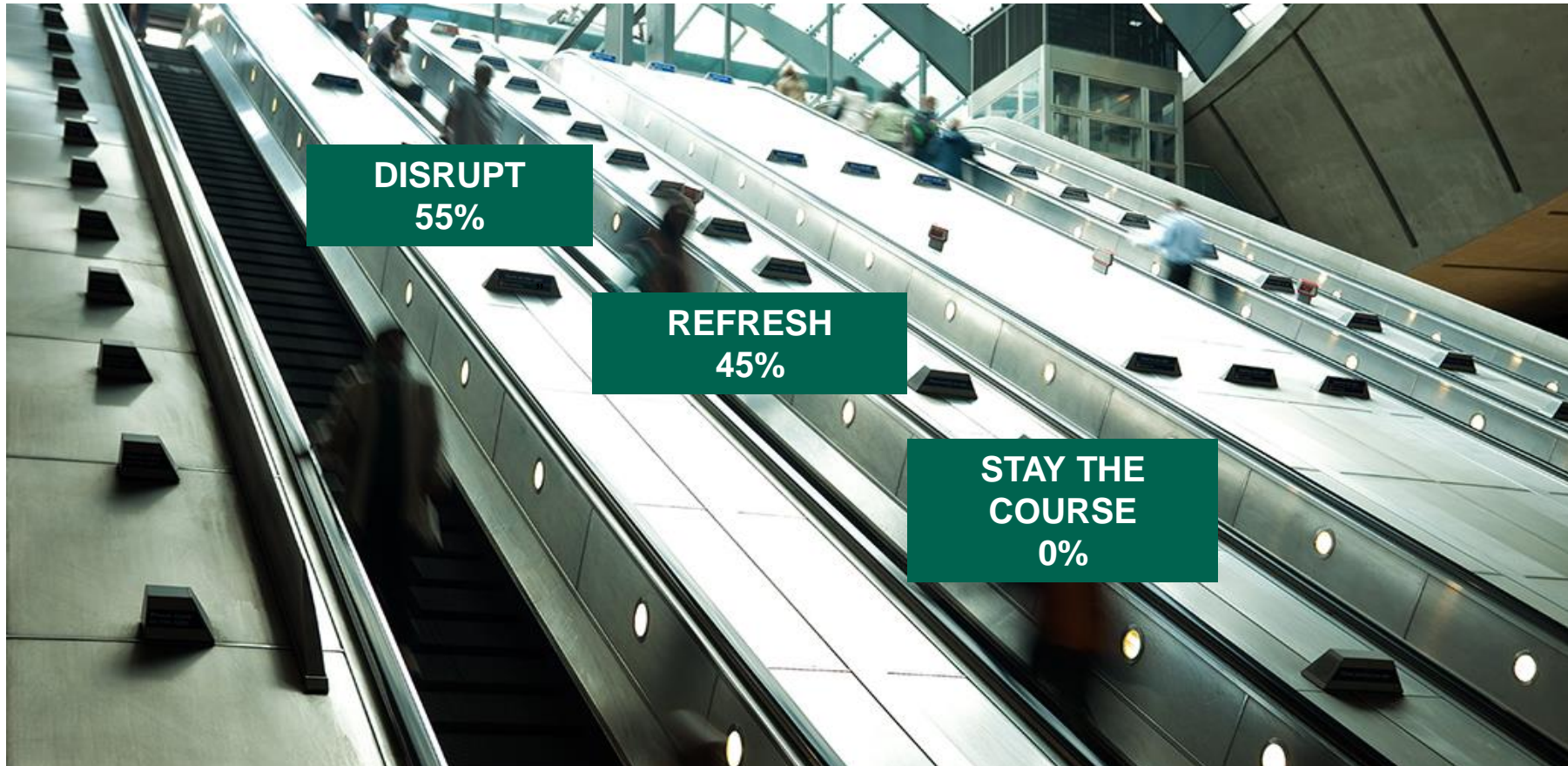


Outside aerospace & defense



Global heads of talent: Staying the course around talent is not an option anymore – refresh or disrupt to stay competitive

35 heads of talent across multiple sectors globally: How would you characterize your approach towards talent management?



Success in this competitive environment requires four components according to heads of talent in multiple sectors

Talent acquisition - It's all about discipline, bold targets and deep, internal expertise

Talent engagement - It's all about inclusivity, talent intimacy and leadership mindset and accountability

Talent development - It's all about people not process, career experiences not programmes

Succession management - It's all about choice and focus, capabilities not jobs and pools not replacements



War for talent: Strategic issues

- Markets becoming more competitive
- Emerging global competitors
- Entrants in autonomous, space, cyber outside A&D sector
- Recruiting and retaining top talent becoming harder – all levels

Action plan

- Talent acceleration - Recruit and retain as a source of advantage –proactive, faster, enable technology
- Establish talent alignment office - succession planning, acquiring, engaging & developing talent
- Define/communicate clear employer value proposition





2

Demographics and developing talent



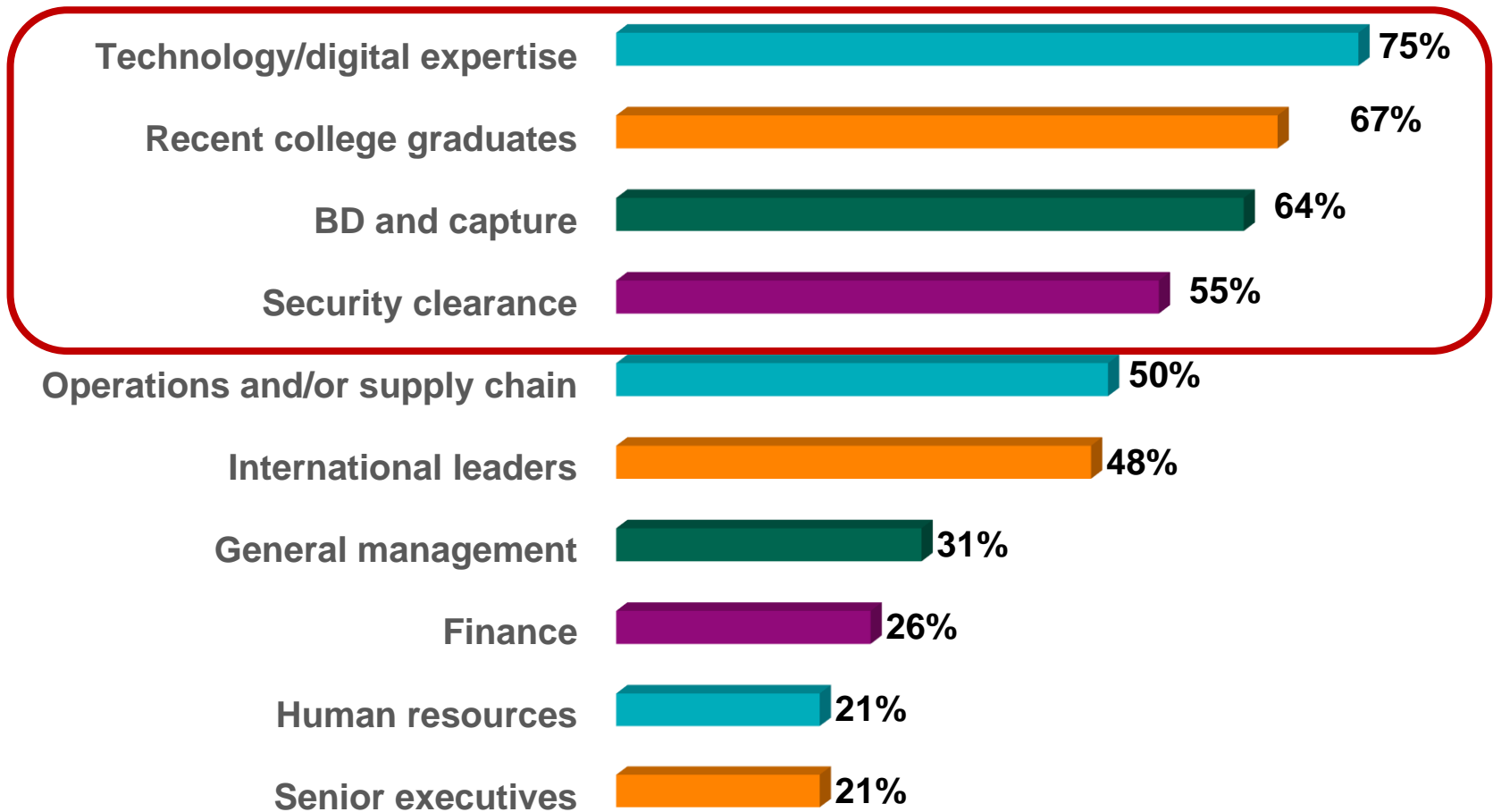
Shifting demographics: Strategic issues

- Demand increasing significantly for new roles – e.g. technology, recent graduates
- More diverse and international workforces
- Training programs becoming more important but uneven results
- Convergence of tech, demographics, geography



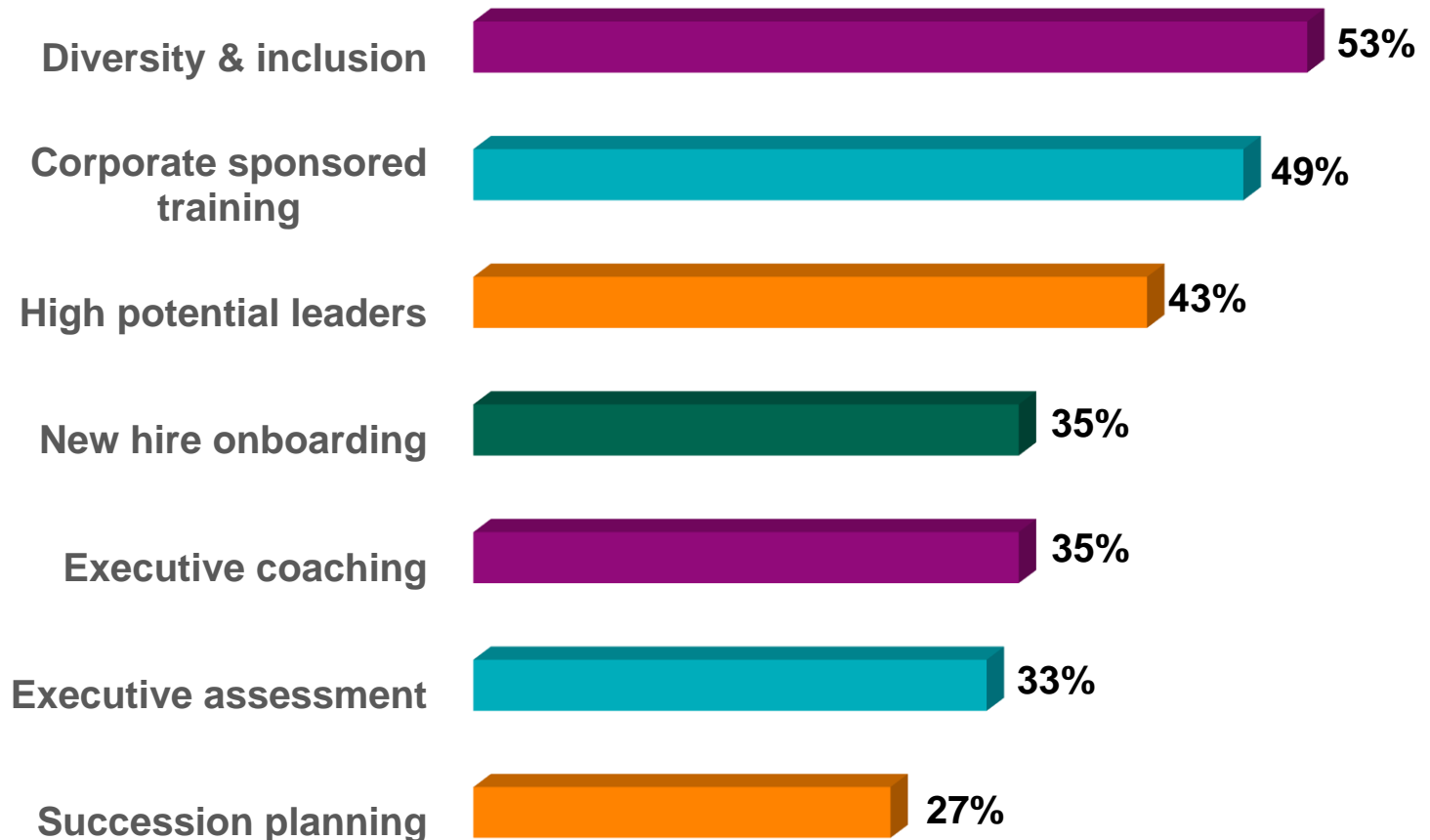
Demand increasing for all roles with emphasis on technology/ digital, recent graduates, and business development

Question: In 2018, the percentage citing increase or significant increase in demand for specific roles:



Training and development – programs could become more effective at aerospace & defense companies

Question: For the following corporate training program, what are characterized as effective and very effective?



Rising importance in some programs at aerospace & defense companies

Question: For the following programs, how would you characterize as becoming more important to your company in 2018:



Successful programs requires senior level leadership, bandwidth and focus in the aerospace & defense sector

Question: For the programs discussed, what are the greatest obstacles to achieving success?



Pay equity – important and becoming increasingly important in the aerospace & defense sector

Pay equity

82% important or extremely important

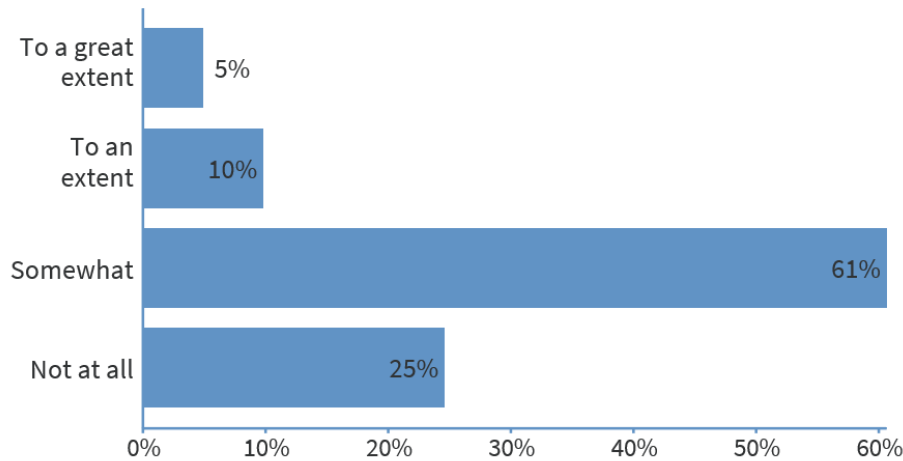
Pay equity in 2018

52% say becoming more important to company

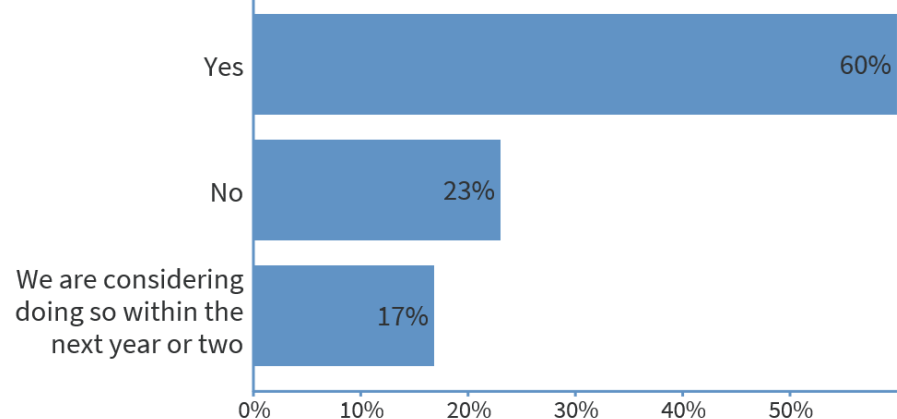


Propensity to act among US employers – beyond the aerospace & defense sector

Is gender pay equity an issue for your organization?



Has your organization taken any action in the past two years on assessing gender pay equity?



Source: KFHG (2017) sample of 100 organizations.



The shift in companies, technology, and demographics is monumental and is impacting the aerospace & defense sector

>50% of companies at the top of Fortune 500 in 2000 weren't there by 2015

75% of your workforce will be made up of millennials by 2025

1 billion people will regularly be using an AR/VR platform by 2021

By 2030 nearly 9% of the world's population will live in just 41 megacities

35 zettabytes (35 trillion gigabytes) of data will be generated annually by 2020

By 2029 it is predicted that robots will have reached the same intelligence as humans



Shifting demographics: Strategic issues

- Demand increasing significantly for new roles – e.g. technology, recent graduates
- More diverse and international workforces
- Training programs becoming more important but uneven results
- Convergence of tech, demographics, geography

Action plan

- Ensure programs align to demographic/ tech shifts
- Senior level engagement and visibility required
- CXO optimization – roles operate at full potential
- Measure results - 4.5x greater revenue growth for top vs. bottom quartile engagement & enablement





3

**Driving
innovation**



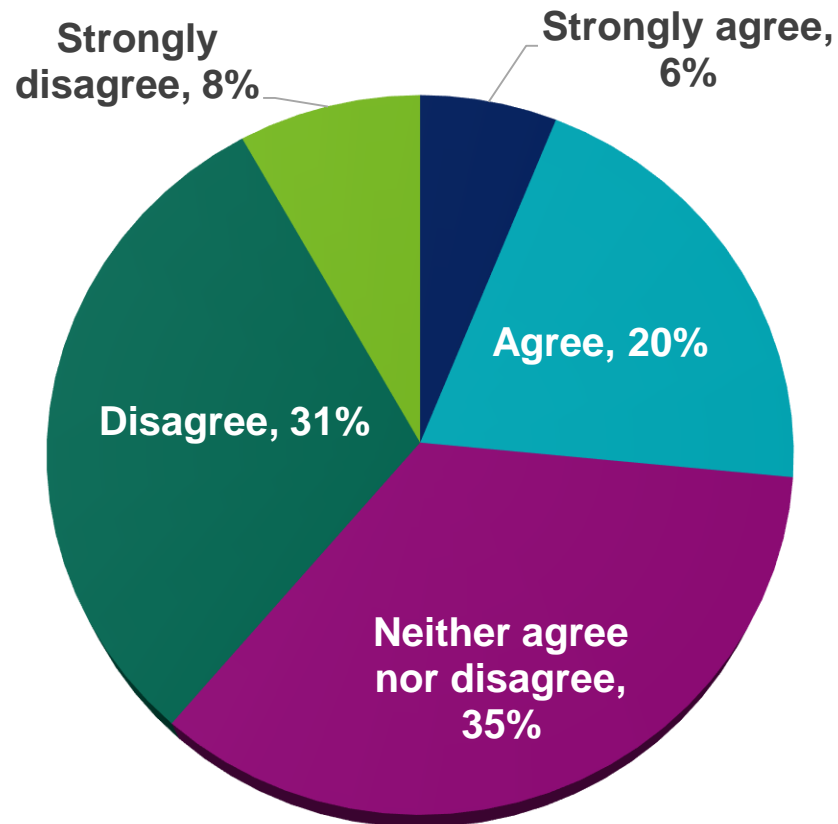
Driving innovation: Strategic issues

- Advanced technologies – e.g. autonomous systems, cyber, space requires new skill sets at all levels
- Looking at best practices from outside A&D sector – e.g. Silicon Valley
- Venture organizations within large companies, DIUX, etc . - goal to drive innovation, agility, and speed



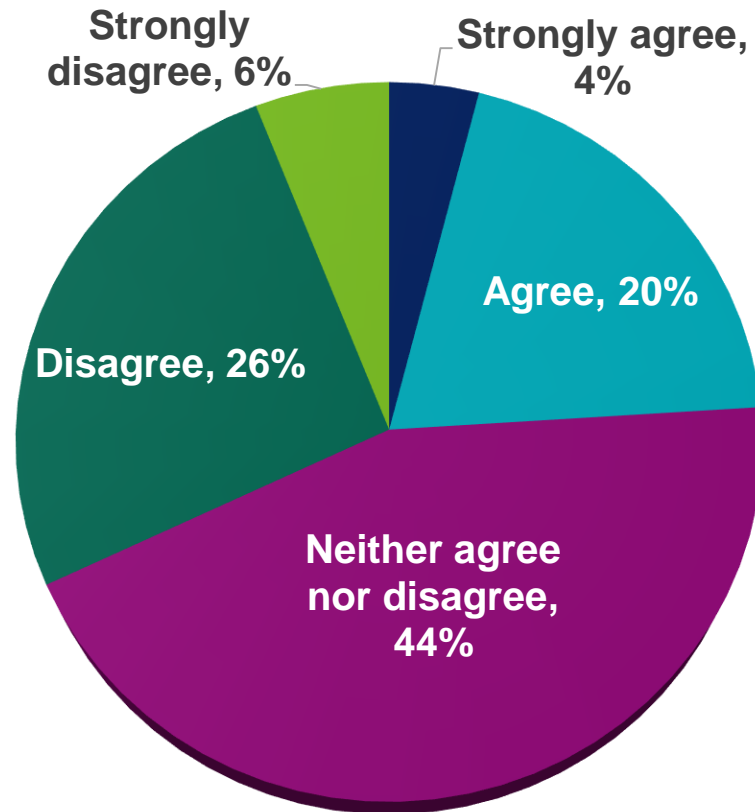
Aerospace & defense companies are still not structured for the digital age – only 26% ready

Question: My organization is structured properly for the digital age:



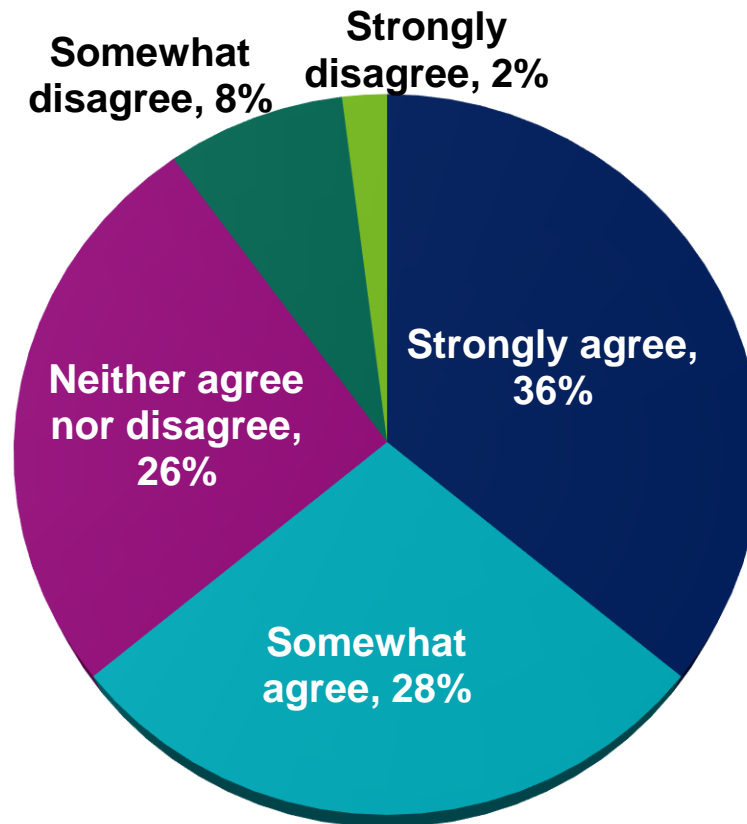
Talent gaps remain for aerospace & defense companies as they look to grow in the digital age

Question: My organization has the talent needed to support growth in the digital age



Technology can be an enabler for improving human capital and talent challenges at aerospace & defense companies

Question: Improved analytics and/or artificial intelligence can improve the management of my current talent and human capital challenges:



The challenges faced by aerospace & defense companies around digital transformation are not unique to the sector...KF view on digital readiness

Companies are making meaningful investments and commitments...

In 2017, companies spent **\$1.2 trillion** on digital transformation technology.

96% of organizations see digital transformation as **critical or important**.

42% of executives say **“digital first” or “digital to the core”** is now their company posture.

...but feel like they're struggling.

75% of organizations are **“not very confident”** in their ability to execute a digital transformation.

84% of execs say their organizations **do not have skills and capabilities** to deliver on digital ambition.

59% of companies are worried **pace** of their digital transformation efforts is causing them to **lose ground competitively**.

The roadblock? People.

63% of executives say digital transformation efforts stall due to **difficulties in “changing company culture to be agile.”**

39% of executives see **“resistance to new ways of working”** as a primary challenge to digital transformation

One in five executives secretly believes digital transformation projects are a **waste of time**.

Driving innovation: Strategic issues

- Advanced technologies – e.g. autonomous systems, cyber, space requires new skill sets at all levels
- Looking at best practices from outside A&D sector – e.g. Silicon Valley
- Venture organizations within large companies, DIUX, etc . - goal to drive innovation, agility, and speed

Action plan

- Recognize it's a tech issue but also a people issue
- Build a digital strategy
- Workforce planning for roles of future
- Org review – hiring, incentives, reporting roles, risk
- Pipeline—recruiting, mapping, speakers, succession





4

Global expansion



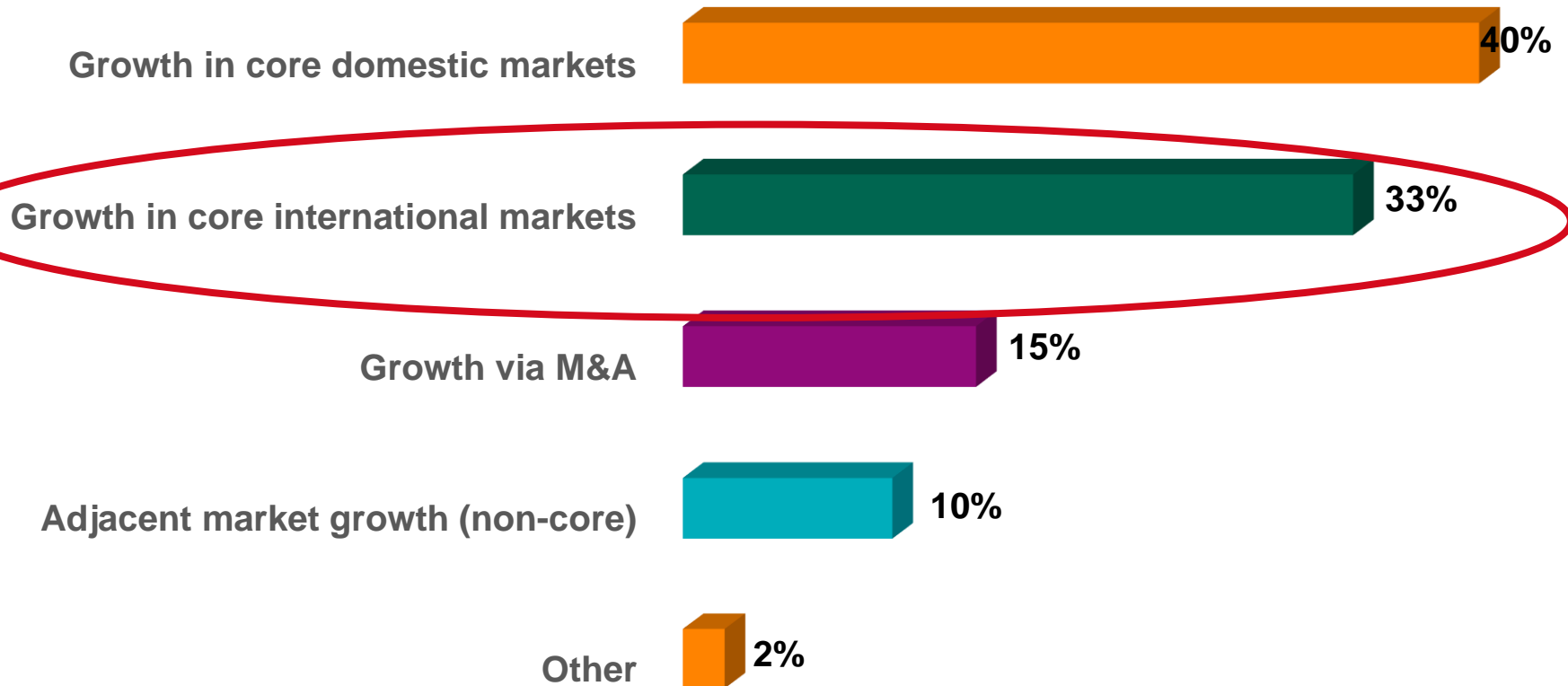
Global expansion: Strategic issues

- Budget growth continues outside US and Western Europe – MENA, Asia Pacific, Eastern Europe
- Companies increasingly setting up manufacturing, JV, partnerships in countries outside of home markets
- Consistent challenges with recruiting, training, developing and retaining local talent



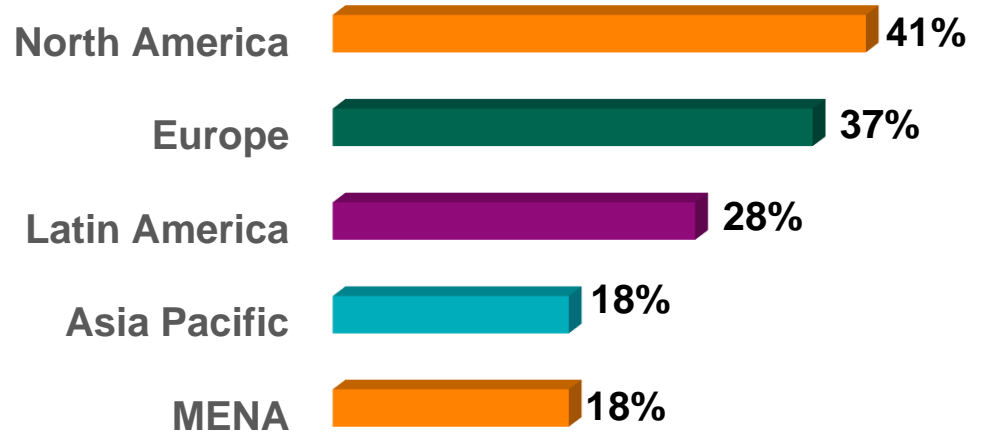
Global expansion remains a top priority in the aerospace & defense sector

Question: What is your expected largest source of growth in 2018?

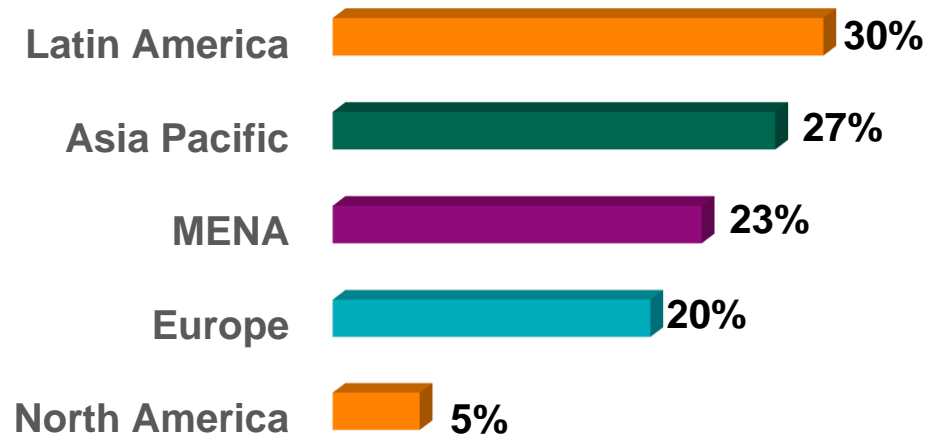


Hiring outside of US and Europe remains a considerable challenge across the aerospace & defense sector

Question: For the following regions, my organization can “successfully” recruit talent:



Question: For the following regions, my organization has “significant challenges” in recruiting talent:



Global expansion: Strategic issues

- Budget growth continues outside US and Western Europe – MENA, Asia Pacific, Eastern Europe
- Companies increasingly setting up manufacturing, JV, partnerships in countries outside of home markets
- Consistent challenges with recruiting, training, developing and retaining local talent

Action plan

- Be global but operate locally – develop competency in model
- Establish mix of corporate & local experience
- Requires recruiting, training, developing and integrating local staff – as important as product





5

M&A



M&A: Strategic issues

- High multiples across aerospace, defense, and government services sector but active M&A environment continues
- Large scale, cross-border, services, and PE all pursuing deals
- However, > 50% of transactions don't ultimately achieve value



Lots of M&A in aerospace & defense sector but deals across sectors often do not achieve their promise because of people

50%



of M&A deals reduce shareholder value and 33% achieve no growth.

23%



recover the cost of acquisition, and they do it over 10 years. There is a high probability that companies lose market share post integration.

90%



of successful deals addressed culture and people practices during due diligence or within 30 days after M&A announcement. This was completed in 33% of unsuccessful deals.

Deals across sectors fail due to eight clear people issues

Korn Ferry research and experience suggest that the following people issues need to be addressed throughout the M&A process

Clash of cultures

People can't work together

Leaders don't lead

Internal instead of customer focus

Best talent leaves

Cost synergy removes wrong roles or people

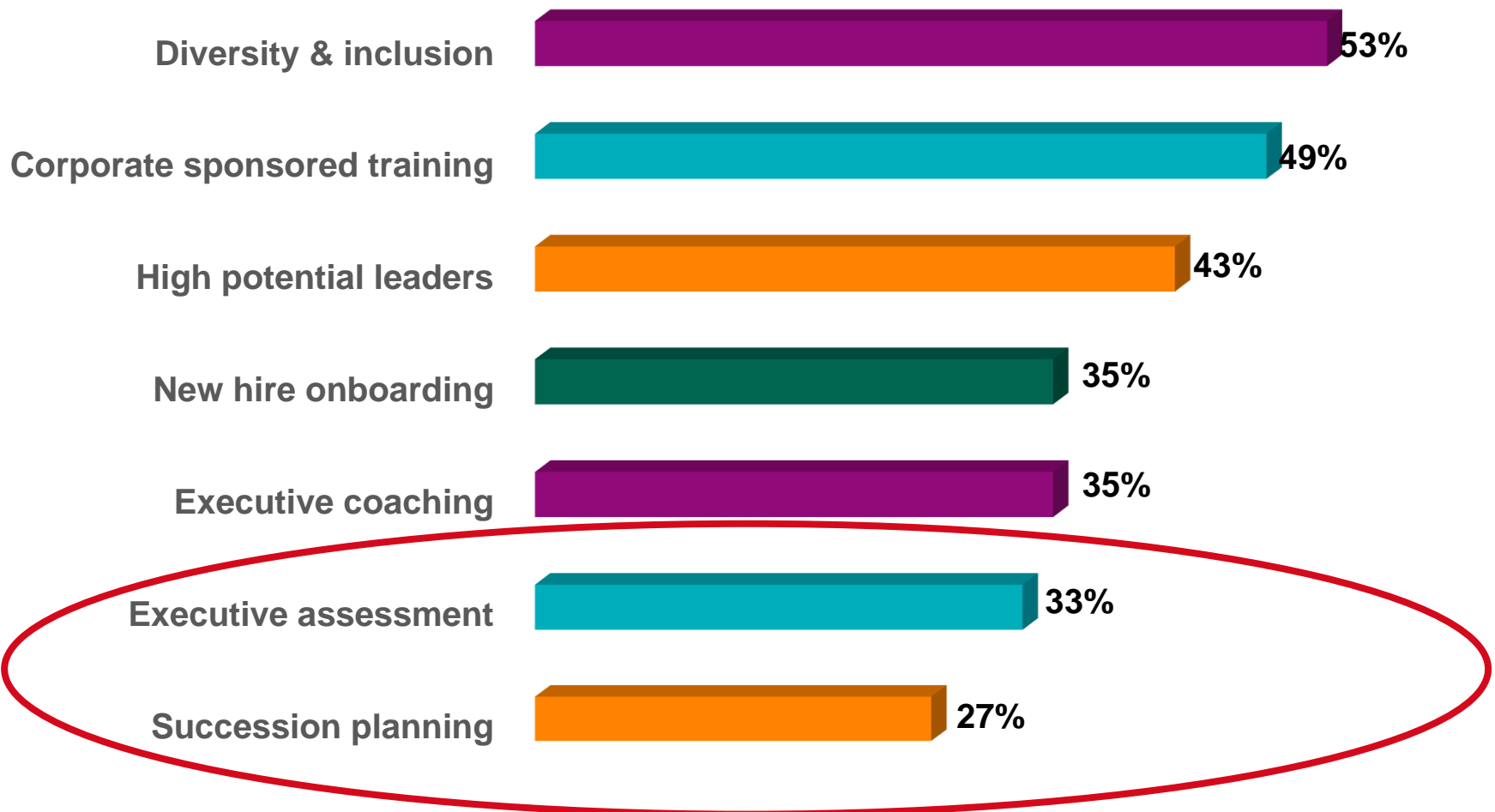
People are not motivated or enabled to do their work well

Long decision-making and lacks alignment



Improving assessment and succession planning are critical to successful M&A processes in the aerospace & defense sector

Question: For the following corporate training program, what are characterized as effective and very effective?



M&A: Strategic issues

- High multiples across aerospace, defense, and government services sector but active M&A environment continues
- Large scale, cross-border, services, and PE all pursuing deals
- However, > 50% of transactions don't ultimately achieve value

Action plan

- Address people issues early - 90% successful deals address talent & human capital in first 30 days
- Focus on improving assessment, onboarding, succession planning
- Talent alignment office to build/manage new organization



Take-away: The 5 A&D trends, the indicators and an action plan

A&D trend	Market indicators	Action plan
1. Greater competition & war for talent	<ul style="list-style-type: none"> Emerging global competitors Entrants in autonomous, space, cyber outside A&D Recruiting and retaining top talent becoming harder – all levels 	<ul style="list-style-type: none"> Talent acceleration - Recruit and retain as a source of advantage –proactive, faster, enable tech Establish talent alignment office - succession planning, acquiring, engaging & developing talent Define/communicate employer value proposition
2. Shifting demographics requires new approaches	<ul style="list-style-type: none"> Demand increasing significantly for new roles – e.g. technology, recent graduates More diverse and international workforces Training more important but uneven results Convergence of tech, demographics, geography 	<ul style="list-style-type: none"> Ensure programs align to demographic/ tech shifts Senior level engagement and visibility required CXO optimization – roles operate at full potential Measure results - 4.5x greater revenue growth for top vs. bottom quartile engagement & enablement
3. Driving innovation – people not just technology	<ul style="list-style-type: none"> Advanced technologies – e.g. autonomous, cyber, space requires new skill sets at all levels Looking at best practices from outside A&D sector Venture organizations within large companies, DIUX, etc. - drive innovation, agility, and speed 	<ul style="list-style-type: none"> Recognize it's a tech issue but also a people issue Build a digital strategy Workforce planning for roles of future Org review – hiring, incentives, reporting roles, risk Pipeline–recruiting, mapping, speakers, succession
4. Global expansion – sell globally but operate locally	<ul style="list-style-type: none"> Budget growth continues outside US and Western Europe – MENA, Asia Pacific, Eastern Europe Companies setting up manufacturing, JV, partnerships in countries outside home markets Consistent challenges with recruiting, training, developing and retaining local talent 	<ul style="list-style-type: none"> Be global but operate locally – develop competency in model Establish mix of corporate & local experience Requires recruiting, training, developing and integrating local staff – as important as product
5. Active M&A environment – but need to address human capital	<ul style="list-style-type: none"> High multiples across aerospace & defense sector but active M&A environment continues Large scale, cross-border, services, and PE all pursuing deals However, > 50% of deals don't achieve value 	<ul style="list-style-type: none"> Address people issues early - 90% successful deals address talent & human capital in 1st 30 days Focus on improving assessment, onboarding, succession planning Talent alignment office to build/manage new org



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