Growth Value in a Volatile World, Part 2

PwC

By PwC

This is part two of a two-part piece. Part one can be found here. *[1]*

Getting R&D Right

Regardless of where — and for which markets — they are designed, new products and services are fundamental to the success of industrial manufacturing companies. That’s why 35 percent of industrial manufacturing CEOs think they are the main route to growth over the next 12 months, compared to 28 percent of CEOs in the total sample.

Recognizing how important it is to get research and development (R&D) right, 84 percent also plan to change their company’s R&D and innovation capacity over the next 12 months — and 31 percent of them describe the changes they plan as “major.”

Making Products More Sustainable

We reported last year that industrial manufacturing CEOs were committed to using innovation to make their products more sustainable. This year, very few CEOs told us that the lack of a climate change agreement in Copenhagen or Cancun had affected their business. That doesn’t mean industrial manufacturing CEOs are paying less attention to improving the environmental impact of their products and operations, though.

As Caterpillar Inc.’s Douglas R. Oberhelman told us, “I talk with customers around the world, and without fail, within a few minutes they bring up the issue of environment sustainability, including issues such as managing fuel consumption, CO2 emissions and oil footprint. We have a number of good ideas and initiatives in the sustainability arena.”

Resilience to Macro Disruptions & Micro Risks

During 2011, global businesses had to confront a portfolio of unrelated high-impact global risks — from political upheaval and a nuclear disaster to massive floods and an unfolding sovereign debt crisis. Through it all, CEOs have learned that prudent risk management focuses less on the probabilities, and more on the consequences, of such diverse events.

Western Europe (particularly Germany) is traditionally a manufacturing stronghold, but the current economic situation is weighing on the sector. According to Markit Economics, December 2011 marked a fourth straight month of contraction in the Eurozone, and prospects for the first quarter of 2012 are bleak.

Industrial manufacturing CEOs are worried not only about the economic outlook in the Eurozone, but about the future of the single currency itself. They are more concerned about exchange rate fluctuations than their peers in other sectors: 67 percent see reason for caution, compared to 58 percent of the overall sample.

Preparing for the Unpredictable

Many of the industrial manufacturing CEOs we surveyed are already feeling the impact of Europe’s sovereign debt crisis. More than half say their companies have been directly affected. Strikingly, almost as many (47 percent) are changing how they do business as a result. They are also reassessing their strategy, risk management, and operational planning because of the earthquake and nuclear crisis in Japan, political upheaval in the Middle East and other external events.

In general, though, the initial phase of rapid adjustment after the financial crisis seems to have ended. Only 22 percent of industrial manufacturing CEOs plan to make major alterations to their risk management strategies in the coming year, although 40 percent cite changes in risk tolerance as a factor in changing their overall strategy.

For many industrial manufacturing companies, that most likely means taking a closer look at their supply chains. With so many companies operating across national and regional borders, supply networks have got longer and more complex. They are also potentially more vulnerable — which explains why 40 percent of industrial manufacturing CEOs are somewhat, or very, concerned about supply-chain security, compared to 34 percent of the total sample.

The Talent Challenge

Creating a company that can draw on its global strengths to realize local opportunities and manage micro risks with macro implications are two of the key challenges CEOs face. The third is managing a global workforce and competing for scarce human resources. In fact, this is the one issue on which industrial manufacturing CEOs most want to spend more time. Developing the leadership and talent pipeline is an even higher priority than meeting customers or creating a more efficient organization.

Talents Constraints Hurt the Bottom Line

Industrial manufacturing CEOs know how difficult it is to find the right talent. Nearly half of them told us that it’s becoming harder to hire workers, mainly because there aren’t enough qualified candidates. Engineering graduates are in short supply the world over — and the situation is likely to get worse with increasingly sophisticated production techniques. Demand for manufacturing professionals is projected to rise by over 4 percent a year in all economies, peaking at over 10 percent in developing economies in 2020.

Engineers are also critical in driving innovation, and for many companies, represent the biggest pool of talented candidates for middle management. In the industrial manufacturing sector, as in other industries, finding and keeping high-potential middle managers is a top concern.

Another key challenge is generational. More industrial manufacturing CEOs are having trouble attracting and retaining younger workers than is the case in the total sample. That’s especially troubling considering that the industry faces high retirement levels, particularly in mature markets. Younger workers are needed on the shop floor, too. More than a third of industrial manufacturing CEOs say it’s difficult to find enough skilled production workers.

Such talent constraints carry a very real cost. Nearly half of industrial manufacturing CEOs say their talent expenses rose more than expected last year. A third or more also report that innovation has suffered and that they have been unable to pursue a market opportunity. So it’s not surprising that more than half are concerned that the shortage of key skills could drag down growth.

Developing the Workforce

One way the industry is responding is through workforce development. The vast majority of industrial manufacturing CEOs (85 percent) think business has a responsibility in this area and nearly as many say they are already making investments, primarily to ensure a future supply of potential employees. But more than half of industrial manufacturing CEOs believe that skills development should be a key priority for government, too.

The U.S. government clearly takes the same view; President Obama expanded the “Skills for America’s Future” initiative in June 2011. The goal is to train up to half a million additional workers in advanced manufacturing skills. Government, education (primarily community colleges), private industry and trade organizations are all playing their part.

Making Talent Strategic

Workforce development to enhance the skills pool is surely part of the answer to the talent crunch, but industrial manufacturing CEOs also need to make sure that talent is integral to their strategic planning. Many are already trying to adopt a more strategic approach: 85 percent say the head of human resources reports directly to them.

Information on productivity and labor costs isn’t enough to isolate skill gaps and identify the pivotal jobs that drive exponential value, though. It doesn’t provide any insights on employee engagement or team performance, both of which are critical to foster innovation. These measurements are much harder to make, even when CEOs view them as vital components: 89 percent of industrial manufacturing CEOs think employees’ views and needs are important, or very important, for example, but only 21 percent consider the data they get truly comprehensive. More information could help with decision-making across the board.

To read part one of this two-part series, please click here. [1]For more information, please visit www.pwc.com [2].

Links:
[1] http://chem.info/Community/Blogs/CHEM-Blog/International-News-Growth-Value-in-a-Volatile-World-Part-1/
[2] http://www.pwc.com/