Enabling talent to drive innovation in aerospace and defense

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Executive summary

The aerospace and defense (A&D) industry is adjusting to a new market reality. Domestic defense spending is slowing, while new buyers have emerged seeking more sophisticated capabilities. As a result, companies in this $500 billion industry are aggressively investing in opportunities to enter new markets — developing nations in the Middle East and other regions.

At the same time, increasing margin pressure is forcing A&D organizations to restructure operations to control costs and remain competitive. These conflicting forces represent a major challenge for A&D organizations. To develop innovative products and services that will differentiate themselves in the marketplace, A&D companies need to maintain a highly skilled, talented and agile workforce. Yet developing this talent pool will require significant investments in people and technology, expenses that will face intense scrutiny in the current environment.

Chief human resources officers and their teams find themselves squarely in the middle of this dilemma. Clearly, Human Resources (HR) functions that can drive costs out of legacy business processes and help their companies make intelligent, targeted investments in talent will be positioning the organizations to seize a competitive edge. To do this, however, they will need to partner with other functions, particularly Finance, as they build the business case for these investments.

To gain insights into how the A&D industry is adapting to these developments, EY's People Advisory Services group administered a survey in the summer of 2015 to executives and leaders within HR, Finance and other organizational functions in the industry. The survey sought to collect input about industry trends and diverse HR topics, including talent management, HR service delivery and compliance. Respondents identified key HR operations and people priorities and anticipated outlooks in the next three years.

Among the survey’s key findings: many respondents believe that an organization’s overall talent profile will be a key differentiator in coming years. HR organizations in A&D companies that make smart, targeted talent investments can position their organizations to achieve innovation objectives and seize a competitive edge. In addition to raising the talent profile, the survey suggests the need for a greater focus on improving HR operations that will support talent enablement, new product development, innovation and international expansion.

The survey also indicates that improving collaboration between HR and Finance could play a critical role in helping organizations make the right investments in talent and talent enablement. While HR and Finance agree on many areas according to our survey, they also differ significantly on what they consider to be the main challenges facing their organizations.

82% of Finance respondents said that they expect investment for innovation to remain at current levels, which means A&D organizations will have to make smarter investments with existing resources.

While HR and Finance respondents agreed that improving process inefficiencies should be a key initiative for company management, 77% of HR respondents said that the management agenda also included improving the talent profile, while only 45% of Finance professionals agreed.

The right talent and talent enablement investments could be key differentiators for A&D organizations moving forward. HR functions must align with Finance to demonstrate the value of these investments and take tangible steps to realize this value.

42% of Finance respondents felt that HR had no significant influence over key finance objectives but hope that HR can play a greater role.
Raising the talent profile

Forward-thinking A&D companies recognize that a highly engaged, talented workforce can help them to gain an edge in the marketplace. Many of our survey respondents recognize the importance of talent to the organization’s success. Some 58% of all respondents said that improving the organization’s talent profile was a main initiative on their management agenda, along with a focus on improving how their organization recruits and retains talent. The survey found several key themes that focused on raising the talent profile of the organization: developing a strong pipeline of future leaders, defining an appropriate response to the global demand for talent and elevating the importance of improving employee engagement.

Improving the pipeline of future leaders

When we asked respondents about the challenges that face HR, we learned that they viewed developing a pipeline of future leaders as absolutely critical through mechanisms such as succession planning. Specifically, 62% of HR respondents reported that they believed the organization needed to improve succession planning as it responds to an aging workforce and loss of key leaders. We found strong alignment when we asked HR respondents to identify the main initiatives for their talent management agenda over the next three years, with respondents pointing to a number of areas aimed at grooming future leaders. Again, 62% of HR respondents answered that their main initiatives were to improve succession planning to respond to an aging workforce, while just over 60% identified efforts to improve recruiting programs to recognize and attract high-potential talent.

The survey also revealed that a key challenge to the global talent profile is delivering the right talent to the right place at the right time. We found that 46% of HR respondents believed that their talent mobility programs were ineffective.

In addition, 77% of HR survey respondents believed that employee mobility should be a key initiative on the talent management agenda in the next three years. We learned from the survey that many HR functions are taking actions to encourage and support mobility within the organization and across borders.

For example, to support global initiatives, 38% said they would rely on expatriates for long-term international assignments lasting more than a year in duration, while 31% said they were utilizing short-term business travelers for international assignments/rotations that lasted less than a year. Another 46% said they were recruiting and developing local resources to satisfy in-country talent needs.

Given that each of these options to support global talent profile needs has different tax and payroll implications, organizations should not look at them in silos, but take steps to align them with business strategy, tax strategy (corporate tax and employment tax) and talent strategy.
The responses highlighted in the chart below list the current challenges facing HR functions. Respondents identified three key areas of opportunity for improvement: ineffective succession planning, a lack of diversity and limited options for talent mobility and career paths.

<table>
<thead>
<tr>
<th>What are your top talent management challenges?*</th>
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</thead>
<tbody>
<tr>
<td>Lack of diversity at different levels of the organization</td>
<td>54%</td>
</tr>
<tr>
<td>Ineffective succession planning</td>
<td>54%</td>
</tr>
<tr>
<td>Ineffective talent mobility and career path planning (e.g., cross-functional and/or upward mobility)</td>
<td>46%</td>
</tr>
<tr>
<td>Competency and skill gaps in critical positions</td>
<td>38%</td>
</tr>
<tr>
<td>Lack of employee engagement or satisfaction</td>
<td>31%</td>
</tr>
<tr>
<td>Lack of adequate resources from the local talent market</td>
<td>31%</td>
</tr>
<tr>
<td>Ineffective global mobility planning (e.g., international assignments)</td>
<td>23%</td>
</tr>
<tr>
<td>High turnover</td>
<td>23%</td>
</tr>
<tr>
<td>Overcoming restrictive labor contracts</td>
<td>15%</td>
</tr>
<tr>
<td>Lack of adequate science, technology, engineering and mathematics talent with the right skill sets</td>
<td>15%</td>
</tr>
</tbody>
</table>

*HR survey respondents
While the survey focused on talent issues and related talent programs, it also identified significant challenges with respect to employee engagement. Numerous studies have shown that engaged employees are more likely to exceed client expectations, whether by developing innovative products or simply providing exceptional client service. Yet only 27% of all respondents said they believed their workforces were highly engaged. Responses from HR and Finance stakeholders were even lower, with 8% and 11%, respectively, saying they believed employees were highly engaged. These industry engagement statistics are significantly lower than general figures. For example, a Gallup survey, conducted in 2014, found that 31.5% of US workers were engaged in their jobs. Based on this data, A&D organizations need to focus on how to better engage their employees through their talent programs.

**Key talent takeaways**

Making smart and targeted investment in talent programs can improve engagement. Below are several key takeaways that could help A&D organizations raise their talent profile.

- Align and integrate succession planning strategy with other talent management programs to identify and develop a future leadership pipeline
- Identify smart investment opportunities and a strategic approach to employee mobility to support their efforts to expand globally
- Expand diversity initiatives – lack of diversity at different levels of the organization was also seen as a top challenge in the survey; integrating diversity considerations into talent management programs (recruiting, succession planning and others) is a tremendous opportunity to improve engagement, idea generation, collaboration and overall talent strategy
- Evaluate how they can integrate employee engagement efforts into talent investments
- Search for opportunities to identify unique methods to increase engagement

Effective resource deployment can make the difference between strategic success and failure for A&D organizations, especially for services associated with large contracts. To respond successfully, organizations need to plan ahead and rapidly deploy resources to meet staffing needs. The survey found significant opportunity for improvement exists. When asked about resource deployment, 46% used centralized tools, while 38% reported using disparate tools or manual processes. The lack of a standard, integrated and automated tool impedes the organization's ability to effectively plan and deploy their resources.

<table>
<thead>
<tr>
<th>Which of the following statements accurately describes your resource planning and deployment process?*</th>
</tr>
</thead>
<tbody>
<tr>
<td>We use a centralized/software tool to carry out resource planning and deployment processes globally</td>
</tr>
<tr>
<td>Different offices use different tools to carry out resource planning and deployment processes</td>
</tr>
<tr>
<td>Our HR resources handle the planning and deployment process manually</td>
</tr>
<tr>
<td>I do not know/NA</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Employees are responsible for their own resource planning and deployment process and inform us as they need help</td>
</tr>
<tr>
<td>We do not have a resource planning and deployment process; we manage resources on a case-by-case basis</td>
</tr>
</tbody>
</table>

*HR survey respondents
Improving HR service delivery to help enhance bottom line

HR operations and service delivery serve as one of the key enablers of talent within an organization. At the same time, HR also represents a major operational area and overhead cost. As a result, HR teams have an opportunity to provide a better return on investment through more efficient and effective HR services, across the hire-to-retire life cycle.

While there can be a variety of root causes to this discrepancy, the largest that the survey found was related to the lack of tools and resources. Specifically, the survey found that only 15% of respondents said they had a single tool or platform that would keep their business apprised of resource needs and resource capabilities with regard to global workforce planning, functional performance, staffing, reporting and data analytics. This offers HR functions and A&D organizations a major opportunity for improvement, ranging from enhancing basic reporting capabilities to investing in data analytic capabilities to better anticipate future needs.

The survey found several key themes. First, the opportunity exists for HR to play a strategic role in the broader organization by improving how it delivers services to enable talent and better serve internal and external partners within the organization. Also, we found that responders felt that data and technology investment will be critical for HR to define these issues as well as to maintain a continuous focus on compliance.

A critical component to enabling talent, and also to maximizing the impact HR has on the broader organization, is strategic HR input. One key challenge to HR’s strategic relevance is the fact that many A&D HR organizations lack the ability to generate strategic insights into workforce planning and functional and organizational performance.

Interestingly, the survey respondents typically indicated that they would be able to balance compliance with innovation, with only 33% of respondents identifying an inability to balance compliance needs with an appropriate level of innovation and risk management.

What is the most impactful measure to improve cost recovery?

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Maintain effective and efficient contracting/programming operations</td>
<td>73%</td>
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<tr>
<td>(e.g., program/contract schedule coordination, supply chain considerations, technology)</td>
<td></td>
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<tr>
<td>Establish and maintain clear and accurate forward pricing</td>
<td>64%</td>
</tr>
<tr>
<td>Workforce reduction</td>
<td>36%</td>
</tr>
<tr>
<td>Control raw material/supply cost</td>
<td>27%</td>
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</tbody>
</table>

Technology is a key enabler of HR strategy and the application of analytics. Nearly one-third (31%) of all HR respondents said they were hampered by ineffective human resources information systems (HRIS), making it difficult to pull accurate data from disparate sources. The fact that only 30% of respondents reported that they had a common technology platform may explain that response. Technology represents a clear opportunity for differential investment that will help HR to improve operations and to enable talent.

In fact, the need for technology improvements was a recurring theme throughout the survey. HR respondents emphasized technology even further when they noted ineffective HRIS and an inability to pull accurate data as a top challenge to maintaining compliance. Not only is this a current challenge but the survey found that 68% of all respondents expected regulatory compliance and transparency requirements to increase over the next three years.

Interestingly, the survey respondents typically indicated that they would be able to balance compliance with innovation, with only 31% of respondents identifying an inability to balance compliance needs with an appropriate level of innovation and risk management.

85% of HR respondents feel that HR strategy generally aligns with business strategy, while only 33% of non-HR professionals agreed.
One HR operational area that seemed to indicate stability was the current HR service delivery structure. The survey found that HR believes there is a good balance between internal and external support (i.e., outsourcing): 77% of respondents expected the level of outsourcing in their organizations to stay about the same.

When change to the service delivery structure was required, HR respondents offered three main reasons for outsourcing HR functions:

- Save money and reduce operating costs
- Streamline processes
- Allow HR staff to focus on strategic activities

Improving regulatory compliance

To maintain transparency across the organization, most HR respondents (85%) suggested effective compliance and ethics training programs to demonstrate ethical behaviors could help. The other major actions that could be taken include:

- Effective programs to receive and respond to complaints and concerns
- Consistent HR policy in place across different levels of the organization
- A strong brand to support a culture of compliance and transparent communication
- Ethical modeling at the leadership level

The survey results offer potentially valuable insights on how HR can improve its operations:

- Invest in data and technology to improve the ability of the HR function to provide strategic, regulatory and talent insights to the organization
- Monitor how best to deliver the critical services needed to enable the talent of the organization – this may require adjusting the service delivery approach as opportunities to operate more efficiently and effectively emerge within the organization and externally; many A&D organizations are decentralized, which creates inherent structural and cultural challenges in this space
- Focus on improving compliance by incorporating it into all activities, with a particular focus on automation and tracking
- Develop strategic insights that link HR elements to broader business insights

Describe your top measures in maintaining transparency across the organization

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective compliance and ethics training programs to demonstrate ethical behaviors (e.g., risk identification, reporting of fraud and corruption)</td>
<td>85%</td>
</tr>
<tr>
<td>Effective programs to receive and respond to complaints and concerns (e.g., whistle-blower program and hotline)</td>
<td>69%</td>
</tr>
<tr>
<td>Consistent HR policy in place across different levels of the organization</td>
<td>62%</td>
</tr>
<tr>
<td>Transparent communication and ethical modeling at the leadership level</td>
<td>54%</td>
</tr>
<tr>
<td>Strong brand to support a culture of compliance</td>
<td>54%</td>
</tr>
<tr>
<td>Reinforced HR governance in place (e.g., rotation of personnel, conflict-of-interest process)</td>
<td>46%</td>
</tr>
<tr>
<td>Continuous opportunities for innovation in the governance framework</td>
<td>38%</td>
</tr>
</tbody>
</table>
Improving alignment and collaboration between HR and Finance

As HR organizations look to invest and create value, a key partner in these endeavors will be Finance. In fact, it is critical that HR and Finance align. HR initiatives have a significant impact on the organization’s financial statements, representing a major investment for many organizations. Assessing the alignment between HR and Finance was a key component of the survey, and as we delved into the responses, we found areas of strong alignment, tempered by some significant differences of opinion.

For example, the survey found that HR is closely aligned with the expectations of respondents from Finance with respect to managing costs: 74% of Finance respondents rated reducing overhead cost as a first or second priority for HR, which mapped closely to HR responses. However, the survey also found that while 62% of HR respondents believed that their department always collaborated with Finance to align priorities and support the business, only 21% of Finance respondents agreed with that assessment. A further 42% of Finance respondents stated that the functions occasionally collaborated and aligned priorities. This shows that there is potential opportunity for HR and Finance to work more closely and a need for the two functions to improve two-way communication.

HR and Finance also reported significant differences when they were asked what they considered to be the greatest potential harm to the organization. On this question, 80% of the HR respondents selected “insufficient talent within the organization” as one of the top three threats, while 64% of the Finance respondents selected “operating costs” as one of the top three threats. Accordingly, when asked where they would like to see HR invest over the next three years, 74% of Finance professionals ranked overhead cost as either the first or second option.

HR could potentially improve collaboration with Finance by translating the impact of people initiatives into financial impact. It is also critical that HR understand Finance priorities. For example, Finance has experienced significant margin pressure in recent years. Our survey probed this area and found the following: 73% of Finance respondents attribute margin pressure to a reduction in government funding and a decrease in the number of A&D contracts available. Another 45% of respondents listed inefficiencies in production and innovation, and another 45% cited increased people/talent cost (e.g., salary, health and welfare, staffing). All of these are factors that HR can directly or indirectly impact to improve financial margins.
Improving cost recovery is one key area that the survey highlighted where HR could support Finance. Both Finance and HR respondents agreed that the top two areas where HR should focus within this space would be to improve cost tracking and increase their focus specifically on cost recovery.

Understanding the company’s financial priorities could help HR to better position its initiatives with Finance as well as with the goals of the broader organization. To that end, HR and Finance could find significant opportunities to collaborate to help drive smarter investments related to talent and talent enablement.

Improving the talent profile

The survey revealed a number of significant opportunities that exist for HR functions to drive the talent agenda, enable talent through sound HR operations and better collaborate with Finance.

76% of A&D respondents saw insufficient talent as the most likely driver to harm the organization financially.

Specifically, the survey identified several areas where HR could help position their organization to achieve innovation objectives and seize a competitive edge:

- **Talent**: continue to listen to the organization regarding challenges to acquiring, developing and retaining the right talent and responding with targeted talent programs in a global setting
- **Improving HR service delivery**: clearly identify how the HR footprint can maximize its return on investment to support talent enablement, new product development and compliance
- **Collaborate more effectively with Finance**: articulate how HR can align its value proposition to that of Finance. In addition, identify ways to collaborate with Finance to deliver strategic input to the broader organization

Despite the challenges the industry is facing, respondents offered an optimistic view of the future. Given this view, leading HR functions that can effectively collaborate with Finance could help position their organizations to take advantage of the optimism. By making smart, targeted talent investments to raise the talent profile of the organization and improving HR delivery, HR could help drive new innovation that will help the broader A&D organization to deepen relationships with support and existing customers and significantly improve its competitive edge in the marketplace.

The survey results suggest that HR can take the following steps to bridge this gap:

- Demonstrate the value of talent to both the top and bottom lines of the organization
- Articulate the return on investment related to HR operations while taking into account compliance, talent enablement and key HR initiatives
- Identify opportunities with Finance to clearly demonstrate how key talent investments will align with key business performance measures
- Show the impact of key organizational priorities on people, investment and the financial standing of the organization, working in close conjunction with Finance
Survey objectives and methodology

We designed this survey to gain a better understanding of trends in the A&D industry and to identify opportunities for HR to improve its performance along with that of the broader organization. A key area of focus was the partnership between HR and Finance.

To that end, the survey is adaptive in nature to deliver targeted questions to participants — leaders within HR and Finance, C-suite executives and other industry professionals. We grouped participants into three overall groups: HR practitioners, Finance practitioners and general industry professionals. We sought to identify key considerations from each group’s vantage point, comparing similar sets of data to identify points of inconsistency.

The survey, which relied on input from a combination of campaign channels (e.g., LinkedIn, ey.com) and EY’s client connections, represented a range of industry segments, including intelligence, aviation and aerospace.

As a result of its structure, participant groups and campaign channels, the survey offers HR practitioners insights from multiple perspectives: industry, market and internal stakeholders.

What is your global headcount? (Across all offices globally)

- 77% 0-50,000
- 23% 50,000-150,000+

Which industry segment(s) does your organization provide services in?

- Aerospace: 72%
- Aviation: 48%
- Intelligence: 40%
- Naval/maritime: 31%
- Space: 31%
- Commercial jets: 29%
- Cybersecurity: 28%
- Unarmed systems: 21%
- Other: 16%
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About EY’s People Advisory Services
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We work globally and collaborate to bring you professional teams to address complex issues relating to organization transformation, end-to-end employee lifecycles, effective talent deployment and mobility, gaining value from evolving and virtual workforces, and the changing role of HR in support of business strategy. Our EY professionals ask better questions and work with clients to create holistic, innovative answers that deliver quality results.

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