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

KORN FERRY®
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

**Performance is our business**

- **Organizational strategy**
- **Assessment & succession**
- **Talent acquisition**
- **Leadership development**
- **Rewards & benefits**

- 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
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:**

- Strongly increase: 16%
- Increase: 60%
- Stay the same: 24%
- Decrease: 0%
- Strongly decrease: 0%
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:

- **Strongly increase:** 23%
- **Increase:** 56%
- **Stay the same:** 21%
- **Decrease:** 0%
- **Strongly decrease:** 0%
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:

- Much more challenging: 7%
- More challenging: 66%
- No change: 21%
- Less challenging: 3%
- Much less challenging: 3%
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:
- Boeing
- Lockheed Martin
- Northrop Grumman
- Gulfstream
- Raytheon
- Spirit Aeronautics

Outside aerospace & defense:
- Google
- Amazon
- IBM
- GE
- Apple
- Adobe
- Salesforce
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?

- **DISRUPT** 55%
- **REFRESH** 45%
- **STAY THE COURSE** 0%
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:

- Technology/digital expertise: 75%
- Recent college graduates: 67%
- BD and capture: 64%
- Security clearance: 55%
- Operations and/or supply chain: 50%
- International leaders: 48%
- General management: 31%
- Finance: 26%
- Human resources: 21%
- Senior executives: 21%
Question: For the following corporate training program, what are characterized as effective and very effective?

- Diversity & inclusion: 53%
- Corporate sponsored training: 49%
- High potential leaders: 43%
- New hire onboarding: 35%
- Executive coaching: 35%
- Executive assessment: 33%
- Succession planning: 27%
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:

- New hire onboarding: 69%
- Succession planning: 65%
- High potential leaders: 58%
- Diversity & inclusion: 54%
- Corporate sponsored training: 50%
- Executive assessment: 38%
- Executive coaching: 31%
Successful programs require 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?*

- To a great extent: 5%
- To an extent: 10%
- Somewhat: 61%
- Not at all: 25%

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

- Yes: 60%
- No: 23%
- We are considering doing so within the next year or two: 17%

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:

- Strongly agree, 6%
- Agree, 20%
- Neither agree nor disagree, 35%
- Disagree, 31%
- Strongly disagree, 8%
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:

- Strongly agree, 36%
- Somewhat agree, 28%
- Neither agree nor disagree, 26%
- Somewhat disagree, 8%
- Strongly disagree, 2%
The challenges faced by aerospace & defense companies around digital transformation are not unique to the sector…KF view on digital readiness

<table>
<thead>
<tr>
<th>Companies are making meaningful investments and commitments…</th>
<th>…but feel like they’re struggling.</th>
<th>The roadblock? People.</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2017, companies spent $1.2 trillion on digital transformation technology.</td>
<td>75% of organizations are “not very confident” in their ability to execute a digital transformation.</td>
<td>63% of executives say digital transformation efforts stall due to difficulties in “changing company culture to be agile.”</td>
</tr>
<tr>
<td>96% of organizations see digital transformation as critical or important.</td>
<td>84% of execs say their organizations do not have skills and capabilities to deliver on digital ambition.</td>
<td>39% of executives see “resistance to new ways of working” as a primary challenge to digital transformation</td>
</tr>
<tr>
<td>42% of executives say “digital first” or “digital to the core” is now their company posture.</td>
<td>59% of companies are worried pace of their digital transformation efforts is causing them to lose ground competitively.</td>
<td>One in five executives secretly believes digital transformation projects are a waste of time.</td>
</tr>
</tbody>
</table>

Sources: Gartner, IDC, SADA Systems, Altimeter@ Prophet, Wipro
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
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?

- Growth in core domestic markets: 40%
- Growth in core international markets: 33%
- Growth via M&A: 15%
- Adjacent market growth (non-core): 10%
- Other: 2%
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:

- North America: 41%
- Europe: 37%
- Latin America: 28%
- Asia Pacific: 18%
- MENA: 18%

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

- Latin America: 30%
- Asia Pacific: 27%
- MENA: 23%
- Europe: 20%
- North America: 5%
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.

<table>
<thead>
<tr>
<th>50%</th>
<th>23%</th>
<th>90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>of M&amp;A deals reduce shareholder value and 33% achieve no growth.</td>
<td>recover the cost of acquisition, and they do it over 10 years. There is a high probability that companies lose market share post integration.</td>
<td>of successful deals addressed culture and people practices during due diligence or within 30 days after M&amp;A announcement. This was completed in 33% of unsuccessful deals.</td>
</tr>
</tbody>
</table>
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

Deals across sectors fail due to eight clear people issues.
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?

- Diversity & inclusion: 53%
- Corporate sponsored training: 49%
- High potential leaders: 43%
- New hire onboarding: 35%
- Executive coaching: 35%
- Executive assessment: 33%
- Succession planning: 27%
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

<table>
<thead>
<tr>
<th>A&amp;D trend</th>
<th>Market indicators</th>
<th>Action plan</th>
</tr>
</thead>
</table>
| 1. Greater competition & war for talent | • Emerging global competitors  
• 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 | • 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 | • 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 | • 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 | • 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 | • 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 | • 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 | • 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 | | • 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 |