Research Report

Workforce Planning for a Global Automotive Economy

Report Developed in Partnership by:
University of Michigan Transportation Research Institute, Automotive Analysis Division (formerly OSAT) and Watson Wyatt Worldwide
University of Michigan Transportation Research Institute, Automotive Analysis Division

The Automotive Analysis Division (formerly OSAT), a unit of the University of Michigan Transportation Research Institute (UMTRI), has described and analyzed the automotive industry’s development and direction for more than 25 years. Its objective is to provide research and analysis, information resources, and communication forums that meet the evolving needs of the international automotive industry and related industries.

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Executive Summary

The University of Michigan Transportation Research Institute’s (UMTRI) Automotive Analysis Division (formerly known as the Office for the Study of Automotive Transportation) and Watson Wyatt Worldwide recently partnered to investigate how

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automotive suppliers manage their global human resources (HR). The project team interviewed 20 executives at 14 major Tier 1 suppliers about their global challenges and strategies, especially in the HR arena.

Tier 1 suppliers face unprecedented challenges as they rapidly globalize their activities. To meet their customers’ growing demands, they must effectively manage their capital and human resources in a never-ending quest to reduce costs.

Our executive interviewees emphasized four major points:

- Automotive suppliers’ extensive global reach creates a complex web of offshoring and outsourcing relationships.
- Suppliers continue to see themselves as subordinate actors in the globalization of the automotive industry.
- Outsourcing activities to Tier 2 suppliers create significant challenges.
- HR is both a key challenge and a key solution in global expansion.

Global HR management starts with workforce planning — projecting the human capital required to meet business objectives — which ultimately enables companies to reduce costs, increase stakeholder value, and improve results. These projections underpin the effective management of recruitment, retention, and deployment (RRD) of staff worldwide.

Although Tier 1 suppliers recognize the importance of human capital to successful globalization, our results indicate that, in general, their workforce strategies could be improved in the following areas:

- **Workforce planning**: The companies do not sufficiently use their HR departments to predict human capital needs. A more systemic approach to staffing would reduce costs and improve efficiency.
- **Recruitment**: These suppliers face critical talent shortages, particularly in engineering, in required locales and often find themselves competing with other global companies for local talent. Balancing offshore investments with available human resources requires creative recruitment strategies.
- **Retention**: In new markets where the economy is expanding quickly, poaching employees is common. Rising wages can easily lure employees away, often to a customer or competitor. The use of job-market data is critical to protecting a company’s human capital investment.
- **Deployment**: Suppliers often feel forced to choose managers with functional experience over those with local cultural and legal knowledge, but both are critical to succeeding overseas. Effective workforce planning fosters balanced staffing. HR is underused in supporting global operations and in developing local and expatriate managers to support operations.

A more systemic approach to staffing could reduce the costs of RRD and enable companies to reap all the benefits of globalization.
Globalization of the automotive industry continues to accelerate as offshore manufacturers and suppliers open production facilities in North America, and North American companies invest overseas and throughout the North American Free Trade Agreement (NAFTA) region.

Numerous factors are driving the expansion. Automakers must compete in all developed markets and meet the growing demand in developing nations. They must protect their global market share and their corporate image as companies that build locally and sell locally. Suppliers must follow their customers and protect or increase their own global share. Globalization also enables them to diversify their customer portfolios.

But perhaps the most compelling reason to globalize is to reduce costs that would otherwise trickle down to consumers (as higher prices) and shareholders (as reduced profits). Pressure to rein in costs has become fierce in the last few years, spurred by the ever-increasing market share of leaner Japanese companies. With labor-related costs among the highest that companies incur in normal business operations, outsourcing labor has become a popular financial fix as automakers call on both contract labor and their suppliers to take on more of the production involved in bringing a vehicle to market. And as overseas workers in both blue- and white-collar positions become better educated and more skilled technically, the popularity of offshoring is increasing.

This solution has potential downsides, however, which are only beginning to become clear. Among them are the non-labor costs of remote activities and the potential damage to home country workforce morale, commitment, and retention. Globalizing companies face complex challenges that demand the integration of operational activities, business objectives, and functional responsibilities. Meeting these challenges requires new organizational models and higher levels of sophistication and diligence in key leadership roles, including top executives and functional managers.

- Companies must select locations by balancing all potential advantages and disadvantages in areas as diverse as labor quality, industrial and transportation infrastructure, logistical costs for imports and exports, political stability, and currency issues.
- General Managers must design profitable and sustainable strategies — spanning design, sourcing, manufacturing, and marketing — for creating a global corporate footprint.
- Product designers and engineers must develop distinct vehicles and components that satisfy diverse markets and customers while minimizing wasteful product proliferation.
Manufacturing and purchasing executives must find and develop the best opportunities to make and/or buy components and vehicles that offer world-class cost and quality.

HR professionals must create plans to meet projected workforce needs and identify the strengths and weaknesses of different labor forces. They must recruit, train, and develop the best available talent, and implement career and retention strategies that leverage the company’s global workforce.

Tier 1 suppliers face especially daunting challenges as they try to manage their worldwide competitive assets — both capital and human. Successful global HR management starts with workforce planning, which projects the human capital required to meet business objectives. These projections underpin the effective management of recruitment, retention, and deployment (RRD) of staff worldwide, ultimately helping companies reduce costs, increase stakeholder value, and improve business results.

Methodology: The Approach
UMTRI/AAD and Watson Wyatt recently partnered to investigate how major Tier 1 suppliers manage their global human resources. We based the study on interviews with 20 executives from 14 suppliers that were conducted between February and August of 2005. In fact, 13 of the companies are among the top 20 global suppliers as measured by sales. Of the 14 companies, seven are based in North America, five in Europe, and two in Japan.1

Globalization by the Tier 1 suppliers, representing more than $200 billion in sales in 2004, has been driven primarily by their customers’ globalization efforts. As one executive put it, “OEMs talked about going to global platforms five years ago, but only now are we seeing a true global supplier situation and global pricing.”

The participating suppliers’ average annual sales are about $15 billion, which has grown by an average annual rate of 6.4 percent over the past five years. In 2004, their average sales outside their home region grew to 42 percent.

The executives received an advance copy of the interview to give them some time to think about the questions and their responses. The 20 interviewees span the three major automotive regions: nine are from North America, seven from

1 The 14 companies were North American suppliers Dana Corporation, Delphi Corporation, Johnson Controls Incorporated, Lear Corporation, Magna International Incorporated, TRW Automotive Incorporated, and Visteon Corporation; European suppliers Freudenberg & Company, Robert Bosch GmbH, Siemens VDO Automotive, Valeo SA, and ZF Friedrichshafen AG; and Japanese suppliers Denso Corporation and Yazaki Corporation.
Automotive suppliers’ extensive global reach creates a complex web of offshoring and outsourcing relationships

Supplier globalization involves much more than simply locating manufacturing activity in another country. It frequently encompasses general management, HR, design/engineering, sourcing materials and components, manufacturing and assembly, and marketing and distribution. When trying to approximate a company’s global activity, it is important to differentiate between the activities that take place inside its traditional home base (which may be a country, like the United States, or a region, like North America) and those that take place outside that home base.

It is equally important to estimate Tier 1 suppliers’ global activity represented by the purchase of components, materials, and services from their suppliers (typically called Tier 2 suppliers) by examining where that activity takes place. Despite the wide range of responses, the answers revealed some interesting aspects of the 14 companies’ globalization, as seen in Table 1.2

First, these suppliers are already global, with an average of roughly 40 percent of their economic activity occurring outside their home region or base (Cell 3 plus Cell 4). Second, several executives struggled to answer these questions because of the complexity of their products. Designating a number that represents a global supplier’s outsourced activity — inside or outside its home country — is no small feat. Design engineering may be split between countries, parts engineering between other countries, and application engineering may be done separately in each region. Bulky products may be sourced from one country, while materials may come from around the world. Because of these complexities, we consider these responses directional rather than exact.
most often targeted for foreign investment, receiving about twice as many entries as Eastern Europe or North America. The countries cited most often were China and Mexico, with India, the Czech Republic, and Brazil also mentioned. These countries represent specific opportunities — particularly low-cost labor, shorter supply chains, or potentially higher vehicle sales — near established automotive markets. For example, Mexico offers low-cost labor but a low-potential market. Many Eastern European countries represent low-cost labor and high-potential markets. And China, India (for services), and the Association of Southeast Asian Nations (ASEAN) countries represent low-cost labor and some potentially high-growth markets.

These local supply chains buffer companies from some of the challenges that executives reported in our recent study of supply chain management. In that study, executives noted the higher costs of long supply chains due to extra inventory and the slow response to engineering design changes, which

### Table 1: Global Suppliers Activity by Location

<table>
<thead>
<tr>
<th>Location</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Do/Make</td>
</tr>
<tr>
<td>Traditional Base/Region</td>
<td>35% (Cell 1)</td>
</tr>
<tr>
<td>Range</td>
<td>(2% to 70%)</td>
</tr>
<tr>
<td>Elsewhere</td>
<td>20% (Cell 3)</td>
</tr>
<tr>
<td>Range</td>
<td>(5% to 35%)</td>
</tr>
</tbody>
</table>

Note: Rows and columns do not total 100 percent because of rounding. All four cells add up to only 95 percent.

### Table 2: Geographic Distribution of New Market Activities

<table>
<thead>
<tr>
<th></th>
<th>Number Identified*</th>
<th>Distribution of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>38</td>
<td>45%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>17</td>
<td>20%</td>
</tr>
<tr>
<td>North America</td>
<td>13</td>
<td>15%</td>
</tr>
<tr>
<td>South America</td>
<td>10</td>
<td>12%</td>
</tr>
<tr>
<td>Africa</td>
<td>4</td>
<td>5%</td>
</tr>
<tr>
<td>Australia</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>85</td>
<td>100%</td>
</tr>
</tbody>
</table>

* Multiple entries within a country are counted once per respondent.

manufacturing remains more concentrated in the suppliers’ home regions (Cell 1 vs. Cell 3), but sourcing is equally divided between their home base and other regions (Cell 2 vs. Cell 4). Third, their level of vertical integration — the percentage of activity within the supplier company — appears to be higher than it is at U.S. manufacturing companies in general, at about 55 percent (Cell 1 plus Cell 3). Finally, the suppliers may be more vertically integrated in their home region (Cell 1 vs. Cell 2) than abroad (Cell 3 vs. Cell 4).

This table provides a current snapshot of these companies’ activities. But how will this table look in five years? Will patterns change, and, if so, how? Suppliers report that outsourcing and offshoring will continue during that period, thereby guaranteeing continued globalization challenges. Thus, we predict that in five years or so, Cell 1 will have shrunk and Cells 3 and 4 will have grown.

The global activity evidenced by these companies is truly massive. Interviewees identified at least 85 significant market entries (offshoring) in the last five years. Table 2 shows the geographic distribution of new market activities. Asia was most often targeted for foreign investment, receiving about twice as many entries as Eastern Europe or North America. The countries cited most often were China and Mexico, with India, the Czech Republic, and Brazil also mentioned.

These countries represent specific opportunities — particularly low-cost labor, shorter supply chains, or potentially higher vehicle sales — near established automotive markets. For example, Mexico offers low-cost labor but a low-potential market. Many Eastern European countries represent low-cost labor and high-potential markets. And China, India (for services), and the Association of Southeast Asian Nations (ASEAN) countries represent low-cost labor and some potentially high-growth markets.

These local supply chains buffer companies from some of the challenges that executives reported in our recent study of supply chain management. In that study, executives noted the higher costs of long supply chains due to extra inventory and the slow response to engineering design changes, which

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1 This may be a reasonable number considering these system integrators have acquired or merged with other companies in order to sell complete systems to manufacturers.
pushed up obsolescence costs. One interviewee also reported another potential downside to exporting: “Countries have different alliances and these influence what can be done from a remote location.”

Suppliers continue to see themselves as subordinate actors

These large Tier 1 suppliers emerged during the last 10 years, when manufacturers decided to outsource more components and systems, and were expected to play an increasingly prominent role in the supply chain. But so far, suppliers have not parlayed their additional responsibility into a more strategic approach to globalization. Though a few executives spoke of globalizing to serve new customers, in most cases customer demand — and lower costs for labor and infrastructure — play a leading role in their global strategies.

Governments may have alliances with other countries that restrain exports and affect supplier decisions by requiring vehicle manufacturers to establish local production before selling vehicles. Manufacturers, in turn, may require suppliers to locate in a particular market, either due to governmental pressures or to benefit their own operations. Suppliers could strategically locate facilities around the globe that would support multiple manufacturers, rather than set up plants in response to customer demand. One executive was quite blunt about this: “Organizing your business based on geographic boundaries is sub-optimizing. We won’t and can’t do it that way. It doesn’t work.”

Another executive noted a change in direction: “We used to go wherever our customers wanted. Sometimes a customer would tell us to go somewhere and then later ask, ‘Why did you go there?’”

However, most suppliers feel so tied to their customers that they cannot refuse them. As one executive reported, “Philosophically, we can’t reject the customer. We have to help them with their cost base in order to help each other survive. The pressure on Tier 1 suppliers is a huge issue. The customer gives a price and you say whether you can do it. We usually begin a program with either a break-even point or have a small loss. We have to figure out how to make a margin by reducing our own costs.”

Choosing global locations according to customer demand rather than strategic planning can backfire. Though most interviewees said their companies had no regrets about their global locales, seven said they would not choose the locations again. In three cases, the reasons were essentially economic — slower than expected market growth or higher than expected production costs. Four interviewees regretted their locales because of workforce issues, including labor inflation, culture clash, turnover, and weak skills. These problems could have
The pace of globalization in the auto industry has sped up dramatically in the last decade. Companies are responding to the tremendous market opportunities in regions where the automobile sector has been largely undeveloped. But suppliers — particularly those that look to the developing countries as a means of remaining competitive and successful — are also responding to pressures to reduce labor and material costs.

While current market forces require companies to develop short- and medium-term strategies for globalization, a longer-term and more fundamental trend will drive globalization for decades to come. The populations of nearly all developed economies are aging quite rapidly, transforming the socioeconomic framework in these older societies, which will create new challenges and redefine how we work. Most notably, aging populations may create critical skill gaps and push wages higher — both of which could drag down economic growth and, ultimately, standards of living in developed economies.

As the estimates of available workers in the table below show, virtually none of the world’s developed economies will be able to sustain the labor force growth rates of the last four decades. In fact, over the next decade, the labor force is projected to grow only in the United States and Canada. In other developed countries, the number of workers will shrink, leaving employers struggling to find enough talented employees to run their operations. In countries where employers cannot find sufficient workers, the outcome could be slower economic growth, prolonged economic stagnation, or even a decline. Given that populations will continue to grow in developed nations, slower economic growth has the potential to lower standards of living.

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<tbody>
<tr>
<td>Canada</td>
<td>2.66</td>
<td>3.60</td>
<td>1.75</td>
<td>1.17</td>
<td>0.94</td>
<td>0.21</td>
</tr>
<tr>
<td>France</td>
<td>0.94</td>
<td>0.93</td>
<td>0.57</td>
<td>0.57</td>
<td>0.21</td>
<td>-0.34</td>
</tr>
<tr>
<td>Germany</td>
<td>0.15</td>
<td>0.43</td>
<td>0.86</td>
<td>0.69</td>
<td>0.15</td>
<td>-0.54</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.52</td>
<td>0.84</td>
<td>0.52</td>
<td>0.10</td>
<td>-0.13</td>
<td>-0.85</td>
</tr>
<tr>
<td>Japan</td>
<td>1.34</td>
<td>0.92</td>
<td>1.23</td>
<td>0.58</td>
<td>-0.13</td>
<td>-0.42</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.07</td>
<td>0.57</td>
<td>0.68</td>
<td>0.28</td>
<td>0.24</td>
<td>-0.10</td>
</tr>
<tr>
<td>United States</td>
<td>1.74</td>
<td>2.60</td>
<td>1.64</td>
<td>1.13</td>
<td>1.15</td>
<td>0.59</td>
</tr>
</tbody>
</table>


With an abundant supply of labor and a lower stock of capital, developing nations could generate higher rates of return on capital investment than countries with high capital-labor ratios. Industrialized economies could take advantage of more favorable economic opportunities by moving capital — and production — abroad. Capital owners could repatriate returns on capital investments abroad in the form of goods and services, thus easing rising consumer demand in aging, developed societies.
Shifting Risk in the Global Supply Chain

Recent increases in raw material costs that cannot be passed on to customers have raised costs for suppliers. Some Tier 1 suppliers find themselves caught between Tier 2 suppliers that refuse to absorb extra costs and threaten to stop shipping parts, and manufacturers that refuse to provide any price relief.

As one executive cautions, “We can’t assume they operate the same as our North American suppliers. They may resist passing costs down the supply chain. We can choose how to source our materials, but we are financially accountable for how we do that.”

But as a system integrator, another executive saw this as a risk the manufacturer had outsourced. He notes, “When manufacturers outsource a large system, it allows them to outsource the risk they were responsible for when they developed the system.”

Outsourcing activities to Tier 2 suppliers creates significant challenges

Tier 1 suppliers outsource many activities to their Tier 2 suppliers, either within or outside the home country or region. (We consider outsourcing outside a company’s home country or region to be global outsourcing.) We asked our executive interviewees where their companies have most increased their global outsourcing. Asia again headed the list, representing 20 of 28 reported outsourcing experiences, with China and India as the most popular choices.

Low-cost labor may encourage companies to outsource to these countries. But executives reported various factors that can increase costs:

- Government restrictions, which can increase the cost of entering and exiting a country
- Logistics/transportation and the need to improve quality
- Long lead times in shipping and delivery, which can hinder a company’s ability to make engineering changes late in the development program or once production has begun
- The need for additional inventory to accommodate possible disruptions in the supply chain
- Training costs for the new workforce
- An unknown Tier N supply base (the suppliers who support the Tier 2 suppliers), which can create uncertainty in quality and delivery when sourcing from companies in other countries

Additionally, Tier 1 suppliers may have trouble integrating manufacturer-designated Tier 2 suppliers into their quality programs. This can leave Tier 1 suppliers with accountability but no control over their supply base.

Time also plays a role in developing the Tier 2 supply base. One executive stated, “It takes 10 years to integrate Tier 2 suppliers into our quality programs, five hard years and five easier years.”

Integrating Tier 2 suppliers involves establishing roles and responsibilities, setting up communication processes, and adjusting to cultural differences, and usually takes more time than many companies expect. It also demands a great deal from the people who manage the engineering and supply chain relationships. This makes choosing the right partner crucial, because switching to another supplier is expensive and time-consuming. Companies developing a global Tier 2 supply base constantly face the challenge of investing in long-term relationships while maintaining a short-term competitive advantage.

Outsourcing activities to Tier 2 suppliers is a significant challenge for manufacturers. The increasing cost of raw materials has put pressure on suppliers to absorb additional costs, which in turn has impacted manufacturers. As a result, outsourcing activities to Tier 2 suppliers has increased, especially in regions like Asia, where low-cost labor is prevalent. However, this practice also presents challenges such as increased costs due to government restrictions, logistics issues, long lead times, and the need for additional inventory. Moreover, integrating Tier 2 suppliers into the supply chain can be complex and time-consuming, requiring careful consideration of roles, responsibilities, and communication processes. The decision to outsource to Tier 2 suppliers can have long-term implications for manufacturers, influencing their accountability and control over their supply base. Time also plays a crucial role in the process of integrating Tier 2 suppliers into the quality programs of manufacturers, making the decision to outsource to Tier 2 suppliers a long-term commitment.
HR is seen as one of the key challenges and solutions in global expansion

Executives report five major challenges in offshoring operations or outsourcing to suppliers:

- Controlling costs
- Supporting new locations with appropriate HR
- Selecting and establishing plants in the right global markets
- Communicating and linking systems throughout the world
- Organizing their companies to balance decision making and proper execution

Controlling costs

Competing globally means that suppliers must provide their customers with the best price worldwide. Competitors drive down the cost of producing components and systems, forcing companies to figure out ways to keep pace. One executive said his company must supply services at a competitive price regardless of exchange rates. His customers find the best global price and expect that price at all their locations. He reported, “We have to be everywhere to keep each risk in check.” To do so, companies are continually looking for ways to become more cost-effective. Moving operations to regions with cheaper labor and competitive raw material costs is pivotal to making this happen. Suppliers also try to control costs by improving workforce productivity and eliminating redundancies during the transition to new locations.

Supporting new locations with appropriate HR

The top three challenges facing suppliers are controlling costs, providing HR support, and selecting appropriate global markets. But HR, unlike the other challenges, is equally likely to be seen as a solution. But to be a solution, HR must localize its processes, find local talent, and identify executives willing to relocate.

One executive described the value of localizing: “Having a presence in a country allows us to better understand the culture and the compensation demands. Mistakes are often made when decisions are made from a distance because there is a tendency to throw more and more money at a situation when it is not the best way. You decrease turnover by understanding the social fabric and what people value there.”

Localizing processes improves selection and retention, but it may be difficult for a centralized HR unit to support local HR goals.

Finding local talent is often difficult for suppliers that are new to the area and whose reputations do not precede them. One interviewee said, “Our challenge is to find the right people with the right skill sets. We don't want to be the long pole in the tent in terms of wages, yet we want to find and keep people without a revolving door.”

Identifying executives willing to relocate is part of this challenge. As one executive noted, “Because of the rapid globalization of the industry, we have technology and money, but not the human resources.” Reported strategies include assigning expatriate managers to supervise the new location, using an expatriate manager to coordinate and train a local HR manager, and making overseas assignments part of a company's executive development strategy.

Executives were nearly unanimous in their belief that existing tools can provide solutions to logistics, transportation, and information technology problems. But there are no silver bullets. As one executive said, “Human resource management is critical. Anyone can buy tools; it is much harder to get happy, motivated, passionate workers.”
Developing a productive and stable workforce takes time. Companies that implement training systems that shorten the time to competency earn a competitive advantage they can leverage anywhere in the world.

Selecting and establishing plants in the right global markets

Executives reported difficulties in understanding, selecting, and establishing themselves in different global markets. As noted earlier, many suppliers enter new markets in response to customer demand. These companies then must marshal resources, determine the scale of operations, recruit local talent, and deploy expatriate executives. However, a few suppliers chose global markets by proactively balancing their customer portfolio and supporting customers regionally rather than by moving to wherever they happen to be.

As Tier 1 suppliers enter markets in response to customer demand, manufacturers may be able to partner with them in selecting Tier 2 suppliers. A supply chain is only as strong as its weakest link, and a Tier 2 supplier that fails to live up to its commitments can break the entire chain. From an HR perspective, manufacturers and suppliers — whether Tier 1 or Tier 2 — face similar workforce issues in a new location. Because of the interdependency of the links, each one’s HR issues are, to a certain extent, the others’. This interdependency can encourage all links to find solutions that work for the entire supply chain.

Communicating and linking systems throughout the world

Existing technology can establish communications and links among systems, and some suppliers are able to use their current communication structures. But some companies cannot leverage this technology because their global footprint is developing too quickly. Others are limited by legacy systems that do not scale globally or are incompatible in other regions. In addition, the sheer scope of a global organization can get in the way of sharing best practices and information.

Global Communication

As companies become more global, communication challenges grow more complex. Critical to these companies’ success is enabling managers and employees to share information with offshore operations quickly and efficiently.

The 2005 Watson Wyatt Communication ROI Survey found that establishing designated communication resources in other countries is vital. Successful organizations often have a documented communication strategy and set up processes to capture compliance and legislative differences among countries. To maintain a constant dialogue with global business units and to share best practices, these organizations have regular calls or web-casts.

Companies must be able to share the company message with their offshore facilities, tailoring it to each locale or business unit. Unfortunately, less effective practices — such as sending the same message to all employees or making local managers responsible for customizing messages from corporate headquarters — tend to be the most commonly used.

How a company shares information with employees in satellite facilities is also critical. Effective communicators tend to use technology, such as web-site postings and regular web-casts. Broadcast e-mail seems to be less effective. In-person communication, such as having a communication representative participate in employee meetings on site, and disseminating messages through business unit leaders and local managers, is always a good idea.

Companies that base their global business strategy on a strong communication foundation, establish well-defined communication practices and processes, and leverage technology will carve out a much stronger position in the global marketplace.

One executive stated, “We have Internet-based communications and have implemented global coordinator meetings that are net-based rather than face-to-face. So we have regular monthly meetings with Asia, Europe, and the U.S. — part of the challenge is that for some participants it is in the middle of the night. We have to time it appropriately. We have set up project databases so we can see the status of projects, include notes, and stay as close as possible.”

**Corporate Decision Making and Organizational Structures Influence How Suppliers Globalize**

How a company makes decisions and organizes its functions is important. We first asked executives in our study whether their companies’ decision making was centralized, decentralized, or a mix. We then asked them to describe their companies’ organization of global activities — integrated, parallel, or a mix. In decision making, companies were split between the mixed and centralized models. They report organizing their companies using a mixed model, combining parallel and integrated structures. Mixed models may be born of necessity, because global supplier companies usually are formed through divestitures, mergers, acquisitions, and joint ventures, all of which demand lead companies to adapt quickly to their new partners. Companies may also be trying to simply adapt to the fact of being thousands of miles away from the locus of decisions and organized activities.

Interviewees viewed these questions from a functional perspective. Generally, strategy is more centralized and execution is more decentralized. Centralized and integrated activities include:

- Strategic direction
- Strategic decisions, such as whether and where to offshore
- Purchasing, because information technology enables companies to communicate with potential suppliers globally and leverage their buy across all of their locations
- Finance, which provides oversight for the entire company, especially in its home region, and that may also develop measurable indicators to compare locations
- Systems to support informed decision making and applications

Some activities are a mix of centralized and decentralized decision making, and parallel and integrated organization. For these activities, strategy and processes are developed in a central and integrated manner, while implementation takes a more flexible, decentralized, parallel approach. These activities include:

- Information technology
- Manufacturing processes and procedures, such as quality control
- Human resources

Sales and marketing are consistently described as decentralized and parallel.

The key to success rests on integrating these groups into the whole organization. Otherwise, companies may duplicate efforts and lose economies of scale, thereby increasing costs and decreasing knowledge-sharing opportunities.

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*We define a parallel organization as one that replicates the same activities across different locations, and an integrated organization as one that strategically locates particular activities in different locations but links them into a complete organization.*
Organizing their companies to allow them to balance decision making and proper execution

The way a company is organized will affect its global responses. One executive reported that his company’s customer-focused setup is structured regionally. He said, “We look at our organization through the eyes of our customers. We make sure it’s easy for them to interact with the company, especially the engineering and purchasing functions.”

The legacy of mergers and acquisitions also affects decision making and execution. Many suppliers in this study comprise what once were independent companies. Mergers, acquisitions, and divestures over the last 10 years have created some integration pains. One executive reported the difficulty of blending an acquired company with a hierarchical structure into his company’s matrix organization.

These executives recognize the critical nature of world-class global HR performance. Still, this did not always match the findings in the next section of this report, which looks at workforce planning and RRD. As the industry globalizes, HR must play a larger strategic role.

Workforce Planning, Recruitment, Retention and Deployment (RRD)

**Workforce Planning**

A central theme of this project is the intersection of globalization with workforce planning and the HR practices of RRD. Workforce planning, which projects human capital needs, logically precedes RRD practices.

Automotive suppliers must think more proactively about RRD and, especially, about workforce planning. HR departments increasingly have the tools to improve in both areas. In the “best practices” statements that conclude each of the following sections, we point to ways to improve results. These best practices come both from the interviews and from a look at the practices of additional manufacturing firms not queried for this project. Implementing these best practices would mean involving HR offices earlier and more thoroughly in company strategy.

Successful workforce planning includes two kinds of activities. First, a firm must project its human capital needs — managers/executives, professional employees such as engineers, and production employees at various skill levels — taking into account its business strategy and technology changes. Second, the firm must estimate the workforce available via recruiting new employees or transferring current employees.

**Globalization complicates typical workforce planning activities.** Workforce planning in a global environment requires a wider range of activities than it does in one’s home country. As automotive suppliers consider offshore sites, they may find that their first task — estimating human capital needs — includes new categories of employees. These firms also must look at their current personnel to find suitable candidates for offshore assignments. Systems that maintain internal profiles of the skills and competencies of a company’s workforce are increasingly available to help companies plan the deployment of large and varied workforces across many work sites, domestic and foreign.
In satellite locations, suppliers must make greater efforts to estimate the numbers and kinds of potential employees. Our interviewees reported that when they plan offshore facilities, they look at the education levels of the local population, determine whether the region offers sufficient people in needed specializations, and learn about the types of graduates of universities and technical institutes. Although these investigations may be part of workforce planning for new operations in the home country, they must be more thorough for satellite locations. Crucial data such as the likely future cost of local employees have become increasingly available and should be used more often.

Globalization adds complexity to workforce planning. Some of the executives reported, for instance, that it exposes automotive suppliers to more competitors. This means the supplier must take into account the strategies of competitors that will often be targeting the same, sometimes quite limited, labor pools.

**Global workforce planning is a work in progress.**

Firms have long been involved in recruiting, retaining, and developing employees at the local level (either geographic or functional). But initiating HR activities at the global level and workforce planning at either level are works in progress. One respondent noted that a decade ago, his company had no global HR activities and business units independently hired their own executives. But in the last two years, his company has moved to globalize HR, with global evaluation of executives and companywide standards for hiring executives.

Workforce planning suffers a parallel problem and is fragmented at both the local and the global levels. For example, a supplier’s headquarters might project a need for 240 production employees at a new plant offshore. If demand for the plant’s output surges ahead of expectations, on-site management will be the first to know — but may not be able to plan for more capacity and production hires until it can convince headquarters of the need.

Also, there is no common pattern among automotive suppliers in allocating accountability for workforce planning. Some firms try to maintain centralized control over workforce planning and RRD as their companies globalize. Other firms allow some processes to devolve to regions or functional units.

One respondent bluntly described the connection between a firm’s decision-making structure and its workforce planning: “When centralized, you need a buy-in from all individuals involved, and that can be cumbersome and inhibit planning.”

Other executives used different language but implied that at least some decentralization simplifies workforce planning. Achieving the right balance is not easy. However, as firms extend HR activities, they should avoid modeling the division exactly on their operational or financial governance model. Just because an automotive supplier has a strongly centralized operational model does not mean that a similarly structured HR function will be appropriate, as we explain below.

**Companies tend to focus on RRD without sufficient workforce planning.** We found that suppliers are struggling to recruit needed people, working hard to retain them, and, to a lesser extent, striving to deploy them in the most useful fashion. These immediate tasks of RRD loom large enough to distract companies from global workforce planning. But our respondents said that workforce planning is as important as RRD.

One executive remarked, “We want HR to be on the front line, to identify gaps, be the source of RRD, and know where to go if we can’t fill gaps in the U.S.”

However, another summed up the relative emphasis on workforce planning: “We define our human capital needs after we get an order.” Even if companies are proactive in their RRD practices, they may be reactive in their workforce planning.
On balance, more interviewees rate their RRD practices as better than their workforce planning, but the difference was slight, and several said their companies were equally effective at both. In a few instances, respondents who believed their companies were more effective at global workforce planning qualified their answers. One said, “We do a good job at [workforce] planning, but we only do this for the top 500 employees.”

We expect that automotive suppliers devote more effort and resources to RRD. But one respondent’s remark about his company’s workforce planning was striking: “On a scale of one to 10, it’s a nine or 10. It’s vitally important. But you can be a seven or eight as long as you execute at a nine or 10.”

Firms may have less of a grasp of what goes into good workforce planning than of what goes into good RRD. But to the extent that workforce planning drives RRD, rather than follows it, companies will be stronger. And firms that rate a nine or 10 at workforce planning will find it easier to achieve a similarly high performance at RRD. The remarks of executives from companies headquartered in Europe and Japan suggest that some of them are more committed to workforce planning than their American competitors.

Automotive suppliers emphasize managerial and engineering personnel in their workforce projections. In some firms, workforce planning is most developed for executives and senior managers. For example, in one company, planning focuses on recruiting the leaders the company will need in the next five to 10 years. This entails reviewing the current top layer of executives, the next few hundred executives who may replace them, and several hundred high-potential employees. This company appears to pay less attention to workforce planning for production workers, partly because it has not been necessary. But our respondent from this company wondered whether it will eventually have greater difficulty in staffing. At the same time, budgetary constraints limit studies and workforce planning exercises directed at production workers. We suspect that this is common to many automotive suppliers.

Our interviewees also focus on engineers, and cost is always central. Thus, projections of engineering needs are linked to discussions of which operations can be dispersed to areas with an available, affordable supply of engineers, and which operations must be located in certain regions, even at a higher cost. Overemphasizing costs can be counterproductive, however. Every year, China and India are graduating large numbers of engineers available at low cost, but they often have limited automotive experience and skills, which adds to the surface-level additional costs for skill development.

The use of metrics to measure future needs varies across functions and geographies. Almost all of the respondents mentioned using head counts to project human capital needs. However, their strategies vary considerably. Some companies and some functions within them have detailed metrics; others are more informal. An executive in charge of supplier relations offered an example of detailed metrics used to measure the numbers of people needed: “In my group, we use number of parts dealt with, number of suppliers dealt with, number of programs, and number of purchases. And after we get the suppliers, we use number of new programs, complexity of the programs, number of parts developed, and percent of high-risk suppliers.”

Variations also exist between the home country and satellite locations, although sometimes they are simply different benchmarks of the same metric. (For example, the executive mentioned above noted that his company’s suppliers in China require much more attention than those in the United States.) In other instances, a company uses different metrics for home and satellite locations. With acquisitions, there is a particular reluctance to substitute a firm’s metrics for the acquired company’s processes.

Best practices for workforce planning

1. Coordinate headquarters and satellite locations. Regardless of whether local management or headquarters is responsible for workforce planning, the two must be linked. This reduces duplication of effort and melds the global perspective of corporate
staff with the on-the-ground knowledge of local management, which leads to effective forecasting.

2. Estimate local production workers. Automotive suppliers must devote more effort to estimating the number of local production workers. Skilled production workers, in particular, may be scarce and susceptible to offers from competitors. It will not be enough to concentrate workforce planning on managers and engineers.

3. Invest in development for local managers. Suppliers should develop local management at offshore sites, because few will be available through recruitment. And each supplier will have to train those managers in its own methods and operating system. Headquarters must plan for this lead time.

4. Invest in technical skill development. Some offshore locales, such as India and China, are graduating increasingly large numbers of engineers. But these graduates still may need substantial training, especially for company-specific needs. As with developing local management, this will take time.

5. Link expansion of satellite facilities to available expatriates. Suppliers planning to add or expand satellite facilities must project how many expatriate managers will be required and how well they can fill the need. Forecasts should compare the cost of providing expatriates with the cost of hiring and developing local talent.

6. Apply rigorous analytics to critical jobs. To be as accurate as possible, workforce planning should combine business forecasts with statistical analyses of workforce behavior plans (e.g., turnover, retirement, new hires). This is especially important for job groups critical to the firm’s business strategy and enables a firm to target its investments to the most critical company needs.

Recruitment

In offshore locations, recruiting new employees unfamiliar with the company’s operating system and culture creates additional tasks

Recruiting local employees for a distant operation has its own hazards. Some of the difficulties can arise from the differences between labor markets and employment relationships in satellite countries versus those in the home countries.8

For example, suppose a German automotive supplier is establishing a U.S. production facility. In Germany, training for blue-collar occupations often occurs away from the job site and before the employee accepts the position. In the United States, such training is usually on the job. In Germany, duties requiring similar skills are often organized into a single occupation. In the United States, tasks that are closely located in the production process — though they may require disparate skills — are often organized into a single occupation. In Germany, the amount and types of training an employee has may determine the duties he or she is assigned. In the United States, duties that are complementary from a production point of view are defined as parts of a single occupation. And in the United States, occupations are rather narrowly defined, so a large factory will include many different occupations. Once assigned, a worker generally has a clear idea of what the employer can and cannot require. Movement of workers between jobs often follows an internal labor market.

As the German supplier tries to establish production in the United States, it wonders how it will get local employees to accept its distinct systems. To what extent will the supplier

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adapt to this different national culture or require employees to do the adapting?

The result is often a hybrid. Automotive suppliers’ offshore factories may combine elements of the home country factories with elements of the local employment culture. Since globalizing suppliers will not have the internal uniformity of suppliers that are largely based in their home countries, the question then becomes: How do they accommodate this variability?

One answer is to grant managers of satellite facilities some autonomy in HR and workforce planning. Forcing offshore plants to follow the same principles that guide labor markets and employment relationships in the home country will not work in nations whose principles are very different. This means that maintaining sufficient unity and uniformity will be an ongoing task. Expatriate assignments for managers — important for their career development — may also help cultivate the unity and uniformity that the company itself needs.

Variability among a supplier’s home factories and its satellites can be even greater than we have suggested. Many offshore facilities are being established in developing nations where labor markets and employment relationships may be more ambiguous and in flux than they are in the United States or Germany. This does not necessarily give the supplier greater latitude to impose the home country’s principles. Rather, it may mean that on-site management must work hard to discern what principles are in play and must be followed.

Globalizing means competing for, not merely accessing, local talent

Consider the stereotype: Automotive suppliers race from headquarters in developed nations to greenfield sites in

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Attraction and Retention in Asia-Pacific

A common misperception — fueled by the popular media and policymakers alike — is that of an almost limitless supply of talent in low-wage countries. Although the supply of young workers is large and growing in developing countries, only a fraction of those workers are suitable for employment with a multinational organization. Moreover, human capital poaching and high rates of employee turnover are commonplace in many of these markets. Suppliers face critical skill gaps and retention challenges.

Key to attracting and retaining top talent in these competitive markets is understanding employees’ attitudes toward compensation, training, opportunities for advancement, communication, and other organizational features. This enables employers to design programs that attract and retain the types of workers they seek. Watson Wyatt’s WorkAsia™ 2004/2005 surveyed more than 115,000 employees in 515 first-tier multinational and domestic companies in 11 Asia-Pacific markets about their employers’ workforce practices, policies, and programs. Workers were asked to identify the top three reasons they are attracted to a position and the top three reasons they stay.

Employees in the Asia-Pacific region are most attracted by wages and generous benefits (Table 4). However, compensation is not the only driver of their employment decisions. In fact, workers cite better career opportunities nearly as often as pay as an important reason for taking a position. Employees are also attracted to jobs that offer them more opportunities to use their skills and training programs to help them develop those skills. Retaining employees is critical to minimizing workplace disruptions and creating value from the training that is common in these regions. While compensation gives employees a compelling reason to stay put, good career opportunities and job stability are just as important. Employees also cite good relationships with coworkers as a chief reason they stick around.

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While establishing practices and programs to attract workers and encourage them to stay is important, building a committed workforce is also essential. Committed employees not only stay with their employers, they express pride in their company, describe it as a good place to work, recommend it to others, and believe in its future success.

To understand the importance of workforce commitment, it is essential to identify the HR areas that most strongly influence it. According to Watson Wyatt research, the three key drivers of employee commitment are leadership, communication, and total compensation. This finding applies to both managers and non-managers. Innovation, teamwork, training, work environment, and supervision are less critical but still important. However, workers across the Asia-Pacific countries consistently report low levels of satisfaction with their compensation and benefits, and unhappiness with their companies' leadership. This is starkly different from comparable survey results in the United States.

To maintain a productive, talented workforce, companies moving into developing regions must develop appropriate compensation systems, keeping in mind that higher pay alone does not guarantee employee commitment. Sometimes employees perceive their pay as lower than it really is. Clearly communicating the value of compensation and benefits can improve employees' attitudes toward their pay.

Moreover, building trust in senior leaders and creating a culture in which managers model corporate values and encourage employee involvement can boost a company's financial success. Asian employees were most dissatisfied with their companies' decision making, employee involvement, trust building, and corporate values. Companies expanding into these regions must create effective recruiting systems and tools so they can hire the right people as leaders. Companies may need to spend more on management training, along with tailoring and communicating the company's message. The solution also entails building leaders from the company ranks to inspire employees' confidence and trust.

### Table 4: Top Reasons Asian Workers Take and Stay in a Position

<table>
<thead>
<tr>
<th>Reasons for Taking a Position</th>
<th>Reasons for Staying in a Position</th>
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<tbody>
<tr>
<td>Better compensation package</td>
<td>Good career opportunities</td>
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<tr>
<td>Better career opportunities</td>
<td>Job stability and security</td>
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<tr>
<td>Better benefits</td>
<td>Good compensation package</td>
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<tr>
<td>Better training and personal development</td>
<td>Good benefits</td>
</tr>
<tr>
<td>Opportunities to use skills</td>
<td>Good relationships with colleagues</td>
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10 Watson Wyatt 2002 Asia-Pacific Human Capital Index™.
developing nations, where they find bountiful supplies of willing, loyal, able, and inexpensive labor. It is not that easy.

At first glance, labor costs in developing nations appear much lower than in developed nations, for engineers as well as for production workers. One of our executive interviewees reported, “In the U.S., demand is up, supply is down, and salaries are up. In India, you can hire a master’s in engineering for $10K per year.”

Nonetheless, once an automotive supplier is on the ground in a developing nation, problems often arise. Some of our interviewees emphasized the competition among firms for local production employees. After being recruited and trained, local employees may accept better offers from other automotive suppliers or manufacturers. So all firms in the country may find their compensation costs much higher than they anticipated. Firms also may exceed their training budgets as they cycle through more local employees than they planned for.

As one HR respondent put it regarding local employees, “You want to react to what people need before they start chasing other jobs and upping their market price. You need to win their hearts, not their minds. You have to be concerned about people being recruited away.”

This executive stressed the importance of building connections to employees early in their careers so they will not be easily lured by a competitor.

**The quality of employees’ skills is more important than the sheer number of people available**

Budgeting for production employees in developing areas is a recurrent concern. At issue is the increasing cost of unskilled, semiskilled, and skilled production employees.

One HR executive lamented that managers at the firm focus more on the additional cost of new hires than on their skills. This suggests that compensation costs for appropriately skilled production workers in new locations can indeed be substantial.

Other interviewees made similar remarks about recruiting local engineers. These executives recognize the centrality of people to their firms. As one of them said, “Everything starts with people.” He went on to point out that in the international segment of his firm, almost all the employees must be bilingual and have multiple technical skills.

**Companies are constrained in their globalization strategy by the lack of local managers**

Recruiting and retaining local managers bedevils these global automotive suppliers, which are projected to grow substantially with much of that growth outside their home countries. Some executives point out that this growth will require their companies to recruit and develop more local talent, as opposed to expatriate, managerial personnel. As one respondent noted, it is possible to get money and technology from headquarters to assist offshore locations, but deploying managers from headquarters to those locations is much harder.

Another respondent reported that much of his firm’s growth will derive from serving customers in Asia (or customers that are North American assembly transplants of Asian manufacturers): “We don’t have enough Asian employees…but instead we have our own nationals in those places.”

Part of the problem is that globalizing automotive suppliers impose extensive duties on local managers. These managers are often responsible for hiring local employees and helping to establish relationships with local Tier 2 suppliers. Furthermore, these local managers are the voice of their companies; requiring them to perform a range of tasks naturally adds to the difficulty of recruiting good ones.
Some of the interviewees work for firms that occasionally recruit managers from other companies. But in developing nations, the number of local people with relevant managerial experience who are employed by other suppliers or assemblers and are willing to switch jobs is likely to be limited. A few interviewees do not even consider this strategy an option. Their companies prefer to develop managers internally from young people recruited to entry-level jobs.

**Who is responsible for recruiting local managers?**

Global-level HR activities are a relatively recent phenomenon. Predictably, a firm’s global HR department gets more involved with personnel decisions at the executive level than at other levels. In one company, for example, the global HR department participates in every decision regarding a few hundred top executives and gets somewhat involved with the next 2,000 or so managers. But the department has almost no say in decisions regarding the tens of thousands of other employees. We suspect that this is prevalent in other large automotive suppliers.

But having the global HR office deal with executives and the local HR offices deal with production employees portends trouble for satellite locations. In fact, the practice could be at the root of the problems experienced by globalizing suppliers in building attractive career paths for local managers.

**Best practices for recruitment**

1. **Understand competitor offerings in compensation and benefits.** Automotive suppliers hiring local employees — whether production, engineering, or managerial — must know what constitutes a competitive pay and benefits package. Many companies have underestimated these packages, partly due to the lack of compensation data in developing nations.

2. **Examine skills, not just credentials.** Since training, education, and background vary globally for jobs with the same titles, firms hiring local engineers must be alert to applicants’ experience and skills, in addition to their formal credentials.

3. **Understand local labor market principles.** Employers must become familiar with the local employment culture, including how people are trained for jobs, how tasks are cumulated into occupations, and how workers are assigned duties. This is crucial in developing a recruiting pipeline. When an automotive supplier acquires or merges with another firm that has offshore operations, the same advice applies.

4. **Strategically source talent.** Finding good people means tracking the sources of talent along with success and retention rates, and thinking creatively about possible new sources. Such tracking enables employers to target the best sources.

5. **Use current employees.** Current employees can be excellent sources of new employees. Referral hires tend to be more successful than other hires in terms of both performance and retention. This is particularly useful in satellite locations where the firm may not be widely known.

6. **Use technology.** Effective recruiting depends on technology to provide a database for tracking and capturing information to measure the success of new hires. Building a global database can help companies deploy new talent worldwide.

7. **Streamline processes.** Defining the recruiting processes, roles, and accountability for both HR staff and hiring managers reduces costs and shortens the hiring time line, thus minimizing the chances of losing talent to competitors.
Retention

Interviewees reported that local employees in satellite locations are often willing to switch employers. It’s common for suppliers to lose newly trained employees to competitors or to manufacturing customers.

**Competitive compensation, job security, and career opportunities are critical for retaining local employees in satellite locations**

One of the executives succinctly stated the problems of recruitment and retention: “In some countries, people are book smart but [have] no industry knowledge and, moreover, they don’t even have cars themselves. Turnover is high in these countries because there is no company loyalty. Employees in China change jobs on average every two or three years. Wage rates have risen quickly, so there is a need to stay competitive in the changing market.”

Clearly, competitive pay and good benefits are important in retaining local employees. In the Watson Wyatt Work Asia Study, “good compensation” is tied for second among reasons that workers decide to stay with a company and “good benefits” ranks fourth. Automotive suppliers in satellite locations must meet the market in both.

The HR department of globalizing suppliers can help construct a global compensation framework, although its implementation will have to be somewhat local. The greater the internal mobility of personnel across national boundaries, the more consistent a supplier must be in its approach to compensation, certainly regionally and to some extent globally.

But wages and benefits are not the only factors that affect retention. Interestingly, in the same study, “good career opportunities” ranks first and “job stability and security” is tied for second place with “compensation.” Providing job stability and security in a satellite location demands excellent planning. A supplier establishing an offshore factory should begin with the most modest investment possible and to try to garner multiple customers. This could forestall having to scale back or leave the region, which would damage the company’s reputation for job security.

As noted earlier, satellite locations vary in the amount of training that local employees will have received before they are hired. Nonetheless, globalizing automotive suppliers should provide career development that goes beyond simply training these employees to perform better and that clearly links to an attainable career progression. The aim is to both enhance employees’ skills and improve overall retention.

**Expatriate manager development is a key to globalizing successfully**

Our questions about expatriate managers — managers working outside of their home country — provoked a surprising amount of comment. Although a cadre of at least a few expatriate managers is essential to establishing an offshore facility, recruiting them is a challenge.

Some interviewees reported that it is easier to persuade younger managers, especially those who are single, to take overseas assignments. And, in a sense, this works well, since these people have more years ahead of them during which they and their company can benefit from the experience. But holding on to such individuals may be difficult. Young managers who are promising enough to earn expatriate assignments may be especially attractive to competitor or customer firms.

Cost pressures have prompted companies to be increasingly careful with expatriate managers’ compensation packages,
which are so expensive now that firms keep a tight rein on the number of such assignments. In the past, as one executive pointed out, companies offered generous allowances for expatriate assignments, and “some expatriates viewed the overseas experience as a chance to sock away cash.” But the same respondent reported that today’s smaller compensation packages may be making it harder to recruit expatriate managers.

Other executives cited the challenges of helping all expatriate managers succeed. These managers must deal with cultural differences in compensation structures, hours of work, work habits, and local labor practices.

For example, suppose a local American manager at a U.S. location of a Japanese supplier accepts an assignment to Japan. Despite a possibly higher cost of living, the American will have to live on lower wages.

Similarly, when Japanese managers are posted to the United States, their compensation may remain under Japanese standards. This can create tension, because they may earn less than their American subordinates. Furthermore, American workers expect a close alignment between performance and compensation, while Japanese workers usually do not. Nonetheless, a Japanese expatriate manager may need to link pay to performance to conform to the American workers’ expectations.

Two of our interviewees also noted that local managers do not often become expatriate managers in the headquarters nation, which limits their career advancement. Their careers may also be constrained at the satellite location.

Mergers and acquisitions add to retention difficulties

Global expansion concentrates a firm’s attention on retention, whether it executes it well or not. One interviewee reports that his company is committed to increasing its sales by 100 percent within about five years, primarily through mergers and acquisitions. But he underlined the difficulty of merger and acquisition efforts from an HR perspective, especially in a global environment.

Another executive reported a similar challenge, “How do you acquire companies [in other nations] and have good human capital outcomes?” He cited the major HR issue of cultural dissimilarity between an acquired company and the acquiring company.

Best practices for retention

1. **Focus on job security and stability.** For automotive suppliers with offshore facilities, providing job security and stability is crucial to retaining employees. To avoid flight risk among employees at these sites, companies should plan operations and possible expansion in ways that minimize the possibility of having to abandon or scale back the facilities.

2. **Clarify local managers’ career paths.** Employers must establish clear career paths for local managers if they hope to retain them. These should include on-site promotions and possibly assignments to the firm’s other facilities, including assignments in the headquarters nation.

3. **Carefully plan expatriate assignments.** Offshore facilities will require at least some expatriate managers. Suppliers should plan and coordinate these assignments, grooming the firm’s next generation of top leadership in order to retain such managers. If completed successfully, these assignments should be followed by other assignments — possibly in the expatriate’s country of origin — that build on the manager’s offshore duties and accomplishments.
4. **Ensure competitive reward packages.** Employees in offshore locations may receive offers from a supplier’s customers and competitors. A global rewards strategy is crucial for moving talent around, but the strategy needs to be put under the lens of the local country’s practices before implementation. Regularly obtaining competitive data and practices is paramount, particularly in rapidly growing areas.

5. **Emphasize leadership development.** Employees tend to quit leaders, not organizations. Effective leaders are especially important when a company enters a location where it is unknown and unproven. Leadership development is also valuable for ensuring a strong company culture globally, which in turn enhances retention.

6. **Understand the workforce.** Suppliers should not simply follow what other firms are doing. They should survey their own employees, particularly the high performers, to understand what drives them and will encourage them to stay. Suppliers can then target programs and practices to retain such talent.

7. **Use multiple vehicles.** Retaining employees requires multiple efforts. These range from rewards to communications to effective performance management and development. Automotive suppliers must identify the best mix of programs and practices for each location and customize it for various employee segments.

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**Deployment**

Our interviewees emphasized smart deployment of managers, which can help solve the problem of managerial succession. Many of these suppliers depend on internal development and recruitment for most of their top management. (Hiring managers from firms outside the automotive industry is uncommon. While hiring managers from other companies in the industry occurs somewhat more often, the predominant pattern is still to promote from within.) Thus, evaluating the firm’s own managers attracts considerable attention, partly to replace departing managers.

As one respondent reported, “We’ve looked at the retirement attrition rate. We need 50 percent more senior management in the next seven years.”

And since our interviewees expect their companies — already among the largest automotive suppliers — to grow substantially, these firms will require still more managers.

The importance of preparing future managers was evident in the emphasis one executive places on this task: “Right now we have a robust succession planning leadership process. High-potential candidates work on four specific topics. Forty-eight people are involved. They are sponsored by executives who provide guidance. They devote six weeks to a team. It helps us identify and develop the next strong leadership group. We’re in our second class now.”

**Expatriate assignments are important to companies and the managers themselves**

With automotive suppliers rapidly expanding their global footprint, we were interested in the importance of overseas experience to both the manager and the company. The majority of the executives rate foreign experience as critical or of great importance. Some cite the significance of learning about the culture of another country, including acquiring new language skills. Others note the importance...
of understanding an entirely different market. As one respondent remarked, “Sending senior management overseas sensitizes them to the market. Customers force us to behave globally. It’s an important supplier differentiator.”

Still others mentioned the value of foreign assignments to a manager’s career. An interviewee who works for a Japanese supplier says of his company, “It is very important because career advancement is not built on titles, but on relationships within the organization. Within the U.S. the title is who you are. But in Japan the title is not what you are, because they must know you as a person — relationships are important.”

Several respondents stated that foreign assignments are important for all managers, regardless of their functional area. But others said that foreign assignments vary in importance, depending on the manager’s functional area. Offshore experience is not considered key for employees in accounting, for example. At the same time, interviewees think such experience is especially valuable for managers in manufacturing, engineering, and, to a lesser extent, sales and purchasing.

**HR offices are underused in determining managers’ offshore assignments**

We asked the executives how their HR offices link with other departments in deciding a manager’s assignment and location. Despite the fact that most of the interviewees consider foreign experience important to career development, coordination between a manager’s department and HR is not typical. The HR office usually deals only with salary, benefits, and the logistics of moving a manager to another nation and back.

Such functional decentralization has implications for a company’s workforce planning and deployment. Again, large suppliers depend primarily on internal recruitment for top management. Given the importance these firms ascribe to offshore experience, how can central administration be sure that enough future executives acquire global experience?

This speaks to the underuse of HR departments in deployment and workforce planning — and, for some suppliers, to a somewhat ad hoc system for giving their next generation of executives the global experience they need. A more effective approach is to engage the HR offices in tracking executives’ offshore assignments, and direct them to ensure that upcoming cohorts of managers get appropriate expatriate experiences.

As a supplier globalizes, it must become qualitatively different; it must learn to operate in a variety of labor markets, each with somewhat different principles. Grasping those principles and coordinating efforts in each labor market are important both to the long-range task of workforce planning and to the more immediate work of RRD.

**Best practices for deployment**

1. **Use expatriate assignments.** Our executive interviewees believe offshore assignments are important, both for a manager’s career and for developing an excellent executive cadre for their firms. To the extent they can, automotive suppliers must accept the cost and plan for expatriate assignments for their leaders. This includes development programs for future expatriates.

2. **Differentiate assignments.** Foreign assignments, which enhance understanding of cultural differences and their impact on customers, are particularly important for managers in manufacturing, engineering and purchasing.

3. **Involve HR.** Automotive suppliers should involve their global HR offices in offshore assignments.
HR's macro perspective will help ensure that potential executives from relevant functions gain the appropriate experience and that talent is deployed effectively.

4. **Coordinate global and local HR departments.** Suppliers' global and local HR offices must coordinate to provide some commonality and to establish mutual awareness of the necessary variations in HR practices at all corporate sites.

5. **Apply a consistent HR philosophy.** Companies should create a common framework for HR management and deployment. Within this framework, firms must adhere to a unified set of principles for their reward programs and practices. These are critical to retaining talent and moving it around the globe.

6. **Use technology.** Knowing the company's people and skill sets around the world is crucial. Technology is paramount in gathering and organizing the information. Data should include typical employee demographics as well as competencies, skills, certifications, and experience, both domestic and offshore. This allows HR and line managers easy access to available talent for immediate and future needs.

### Conclusion

Top automotive suppliers have experienced tremendous global expansion in the last 10 years, conducting just over 40 percent of their activities outside their home nations or regions. These firms continue to expand, and their growth will be somewhat faster in their satellite locations than in their home nations. This international activity takes two forms: (1) placing manufacturing facilities outside the home region, which means developing overseas, local Tier 2 supply bases and (2) expanding that Tier 2 supply base to support facilities at home and abroad.

Despite these top suppliers' importance to the global manufacturers, they have not been able to parlay their supply chain power into globalizing based on their own strategic needs. Instead, they continue to locate wherever their customers demand. Suppliers also report significant challenges in importing components from overseas from their Tier 2 supply bases.

Five major challenges face these suppliers: controlling costs, supporting new locations with appropriate HR, selecting and establishing plants in the right global markets, communicating with and linking systems throughout the world, and balancing decision making and execution.

To accommodate their increased globalization, these firms must also be able to:

1. **Recruit, retain, and deploy the right number of skilled and motivated employees, whether executives and managers, engineers, or production workers.**

2. **Integrate their operations to attain the unity that global success requires.**

Without true workforce planning, suppliers can make regrettable location decisions. In particular, companies report a lack of understanding of local engineering and managerial talent. When recruiting local talent, companies find they are competing with their competitors or other global companies. Retaining local employees means providing competitive pay and benefits, as well as finding the right managers to lead these organizations. How suppliers cultivate these managers, in terms of providing
training and career paths, determines the success of their global expansion.

In the end, HR is a major challenge — and solution — to globalizing an organization. Recruiting, retaining, and deploying the right people to supervise and staff operations is difficult. Yet the ability of HR to anticipate and aid companies through workforce planning and monitoring, as well as training and supporting managers, can give companies a long-term competitive advantage. Offering HR a seat at the table before globalization decisions are made can ensure fewer negative surprises and a smoother entry into new markets and production locations.

Bibliography


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