World-class manufacturing is about the right materials, processes, and equipment. But it’s also about people. The relatively few organizations that understand this reap the benefits.
Finding, managing, and motivating employees—human-capital management—is the cornerstone of world-class manufacturing.

Indeed, it’s impossible to imagine a high-performance organization without skilled talent. Yet few manufactures have achieved superior human-capital management—which limits their ability to achieve operational excellence.
It’s not that organizations don’t want to manage their human capital better.

Some 78 percent of manufacturing company executives recognize the importance of human-capital management. But believing isn’t the same as executing and performing. Only 30 percent of manufacturing companies self-rated their firms as being near or at “world-class human-capital management,” and 9 percent of manufacturers report no progress toward “world-class human-capital management.”

Yet there are a few organizations—those with superior human-capital management—that we have identified as more likely to meet or exceed these world-class standards. These firms (“Super HCM manufacturers”) have skilled individuals, both in the HR function as well as throughout the organization, who are supported with development programs and guided by an organizationwide human-capital strategy. Not surprisingly, these firms outperform their peers in key business outcomes and metrics.
KEY TRIO OF SKILLS, DEVELOPMENT, AND STRATEGY

In-depth analysis of the Next Generation Manufacturing Study, conducted in 2011 by The MPI Group, identified Super HCM manufacturers by three key criteria. These criteria correlate with high-performance human-capital management and operations excellence, but aren’t common among most manufacturers:

Skilled HR and development programs
Just as manufacturers require skilled designers to innovate products and talented engineers to improve operations, they also need HR leadership capable of molding a competitive workforce. Yet just 18 percent of all manufacturers in the NGM Study have both skilled HR leadership and talent development programs capable of driving world-class human-capital management into the next generation. (One-third of manufacturers have neither.) To excel at human-capital management, organizations must invest in HR as a strategic function that adds organizational value, rather than an administrative department handling insurance programs or policing Internet policies. At the best firms, HR is a function led by experienced executives able to improve—and align with business needs—their recruiting, onboarding, training, and compensation programs across their enterprises.

Skilled and engaged workforces
Employment levels (capacity) receive a lot of attention in the post-recession economy, but even more important is the need to equip managers and workforces with the full array of skills (capability) they require to excel in their positions. Yet less than half of manufacturers have the talent they need: only 47 percent report that a majority of their workforces have the technical skills, problem-solving skills, and work ethic to excel in high-performance work teams. (On the other hand, 12 percent of manufacturers report that no one in their organization has these skills.) Skilled workforces are a direct result of skilled HR teams able to find skilled recruits—or find motivated, high-potential candidates with problem-solving skills who can then be trained for technical and managerial expertise they need.
Companywide Human-Capital Strategy

HR is the lifeblood of a manufacturer, but too often this core component of success is ignored in executive suites. Just 12 percent of manufacturers have a company-specific human-capital management strategy with full functional involvement and buy-in (15 percent of manufacturers have no strategy). Strategy elevates HR from an administrative activity to a pathway toward organizational objectives. Strategy is supported by goals cascaded down through the organization to functional targets that spur improvement by managers and employees. Strategic buy-in only comes by engaging managers and frontline employees, and by getting their input and ideas about what works, what doesn’t, and what needs to be changed. Buy-in spurs action and makes improvement happen.

Only 5 percent of organizations have effectively addressed the three criteria (i.e., skilled HR development programs; skilled and engaged workforces; and a companywide human capital strategy) and qualify as Super HCM manufacturers (Figure 1). More shocking is that 47 percent of manufacturers have not addressed any of the three key criteria.

FIGURE 1: THREE KEY CRITERIA TO BE A SUPER HCM MANUFACTURER: SKILLS, DEVELOPMENT, AND STRATEGY
SUPERIOR HUMAN-CAPITAL MANAGEMENT

The companies with superior human-capital management characteristics (Super HCM manufacturers) put greater emphasis on human-capital management and their HR functions. They also are more likely to deploy human-capital best practices (as well as manufacturing best practices), and achieve superior operations results.

• **HCM importance:** The first step toward improvement is understanding that a strategy (i.e., developing human capital) is worth emphasis and investment. It seems obvious that senior executives should recognize this, yet many don’t. In fact, while more than three-quarters of Super HCM manufacturers (79 percent) recognize that human-capital management is highly important to their organization’s success over the next five years, just 47 percent of other manufacturers share that understanding.

• **Informed C suite:** Leaders can’t manage what they can’t (or don’t) measure. Two-thirds of Super HCM manufacturers (69 percent) indicate they have measurement and review systems to gauge the return from human-capital management in which metrics are regularly monitored by CEO and senior staff. Just 17 percent of other manufacturers have this level of executive engagement (Figure 2).

**FIGURE 2: MONITORING AND REVIEW OF RETURN FROM HUMAN-CAPITAL MANAGEMENT**

• **Investment in human-capital management:** Supporting human-capital development with the tools and technologies for excellence sends a clear message regarding the strategy’s importance. Half of Super HCM manufacturers (49 percent) have “state-of-the-art” business systems in place to “provide long-term support” for world-class human-capital management. Only 7 percent of other manufacturers have the same advanced systems and equipment.
• **Finding skilled staff:** It takes skilled staff and a high-performance HR function to identify, hire, and retain skilled employees. Super HCM manufacturers are far more likely to have sufficient leadership and talent, and development programs in place to drive world-class status with other corporate strategies. For example, 72 percent of Super HCM manufacturers have sufficient leadership and talent and development programs for customer-focused innovation, compared to just 21 percent of other manufacturers (Figure 3).

**FIGURE 3: SUFFICIENT LEADERSHIP AND TALENT AND DEVELOPMENT PROGRAMS**

![Graph showing the percentage of Super HCM manufacturers with sufficient leadership and talent and development programs for various initiatives.](image)

• **Workforce development:** Executives often neglect training because “business is good and we’re too busy” or “business is off and we can’t afford to train.” Not so among Super HCM manufacturers, where 70 percent devote 20 hours or more of training to each employee annually (19 percent devote more than 40 hours to each employee). Only 30 percent of other manufacturers devote 20 hours or more of training (and only 10 percent devote 40 hours or more of training).

Super HCM manufacturers also use those training hours differently: 91 percent have established skill standards for a majority of company positions and align their training to those standards (26 percent have applied standards and aligned training for all positions in the company). Less than half (48 percent) of other manufacturers have skills standards and training alignment for a majority of positions (only 7 percent have skills standards and alignment for all positions).

• **Operations best practices:** With any improvement approach, those doing the work are in the best positions to identify and administer improvements. More than three-quarters of Super HCM manufacturers (79 percent) report that a majority of
their workforces are fully engaged in their organization’s specific improvement methodology. Just 43 percent of other manufacturers have a majority of the workforce engaged.

• **HCM results:** Some 84 percent of Super HCM manufacturers indicate they have either achieved world-class human-capital management (28 percent) or are near world-class status (56 percent). Among other manufacturers, only 2 percent report achieving world-class human-capital management and just 25 percent are near world-class status.

• **Operations results:** High-performance human-capital management should lead to a high-performance organization, one that effectively delivers what customers want, when and how they want it. A high-performance organization also builds lasting relationships with suppliers and develops new products and services to retain existing customers while finding new ones.

Two-thirds of Super HCM manufacturers (67 percent) describe their customers’ overall satisfaction with companywide performance as “strong loyalty to our products due to ongoing trust in our organization’s people and capabilities.” Only 48 percent of others manufacturers describe their customers in that way (Figure 4).

**FIGURE 4: CUSTOMER SATISFACTION**

Approximately 42 percent of Super HCM manufacturers have developed “strategic” relationships with their customers and suppliers, and those supply-chain partners are “active participants in their operations, continuous improvement, and product development efforts.” Only 19 percent of other manufacturers have such relationships with supply-chain partners.
Half of Super HCM manufacturers (49 percent) commercialize 25 percent or more of their R&D work. Just 29 percent of other manufacturers commercialize 25 percent or more of R&D.

Super HCM manufacturers are more likely to be profitable than other manufacturers (91 percent profitable vs. 83 percent profitable). Similarly, 79 percent of Super HCM manufacturers report value-add per employee of greater than $75,000, compared to just 60 percent of other manufacturers.
Superior Human-Capital Management

Human-capital management components critical at an enterprise level must also be localized to individual plants. Analysis of the 2011 MPI Manufacturing Study identified a group of Super HCM plants—U.S. facilities at which:

- Human-resource management is important or highly important to the plant’s success over the next five years.
- Leader/supervisor development occurs.
- A formal employee-training program is in place.
- A formal recruiting and hiring program is in place.

Only 19 percent of U.S. plants met these criteria as a Super HCM plant. Not surprisingly, these facilities are more likely to adopt best practices and post better performances. For example:

- **HCM practices**: Approximately 68 percent of Super HCM plants train each employee more than 20 hours annually vs. just 37 percent of other plants training at that level.
- **Operations practices**: Fully 100 percent of Super HCM plants have an improvement methodology in place vs. 82 percent of other plants.
- **HCM performance**: Super HCM plants reported 0 job-related injuries and illnesses that resulted in a lost workday for the year (median) vs. 1 lost workday for the year at other plants.
- **Productivity and cost performance**: Sales per employee at Super HCM plants is $260,000 (median) vs. $160,000 at other plants. Production volume (as a percentage of designed capacity) is 75 percent (median) at Super HCM plants vs. 65 percent at other plants.
- **Quality performance**: Scrap and rework rates of 1 percent (median) at Super HCM plants vs. 2 percent at other plants.
- **Overall performance**: Approximately 56 percent of Super HCM plants have made significant progress toward or fully achieved world-class manufacturing status vs. just 34 percent of other plants.
TRANSITIONING TO SUPER HCM

Becoming a Super HCM manufacturer or plant isn’t an accident. MPI research regarding Super HCM manufacturers and plants finds a systematic approach to superior human-capital management:

Commitment and communication

Superior human-capital management cannot be driven by HR alone. Top executives must lead improvement and culture change in an organization, and regularly communicate and demonstrate that commitment in the boardroom and on the plant floor.

A key finding in our analysis is that organizations are more likely to develop superior human-capital management if operations executives understand its importance to the long-term success of the enterprise. That awareness must be prompted by senior leaders. If talent is a company’s most important asset, then finding, retaining, training, and leveraging talent is the most important investment an executive can make and promote.

Skills and skills systems

Everyone in the organization needs to have skills to support their roles in the new culture and that are accurately aligned to the requirements of those roles. This means having systems in place to identify benchmark talent levels for positions and, subsequently, systems to efficiently find, develop, nurture, reward, and optimize talent.

A study conducted by Allied Van Lines in spring 2012 found that organizations with “best in class” recruiting:

- Spend more per new hire;
- Are more likely to use a range of resources to find candidates; and
- Offer more incentives to land candidates than do other organizations.5

To pursue operations improvements that will allow your organization to remain competitive, you need a steady stream of talent: engaged leaders, enlightened managers (coaches/mentors), and empowered frontline problem-solvers. If your organization doesn’t yet have superior human-capital management, it’s time to get started, especially given renewed competition for talent. More than two-thirds of HR executives describe their company’s recruitment efforts in 2012 as either extensive (23 percent) or moderate (46 percent).6
Accountability and alignment

Everyone in the organization must understand their roles and objectives in the new culture—from the C-suite to the front lines. Performance management monitors and guides actions, guaranteeing that efforts and investments push an organization’s disparate functions toward a common goal. Super HCM manufacturers and plants leverage their corporate human-capital management strategies into clear accountability for localized improvements, rallying workers toward common goals and objectives, both within the HR function and across the organization.

For example, more than half of Super HCM plants (57 percent) use strategy deployment to establish goals and objectives and then cascade those targets throughout their facilities (only 26 percent of other plants use this planning approach). Leading firms also embed performance management into day-to-day operations by developing a system of checks and reviews customized for each role (executive, manager, frontline) and function (HR, operations, customer service, procurement) throughout the organization. The HR function is critical in performance management, as well, to ensure that performance and compensation are properly aligned.

Measurement

Can everyone in the organization see if the company is doing what it said it would do? Transparency mechanisms—dashboards, balanced scorecards, etc.—make it easy for workers and executives alike to monitor lag measures (outcomes) and lead measures (those that presage outcomes), and then proactively make course corrections. Measures should reflect the components necessary for superior human-capital management (e.g., communication, alignment, etc.). For example, is there a measured process for identifying high-potential internal talent and accelerating the development of those individuals?

During the recession, many manufacturers were forced to find and grow talent from within, identifying candidates for critical roles and training those employees as part of succession and replacement planning. This same expertise is required now as hiring increases. In fact, it may be even more important, as organizations strive to reach new markets while preserving their core values and cultures—even as post-recession competition makes talent even scarcer. Can your company identify how successfully it is finding, onboarding, and leveraging talent?
The right talent at all levels—leaders, managers, and frontline staff—is a critical source of change and sustainable improvement for any organization. But the right talent requires the right HR systems. Super HCM manufacturers and plants are more likely to have these systems. That gives them a significant advantage over competitors in finding, holding, and managing the right talent—and in the productivity and profitability that only the right talent can deliver.
Sources

1. 2011 Next Generation Manufacturing Study, The MPI Group, 2011. Rated 4 or 5 on a scale of 1-5, where 5 equals "highly important."

2. 2011 Next Generation Manufacturing Study, The MPI Group, 2011. Rated 4 or 5 on a scale of 1-5, where 5 equals "world-class."


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