



NGS GLOBAL

INDUSTRIAL PRACTICE

Industry 4.0—the new Industrial Revolution—is upon us. Organizations must embrace new business models or risk losing market share to competitors

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In this article of NGS Global Perspectives, Roman Müller-Albrecht and Terry Veitch, members of the Industrial Practice group, discuss what implications Industry 4.0 has had, and will continue to have, for organizations in the industrial/manufacturing sector. The process of introducing new technology into operations is always a complicated one, but leaders in the sector realize they must adapt if they are to remain competitive in today's world.

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The industrial sector continues to be a strong performer for many world economies that have otherwise felt the pain of the global recession. Experts theorize that industry has been strengthened by the rise of digital technology, which has allowed for more efficient production, streamlined procurement, and faster distribution of goods.

However, the rise of digitization in industry is seen by many as more than just a passing phase. Indeed, many experts describe this as the next game-changing stage in the evolution of industry. To be more precise, Industry 4.0—a phrase first coined by the German government to describe the endless integration of new technology into the factories, mines, farms, machines, and computers that satisfy the needs of billions of consumers and businesses worldwide.

Integrating new technology into industrial organizations can be a challenge as some executives do not necessarily see the value in bringing digital technologies into their company and quite often there are high initial costs involved.

We recently interviewed Roman Müller-Albrecht and Terry Veitch, members of NGS Global's Industrial Practice Group, about the condition of the industrial sector in their respective home markets—namely Germany and South Africa—as well as globally and the key issues organizations must overcome to find executives in the field now and in the future.

Q: SUCCESSION PLANNING FOR SENIOR LEADERSHIP IN INDUSTRIAL COMPANIES IS A GLOBAL PROBLEM FOR THE INDUSTRY. IS IT DIFFICULT GETTING QUALIFIED CANDIDATES TO FILL TOP POSITIONS AT SUCH ORGANIZATIONS?

RMA: I don't find it difficult in Germany in comparison to other markets. Industry, or manufacturing if you prefer, is very important throughout Germany. If you look at our economy, we have a very strong industrial base and we have for a long time. We have many successful companies in this environment and those companies have taken steps to ensure that they are attractive places to work, such as embracing or implementing Industry 4.0.

Furthermore, for an individual with an engineering background or MBA, these organizations are particularly great places to work because they typically offer wonderful perks to top performers.

However, I do realize that recruiting in the industrial sector is a problem in many other markets. I think the difference may be that in Germany, we have an education system that really promotes engineering as an attractive career path, so we don't have the shortage of engineers that you see in some other countries, such as the United States.

TV: The impact of technology on the industrial sector, both globally and within the South African market, over the last five years has been more swift than any other influence experienced in the sector over the 50 years prior to this period. As a result, many companies in the industrial sector have often had long-serving leadership which in itself has had a limiting effect on upward mobility for younger executive talent.

South Africa has one of the most developed manufacturing sectors on the African continent and, although the executive talent market there remains competitive, it is undoubtedly getting more difficult to attract executive talent into this sector for a host of different reasons. Broadly speaking, in South Africa a career in the industrial/manufacturing sector is not perceived to be as desirable as working in an e-commerce or technology company. If more companies in the manufacturing sector adopted leading edge technology and further digitized their operations, this could change the outside perception of these companies and in turn make them more attractive to executive talent. This adoption of technology also applies to the research and development functions within these companies and not just their operations.

Q: THERE SEEMS TO A BE FLURRY OF M&A ACTIVITY IN THE INDUSTRIAL SECTOR. HAS THIS HAD AN EFFECT ON EXECUTIVE RECRUITMENT AND RETENTION IN SUCH ORGANIZATIONS?

RMA: I believe that M&A activity takes place when organizations wish to bring knowledge, not necessarily people, together on a global scale. There are many niche players in the industrial space. Large organizations often want to move into a particular country or region for different reasons, but find it might be

easier to simply merge with one of those niche players or to acquire them.

Smaller companies that specialize—and excel—in very specific fields can often bring significant value to a large organization. They also have local knowledge and expertise that is inestimable to an organization that is considering expansion.

For example, in Germany we have what is called “Hidden Champions”. This refers to a usually medium-sized company, which is a recognized leader in their market, and has a relatively low public profile. There are many companies like this in Germany, and they are particularly attractive for larger organizations that want to have that expertise to help them to expand.

TV: M&A activity in Africa has increased marginally year-over-year. Most of the deals now taking place are smaller deals and are happening in the mid-market. This activity is primarily driven by commercial factors as opposed to being driven by talent acquisition. Having said that, in certain instances, larger companies have actively gone out and acquired smaller niche companies in order to secure both the operational expertise and the talent of a smaller niche operator. In these cases, it is more beneficial for the larger company to acquire the smaller operation and in so doing secure the required talent than for them to start that operation internally than to try find the required talent externally. M&A activity is often driven by a global, regional or even local consolidation across a sector which, in turn, can be brought on by the introduction of new technologies and digitization within that sector.

Q: HOW ARE INDUSTRIAL ORGANIZATIONS THAT MAY BE IN THE MIDST OF AN M&A SITUATION INTEGRATING THE LEADERSHIP TEAMS AND ASSESSING WHICH CANDIDATES ARE THE BEST FIT FOR THE NEW MERGED ENTITY?

RMA: In my experience, merged organizations often assess talent from a financial perspective. For example, in the case that the merger or acquisition results in redundant positions, the new organization often evaluates salaries when deciding what positions to keep.

However, I don't agree with this strategy. I believe that merged organizations should consider benchmarking executives at all levels. But this is rarely done. Executives and even directors or managers at all levels should be assessed. The failure to have a thorough review of all leadership from an unbiased source may explain why so many mergers fail.

Unfortunately, human capital is often the last consideration and that is a mistake because without the best in human capital the rest will not matter.

TV: Forward-thinking client companies fully embrace the process of integration and invest accordingly in assessing and benchmarking all executive talent thoroughly and in accordance with the merged entities corporate culture and strategic requirements. This critical process is often overlooked by acquiring companies due to the binding terms of the agreement of the acquisition for example no lay-offs for a stipulated period after the acquisition and is also often overlooked due to the ever-present pressure from shareholders on executives to immediately get commercial traction after an acquisition or merger. This in turn can result in a significant turnover of executives down the line in order to onboard the required and aligned executive talent.

In some instances, organizations use all or a combination of the following in order to integrate leadership in the newly formed entity: a robust corporate culture fit process, up-skilling, cross-functional training and job rotation of executive team members. Depending upon immediate business requirements companies often decide to hire from outside the company, which typically occurs more when no clear succession plan is in place or there is a specific skill shortage. This is especially true of smaller or leaner organizations. Thorough succession planning takes into account a variety of factors and is often a key consideration when evaluating individuals in a M&A situation.

Given the impact of technology on companies in the industrial sector, there is an ever increasing requirement for hybrid executive skill sets and this is applicable for organizations of all sizes. Clients are requesting leaders that have a fusion of executive skills which include both hard and soft skills such as broad business acumen, strong people skills, sound strategic ability, proven operational expertise and technological savvy. As search professionals we need a refined search process and search strategy in order to identify this blend of skills, which in turn often vary in executives from company to company within the same sector.

Q: THE RISE OF DIGITAL TECHNOLOGY IN INDUSTRIAL COMPANIES HAS RESULTED IN AN INCREASE IN POSITIONS THAT WERE PREVIOUSLY UNHEARD OF IN THIS FIELD. HAVE ORGANIZATIONS BEEN SLOW TO UNDERSTAND THAT THEY NEED EXECUTIVES WITH THE SKILLS TO MANAGE, DEVELOP, AND DEPLOY THE NEW TOOLS AND TECHNOLOGY?

RMA: Speaking specifically about industrial and manufacturing companies, most of the top management that I encounter realize that this is necessary. But there is no right or wrong regarding how to deal with Industry 4.0 or a real model of how to manage the change. It is unique to each organization in the same way that each organization is unique.

In manufacturing—at least in Germany, businesses tend to understand that they should hire a Chief Digital Officer or create a digital group if they haven't done so already. Still, some CEOs don't seem to realize that they must embrace Industry 4.0 quickly. Unfortunately, for companies with leaders that do not have a good sense of the importance of digitizing their operations, the company will eventually have a serious problem.

Understanding and embracing Industry 4.0 is a way for leaders to drive the business and as such, there must be support at the top levels of the organization to implement new technology. Change will be accepted by the employees and they will adapt if they see top management fully committed to it.

TV: When talking to long-tenured executives in companies there is often a strong resistance to change for a host of different reasons. In many instances in the developing markets such as South Africa, there is a lack of willingness to adopt new technologies due to the initial cost, a fear of uncertainty, or a genuine belief that it is not necessary in order to survive. The key issue with digitization is that it is certainly not a passing phase; it is inevitable, ongoing, rapid and, in most instances, essential in order to stay in the game for the long term.

A classic example of a position that has significantly changed across most sectors along with the introduction of technology is the role of the CIO. The skills required to be an effective CIO five years ago are quite different to those required now. This role has become far more of a COO type role than before and in technology driven companies is often the successor to the CEO.

Another direct result of the explosion of technology in these types of businesses is that there has been a rise in positions like that of Chief Technology Officer, Chief Digital Officer and Chief Product Officer.

Q: YOUNGER PEOPLE ARE INCREASINGLY BEING LURED TO INDUSTRIES THAT THEY VIEW AS MORE TRENDY, SUCH AS HIGH TECHNOLOGY AND SOCIAL MEDIA. LOOKING AT THE INDUSTRIAL SECTOR AND MANUFACTURING, DO YOU SEE THE SHORTAGE OF YOUNGER, QUALIFIED CANDIDATES GROWING IN

COMING YEARS?

RMA: For the time being, I would not say that there is an alarming shortage of people in the industrial sector or manufacturing. However, it is correct to say there will be a shortage if current trends continue. I believe this will be a global problem in these types of organizations, even in Germany. As technology becomes more intertwined in individuals' lives, careers in those types of companies are more attractive to younger people.

This may be due in part to the fact that people in general want to make sure that their skills, knowledge, and expertise are current because this makes them attractive as employees so they naturally gravitate to companies that have fully embraced technology. That is why organizations in industry and manufacturing must do so as well.

There are other factors that can lure younger people away from these types of organizations. They typically want to work in open collaborative environments and have the personal freedom to work the hours they choose in the location they choose. However, if you work for a manufacturing firm, it's usually safe to assume that your job will require you to be in the facility during regular work hours. So organizations in this sector must find other ways to appeal to younger generations of employees or they will have problems finding qualified leaders in the future.

TV: The short answer to the question is “yes”. When looking at the next generation of leaders in the manufacturing sector across South Africa—and Africa as a region--there is a significant headwind in the form of an enormous skills shortage of suitably qualified engineers across all disciplines. For this reality to be turned around, the public and private sectors in the countries in question need to work hand in hand in order to attract talent to study initially in the various engineering disciplines and thereafter seek employment in the manufacturing sector. This process starts at grass root level and ultimately it will be up to companies to make themselves more attractive to this group of talent by becoming “preferred employers”.

Just as in the global trend, South African talent is typically attracted to the trendier technology-driven businesses as they are offering exciting career opportunities and offer more flexible working environments. These companies have had to change and have become more closely aligned from a cultural perspective with the talent pool they are looking to attract. The shortage of talent will take a long time to reverse so for the foreseeable future I do see this shortage growing.

Q: HOW ARE ORGANIZATIONS RESTRUCTURING THEIR INTERNAL DEVELOPMENT PROGRAMS AND BENEFIT OFFERINGS TO MAKE WORKING THERE MORE APPEALING TO YOUNGER EXECUTIVES?

RMA: In Germany they have adopted several tactics. First, many companies help people explore different jobs within the organization if that person is open to a diverse career path.

Companies are also increasingly offering options like day care. This has two benefits: it not only decreases the burden on working parents to find day care, but also helps women reenter the workplace or return to work after having a child.

They also create more inviting work spaces for people and even offer some employees the flexibility to work from home all or part of the time.

Finally, I would say that companies are increasing their understanding of what work life balance really means and are more open to giving people time off to pursue personal projects that are of importance to them.

TV: I find that a lot more organizations are now offering more employee-aligned benefits and these are key firstly, in attracting talent and, secondly, in retaining talent. These benefits come in various forms such as the structure of remuneration packages, career advancement and the physical environment in which people work. Generally speaking, companies have had to better culturally align themselves with talent. The new generation of executive talent is undoubtedly looking for a better work-life balance and progressive companies are offering talent just that. In an attempt to transfer required skills some organizations are also giving employees the chance to take short term stints in external companies to further enhance learning, this approach creates broader collaboration across sectors.

I also find that businesses are creating more opportunities for people to advance in their career and relocate. The higher level the position, the more likely candidates are to embrace relocating for a company.

Q. WHEN YOU ARE HELPING YOUR CLIENTS IN INDUSTRIAL BUSINESSES RECRUIT FOR LEADERSHIP POSITIONS, HOW DO YOU ADVISE THEM TO HELP CULTIVATE THE NEXT GENERATION OF STAR PERFORMERS FOR THEIR ORGANIZATION?

RMA: It's imperative that organizations in the industrial space look for leaders that, at the very minimum, recognize the importance of Industry 4.0 as a way of ensuring that their

company remains competitive. However, when considering the next generation of leadership, it is essential to consider candidates that have in-depth experience implementing Industry 4.0 into an organization, have technical knowledge, and stay abreast of developments in the industry.

TV: We encourage our clients to take a longer term view in their search and take into account the short term requirements of the company and also retention and succession planning. The other key areas we get clients to focus on are corporate cultural fit and wherever possible on diversity.

IN CLOSING:

RMA: Germany has an education system that actively promotes the attractiveness of engineering and the industrial sector for career paths. To remain competitive on a global basis, companies must also have leaders in place that advocate for, and take steps to implement, Industry 4.0 into their operations.

TV: In South Africa and Africa alike, businesses need to appoint more leaders that openly embrace technology and only then will Industry 4.0 gather meaningful momentum in the region.

ABOUT NGS GLOBAL

With offices across the Americas, Europe, Africa and Asia, NGS Global provides the extensive resources of major global executive search firms along with high-touch service, accelerated completion cycles and superior candidate access made possible by a mid-sized platform without external shareholders. Through our commitment to industry expertise, cultural knowledge and partner-led search execution, we deliver exceptional value to our clients.

The challenges facing industrial companies extend far beyond that of optimizing internal productivity and processes. To remain competitive, they must continually adapt to a broad range of external variables, such as ever-changing customer requirements, price compression, and competition from other companies.

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Roman Müller-Albrecht is Managing Partner at NGS Global and is a member of the firm's Global Operating Committee. He co-founded NGS Global's operations in Europe.

Mr. Müller-Albrecht advises public company boards, as well as leaders of privately held companies on their executive leadership requirements. His primary areas of industry focus in executive search are the industrial and consumer sectors. In addition to executive search assignments, he also conducts management audits for a broad range of client companies.

After completing his high school education, Mr. Müller-Albrecht served as an officer with the German Armed Services where he held various leadership positions in Germany and the United States. In 1993 he joined the Executive Search Division of GEMINI Consulting. In 2000, he initiated a management buyout to create an independent executive search firm, GEMINI Executive Search, where he served as Managing Partner until 2014.

Mr. Müller-Albrecht studied Educational Theory, Sociology as well as Economics, obtaining an M.B.A. and a Master's degree in Educational Theory.



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Terry Veitch is Managing Partner at NGS Global for the greater Africa region. With over 25 years of experience in the executive search industry, he conducts senior-level assignments across a wide variety of industries and functional areas, with an emphasis on financial services, information communications and technology (ICT), media, fashion retail, consumer goods, pharmaceutical and manufacturing sectors. Mr. Veitch has partnered with client companies throughout Africa, the Middle East, Europe, Asia and the United States.

Mr. Veitch was previously a managing partner in Africa at Alexander Hughes Executive Search, which acquired a boutique executive search firm he founded in 2002, Valinger Executive Search. Earlier in his career, Mr. Veitch founded another thriving executive search firm and sold it to a Johannesburg Stock Exchange (JSE) listed group.

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