

Aerospace & Defense Practice

Call to action: How A&D companies can build the workforce of the future

In light of the disruptions caused by the COVID-19 pandemic, the aerospace and defense sector is reimagining talent management to boost critical digital skills.

by Georgios Athanasakopoulos, Patrick Forrester, Varun Marya, and Brooke Weddle



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As part of an ongoing knowledge collaboration with the Aerospace Industries Association (AIA), McKinsey is providing research on timely talent-management issues facing the aerospace and defense sector. In Fall 2020, AIA will release a comprehensive report on talent within the sector, developed with analytics support from McKinsey. We would like to thank AIA for its collaboration in generating this research, which we hope will assist industry leaders in the months before the release of the AIA report.

The aerospace and defense (A&D) sector rightly prioritizes pursuing top digital talent because it relies on the most cutting-edge technologies and scientific expertise. Sector leaders acknowledge that acquiring and applying additional skills in advanced analytics and other rapidly evolving technologies is crucial for the industry's future competitiveness.¹ Yet there is a growing gap between supply and demand for digital talent. The A&D sector competes against an increasingly diverse set of employers, including large technology companies, start-ups, and blue-chip companies, that also have a growing interest in digital talent. Recognizing this heightened competition for talent, A&D leaders are taking bold actions to attract the best people.

McKinsey recently surveyed some A&D leaders—all members of the Aerospace Industries Association—to learn about their priority talent issues. The survey results portray a sector that is conscious of the urgency to increase digital literacy and accelerate efforts in this area. Further, the survey reveals that A&D companies face many of the same challenges in recruiting and retaining digital talent found in other tech-oriented sectors.

Many survey respondents are focused on managing the acute disruptions caused by the COVID-19 pandemic. In addition to talent challenges, including an increase in remote working, leaders are dealing

with a drastic decline in air travel and aerospace sales, as well as a value shift from hardware to software. What's more, defense budgets are coming under pressure as the pandemic shifts government priorities. These talent challenges are critical concerns for an industry already facing structural headwinds.

The COVID-19 crisis could jump-start important efforts to address talent issues by prompting A&D companies to reimagine how they work, especially how they help employees develop and deploy new skills. This article describes the nature of the challenge ahead and suggests how A&D companies—resilient and adaptable by nature—can use their muscles to prepare for it. Those companies that move quickly and act now will be well prepared for the next normal, where the work world will differ profoundly.

Finding digital talent

A&D companies face daunting odds in the pursuit of top digital talent, especially because the pool of available and qualified talent is quite small. In the greater Washington, DC, area, where several major A&D companies are headquartered, demand for tech talent exceeds supply by nearly 2:1.

To understand the breadth and depth of digital skills across A&D and competing industries, we interviewed industry executives and conducted an outside-in analysis of nearly 1.5 million job postings and employee profiles.

We found increasing demand for workers with digital and analytics skills. We also began to see the extent to which A&D companies are lagging behind their peers in other sectors, especially the technology industry, in attracting and retaining workforces with these skills. A majority of companies surveyed expect positive impact from digital trends but feel unprepared to face them.

¹ *What's next for aerospace and defense: A vision for 2050*, Aerospace Industries Association, March 2019, aia-aerospace.org.

Other talent insights include the following:

- ***A&D companies have fewer workers with digital and analytics skills.*** Only about 30 to 43 percent of their employees fall into this category, compared with 62 percent at tech companies.
- ***A&D is facing increased competition for digital talent, especially from tech companies.*** Almost 50 percent of survey respondents list tech and advanced-electronics companies as their biggest competitors for talent, reflecting the increasing overlap between skills needed in the tech industry and those required in A&D.
- ***A&D must do more to highlight industry strengths.*** Many prospective employees do not believe that the sector offers sufficiently exciting opportunities and development paths. Overall, 39 percent of survey respondents agree that providing compelling careers is the biggest challenge to developing and retaining talent. Survey respondents also describe their organizations as slow to allocate talent and bureaucratic in their approach. These factors could prevent them from attracting recent workforce entrants, who often seek opportunities to deploy their digital skills rapidly and do not want to wait to rise through organizational ranks.
- ***Within A&D, the strategic requirements of HR are growing.*** There is general agreement that the A&D industry's talent-engagement strategies must improve to remain competitive. This necessarily must begin with reimagining how companies can better integrate the human-resources function, allowing it to be a strategic partner in the business. Fewer than 50 percent of A&D companies are confident that their approach to talent management will enable them to outperform the competition over the next five years.
- ***A&D can do more to scale remote work.*** The COVID-19 crisis has accelerated remote work. Although 22 percent of survey respondents reported that their companies were well prepared to respond to COVID-19, leaders overwhelmingly indicated that they have had to adjust to working in ways they never imagined possible. In light of this challenge, A&D companies have moved quickly to implement new and alternative ways of working. For long-term success, A&D companies must identify sustainable remote-work models and formalize their aspirations.

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Reimagining approaches to talent and workforce

In the wake of 2020's disruptions, A&D companies are reimagining talent management. In particular, organizations see benefits from taking a more systematic, strategic, and data-driven approach to their workforces at all levels. To date, however, they have not made sufficient progress in evolving their operating model, embracing more agile and flexible methods of working, and changing their opportunity pathways to improve talent attraction and retention. We suggest taking six key actions to improve:

- ***Taking stock of where top talent is deployed.*** A&D companies report that only 44 percent of their best talent is assigned to critical roles and only 6 percent can quickly reallocate talent to strategic projects. To improve, A&D companies could identify their approximately 50 most strategically critical roles and then use data on skills and performance to determine if the right people occupy those roles.
- ***Radically increasing the reskilling of employees for future critical roles.*** A comprehensive strategy to close the talent gap will focus on internal staff, as well as external hires. For instance, companies could create individually tailored learning journeys to help internal staff develop new skills and could deploy training methods that allow employees to acquire and apply knowledge immediately. Some efforts might focus on employees who have some digital skills but currently occupy nondigital roles, since our research indicates that A&D companies have many workers in this category. With the right training, these employees could potentially transition to digital roles.
- ***Leveraging the mission of A&D organizations to inspire and motivate the next generation of talent.*** Rockets, stealth tech, and supersonic aircraft are cool—really cool. There are few tech projects as exciting as those in the A&D sector, where cutting-edge innovations come

together to transform the world. A&D companies should continue to highlight the inherent appeal of such activities and increasingly emphasize the teamwork, leadership, and culture that enables this innovation. To amplify their efforts, A&D companies should also revise their work processes to include cross-enterprise and cross-functional rotations, shorter-duration projects, and more remote work. Explaining how each role is connected to a company's overarching purpose will also help. These measures are already common at tech companies, where they have helped satisfy new workforce entrants who prioritize opportunities and options over well-mapped career paths.

- ***Directly involving company leadership in talent management.*** One-third of A&D companies in our survey report a desire to improve employee mentoring and coaching. Sponsoring activities that create new opportunities for ambitious employees is also important. Leadership involvement is fundamental to both efforts.
- ***Using data and analytics to develop a targeted talent-sourcing strategy.*** Rather than relying on traditional sources of talent, such as local universities and job fairs, A&D companies can analyze data to build talent heat maps. For instance, they could examine numerous university curriculums to find those that produce students with the right skills, assess the density of diverse talent pools by location, and evaluate interest in A&D among different groups. Companies could also quantify the size of the talent pools found in specific geographies and at various trade shows, career fairs, and schools. Such focused recruiting efforts can help build talent pipelines that provide employees with key skills for years to come.
- ***Applying talent-management approaches that increase diverse representation and build inclusive workforces.*** A&D companies want to increase workforce diversity, especially in

high-impact initiatives, and foster inclusive environments. Setting targets and objectives for improvement measures can help them achieve these goals, especially if top leaders are assigned ownership for these efforts. Goal setting, along with immersive training for leaders at all levels about biases, blind spots, inclusive leadership, and expectations, can help create workplaces where all employees can thrive and contribute their best. A&D companies have an opportunity to lead in this arena, and their efforts will also expand the pool of available talent.

Recent developments, including the global pandemic and a wave of social unrest, have challenged many fundamental assumptions in business and society. Many people want and expect profound changes. To ensure the A&D sector's continued strength, A&D companies are reimagining themselves and making bold, transformational changes, especially with regard to how they organize themselves, appeal to digital workers, and motivate their workforces. This moment offers a chance to make the transformational change needed to modernize a sector that is ready for its next inflection point.

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