

The Automotive Labor Market – Opportunities, Challenges, Costs & Solutions
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Thank you for that kind introduction and for the opportunity to be with you this morning. It is an honor to share this panel with Bruce Belzowski from the University of Michigan's Transportation Research Institute – I've long admired the work done at the center. My boss Timothy Leuliette is a proud double grad of U of M and I am the very proud mother of a daughter who will graduate this weekend from U of M.

Tim was a featured keynote speaker earlier this week so I trust many of you had the opportunity to hear him and some of the thought provoking and insightful ideas he has on the state of our industry, the transformation occurring at Metaldyne and Asahi Tec and the critical importance of embracing diversity and culture to successfully create a company with one voice and one mission.

My remarks will build upon his and provide you with some of the details of what we have done so far and what we plan to do as we move forward. I know a good panel discussion pivots on audience participation so I want to focus my remarks so that there is plenty of time for a good exchange of ideas.

To play off of the Let's Get Real theme of this year's Global Automotive Conference, ***you can't get much more real than the topic we are discussing this morning – the labor market challenges and opportunities we are facing in this industry.***

Indeed, the changes we are facing today and are going to continue to face in the future are very real and our ability to meet them successfully will no doubt impact whether we succeed in this increasingly competitive industry in this evermore global world.

So my **First Let's Get Real Point is that change is the constant** we are facing when it comes to talent retention and attraction and some of the key topic areas like healthcare and other employee benefits that we in the human resources side of this business must grapple with every day.

We may all be in the automotive manufacturing business – but our primary business is still people. As Tim pointed out in his remarks, "we too often get so caught up in the numbers, the market and technology; we shortchange the soft side of business."

I would assert that in today's highly charged and competitive environment, no one in our industry can afford to do that. Without people and the skills they bring to the table – there is no global automotive business. So obviously issues of how to attract, retain, train, and retrain the workers we need today and tomorrow -- while keeping costs in check and remaining competitive – are paramount to the survival of automotive-related companies of all sizes whether a manufacturer, a supplier or a service provider.

Our company is a case in point. And, if you noticed the dual designation my boss Tim has as Chairman and CEO of Metaldyne and as co-CEO of Asahi Tec or heard his remarks earlier this week you will understand that there is really no way to overstate the fact that we are undergoing still more change.

As Bob Dylan so aptly put it, “the times they are a-changing” and we must change with them.

In fact, change has been the real constant since our company was founded. But, I would assert it has been a guided change process with very strong leadership at the helm. We have been a company with a clear vision, a thoughtful strategy and a proactive approach to our business and the labor market and human resource issues facing us. And, we are ever vigilant.

Under Tim’s leadership at Metaldyne, my team has been allowed to play a very critical role. We are more than just the personnel people – we are considered key partners in the business success of our company. Our duties include developing the global human resources strategy and policy in the areas of compensation and benefits, leadership development and organizational design, recruiting, retention, HRIS and labor relations.

But we are also in the continuous and higher education business since we run Metaldyne University. This is Metaldyne’s successful training forum that allows our company to share best practices across all of our global operations. Many of our offerings are available on line 24/7. And, most of our faculty as well as the students are Metaldyne employees. In fact 90 percent of our university courses are taught by our employees so it is very much Metaldyne Teaching Metaldyne. There is something very powerful about logging onto a webinar and seeing Metaldyne employees participating from several continents around the globe.

With the new web-based technology, the costs are extremely low – we don’t even incur long distance charges -- but the payoff in terms of employee engagement and learning are extremely high. Metaldyne University is an integral part of our vision and underscores the company’s commitment to be an innovative learning organization.

The topics covered and course offered are varied – from communications and leadership skill building, to language classes, to learning about diversity and understanding cultural differences to more concrete topics like tooling, programming and engineering courses.

Recently, we had our first **Understanding Our People** class that was co-led by a Metaldyne employee and an Asahi Tech employee. 100 people took this class in cultural understanding in two different time zones. And, when we first began the process of integrating these two companies – we offered a Metaldyne University course in introductory Japanese and more than 150 employees from 12 countries enrolled!

The phrase ***Metaldyne believes in the power of people and ideas*** is one we take very seriously. We believe helping our people to cope and to grow by exposing them to new ideas is one of the most important things we can do. Continuous learning is an effective key to coping and thriving in an environment of constant change.

My **Second Let’s Get Real Point** is that while **change** is constant, it **is almost never easy**. Some of the changes necessary are hard and they are not always popular. They require true leadership and grit to bring about and the process is often not easy or pretty.

But if done right – with creativity and forethought – these changes can have a tremendously positive impact not only on your workforce but on the company’s bottom line.

My favorite leadership guru is John Kotter, who recently retired from the Harvard Business School. He wrote **Leading Change** -- arguably one of the best business leadership books ever written. He is also considered to be the expert when it comes to organizational change. He points out in many of his writings the huge importance of culture. He notes that successful transformations at companies must be anchored in the company’s culture.

According to Kotter, “Change sticks when it becomes ‘the way we do things around here,’ when it seeps into the bloodstream of the corporate body.” To succeed the change must be cultural and become rooted in the “shared values and social norms” of the organization.

And according to the Harvard Business Review, “no business survives over the long term if it can’t reinvent itself.

But human nature being what it is, fundamental change is often resisted mightily by the people it most affects: those in the trenches of the business. Thus, leading change is both absolutely essential and incredibly difficult.”

Our industry is undergoing a true cultural revolution. But it’s more than the cultural differences between one country or one company and another, it’s also generational. Believe it or not we have a cultural generation gap in our industry and health care is both a cultural and a business cost issue.

We are all keenly aware of the impact of legacy costs on domestic automakers and the fact that due to the differences in how health care costs were covered, certain companies now have a huge built in competitive advantage.

Metaldyne, and I am sure many of your companies, is not one of those. In many countries, health care is covered by the state and is not even an issue when it comes to employer/employee benefits. That’s not the case with Metaldyne either.

The dominant culture of the U.S. auto industry OEMs was a job and benefits for life. This was never the cultural norm in most other industries and beyond the OEMs and other highly organized industries, it was highly unusual.

But in Michigan, where Metaldyne is headquartered, it’s been a pervasive part of the culture. You went to work for an automaker and in return for your loyalty you got incredible pay, fully paid benefits and a pension with fully medical coverage.

But what happens when you can no longer provide those kinds of wages and that kind of coverage and still stay in business? While we’ve been facing this issue for longer and perhaps to a greater extreme than other industries – the U.S. healthcare crisis is much bigger than our industry – and all over the country the public and private sectors are grappling with the issues of health care and pension costs.

Already, health care coverage and health care costs is turning out to be one of the pivotal issues of the 2008 Presidential campaign.

But as I pointed out before, change isn't easy and it wasn't for us either. In 2002, we combined health care plans to take advantage of scale when purchasing benefits and we were able to save nearly \$6 million a year while providing our non-union workforce with healthcare coverage in which they shared in 15% of the cost.

In 2003, we added our union workforce to the mix and were able to save an additional \$4.5 million while offering our entire domestic workforce healthcare coverage with all employees paying 20 percent cost share. And, I mean our entire domestic workforce – all of us – executive, non executive, union and non union alike -- now pay 20 percent of our healthcare costs at Metaldyne.

Obviously, this is a huge change and one that we did not undertake lightly. We worked very hard to ensure that we communicated effectively with employees throughout the process.

In 2004, we realized an additional savings of more than \$2.3 million by becoming proactive with our employees and implementing other care initiatives aimed at prevention and healthier lifestyles.

We learned first hand through the implementation of Metaldyne's Living Well Wellness Program, that making workers healthier makes bottom lines healthier too. For example, smoking is one of the most obvious unhealthy habits to target in a wellness approach. According to the U.S. Centers for Disease Control and Prevention (CDC) employees who smoke annually cost employers \$3,391 price tag each -- \$1,760 in lost productivity and \$1,623 in excess medical expenditures. In addition, estimated costs associated with secondhand smoke's effects on nonsmokers can add up to \$490 per smoker per year. The savings we are beginning to see with our wellness initiatives have certainly corroborated this. Today our employees can log on to our living well website and access a variety of information on nutrition, physical fitness and disease prevention. They can also put together a personalized health action plan and receive access to free and effective quit smoking programs.

This wellness effort has been embraced and praised by our employees. It has also won us recognition by Crain's Detroit Business as a Health Care Hero contest winner.

All in all, Metaldyne's changes to its employee health benefit plans saved us nearly \$13 million in the last few years.

Indeed, our company has received a great deal of recognition and a number of accolades for some of the changes we've instituted. But we have also received some flak even amongst our peers.

At a recent executive human resources conference, I shared our success with changing our retirement system at Metaldyne and announced that some of our success was due to the fact that we made the difficult decision to no longer pay for retiree health care for both active employees and current retirees.

This was not something we did overnight. Rather, we spent a year communicating with our current and retired employees so that they were fully briefed on the situation and the reasons why we were making this move. Still the reaction was visceral. My fellow HR execs were very concerned that this was a broken trust with our retirees.

But what about the trust we must have with our current and future workers? If we had failed to act, we were in real danger of joining the ranks of companies that have failed due to rising health care costs and pension burdens.

Again, we followed a thoughtful, tiered approach in tackling escalating pension costs. In 2003, we froze our pension plans, introduced a new retirement plan using a defined contribution model and merged separate pension plans together. This resulted in more than a \$1.5 million savings.

In 2004, we continued to freeze and merge plans and we also changed the cost funding methods we were using for an additional \$5.5 million in savings.

Again, we have made a concerted effort to help all of our employees – current and retired, union and nonunion – to understand the reasoning behind the move to defined contribution and to give them the best information and guidance possible so that they can more successfully manage their retirements. We spent a year communicating with them before any of these changes were implemented.

Together, these health care and pension plan changes resulted in nearly \$20 million in savings for our company.

We have also tried to embrace change and be innovative when it comes to our labor agreements.

Our New Castle, Indiana plant is a case in point. Metaldyne was able to negotiate one of the most innovative and successful agreements in recent automotive history.

Working closely with the UAW and Daimler Chrysler and with a lot of hard work, compromise and collaboration we were able to successfully take over Daimler-Chrysler's 1907 era plant -- one of the oldest continuously operating manufacturing plants in the country. This was groundbreaking territory stemming from Daimler's decision to shed non-core component business and our need to expand manufacturing capability.

It was a good match but a challenging courtship. We could not pay OEM wages and benefits and nor could we afford OEM work rules. We needed to find a different arrangement that involved paying half the wage and benefit package New Castle employees were used to receiving and diversifying the customer base to make the plant competitive.

One of the keys to success in New Castle was the highly collaborative Joint Health Care Committee we set up with the UAW that reviewed all the health care issues and helped make the recommendations that went into the agreement.

Finally, we also needed to be sensitive to how deeply tied the community was to the Chrysler name – this was a company town not just a plant. For them this was the

hardest kind of change -- take less and be part of something with a future or risk losing everything.

The existing plant workers were made a part of the process and given the choice to retire early, flow back to other Chrysler facilities in the area or stay with Metaldyne and earn lower wages but receive a buyout incentive of \$10,000 for every year of service to Chrysler. In 2003 we took over day-to-day operations at New Castle for Daimler for a one year test period. Folks inside and outside the industry looked on warily and expectantly to see how this new arrangement would work.

The results speak for themselves. We were able to add 550 new workers to the 200 Chrysler workers who stayed. We increased productivity at the plant by 30 percent the first year and we have won new business with Ford and Toyota bringing our total annual business at the plant to \$500 million -- \$100 million more than it did under its last year as a Chrysler run plant.

In the end it was a win/win for all concerned -- Daimler/Chrysler, the UAW, the community and Metaldyne because we are making money there.

My Third and Final **Let's Get Real Point** is that **Change Can Be Civilized especially when it's Collaborative.**

A recent McKinsey article Building the Civilized Workplace, the author highlights a California software company SuccessFactors list of its top successes from its first seven years in business. One prominent milestone was: Employing No Jerks. I think many of us wish that were the case universally. Anyway, in its hiring practices, SuccessFactors has all new employees agree in writing to its Rules of Engagement, "I will be a good person to work with—not territorial, not be a jerk." The company in its founding principals states in part "We will have the utmost respect for the individual in a collaborative, egalitarian, and meritocratic environment—no blind copying, no politics, no parochialism, no silos, no games—just being good!"

Much has been written about the fact that as baby boomers age and move out of the workforce in greater and greater numbers, our biggest challenge is going to be a talent and worker shortage.

This means that companies need to understand what it is the next generation of workers want from work if they hope to successfully attract the talent they need in order to compete.

These younger workers have a different set of expectations than older workers. They want and will demand a better work life balance. They want and will demand a better work environment and that's where the idea of more civilized and collaborative workplace comes in.

We talk about the soccer moms but what about the soccer kids? The ones who grew up with organized sports and group projects?

Collaboration is in their DNA and the law of supply and demand dictates that they will demand a different work environment. They will not feel the same loyalty to an employer

– indeed many of today’s college grads will move a dozen or times during their careers and will view themselves as free agents.

There are no legacy costs with these new workers – but they will want to be part of building a new legacy. As a group they will not tolerate “jerks” -- business as usual won’t cut it for them.

They will want to be part of collaborative efforts where a new kind of civility reigns – a civility that embraces and celebrates good ideas, good work, and good behavior as well as diversity, tolerance, and work/life balance.

In closing, let’s turn once again to John Kotter. His latest book entitled **Our Iceberg is Melting** is written in fable form and is similar in ways to **Who Moved My Cheese?**

The story is an extension of the ideas he put forward more than decade ago about the sequence of steps companies and their leaders must go through in order to successfully weather change and transform themselves.

No industry in the world is more aware of the ice melting around us than those of us in automotive. And, just like the penguin colony in Kotter’s tale, many of us have resisted the warning signs of change and then have panicked over the melting iceberg that has been the industry as we have known it.

Once the reality of the melting ice sets in, the penguins in the story are plagued by fear and panic – reactions that again resonate so true to our industry.

Where do the penguins go? They have lived their entire lives in one place and this is all they know. They feel trapped...until a seagull shows them the way out.

This fable captures beautifully the simple truth that change is everywhere and that our success and failure really depend on how we deal with the reality of change. While it’s natural to resist change, for the future of our industry we must Get Real, embrace change, and realize, as the penguins finally did, that there are other icebergs that they and we can move to.

Thank you.