

In Touch with the Board

From Building Cars to Providing the Mobility Experience: a Framework for Organizational Transformation



At some point during any extended journey, it is natural to wonder how much further there is to go. Even if there are signposts to tell you otherwise, there still can be the sense that the destination should be right around the corner, given the time spent on the road.

Those of us in the automobile industry navigating along the path to a mobility-based future have no clear signposts on our journey. Because of this—and since so much ground has been covered—it is tempting to think that we are quite far along. After all, aren't automobile manufacturers exploring alternative propulsion systems, rethinking car design, investing in start-ups with innovative technologies and forming partnerships to enter into new markets such as ridesharing?

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Haven't we embraced a future in which car ownership is less important than simply getting where one is going? Are we not responding to the ways in which the growth of urban centers is reconfiguring travel needs and adapting to how sustainability has become a permanent part of everyone's transportation equation?

All of this is true: A great deal has been done. But changing the business offerings is not enough. The automotive industry still must wrestle with the fundamental, underlying organizational issues that need to be addressed in order to truly undertake the mobility transformation—a change that requires even more than swapping one propulsion system for another or forming partnerships to offer alternatives to car ownership. And while making this transformation, we must continue to profitably offer products and services that meet demanding performance specifications.

To help create a clearer picture of the changes under way and determine what is required to address them, the Russell Reynolds Associates Automotive Practice convened a panel of experts at the 2013 Frankfurt Auto Show. The composition of the panel—which included representatives not only from the automobile industry but from design, telecommunications and airlines—was intended to move the discussion beyond specific tactics and focus it on the larger issue of preparing for the changes that the mobility transformation will bring.

Panel members included:

- Bernhard Blättel, Ph.D., Director, Mobility Services, BMW Group
- Peter Gerber, Member of the Management Board, Lufthansa German Airlines
- Iain Roberts, Partner, IDEO
- Kay Schwabedal, Chief Commercial Officer, E-Plus
- Walter Friederichs, Ph.D., Global Leader, Automotive Practice, Russell Reynolds Associates, Panel Moderator

More than two dozen executives from around the world participated in the discussion that followed, which helped outline a framework by which the automotive industry can approach the deeper, systemic changes the mobility transformation requires.

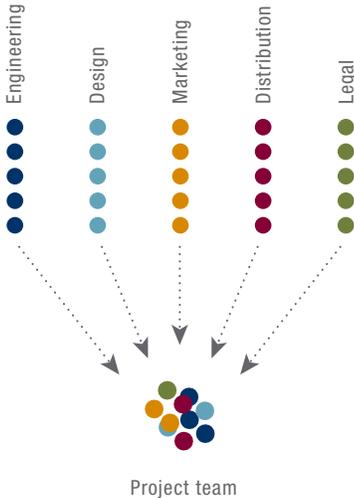
ORGANIZATIONAL STRUCTURE: MOVING FROM FUNCTION TO USER EXPERIENCE

Historically, the typical automobile manufacturer, like most large manufacturing enterprises, was organized vertically along functional lines: engineering, design, marketing, distribution, legal and so on. When the limits of this approach became apparent, manufacturers began creating cross-functional teams to allow for smoother integration between functional silos (see Figure 1).

To a large extent, these efforts were successful, resulting in cars that performed better and were produced more efficiently. In the meantime, however, power has shifted from companies to the consumer so that breaching the silo walls is not nearly enough. To see why this is so, consider that the customer experience sits at the core of the mobility transformation. Customer experience means

Fundamental, underlying organizational issues need to be addressed so that the mobility transformation can occur.

Figure 1: Vertical Silos Gave Way to Multifunctional Project Teams

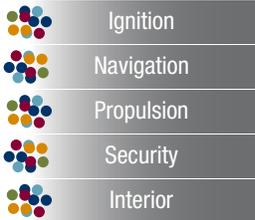


The cross-functional team needs to be aligned with the customer experience.

more than just viewing a car through the customer’s eyes. It means understanding that a car is a set of systems—perhaps even *just* a set of systems—to solve the consumer’s mobility needs and wants. And so those needs and wants must be at the center of the development process and should inform each aspect of the customer’s brand experience. The shift to the customer’s perspective also means recognizing that customers no longer merely compare cars with other cars—autos are compared with seemingly unrelated devices such as smartphones and tablets. Thus, each system in an automobile is facing a broader spectrum of competition from a performance viewpoint.

The current cross-functional teams, like the vertical silos before them, are oriented toward manufacturing *vehicles*. To focus on producing customer experiences made possible by the automobile, enterprises must make a 90-degree turn and begin organizing talent and resources around the various points along the customer journey and around the different automobile systems (ignition, navigation and so on) with which the customer interacts (see Figure 2). This perspective will give manufacturers a greater opportunity to meet customer expectations, a more realistic view of the true competitive environment and a clearer strategy regarding where to seek competitive advantage.

Figure 2: Project Teams Are Aligned with Customer Experience Layers



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DIFFERENT COMPETENCIES FOR NEW STRUCTURES

Horizontal layers built around the facets of the consumer experience can provide the organizational framework for manufacturers to transition to a customer experience perspective. However, translating that perspective into strategy and execution will require a new set of skills. The following seven competencies especially will be critical.

1. Portfolio management

As the automotive industry retools, it is wisely exploring a wide range of offerings, operating methods, business models and technologies. The problem is that no one at this stage knows which of these options actually will take hold. As a result, the industry is not merely replacing one technology with another but, instead, is developing a *portfolio* of options, each of which has an unknown likelihood of success. Managing this portfolio requires resource allocation and decision-making capabilities similar to those found, for example, at a private equity fund.

2. Reliability risk management

It is no surprise that the smartphone is driving consumer expectation in a range of other areas, given that the device increasingly acts as an interface with the world at large. Powered by an ever-expanding array of applications that solve (and create) consumer needs, the smartphone continues to push the consumer experience along the value chain—a compelling attraction for users. But the smartphone application's cutting-edge innovation and compressed time to market come at the price of less reliability; the 95 percent reliability factor acceptable in a smartphone application would be catastrophic in automotive brakes and transmissions. Taking a horizontal, consumer experience orientation allows the automobile to be seen in terms of layers—and in some of those layers, more or less continual innovation at something less than five-nines (99.999 percent) reliability might be a possibility.

Automobile manufacturers will need to develop the capability of managing this reliability risk, segmenting the consumer experience into various acceptable risk layers from perpetual beta to five-nines reliability based on customer expectation, evolving technologies, system interactions and safety requirements. Reliability risk management will preside at the intersection of engineering expertise and marketing savvy, with the latter function in continual dialogue with consumers to both synthesize their needs and educate customers regarding the necessary tradeoffs.

3. Competitive advantage strategizing

Thinking of the automobile in terms of layers will allow manufacturers to adopt some of the agile characteristics found in the digital world. But making the automobile less of a traditional, tangible product also makes it vulnerable to having cloud-based functions appropriated by third parties that insert themselves between the customer and the manufacturer. This has become a permanent feature, for example, of the telecom industry. There, portals have ridden on service providers' infrastructure investments to take command of the interface connecting the service providers with their consumers.

Segmenting the automobile by customer experience allows manufacturers to see the car the same way as a portal enterprise would: While the systems may be integrated, they are distinct, and some

To meet its future, the automobile industry must manage a portfolio of options.

may be vulnerable to profitable appropriation. Manufacturers will have to decide where they can create a competitive advantage through a proprietary system, where it makes more sense to partner with niche players and where to leave the market to third parties entirely. Of course, automobile manufacturers have long outsourced various components. The difference is that, previously, the outsourcing took place largely on the manufacturer's terms. But today, the manufacturer must navigate a more competitive, freewheeling race to own customer-facing real estate in which the manufacturer often will have to negotiate as an equal partner.

4. Innovation leadership

Customer-facing real estate is important not only because it reinforces the brand but also because of what happens below the surface. Each point of interaction with the customer produces data that can be aggregated and mined for insights into customer behavior and desires—and whoever owns the interface owns the data.

Manufacturers must follow customer needs but lead in innovation.

These data will be critically important as cars take on a greater number of digital characteristics and as consumers continue to apply digital expectations to automobiles. In this new environment, the traditional incremental improvements—a more efficient carburetor, a more luxurious interior—are not enough. Instead, automotive manufacturers will have to adopt some of the innovation leadership that is found in the best digital organizations. Consider that product development in the digital world, or at least the kind of development that carries a substantial market impact, rarely is driven by focus group testing. Google Maps and the iPhone, for example, were not merely products. They were innovations that showed what was possible and, in so doing, created wants that previously did not exist.

This is one of the paradoxes of the customer-centered orientation: While the manufacturer's products and services must follow consumer needs, the manufacturer also must lead the customer in the innovations that drive those products and services. Innovation leadership at this level requires embracing risk to an extent that will be new and unsettling to most automobile manufacturers. In the move to innovation leadership, owning, analyzing and modeling customer data will be powerful sources of practical insight and creative inspiration. Furthermore, that insight can be applied at all points along the customer journey, from designing financing options that stimulate greater purchasing to establishing trade-in programs that maximize customer retention.

5. Product development life cycle management

Historically, the integration of the automobile's various independent analog systems has been aided by the relatively similar cyclicalities of those systems. But that synchronicity will be challenged as cars continue to mix analog systems with digital ones, given the vastly different development cycles and regulatory environments. The inability to manage this disparity results in producing the latest models with five-year-old computer systems—the equivalent of integrating a new engine not with a five-year old transmission but with a *20-year-old* transmission. As more of the automobile becomes a digital platform and as the development of digital technology continues to accelerate, these disconnects will become even less tolerable. To meet this challenge, automobile manufacturers will have to experiment with segmenting the car into pace-based layers so that systems with varying gestation periods can be more successfully integrated.

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Car companies will become federations of subcultures, united by overarching values and differentiators.

6. Cultural adaptation

The automobile industry always has been characterized by its exceptionally strong culture—one that has produced families that have been in the industry for three generations. The shift to a customer experience focus and a layer-based organization will make maintaining a single culture a less and less viable—or desirable—goal. There simply will be too many types of people working in a myriad of environments, from the application developer who lives in perpetual beta to the engineer who works in hundredths of a millimeter. Instead, car companies will become federations of subcultures, united by overarching values and differentiators but living among each other in a state of ongoing creative tension.

Given the larger number of strategic variables to manage and the higher level of ambient uncertainty, the nature of decision making must evolve. Traditional command-and-control planning aimed at predetermined outcomes will be less effective than a more process-oriented approach that focuses on making the best decision when forks in the road are encountered. Indeed, it is in something like this manner that we can expect the automotive industry to arrive at its future—decision point by decision point.

It will be the task of the chief executive officer (CEO) and the rest of the C-suite to manage that uncertainty and creative tension while building a united organization that is as cohesive as it was in an earlier time. But it will be the responsibility of the human resources leadership to operationalize that vision, translating this federation of subcultures into corresponding sets of incentives and policies that are tailored to specific groups but that reflect overarching company values and priorities. In so doing, it must be remembered that manufacturers now will be competing against a wider range of industries for top digital, engineering, design, marketing and servicing talent; automobile manufacturers must make themselves as appealing as the leading organization in each of those different arenas. One opportunity to do so is to be aggressive in rethinking how work is done. The workplace revolution—how information is shared, collaboration is fostered and success is measured—still is unfolding; organizations that incorporate those changes into their culture sooner will be at an advantage in attracting innovative talent.

7. Board leadership

In this new environment, an innovative, entrepreneurial mindset will be required at all levels of the organization—and most importantly at the top. The competencies that support innovation, therefore, must become part of the CEO succession plan and the professional development of internal candidates (see Figure 3)*. Furthermore, the high-level business strategies needed to support that innovation will become a matter of ongoing board concern, particularly as the drive for innovation often results in mergers and acquisitions, strategic partnerships and significant capital investment.

If the board is to successfully evaluate CEO candidates' capability for innovation and act as an effective advisor to the CEO, the capacity for innovation and real-world experience with the change that can be created must be present around the boardroom table. Nominating committees need to place a priority on identifying and recruiting directors who have the range of backgrounds and perspectives needed to promote fresh thinking and who have experience with agile organizations that have undergone disruptive transformation.

* *Making It to the Top: Nine Attributes That Differentiate CEOs*, Russell Reynolds Associates' In Touch with the Board series, 2013.

Figure 3: CEO Competencies for the Innovation Age

Category	Attribute	CEO Differentiator
Forward thinking	Forward thinking	Plans ahead and is prepared for the future
Intrepid	Calculated risk taking	Is comfortable taking calculated but not careless risks
	Biased toward (thoughtful) action	Is biased toward execution but is not too impulsive
	Optimistic	Actively and optimistically pursues new opportunities
	Constructively tough minded	Is thick skinned and perseverant but is not insensitive
Team building	Efficient reader of people	Seeks to understand different perspectives but does not overanalyze
	Measured emotion	Displays intensity/emotion but maintains control
	Pragmatically inclusive	Involves others in decisions but also is an independent decision maker
	Willingness to trust	Is comfortable with a variety of people but is not too trusting

Identifying, developing and retaining the appropriate leaders are critical steps in the mobility transformation.

GETTING FROM HERE TO THERE

While organizations undergo transformation, it is people who make change happen. Therefore, the first steps in transforming the automotive industry to an industry centered on the customer experience are identifying, developing and retaining the appropriate leaders. To do so, heads of talent management will need to determine the competencies required to manage the tension between diverse cultures and transform the organization’s structure while continuing to profitably manufacture products that hold up to rigorous safety and regulatory standards. (Although the specifics will vary by position and organization, the CEO competencies listed in Figure 3 can provide a starting point.)

Because many of the transformative job descriptions now emerging—such as head of customer experience, chief culture officer, head of organizational effectiveness and head of business transformation—still are too new to have a large pool of candidates with established track records, human resources leaders will have to cast a wider net and take a more competency-based approach to hiring, putting an emphasis on the ability to correctly assess the current situation, envision a way forward and manage the transition from one point to the next. Once the desired leaders are on board, those capabilities should guide the further assessment and development of talent. Competition for executives who have demonstrated success in mobility leadership will be fierce; organizations will have to put as much effort into retaining those leaders as into developing them. Organizations that can attract, develop and retain the best leaders will have a significant competitive advantage over those companies that misjudge the nature of the gap and the distance yet to be traveled in the unfolding transformation challenge.

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