delivering the connected car

A Revolution In Automotive

Automotive OEMs must work in fundamentally new and different ways to deliver the Connected Car that consumers so clearly desire. The shift begins with objectively assessing and developing leaders' potential to drive deep strategic change and build more open cultures that effectively integrate diverse expertise.

EgonZehnder

If consumers have their way (as they almost always do), the "Connected Car" is the future of the automotive industry.

Driving is a sensory experience, and connectedness is becoming an increasingly critical element of that experience. Research published by Nielsen early in 2014 (see Figure 1) found that the majority of recent car buyers specifically sought a Connected Car.

FIGURE 1
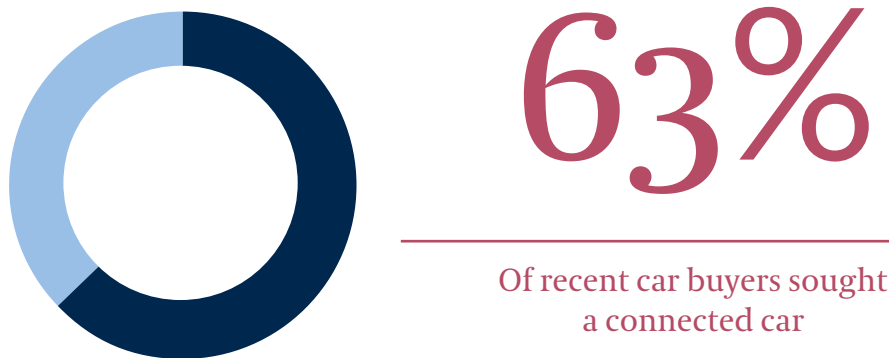
63%

Of recent car buyers sought a connected car

From "How Connected Cars Are Driving Consumers Into Auto Showrooms," Nielsen Insights, www.nielsen.com, January 23, 2014.

Many are dissatisfied with what they are offered. "I want my car to talk to me," said a Generation Y driver we interviewed. "It should suggest things like where to find the best fuel prices, real-time traffic navigation, and the most scenic route. I also want seamless integration with my everyday online experience. The internet and social media are a huge part of my daily life. Why should I feel 'cut off' while driving?"
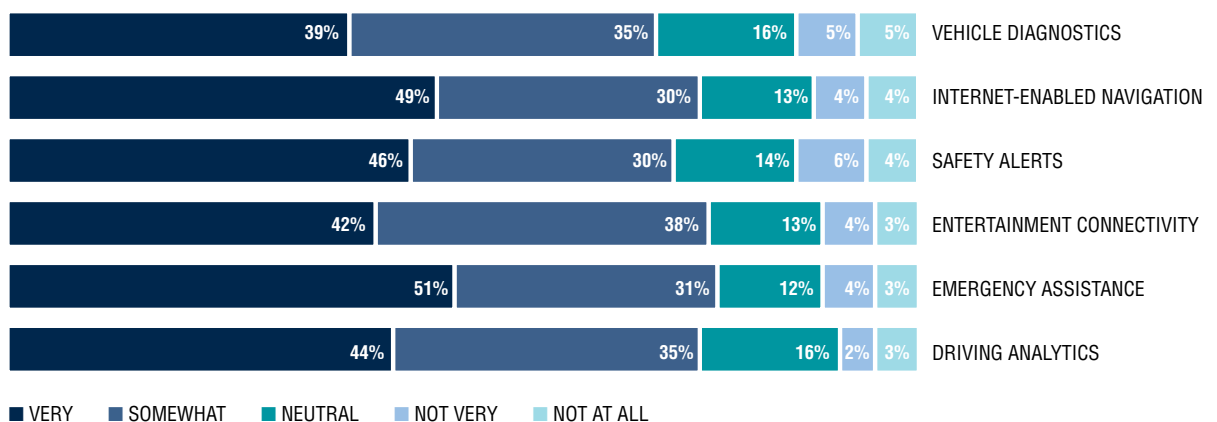
Car buyers are sending a strong message to Automotive OEMs: cars that offer complete connectivity will win against cars that do not. Automakers know this. Why haven't they moved faster to develop what consumers want? To understand the obstacles and opportunities Automotive OEMs face as they strive to deliver the Connected Car, we spoke with more than a dozen senior leaders in the automotive space and in cutting-edge software/connectivity enterprises. Based on their insights, our firm's ongoing study of business leadership and culture, and our direct experience advising top players in both the automotive and digital worlds, it is clear that Automotive OEMs need to make a substantial shift – perhaps a more profound shift than is generally understood. The critical next step toward achieving this transformation is to identify, attract, and develop leaders with the rare strengths required to drive deep strategic change and build open, inclusive cultures. This begins with an increased focus on leaders' *potential*.

Strengths Become Obstacles

Why is a transformation of traditional automotive culture and leadership required? Some of the industry's more deeply ingrained strengths are, in fact, obstacles to delivering the Connected Car. A few examples:

FIGURE 2
IMPORTANCE OF CONNECTED CAR FEATURES DURING PURCHASE PROCESS

39%	35%	16%	5%	5%	VEHICLE DIAGNOSTICS
49%	30%	13%	4%	4%	INTERNET-ENABLED NAVIGATION
46%	30%	14%	6%	4%	SAFETY ALERTS
42%	38%	13%	4%	3%	ENTERTAINMENT CONNECTIVITY
51%	31%	12%	4%	3%	EMERGENCY ASSISTANCE
44%	35%	16%	2%	3%	DRIVING ANALYTICS

■ VERY   ■ SOMEWHAT   ■ NEUTRAL   ■ NOT VERY   ■ NOT AT ALL

From "How Connected Cars Are Driving Consumers Into Auto Showrooms," Nielsen Insights, www.nielsen.com, January 23, 2014.

Continuous improvement and engineering excellence. Automotive OEMs excel at innovating in increments for model year changeovers and engineering for continuous gains in product performance and reliability. While this approach optimizes returns on automakers' vast capital investments and earns high levels of consumer confidence, it also limits free-flowing, agile product development. In contrast, consumer electronics, software, and internet companies, with their much lower capital intensity, can abandon their past investments more frequently, which frees them to aggressively pursue game-changing innovations (think iCloud, iTunes or Google search). Automotive hardware technology must also address critical safety requirements unlike any faced in the software world, and this can further constrain automakers' freedom to pursue great leaps forward. Nevertheless, consumers will continue to demand Connected Cars. To deliver, OEMs must find ways to engage in consumer-centric innovation at a much faster pace.

Self-reliance. Delivering the Connected Car is primarily about software. As such, Automotive OEMs must now move into the "open source" ecosystem, where the very best software is developed and continually refreshed, very fast, by tapping ideas and innovations from anywhere and everywhere. Moving into the open source world will require a profound adaptation of traditional automotive culture, which is grounded in a long history of self-reliance, built on proprietary structures with a

handful of bi-lateral Tier 1 innovation partners. Every great automaker can point to breakthroughs they have created with such suppliers (direct-injection engines, anti-lock braking systems, airbag technologies) through their trusted relationships and intellectual property ownership. This time-tested approach has allowed Automotive OEMs to effectively own differentiating features and enjoy enduring competitive advantage, given the long product life cycles and steep barriers to entry for technology followers.

When OEMs try to be self-reliant in software development, however, big problems arise. First, creating insular software worlds for a single automaker's customers runs counter to drivers' expressed desire to be connected to everything – not just what one OEM might offer them. Second, proprietary software development is both prohibitively expensive and far too slow. In the software world, product life cycles tend to span months rather than years. Software chosen for Connected Cars currently in concept and development will be long out of date the day those cars hit showroom floors.

Delivering the Connected Car is primarily about software, where product life cycles tend to span months rather than years.

For a Connected Car's software to be current, it must be integrated into the car at the last minute then continually refreshed via online updates. Just as important, to make their connectivity software competitive, Automotive OEMs must become active participants in the open ecosystems, where the best software developers partner, share customers, share innovations, and co-develop solutions while bringing their customers the very best apps created by a global software community, rather than by a handful of isolated software engineers. Modern software development is the polar opposite of self-reliance. To deliver the Connected Car consumers want and expect, Automotive OEMs will need to move out of their comfort zone and join a world that plays by fundamentally different rules.

Transactional customer relationship. The current Automotive OEM business model still focuses heavily on a one-time transaction – the initial sale. Although free maintenance plans and the like may lengthen customer interaction (typically via a franchised dealer network), automakers generally are not engaged with their customers on an active, continuous basis. In fact, the better the product performs, the less reason car owners have to interact with the company that made it. As a result, drivers may only feel they "know" the company that made their vehicle when things go wrong and the OEM issues a product recall or fulfills a product warranty.

This customer relationship gap might be rapidly closed through the effective integration of existing automotive sensor technology and enhanced internet connectivity within vehicles. Connectivity at this level would create constant interaction between the Automotive OEM and the individual car owner via sensor-acquired data (such as maintenance requirements, repair appointments, fuel efficiency guidance). It would also make fleets more environmentally friendly, a cause for which many car buyers feel great passion.

Supplier relationships. OEMs apply their leverage over suppliers to maintain profitability, leaving suppliers little R&D budget for step-change innovation. Moreover, because the largest suppliers also maintain a heavy capital structure and pursue proprietary innovation, these relationships become deep and complicated, creating a web of interdependent incrementalism. Aspiring new suppliers who may seek to enter into this web from the outside face a long and costly undertaking. For example, durability requirements on many critical components require product reliability in the hundreds of thousands of miles. This makes qualifying a new technology from a new supplier quite rare. The incumbent supplier is typically preferred, which limits innovation from players outside of traditional industry boundaries. This is yet another obstacle to be overcome if automakers are to accelerate progress on the Connected Car.

Big Shift in Culture

In sum, the consumer's growing demand for Connected Cars compels the entire automotive industry to change in fundamental ways. This is no passing fad. Precious market share is increasingly earned by software-driven innovations as much as by traditional considerations like automotive styling, performance, comfort, and reliability. The Connected Car is revolutionary. It demands revolutionary thinking.

Perhaps the biggest shift required of Automotive OEMs is to build more open and collaborative cultures. By fostering internal environments that value idea and information sharing, while also forging more mutually beneficial partnerships with a wider range of external suppliers, OEMs can become more hospitable to fresh ideas and rapid innovation.

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One strategy destined to fall short of delivering the Connected Car is simply hiring a new "Chief Digital Officer" into a traditional Automotive OEM. Even the most skilled executive is unlikely to move a traditional automotive culture far out its comfort zone. More promisingly, several OEMs have reached out to the larger digital ecosphere, seeking direct interaction with Silicon Valley innovators. Daimler, for example, has set up a Group Research & Advanced Engineering center in Sunnyvale, California. The company's website states that this dedicated team "forges collaborative partnerships with leading consumer electronics and IT companies in Silicon Valley" and undertakes "efforts to engineer the best in-vehicle infotainment and telematics solutions ... for the continued enhancement of the user experience, which is a key to success, especially with solutions which embrace the digital lifestyle of our customers."[1] BMW, Volkswagen, and Nissan are among the other OEMs pursuing comparable initiatives. General Motors recently announced it is working in partnership with AT&T to offer 4G LTE connectivity in some of its models.

Forging partnerships with cutting-edge software innovators and established connectivity companies is an important first step for OEMs, but the path ahead is far from clear. Detached innovation units and joint ventures may be frustrated when they attempt to carry fresh insights and approaches into larger organizations. At minimum, automakers may need another layer of experts who know how to translate leading-edge software and connectivity solutions into the language of Automotive OEMs, and to communicate what the OEM needs to software and connectivity partners.

Automotive OEMs need to infuse their organizations with many more software and digital experts and software-savvy senior executives.

Ultimately, Automotive OEMs need to strategically infuse their own organizations with many more software and digital experts and software-savvy senior executives. Doing this will be no small challenge. Despite the strongly established employer brands of Automotive OEMs, many in the software talent pool suspect that working in a locked-down, proprietary automotive culture would limit their creativity and cause their personal market value to nosedive. A software visionary's reputation and market standing is built by effectively moving between different software platforms and across different software development cultures. Top digital/software leaders are therefore conditioned to favor open space, where they can optimize their value by sharing their ideas with software-creating counterparts across the software ecosystem. Automotive OEMs that resist such fluid collaboration may be at a disadvantage when recruiting top digital/software talent.

OEMS will also be challenged by integrating software/connectivity experts into the traditional automotive talent base. These vastly different business cultures are separated by a powerful unconscious bias. Achieving a new shared mindset that transcends either culture will be key to delivering the Connected Car. This will require a basic change in how Automotive OEMs operate. For example, automakers must embrace technology developed by outside parties rather than the traditional OEM-to-Tier 1 hierarchy based on "should cost" models and year-over-year productivity requirements. Automakers must also come to see software development and electrical engineering as core competencies, every bit as vital as traditional mechanical engineering and production management.

Further, Automotive OEMs need to become more attuned to consumers and more willing to expressly match products to consumer preferences. Strong market-facing teams are needed to more rapidly define and deliver the cars that will surprise and delight consumers while maintaining the industry's tradition of engineering excellence. To ensure accountabilities and speed, new internal processes must be established to effectively align all parties and streamline internal decision-making.

Who will lead such sweeping changes – especially at the senior levels of management? This is arguably the single most important question facing Automotive OEMs today.

Focusing on Potential

Precedent in other industries suggests that automotive companies would benefit from leaders who have an outsider's perspective (or at least the ability to think well outside the box), coupled with the vision to see around corners. Louis V. Gerstner at IBM is one classic example. In 1993, he was CEO of consumer products giant RJR Nabisco and had no meaningful technology background. Gerstner initially rebuffed IBM's overtures, saying that as a nontechnical person, he was not qualified to lead the company. History proved otherwise. Gerstner may not have known much about where IBM had been, but he saw with uncanny clarity where it needed to go, and how it might get there.[2]

To identify and develop leaders with the rare strengths required to successfully navigate the revolutionary era of the Connected Car, Automotive OEMs must immediately increase their focus on leaders' potential. This is true whenever sectors converge – as the automotive and connectivity sectors are converging today – because no skills or experience from either industry can fully prepare leaders to do all that will be required for success in the future. As our colleague Claudio Fernández-Aráoz explained in a recent Harvard Business Review article: "In a volatile, uncertain, complex, and ambiguous environment, competency-based appraisals and appointments are increasingly insufficient. What makes someone successful in a particular role today might not tomorrow if the competitive environment shifts, the company's strategy changes, or he or she must collaborate with or manage a different group of colleagues. So the question is not whether your company's employees and leaders have the right skills; it's whether they have the potential to learn new ones."[3] Assessing potential will help Automotive OEMs determine which leaders can make the leap to delivering the Connected Car now, which will need targeted development and coaching to adapt, and which are unlikely to adapt, even if they have performed effectively under the traditional strategy.

Many major automotive players have well-established "high potential" programs through which they fast-track promising managers for development and promotions. But most of these are actually "high performer" programs, full of people who have done well in the past and are therefore assumed to have the best chance of doing well in the future. Given the scope of the operational and cultural changes required to deliver the Connected Car, that is no longer a safe prediction. Indeed, truly hiring and promoting leaders based on their potential – and then giving them the space to lead a revolution – will be quite a shift for Automotive OEMs, which have long advanced and hired leaders who get results, collaborate, and effectively manage upward.

The first indicator of potential that OEMs should look for is the right kind of motivation: a fierce commitment to excel in the pursuit of unselfish goals. High potentials have great ambition and want to leave their mark, but they also aspire to big, collective goals, show deep personal humility, and invest themselves in getting better at everything they do.

Automotive OEMs should then consider four personal traits that are hallmarks of potential, according to our research (see Figure 3).

The time seems ripe to assess the potential of current and arriving leaders across Automotive OEMs to determine who has the qualities required to shape the future of the Connected Car.

Rigor Equals Value

Assessing potential is more difficult than measuring IQ, past performance, or leadership competencies. Yet it can be done with a predictive accuracy of around 85%, according to data on the careers of thousands of executives assessed using an empirically validated model that our firm developed and refined over the past two decades.

To be of real value, the assessment of a leader's potential must be rigorous. When we are tasked with assessing potential, we use in-depth interviews and professional references to collect concrete examples that substantiate our assessment of a leader's motivation, curiosity, insight, engagement, and determination. Automotive OEMs should not assume that their current approaches to leadership assessment, promotion, and development are up to the challenges ahead. "In my surveys of participants in executive talent management programs, I've found that only about 30% think that their companies provide adequate training," Fernández-Aráoz reports in *HBR*. "Most organizations, it seems, are filled with people who have the power to endorse bad candidates and kill off good ones. By contrast, companies that emphasize the right kind of hiring vastly improve their odds."[4]

FIGURE 3
Elements Of Executive Potential

curiosity	*Seeks out new experiences, ideas, knowledge, and self-improvement. Constantly refreshes self on intellectual, experiential, and personal level. Proactively seeks feedback and changes behavior in response.*
insight	*Makes sense of a vast range of information, often discovering new insights that, when applied, often transform past views or set new directions (creates vision).*
engagement	*Resonates with others' emotions and motivations, sharing a sense of purpose and caring. Self-aware and genuinely connects with the hearts and minds of others.*
determination	*Remains resilient in the face of challenges and setbacks. Enacts self-discipline and channels emotions to persevere. Looks for*

By developing talent acquisition and management strategies that base decisions on rigorously assessed potential as well as past performance, an Automotive OEM can gain considerable advantage in filling its ranks with leaders prepared to drive the Connected Car revolution.

Seize the Opportunity

We have made more than a few bold statements about how quickly and completely the Connected Car is changing the automotive landscape. Yet even this forecast is probably understated, as new and unforeseen disruptions seem certain to occur.

At minimum, objectively measured consumer preferences are already making superior, cutting-edge software innovation and connectivity capability as important as traditional hardware and engineering leadership when competing for automotive market share. Further, in the software-driven world of the Connected Car, traditional Automotive OEM strengths (particularly Engineering Excellence, Continuous Improvement, and Self-Reliance) become significant obstacles. To break through those obstacles and deliver the Connected Car consumers so clearly desire, Automotive OEMs must engage in revolutionary thinking. This starts with finding a new breed of leaders who can be reliably identified only through the assessment of potential, using methodologies that are rarely seen in Automotive OEMs today.

Assessing potential will help Automotive OEMs determine which leaders can make the leap to delivering the Connected Car.

The key is to move now to implement a rigorous methodology for identifying, assessing, promoting, and hiring leaders based on potential, and thus find leaders with the unblinking courage and revolutionary vision of a Lou Gerstner, a Steve Jobs, or a Henry Ford.

NOTES
1. See www.mbrdna.com/group-research.php
2. *Who Says Elephants Can't Dance? Inside IBM's Historic Turnaround* by Louis V. Gerstner Jr., HarperBusiness, 2002.
3. Claudio Fernández-Aráoz, "The Big Idea: 21st-Century Talent Spotting," *Harvard Business Review*, June 2014

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Egon Zehnder is the world's leading privately owned executive search and talent management consulting firm with over 420 consultants working in 69 offices in 41 countries. The firm specializes in senior level executive search, board consulting and director search, management and team appraisals, and leadership development.

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