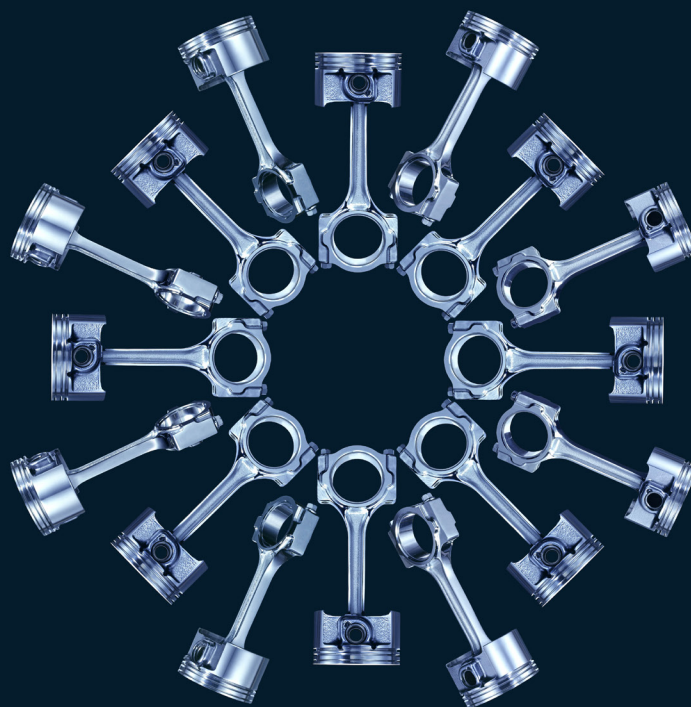


People & Organizational Performance Practice

Full speed ahead: The automotive sector's resilience imperative

Developing organizational resilience not only helps automotive and mobility companies manage and overcome the challenges they face but also drives a competitive advantage.

by Kevin Laczkowski, Amuche Okeke-Agba, Andy Voelker, and Brooke Weddle



The automotive and mobility sector is no stranger to change. Over the past 20 years, it has navigated a wave of disruptions from bankruptcies to rapid shifts in consumer demands and fast-growing electric-vehicle entrants. But in the next decade, changes will come faster than ever—and with greater force and impact.

Automotive manufacturers have accelerated their electrification strategies and set bold aspirations to enhance their hardware and software competitiveness. ACES (autonomous driving, connectivity, electrification, and shared/smart mobility) trends are reshaping the landscape and intensifying the war for high-tech talent and skills. New entrants with high valuations are battling legacy players for talent and market share.

These complications come amid macroeconomic upheaval from ongoing supply chain interruptions, rising raw-material costs, the war in Ukraine, and a resurgence in COVID-19 cases in some parts of the world. Competition for new talent remains fierce, especially for high-demand software capabilities and diverse candidates¹; about 46 percent of automotive employees say they are somewhat likely to leave their current job in the next three to six months.² In general, OEM companies score lower than their peers in other industries when it comes to organizational health—a key predictor of performance.³

These many challenges call on automotive and mobility companies to develop organizational resilience; winners are differentiated by their ability to turn shocks into opportunities. But organizational resilience isn't static; it is a muscle that must be actively developed and strengthened over time.

How organizational resilience drives performance

What makes an organization resilient? A resilient organization bounces forward—not just back—in the face of change. When challenges arise, resilient leaders quickly reassess, reorient themselves, and adapt to the new situation. And amid volatility, they are able to identify and capture opportunities for sustainable and inclusive growth.⁴

Organizational resilience today matters more than ever. Not only is it necessary to weather this disruptive period, but a global survey of advanced manufacturing companies also suggests that organizational resilience may unlock substantial financial and nonfinancial value.⁵ Advanced manufacturing and engineering companies that have made progress on their organizational-resilience aspirations, including automotive players, report higher financial and operational performance, stronger M&A capabilities, and greater ability to attract and retain talent (Exhibit 1).

The payoff of organizational resilience is even higher in times of economic uncertainty. During the economic downturn following the 2007–08 financial crisis, about 10 percent of publicly traded companies outperformed the rest. By the time the downturn had reached its lowest point in 2009, their financial performance measured by EBITDA had jumped 10 percent; their industry peers had lost nearly 15 percent.⁶ This trend has also held true in recent years. In the immediate aftermath of pandemic lockdowns (2020–21), organizations that exhibited healthier, more-resilient behaviors were

¹ *Women in the Workplace 2021*, McKinsey, 2021.

² “‘Great Attrition’ or ‘Great Attraction’? The choice is yours,” *McKinsey Quarterly*, September 8, 2021.

³ McKinsey Organizational Health Database, 2022; Raha Caramitru and Brooke Weddle, “Your organization’s health: The ultimate competitive edge,” McKinsey, August 13, 2018.

⁴ Dana Maor, Michael Park, and Brooke Weddle, “Raising the resilience of your organization,” McKinsey, October 12, 2022.

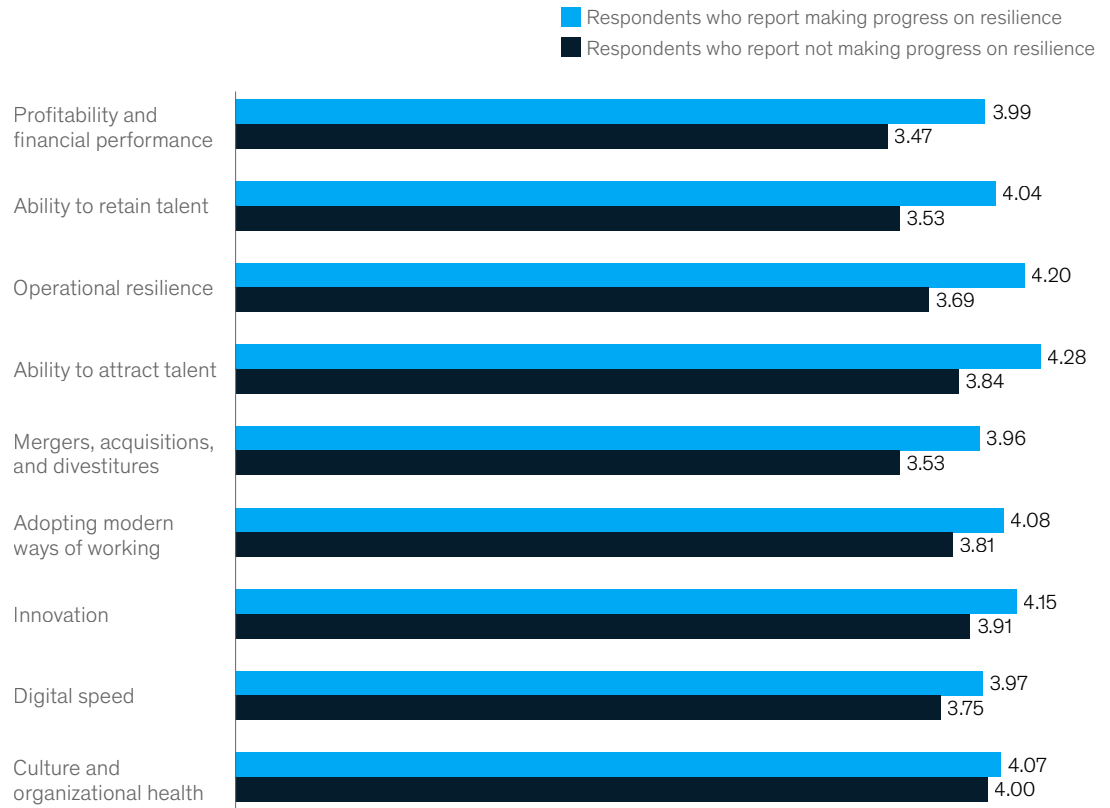
⁵ Organizational Resilience for Advanced Manufacturing Companies Survey, McKinsey, 2022.

⁶ Martin Hirt, Kevin Laczkowski, and Mihir Mysore, “Bubbles pop, downturns stop,” *McKinsey Quarterly*, May 21, 2019.

Exhibit 1

Advanced manufacturers that are making progress on their resilience aspirations report stronger performance, compared with their peers.

Perceptions of current performance relative to industry peers, scale of 1 to 5



Note: Question: How do you think your organization is currently performing relative to your industry peers, across these dimensions?
 Source: McKinsey Organizational Resilience for Advanced Manufacturing Companies Survey, 2022, n = 500

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better able to withstand major disruption—and less likely to go bankrupt—than their peers.⁷

Within the automotive and mobility sector, business leaders agree organizational resilience is vital to achieving their strategic objectives. Yet while many executives believe their organizations are becoming more resilient, the overall pace of progress is slow. And even smaller, fast-moving

automotive companies struggle: we found no relationship between a company’s size and its progress toward organizational resilience.⁸

Yet we found significant variation among functions.⁹ IT is the clear front-runner in organizational resilience, which reflects the significant progress it has made in growing technology capabilities to thwart cyberattacks and in advancing R&D software to

⁷ “Raising the resilience of your organization,” October 12, 2022.

⁸ r^2 of 0.03. Note: r^2 is the proportion or percentage of variance explained by a regression.

⁹ Organizational Resilience for Advanced Manufacturing Companies Survey, 2022.

support future ACES trends. In addition, IT by its very nature has been early to adopt agile practices such as empowered teams (Exhibit 2). Conversely, procurement and marketing and sales appear to be in the early stages of understanding the importance of organizational resilience. We expect this to accelerate over time as more leaders expand their focus to intentionally include the pursuit of resilience.

systems mindset emphasizing agility, empowered teams, adaptable leadership, and talent.

As companies in the automotive and mobility space continue to rebound from disruption amid economic uncertainty, they will need to cultivate organizational resilience—and taking steps now can pay off later. Four key principles can help inform this journey (Exhibit 3):

The road ahead: Four key principles

While the case for organizational resilience is clear, no single action can unlock it. But our research indicates that companies making progress on their organizational-resilience aspirations embrace a

1. Agile organizations are resilient organizations

Resilient organizations build pockets of agility. They have adopted faster, federated, and data-driven decision-making processes and a test-and-learn

Exhibit 2

The organizational-resilience journey looks different across functions for automotive players.

Perceptions of importance vs progress, scale of 1 to 10, normalized to 100



Source: McKinsey Organizational Resilience for Advanced Manufacturing Companies Survey, 2022, n = 500

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approach that allows leaders and teams to adapt in the wake of evolving and complex challenges.

Resilient organizations also draw from the principles of their fast-moving tech teams and apply those principles to other parts of the operation.

Despite its emphasis on rapid product development, the concept of agility typically goes against the grain of the automotive and mobility sector. Risk avoidance and traditional hierarchies often get in the way of transformative agility efforts, even for the most well-positioned OEMs. Yet some companies are making progress on agility in different ways—even in traditional engineering, where they have been challenged by their software engineering counterparts. Those making progress are also selectively bringing in agile principles such as huddles, retrospectives, and visual management to accomplish their goals more quickly. For leaders

to take action, they should consider defining work expectations (for example, during stand-ups) and associated behaviors.

2. Self-sufficient, empowered teams foster organizational resilience

Self-sufficient teams are a key component of resilient organizations. With the right accountability structures in place, empowered teams can take ownership over outcomes and stay close to their customers’ needs. They also have the information they need to continually change course and innovate as a result of premortems, postmortems, and other feedback loops and mechanisms.

Automotive and mobility leaders generally have relatively strong decision-making practices compared with other advanced manufacturing sectors: the majority agree decisions are made quickly, making strong use of data and analytics

Exhibit 3

Four key principles can help automotive and mobility companies build organizational resilience.



Agility

Build flexible environments and allow for dynamic decision making, efficient meetings, and effective time management

Empowered teams

Think differently about how teams are structured and connected by empowering small, self-sufficient cross-functional teams and breaking down silos

Adaptable leaders

Set the tone for resilience; identify relevant traits, build capabilities, and integrate into evaluation processes

Talent and culture

Hire, develop, and retain talent more effectively; invest in analytics; evolve culture and processes

Risk avoidance and traditional hierarchies often get in the way of transformative agility efforts, even for the most well-positioned OEMs.

and providing transparency on who is responsible at each step or decision point. But there is room to improve; our latest research found that 30 percent of leaders cite unnecessary steps or people creating drag.¹⁰ We also believe self-sufficient, highly empowered teams succeed when given the right decision-making space, including under the guidance of objectives and key results, which points to the need for leaders to consider the specific organizational design they have put in place, decision rights, and the governance model.

3. Adaptable leaders set the conditions for organizational resilience

Resilient organizations attract and develop adaptable leaders who do more than simply react to external shocks, such as a supply chain disruption or the emergence of a new mobility competitor. They coach their teams and cultivate the behaviors and capabilities that drive an effective short-term response, while recognizing how it fits into the longer-term ACES journey.

In times of change, automotive and mobility leaders excel at clearly defining priorities and flexing their bench of talent to achieve their goals. But leaders also report room for improvement when cascading these priorities and implications to the rest of the organization and when coaching employees through change (for example, automotive and assembly is the least likely of all subindustries to provide sufficient information to employees about how a change will affect their work). To take action on this,

leaders should consider differentiated approaches to building capabilities. These approaches could include comprehensive field and forum leadership programs for the top 5 percent of people leaders or upskilling all people leaders to pilot an increasingly “greener” workforce of Gen Z employees.

4. Talent and culture underpin everything—now and for the future

Resilient organizations invest in talent and culture—now and for the future—by drawing from the uniqueness of legacy OEMs and new entrants. By developing resilient teams and leaders, these companies set into motion a virtuous cycle; they create an environment that attracts top talent and helps them thrive, which then creates an even more resilient organization for the future.

Talent has been a challenge for players across automotive and mobility, including legacy OEMs trying to move from internal combustion engines to electric vehicles and new OEMs moving to build out corporate infrastructure and scale production. Overall, automotive and mobility companies say they frequently adhere to best practices in talent management (more so than other advanced manufacturing sectors): about 90 percent of automotive and mobility companies say their companies frequently make talent a top ongoing priority, while about 80 percent say their organizations frequently use data analytics in hiring, developing, and retaining talent. Companies also report leading by example for other sectors in formal upskilling or reskilling practices.

¹⁰ Ibid.

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While the sector is leading in flexibility for its current workforce, there may be room for improvement when it comes to hiring practices. Only about 25 percent of respondents say many jobs require prequalifications, and about 20 percent say their companies hire primarily from traditional talent sources and do not go beyond to sources such as new geographies or new educational or work backgrounds. In taking action, leaders should consider their specific approach to strategic workforce planning. They should identify the 40 to 50 most critical roles that drive outsize value for the business, determine how to source

and recruit candidates to meet hiring goals, effectively build capabilities, and define a unique culture for employees.

The automotive and mobility sector will likely continue to face challenges, disruptions, and crises. Going at full speed to develop organizational resilience—during times not only of crisis but also of opportunity—can help companies build a critical and lasting source of competitive advantage.

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