

19th Annual Global CEO Survey: Automotive industry key findings

Growing in complicated times / Addressing greater expectations / Transforming: technology, innovation and talent / Measuring and communicating success

Redefining business success in a changing world

Automotive industry key findings



85

*automotive
executives
interviewed
in 32 countries*



About the 19th Annual Global CEO Survey

In this year's survey, global business leaders voice fresh concerns about economic and business growth. At the same time, they see a more divergent and multi-polar world where technology is transforming the expectations of customers and other stakeholders. In *Redefining business success in a changing world*, we explore how CEOs are addressing these challenges. We surveyed 1,409 CEOs in 83 countries and a range of industries in the last quarter of 2015, and conducted face-to-face interviews with 33 CEOs.

Today's business leaders have a tough job finding growth and delivering results year in, year out. But they know an even tougher task lies ahead: to prepare their organisations for a more complex future where customers and other stakeholders increasingly expect them to do more to tackle society's important problems.

To equip themselves for this challenge – and to build trust and ensure long-term success - CEOs are focusing on three core capabilities. Firstly, they're focusing even more strongly on customer needs as well as drawing on their organisational purpose – what their companies stand for – to define a more comprehensive view of how their business operates within society. Secondly, they're harnessing technology, innovation and talent to execute strategies that meet greater expectations. And finally they're developing better ways to measure and communicate business success.

About the Automotive industry key findings:

This report looks in more detail at the views of 85 automotive CEOs in 32 countries, as well as drawing on an in-depth interview with:



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Automotive CEOs see customers as their most important stakeholders and know they need to work to strengthen their trust and that of governments and regulators. That's made more difficult by a complicated, uncertain business environment. Automotive CEOs are already looking to technology and innovation to help them meet changing stakeholder expectations, but we see a need to focus more on company culture and to articulate and communicate a clear, compelling company purpose.

Growing in complicated times

Today's CEOs face a business environment that's becoming increasingly complicated to read and adapt to.

Government responses to debt and deficits tops the list of forces confronting automotive CEOs – 76% are concerned they could threaten growth. Next up are an increasing tax burden and exchange rate volatility. These are risks which are largely outside of companies' control, and many CEOs aren't sure that their companies are adequately prepared to cope – 28% of automotive CEOs are extremely concerned about their company's readiness to respond to a crisis, compared to 18% of CEOs overall, and 55% of automotive CEOs are somewhat or extremely concerned about supply chain disruption. Looking broadly, 68% of automotive CEOs believe the number of threats has gone up over the past three years.

Dramatic regional variations in sales activity are adding to the complexity for automotive companies.

In 2015, slowing growth in automotive sales in Russia and Brazil made headlines, while the US achieved record sales levels and the EU saw a 9% year-over-year increase. China, now the world's largest automotive market, finished 2015 strongly after a slow start, possibly due to quick government intervention in the form of a sales tax reduction designed to spur demand. Still, prospects there are notably uncertain.¹ In our survey results, automotive CEOs no longer rate China as the most promising market for the next 12 months; instead, more than half of the CEOs we interviewed see the US as most likely to drive revenue growth. However, even with a more conservative outlook, China remains number two on automotive CEOs' list of growth markets, followed by Germany.

¹ ACEA, Autodata analysis

Automotive CEOs are more pessimistic about global economic growth and short-term prospects.

Just 21% think global economic growth will improve over the next 12 months compared to 31% of last year's automotive CEOs. Near-term confidence levels in their own business prospects are down over last year too; only 29% of automotive CEOs are very confident of revenue growth over the next 12 months, down from 38% last year and 34% in 2014.

Still, despite these challenges, more than half of automotive CEOs (54%) are very confident of revenue growth over the next three years, and many (65%) say growth opportunities have increased over the past three years.

Automotive CEOs' top concerns reflect a move beyond globalisation.

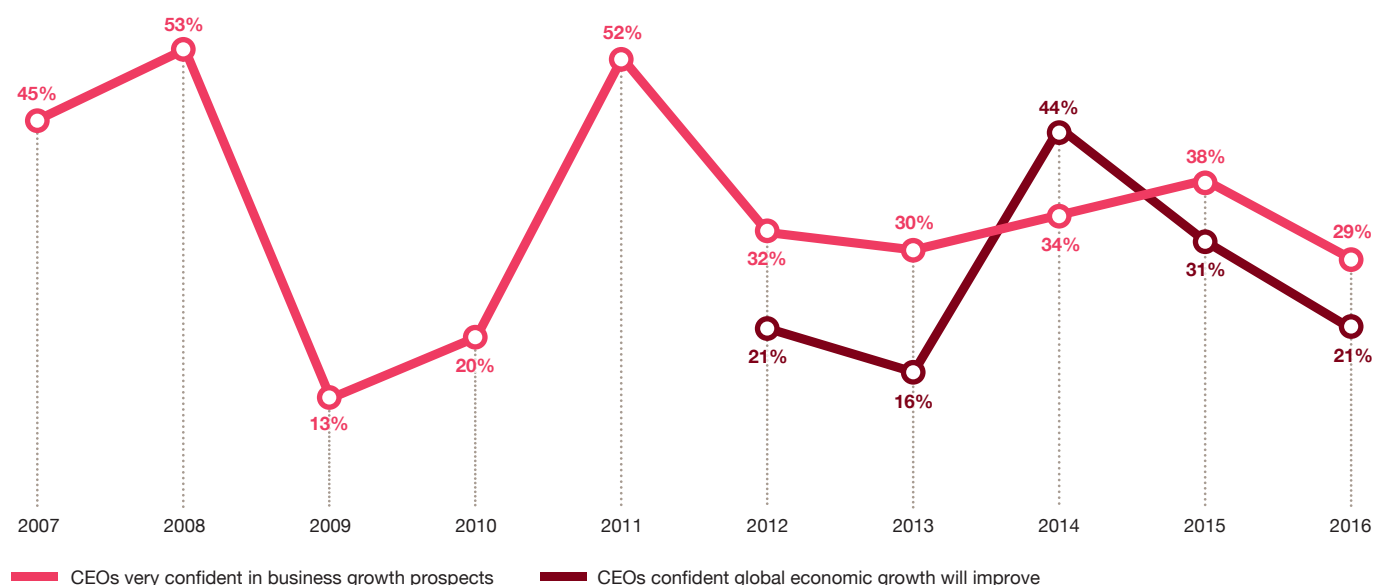
This complicated world picture isn't just being shaped by economic and geopolitical trends. We believe there is a more fundamental shift taking place, namely from a globalising world to one with many dimensions of power, growth, and threats – a transition that we call multi-polar.

For example, 74% of automotive CEOs believe that regional trading blocs will become more prevalent in the future, while just 24% expect a single global marketplace to emerge. This development is particularly relevant for the automotive industry, with its highly globalised supply chains. The proposed Trans-Pacific Partnership (TPP) between the US, Japan, and South East Asian states, for example, includes rules on the origin of automotive parts and content that could have a significant impact on the global structure of automotive value chains.²

Automotive CEOs see more divergence in cultural areas too. More than three-quarters (78%) expect to see the world moving towards multiple beliefs and value systems, rather than towards common global beliefs and value systems. That's already reflected in very different attitudes towards mobility in different parts of the world and varied expectations around how industries should be regulated – a trend that looks set to continue.

Figure 1: Automotive CEOs are less confident about global economic and business growth prospects

Q: How confident are you about your company's prospects for revenue growth over the next 12 months? Do you believe global economic growth will improve, stay the same or decline over the next 12 months?



Base: All respondents (Automotive, 85)

Source: PwC, Annual Global CEO Survey data

Note: In previous years, respondents were asked 'Do you believe the global economy will improve, stay the same or decline over the next 12 months?'

² PwC, Autodata® Analyst Note, "Breaking down the Trans-Pacific Partnership: Proposed agreement may shift auto trade", August 2015.

Addressing greater expectations

Automotive executives recognise the need to strengthen customers' trust.

The automotive industry has made headlines in recent years with high-profile scandals about emissions certifications, delayed safety recalls and inflated mile-per-gallon statements. We see signs that CEOs are beginning to see these types of incidents take their toll: 58% of automotive CEOs are concerned that lack of trust in business could threaten their growth prospects, up from 48% last year and almost double the level reported by automotive CEOs in 2013 (30%).

Where do these types of issues come from? In our view, a combination of factors often come into play. These include organisational silos, poor communications, insufficient transparency, oversight and accountability, and inadequate governance and funding. But there are some other very fundamental issues too. One of them is purpose. At PwC, we believe at the heart of trust is purpose – the why of what you do, not the what.

What do you stand for?

In this increasingly complex world, are leaders actively managing their organisation's purpose in order to reflect greater expectations of business? In our overall research we found that almost 1 in 4 (24%) had changed their purpose within the last three years to reflect a broader set of stakeholder expectations, and an additional 45% felt that their organisation's purpose already reflected a broad set of stakeholder expectations. Looking at automotive CEOs, more of them – 51% – believe their organisation's purpose already takes wider stakeholders into account. That's a great start, but fewer (16%) have refreshed their purpose in the last three years. And around one fifth of automotive CEOs (21%) say they aren't considering connecting their organisation's purpose to the broader impact they have on society.

Automotive CEOs need to link their focus on customers more clearly to organisational purpose.

Nearly every automotive CEO says that customers influence their company's business strategy. Surprisingly, though, when we asked CEOs to describe their company's purpose in their own words, only around half (51%) explicitly referred to customers. That's far less than some leading sectors like technology, where 66% of responses included references to customers. We see a need for clearer focus.

In the automotive industry, customer demand has become highly dynamic, creating significant challenges for automotive operations and strategy. Demographic shifts, urbanisation and technological advances are combining to reshape customer needs in fundamental ways –

making the future highly uncertain. For example, the extent to which car buyers will shift to shared mobility solutions rather than personal ownership will have a major impact on the sector's future, as we discuss in *"Reinventing the wheel: scenarios for the transformation of the automotive industry"*.

That uncertainty is magnified by the fact that what customers in this multi-polar world want can also vary enormously. Take the millennials. Common wisdom suggests that they are more likely to be concerned about the environmental impact of the vehicles they drive than boomers; on the other hand, millennials with kids may still opt for SUVs or mini-vans. And emerging market customers are hard to predict as well. While they may be more likely to opt for car-sharing options, given congestion problems in rapidly growing urban environments, Autofacts® latest research suggests that more and more of them are currently choosing to buy their own SUVs.

Enhancing relationships with governments and regulators will be critical too.

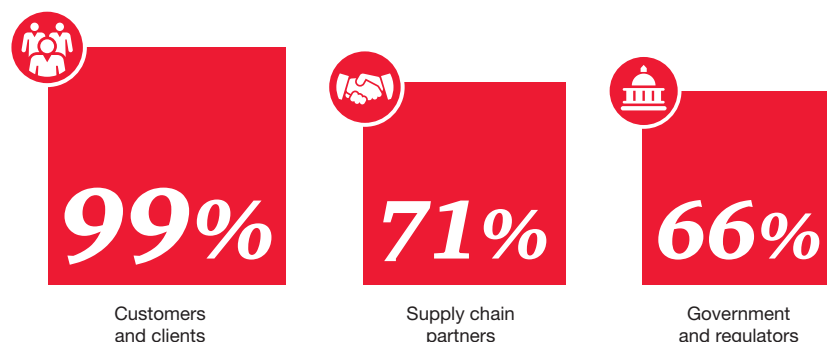
Two-thirds of automotive CEOs say that governments and regulators will have a high or very high impact on strategy. Here, too, the industry needs to focus on reinforcing public trust in their ability to meet regulatory requirements. And the exact shape of future regulations is both highly uncertain and fundamental to industry growth, as we discuss in *"Reinventing the wheel"*. As with customers, we see a need to connect these goals more directly to company purpose. Only about a quarter (26%) of automotive respondents explicitly mentioned creating wider value for society in their purpose.

58%

of automotive CEOs are concerned that lack of trust in business could threaten growth.

Figure 2: Automotive CEOs' see customers, supply chain partners as key stakeholders

Q: What impact do the following wider stakeholder groups have on your organisation's strategy?



Base: All respondents (Automotive, 85)
Source: PwC, 19th Annual Global CEO Survey

Transforming: technology, innovation and talent

We asked CEOs to tell us where they're making changes to their organisation to better meet the needs of wider stakeholders. That includes customers, but also government and regulators, supply chain partners, employees, investors and local communities.

Auto CEOs are making changes to risk, technology and innovation.

The top areas where CEOs plan to make significant changes is in defining and managing risk. That's followed by innovation and technology. In our view, automotive companies need to consider how to combine these to understand risks within the product development process. It makes sense to focus on the industry's core strength in innovation, and 85% of automotive CEOs plan to make changes – in many cases significant ones – in how they use technology to assess and deliver on wider stakeholder expectations. And nearly as many say their R&D and innovation processes are evolving to maximise their societal value; for 44%, these changes will be significant. Automotive CEOs are also more likely to see R&D and innovation as generating the greatest returns in improving stakeholder engagement, compared to CEOs overall or in most other sectors.

When it comes to engaging customers, the link is clear. Consumer expectations of vehicles are on the rise, and automotive OEMs and suppliers are stepping up to deliver. PwC's Strategy&'s review of the state of "connected car" technologies vividly documents that these are on the rise.³

Skilled and engaged people are needed to turn purpose into reality

Technology alone won't be enough to cope with the increasing demands of a changing world, though. People capabilities aligned with technology-led innovation are crucial to embedding that innovation throughout the organisation. Automotive CEOs are acutely aware of the challenges; 71% say they are concerned about the availability of key skills to grow their business. That's up 22 points from 2013. One key issue many companies face is attracting talent in areas that weren't traditionally important for automotive companies, like software developers. In our view, new HR models may be required.

Some automotive CEOs say their companies are already changing their talent strategies to attract, retain and engage the people they need to remain relevant and competitive. For automotive CEOs, the top priority is their focus on their pipeline of leaders for tomorrow, where 55% of companies are making changes. Next on the list is workplace culture and behaviours (46%). That's a good start, but more companies need to move in this direction.

When it comes to the changes they are making to address stakeholder expectations, one critical area comes relatively far down the list. Only 29% of automotive CEOs say they will make significant changes to their value, ethics, and code of conduct, and around a third plan no changes at all. Making sure the company's entire culture supports ethical behaviour and a focus on the needs of stakeholders – customers, employees, governments and regulators, supply chain partners and investors – will be critical to future success.

We think a strong focus on purpose is a good place to start. It helps attract new employees – 61% of automotive CEOs believe top talent wants to work for organisations that share their values – and it's also a key way to motivate them to do their best work and feel connected with the organisation. That's critical to breaking down silos and encouraging good decision making from the entire workforce.

71%

of automotive CEOs are concerned that the availability of key skills could threaten growth.

Figure 3: Risk management and R&D and innovation are the top areas in which CEOs are making significant changes to respond to stakeholder expectations

Q: To what extent are you making changes in the following areas in response to changing stakeholder expectations?



Base: All respondents (Automotive, 85)
Source: PwC, 19th Annual Global CEO Survey

³ PwC, *Connected Car Study 2015: Racing ahead with autonomous cars and digital innovation*. 2015

Measuring and communicating success

Where should business be doing more in order to measure impact and value as stakeholder expectations evolve?

We put this question to our CEOs and the top two areas they identified echo the areas where they want to make significant changes: risk and innovation. As noted, we see the top two as linked: automotive companies are facing a greater need to actively manage risks within both their R&D and innovation processes.

Automotive CEOs see a need to communicate more around their purpose and values

We also asked CEOs to tell us the areas where they believe they should be communicating their stakeholder value and impact more effectively. The top three answers for all CEOs were organisational purpose and values (59%), business strategy (54%), and non-financial areas such as their brand (50%). For automotive CEOs the top three are organisational purpose and values (61%), innovation (52%), and environmental impact (49%).

The high ranking of purpose and values underscores just how important purpose is to strengthening consumer trust in the sector. Automotive CEOs know that the best – and perhaps the only – way to build or reinforce trust is to have an organisational purpose which is authentic, takes account of wider issues and stakeholders, and genuinely reflects the way the company behaves. The next step will be making sure that the company’s vision reaches every stakeholder – from employees on the shopfloor to customers to regulators and investors.

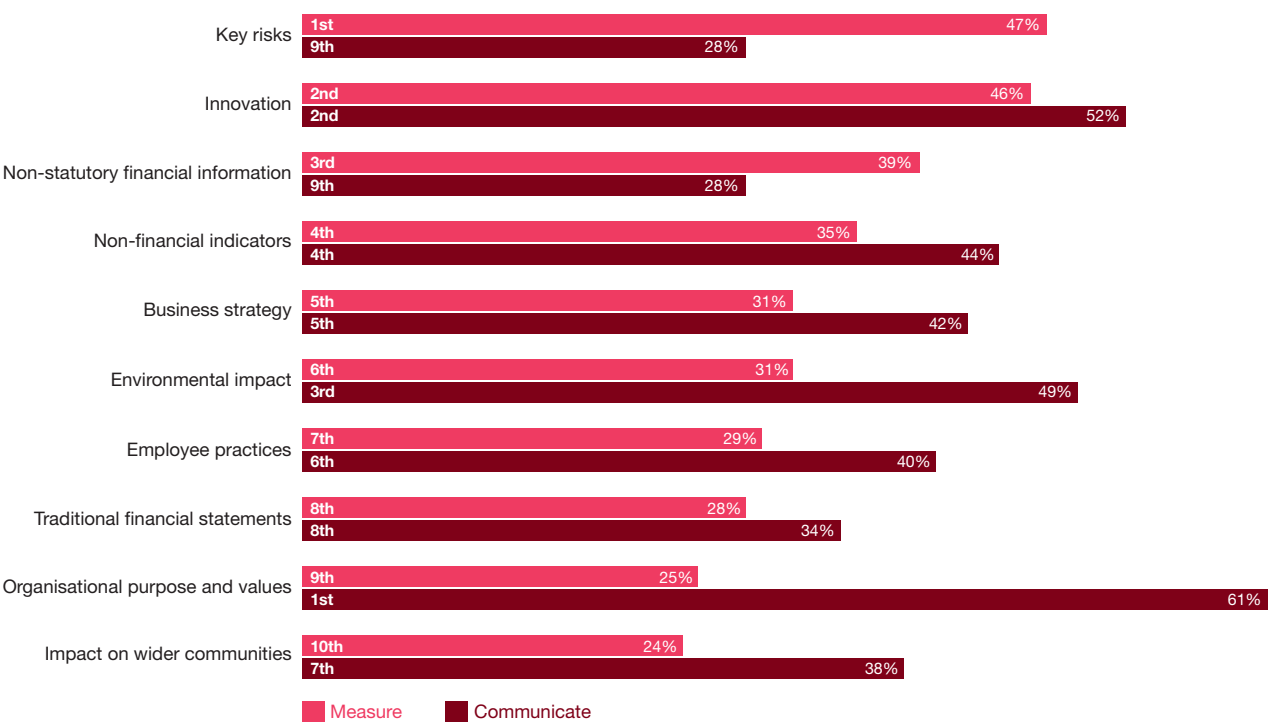
The relative importance of innovation and environmental impact also reflect the automotive industry’s strategic agenda, and are likewise closely bound up in trust: consumers need to feel the sector will take responsibility and stand behind every aspect of their brand promise be it safety, fuel economy or carbon emissions.

We’ve been fortunate in aligning the interests of our stakeholders—shareholders, employees, suppliers, customers, and the communities in which we operate. The key has been communication. We spend a lot of time talking with the different groups, making sure everybody is up to speed on our plans. When issues arise that require further discussion, we come to a consensus and move forward. It’s also important to constantly evaluate your plans to make sure they make sense in the context of your environment.

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Figure 4: Automotive CEOs are seeking to better measure key risks, innovation

Q: In which of the following areas do you think business should be doing more to measure/communicate impact and value for wider stakeholders?



Base: All respondents (Automotive, 85)
Source: PwC, 19th Annual Global CEO Survey

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Acknowledgments

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