Bridging the culture gap in auto alliances

Automakers need to partner in new ways with tech companies to move into the future of electric vehicles, connected cars, and autonomous vehicles. These alliances are critical for a changing auto industry—too important to be undermined by cultural issues that can be addressed.

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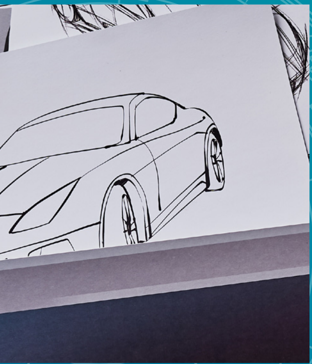

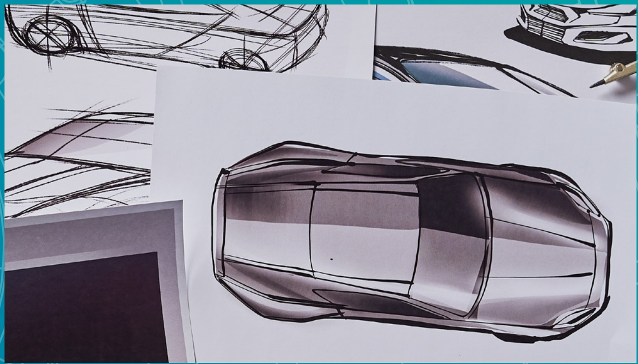

Introduction

Automotive alliances and joint ventures are nothing new. Historically, these combinations focused on large, project-based programs to create specific vehicles or components, or to enter a new geography.

But today's auto alliances are all about innovation, as companies try to vault into the next era of the industry. They must rely on partners to design and produce electric vehicles, autonomous vehicles and other new types of automobiles that rely heavily on technological know-how that automakers often lack. These partnerships represent strategic bets on the industry's future. Alliances and joint ventures give automotive companies a way to do what they could not do on their own—both bysharing costs and gaining access to new capabilities.

These bets are large—reaching into the billions for developers of EVs, as we detailed in our recent paper _Place your billion-dollar bets wisely_. And they take automakers deep into unknown territory. Unlike the parings of the past, these alliances are cross-industry, involving semiconductor and software makers, Silicon Valley start-ups, and companies from other countries. And unlike previous alliances, these partnerships are too big to fail: They could determine whether auto companies can produce competitive vehicles.

But the partners auto companies need today often have cultures that are the polar-opposite of those found in traditional automotive companies. So the question arises: how can automakers accustomed to creating sophisticated physical machines work well with software engineers who spend their days designing intangible technology? Can they collaborate effectively? Can they communicate? Most important, how can auto companies that have a spotty record in joint ventures with companies that share the same automotive DNA make these new alliances succeed?

There are proven ways to motivate divergent teams to cooperate effectively. But it requires a careful and deliberate approach to people and culture planning; it can't be ignored or left to chance. The task is to create an atmosphere that allows the alliance to shape its own culture while maintaining and respecting the cultural identity of the partner companies.

In this paper, we describe how automotive alliances are changing and the challenges these changes bring. Then, we outline how the business and human resources leadership of the partner companies can create an environment of mutual respect so both sides can appreciate what the other brings to the table. With this foundation, they can learn each other's way of working and determine how to collaborate to achieve thei alliance's goals.

Alliances on the rise

Today, technological advances have become just as important as mechanical innovations in the development of new cars, SUVs, and trucks. Virtually every automaker offers a version of an electric vehicle or hybrid. And increasingly sophisticated safety features, like collision avoidance, are paving the way for self-driving cars.

The newest cars and trucks are virtually computers on wheels, with sensors, microprocessors, and millions of lines of code. A Ford F–150, for example, has 150 million lines of code; the Hubble telescope, has just 2 million lines.[1]

In addition to needing the latest technology, developing these vehicles is also extremely costly. To date, the top 10 global automakers have invested more than $200 billion in developing electric-vehicle technologies alone.[2] And a group of 30 companies have spent an estimated $16 billion on developing self-driving cars over the past few years.[3]

While automakers excel at the mechanical engineering skills that have been the bedrock of creating new vehicle designs, they also recognize that they lack other skills needed to build tomorrow's cars and trucks, such as software and electronics. Automakers also need partners to share the costs and risks of developing new kinds of automobiles. Volkswagen, for example, has joined Ford Motor Co. in investing in Argo AI to develop autonomous vehicle technology for the U.S. and Europe.[4] Ford has invested $500 million in electric truck start-up Rivian and the two companies are jointly developing Ford EVs using Rivian's "skateboard."[5]

More high-stakes auto/technology alliances and joint ventures are expected. In every instance, success will hinge on more than sharing technology and pooling costs and risks. The partners will have to ensure that the teams from each company can work together toward the common goal of the alliance—and, equally important, get along.

[1] Source: Codebases, information is beautiful website.

[2] Source: KPMG analysis of automaker reports.

[3] Source: Money Pit: Self-Driving Cars' $16 Billion Cash Burn, The Information website, February 5, 2020.

[4] Source: What Volkswagen's investment in Argo AI means for Ford's self-driving vehicles business, Ford Motor Co. media release, Ford website, June 2, 2020.

[5] Source: Bryan Jonston, Ford Invests in Rivian for Skateboard E-Trucks, autoconnectedcars.com, April 24, 2019 x Source: Bryan Jonston, Ford Invests in Rivian for Skateboard E-Trucks, autoconnectedcars.com, April 24, 2019

When cultures clash

All companies have their own cultural identities and ways of doing business. When two companies come together, sometimes the pairing works, and they have a long and successful relationship. Other times, clashes of culture ultimately lead to the alliance's unravelling. Even ventures between automotive companies that have similar operating models and personnel have foundered on cultural issues (See "Auto alliances of the past: failures and successes").

The cultural divide between auto companies and companies in other industries, or from other countries, can sometimes be. Auto companies focus on manufacturing and have been imbued with the Six Sigma mindset to keep errors and defects to a minimum. By contrast, in software development, the mantra is "fail fast"— if something doesn't work the first time, iterate until you reach the solution. That's the opposite of automotive thinking, where the stamping or machining has to be right the first time.

When differing cultures come together, some level of conflict is inevitable. The goal is to identify the sources of tension and deal with them before they poison the relationship. If, for example, each partner is determined to prove that its way is best, then the relationship may be doomed. Other common sources of conflict include issues around governance, such as the amount of latitude granted to managers for key decisions, speed and flow of information, and employee or technology support programs.

The success of any alliance relies on the willingness of all team members to cooperate and work together towards a common goal. Regardless of the division of financial investment, all parties need to feel that their contributions are valued and respected. Any hint of being a "second-class citizen" will inevitably lead to resentment and reluctance to participate fully.

Succesful alliances often create their own culture, distinct from that of either partner. That culture will support collaboration and acknowledge the strengths each team is bringing to the arrangement.

Auto alliances: a mixed record

The biggest automotive link-up in recent automotive history, the 1998 merger of Chrysler and Daimler Benz, ran aground over irreconcilable differences. Assessing the breakup, Chrysler President Tom Stallkamp recalled, "It wasn't so much national cultures…it was the culture of the companies that were different, and it was really tough to blend those cultures."[6]

But other automotive matchups have fared better. GM's joint venture with Toyota, the New United Motor Manufacturing Inc., lasted 15 years. The venture was formed in the 1980s to build Toyota Corollas, Geo Prizms, and Pontiac Vibes at a GM plant in Fremont, Calif.[7] Both companies benefitted: GM got to see Toyota production methods firsthand; Toyota got a ready-made factory for building cars in the U.S.[8]

GM's most enduring alliance has been its 50-50 partnership with China's SAIC Motor. The partnership was launched in 1997 to build the Buick Regal for the Chinese market and by 2020 had produced 20 million vehicles. Over the years, the partners have expanded the relationship and recently announced plans to build GM's Ultium EV platform in China.[9]

In 1996, Ford expanded its 25 percent interest in Mazda to a controlling stake to help the Japanese car maker avoid bankruptcy. The two companies would continue to share manufacturing facilities as well as vehicle platforms and numerous other resources until 2014.[10]

More recently, BMW and Toyota joined forces in 2018 to create the new Toyota Supra, which shares a platform with the BMW Z4. Although initially wary of cultural barriers, both companies were able to take advantage of each other's strengths: BMW's proficiency at vehicle testing and fine tuning and Toyota's attention to quality and efficiency.[11]

[6] Source: "Tom Stallkamp discovered that blending cultures would not be easy," Automotive News website, May 7, 2018.

[7] Source: Quick! Name all the GM/Toyota Vehicles Created as a Result of NUMMI, Motor Trend, July 31, 2009.

[8] Source: How to Change a Culture: Lessons From NUMMI, MITSloan Management Review, January 1, 2020.

[9] Source: General Motors to construct Ultium vehicles in China, electrive.com, May 26, 2021.

[10] Source: Is Mazda Owned by Ford?, MotorBiscuit website, February 17, 2020.

[11] Source: How BMW and Toyota Overcame a Culture Clash to Design the New Supra, Jalopnik.com, July 24, 2018.

Plan for a successful alliance

How can alliance partners create a culture that moves from “them vs. us” to “together?” It starts with a focus on people and culture planning.

Prior to the deal, both organizations should perform a culture assessment to determine any differences that could possibly raise obstacles to the teams working together and make plans to address those issues if the deal goes through. Careful planning of alliance governance structure, leadership representation, and equity in decision making authority creates parity and avoids imbalances in power and control.

Once the alliance has been established, the partners should allow it to shape its own culture. To begin, the teams in the alliance will need to align on objectives to create common goals and to drive collaboration and value. An important early step is to assign the project its own name, branding, and logo.

But you can’t develop a culture and brand until everyone understands each team’s ways of working and how they will collaborate. To do so, organizations in the alliance must define and agree on several key areas:

- **Trust:** Leaders should make themselves vulnerable, demonstrate people skills and leadership behaviors, and foster autonomy among workers (i.e., not micro-managing).
- **Commitment to change:** A strong alliance evolves over time. Leadership must periodically recheck the strategic direction and its impact on culture.
- **Continuity:** Culture is often best understood by those who have operated within the alliance for a period of time. Tenure within the alliance should be recognized as a benefit and minimum rotation durations may be warranted. Position rotations should be planned carefully to avoid disruption to working teams.
- **Respect:** Workers should show respect for the history of each organization and for the differences and varied skillsets among co-workers. They should be open to new ideas and ways of working, with leaders continually celebrating what each side brings to the table.
- **Collaboration:** Working together means there are agreed ways of working, forums for discussion, common goals, and commitment to equal opportunity and representation.
- **Risk-taking:** Workers must be comfortable to take risks and to make mistakes in the name of innovation (no punishment, but focus on lessons learned).

Once this groundwork has been laid, the alliance can move forward with cultural integration, which revolves around the four key concepts: Inform, Equip, Engage, Connect. These are interconnect concepts, and it is important that organization address each one thoroughly as the alliance moves forward from announcement, to start up, and finally to production.

Inform

Equip

Engage

Connect

Inform:

Teams from both partners need to be fully informed about the purpose and rationale of the alliance or joint venture. What is the goal and what is the partnership trying to achieve?

The venture's leadership team should provide the "big picture messaging," and it should align with the messaging released by the companies when the joint venture or alliance was first announced. This information should be easy to access and easy to understand. Team members should be able to quickly understand the "what's in it for me" and become familiar with what's expected for their role and how it ties into the overall goals of the venture.

It is important that leaders of both parties work together to ensure their communications are consistent and employees on both sides receive the same message. A key message should be that these organizatoins are coming together to make something bigger, better, and faster than they could achieve independently.

Equip:

Alliance and joint-venture teams will need the right tools and resources to succeed. This applies not only to technology, but also to talent, ensuring the right people with the right capabilities are tapped to work in the venture. Often, leadership will equip teams with the tools and technology used by the parent organizations. But this approach isn't always effective because of intellectual property concerns.

In these cases, the alliance may need custom, dedicated tools with firewalls and other protections. In addition, the partners will need to address legal concerns about use of about propriety information and processes.

The goal is to provide the tools and resources so that team members can share information and collaborate effectively. That includes having a procurement process that is available to the alliance or joint venture and adequate funding for meet resource needs.

Engage:

Team members need to be engaged and motivated to collaborate. Engagement can be pursued through several means. On a day-to-day basis, it's important to create the kind of environment where the joint–venture teams can co-create, co-design, and work in a collaborative way.

Open communication is also key. That can involve individual, face-to-face meetings, small group gatherings, as well as town-hall type meetings to spur motivation. Incentives in the form of "swag" giveaways can be an effective way to encourage participation in these events, and used as rewards for meeting certain goals.

Connect:

Encouraging connections between communities of employees in the partnership can drive collaboration and create a sense of unity.

One way to drive this sense of connection is to create a "brand" around the project, so that participants can identify themselves as part of "Team X." Additionally, opportunities should be made for employees to socialize and share experiences, both in the workplace as well as at off-campus events held after working hours (e.g., "happy hours" if the organization's protocols permit.)

Often, team members from different organizations may be reluctant to socialize. But this resistance can be overcome by providing incentives and reinforcements (again, such as giveaways and swag) for employees to attend events. What's more, human nature being what it is, once people start attending these events and interact with each other, barriers begin to fall, and relationships are enhanced.

Prepare for bumps in the road

It's a given that there will be cultural friction in any partnership. There will be clashes of opinion, miscommunications, and other sources of tension. Leaders should prepare by establishing a process for addressing issues when they arise. This should be the responsibility of a specific business leader who can help the team identify how much time and value is lost by the continued disruption and work with the team to find solutions.

Finally, the alliance leaders should continually monitor how well the teams are collaborating. This can include surveys on job satisfaction and levels of engagement, as well anecdotal evidence gleaned from "walking around."

Conclusion

Clashes of corporate cultures can be deadly for a joint venture. But they can be overcome if the partners plan for them. People and culture planning at the start can set a tone of mutual respect and both sides can celebrate what each brings to the partnership. When the alliance is up and running, maintaining focus on mutually beneficial objectives can encourage the true collaboration that will help partner companies prosper in the new automotive business.

How we can help

The KPMG Joint Venture and Organization Culture Practice helps clients solve their most pressing and complex challenges pertaining to human capital matters during the formation and execution of joint ventures.

KPMG does this by building effective approaches and programs to build high-performing alliance teams. We do this by developing strategies and techniques to effectively engage and support alliance team members and supporting our clients in the identification and mitigation of risks.

We call on our extensive global network of knowledgeable consultants, and bring our leading-edge tools and approaches to every engagement. Through our work on cultural issues, we aim to maximize value for all stakeholders in joint ventures.

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