

LAYING TRACKS FOR RAILROADS IN THE DIGITAL WORLD.

Insights

Railroads, which have a long tradition of ushering in change and are the backbone of some of the world's most vital supply chains, are entering a new phase as the digital revolution finds its way into the railways. Railroads are in the midst of a profound transformation as new technologies, such as 5G, the Internet of Things, artificial intelligence, machine learning and blockchain, bring new opportunities. As this transformation takes place, many leading executives are facing a watershed moment as they work on digitizing and innovating for the future while leveraging strong legacy talent.

Historically, technology and innovation for railroads have been predominately reserved for increases in efficiency and safety improvements—not to alter the business model, customer experience or ways of moving freight. However, digitization can unlock capacity, boost performance and enhance end-user experiences. Today, nearly every business in any industry faces digitization, which can be seen as either a threat or an opportunity.

In an era of relentless change, a company's ability to reposition itself to create a new future while also leveraging its past will drive its success. For railroads, prioritizing safety and efficiency remains (and the wave of precision scheduled railroading continues to cover the North American network), but the margins face increased threats as commoditization and improved efficiency from competing modes increase.

To win today, railroads are investing significantly in new technologies to enable growth, efficiency and creativity. As a result, railroad executives are increasingly being asked to innovate, improve capacity and add freight to their tracks. They are

expected to be strategic and creative while embracing railroads' historical legacy as the country's backbone.

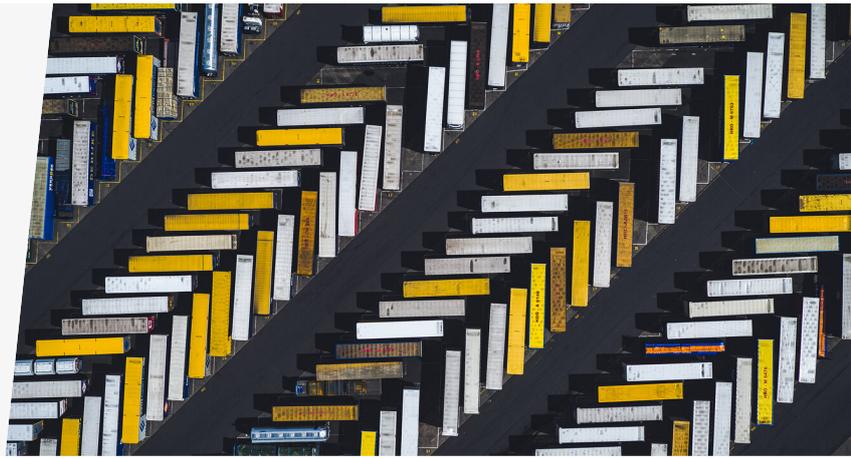
Yet, how do railroaders begin to tell if a railway is ready for innovation and digitization? Korn Ferry has identified five key steps:

1. **Define success:** what does your internal and external customer ultimately need? If the customer won't benefit or pay for the service or innovation, don't do it. Make sure you have the right people listening to your customer.
2. **Champion innovation at the top:** do you have the right executive and board leadership? Do you have the right partners and alliances?
3. **Establish supporting culture:** does your culture reward creativity and risk-taking?
4. **Confirm organizational structure:** does your organization have robust career paths, job design, and rewards to ensure implementation and adoption?
5. **Fill talent gaps:** do you have the right talent to fill critical roles, behaviors, and skills?

As company's priorities change, the skills they need often change too. The Korn Ferry Institute has conducted extensive research, including two studies with Fortune World's Most Admired Companies, into the talent needed to make a great digital organization.

On average, Korn Ferry found that the most-admired companies value expertise 14% more. What's more, when looking at the traits, drivers and competencies of more than 500 successful digital leaders, Korn Ferry found that the profile

Strategic growth will be powered by the leadership's technology fluency, pioneer mentality and logistics acumen.



that emerged was consistent and intuitive. It boiled down to four traits:

- Curiosity and a pioneer mentality. This must be complemented by the ability to measure risk without diminishing the willingness to commit to new ideas and make bold choices.
- High emotional intelligence with the ability to engage and inspire employees. These leaders must build enterprise-wide support for the change agenda.
- Comfort with ambiguity. These extraordinary challenges will defy the traditional sense of problem solving in railroads.
- Drawn to challenge and able to reverse structured decision-making patterns. These leaders are open to stepping back from direct lines of accountability and are energized by working in unstructured environments.

For railroads, the key to unlocking proficiency is embracing talent that can manage assets while also looking beyond asset-based innovations and pursuing a new vision. Technology fluency and logistics acumen are vital to the strategic leadership team. To drive sustainable growth, railroads have to be adept at leveraging technology to drive business transformation. At the same time, they have to tap into dynamic talent with true transformation heritage.

To transform, railroads need a new type of competence in leadership to be infused into the traditional model. Today's leaders must invest in new talent, while leveraging existing talent, so both co-exist on a new platform. When embarking on a digital transformation, the best predictor of success is a C-suite who understands that this new approach will improve the company's performance, service, and long-term growth.

To address today's opportunities and unconventional challenges, railroads need to focus on creating high performing teams that draw on the wealth of institutional knowledge while adding new leaders who can leverage innovation and technology. By combining the two, railroads can improve their agility, react to new opportunities faster, and drive continuous success.

Authors

Neil Collins

Senior Client Partner
Global industrial markets
+ 1 404-783-8811
neil.collins@kornferry.com

Meredith Moot

Senior Client Partner
Global logistics and transportation
+1 404-374-7589
meredith.moot@kornferry.com

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