Volkswagen do brasil: driving strategy with the balanced scorecard essay

Business, Industries

Volkswagen entered the Brazilian auto manufacturing market in 1953 and by 1969 held a 61% share. Through some tough economic times in the late ‘ 80s and early ‘ 90s, the overall auto market in Brazil declined 20%. In 1991, Volkswagen, Ford, General Motors and Fiat dominated the Brazilian market with a combined 97% share.

However, by 2008, other companies from France, Japan, Korea and China entered the Brazilian market. At this point, the top 4 only made up 77% of the auto manufacturing market; the 20% decline coming mainly from Volkswagen. Looking at the time period from 1994 – 2008, Exhibit 2A shows VWB’s market share peaks around 1996/1997 with a 35% share of the car and light vehicle market and by 2008, their share of the market has declined to roughly 22%. In 2003, in the face of consistent year over year declines in market share and losses at the Company, VWB attempted to change their strategy. New CEO, Thomas Schmall noted the appreciation of the Brazilian currency together with increases in labor and raw material costs on top of mounting international competition meant VWB could not raise prices. In turn, margins could not cover excess capacity costs. And in 2006, in spite of changes in strategy, VWB saw their eighth consecutive year of losses (two key performance indicators also fell below management expectations).

What was the new CEO to do? He still saw substantial value in the Brazilian auto market which had 6. 9 inhabitants per vehicle, significantly higher than the US and Germany (roughly 2: 1), South Korea (3: 1) and Mexico (4: 1). Schmall felt that by 2015 Brazil would catch up to these other markets, however how was VWB going to capture this value? VWB needed to create a restructuring plan in order to turn profits, increase market share and take control of the value that Schmall felt was available. II. Relevant Theory With changes in the top management of VWB, along came the direction needed to turn the Company around. Thomas Schmall was appointed CEO in 2007, Jose-Fidelis Senn was appointed as the VP of Human Resources in 2006 and Casteen Isensee became the CFO in 2007. Both Schmall and Senn were familiar with and had used the Balanced Scorecard approach in the past. Senn stated that they wanted to " instill a new culture for employees" and that a new tool was needed to " change the mindset of the company".

That tool came in the form of a balanced scorecard and associated strategy map. Management new this would mean a new approach from the top down as well as a team that would implement and control the effort, stemming from the top of the organization and flowing all the way down to the factory floor. The Balanced Scorecard approach uses multiple internal and external performance metrics in order to balance both financial and strategic goals. As the name indicates, the broader categories of the balanced scorecard allow management a more balanced view of the firm. Since VWB already attempted a restructuring plan in 2003, that did not appear to provide any results, management knew that even if they had the greatest of intentions, without a proper implementation strategy, they would not see results. The use of the balanced scorecard provides a way to incorporate not just financial results, but also the customer perspective, internal business processes, and core competencies. As is apparent in Exhibit 4 (VWB's Strategic Map), the main objectives for VWB were to achieve both market share growth as well as positive and sustainable financial results. In communicating this new approach to employees throughout the organization Schmall was careful not to make it sound like just another restructuring and reduction in head count.

The strategy map takes the balanced scorecard and translates the Company’s new strategy into a language that everyone can understand. This strategy map was communicated to all employees in a targeted manner, management reports for the company’s executives, weekly announcements to white collar employees and articles attached to bulletin boards for the shop floor and back office workers. In order to create a new high performance culture, VWB wanted to capture the hearts and minds of all employees. Engaging employees by running contests, competitions and role playing games, keeps them interested in the new strategy and attempts to gain as much of their interest in “ helping the cause” as much as they possibly can.

III. Assessment of Alternatives The balanced scorecard approach and strategy map were working. In January of 2009, VWB’s market share had surged forward, an employee engagement index from a Gallup survey had doubled in two years, employee suggestions were up 50%, absenteeism and accidents at plants had decreased and supplier and dealer quality scores had increased.

These are all great for VWB, however, unsold production from the 4th quarter of 2008 worried Schmall. In 2008, Brazil’s automotive industry had an installed production capacity of 4 million vehicles per year and produced total revenue of $74. B. Globally, Brazil was the 6th largest producer of passenger vehicles and the 5th largest consumer market, but as evidenced in Exhibit 1 auto sales were beginning to decline significantly toward the middle of 2008.

At the time, Schmall did not know how long the depressed global economy would continue, or how much it would affect Brazil in the coming years. VWB was quick to respond to the downturn and in the last two months of 2008 cut back production and reduced spending, however continuing down this path would put their plans for market share growth at risk. Does Schmall, knowing there is a depressed economy with lower sales, continue along the existing Learning Map? Schmall has a few options.

Continue down the existing path with the hope of growing their market share despite what is seen in capacity and the global market, but walking around with blinders on does not seem like the best option. One metric of the balanced scorecard calculated how fast car inventories were building up compared to consumer sales. Ignoring this metric would lead to questioning the strategy map. Schmall and team could possibly re-vamp the existing strategy of VWB, but this would appear to be at a significant cost. There were great efforts spent establishing the strategy map and communicating it to every employee of the company. Changing it based a few months of sales declines would not seem logical. There were two key elements to the balanced scorecard, market share growth and sustainable profitability.

Management might want to continue to focus more on profitability for the long term. Market share growth is essential, however in a slower economy it might make more sense to concentrate on profitability. VWB should look at their competition as well, how much had the total market declined in the second half of 2008? If the entire market was in decline it would make sense that competitors would be scaling back production as well, this may provide some relief from a loss of market share. IV. Suggested Course of Action In 2008, VWB was the 3rd largest subsidiary of Volkswagen Group, behind Germany and China. Given this fact, they still had significant discretion in the way they ran their business.

In general, the rule of thumb from Volkswagen Group was “ drive as fast as you can see” – somewhat of a conservative nature. Being a conservative person, I would suggest that Schmall continue to curtail spending and reduce production. Use the metrics that are in the balanced scorecard to help guide the way. Car inventories were increasing faster than consumer sales, causing backed up inventory.

As long as this trend continues, VWB should reduce manufacturing and focus more on profitability. They risk losing a little market share, however they are still in the top three and from looking at Exhibit 2A, they have a fairly substantial gap between the top three and the rest of the pack. Market share is important, but if they start to lose money again they may be at risk to be shut down completely by Volkswagen Group. V. Key Takeaways One important lesson here is the balanced scorecard is an excellent way to implement a strategy, but it is not going to develop the strategy. A company needs to have the right management team in place with the right mentality in order to create a strategy that will guide a company. Also, just having the balanced scorecard and the strategic map only go so far in producing results.

Communication is essential. I feel VWB did an excellent job communicating the strategic map to employees at all levels of the Company. I enjoyed the one sentence from Davies, " To accomplish a transformation of this magnitude, you need a clear, comprehensive, and relentless communication process. Management understood that the map and ideas it stood for needed to be reinforced over and over again in order to be instilled in employee's minds. It was in the company's newspaper, the electronic newspaper, the intranet portal; they even had a contest to choose a mascot that could " symbolize" the strategy. The strategy then leads to compensation and recognition. Not only were the results of the scorecard tied to executive compensation, but to all employees' compensation as part of the result-sharing program.