VALUE-ORIENTED GROWTH 
IN GLOBAL MARKETS 
THROUGH TRANSFORMATION MANAGEMENT

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RESUMEN

Se explica cómo sobreviven las empresas en una competencia global. ¿Cuáles son las fuentes de éxito que requieren para conseguir un liderazgo de escala, de calidad y de innovación, compitiendo con los mejores recursos de producción, servicios y habilidades de recursos humanos en una visión mundial?

La sobrevivencia necesita el mejoramiento y superación constante de recursos apropiadamente administrados como contraataque al proceso de homogenización mundial de marcas, precios y tecnologías.

El Dr. Paulus viene trabajando en la última década en proyectos de consultoría tanto con empresas de gran tamaño de liderazgo mundial, así como con pequeñas empresas «estrellas emergentes» de países en desarrollo, sobre todo en el tema de la internacionalización y sus implicancias estructurales en las respectivas organizaciones empresariales.

Se definen las piezas clave del éxito del crecimiento sustentado como «máxima para un equilibrio de metas de crecimiento y creación de valores para todos los accionistas».

Este artículo describe esta fuente central de éxito dentro del contexto de la competencia global por la sobrevivencia a través de la «rueda de transformación» con sus respectivos seis elementos como instrumento estratégico para conseguir asegurar el éxito de las empresas en los mercados globales.

Se explican con ejemplos prácticos los elementos integrantes.

NO END IN SIGHT FOR MULTINATIONAL MANUFACTURING

The MP3-Player iPod – “designed by Apple in California and assembled in China”, colour pigments from DyStar – “developed in Germany and widely used in the textile industry in India”, or Volkswagen’s “Fox” – “developed and produced in Brazil and on sale in Europe” are all examples of global knowledge/production networks and goods/information flows. Services are also becoming increasingly global: “a German insurance group plans to cut approx. 1,000 jobs in the next two years – some of these jobs will be transferred to India and Latvia”. Lufthansa provides another example of how services can be provided globally, 24 hours a day, 365 days a year, to the same quality and at the best possible service costs – the Lufthansa call centre for German-speaking customers operates from Cape Town instead of Kassel on Sundays, at night, and on public holidays (the
employees even speak German). Even local garages are beginning to organise themselves into European networks (e.g. CARAT GROUP/AD INTERNATIONAL) or reorient themselves according to the profit and volume targets of foreign investors (e.g. AUTO TEILE UNGER).

Figure 1: International trade increased yearly by 7.4% from 1999 to 2003.

These developments show just how important it is to permanently search for opportunities to reduce the production and service costs within global service and competence centres and simultaneously exploit additional market opportunities. Volume brings cost advantages, thus, expanding the service and quality networks brings price/performance advantages for the customers.
According to the OECD, world trade grew almost 6 times faster than world production between 1950 and 2000 – an indication of the level of opening up and integration of the national economies. World trade in goods and services increased by 7.4% yearly between 1999 and 2003 and reached over 9,000 bio. USD in 2003 according to the WTO (see Fig. 1). Between 1999 and 2003 exports from Asia (CAGR: +18%), Eastern Europe (CAGR: +16%) and Western Europe (CAGR: +8%), in particular, increased significantly.

A trend towards increasing foreign investment can be identified alongside the growing export volume in Germany. Cost savings and market entry using existing sales networks are the main motivating factors. In a recent survey of over 7,500 corporate replies from spring 2005, the DIHK (Deutsche Industrie und Handelskammer – Association of German Chambers of Industry and Commerce) confirmed these trends. 43% of the industrial companies with foreign activities stated their interest in investing in the new EU Member States, 37% in China, and 35% in the EU15-countries.

![Target Regions for Investment](#)

1) by industrial companies (in percent), multiple selections possible
Source: DIHK study (Spring 2005)

Figure 2: Target countries for investment by industrial companies.
GLOBALISATION AND REGIONAL DIFFERENTIATION

International economic integration has evolved in step with the foundation of nations. The decisive structural and qualitative difference between now and the past lies in the integration of increasingly highly-developed and more strongly differentiated flows of goods, capital, people, technologies, and knowledge. The overall growth in the volume of direct investments and world trade speaks for itself. On the one hand, globalisation brings alignment of brands, prices, technologies, and corporate organisations. On the other hand, however, it increases the emphasis on local and regional consumption and production differences.

HOW TO SURVIVE AND BE SUCCESSFUL IN GLOBAL MARKETS

Whether on their own initiative or as a reaction to the competitive environment in which they find themselves, companies are increasingly becoming globally active and thus involved in trans-national production, service, research networks and capital markets. There are a number of key questions which must be addressed: (a) How far can companies specialise themselves and yet still achieve both volume and innovation leadership? (b) Which success factors must be taken into consideration in this process? (c) If the organisation is to be active in global competence, production and service networks, to which principles must it adhere in order to survive in the markets on the long term?

Based on studies and a huge set of case studies on successful corporate leadership in global markets, Prof. Dr. Paulus has identified two key principles for successful strategic action:

• “Value-oriented Growth” – a maxim for balancing growth objectives and generating value for all stakeholders.

• Management by transformation with the “Transformation Wheel” – a strategic vehicle with six elements, which can help to master successful corporate transformation in global markets.

THE MAXIM “VALUE-ORIENTED GROWTH”

Long-term success in the global arena is not just a matter of intelligent management of the value added for investors. Above all, customers and employees must be included – the increasing pressure to shorten product, service, and process innovation cycles, and the growing burden of complexity placed on employees demand it. Social issues are gaining importance in the balancing act of managing corporate values, e.g. the EU directives in
relation to fine particulate matter or society’s increasing awareness and willingness to express discontent in relation to environmental and social issues. The environmental, social, and sustainability balances of companies such as Henkel, Bayer, DaimlerChrysler, MAN, Roche, and ABB reflect this new social consciousness.

The concept of Return on Capital Employed (ROCE) – originally from the USA – has established itself alongside traditional performance indicators such as Return on Equity (ROE) and Return on Sales (ROS) and takes more detailed account of how value develops. Other examples of value-oriented indicators are Discounted Cash Flow (DCF), Shareholder Value Added (SVA), Economic Value Added (EVA), Market Value Added (MVA), Cash Value Added (CVA) and Cash Flow Return on Investment (CFROI). Globally active companies often use several different indicators, e.g. the well-known EBITDA, amongst others. Figure 4 shows an ROI-model similar to DuPont’s original model which can be seen in many companies today.
DAIMLERCHRYSLER can be used as a current example of the use of this approach. An efficiency and value enhancement programme called CORE (Cost Down, Revenue Up) for the MERCEDES CAR GROUP (MCG) will be completed by the end of 2007 and targets a Return on Sales of 7% (ROS 2004: 3.3%). Individual drivers of costs, returns, and working capital will be consequently analysed and redefined/optimised according to global criteria.

MANAGEMENT BY TRANSFORMATION – THE “TRANSFORMATION WHEEL”

Six interlinked factors help to lead companies to successful global growth: Speed, Scale, Synergy, Superiority, Governance, and Change. Isolated leadership in one element, e.g. Scale (cost leadership through size), does not guarantee sustainable value enhancement for the company. The “Transformation Wheel” helps place the main success factors in an holistic, integrated structure.

The four inner components – Speed, Scale, Synergy, and Superiority – form the core of the 4S-G-C-model. Cultural Change and Governance make up the frame which holds the four components together. This outer frame is, for example, of particular importance for the success factor “continual organisational renewal”.

Figure 4: Generalised ROI-model based on the DUPONT model.
1. **Speed (Innovation and Market Leadership)**

Successful companies in innovation-driven global markets can be characterised by three main attributes: (a) Knowledge of the market and customer needs, (b) A company-wide culture of innovation, and (c) Swiftness in execution – from the generation of product ideas to production start (Time-to-Market). Professionalisation of the innovation process is of utmost importance. Average product launch costs have almost doubled in the last decade and the failure rate for new product innovations lies at over 50% in some cases.

“Launch Effectiveness”, strict budget management, and consequent prioritisation of projects are the factors which determine “Speed Leadership”. The launch of the Opel Astra (March 2004) compared with that of the VW Golf V (October 2003) shows how consumer surplus can be skimmed with an early launch. Unfortunately, experienced “Launch Managers” are somewhat few in the European automotive industry. Cross-functional F&E taskforces, the involvement of suppliers, integrated knowledge management, and appropriate R&D capacities, in particular, are further success factors for *Speed.*
In spite of the fact that Microsoft, for example, is seldom the first to launch a product innovation, the company still successfully manages to bind customers and set de-facto standards via interdisciplinary research, strategic alliances, solid licensing strategies, and concentrated marketing. Microsoft achieved a turnover of 37 bi. USD in the 2004 business year with 9 bi. USD profit (ROS: 27%).

2. SCALE (COST LEADERSHIP VIA ECONOMIES OF SCALE)

The rising costs of product development, manufacturing, production sites, and simultaneous product differentiation in ever-decreasing time intervals can be amortised through worldwide marketing of the products (decrease in the cost per unit). The success factor Scale encompasses three levers for optimisation: (a) Cost/benefit advantages resulting from globally/regionally standardised processes such as manufacturing, logistics, purchasing, sales, and knowledge management (e.g. utilisation management and factor cost optimisation), (b) Cost/benefit advantages resulting from globally/regionally standardised product design and branding (e.g. parts/module/platform commonality), and (c) Cost/benefit advantages resulting from globally/regionally standardised markets and partners. Renault-Nissan and KLM-Air France provide interesting examples of global Scale cooperations between operatively independent business units.

Dell is another success story in terms of global cost leadership. In the 2004 business year, Dell achieved a profit of 3.5 bi. USD and a turnover of 41.4 bi. USD (ROS: 8%) through the direct sale of information technology and tailored services for private and business customers. Dell’s business model is based around slim logistics processes (3-day warehousing), a make-to-order concept with tailored customer solutions, and the expansion of the product portfolio into neighbouring segments. A tightly integrated network of supplier, production, and distribution partners makes it all possible. The figures used in the Dell success model to measure performance are characterised by their long-term nature. The earnings per share have increased by 36% per year in the last decade.
3. SYNERGY (FOCUS ON CORE COMPETENCIES)

For successful companies, “Going global” has two main implications. Firstly, securing the innovation and scale advantages of the company’s own value chain means attaining competitive advantage for the customers. Secondly, “Going global” also means securing future differentiation via a network of first class partners, who bring in future market competencies and stimulate the company in its permanent self-renewal.

The automotive industry, in particular, shows that manufacturers can only generate real customer benefits by integrating important suppliers into their processes. In future, preventative and problem-solving management of quality problems in highly complex auto-electronic modules will take place along joint cross-company channels between manufacturers and suppliers (1.Tier-2.Tier-n.Tier).

In the airline industry, for example, the integration of partner companies into alliances is indispensable if a consistent global transport and service network – at the best possible price/performance ratio per seat – is to be secured. A host of possible synergies is available to the airline companies to achieve this goal, e.g. joint scheduling, code-sharing and route-sharing, or coordinated sales, handling, and purchasing activities.

In any case, the intensity and degree of openness of any possible strategic cooperations and networks must be verified according to the elements Speed, Scale and Superiority.

4. SUPERIORITY (FOCUS ON QUALITY AND RISK)

Customers with high potential ROS must receive superior service and product quality. As in the success factor Synergy, preventative quality management across all core value chain steps together with cooperation partners is indispensable. Key levers for guaranteeing “superior” quality are: brand, customer relationship, and loyalty management; innovation and quality leadership;
customer value management, and an intelligent segmentation process which continually adapts itself to changing circumstances. Optimisation of the cumulative customer margin can be furthered by synchronising the customer life cycle with the product life cycle and simultaneously exploiting market intelligence.

HYUNDAI provides an excellent example of a complete turnaround in product and sales quality. The situation in 1998 was particularly difficult – HYUNDAI’s image was one of the worst in the industry, the dealer network had lost the trust of the customers, and there was no price/performance advantage over the competition. By implementing a consequent, long-term quality and customer relationship programme, HYUNDAI had already managed to climb to the fifth place in the Asian quality ranking by 2002. The yearly improvement rate was twice the industry average. The HYUNDAI Accent, Elantra, Santa Fe, Sonata, and Tiburon gained the title “Best Bet” in “The Car Book 2005” – a much respected prize for safety and performance in the USA.

5. GOVERNANCE (FOCUS ON THE WHOLE)

Continual adaptation to the competitive environment makes it necessary to introduce a unifying element into the “Transformation Wheel” – the element of Governance. Governance is the pivot on which the individual companies, profit units, cost centres, shared services centres, alliance partners, and also employees, management, and teams balance. Governance provides a sense of identity and focus on the higher-ranking objectives of the shareholders and stakeholders. “Focus what you can do best and network or cooperate the rest”.

The following levers must be taken into account in the element Governance:

- **The Company’s Leading Thought**: The leading thought provides the bridge between the desire and the ability. For example, at DEGUSSA the leading thought “Consequent orientation on profitable speciality chemicals” formed the basis of the company’s strategy for the future and was used to derive a profitable growth strategy for the global competitive arena.

- **Management of Value Added**: a drop in the market capitalisation of the company as a whole in comparison with the sum of the capital values of the individual parts must be avoided at all costs – maximum value added is the objective. This can be achieved in a number of ways: (a) Adjustment and optimisation of the corporate portfolio, and also the business units’ profit pools, (b) Consequent management of value added and cash flow of the remaining entities as well as mid-term to long-term cash management for the company as a whole, and (c) Exploitation of all bundling effects between the individual business
sectors (e.g. joint utilisation of research facilities, distribution channels, IT, purchasing, etc.).

• **Early Warning System**: early warning can identify faint signals, which – under certain circumstances – could lead to a drift away from current trends and/or sudden strategic reorientation by the competition. Conscientious observation of steel and energy prices, lines of credit, and exchange rate risks, as well as political developments all belong here. Take for example the loosening up of textiles restrictions for China – this is currently causing a shift in capital resources and production sites to Eastern Asia and India.

• **Drivers of Organic-cultural Change**: traditional functions such as examination of investments, research and technology management, purchasing and finance must all be questioned in relation to their control function and feasibility in an ever-changing corporate environment. A dominant “Leadership Logic” must be consequently implemented and anchored in all corporate hierarchies using optimisation methods such as “Six Sigma”, “CORE”, “TPS” (“Toyota Production System”), and “Breakthrough Planning” (e.g. Bank One).

**GENERAL ELECTRIC (GE)** is a classical example of Governance. GE has a very broad product and service offering ranging from light bulbs and white goods, aircraft turbines, power stations, and medical technology to credit cards and TV transmitters. In 2004, GE had a turnover of 152 bio. USD (ROS: 11%). GE’s best known Governance initiative – “Fix, Sell, or Close” (1981-1990) for achieving global leadership in product quality – led to 370 acquisitions and 200 sell-offs. Alongside turnover and profit, GENERAL ELECTRIC also uses another key performance indicator – the ROTC (Return on Total Capital). GE’s current ROTC-target is 20%+. At the beginning of 2005, GE was given the highest “Corporate Governance” rating of 10.0 by the “GOVERNANCE METRICS INTERNATIONAL” organisation.

**6. CULTURAL CHANGE (FOCUS ON CHANGE)**

Companies must develop a culture of transformation in order to master the necessary Cultural Change. The objective of change approaches is to optimise the value-performance-fit of the employees to the implementation of the strategic goals set in the “Transformation Wheel” from the element Speed through to Governance. The permanent quest for excellence and self-renewal must be anchored within the organisation. The role of individual employees is no longer restricted to the fulfilment of their job descriptions, but instead follows a performance and service agreement which the employees have closed with the organisation and their team – this can take place either during the formation of a new organisational unit (e.g. a “Six-Sigma quality project”) or in the course of organisational restructuring (e.g. “Toyota Production System”).
Change Management is a paradox. On the one hand, old, out-dated values must give way to new values and rituals so that new decisions and future strategic decisions can be implemented by the organisation and employees. On the other hand, it is necessary to preserve traditional, historic values – in the sense of cultural fix points within the organisation – amidst the sea of dynamic organisational and role changes. Thus, change management is a balancing act between preserving values and creating new ones. The levers for influencing culture and change are manifold:

- Vision, leading thought, strategic imperative,
- Performance targets, incentives, and evaluation of employees and groups for the permanent ability to perform and renew,
- Recruiting, selection, and further training processes,
- Communication processes,
- Knowledge transfer between individual corporate units, and
- Coaching and mentoring.

Three situations must be clearly differentiated when translating the leading thoughts and values into concrete changes in roles and behaviour: (a) Change programmes in the sense of continual improvement, (b) Change programmes in the sense of a principle change in direction, profile, and identity (also known as: paradigm shift according to KUHN), and (c) Change programmes in the sense of an immediate change in behaviour.

APPLE provides a good example of how permanent ability to change, coupled with an instinct for innovations can help set market standards. Since 1976, APPLE has been setting market standards for the pioneer and hightech-user segments by introducing a number of innovations (e.g. graphical interface for the mass computer market in 1983, the Macintosh Powerbook in 1991, the Newton Handheld in 1993) and user-oriented, functional device design. However, this success was traded against a minute share in the PC market (Macintosh Computer: 2.8%), thus putting the existence of the company in question. The turning point came with the introduction of the iPod and the online music platform iTunes Music Store in the year 2001. In the 2004 business year, APPLE sold 4.4 mio. iPods worldwide – an increase of 370% in comparison to 2003. APPLE currently holds a market share of 65% in the booming MP3 player market and 70% in the fees-based music download market.

CONCLUSIONS

Transformation management based on the “Transformation Wheel” can provide a solid basis for generating value-oriented growth in global markets under the following circumstances:
• Concurrent exploitation of all six success factors in the “Transformation Wheel”,
• Priorisation of the six success factors in the “Transformation Wheel” according to maturity and degree of saturation of the industry, and the individual company’s situation,
• Radical approach in implementation and drive for excellence along global competitive criteria within the individual success factors, and
• Recognition of transformation as a process of evolution with many paradoxes along the way.