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Volkswagen do Brasil: Driving Strategy with the Balanced Scorecard

Thomas Schmall, CEO of Volkswagen do Brasil (VWB), studied the color-coded charts and indicators on his wall. The data showed financial, customer, process, and employee performance through end-of-year 2008. Schmall and his management team had introduced the Balanced Scorecard in 2007 as part of a program to reverse eight consecutive years of market share declines and financial losses. So far, the turnaround had been successful. The new enthusiasm among the workforce, consumers, suppliers, and dealers had led to strong sales increases and a return to profitability.

But Schmall, in January 2009, could now see the impact of the global financial crisis. Sales had plummeted in the fourth quarter, and newly produced vehicles were parked around VWB's plants waiting for consumers to begin spending again. (See **Exhibit 1** for VWB's monthly sales.) Many of the previously green marks on sales and profitability on Schmall's scorecard had turned yellow and red. During the previous two months VWB had responded quickly to the slowdown in consumer purchasing by cutting back production and reducing spending.

Schmall was cautious about whether it was time to restore funding or wait until sales recovered before gearing up production schedules and resuming the spending on discretionary programs. Further cutbacks in production schedules and investment would jeopardize plans for market share expansion and new product development. VWB, located far from the company headquarters in Wolfsburg, Germany, had considerable discretion for local, short-term decisions. The general rule from corporate headquarters came from a German expression whose English translation was "Drive as fast as you can see." Schmall wondered whether the VWB Balanced Scorecard, which had helped drive growth in 2007 and 2008, could guide his executive team as they made the difficult decisions ahead.

The Automotive Landscape in Brazil

Brazil had the fifth-largest land area and population in the world. It enjoyed abundant natural resources, including minerals, water, and large quantities of cultivated and unused fertile land. Brazil was an attractive consumer market as well as an export platform for commodities and manufactured goods. Approximately 85% of its 53 million households lived in urban areas, half in the more developed and industrialized Southeast region, where the per capita income was nearly twice that of the Northern region.

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Brazil's recent global presence came only after multiple internal and external economic crises. In 1994, the government launched an economic stabilization plan that reduced inflation to single digits and helped the country become the largest and most diversified economy in Latin America. With gross domestic product doubling from 1994 to 2008, Brazil now had the world's ninth-largest economy.¹

Competition in Brazil

The automotive sector produced 19% of Brazilian industrial GDP. The sector employed, directly or indirectly, more than 1.5 million people in more than 200,000 companies. North American and European automobile manufacturers had entered Brazil in the first half of the 20th century by assembling vehicles from completely or semi-knocked-down imported kits. In 1955, the Brazilian government mandated that the multinational companies either abandon the Brazilian market or begin producing vehicles with 90% to 95% local content within five years.²

By 2008, Brazil had 25 automotive assemblers producing cars, light commercial vehicles, trucks, and tractors in 49 industrial plants. Brazil's automotive industry had a total installed production capacity of 4.0 million vehicles per year and total revenue of \$74.0 billion.³ Globally, Brazil was the sixth largest producer of passenger vehicles and the fifth largest consumer market.⁴

VW, Ford, General Motors, and Fiat had been the market leaders for decades. In 1991, these four manufacturers held a 97% share of the Brazilian market, but by 2008 their share had declined to 77% as French producers expanded their presence and strong companies from Japan, Korea, and China entered. Much of the increased share for these new competitors had come from VWB, but Schmall still saw opportunities for growth in the country's market:

The Brazilian auto market has 6.9 inhabitants per vehicle compared to a ratio between 1 and 2 in the U.S. and Germany, about 3 in South Korea, and 4 in Mexico. We should catch up by 2015, and then Brazil will shift to a replacement-type market.

Volkswagen do Brasil

In 2008, Volkswagen Group (VWAG) had a global market share of 10.3%, making it the third-largest automotive company in the world. It employed 370,000 people and generated revenues of €113 billion from sales of 6.3 million vehicles across 10 different brands, including 3.6 million under the VW brand.⁵ In July 2008, VWAG announced an ambitious 10-year vision for the VW brand: "By 2018, we aim to sell 6.6 million [VW] vehicles per year, achieve a 21% return on investment, be viewed as the top employer, and earn the industry's top ratings for customer satisfaction and process quality."⁶

VWAG's Brazilian subsidiary, VWB, was the third-largest in the VWAG system, behind China and Germany. It operated four plants, produced revenues of €7.04 billion, and employed about 22,000 people. While focused on small and midsize vehicles, such as the Gol, Fox, and Polo, VWB had the most complete car portfolio within the Brazilian market. It offered 22 different models, 9 of which had been designed and developed within a modern product design prototype center located at the São Paulo headquarters plant.

In 1953, VWAG had opened its first production plant outside Germany when 12 employees began assembling the popular "Beetle" sedan from imported parts in a rented warehouse in São Paulo.⁷ In 1956, VWB introduced a van with 50% of parts and components produced in Brazil. By 1969, VWB's

strategy of producing reliable and inexpensive cars had earned it a 61% share of Brazil's car production.⁸

In the 1970s, VWB launched medium-sized cars, such as the Passat, for export into the international market and created the first ethanol-fueled vehicle.⁹ By the end of the decade, the company accounted for 40% of Brazil's auto exports, shipping vehicles to Europe, North America, Africa, and the Middle East.

In 1986, overcapacity and Brazil's dire macroeconomic situation led to a 20% decline in the domestic automotive market.¹⁰ From that point, the industry was highly volatile. During the first years of the 1990s, the market expanded rapidly and total Brazilian production output exceeded 1.1 million vehicles in 1993, peaking at 1.6 million units in 1997.¹¹ Then Brazil experienced several regional and global crises¹² and production levels fell back to 1.1 million units in 1999, returning to the previous peak level only by 2003.

VWB's domestic sales dropped from 580,000 vehicles in 1997 to 280,000 units in 2003. From its No. 1 market share position of more than 30%, it dropped to No. 2 in 2001 and to No. 3 in 2003 with a 21% share. VWB attempted to maintain minimum production levels by emphasizing exports, which increased from 45,000 vehicles in 1997 to 164,000 in 2003.¹³ (**Exhibits 2a** and **2b** show recent history of VWB's market share, sales, and revenues.) Schmall commented on the dilemma faced by VWB during this period:

The appreciation of the Brazilian currency, relative to the dollar and euro, along with increases in the local labor and raw materials costs ended up defeating VWB's export-led market strategy. Because of intense competition in global markets, VWB could not raise prices on products shipped and export margins failed to cover the company's excess capacity costs.

Adjusting to its new market position, VWB, in 2003, began the first phase of a restructuring plan. While some progress occurred, VWB still posted its eighth consecutive year of losses in 2006, and two key consumer indicators, "Things Gone Wrong" (TGW) and "Customer Satisfaction Index" (CSI), fell short of management objectives.

The New VWB Management Team

In 2007, VWAG appointed Thomas Schmall as CEO of VWB. Schmall had started his career as an assembly-line supervisor; he subsequently held various managerial positions at VWAG plants in South Africa, China, and Mexico. He attracted corporate attention when he introduced new procedures in the way managers interacted with production lines at Wolfsburg, the largest VWAG plant in Germany. Schmall recalled:

Traditionally, administrative offices were located far from production lines. I moved managers inside manufacturing units where they could plan, set targets, align objectives with all personnel and teams, implement actions and measure their impacts. In 1999, Ferdinand Piëch, then VWAG's CEO, asked me to reorganize VWB's plant in Curitiba, Brazil. After four challenging years, I moved to Slovakia, where I was responsible for three different VW brands and 12,000 employees. The success of the Slovakian plant led to my return to Brazil as CEO.

Schmall, now 45 years old, did not want to continue VWB's reliance on cost reduction, employee layoffs, and capacity downsizing. Inheriting a company known for using good German technology to produce small, reliable vehicles, he had an ambitious vision to "build a high performance team that would drive VWB to become the South American automotive industry's leader in quality,

innovation, sales, and profitability on a sustainable basis.” He wanted to aggressively “re-brand” VWB into a company with enthusiastic and highly motivated employees who continually introduced high-performance, innovatively designed cars and light vehicles.

Josef-Fidelis Senn, 53, had been appointed VWB’s vice president of human resources in 2006. Senn combined initial training as an economist with a doctoral degree in ecology and sustainability. VWAG recruited him in 1998, from his position at the powerful German Steel Association, to become human resources manager at one of its largest plants. Senn soon moved on to head global HR coordination and helped introduce the Balanced Scorecard within this function. His first task for VWB involved difficult negotiations to restructure a contract with the powerful local workers’ union. Senn commented on the state of VWB’s employee relations:

The difficult years had made VWB bureaucratic and conservative and created an atmosphere of apprehension and instability among the workers. A 2005 Gallup survey showed a low score for employee commitment and satisfaction. In our 2006 labor negotiations, we reached an impasse that could have triggered a long and harmful series of strikes at a crucial point in the company’s turnaround strategy. At the end, we had only a few shutdowns and were able to reduce our workforce through buyouts and early retirement plans, and to introduce a new compensation structure and more flexible work arrangements.

The change in our management approach for working with employees was crucial to establishing a new culture that could sustain improved financial performance. Before 2007, if a tension existed between volume and quality, the culture tilted towards maintaining production volumes. We wanted to instill a new culture for employees to solve problems as they arose, eliminate defects, and reduce health and safety incidents even if these actions cost money and decreased short-run production output.

Carsteen Isensee, 50, became VWB’s CFO in 2007. He had worked in planning and finance throughout his VW career, including joint venture projects in China and as plant controller in Slovakia and South Africa. Isensee commented on VWB’s situation when he arrived:

It was a period of cost cutting and workforce reduction, low corporate morale, and the constant threat of having its unprofitable operations shut down by the German head office. We had to reeducate the VWB management team to spend money wisely so that we could afford to enlarge markets, improve processes, and innovate on new products.

Schmall included Senn and Isensee within an 11-person Executive Committee that would lead VWB’s transformation (see **Exhibit 3**).

Using a Strategy Map and Balanced Scorecard for Cultural and Strategic Change

The Executive Committee understood that to change VWB’s bureaucratic and slow-moving company culture required new relationships with key stakeholders: employees, suppliers, and dealers. Schmall and Senn had prior experience with the Balanced Scorecard (BSC) and believed its introduction into VWB would accelerate the adoption of the new strategy and culture. Senn commented:

We needed a tool that could change the mind-set of the company, something that could help us communicate our objectives down to the factory floor. This would require a new

approach from top management, and a dedicated and empowered team responsible for implementing and controlling this effort.

Schmall wanted the tool to become VWB's primary management system. He appointed Senn's department to lead the project with Isensee's Financial and Planning departments providing analytic support. The initial task force, called the Strategy/BSC Committee, developed a strategy map based on four Challenging Dimensions: Finance, Customer, Internal Process, and Potential and Growth. (**Exhibit 4** shows VWB's Strategic Map for 2009, unchanged from the initial 2007 map, except for the addition of a sustainability objective in the Potential and Growth dimension.)

The strategy map's Customer objective, "Satisfy the Customer's Expectations," encompassed dealers, VWB's immediate customer, and consumers, the ultimate purchasers of VWB's vehicles. The second Customer objective, "Improve Company Image," signaled the importance of rebranding VWB as an innovative producer of high-quality vehicles. The Process objectives stressed developing a more service-oriented culture among dealers, reducing costs while improving the quality and delivery performance of suppliers, and, especially, improving the efficiency, cost, and flexibility of the workforce and production system. The foundational Potential and Growth Challenge objectives emphasized achieving a high-performance culture, developing an attractive and innovative mix of products, and making a long-term commitment to sustainability. Collectively, the executive team expected that achieving the objectives in the four challenge areas would enable the company to regain its No. 1 market position in Brazil.

Schmall commented on the reasons for developing the strategy map:

The map describes the strategy in a consistent and clear manner. The cause and effect relations defined in the map clearly demonstrate how intangible assets, such as our employees, get converted into tangible financial results. The map also translates the strategy into a language that everyone can understand. It has the power to decode high-level objectives into operational terms that mobilize our employee teams and enable them to monitor their results. It establishes a direct relationship from the CEO to shop floor employees.

He added:

We started by identifying, within the four BSC dimensions, the limited number of objectives that would reflect the company's strategic priorities. More than 20 would make the map look like a forest and our employees would get lost. Developing the right metrics to translate the strategic objectives was as important as defining the objectives themselves. And we had to establish challenging, yet attainable, targets for each metric to motivate every area in the company to achieve excellent results.

VWB's Executive Committee translated each strategy map objective into specific indicators and assigned an executive to each objective (see **Exhibit 5**). The objective owner had the responsibility for monitoring and achieving the performance targets for each of the objective's metrics. The executive owner also helped to select and guide the strategic initiatives that would drive performance for the objective, and oversee the periodic data collection and reporting for the metrics and initiatives.

The executives developed action plans, detailing which department would be responsible for a specific achievement, the milestones to be accomplished during a certain period of time, and, finally, a description of the necessary resources to be allocated to carry out that target. Top management revised these action plans quarterly and thoroughly discussed them with middle and front-line management levels.

With the senior executive team on board for the strategic direction, Schmall, Senn, and Isensee then presented the map and accompanying scorecard to the next level of 400 VWB executives as the first milestone in the new transformation program, called Act to Win. "It had an impressive impact on us," said Flávio Ramalho, a senior manufacturing manager. "With the CEO leading the event, supported by all the top management, everyone clearly understood that something big and important had just been launched."

Following this initial presentation, all VWB executives went through a two-day training program on the new strategy and the role of the strategy map and scorecard to help execute it.

Communicating the Balanced Scorecard

The executive team established the Office of Strategy Management (OSM) to coordinate all the work required to roll out the strategy execution program throughout the company. The OSM consisted of two groups: Strategy Formulation and BSC Management. (See **Exhibit 6** for VWB's BSC Organizational Chart.)

The Strategy Formulation group, supervised by Isensee, supported strategic analysis and strategy formulation and funding. Senn oversaw the BSC Management Group, headed by Christopher Davies, 37, an administrator who formerly worked at VWB's finance subsidiary. The BSC Management Group included a representative from each area in VWB. The representatives organized the rollout of the strategy across their business area and coordinated the initiatives that would be executed within it. This group also led the communication of the strategy, strategy maps, and scorecards to all employees. Davies commented on the importance of extensive communication:

To accomplish a transformation of this magnitude, you need a clear, comprehensive, and relentless communication process. Otherwise, the change will sound like a restructuring process, and the person in my position will be viewed as the messenger for headcount reductions. Information on the BSC metrics and initiatives had to be reliable, on-time, and continuous.

Senn concurred that communication would be key for the success of the transformation program: "Communication is the backbone of cultural change, and you should do it by constantly injecting energy into the system via campaigns and competition."

Senn launched multiple communication programs, including special events, discussions and training at regular work meetings, and internal competitions among the workforce to generate ideas for translating strategic concepts into shop floor actions. The message was continually reinforced in the company's paper and electronic newspapers and intranet portal. The BSC Management Group posted the strategy map on the wall of every room and location as a constant reinforcement of the company's direction.

Among the more successful communication initiatives was an internal contest to choose a mascot that could symbolize and communicate the new strategy. The winning entry led to Giga, a 1-meter-tall sympathetic and futurist robotic character, evocative of the 1960s VW Beetle (see picture aside).¹⁴ Giga appeared at events to shake hands and ask questions to employees about the strategy. He appeared on the internal Intranet portal and was featured in widely read comic strips in the VWB internal newspaper (see **Exhibit 7**).



One manufacturing cell leader had recently asked for a board game in which employees could advance their tokens by correctly answering questions about the strategy map. Davies and his group helped design and produce this board game, which would be deployed soon.

Davies also introduced a new communications tool, an interactive role-play game based on a customized Learning Map, a visual representation of VWB's history, current competitive environment, and strategy (see **Exhibit 8**). During a 90-minute session with a group of 10 employees, a facilitator led a training exercise on how to win a rally whose endpoint was achieving the leading market position in Brazil. During the rally, the facilitator and the team discussed the company's history and heritage, the current competition in the Brazilian automotive market, consumer preferences, and the external environment. The team made suggestions on the strategy VWB should follow to win and how individual employees could contribute to the strategy's success. The final part of the rally's journey traversed color-coded sections representing employee capabilities and company culture, critical operating and support processes, success with dealers and consumers, and financial performance. The BSC Management Group had trained more than 200 facilitators to lead Learning Map exercises with a goal of having all 20,000+ employees participate in the game.

A novel communications medium had recently been introduced directly in the production line by inserting, in place of a partially assembled automobile, a large electronic display containing the strategy map accompanied by a short tutorial on some aspect of the map (see **Exhibit 9**). The production workers at the station watched and listened to the tutorial during the short break while the display traversed down the assembly line.

Davies commented on the importance of the extensive communications program:

To create a new high performance culture, we wanted to capture the employees' hearts and minds. The Balanced Scorecard provided us with the tool for this cultural change. We aimed each communication mechanism at a target group: management reports for the company's executives, weekly announcements to white-collar employees, and articles attached to bulletin boards for shop floor and back-office workers. We ran workshops at which employees could discuss what the new strategy and culture meant to them.

The Balanced Scorecard Gears Up

For actual deployment of the Balanced Scorecard, the BSC Management Group chose metrics from various sources to provide a comprehensive picture of the company's performance. Davies noted:

We used hard and soft data from both internal and external sources to track our results. Approximately 80% of the metrics were hard data, 75% from internal systems and 25% from external sources. The remaining 20% of metrics come from surveys: 45% from customers, 33% from employees, and 22% from market assessments.

Each business area representative determined how much the area would contribute to the achievement of the strategic objectives on the strategy map. Davies elaborated:

We developed a matrix [see **Exhibit 10**] that related each objective with a series of actions to be implemented by each area. These contribution proposals were validated with the senior executive of the area. The measures, targets, and contribution proposals would be reviewed and updated annually. Once an area's contribution had been approved, each executive had his or her individual objectives set under the Manage by Objective (MbO) guidelines, which were then cascaded down into his or her team's own objectives. By the end of 2008, all VWB executives had their personal objectives linked to area and company strategic priorities in this way.

Each strategic initiative had a sponsor and a coordinator who led a multidisciplinary team responsible for implementing the initiative. A BSC Report System monitored and reported monthly on the status of each measure and initiative. Davies commented, "This process gave us a direct link from strategic objectives down to shop floor actions and feedback on the results." For example, Senn was the executive sponsor for the strategic objective "Achieve a High Performance Culture" (see **Exhibit 11**). Senn continually monitored the objective's five strategic initiatives he had helped to select. (**Exhibit 12** shows the summary chart for "Establish a Volkswagen School of Excellence," one of the five initiatives for this strategic objective.) Senn used a large 3x2-meter chart on his wall to monitor the key milestones for the 30 initiatives he supervised.

In addition to the monthly updates, the Executive Committee met quarterly to review all aspects of the strategy and revise decisions and resource allocations as needed.

Compensation and Recognition

Schmall and Senn reinforced the multiple communication and training messages by linking the compensation system to employees' results. An executive bonus plan tied variable compensation to each individual's performance, measured as a percentage of the goals and efficiency accomplished. For non-executive employees, which included shop floor employees up through cell managers and administrative staff, VWB had an annual result-sharing payment equally distributed across the workforce in absolute terms. Douglas Pereira, the Labor Relation area representative, commented on the result-sharing plan:

The parameters of the result-sharing program are negotiated annually with the employee representatives and trade unions. The program uses targets for metrics derived from the company's strategy, such as productivity, quality, and absenteeism. The amount paid to employees is determined by the degree of achievement of the targeted performance. Although the payments are not directly linked to each individual's performance, the program does align employees to company goals and stimulates them to achieve improved shop floor results.

Schmall believed that nonfinancial rewards also motivated employees. He stated, "Our best employees should be recognized in every way possible." He instituted several programs to reward individuals and groups for significant contributions to improving the company's BSC metrics. Any employee or group of employees could present a project. The three best projects in each category

competed for the final awards. Schmall, flanked by other Executive Committee members, announced the winners at an annual meeting of 1,500 participants. “The contest motivates and recognizes our employees,” stated Davies. “In 2008, the employees submitted approximately 2,200 projects.”

VWB established a Management Development Review to identify high-performing individuals for promotion, job rotation, and international training. HR selected the individuals based on outstanding performance along the BSC dimensions. “Approximately 90% of our middle management come from the company,” reminded Pereira.

Engaging Suppliers and Dealers with the Balanced Scorecard

VWB’s 550 suppliers produced approximately 15,800 different components for a typical VW vehicle. The company needed a reliable process to ensure the quality, quantity, cost, and timely delivery of components. It also wanted its suppliers to develop innovative technologies and reduce product development cycle times.

VWB had more than 600 independent dealers, the largest car dealer network in Brazil. Dealers had the biggest impact on consumers’ purchase and post-sale service experiences.

Schmall commented on the challenges in managing VWB’s multiple supplier and dealer relationships:

During the first half of 2008, when the economy was still booming, our metrics showed that car inventories were increasing faster than consumer sales. After analyzing the data, we decided to cut back production by 15%. This decision triggered immediate and bitter complaints from our sales and manufacturing divisions. Dealers were afraid of losing sales because of stockouts, while manufacturing struggled to adjust production downwards, a task that could take weeks or months to implement throughout our supply chain.

Ramalho highlighted these interactions:

Our BSC targets provide some flexibility to respond to market swings. We maintain continual contact with the purchasing, sales, and engineering departments, among others, to discuss ideas, suggestions, and impacts caused by unexpected market movements or bottlenecks. We continually analyze metrics such as number of cars actually produced against budget, and the cripple indicator [temporary lack of parts at assembly line]. The BSC enables us to align each area’s continuous improvement processes to the overall strategy.

VWB extended training and recognition programs to its external partners. A “Supplier Day” event in 2008 brought VWB board members and low-performing suppliers together to jointly define improvement actions. VWB instituted a “Supply Award” to recognize suppliers with the best annual performance.

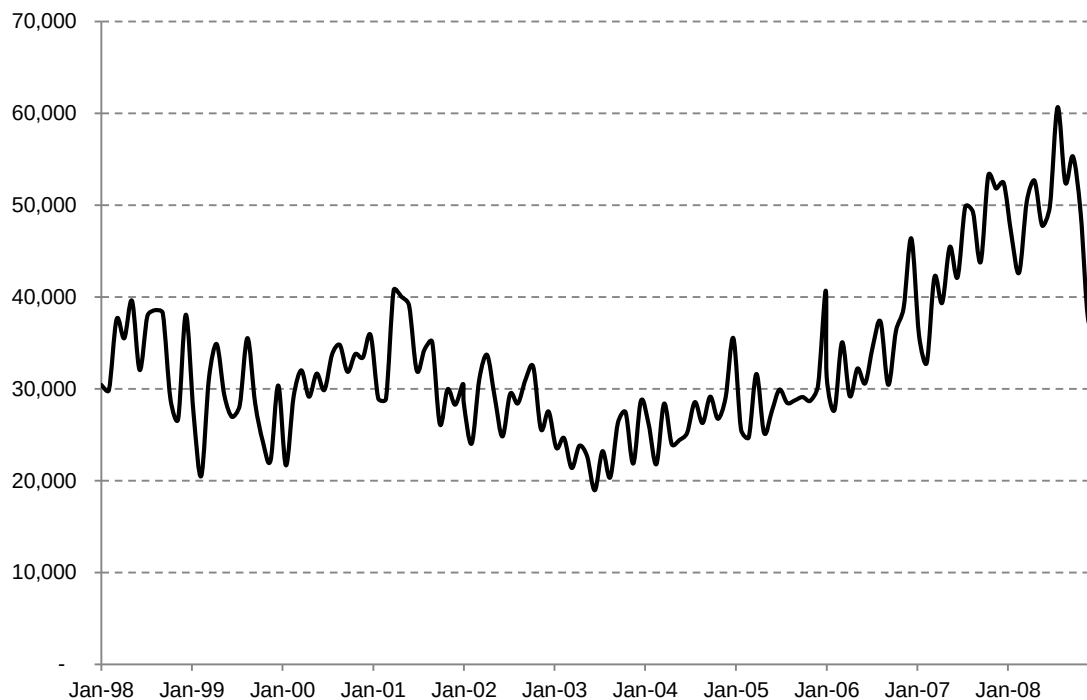
The company established a “Dealer Academy” for sales, post-sales service, and franchise management training. In 2007, the Executive Committee launched the TOP 400 program, in which senior executives focused on upgrading the quality of vehicles shipped to each dealer. Each defect type was assigned to a single executive. In 2008, following the success of that program, the Executive Committee established the Top 500 program by assigning each of VWB’s 500 executives to a dealer. The executive traveled with the regional sales manager to the dealership to understand any problems being experienced, coach the dealer, and help the dealer install better management systems. Schmall monitored the status of the Top 500 program with four large displays arranged on the wall across from his office. (See **Exhibit 13** for one of the four displays.) The display listed every dealer and its

assigned executive, followed by color-coded performance dots (green, yellow, and red) on two key dealer metrics: incidence of repeated repairs, and an index of customer satisfaction with the car purchase, service, and repair. **Exhibit 14** summarizes VWB's supplier and dealer programs.

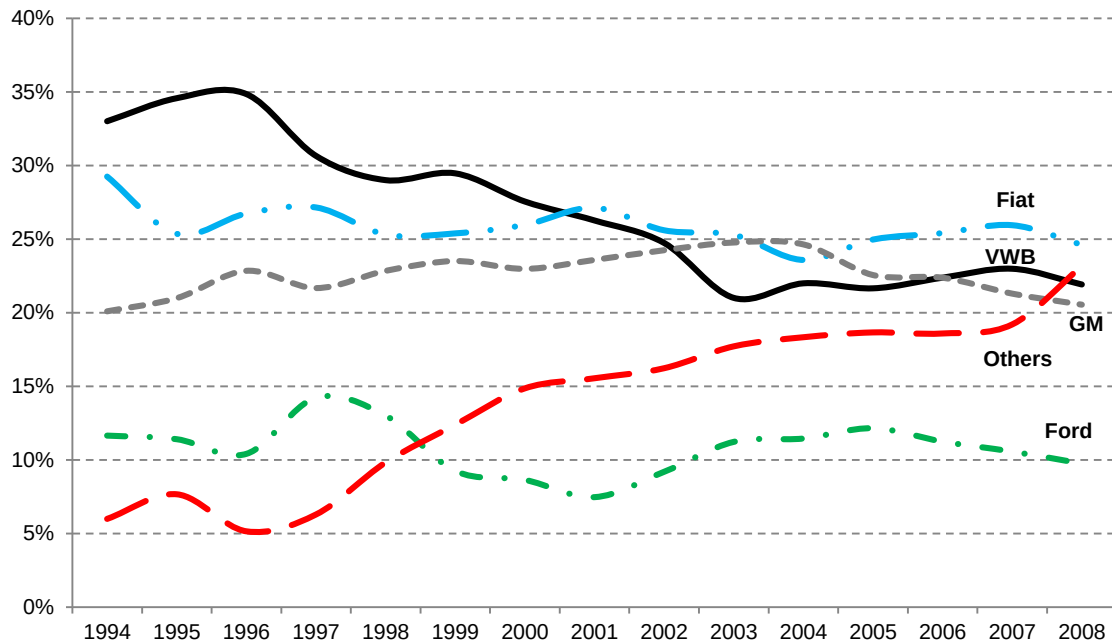
January 2009 Decision

Schmall continued to stare at his wall charts. They clearly showed the momentum that had been created during the past two years. VWB's market position 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 the plants had decreased, and supplier and dealer quality scores had increased. Yet the overhang of unsold production from the fourth quarter was troublesome. He questioned how much the 2009 Brazilian economy would be depressed by the global financial crisis and reduced global economic growth and trade. He strode into the Executive Committee meeting wondering whether the time had come to resume higher production levels and discretionary spending for the many initiatives on each executive's scorecard.

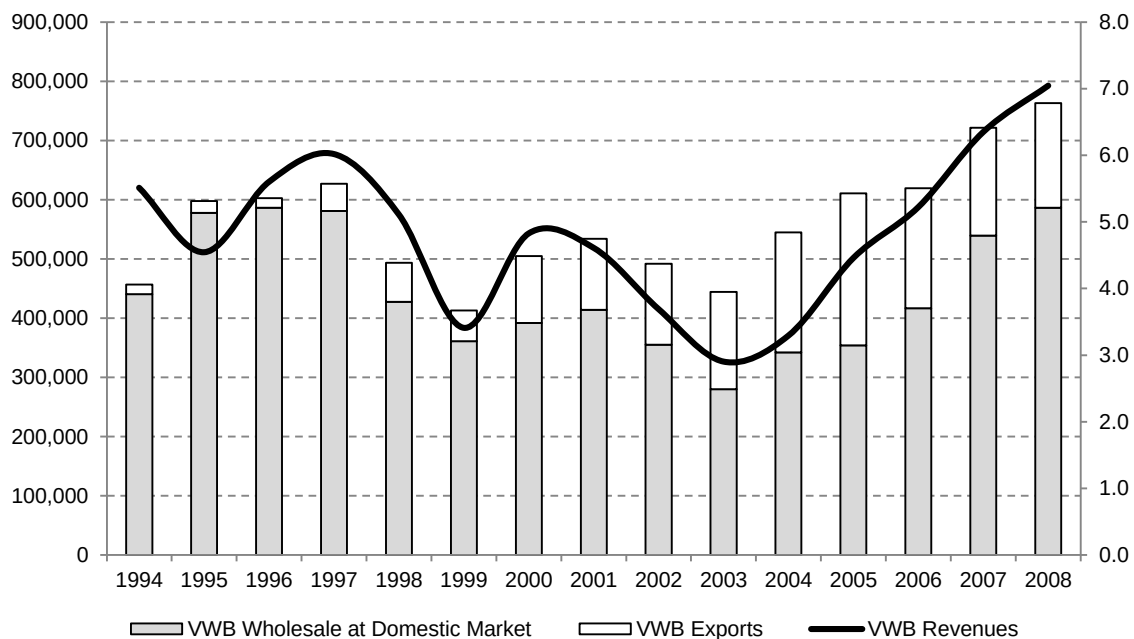
Exhibit 1 Volkswagen do Brasil's Monthly Sales: Cars and Light Vehicles from January 1998 to December 2008 (in units)



Source: Volkswagen do Brasil.

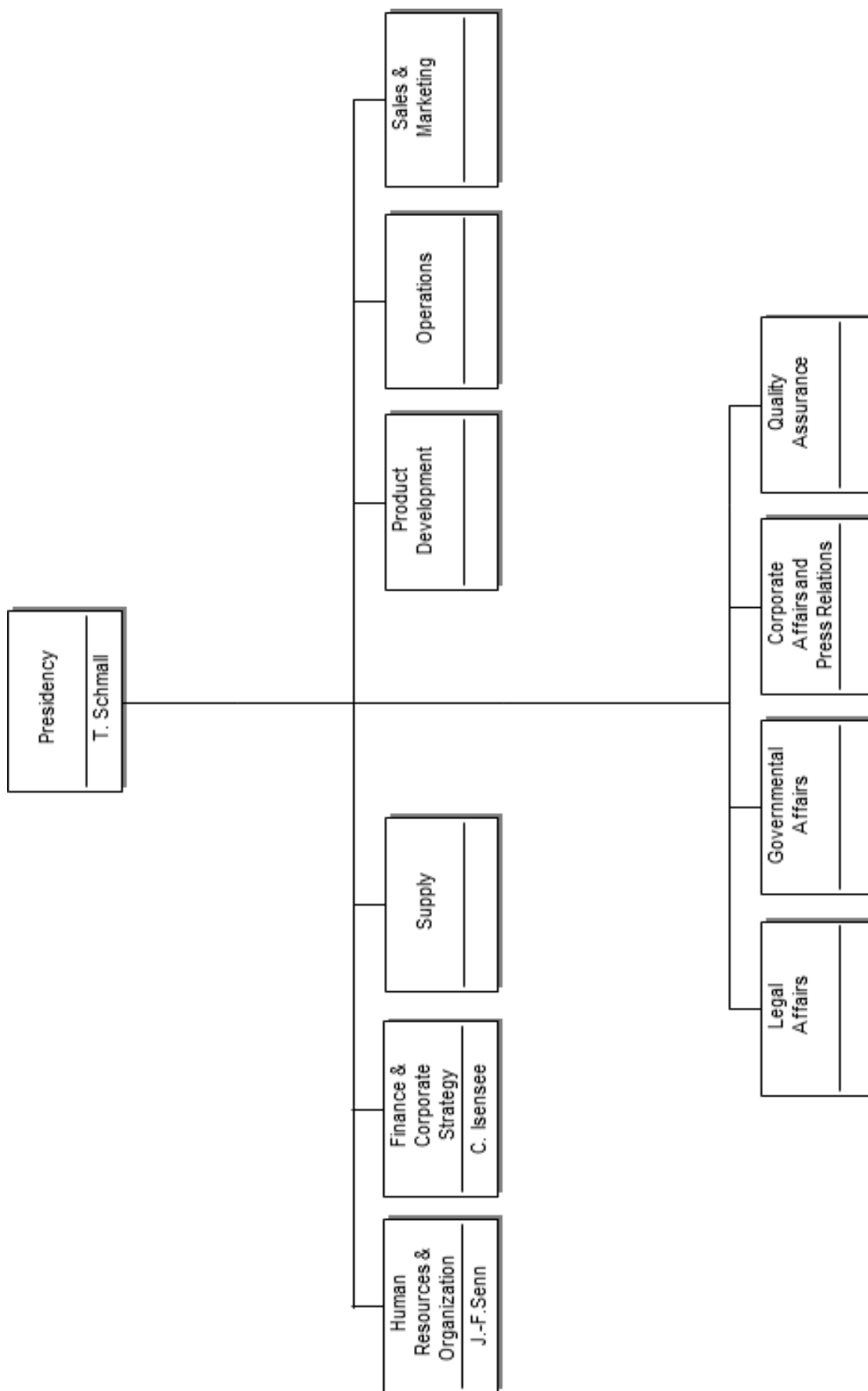
Exhibit 2a Market Share in Brazil: Cars and Light Vehicles (as percentage)

Source: Volkswagen do Brasil and ANFAVEA.

Exhibit 2b Volkswagen do Brasil's Export and Domestic Sales (in Vehicles) and Revenues (€ billions)

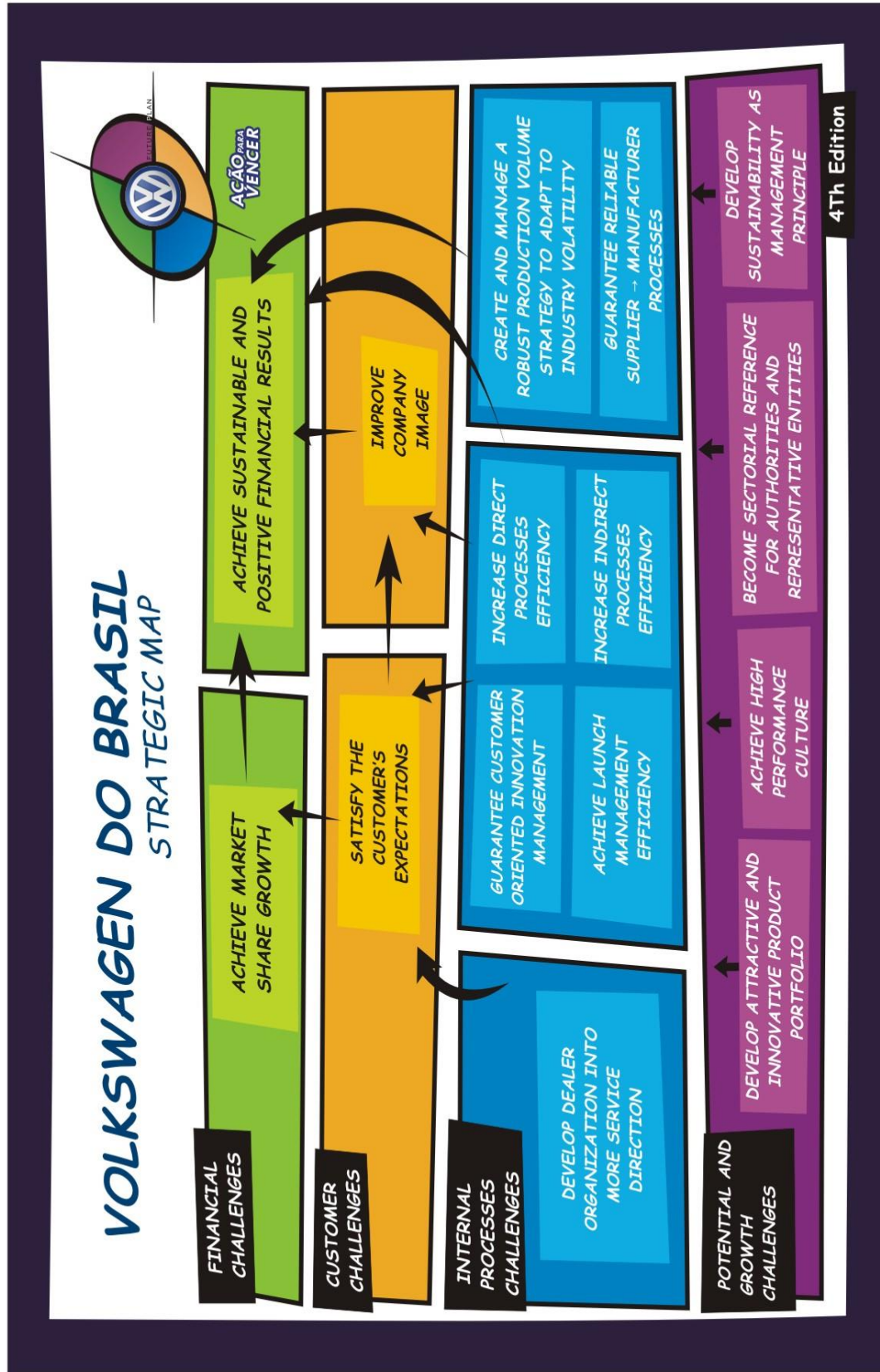
Source: Volkswagen do Brasil and ANFAVEA.

Exhibit 3 Volkswagen do Brasil's Executive Committee and Functional Organization

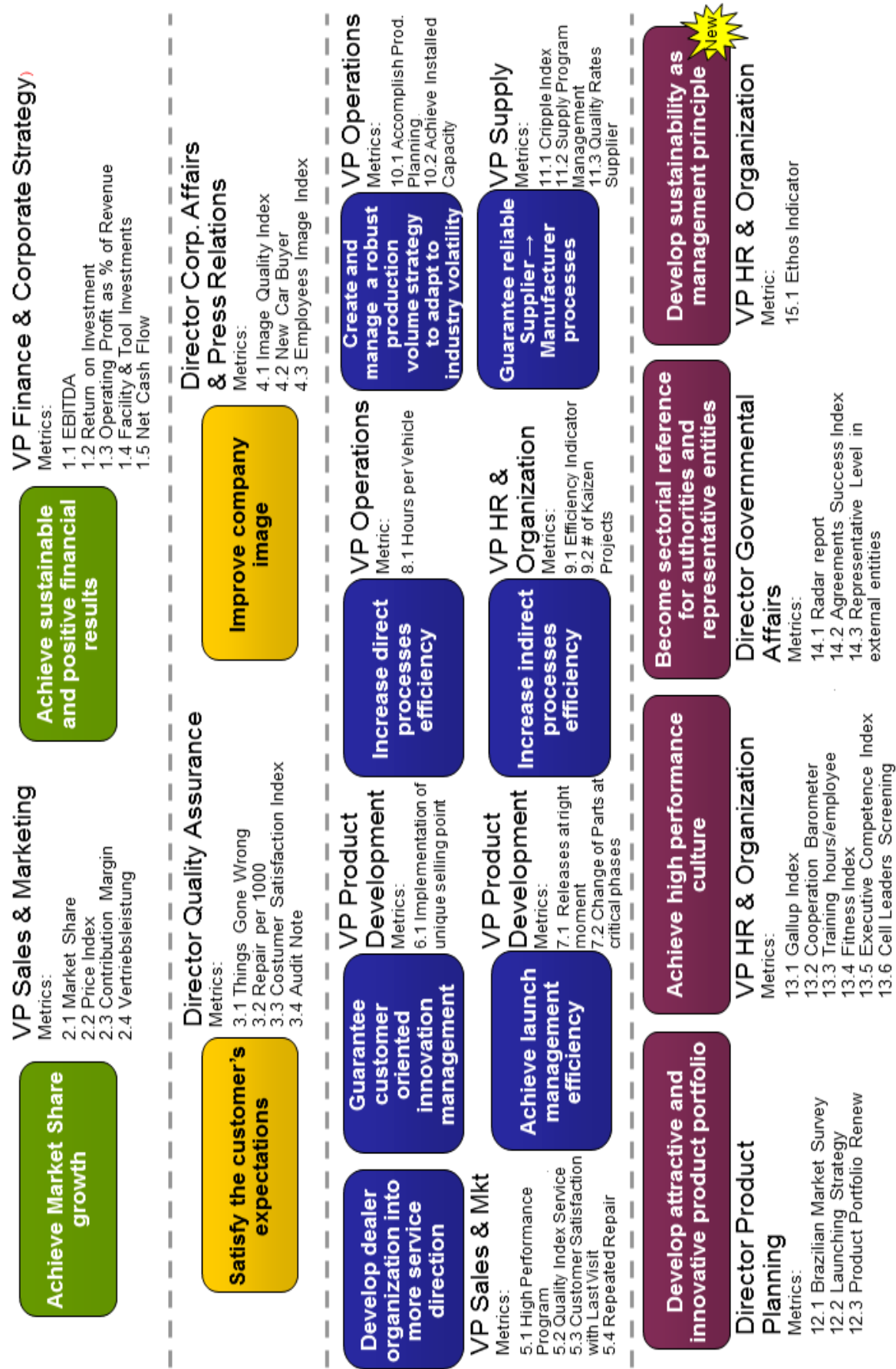


Source: Volkswagen do Brasil.

Exhibit 4 Volkswagen do Brasil's 2009 Strategic Map

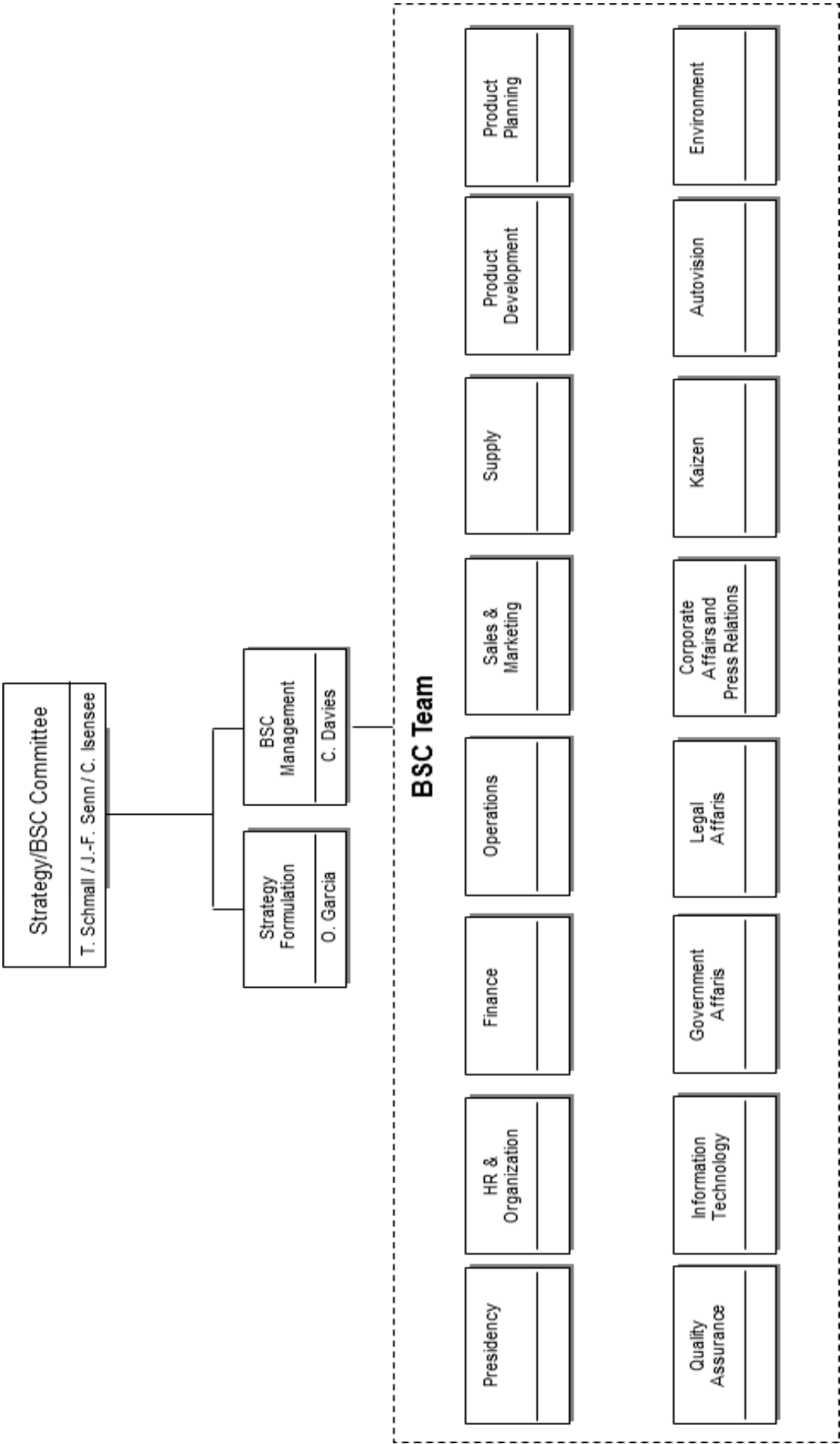


Source: Volkswagen do Brasil.

Exhibit 5 Volkswagen do Brasil's 2009 Balanced Scorecard and Executive Committee Responsibilities

Source: Volkswagen do Brasil.

Exhibit 6 Volkswagen do Brasil's Strategy/BSC Team



Source: Volkswagen do Brasil.

Exhibit 7 Volkswagen do Brasil's Giga Comic Strips



Source: Volkswagen do Brasil.

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Exhibit 9 A Video Monitor Carries the VWB Strategy Map Down the Assembly Line



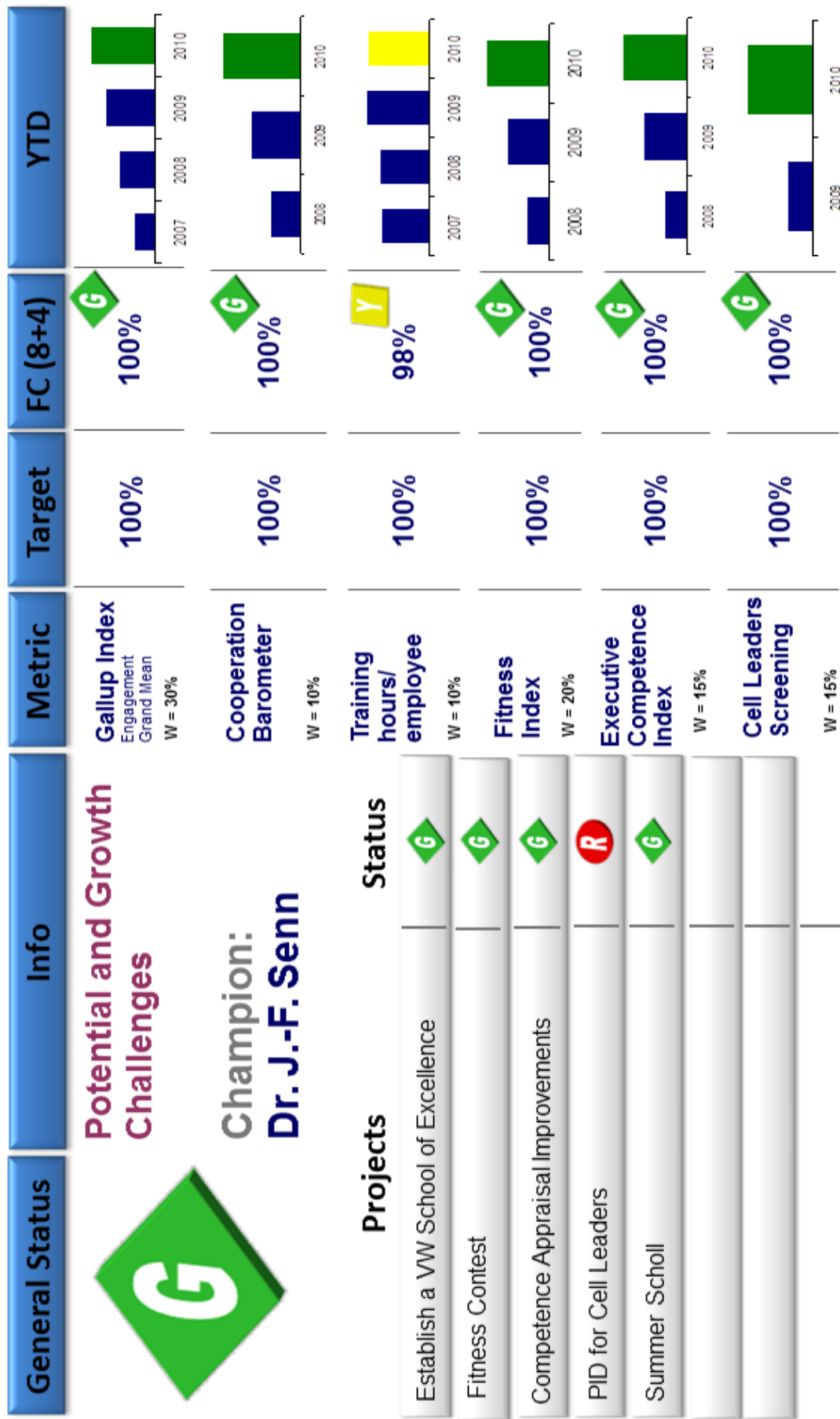
Source: Volkswagen do Brasil.

Exhibit 10 Volkswagen do Brasil's Area Contribution Matrix (Number of Contributions per Objective per Area)

Area´s contributions														
	Operations	Sales & marketing	Quality assurance	Product Development	Product Planning	Supply	Press & Corporate Affairs	Government Affairs	Legal Affairs	Internal Audit	IT	Finance	Human Resources	Total
Achieve Market Share growth		3			1			1						5
Achieve sustainable and positive financial results	1	2	1	1	2	1	1	1	1	2	1	1		15
Satisfy the customer´s expectations	1	1	1	1	1	2					1	1		9
Improve company image		1					1	2		2				6
Develop dealer organization into more service direction		1							1		1			3
Guarantee customer oriented innovation management		1		1	1									3
Achieve launch management efficiency				1	1	1								3
Increase direct processes efficiency	2		1								2			5
Increase indirect processes efficiency	2	2	2	3	2	1	1	1	5	2	2	3	3	29
Create and manage a robust production volume strategy to adapt to industry volatility	1	1						1					1	4
Guarantee reliable Supplier → Manufacturer processes		1	1			1			1					4
Develop attractive and innovative product portfolio		1			1									2
Achieve high performance culture	1	1	1	2	1	1	3	2	2	1	2	2	10	29
Become sectorial reference for authorities and representative entities				1			1	3	2			1		8
Develop sustainability as management principle	2	1		2		1	1	2	2			1	2	14
Total	10	16	7	12	10	8	8	13	14	7	9	9	16	139

Source: Volkswagen do Brasil.

Exhibit 11 VWB's High Performance Culture Strategic Objective



FC(8+4)

VOLKSWAGEN DO BRASIL

Source: Volkswagen do Brasil.

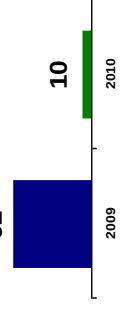
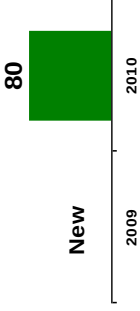
Exhibit 12 Volkswagen do Brasil's "Establish a Volkswagen School of Excellence" Objective



Project

Establish a Volkswagen School of Excellence

**Achieve High
Performance Culture**

General Status		Objective	Project Metric		
	Unify and standardize training and development programs for the Cell Leaders providing a continuous professional improvement		% Training Programs for Cell Leaders included in the courses structure - Pre Requirement (2009 - Based on Lider Executor II - 95%)		
	Project Metric				
Scope					
Develop the structure, process and support for all training and development programs for the Cell Leaders including more than 40 courses divided into classroom training (29 courses) and online training (12 courses).		Participants Index			
Sponsor	Coordinator	Start Date	Final Due Date		
Dr. Senn	R. Ramos	CW* 07/10	CW 52/10		
Project Team		Main Milestones	Planned Date	Real Date	Status
L. Moreira A. Ferreira Local HR Managers		Presentation VP HR / VP Operations	CW 07/10	CW 05/10	✓
		Pre Requirement Module - Start Group (Leader Cell)	CW 12/10	CW 12/10	✓
		Courses content presentation at Werkleiterrunde	CW 14/10	CW 14/10	✓
Involved areas		Pre Requirement Module - Content Conclusion	CW 17/10	CW 17/10	✓
Operations		Start Communication process: all Employees	CW 22/10	CW 17/10	✓
		Validate Reward process to Instructors	CW 26/10	CW 25/10	✓
		Basic Module - Content Application	CW 28 to 52/10	on going	
Information		Investments on	Sign-Off (R\$000)	Real (R\$000)	Status
Updated on:	CW 30/10	Investments are related to: Content development; Infrastructure and implementation.	R\$	R\$	
by:	V. Berdague				

*CW = Calendar Week

Source: Volkswagen do Brasil.

Exhibit 13 Volkswagen do Brasil's Top 500 Program Dealer Wall Display

TOP 500 ANO 2				PAINEL DE CONTROLE SETEMBRO			
NÚMERO	NOME	REG.	NOME	GESTOR 1	GESTOR 2	REPARO REPETITIVO	SIG DE VENDAS
						INICIAL	OBJETIVO
1	11	2	SAJAC	ALEXANDER CHRISTIAN KORB	MARCOS DE CARVALHO	17.5	6.0
2	19	2	SAJAC	CASSIO APARECIDO LOPES	MARCOS APARECIDO RUZA	8.3	6.0
3	20	2	APIA	DENILSON DE SOUZA REZERA	RICARDO AUGUSTO CUTIGI	17.5	6.0
4	28	2	DELORE	WAMBERTO RENATO CORDEBELLO	RICARDO NOVAES SANTUCCI	10.0	6.0
5	38	1	BRASILVAGEN	JORGIO ENTZIAN	EDSON VICENTE CORREA	5.8	6.0
6	47	5	CEARA MOTOR	GUSTAVO LUIS SCHMIDT	CIRO DARE RODRIGUES	25.8	15.0
7	49	1	MARCA FAMOSAS	ALEXANDER MAXIMILIAN SEITZ	EDITE DE SOBRAL	22.5	15.0
8	54	3	SEVOPIA	WALTER GERDAU	ROBERTO PAIVA GONCALVES	17.5	10.0
9	55	3	PANAMBARA-POA	LEOPOLDO ANTONIO DO NASCIMENTO NETO	MARCOS DE PUCCIO SILVA	15.0	8.0
10	58	2	FREIRE	SILVIO FRANCISCO DE SOUZA	LUIS PEDRO PEIXOTO	8.3	6.0
11	65	3	CPASA	IVAN CARLOS DE ANDRADE	ADEODATO POMPEO	12.5	6.0
12	67	3	SOMACO	LUIS ANTONIO GIMENEZ	MARCIO DE MELO FRANCISCO	7.5	6.0
13	76	3	JOAUTO	RONALDO DOS SANTOS	SILVIO MIOTTA TORMINATO	9.7	8.0
14	83	3	MOTOMECANICA	FABIO BASANI	THAIS HELENA TALAMAO PI	5.0	5.0
15	89	5	IMPORTADORA	DEIO SOARES MARTINS	JOSE ROBERTO PAREZANI	20.0	10.0
16	112	2	FREIRE VEICULOS	ERICA MORAO	JOSE ROBERTO PAREZANI	14.7	6.0
17	122	3	BLUSA	LUCIANA MARRARA PARTEL	JOSE ROBERTO PAREZANI	14.7	6.0
18	124	4	OTRIVE	JOEL CONSTANCIO BENEVENTO	DENIS DALVAN DOS SANTOS	13.3	6.0
19	132	2	FRANCAUTO	CLAUS ELMER	ROBERTO PAIVA GONCALVES	17.5	6.0
20	136	2	DISCASA	EDE DONIZETE DE LIMA	ROBERTO PAIVA GONCALVES	15.0	6.0
21	141	2	PARANAMOTOR	JOSE CARLOS ALVES PEIXOTO	MURILLO DE MELO FRANCISCO	8.3	6.0
22	155	6	DISBRAVE	ERICA LUK	ROGERIO ALVES PEREIRA	9.2	8.6
23	170	2	LIANE	FRANCIS EDUARDO VERISSIMO DOS SANTOS	LEONARDO DE ALMEIDA VERGUEIRO TOSELO	5.3	5.2
24	171	6	NASA	JOAO MANUEL MATIAS FERREIRA DA SILVA	MARIO BATISTA LIMA JUNIOR	11.7	6.6
25	176	2	MERCANTIL ATIBAIA	LEONARDO DE ALMEIDA VERGUEIRO TOSELO	MARIO BATISTA LIMA JUNIOR	12.5	8.9
26	177	4	ATUAL	MARIO BATISTA LIMA JUNIOR	MAURO RINALDO PAOLETTI	13.3	6.4
27	178	4	AFEC	MAURO RINALDO PAOLETTI	ERBERT SCHMIDT	7.5	7.2
28	180	2	COMERI	SILVIO ROBERTO FRANCO	HELO DE ANDRADE	5.0	5.0
29	181	2	J.C.BARROSO	SERGIO AKIRA DA SILVA FUKAMACHI	ALEXANDRE FARIA ABELLEIRA	4.2	5.0
30	200	3	PANAMBARA	ANTONIO MARCOS PAULUCCI	ALMIR DE MATOS MARQUES	15.0	6.0
31	203	4	RODAC	CARLOS HENRIQUE RODRIGUES A. CABRINHO	HENRIQUE MENDES ARAUJO	16.7	10.0
32	214	3	COMERCIAL OESTE	ALBERTO OTERO COSTOVA	WALDIR GALERA	7.5	6.0
33	215	4	MINAS AUTO	ANDERSON LUIZ RODRIGUES	SORABIA RODRIGUES	4.0	5.0
34	230	4	TRISAUTO	JOAO CARLOS TROLES	HELYN MENDONÇA MALHEIRO	8.8	7.2
35	239	4	AUTO REVENDORA	HELYN MENDONÇA MALHEIRO	EDUARDO ARCARUB GASPAROTO	6.7	6.6
36	240	5	PROMAC	EDSON SANTILI PALERMO	EDUARDO ARCARUB GASPAROTO	20.8	10.0
37	244	3	SANTAFEDRA	CLAUDIA MARIA FIZABRO FERREIRA	SERGIO LUIZ FENAO	7.5	7.4
38	253	4	AUTO ALFENAS	SERGIO LUIZ FENAO	SIMONE FERNANDES DE ALMEIDA FIALHO	6.7	6.0
39	260	3	COMAUTO	SIMONE FERNANDES DE ALMEIDA FIALHO	VIVIANE RECHE	11.9	6.0
40	263	4	ITACAR	MARCELO SCERVANINHAS	EMERSON BESSA DA SILVA	9.2	6.0
41	267	3	CLAVENA	ORLANDO GIUSTI FILHO	EDGAR NOBUO KATAOKA	20.0	10.0
42	283	4	REAUTO	JOSE KICHIO HIRATSUKA	MARCUS DANIEL GORISCH	5.0	5.0
43	290	2	AUTOMAR	FLAINE ROLEDO SHIMAMURA	MARCUS DANIEL GORISCH	12.5	7.2
44	292	4	AUTO IGUAÇU	FELIPE MANOEL VELOSO SIABRA	GUILHERME HORN	10.6	6.0
45	293	2	CIDCAR	ERIVALDO SANTOS SOUSA	FLAVIO ANTONIO SIVIERO	16.7	7.3
46	305	5	MEIRA LINS	GILBERTO DOS SANTOS	FLAVIO ANTONIO SIVIERO	10.0	6.4
47	308	4	CARREL	SILVIO CESAR BARBOSA	DECIO FELICIO	6.7	6.6
48	314	6	BRASAL	MICHAEL MATZ	CLAUDIO JAFET PATI	6.7	6.6
49	327	2	ARACAI	MARIO MIOTO FILHO	IRINEU WENZEL ROSSI	2.5	5.0
50	340	2	CAPIVARI	DIETER WELAND	MARCIO CHELLES	13.3	6.0
51	348	2	SOCORRENSE	CELSO BAEZ DO CARMO	FERNANDO AMOROSO	14.2	6.0
52	352	3	DIMASA	LESTER HAGER STRAMBI	TARCISIO ROBERTO GOMES SOUS	19.2	6.0
53	375	2	AUBA	MAURICIO POROTIC NEVES	EVANDRO TADEU RIBEIRO	22.5	15.0
54	376	3	PIRAMIDE	MICHAEL LEHMANN	CLAUDIO ROBERTO BELAZ	25.8	15.0
55	393	3	CARBURGO	RODOLFO SANTOS SERAFIM BUENO	RODRIGO TRICARICO LAURITO	4.2	5.0
56	395	2	SANTA EMILIA	ANDREA YUKIUCHI MAIA	RENATO ABEL CRESPO	16.7	10.0
57	396	4	CASAL	VANDERSON ANTONIO SOGBBI	WAGNER DOTI	8.0	8.0
58	399	5	SACA	MATTHIAS SPATH	DOMINGO V. BERNARDO TELLO	15.0	10.0
59	400	3	MALLON	ANDERSON DECIMONI	ALEXANDRE CHIAAD	20.8	15.0
60	407	1	ORIGINAL VEICULOS	LUIS PAULO BRASZTA	MILTON SPADANI	6.7	6.0
61	409	1	AUTOMASA	MARCIO VICTORINO	FLAVIO JOSE MACIEL	15.8	6.0
62	413	4	DIVACO	PAULO EDUARDO FELLIZZER	JOAO MARQUES TEIXEIRA	14.2	6.0
63	420	3	FERMAC	THOMAS JAKOB SCHILLING	CARLOS HENRIQUE DOS SANTOS	20.0	15.0
64	436	4	PIOMENZA	ANTONIO AFONSO R DE MELO PIRES	ALENCAR GANGA FRIZZAS	13.3	7.4
65	441	1	ALTA	LUIS ANTONIO MASSOCCO	VALBERTO NANNI	10.0	6.0
66	447	3	PARAGUACU	PAULO BETTINI	JORG ZELLER	7.5	7.4
67	463	2	ABRAO REZE	THOMAS WERNER SCHINK	FRANK SOWADE	14.2	9.7
68	468	3	GUARACAI	CLAUDIO JOSE FERREIRA	FERNANDO MARCOS NEGOCIA	17.5	8.0
69	473	1	CARAIGÁ MORUMBI	DENITUBUS YUB FERNANDES	JULIO MARCOS DE MACEDO	9.2	7.3
70	474	4	GUANDU	JOSE ELI FERREIRA	JOAO APARECIDO FACCIO MARQUES	16.7	6.0
71	482	3	AUTO N PETROPOLIS	FABRICIO BIONDO	CARLOS ROBERTO MATUOJA	9.2	8.0
72	498	3	PAMPA	GILBERTO SANCHEZ LUPINETTI	NORMA FASANI BIASETTO	24.2	15.0
73	505	5	DISHOVE	DONIVALDO MARTINS VITOR	MARCELLO CICCARELLI	20.0	15.0
74	522	2	YESA	MARCOS FRED KLEMAZ	MARCO ANTONIO R. VALIANO	10.0	8.9
75	524	3	CORUJO	CHRISTIAN FENNER	MINORU HORIUCHI	5.0	5.0
76	540	1	DIAUTO	RADOVAN KUBENAK	TOYOHITO FUKUDA	10.8	6.0
77	549	4	ARACUJO	SERGIO MARTINS REIS			
78	551	3	COPAVA	CRISTIANE MIDORI DOTI			
79	552	4	CACEL	ANTONIO CARLOS MOUNARI			
80	554	2	LIBERATO	RALF PETER IDEL			
81	555	3	DIRAMAVE	MARCO ANTONIO BOTTACINI			
82	558	1	MORUMBI MOTOR	SERGIO DA SILVA ROJA			
83	563	6	DISCAUTOL	CLAUDIO VALENTE			
84	586	2	GUARA MOTOR				
85	617	3	PAMPEIRO				
86	619	3	MOTOBRA				

Source: Volkswagen do Brasil.

Exhibit 14 Summary of Volkswagen do Brasil's Supplier and Dealer Alignment Programs

	DEALER	SUPPLIER
Strategic Objective	To develop dealer organization into a more service orientation	To guarantee reliable supplier to manufacturer processes
Champion	VP Sales & marketing	VP Supply
Main Strategic Drivers	• Customer satisfaction • Sales & Market share (vehicles) • Sales of parts and accessories • Reduction of repeated repairs	• Quality levels • Attention to volume and punctual delivery • Competitive costs and prices • Commitment to release deadlines • Partnership in the development of innovative technologies • Environmental responsibility
Development action	Dealer Academy	Supplier Day
Recognition action	Best Performance Program (PAP)	Supply Award

Source: Volkswagen do Brasil.

Endnotes

¹ Adapted from the Economist Intelligent Unit data services, accessed October 11, 2010. Nominal GDP in \$ at purchasing power parity.

² Geoffrey G. Jones, Carin-Isabel Knoop, and Ricardo Reisen de Pinho, "Brazil at the Wheel." HBS case 9-804-080, February 10, 2010.

³ Unless noted otherwise, the sign € stands for euros, the sign \$ stands for U.S. dollars, and the sign R\$ stands for Brazilian reais.

⁴ ANFAVEA, Brazilian Automotive Industry Yearbook 2008 – Vehicles – Production, domestic sales and exports – Production.

⁵ The 10 Volkswagen Group's brands were VW, Audi, Skoda, Lamborghini, SEAT, Nutzfahrzeuge, Bugatti, Bentley, Scania, and Porsche, the latest up from 2011.

⁶ Adapted from "VW brand to quadruple return on capital by 2018," Reuters, December 19, 2007, <http://www.reuters.com/article/idUSL1925880920071219>, accessed October 2, 2008; "Volkswagen-Chef Will Die Rendite Vervierfachen," Handelsblatt, December 19, 2007, <http://www.handelsblatt.com/unternehmen/industrie/volkswagen-chef-will-die-rendite-vervierfachen;1368549>, accessed October 2, 2010, and "Volkswagen to hit Mach 18," Good Read, July 31, 2008, <http://spoonfeedin.blogspot.com/2008/07/business-volkswagen-to-hit-mach-18.html>, accessed October 2, 2010.

⁷ The name Volkswagen (*Volks* meaning "people," *Wagen* meaning "car") came from the idea of developing a small, utilitarian passenger car affordable for a large number of people in Germany during the 1930s.

⁸ ANFAVEA, Brazilian Automotive Industry Yearbook 2010 – Vehicles – Production, domestic sales and exports – Production – 1957/2009, pp. 62, 135.

⁹ Ethanol was a biofuel that contained approximately 34% less energy per unit volume than gasoline but could be used pure or blended as an alternative fuel. By 2008, Brazil was the world's leading producer of ethanol from sugarcane, a renewable source of energy, and had the largest car fleet running on this type of "green" fuel in the world.

¹⁰ ANFAVEA, Brazilian Automotive Industry Yearbook 2010, p. 62.

¹¹ ANFAVEA, Brazilian Automotive Industry Yearbook 2010, p. 62.

¹² The end of 1990s and the beginning of the 2000s were characterized by successive financial crises that jeopardized international commerce and local demand. The crises in Asia in 1997, in Russia in 1998, in Brazil in 1999 and 2000, and in Argentina in 2001, as well as the September 11, 2001, event in the U.S., were some of them.

¹³ ANFAVEA, Brazilian Automotive Industry Yearbook 2010, p. 62.

¹⁴ Provided by Volkswagen do Brasil.