VOLKSWAGEN MOTOR COMPANY IMPROVED PRACTICE INDICATORS

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There are a lot of aspects that determine how a company performs to ensure that it meets the needs of its customers and remain profitable in the long run. An organization that wants to perform well through giving value to its shareholders, as well as customers, has to stay competitive and adaptive to change. The primary goal of a firm is to produce profits consistently over many years as it provides its services in the highest value possible (Epstein, 2018, 12). For a company to achieve this goal, an organization needs to perform at its best. The board of directors, as well as other top management leaders, are a crucial factor in the success of a company. This aspect and others that this paper will address keep an organization competitive in the market. This paper will focus on Volkswagen Motor Company and asses how it has performed over the years. The paper will also include a comparative performance analysis of Volkswagen with another motor company.

Characteristics of Improvement for Volkswagen

Volkswagen is a German automaker which has operated since May 28, 1937. The company headquarters are located in Wolfsburg. The company has gained popularity over the years due to the production of high performing vehicles. Due to its popularity, the organization has managed to generate a lot of revenue for its shareholders as well as stakeholders. The company has shown various positive aspects in terms of performance and income generation. According to the company's 2017 annual report, there has been a drop in the gross margin from 18.9% to 18.4% between 2016 and 2017 (Annualreport2017.volkswagenag.com, 2017). An increase in gross margin is a clear indication of excellent performance for an organization. Gross margin is also a good indication of high results for a firm. Gross margin is the difference between the costs of producing goods and revenue the revenue that a company generates, divided by income. It is typically described in the form of a percentage. Although the company's gross margin has dropped, the drop is so little to mean that the organization is performing poorly. It is hence essential to look at other performance indicators.

Cost is another key performance indicator of performance. Lowering the costs of production in a company is vital in ensuring that it generates as much income as possible. A company manages to reduce the cost of production when an economy doing well or through making changes in the organization. Some of the changes include changing the supplier, layering off some employees or making use of the advancing technology to perform tasks efficiently. According to the Annualreport2017.volkswagenag.com, (2017), the personnel expense ratio of Volkswagen Group Company has fallen from 17% to 16.9 between 2016 and 2017 percent which indicates that the firm is doing well. Annual reports help get a clear direction of where the company is headed.

Furthermore, return on sales is a good indicator of performance in an organization. An increase in return on sales means that the company managed to make higher sales on that particular as compared to the previous year. Volkswagen Group Company has managed to increase its return on sales from 3.4% to 6.0% before tax between 2016 and 2017 (Annualreport2017.volkswagenag.com, 2017). This is the highest value that the company has been able to make in terms of sales in the past three years. Increase in sales means that the company has put a lot of efforts to ensure that the organization increases the amount of returns for both the shareholders and the stakeholders.

According to Gomes and Wojahn, (2017, 117), return on investment is a good indicator of performance in an organization. When a company has a high return on investment, it means it has the capability of generating more revenue on every investment. An organization showing a consistent rise in return on investment is performing at the highest level possible. Volkswagen's return on investment has been quite high. The value has increased from -0.2% in 2015 to 8.2% in 2016 and then 12.1% in 2017 (Annualreport2017.volkswagenag.com, 2017). This is a significant increase which indicates a high level of performance for the company.

Nevertheless, as Volkswagen show significant improvement in performance for the last three years, the case is different for Mazda Motor Company. From an article published by Gabriel Loewenberg on April 28, 2017, Mazda doesn't seem to be doing well. The operating profit that the company generated is down 44.6 percent compared to the previous fiscal year. Although the company had better expectations, the profit was 4.3 percent lower than the motor company had forecasted (Loewenberg, 2019). The decline of sales from North America as well as the Japanese market is one of the major contributors for the fall. As said earlier, an increase in sales is a crucial indicator of performance. The fact that the sales declined in 2017 puts shows that the company didn't perform at its optimum. More so, the company's cost of production rose higher compared to the previous fiscal year. The firm rose its manufacturing cost to increase the quality of their cars (Loewenberg, 2019). Higher manufacturing costs usually have a direct negative impact on the profits of a company. To curb such costs, it is crucial for an organization to make sure that the sales department is working at its optimum to produce higher sales than the previous years hence recovering the amount lost in the increase of costs. A comparative analysis of the performance of these two companies shows that Volkswagen is doing much better than Mazda.

It is vital to point out that Volkswagen has also failed in different ways in the past. The main cause that can be attributed to these failures is the governance of the organization. One of the main causes of these cases are attributed to failed governance in the company. In September 2015, as most motor companies made different changes in their cars to reduce emissions.

Volkswagen lied through installing a “defeat devices” on their cars as a means of evading emission requirements (Wilson, 2019). As much as many departments were used in making this possible, the governance of this company had a big role to play. This is a company where top level management plays big role in directing their goals to satisfy customers. A decision like this must have come from the top governance members hence shows great failure by the governance of Volkswagen. The internal controls of this organization should also be questioned. Officials may not be fully aware of the details involved in these wrongdoing like the use of a cheat device but this does not mean that they should be left out of the equation. Employees that engaged into this act broke the ethical code of standards set by the company (Sites.google.com, 2019). Organizations should be careful when they bring new employees to their organizations to curb these actions.

Lessons Learned From the Analysis

It is vital to point out some of the lessons that one can draw from the above analysis. These lessons will be helpful due to their applicability in not only the motor industry but also other different industries in the world. One of the main lessons that one can learn from these characteristics is the importance of lowering the cost of manufacturing products. The higher the cost of production for products the lower the amount of profit made (Yenipazarli, 2016, 119).This means that for a company to generate great profits, it has to generate high revenue to cover for the extra costs. For that reason, it is always significant for a firm to consider the impacts of increasing the cost of production in relation to the profits. The board of governors and the top level management are best suited for this task. Every time a company decided to make such changes in the future, board meeting s are held to vote for or against the change and come up with the appropriate agreement.

Furthermore, the amount of profit that a firm makes is a vital determinant of performance (Salimi, and Rezaei, 2018, 141). The higher the profit that the organization generates, the higher their performance have been in the last financial year. Many aspects of an organization determine profit generation. One of the critical elements to better profits is good leadership in a company. A firm with good leaders can produce higher profits compared with one that shows signs of a struggle in their leadership (Good, 2016, 117). One of the critical indicators of good leadership in an organization is how employees conduct themselves at work. If employees can work best at low or no supervision, it means that excellent leaders are instilling the habits of discipline and hard work to the workers. It is hence essential to point out that high-profit generation has a positive relationship to the performance of a company.

Furthermore, making a high amount of sales is another vital indicator or performance in an organization. For a company to produce higher sales than the last financial year, it requires that the salespeople receive a lot of training. According to Johnson et al., (2018, 29), proper training of employees attracts new costs, but they have a high result in high-profit margins for the specific organization. One of the best ways to increase sales in an organization is motivating the employees to work hard towards the set goals and objectives. Motivation can be in the form of salary increases or commissions. Commissions are the best means of increasing sales since the salesperson has an excellent motivating factor in setting high goals every month and hit them (Katzenbach and Douglas, 2015, 15). More so, organizations give various rewards to best-performing employees to make sure that they are performing at their optimum to make the best sales in the year. The best employee of the month is one of the awards that give a lot of motivation to the person, and as a result, it serves as healthy competition among employees which make them end up making huge profits for the company.

Moreover, Return on Investment is another key indicator of performance in an organization. Investors put their money in these companies with the expectation of receiving dividends at the end of every fiscal year (Gitman, et al., 2018, 120). These dividends are usually from the returns made from their investments every year. Investors are more likely to invest in companies that have increasing returns on investment compared to declining ones. When the company's profits go down, investors tend to lose trust in such a company because it is deemed to perform poorly in the future (Kerzner, 2017, 101).Whenever there is increased in returns in a company, it shows a great deal in having an improved level of performance compared to the previous years.

In conclusion, measuring the performance of an organization is very important in determining the future of a company. Auditors do the work of analyzing the annual financial statements of a company to assess its performance. Higher profits than the previous year is an indication of a positive relationship with the performance of the firm. More so, high performing top-level managers help in increasing the value of an organization in terms of performance. Skilled managers have the capability of ensuring that the workers work at their optimum to realize good profits for the company and create value for the consumers. Finally, investors find it safer to invest with growing companies because they believe that there is more chance for their investments to become more in such companies than declining companies. For that reason, the return on investment is also a high-performance indicator as well.

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