

# Randel Carlock: Porsche also makes great cars, remember?

The global automobile industry is in a shambles with a share in Ford Motor Company selling for less than a Starbucks latte and GM and Chrysler discussing a merger that resembles two drunks hoping they can make it to the next lamppost (government bailout).

Somewhere in all this chaos the Porsche family has managed to create two highly profitable automobile firms that are the world leaders in designing, manufacturing and marketing cars.

I think Jeremy Clarkson from the BBC Top Gear television show could probably explain their success, "For crying out loud! They make great cars!"

Unfortunately, the recent media coverage on Porsche and VW seems to have missed this critical fact.

Porsche, which is jokingly referred to as "a hedge fund with a car showroom attached," does use hedging strategies but the reason these two companies are the targets of the financial speculators is because they have sound business



*"The reason Porsche and VW are targets of financial speculators is they have sound business models"*

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models and good growth prospects.

The hedge funds do not care about Ford or GM because there is only one scenario for the future and it does not leave a lot to speculation. Unfortunately the hedge funds forgot about Porsche's secret weapon – committed family shareholders with a shared vision.

So how did Porsche, a specialty sports car manufacturer whose best selling model is the 30-plus-year-old 911, position itself to acquire VW its much larger sister company to become the automobile industry leader?

There are never simple explanations for business success but there are critical behaviors that provide lessons for business families and perhaps all organisations to consider about improving long-term performance. Porsche is effective for a number of reasons including a strong alignment of their ownership and management groups based on what we describe as the Parallel Planning Process (PPP).

## TIMELINE OF EVENTS

24 October  
Porsche and Piëch families announce they have met to resolve difficulties over their acquisition of Volkswagen and now stand "united behind all decisions"

26 October  
Porsche admits it has amassed a further 31.5% in VW – pushing its ownership to over 74% – in the form of cash settled options, purchased to hedge against price risks

27 October  
VW shares rise 147%, briefly making it the world's most valuable company. However, hedge funds who had shorted the company suffer huge losses

29 October  
A formal investigation into possible market manipulation in VW shares is launched by Germany's financial regulator

30 October  
Porsche denies any wrongdoing and blames speculative short sellers for the rise. However, it agrees to sell up to 5% of its cash settled options "to avoid further market distortions"

7 November  
Porsche announces it has made €6.8 billion from its trades in VW



The PPP drives planning and decision-making around five critical factors: values, vision, goals, strategy and governance. At Porsche we would describe the five PPP factors as:

- Values: World-class management, engineering leadership, and a long-term ownership commitment.
- Vision: Unifying Porsche and VW under family ownership.
- Goal: Global industry leadership.
- Strategy: Brand differentiation based on performance and quality.
- Governance: Decision-making influenced by family values and vision.

The family's values and vision are the foundation for a planning process where each critical factor adds synergy based on a unity of purpose between the family and the business.

The Porsche family and specifically, Ferdinand Piech the VW Chairman, sees combining Porsche (the firm that bears his grandfather's name) with the much larger VW (founded by his grandfather) as making strategic sense and strengthening the family legacy.

This visionary family leader championed the Porsche acquisition of VW but it is the non-family Porsche CEO, Wendelin Wiedeking and his management team that delivered the successful outcome.

It also important to recognise that according to many

market analysts the manufacturing synergies between the two companies would not be a strong enough reason for the merger.

The recent economic summit in Washington, DC, focused on restarting the global economy and stabilising the financial markets through more government regulation and oversight. There is no value in slamming hedge funds because they can play an intermediary role in the world economic system but perhaps the best way to control their actions is not more regulations but more firms like Porsche.

Short sellers are not a threat to well-run and profitable companies that create value for their stakeholders through growth and increasing their stock price. The financial crisis is a serious challenge and despite all the protests and charges that Porsche took financial advantage of the hedge funds the fact is that Porsche beat them at their own game.

Putting things in perspective the real lesson we should consider is how more companies can become driven by a long-term visions and values that create economic and social value.

Andrew Jackson, an early US president is quoted as saying, "One person with conviction (a vision) is a majority" – perhaps we should update this idea for our purposes and recognise that a "business family with a vision is also a majority." ●