



Transformation 2.0 - The Need for Adaptation between Players in a Globalized World

German-Mongolian Corporate Days 2015

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Ulaanbaatar, October 13, 2015

Outline

- The Competitive Advantage of Nations 3
- How Competitive Is Mongolia? 6
- Transformation of the Former Socialist Countries 9
- Mongolia on Its Way to Transformation 2.0 15
- Basic Elements of an Effective Enterprise Management in a Globalized World 21
- Mongolia in 2021 35

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■ The Competitive Advantage of Nations	3
■ How Competitive Is Mongolia?	6
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What Is National Competitiveness?



National prosperity is created, not inherited.



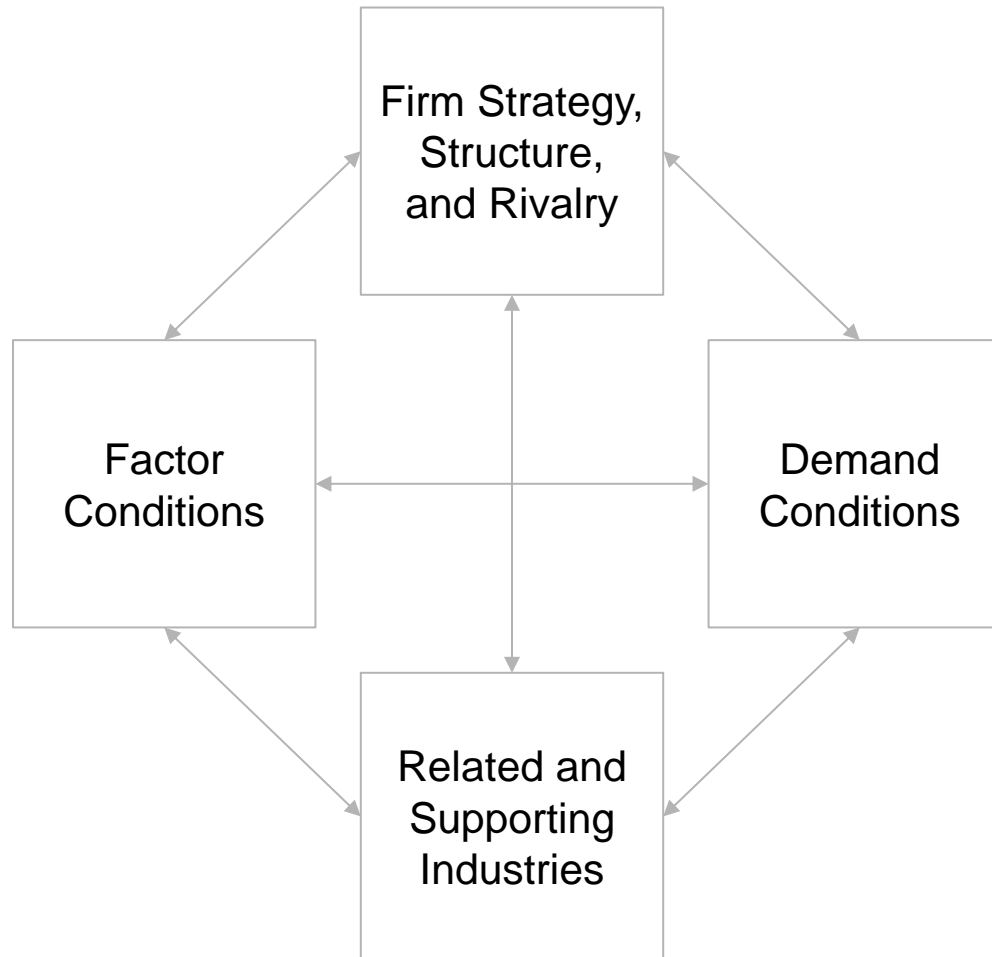
The only meaningful concept of competitiveness at national level is productivity.



Michael E. Porter

“The Competitive Advantage of Nations”, 1990, p. 76

Determinants of National Competitive Advantage

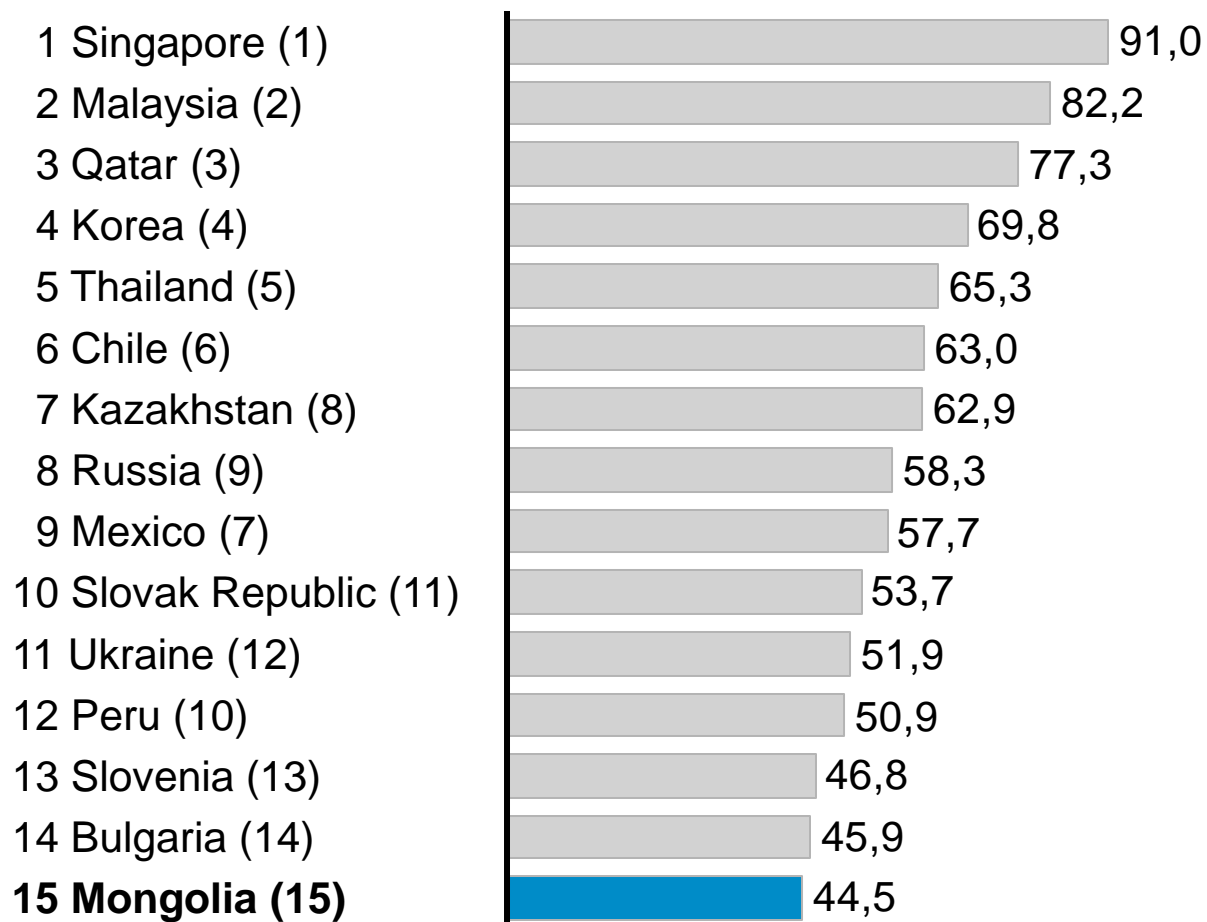


Source: Porter, M. E., "The Competitive Advantage of Nations", Harvard Business Review, 1990, p. 78

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Selected Countries from the 2014 IMD World Competitiveness Scoreboard with Mongolia



(2013 rankings are in brackets)

Source: IMD, 2015, p. 9

Mongolia Is a Rich Country!

But



- The “curse of resources“ is dangerous!
- Rich resources can cause a not competitive and not productive attitude!

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Mongolia Is Coming from a “Socialist Economy”

„Economics of Shortage“ (János Kornai, 1980)




The shortage economy is an intrinsic, system-specific attribute of the socialist system that reforms may alleviate but can never abolish.

Kornai 2006, p. 242



Centralistic Planned Economy

- 
- No competition
 - No Market
 - Central Plans (Comecon!)
 - Planning Bureaucracy
 - “Tons-Ideology”
 - Corruption (“back door”-relationships)
 - Autarchy
 - No Management

Transformation 1.0: Opening to Market Orientation



- Privatization
- Efficiency gap
- Foreign investors
- First steps in corporate governance
- Lack of management knowledge
- Oligarchs
- International business starts

Transformation 2.0: Competition in Globalized Markets

■ Corporate governance works

■ Investment environment is an issue

■ Company management improved

■ Management education with world standards

■ Participation in global value chains

There Are also Adaptation Needs for Players from Developed Countries Working with Emerging Countries

1

Become familiar with the specific institutional and business setting

2

Pay attention to cultural aspects

3

Create clear definitions and rules for decision and information interfaces

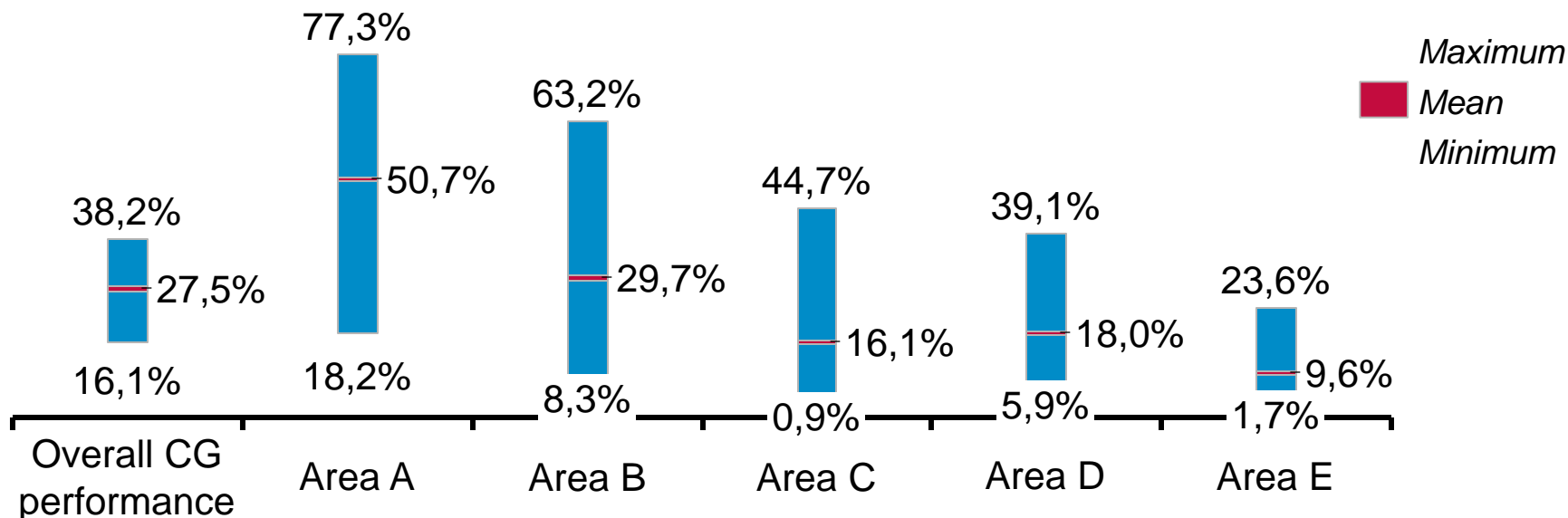
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Simplify!

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Overall Corporate Governance Performance in Mongolia



	Mean	Minimum	Maximum
Overall CG Performance	27,5	16,1	38,2
A - Rights of shareholders	50,7	18,2	77,3
B - Equitable treatment of shareholders	29,7	8,3	63,2
C - Role of stakeholders	16,1	0,9	44,7
D - Disclosure and transparency	18,0	5,9	39,1
E - Responsibilities of the board	9,6	1,7	23,6

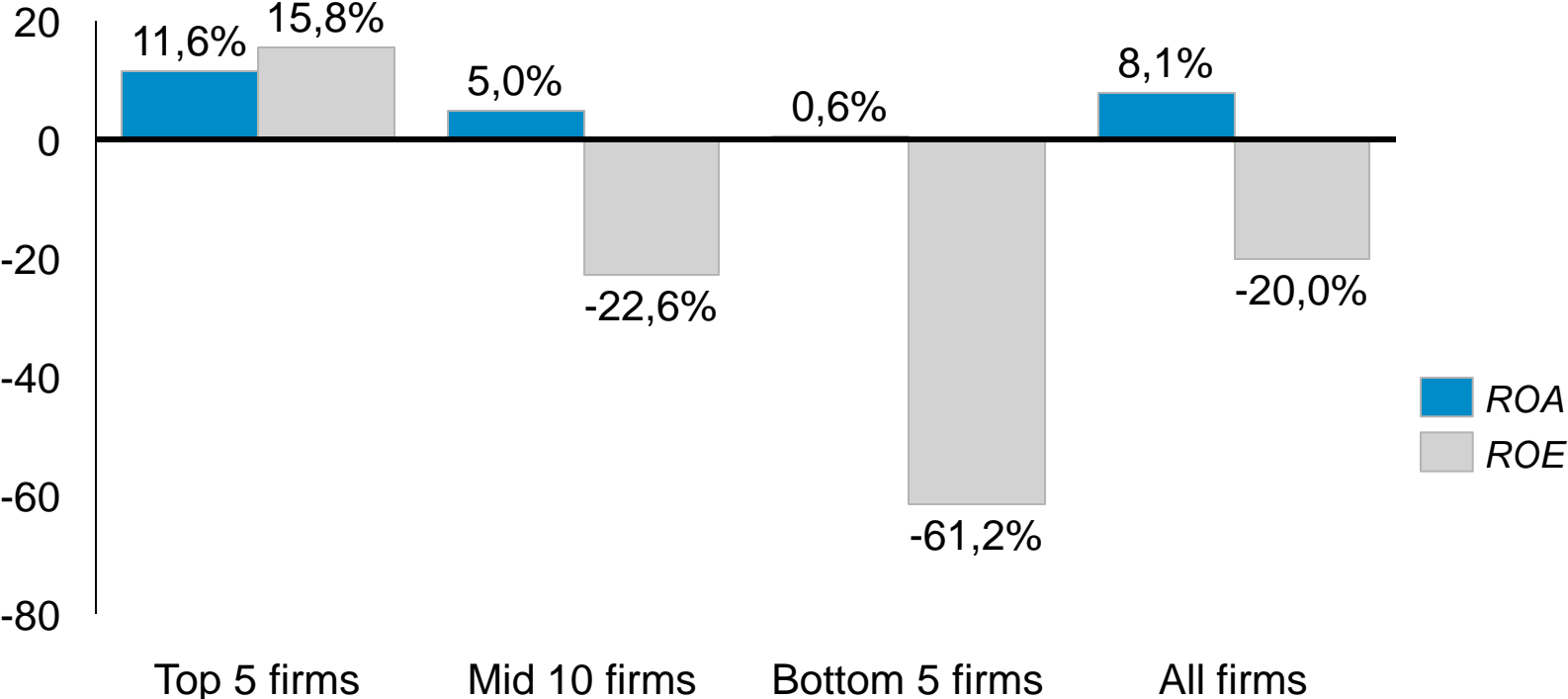
Source: IFC, "Corporate governance scorecard 2011", 2013, p. 24

Corporate Governance Scorecard Based on the OECD Principles of Corporate Governance

Area	Category	Number of questions	% of total score
A	The rights of shareholders	22	15
B	Equitable treatment of shareholders	19	15
C	Role of stakeholders in corporate governance	14	10
D	Disclosure and transparency	32	30
E	The responsibilities of the board	36	30
Total		123	100

Source: IFC, "Corporate governance scorecard 2011", 2013, p. 21/22

Corporate Governance Practices and Profitability in Mongolia



Source: IFC, "Corporate governance scorecard 2011", 2013, p. 14

Corporate Governance in Other Asian Countries Compared to Mongolia

Country	Year of Scorecard	Mean Score %
Vietnam	2009 (1st scorecard)	43,9
Hong Kong	2006	70,6
Hong Kong	2008	72,0
Thailand	2001 (1st scorecard)	50,0
Thailand	2011	77,0
Philippines	2004 (1st scorecard)	53,0
Philippines	2008	72,0
Mongolia	2013	27,5

Source: IFC, "Corporate governance scorecard 2011", 2013, p. 25

Summary for Corporate Governance in Mongolia



Corporate Governance in Mongolia, as indicated in this review, is in its infancy.

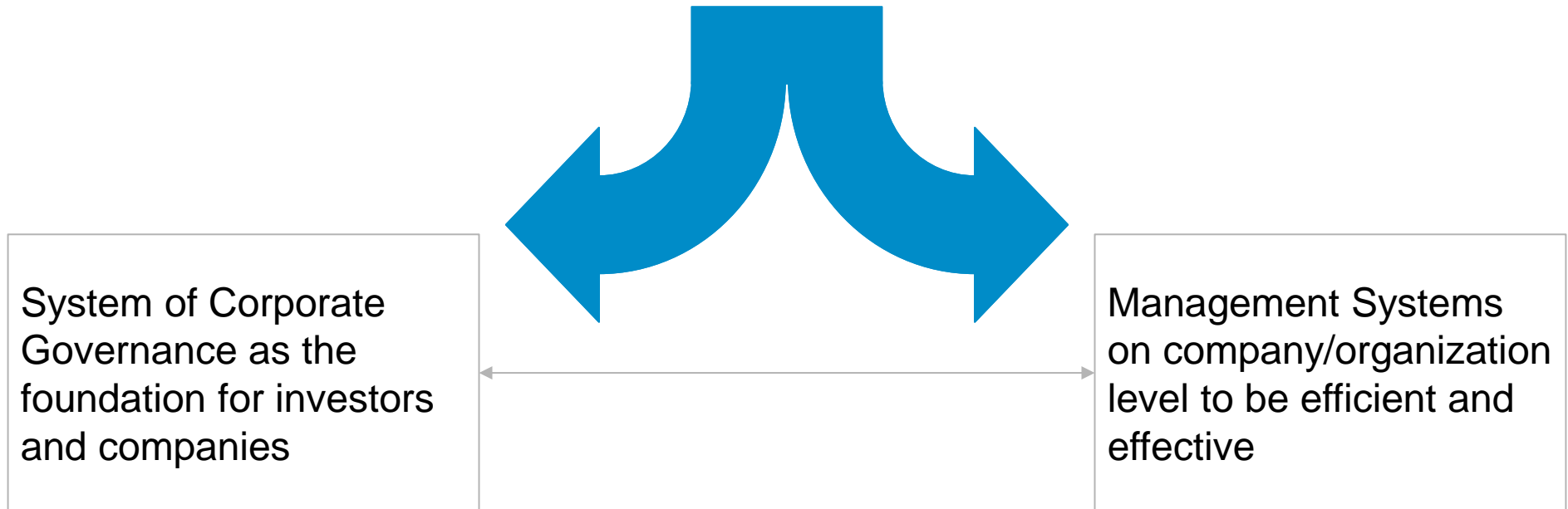


International Finance corporation in collaboration with the Financial Regulatory Commission of Mongolia and the Corporate Governance Development Center of Mongolia 2013, p. 14 (IFC)

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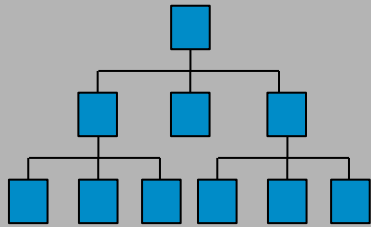
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Mongolian Public Management and Mongolian Companies Need to Meet International Standards to Improve Competitiveness



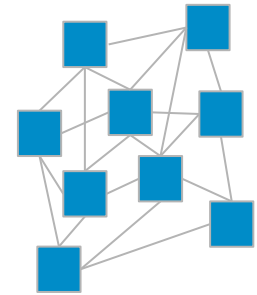
Beside the Macro-Level Transformation Business Entities also Need Reorganization

Planned economy



Market Economy

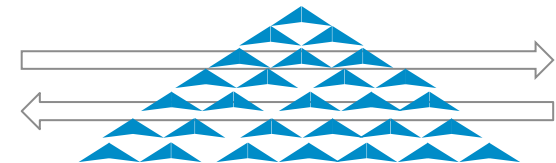
- Private ownership
- Competition
- Freedom of choice
- Price and quality co-ordinate
- Legal safeguarding of ownership rights and contracts



Traditional state-owned companies



Competitive Business Organizations



Competitive Business Organizations Differ from the Traditional Model along Several Important Dimensions

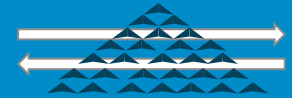
Traditional Organization



- Enjoyed monopol position, loses markets as conditions change
- Centralized, only top-down communication is permitted
- Monolith structure, functional administration
- Autarchic approach, produces most of the inputs internally
- Bureaucratic, tries to please state level decision makers
- Critical question: to change or to die?

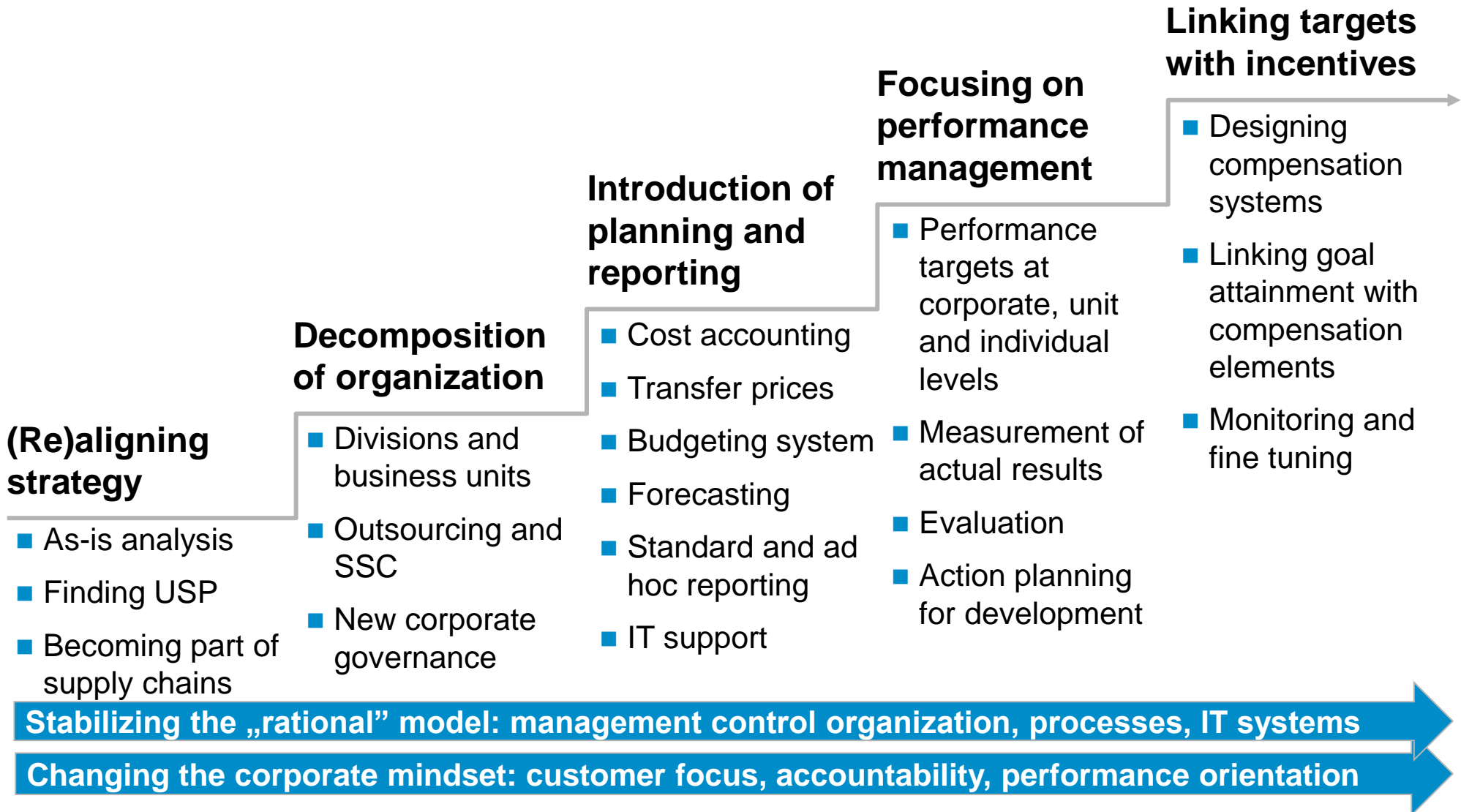
Corporate Level Transformation

Target Model

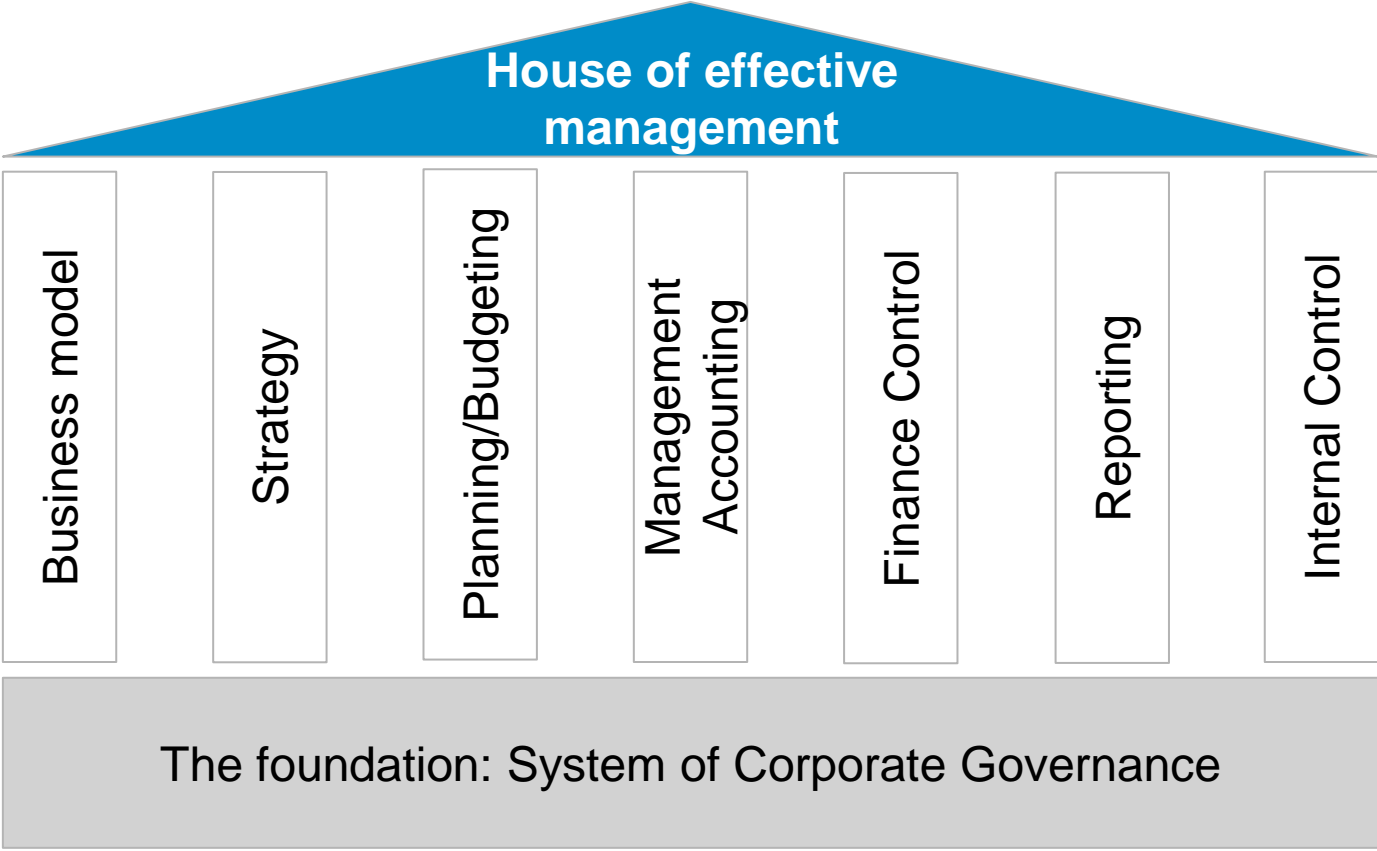


- Provides convincing USP as part of a local/global value chain
- Decentralized, less hierarchical, allows horizontal communication
- Decomposed structure, made of product/market based divisions
- Focuses only on core processes, non-critical activity is outsourced
- Market led, strives to please customers
- Critical question: how to sustain or grow further?

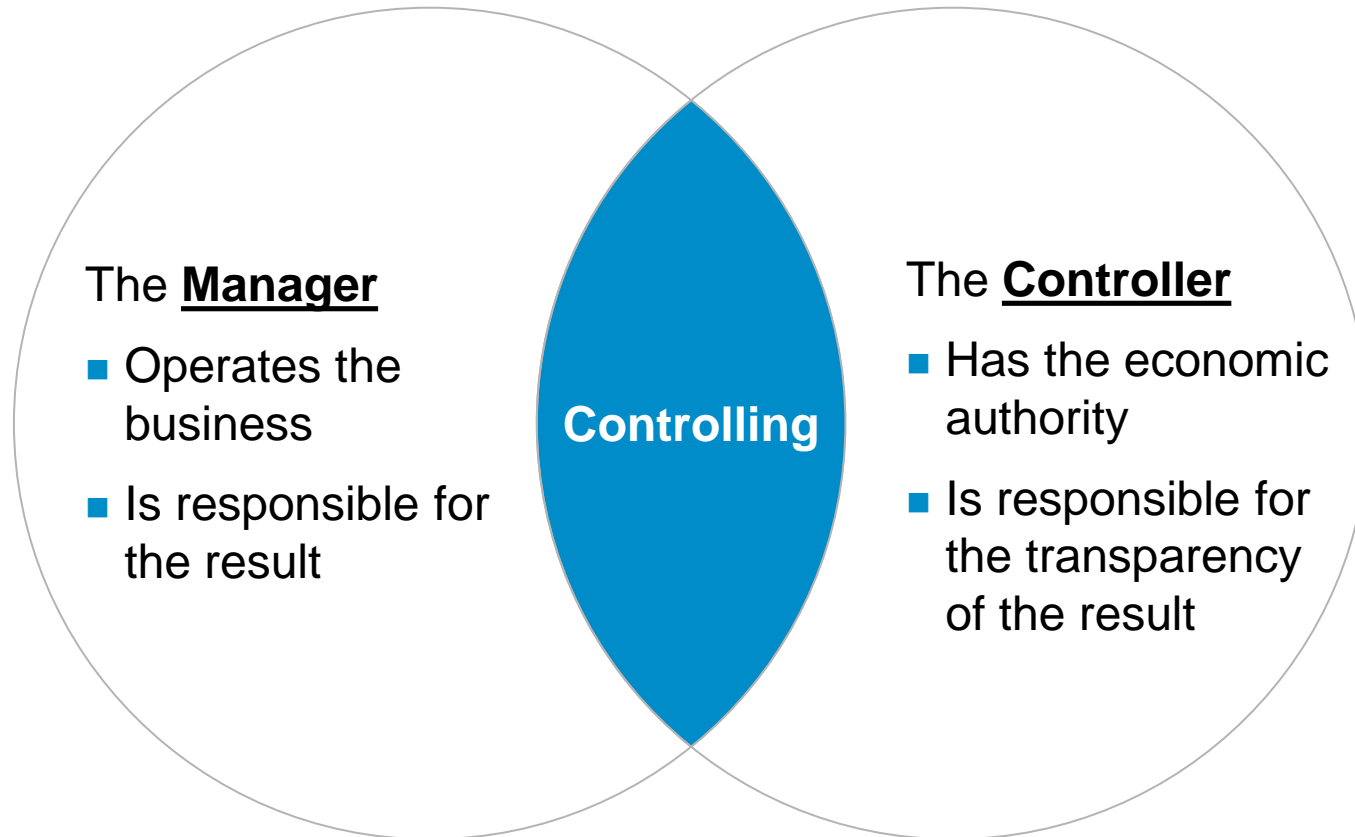
Reorganizing Traditional Companies Is a Longer Process, in Which Both the Content and the Order of Steps Are Critical



The Seven Pillars of Effective Management Systems

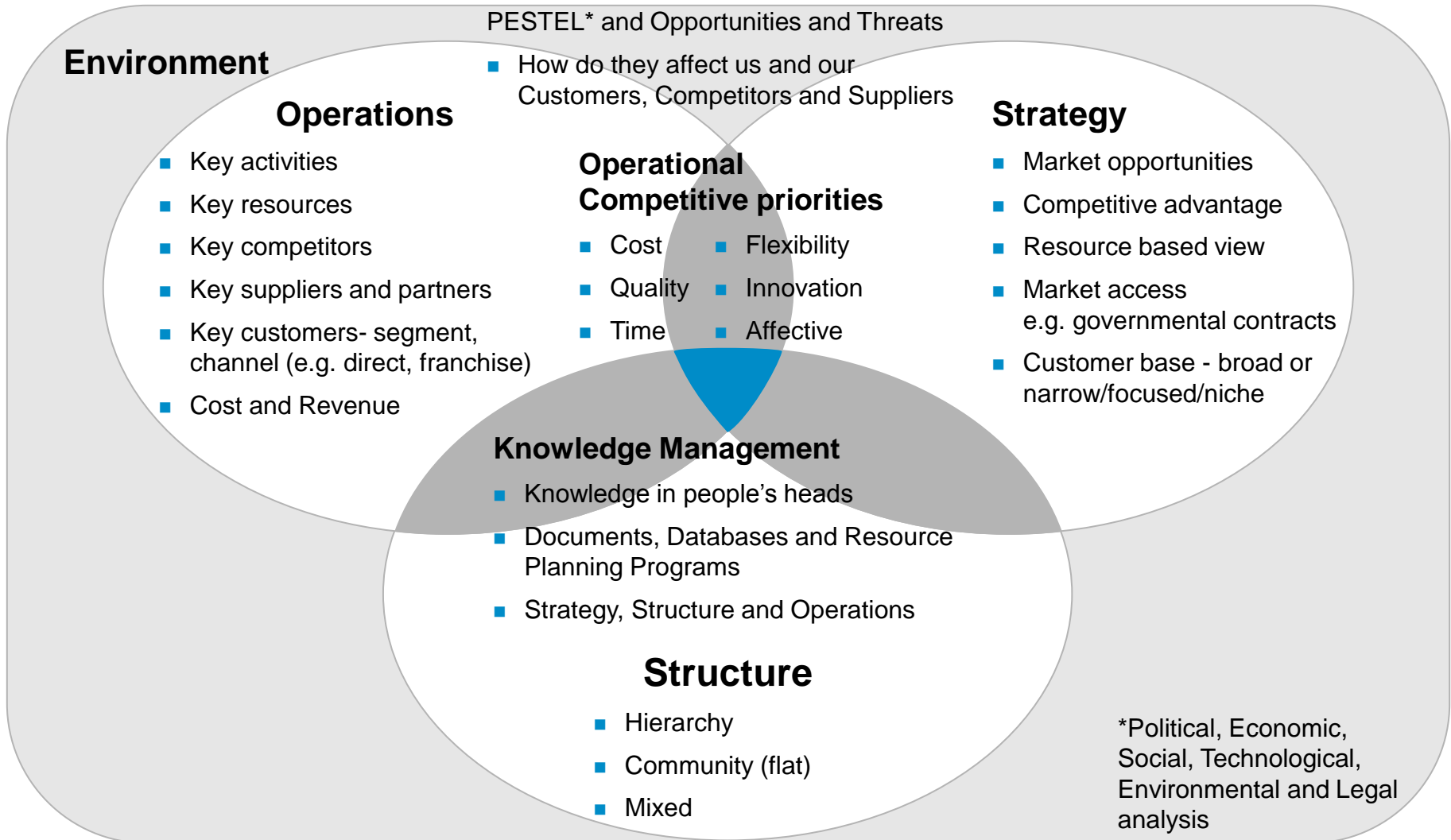


The Manager Needs a Business Partner!



Source: Adapted from IGC (ed.), "Controller-Wörterbuch", Stuttgart 2005, p. 58

Business Model: The Blueprint of How an Organization Does Business



Source: Lim, M., "Environment-Strategy-Structure-Operations (ESSO) Business Model", 2010

What Is Strategy?

1

Competitive strategy is about being different.

2

Operational effectiveness (OE) means performing similar activities *better* than rivals perform them.

3

In contrast, strategic positioning means performing *different* activities from rivals' or performing similar activities in *different ways*.

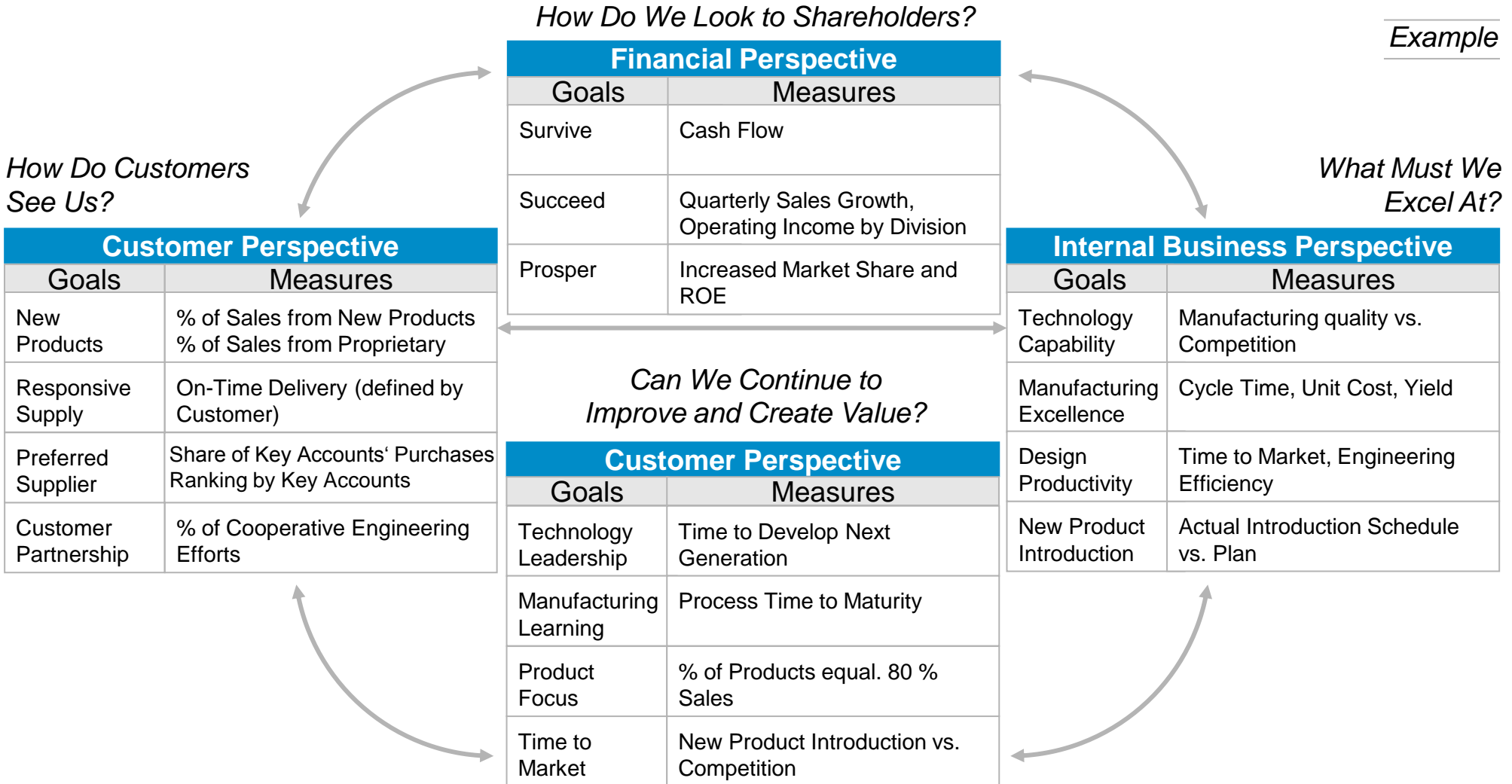
Source: Porter, M. E., "What Is Strategy?", Harvard Business Review, 1996

From Mission to Action



Source: Kaplan, R., Norton, D., "Strategy Maps", Harvard Business School 2004, p. 33

The Balanced Scorecard Provides a Framework to Translate Strategy Into Operational Terms



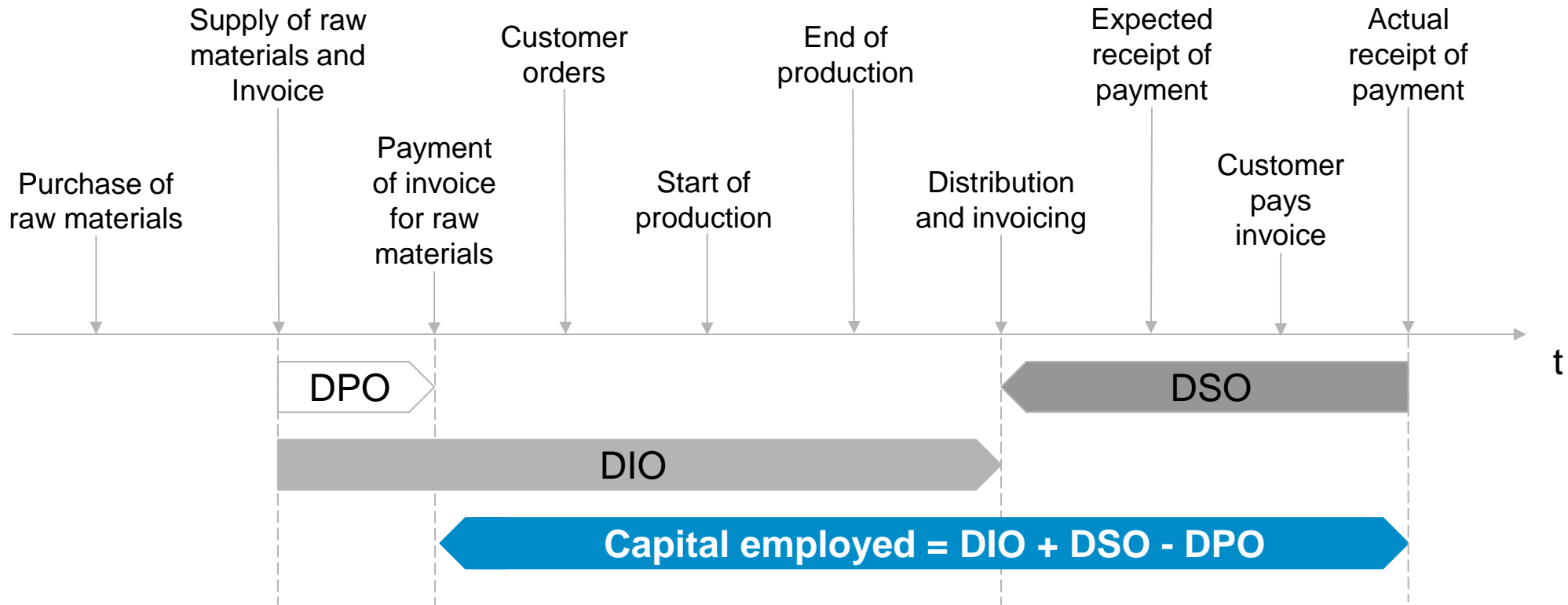
Source: Adapted from Zirkler, B., "Führungsorientiertes US-Amerikanisches Management Accounting", Universität Erlangen-Nürnberg 2001, p. 117

The Planning Framework

Planning level	Main question	Decision contents	Plan elements
Corporate policy	Who do we want to be?	Setup Main objectives and constraints	Vision, mission statement, corporate concepts
Strategic Planning	Where do we want to go?	Find and select potentials for success	Strategic Plans
Operative Planning	How do we reach our objectives?	Exploit existing potentials for success or build up the new ones	Mid-term planning Annual planning
Disposition	How do we react to turbulences	Take corrective actions to stay on course	Forecasting
Implementation			

Source: IGC, "Controller-Wörterbuch", Stuttgart 2005, p. 207

Finance: The Cash Conversion Cycle



DPO: Days payable outstanding
 DIO: Days Inventory Outstanding
 DSO: Days Sales Outstanding

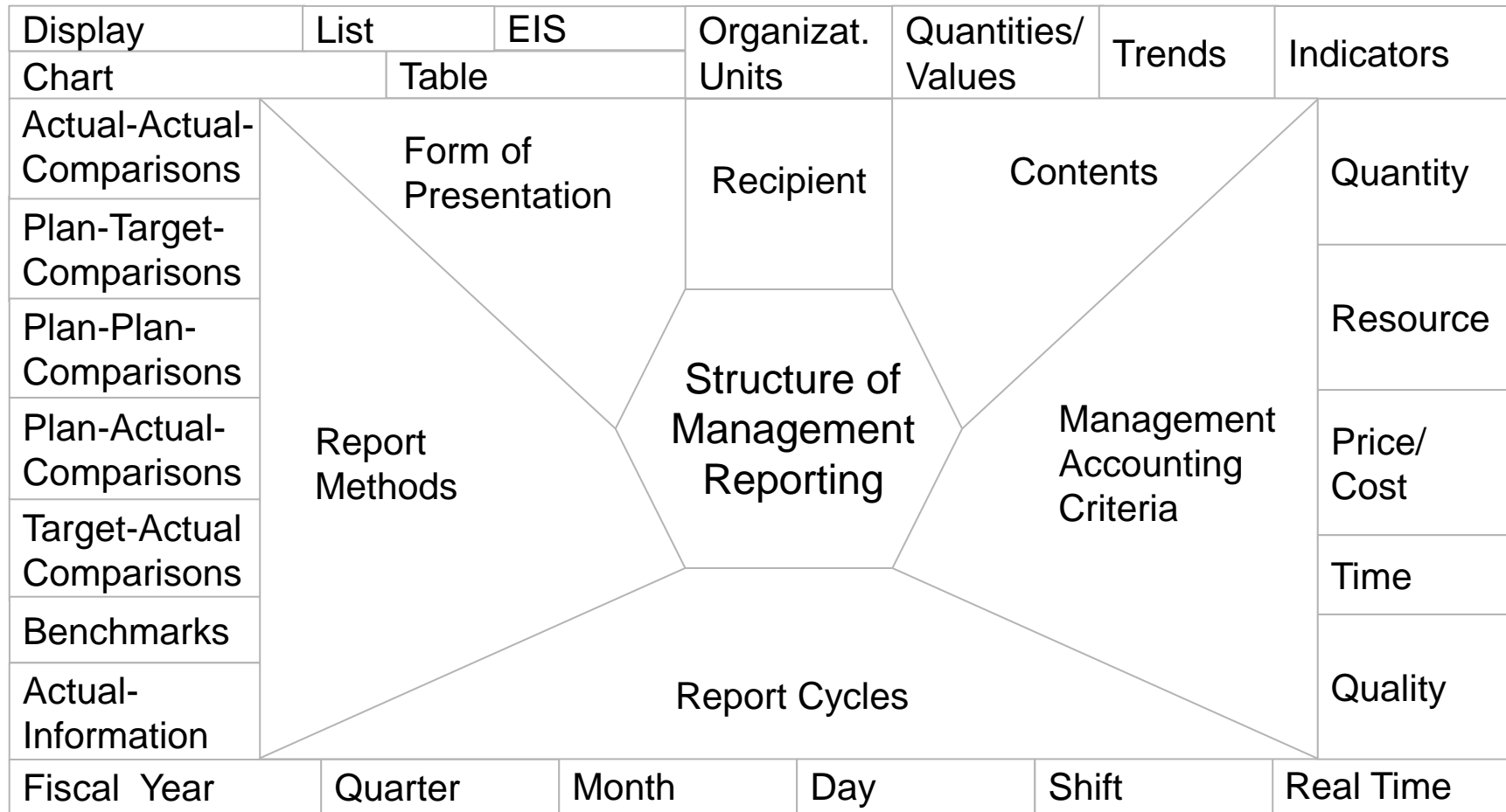
Source: Gleich, R., Horváth, P., Michel, U. (ed.), "Finanz-Controlling - Strategische und operative Steuerung der Liquidität", Munich 2011, p. 18

Management Accounting Tools

Applications	Tools	Accounting system	Planning system	MbO system
Guiding question:		What figure	...is relevant for what kind of decision	and who is responsible for carrying it out?
Sales		Contribution accounting	Price/volume decisions	Profit center responsibility
Production		Flexible budgets	Make or buy decision	Cost center responsibility
R&D		Project costing	Need to completion	Objectives of a project manager

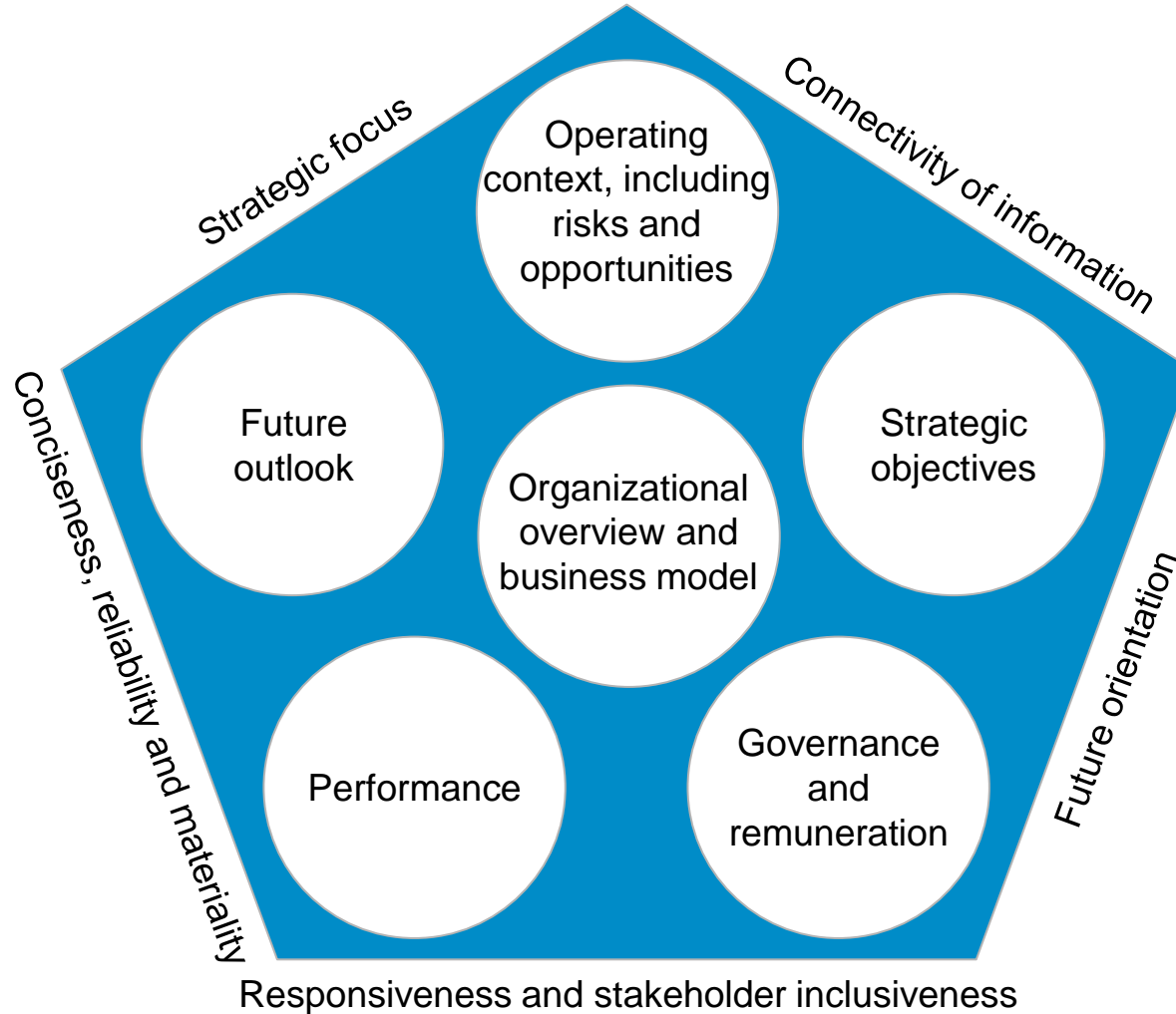
Source: Deyhle, A., et al., "Controlling & the Controller", Munich 2005, p. 48

Reporting: External Reports - Management Reports



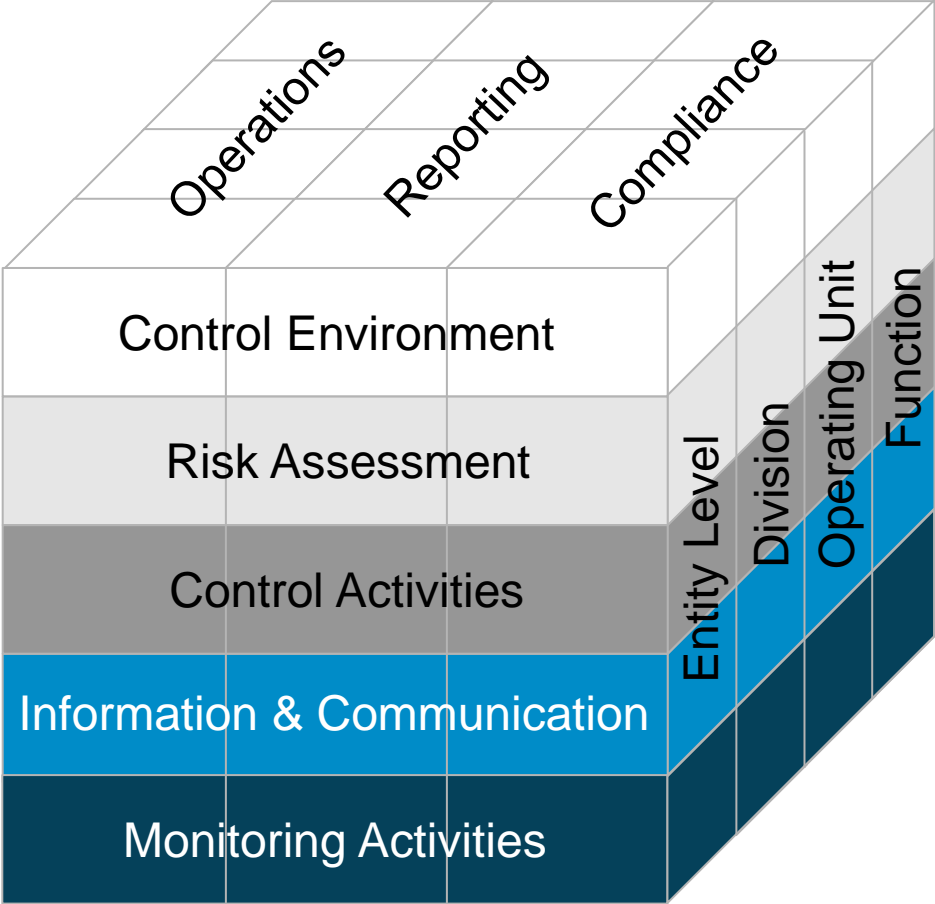
Source: Gleich, R., Klein, A. (ed.), "Der Controlling-Berater", Freiburg 2014, p. 73

Integrated Reporting



Source: IIRC (ed.), "Towards Integrated Reporting - Communicating Value in the 21st Century, 2011

Internal Control: The COSO Cube



COSO: Committee of Sponsoring Organizations of the Treadway Commission

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Conclusion



Mongolia is in an excellent position to be an outstanding economy.

IMD World Competitiveness Center
March 2015



Scenarios to 2021



- Mining Revenues are put to productive use
- Macroeconomic stability attained
- Economy diversifies, infrastructure improves
- Sustainable and inclusive development

- Resource curse and macroeconomic instability
- Mining development hampered by national and international political and economic difficulties
- Investment infrastructure constrained



Recommendations

- New objectives and tools of a comprehensive FDI strategy
- Regulatory and institutional reforms for foreign and local private sector development
- Programs for achieving diversification through FDI and other activities of foreign companies

Source: UNCTAD, "Investment Policy Review", April 2014

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