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Volkswagen: Requiem for a Dream?

Crisis management is only the first step for Volkswagen. Whether or not the company bounces back depends on its ability to change its culture.

With the Volkswagen logo on the front page of every newspaper, the first question that comes to mind is how many billions will this cost? The second, probably more fundamental question, is why did this happen? The facts are still murky and it will probably take months, if not years, before the complete picture can emerge. However, a few points can already be made.

While we know that the direct cause of the scandal was the software installed on Volkswagen cars which allowed them to cheat emissions tests, the installation did not happen in a vacuum. First, Volkswagen was under pressure. Its ambition to surpass Toyota as the world's largest automaker had been long-held and was achieved in the first half of 2015 despite a sales slump in the U.S. We now know at what cost. This goal for supremacy **was promoted** by former Volkswagen CEO Martin Winterkorn, who was notorious for using a "command-and-control" approach to management, reverberating the pressure throughout the organisation. A key component of his strategy was to develop a strong presence in the U.S. where pollution standards are particularly hard to meet for diesel cars, making the pressure very specific.

Secondly, Volkswagen had ample opportunity to implement its fraudulent scheme. The success of modern cars rests increasingly on the strength of their software rather than on mechanical design. In contrast, most car technicians are trained mechanics and a few lines of code in the millions that constitute the complex automobile software are hard to detect.

Third, the organisation was able to rationalise its behavior relatively easily. It is doubtful that the fraudulent software was the first and only step taken by Volkswagen to improve its performance during the pollution tests. In these type of corporate scandals, fraudulent manipulations typically start small and snowball overtime, giving rise to what psychologists call the "normalisation of deviance". To the extent that other companies did something similar, industry social norms may have provided another convenient rationalisation as they did in **numerous finance-related scandals**. Indeed, Takata, General Motors, Firestone or Ford, have all sold defective products **associated with hundreds of deaths**.

Getting Volkswagen back on track

With Winterkorn resigning under pressure from the scandal, company veteran Matthias Mueller has been named the new CEO and faces the daunting task of rebuilding VW's reputation and stock price. Some of his next steps will probably come out of the standard crisis management playbook:

First, acknowledge the problem (something that the company has already done).

Second, quickly implement short term measures. It’s likely an investigation will soon be launched and a number of resignations announced. The new CEO is likely to meet with regulators, financiers and other stakeholders. He will probably be in the media announcing a “new” Volkswagen and asking customers, employees and distributors to remain loyal to the brand during these difficult times.

Third, take long term measures to prevent the crisis from recurring. Training sessions, functional reorganisations and perhaps incentive restructuring are likely to be implemented.

The crux of the VW crisis

While the above steps will be a useful start, getting to the root of the problem requires deeper analysis of the Volkswagen culture. At its heart, the group is an engineering company. It excels at managing risk, i.e. known problems, through standards, processes and procedures. It is much less comfortable with uncertainty, or unknown problems, that may suddenly emerge and destabilise the organisation. It is not unique in this respect. Nokia, for example, has used a similar approach for years to fight back the steady flow of relatively marginal innovations coming from the competition. Unfortunately, the efficient processes, the numerous patents, the high reliability standards that made Nokia great at managing known problems **led to its demise** when Apple redefined the market with the iPhone. Stuck in a tough but predictable world, Nokia was unable to change its ways fast enough.

As the former head of Volkswagen's Porsche sports car division, 62-year-old Mueller comes with an aura of success. He is known and he knows the group. He is perceived as a safe hand that will steer the company through this unprecedented crisis. Unfortunately, this seemingly reassuring proximity does not make him an obvious candidate to change the culture of a company that is not unfamiliar with serious crises. In fact, Volkswagen and Porsche have **been associated with three other major scandals** involving market-manipulation, bribery and prostitution allegations over the last ten years.

Processes and individuals can be changed. Cultural changes are more difficult. When the American manufacturing company Tyco was embroiled in a scandal caused by the arrest of its former CEO on charges of fraud, it hired Ed Breen as a replacement. Breen, a company outsider, made technical changes but, more importantly, completely restructured senior management, engineering the departure of dozens of executives and of the entire board. Naturally, this came at a cost in terms of business continuity but Breen was able to significantly change Tyco’s culture.

These difficult changes often require a sense of urgency. As former White House Chief of Staff Rahm Emanuel famously said, "You never want a serious crisis to go to waste.” For Volkswagen, the time is now.

__Gilles Hilary__ is an INSEAD Professor of Accounting and Control and The Mubadala Chaired Professor in Corporate Governance and Strategy. He is also a contributing faculty member to the __INSEAD Corporate Governance Initiative__. Follow INSEAD Knowledge on __Twitter__ and __Facebook__

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