VW Has Yet to Revamp its Leadership

By Ludo Van der Heyden , INSEAD Chaired Professor in Corporate Governance and Academic Director of the INSEAD Corporate Governance Initiative

The enormity of the Volkswagen emissions scandal is a reminder of just how expensive weak governance can be.

With regulator fines, various class action lawsuits by customers and investors, and a global product recall; the full costs of Volkswagen's diesel emissions crisis remains unfathomable (although some analysts tip it to exceed **$86 billion**). Of equal concern is the shredding of the company's carefully honed image of technical excellence and commitment to "safe and environmentally sound vehicles".

Since the scandal broke a lack of consistent messaging has failed to reassure stakeholders, and the company's persistence in retaining insiders to manage its way out of the storm is doing little to help its cause. Recent **research** indicates that 64 percent of U.S. vehicle owners no longer trusted Volkswagen, and only 25 percent hold a positive view of the company.

Initially it seemed the company was moving in the right direction to handle the crisis. Within 48 hours of the EPA accusing Volkswagen of deliberately rigging its “defeat device” to cheat emissions tests, the car manufacturer **had released a statement from then CEO, Martin Winterkorn**, who took full responsibility and promised action (only to step down three days later). However, subsequent actions show Volkswagen’s ability to manage the fallout remain deeply compromised by the absence of a strong leadership structure.

History has shown that when a strong, competent and independent chair is able to step in and assume responsibility (and maybe act as interim CEO), a company in a crisis is better placed to navigate the storm. This was the case with BP when, managing the fallout from BP’s Gulf of Mexico oil spill disaster in 2010, company chairman Carl-Henric Svanberg had to take over from CEO Tony Hayward, whose **gaffes and public blaming** of partners had only exacerbated the crisis. Being newly appointed, Svanberg could afford to be less defensive of BP’s past than Hayward and more focused on moving forward. Svanberg pledged to create a $**20 billion victim compensation** fund and apologised to the American people. His decisions started the turnaround for BP, which accelerated after the board appointed U.S.-born BP veteran Bob Dudley as CEO.

Mixed priorities

When the recent Volkswagen crisis struck, the car manufacturer had yet to formally replace its former chairman, Dr. Ferdinand Piech who resigned in April 2015 after losing a showdown with Winterkorn. Piech was a long-serving former CEO of the Volkswagen group and a member of the Porsche family - the two branches of which own 31.5 percent of the Volkswagen group and over 50 percent of voting rights.

It seemed that the Volkswagen board’s priority was not so much to guarantee good governance of VW but to reconcile the goals of key stakeholders and local officials, including the labour representatives and the State of Lower Saxony (which owns 17 percent of the company’s shares and has 20 percent of voting rights), who shared the common goal of preserving jobs in the group’s main plants in Germany. At this time Dr. Piech had been obsessed with achieving global market share dominance, and expanding the company’s presence in the U.S., creating economies of scale that would enable the group to keep the jobs in Wolfsburg; aligning both sides on what proved to be a Faustian bargain.

After Piech resigned, Berthold Huber, a former chairman of the powerful IG Metall labor union, had taken on the role of interim chairman, with the Volkswagen group's supervisory board's executive and nomination committees nominating long-time CFO Hans Dieter Pötsch as chair on September 3rd, just 15 days before the EPA served formal notice on the company.

Pötsch, was confirmed as head of the board on October 7th, two weeks after Winterkorn's resignation, but gave little comfort that the company was drawing important lessons from the debacle with comments such as: **"We must overcome the current crisis. But we must also ensure that Volkswagen continues to grow."** This suggests that he saw the scandal as a hiccup on the road, not a wake-up call about a culture and organisation that had gone seriously astray.

Hoping for the best

It seems that Pötsch and the VW board are now hunkering down to ride out the crisis, believing that, in Germany, Volkswagen may be considered "too big to fail". It is probable that the German federal government, with the help of the state government of Lower Saxony and perhaps even the family owners and Qatar Holding (which has 15 percent of shares and 17 percent of votes), will come to the company's aid. However this may only encourage U.S. and other national regulators to impose even harsher penalties. And then there are the class-action lawsuits that are sure to follow given the deep pockets of the shareholders and government involved. The challenges will be further exacerbated by reports that the ECB isn't allowing the Volkswagen group to **fully benefit** from the central bank's "cheap" money.

The company may then have to consider alternatives such as breaking up Volkswagen into separately managed units providing options of selling off some of these divisions to cover the huge financial cost of the **"moral and political disaster**".

Society is expecting regulators, government officials and corporate boards to take more responsibility. The buck has to stop somewhere and corporate responsibility is the domain of boards of directors. To regain stakeholders' support and turn the company around, Pötsch and his supervisory board need to direct the group's management to institute major cultural, organisational, and strategic change.

Ludo Van der Heyden *is the Chaired Professor in Corporate Governance at INSEAD and Academic Director of the* ***INSEAD Corporate Governance Initiative****. He co-directs the* ***International Directors Programme****, and the* ***Value Creation for Owners and Directors Programme****, two of INSEAD's executive development programmes.*

Follow INSEAD Knowledge on ***Twitter*** *and* ***Facebook***

Find article at
https://knowledge.insead.edu/leadership-organisations/vw-has-yet-revamp-its-leadership

---

About the author(s)

Ludo Van der Heyden is the INSEAD Chaired Professor of Corporate Governance and Emeritus Professor of Technology and Operations Management. He is the founder of the INSEAD Corporate Governance Centre.