CASE STUDY

Volkswagen Emissions - Risk & Business Continuity Asleep At the Wheel?

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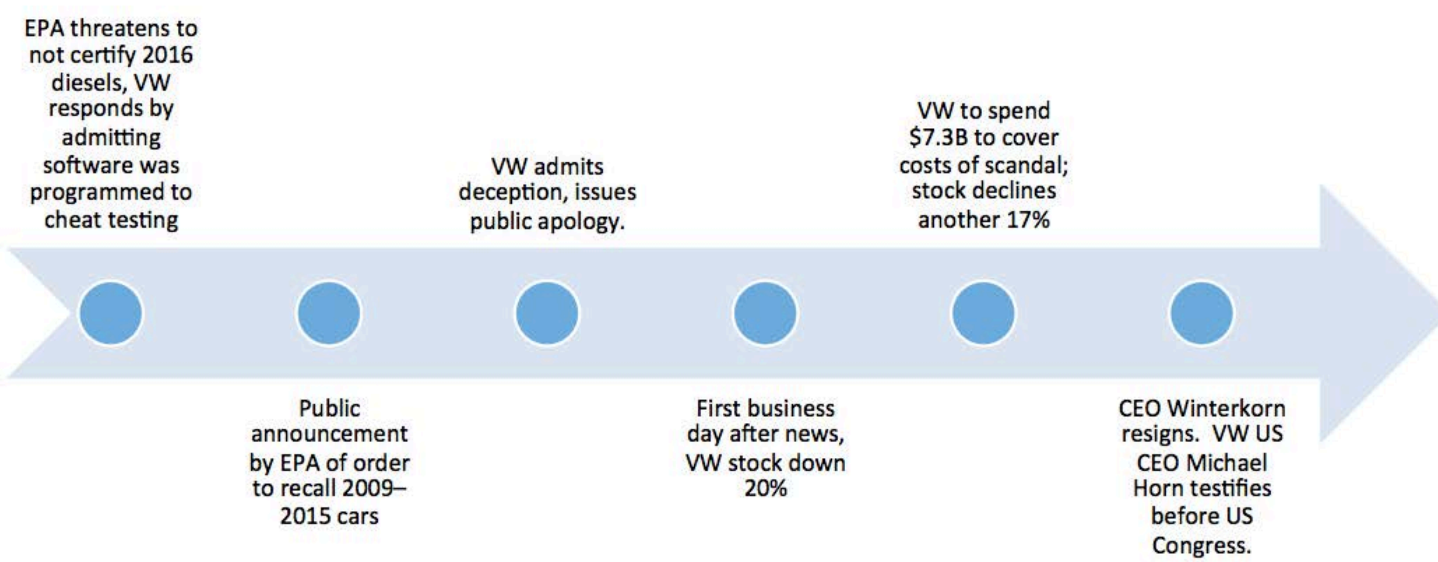
Timeline – 2015



BACKGROUND

Having survived a high profile scandal involving bribery and brothels, this time Volkswagen is pulled over by the US Government for cheating on emissions tests.

On Friday September 18th, 2015, the US Environment Protection Agency alleged that Volkswagen used a sophisticated software algorithm on certain vehicles that detects when the car is undergoing official emissions testing, and turns full emissions controls on only during the test. The effectiveness of these vehicles' pollution emissions control devices is greatly reduced during all normal driving situations. This results in cars that meet emissions standards in the laboratory or testing station, but during normal operation, emit nitrogen oxides, or NOx, at up to 40 times the standard. The software produced by Volkswagen is a "defeat device," as defined by the Clean Air Act.

On Sunday September 21st, 2015, the company's CEO Dr. Martin Winterkorn issued a public statement including an online video, apologizing for the misconduct and indicating the scandal was wider involving 11 million cars globally. He rebuffed calls from critics to step down and promised an internal investigation.

Three days later, Dr. Winterkorn steps down as CEO and the company's Board issues a nine-point statement.

By the end of September 2015 Volkswagen announced plans to refit up to 11 million vehicles and online based services were set up for customers to check if their car is affected. April 2016 Volkswagen announced that it will be offering its US customers "substantial compensation" and car buyback offers for nearly 500,000 2.0-litre vehicles.

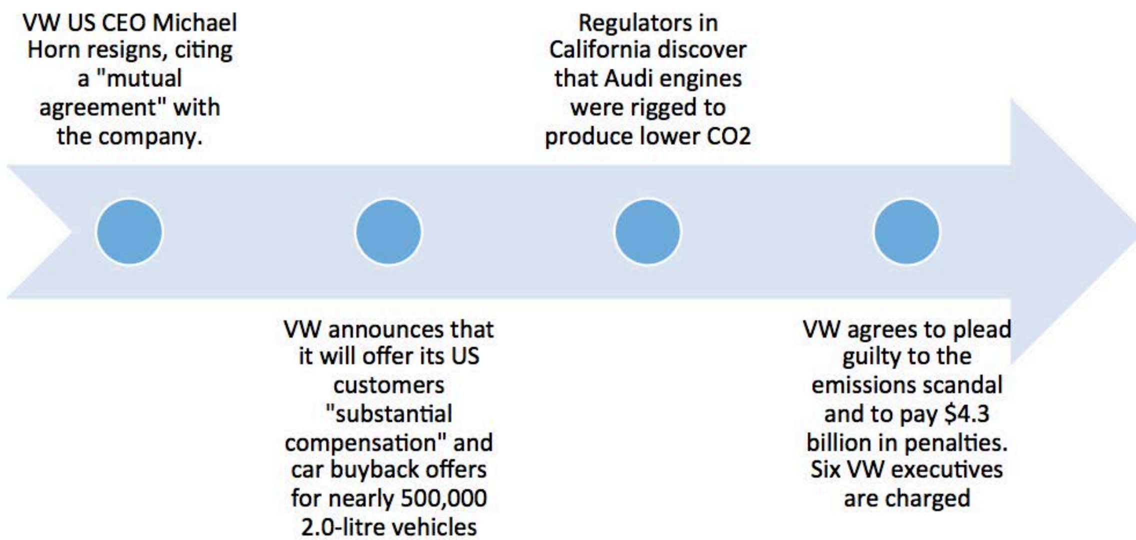
In the months leading up to Volkswagens announcement of compensation Volkswagens investigation team found that CO_2 emissions and fuel consumption figures are also affected by "irregularities" but later revised the report saying that only around 36,000 vehicles are affected.

The German Federal Motor Transport Authority (KBA) approved Volkswagens fixes for the 1.2, 1.6 and 2.0 diesel engines in Europe. However, Regulators in California discovered that Audi engines were rigged to produce lower CO_2

US CEO Michael Horn testified before US Congress and resigned four months later, citing a "mutual agreement" with the company.

In January 2017 Volkswagen agreed to plead guilty to the emissions scandal and pay $4.3 billion in penalties. Six Volkswagen executives have been charged.

Timeline – 2016 / 2017



THE IMPACT

Unlike other product recalls that are generated by quality control or continuous improvement, this scandal is extremely damaging because it was *intentional and international*.

Shares in Volkswagen (VLKAY) plunged 17% about a third of the value of the group was wiped out in two days. Volkswagen has been ordered to recall the vehicles, and the company is halting sales of some cars in the U.S. Volkswagen may also face fines of up to $18 billion in the U.S. alone, the company is reserving $7.3 billion dollars in contingency.

There is collateral damage: Germany's reputation for premium luxury vehicles, reliability and efficiency is at stake. The German auto industry accounts for about 20% of exports, and employs 775,000 people directly. The scandal on emissions data raised fears that damage may not be limited to the automaker. Shares of BMW and Mercedes have slipped; perhaps the biggest losers are the Audi and Porsche premium brands being affiliated with *Volkswagen*.

LESSONS LEARNED

1. **Protect the brand**. For those of us in the public/non-profit sector, it simply means *credibility* and *reputation*. Who will do business with us if we lose both? Remember the **3 Rs**; **RESPOND** quickly, **RE-ASSURE** the Clients and **RECOVER** to a (new) normal.

2. **Risk is everyone's responsibility**. Whistleblowing may get immediate attention, but it also shows an underlying problem of *accountability* and trust, both of which is toxic for any organization. From C-Suite to the assembly line,

all employees are responsible for identifying risk for their organization and should be encouraged to participate (with discretion) without reprimand.

3. Risk should be embedded with business strategy and operations. Is cheating the US government and betraying customers trust part of the corporate business plan? Whether by culture or otherwise, organizations typically manage risk in isolated pockets; it's usually after epic fails when Senior Management is pulled into the room to save the day.

An enterprise risk program defines the amount and type of risk Senior Management is willing to make; an expectation that is matured with business strategy and reinforced through quarterly reporting on business activities. This helps ensure all business units are evaluating risk using the same criteria and red flags appear *before* the situation goes out of control. Risks will vary with controls and changing business conditions, but Senior Management not knowing is never the acceptable answer.

4. Have a practical business continuity plan. Is business continuity solely for hurricanes, earthquakes or building fires? We must think beyond disasters and consider *business disruptions*. Be it a cyber-attack or supply chain failure, a rouge employee or product recalls, a workable business continuity plan will help with a quicker and more favourable outcome for the business and its customers. Not sure where to start? Update the corporate risk register and it will show where the vulnerabilities lie; those can be used to develop effective continuity plans and exercises.

5. Trust your teams. There are two extremes; CEOs like Dr. Winterkorn who seize the mic right away or CEOs like Tony Hayward (BP) who surfaced too late after the Gulf oil spill. Having the top boss too soon on the mic sends the message *"we messed up so royally, you really have to hear this from the horse's mouth"*. Sending the top boss too late gives the impression *"we didn't care enough until it was too late."*

Canadian based Maple Leaf CEO Michael McCain showed the right approach to crisis communications. When it became clear the company was linked to a listeria outbreak, he said: *"...going through the crisis there are two advisers I've paid no attention to. The first are the lawyers, and the second are the accountants. It's not about money or legal liability, this is about our being accountable for providing consumers with safe food."*

Senior Management needs to trust their teams; the people who daily contribute to build the brands and convince customers, can also help in damage control if empowered to do so.

6. Exercise. There is no better way to build *confidence* in the business continuity plans and trust amongst Senior Management and their teams. Are we scrambling for words at the time of or is there a pre-scripted message ready to go? Does the spokesperson require media training or can they deliver the message with confidence? Were the assumptions true or did we learn something new? Exercises designed to help create awareness and familiarity best prepare an organization should the real event occur. ■