

Leadership Lessons From The Volkswagen Saga- Corporate Governance, Ethics, Branding, Corporate Culture, CSR, Crisis Communications, and Leadership Accountability

Steven Howard

History of Volkswagen's diesel engine cheating, and an analysis of the morals to be drawn

Stephen Howard has made a career out of studying all aspects of corporate leadership. This book is an in-depth analysis of the crisis that Volkswagen brought upon itself by cheating on diesel emissions measurements.

The crisis stands out even among the clutter of corporate misdeeds that characterize this age. It was not mere oversight, carelessness or casual mistakes. It was out and out cheating that took place over a long period of time. Moreover, a great many individuals throughout the Volkswagen organization were aware of it. The wonder is not that it finally came to light, but that such a widely shared secret could remain hidden for so long.

Howard provides a detailed history of the problem. His final chapter is a timeline starting in 2009, when engineers began to install a defeat device in the software to dupe US emissions controls capping nitrogen oxide emissions. Actually, he reports, they had cheated in a small way two decades earlier on gasoline emissions.

To Howard it is a problem of corporate governance. Volkswagen's corporate culture was highly authoritarian, a top down structure that did not tolerate failure and did not solicit advice from the rank-and-file. Volkswagen made itself highly vulnerable, and it is suffering the effects of hubris.

His book identifies the people involved and the ways in which they brought the disaster upon themselves. It is a lesson for other corporations. Howard's chapter outline goes into the lessons to be learned in each sphere of management. My review follows his chapter structure.

Chapter 1: How the scandal unfolded

Volkswagen was riding high when the scandal became news in the fall of 2015. It had overtaken Toyota as the world's number one automobile manufacturer. It had long been number one in Europe. Then, week after week, month after month things continued to unravel. Although Volkswagen spokesmen continued to downplay the problem, each new revelation made it broader and reached closer to the board room. Every effort to minimize the problem was unsuccessful.

Chapter 2: The defeat device software

The US government had enacted increasingly strict controls on NO_x emissions. Going to Wikipedia – Howard should have saved me this trouble – I find that this is a family of seven gases containing nitrogen and oxygen. Chief among them is NO₂, nitrogen oxide, and that is the generic name for the whole family.

In the presence of sunshine, gases in this group react with volatile organic compounds (VOCs) in the environment to form another group of chemicals that we know collectively as smog. It is the brown haze that makes breathing dangerous on summer days. It is bad for your health, which is why the Environmental Protection Agency establishes increasingly lower permissible limits.

Howard goes by the EPA book. Many places in the book he repeats that Volkswagen would allow 40 or 50 times the EPA limit of NO_x emissions. It would be helpful if he gave those numbers statistical significance. My own cursory research indicates that air pollution exacerbates asthma, resulting in several tens of deaths per year and a significant amount of time away from work. I did not find articles

that could separately attribute the problems to NOx, particulate emissions and ozone. I did find that there is a consensus that NOx emissions are primarily attributable to man and that half of them come from motor vehicles, diesel more than gasoline.

To his credit, Howard notes that no other automobile manufacturer has been able to meet EPA and California diesel emissions standards. They are all stuck in the same quandary, but they did not cheat as egregiously as Volkswagen did.

We all know that automobiles are dangerous. The argument begs the question of how the danger posed by the pollution they create stacks up against the most measurable of other dangers, automobile fatalities, and indirect effects such as getting no exercise. It would help to put the NOx danger in perspective. Do the costs of reducing NOx emissions justify the expense?

I remember the air over Los Angeles in the 1950s, in the days of leaded gasoline. My eyes would smart the moment I crested the Grapevine Hill and descended into the Los Angeles basin. In the years since I have been a regular bicycle commuter and have not felt terribly affected by the pollution I was breathing, NOx or no. All things are relative. A nagging question remains in my brain as to whether the EPA, for its own bureaucratic reasons, has placed all of the automobile manufacturers in jeopardy by overstating the threat.

President Trump has reversed several Obama positions on the environment. Obama categorized CO2 as a pollutant. Trump changed its category back to merely one of the components of the atmosphere, one that has been present since Earth's creation. Obama set a fleet average mileage goal of 55 MPG, one that the industry found impossible to meet. Trump rolled it back. The NOx emissions limits of which Volkswagen and the other manufacturers run afoul seems to be of the same sort. Some limit is necessary, but the one chosen appears to have been knowingly impossible for industry to meet.

Howard repeatedly says that Volkswagen's sin was to fail to implement a \$334 per vehicle engineering change that would have obviated the problem. That seems too simplistic. Among other things it would have required using urea in the combustion process. The first question that comes to mind is "where would urea come from? A separate tank?" Referring once again to Wikipedia, it appears that the problem is one of temperature. Diesels love to operate at high temperatures. However, the higher they go, the more the nitrogen in the air gets converted to NOx compounds. This seems to be the trade-off: high temperature, high efficiency, high nitrogen oxide emissions versus low temperature, lower efficiency and lower emissions. Whatever the case, diesel engines appear to require catalytic converters and filters to capture and deactivate these pollutants. The question is, can they capture enough.

Howard does not mention soot, the traditional bugaboo of diesel engines. There are also limits on emissions of particulate matter. It appears that higher operating temperatures result in more complete combustion of diesel fuel, reducing particulate emissions. Though Howard does not mention it, it may well be that the manufacturers faced a Hobson's choice: NOx or soot. Or abandon diesel altogether for gasoline engines, which have their own problems.

Chapter 3: Widespread impact

Volkswagen had 610,000 employees worldwide at the time. The number of people working in dealerships, suppliers, and other related entities was a few times that number. The Volkswagen company had a large number of shareholders, the biggest of which were the heirs of the German automotive dynasties, the German state governments, and Qatar. These entities had 89% voting control and 55% beneficial interest. Even more broadly, Volkswagen as a flagship German entity was

an emblem of German manufacturing prowess and reliability. A blow to its credibility was a blow to all of Germany.

Chapter 4: Corporate leadership lessons

This chapter addresses the question of leadership vs. management. A leader takes responsibility for a problem quickly and resolutely, and seeks a remedy. A manager tends to be reactive, to duck and hide. It did not work for Volkswagen.

Chapter 5: Corporate governance lessons

Volkswagen's management was isolated and hierarchical. The people in charge were descendents of the founding dynasties and longtime corporate functionaries. Union representatives made up almost half of the board of trustees, the remaining being from the government of the German state and the family dynasts.

The unions and the government people were interested in maintaining employment. Members from the founding families were interested in their executive prerogatives. Nobody was particularly interested in listening to the rank-and-file. Nobody was attentive to possible long-term problems.

Every country has its own corporate culture. See [\[\[ASIN:0071439595 Cultures and Organizations: Software of the Mind\]\]](#) for details.

Chapter 6: Branding lessons

The damage done to the Volkswagen brand, and that of Germany as well, is incalculable.

Chapter 7: Crisis communications lessons

In any crisis such as the one described here – other examples are the British Petroleum drilling rig in the Gulf of Mexico and the Exxon Valdez crisis – it is important that the company present a consistent story to the press. The company needs to pick at most three spokespeople, fewer if possible, and have those people provide as much information as possible, with as much credibility as possible. What Volkswagen did, absolutely wrong, was to allow mid-level managers to speak to the press. They often provided incomplete, self-serving stories that unraveled quickly and only diminished the company's credibility.

Chapter 8: Corporate responsibility lessons

A company has a responsibility to the public. Howard frequently cites, in a negative context, Milton Friedman who said that its primary obligation was to its shareholders. He notes that even Friedman said that the company was bound to operate ethically, within the law. In any case, a good corporate citizen should accept responsibility for the well-being of its customers, employees, and the environment. Volkswagen was doing none of this.

Chapter 9: Individual accountability lessons

Without defending Volkswagen in any way, I will observe that this is a cynical era. Organizations such as the EPA and OSHA regularly seem to exceed the boundaries of common sense. This overreach causes them to be widely disrespected by the American public. While one would hope that good

corporate citizens would cooperate with the government, one would also hope that the government would work a bit harder to be deserving of the citizens' respect.

Chapter 10: It's still not over

Howard got his book to press before the story is over. He had to. It will drag out for years. He says that he will continue to update the book on roughly a six month cycle until the story is more or less at an end. What a wonderful way to be able to produce a book! This is an advantage of Kindle and our modern age.

That's the review. It is a good history. The book has a few structural flaws. There are quite a few incidents that are retold as many as three and four times. Howard needs a more careful editor. The table of contents I have provided here is not in the book itself. I had to make it myself – you may want to refer to this table of contents as you read the book. As I indicated above, Howard has a stronger belief than I do that the government has our best interests at heart as they craft the law, and that adherence to the law is an ethical must. I would say, more cynically, the government has the power and one is certainly wise to do what they tell you. One should not, however, blindly assume that just because the government says so it must be true.