PHOTO: GETTY IMAGES / GALLO IMAGES

WIN BACK THE TRUST

Words Chris Gibbons

Following shock revelations about cheating on diesel emissions tests, top executives at German car-maker Volkswagen say their number one priority is to win back trust. Are they going about it the right way, though?

VW's supervisory board Chairman Hans Dieter Pötsch says the firm has "lost the trust of our customers, investors and employees. As well as the trust from politicians and the public. The biggest challenge is to win back that trust."

Unsurprisingly, VW's new CEO, Matthias Mueller and the head of the giant car-maker's North American business, Michael Horn echo Pötsch's sentiments. "My most urgent task is to win back trust for the Volkswagen Group by leaving no stone unturned and with maximum transparency," said Mueller shortly after his appointment in September last year. He was brought on board after then-CEO Martin Winterkorn fell on his sword as a result of the scandal.

Testifying to Congress in Washington a fortnight or so later, Horn, a 25-year VW veteran, confirmed that the company had "broken the trust of our customers, dealerships, and employees, as well as the public and regulators."

So what should a vast company like VW do when it finds itself in a mess of such epic proportions? And has the Wolfsburg-based giant taken the right steps so far?

TRUE CONFESSIONS

"One of the core principles of crisis mitigation is that you'll be judged not by what caused the crisis but by your actions and decisions responding to it. Your response reflects your character and values," says Alan Hilburg, New York-based president of Hilburg Associates and a global leader in this field.

"VW was initially responsive and nimble, but they lost the narrative because they were too slow in assigning responsibility for who knew what and when, and doing something about it. They took no dramatic action steps to say, 'We've identified the executives that made this anti-values decision and we've removed them.' A bad situation that drifts out of control always gets worse," says Hilburg, whose experience stretches back to the strategy he designed in 1982 for Johnson & Johnson, when a mass murderer laced their Tylenol pain-killer product with cyanide, killing seven people in the greater Chicago area.

Horn certainly drew praise for his honesty on Capitol Hill, particularly when he stated that he also struggled "to understand how such a thing could have happened without the knowledge of senior management."

But South African car industry veteran and marketing expert Chris Moerdyk agrees with Hilburg: "VW head office has failed dismally in terms of crisis management, generally speaking."

He is also scathing about VW South Africa's response: "VW South Africa has a history of arrogance, in my opinion. As someone who gets involved in customer service training, I have had all manner of conversations with VW owners who have experienced bad enough service to lead me to this conclusion.

"Another example of this arrogance was VW South Africa's eventual media statement claiming that VW cars in South Africa were all within the emissions requirements. No mention was made of the fact that SA's emissions requirements are much lower than the US, for example," says Moerdyk.

Hans Dieter Pötsch

WHAT NOW?

Several critics of VW have pointed to the company's structure as one cause of the crisis – a few very large and secretive shareholders, along with management and supervisory boards made up almost entirely of insiders. If this is indeed a problem, Alan Hilburg believes the company needs to shift to values-driven leadership.

"All great organisations have common traits. Great brand trust. Great values. Great leadership with a clear view of their higher purpose. The value of great values is that those values guide every decision everyone makes everyday. Values-driven decisions and decision-making shatters organisational silos, biases, and the breakdown of transparency and sharing of knowledge," he says, adding that "VW is experiencing a painful lesson in the high cost of low trust."

When a company's brand has been contaminated by the company's own decisions, Hilburg offers a number of important steps to rebuilding trust:

RE-EXAMINE YOUR VALUES Do they reflect contemporary behaviours or desired behaviours? Is everyone in the organisation fluent in the values?

REVISIT YOUR BRAND TRUST STRATEGY Understand how your brand 'touch' feels and how that feeling has been jeopardised by the recent events. Triple your investment to demonstrate you take customer trust seriously.

RE-BOOT THE CUSTOMER EXPERIENCE VW has to take the three elements of an exceptional showroom experience to a new level. (1. The Welcome. 2. The Connection. 3. The Close.)

REMIND THE MARKET WHY THEY TRUSTED VW Engineering excellence with flair. (Re-establish the high value of high trust.)

RESTAGE THEIR PROFILE Senior executives in every market need to establish a high profile where they speak on reversing the international crisis of distrust. (An opportunity to put their experience in a larger context to explain what one large company is doing about it.)

VW's greatest challenge, according to Hilburg, "is that in retrenching and retracting in order to accumulate the cash and assets necessary to respond to the penalty of their decisions, they are diverting important resources from the recovery."

DO WE REALLY CARE?

Chris Moerdyk has a more nuanced – some might even say cynical – view: "It is important to balance [VW's] seemingly guarded and often dismissive statements with the real effect this crisis will have on the consumer. One has to bear in mind that the software VW added to fool emission testing would have had the effect of allowing the affected cars to actually perform


Matthias Mueller

better when being driven and this would have appealed to what I believe to be the majority of consumers. Like most global car brands VW is undoubtedly aware of the fact that for the majority of drivers things like emissions and even safety do not really rate that highly."

Moerdyk recalls that many years ago, before countries began insisting on safety features, Toyota offered airbags as a optional extra on their cars, "not a single airbag was purchased worldwide. For many motorists, if they had the choice of all the safety features such as airbags, ABS brakes, collision control systems, dynamic suspension, etc., or a lower price – the majority, especially younger consumers, would probably opt for the lower prices."

He also thinks that VW not only knows this but has also taken it into account: "It is the only possible explanation for their shockingly bad crisis management performance."

Nonetheless, Moerdyk has no doubt that VW will bounce back "in spite of the horrendous cost of putting things right on all the cars affected by this technical skulduggery. Both in terms of money and reputation. I do not believe the consumer cares too much about this blot on VW's reputation because the VW debacle has to be seen in the context of a business world today that is being continually found wanting in terms of ethical behaviour."

He adds that he doesn't believe VW is alone in all of this, "because there is no question that most motor manufacturers believe that emission controls, particularly those in the USA, are far too harsh to the point of seriously inhibiting performance. All brands make a point of highlighting what they are doing in terms of emission controls and 'going green' but I suspect this is more for the benefit of legislators than customers."

Look at most motoring magazines, says Moerdyk, and "you will see a column on their model listings showing emission data. I am willing to bet that is very rare for any potential buyer to take that number into consideration when choosing a car. What they will look at seriously is fuel consumption and performance – and both of these are inhibited by stringent emission control. If one were to ask the average motorist whether they would prefer better emission controls at the expense of fuel consumption or performance, I am not in any way convinced they would choose emission controls."

THE COST

While VW has provisioned in excess of €6.5 billion to cover the cost of recalled vehicles and also faces steep fines in both Europe and America, "it remains to be seen what a long-term impact on VW's brand and sales will be," says Coronation Asset Management's emerging markets analyst David Cook. Writing in the October 2015 edition of *Corospondent*, the fund manager's quarterly magazine, Cook notes that "Judging from similar cases in the past, market share losses will be short-lived."

He says VW has approximately "€25 billion in net cash on their balance sheet, should generate free cash flow of €4 billion to €5 billion per year, and thus should be able to weather the shorter-term tough trading conditions and pay the necessary fines and compensation..."

At one point after the crisis broke, VW's shares were down 41% – a drop of €33 billion in market capitalisation, but Cook believes "the sell-off is well overdone, and thus presents an attractive investment opportunity. We have been adding to the Porsche [VW's holding company] positions in our funds."

PROGRESS REPORTS

VW's Wolfsburg head office has warned against expectations of any quick investigation, with Chairman Pötsch stating that finding's answers would take "some time". However, it has already unveiled the preliminary results of its investigation into the scandal.

At a news conference in early December last year, Pötsch admitted to "a mindset" in parts of the company that permitted rule breaking. He also confirmed that the decision to fit the so-called "defeat" devices to beat the emission tests had been taken because it had not been possible to comply with US standards "within the required timeframe and budget".

At the time of writing, a US law firm, Jones Day, is continuing its investigation into the scandal, although no names have surfaced so far. But, as any recovering alcoholic will confirm, the initial step to recovery is to admit there's a problem in the first place. At least VW has done that