Volkswagen AG

VW v Siemens: Why the carmaker is stumbling after its scandal

Criticism mounts over stalled attempts to reform after emissions controversy

Volkswagen has looked unconvincing in its response to a much larger crisis than the one that engulfed its fellow German group Siemens © FT montage / AP / Bloomberg

Patrick McGee in Frankfurt JULY 23, 2018

If Siemens set the gold standard over how to respond to scandal, then Volkswagen gains a bronze at best. The carmaker's attempts to clean up its act in the wake of the emissions scandal have sputtered, stalled and reversed to the dismay of investors and analysts.

Unlike Siemens, which shook up its management, clawed back money from former executives and initiated a vast governance reform programme following a slush-fund scandal, Volkswagen has faltered in its response to a much larger crisis than the one that engulfed its fellow German group.

"I wouldn't even put them [VW] at bronze. I don't know what I'd call it — none of the medals," said Jeff Thinnes, a compliance expert and founder of consultancy

JTI. “Siemens just took the bull by the horns to make compliance an integral part of day-to-day work. VW is light years away from that.”

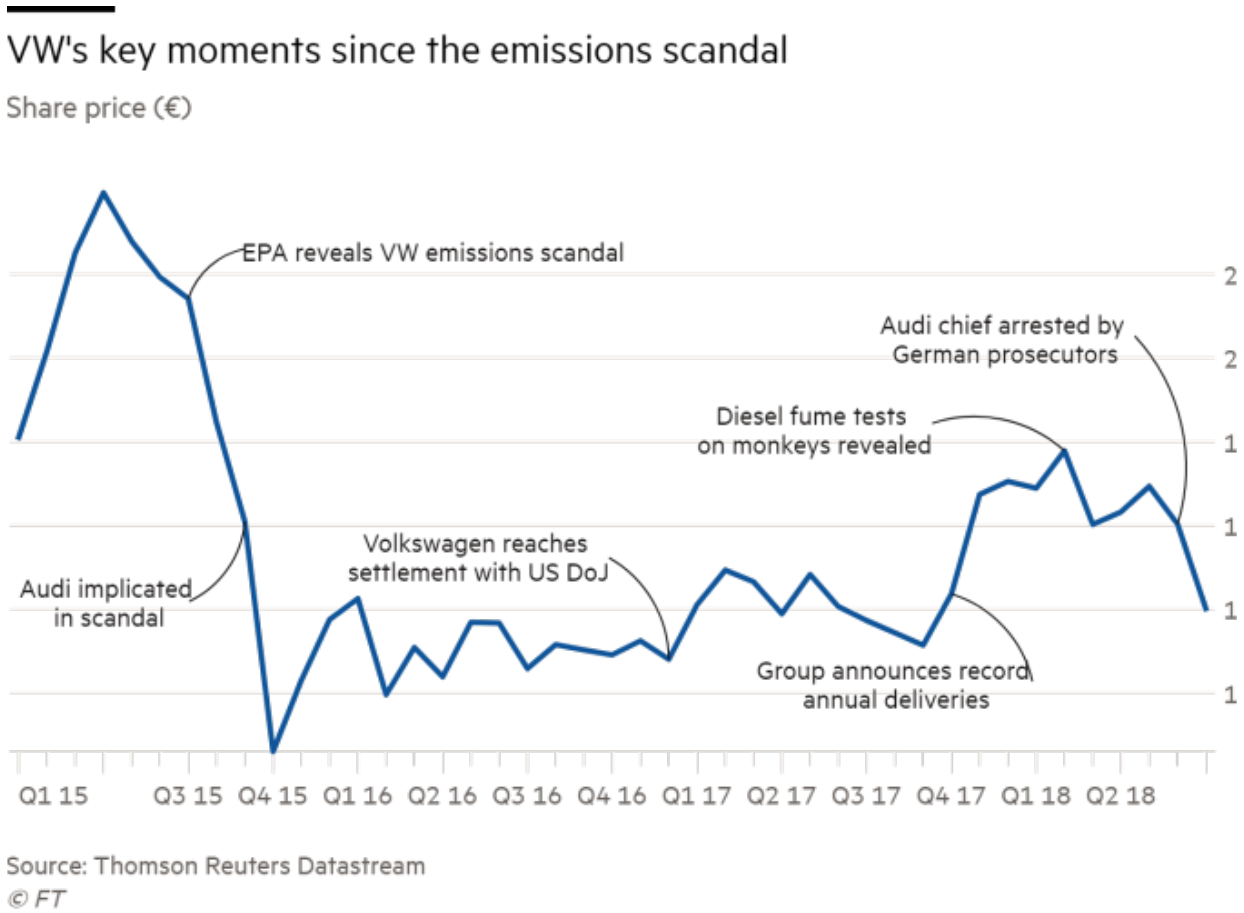
Now, Hiltrud Werner, head of integrity and legal affairs at VW, wants to tackle the corporate governance problems head on and show that the company can implement long-lasting changes in the aftermath of a crisis that has cost it more than $25bn in damages.

The stakes are high. Without real reform, VW faces an existential risk, said Ms Werner.

“They have only this one shot,” she said in her office in Wolfsburg. “$25bn! If you think of any other case coming up in the next three years where they have to pay, again, $25bn, this company is dead.

“Or at least, it will [cease] to exist in the structure that it has now.”

The problem is that while VW has taken big steps to cut bloated costs, reduce engineering complexity and drive full-throttle into electric and self-driving technologies, visible reforms on governance have been few.



Nearly three years after the cheating was exposed, the US court-appointed compliance watchdog in April called reforms “unsatisfactory” and cited a lack of “true cultural change”.

Ms Werner insisted Volkswagen is open to major changes.

She pointed out that thousands of business processes have been rewritten and 300 people are working to implement reforms. Whistleblowing programmes have been enhanced and cultural programmes are allowing VW employees to speak freely and engage more openly with their bosses. “They are not afraid any more to knock on a door,” she said.

These anecdotes pale in comparison, however, to the sort of reforms Siemens made after it was caught bribing foreign officials after prosecutors raided the Munich headquarters of Europe’s largest conglomerate in 2006 and discovered more than €1.3bn in slush funds for illegal payments.

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"When [Siemens] got in trouble, they recognised they were corrupt from the core, brought in outsiders from the C-Suite to the board and embraced change," said Richard Bistrong, an anti-bribery and compliance consultant. "Now they are an anti-corruption champion and talk about how their new business model is profitable."

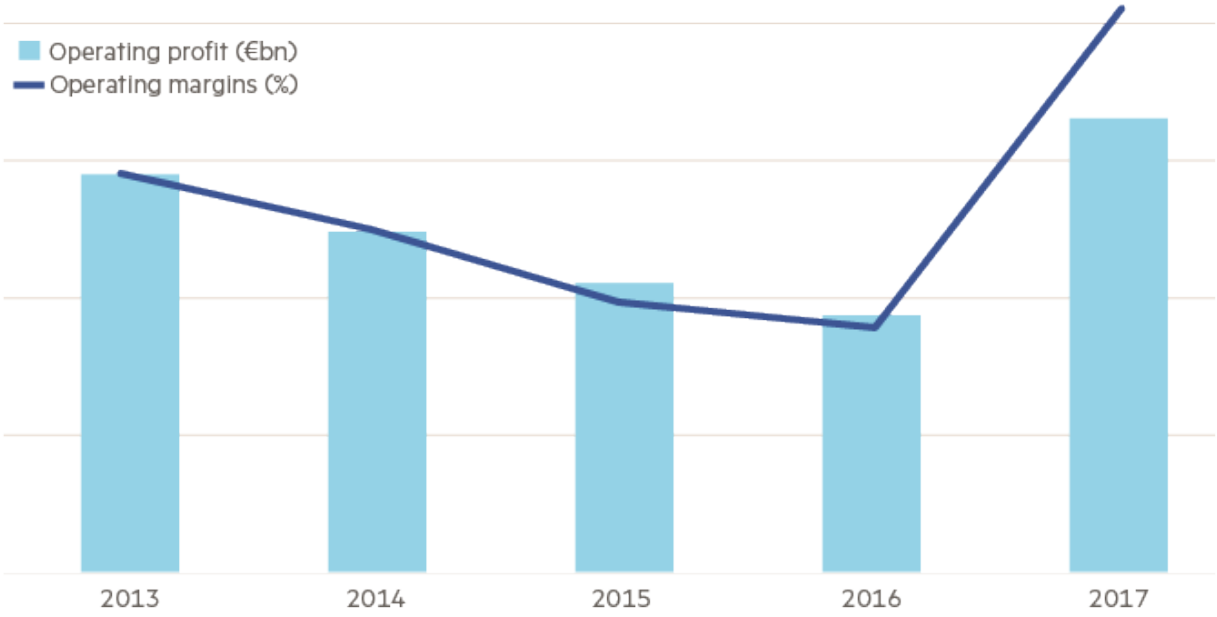
Mr Thinnes added: "The effect of the signals being sent were unmistakable. Change was coming like a locomotive: you either got on board or you were no longer at the company."

Siemens brought in outsiders for the chairman and chief executive roles. At Volkswagen, by contrast, insiders who had worked closely with executives later charged in the affair were promoted.

Long-time finance chief Hans Dieter Pötsch became VW chairman. The head of Porsche, Matthias Müller, was named CEO. Rupert Stadler, the head of Audi since 2007 — when the illegal software used at VW, Porsche and Audi was first installed — formally remains in the role despite being arrested last month.

Operationally, VW has moved quickly

Operating profits



Source: company
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Moreover, while Volkswagen has suspended and dismissed numerous individuals allegedly involved in the affair, it has not threatened former executives with lawsuits or attempted to claw back money from them.

The inaction follows Mr Pötsch's pledge to shareholders they could "rest assured" the company would "relentlessly" go after those responsible and "bring these persons to account".

It also contrasts with the fact that earlier this year, former chief executive Martin Winterkorn was charged by US prosecutors on four counts for his alleged role in the scandal. A year earlier, the US also charged six other former employees. Last month, Braunschweig prosecutors fined VW a record €1bn and said "monitoring duties had been breached in the powertrain development department".

VW has pleaded guilty in the US and said it accepts the Braunschweig statement.

Ms Werner conceded that VW's efforts fall short of the standard set by Siemens.

Former chief executives Matthias Müller, left, of VW and Peter Löscher of Siemens © FT Montage

However, she also suggested that some groups over-reached in their efforts to establish a clean slate, adding that companies which followed in their bold footsteps later regretted it.

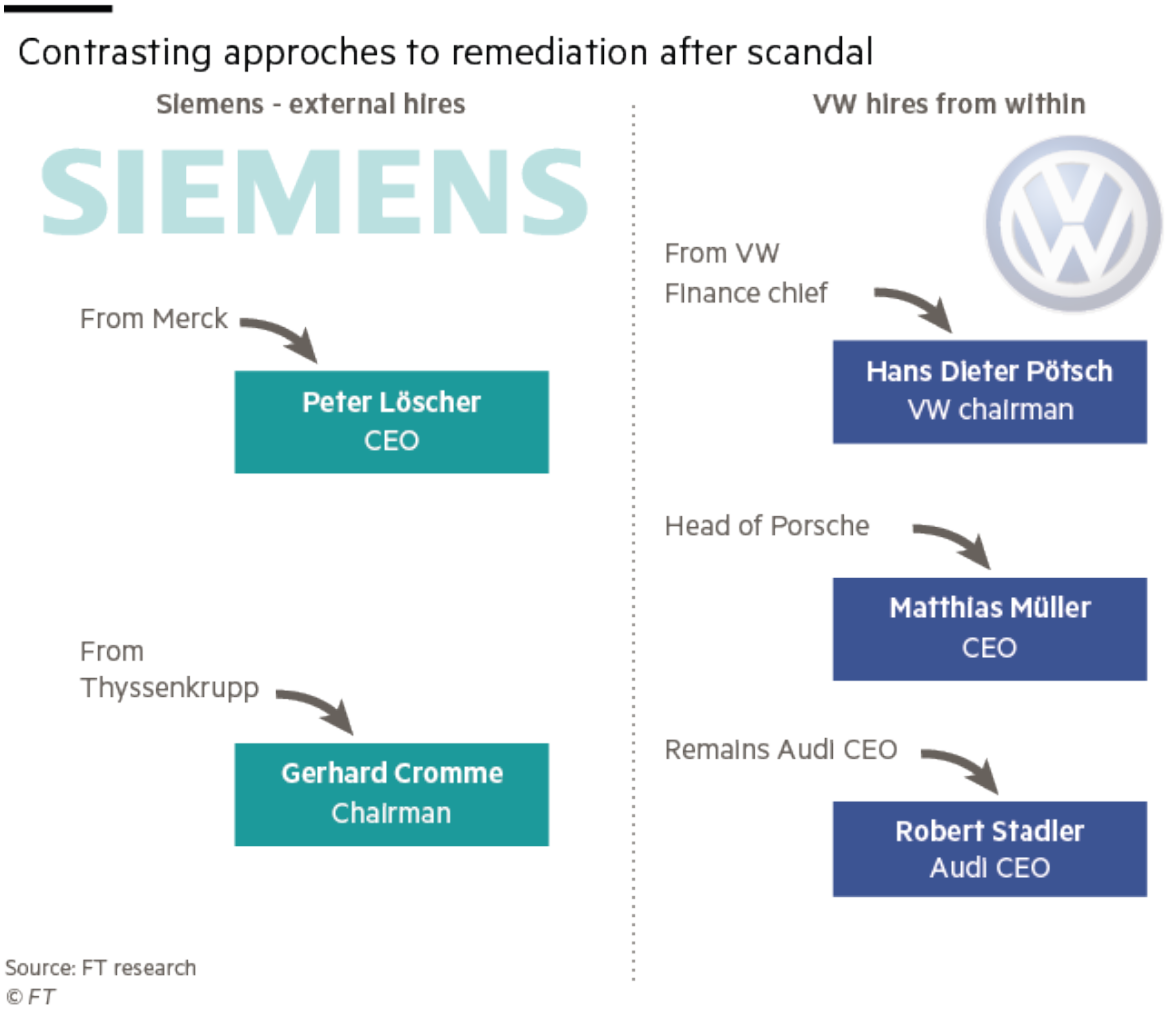
For instance when MAN, a German truckmaker, experienced a corruption scandal in 2008, the company responded swiftly.

"They changed 100 per cent of their board — four new board members. Everything fresh," she said. But then, in February 2011, prosecutors named one of the new board members, Klaus Stahlmann, as a target of the investigation rather than a witness.

"The company was shocked," said Ms Werner, who was MAN's chief audit executive at the time. To make its fresh start credible, MAN dismissed Mr Stahlmann. But afterwards, she said, prosecutors "never even opened the case again or indicted him". MAN had lost one of its greatest experts and scrambled to find a replacement, but it was for nothing.

Even in cases where it is clear a former manager is guilty, experts say companies often hesitate to go after them because taking action can be more harmful than incurring penalties for not taking action.

“Imagine what happens if they sue the directors, if they sue the former CEO — the damage can be so enormous,” said Uwe Schneider, one of Germany's leading experts on corporate governance and director's liability.



Prof Schneider said Volkswagen is under tremendous pressure, but if it were to sue former managers it would inadvertently but explicitly suggest that the supervisory board, too, had violated its duties to hold management to account.

“Under the circumstances, you hesitate very much whether it’s an intelligent action to do,” he said.

Only slightly less contentious is what to do about directors still at the company who have yet to adapt to the culture VW is trying to inculcate. Ms Werner said give her time — she has them in her sights.

"There are certainly also some key players in the role of the director boards, or even the role below, that have a lot of influence and have not yet understood that the bell is ringing for change," she said. "We have to go after them one by one."

Siemens' swift and sweeping change

Siemens initiated sweeping change following the slush fund scandal, which was most clearly visible in the appointment of Gerhard Cromme, from ThyssenKrupp, as chairman, and Peter Löscher, from Merck, as chief executive.

"The view was, 'we need to make a complete break with the past," said James Stettler, analyst at Barclays. "To have a cultural revolution, it has to start at the top."

Within months, the two new men at Siemens had replaced vast numbers of managers.

The company soon went beyond just firing people; it clawed back money from those responsible by threatening 11 former executives including two former CEOs with lawsuits.

Even when top managers denied wrongdoing, Siemens went after them.

Not necessarily for engaging in bribery, but for laxity and for failing to stop the payments. As the US Department of Justice put it, top managers had made "historical failures to maintain sufficient internal anti-corruption controls".

VW's own clean-up act after an even bigger scandal — equipping 11m cars with software to cheat diesel emissions tests, then lying to US regulators about it when questioned — has been far less sweeping.

In short, analysts struggle to point out any of VW's actions that future companies would follow as a template.

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