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The purpose of a healthy company's culture: The Volkswagen example

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Nowadays there is more and more emphasis on the importance of a company's culture and the role organizational culture plays in overall business conduct. Through time, different types of companies appeared and developed based on the decision-making process, such as autocratic/centralized, technical-leveled structure, egalitarian/flat based, or auto-managed structure. Nevertheless, all these can be one by one combined, which leads us to a large variety of organizational typologies.

We need to be able to use the shifting approach perspective while analyzing each type of cultural behavior, because from one company to another, both processes and interests can be different. One must consider that there is no unique solution, because this variety of organizations reaches an even broader range if we take into account yet more factors than the ones from above, such as impact on the market, purpose of activity, complexity, legal implications, labor structure, resources required, geographical area, stage of development, etc. Therefore, at all times, we must consider that for a culture to effectively exist and be implemented, it has to sustain and enhance the business and its goals, at the same time creating value for the company's stakeholders. Over time, many organizations either improved or changed their culture due to different stages in the company's development and/or the level of maturity of the organization.

A company that offers a relevant example on the importance of culture is Volkswagen (VW), which was incorporated 81 years ago in 1937 in Germany. No description or motto was required for the company, its name being self-explanatory: Volkswagen translates as "people's car," a car made by people, for people.

VW was incorporated and developed mainly in Germany; therefore, it embraced and absorbed the national business culture, which was based on laws and strictly regulated. However, one of the pillars of any company is its responsibility toward society. As VW's name declares, companies are made by people for people. The main instrument of addressing this responsibility is the code of conduct (CoC), which is made up of policies, procedures, and education.

What follows is a comparative analysis of two examples of CoC implemented by VW at different critical moments in its history. This analysis gauges the impact these two CoCs had on the company and considers the larger social context that inadvertently influenced their content.

Historical precedent

The main challenges of a multinational company include assessing the risks associated to its activity, and determining its core values and formulating them in a manner that allows their implementation among different countries and cultures without interfering with the respective national legal provisions. VW implemented a

general group CoC for the early years. To have an effective CoC, a company doesn't just need to have text; they need to provide a coherent and logical approach for the values promoted that must set a direction for the company and defend its reputation in case of a breach. The company needs to be able to track breaches and prevent them through continuous improvement and adaptation of the CoC and its implementation.

In 1987, VW, as published at that moment, shocked the market with the announcement that they had to record a provision of approximately \$259 million to cover a foreign-exchange fraud. They raised charges of fraud, breach of trust against external parties, and accused a possible collusion of VW's employees.^[1]

In 2005, 18 years later, VW was the subject of a series of scandals revolving around bribery (involving a VW executive), and the situation escalated on a broader scale.^[2] In 2006 the bribery incidents continued, when some executives were accused of having received bribes from suppliers. At that time, VW's representatives declared, "We clarified and reinforced our policies." It seems that not even the creators and enforcers of the CoCs believed in their effectiveness in stopping illegal conduct in the company. After two similar events, with bribery, corruption, and fraud as common denominators and the same outcome, a pattern concerning both the effectiveness of VW's response and of the measures taken seemed to emerge, namely managers stepping down and the CoC being rephrased but not enforced.

In 2007, VW adopted the motto, "Das Auto," which translates as "The Car." We can consider this a reinforcement of the power position of VW on the market and an attempt to strengthen its damaged image.

Rewording the CoC and making the text stronger is one consideration, but this does not represent treating the cause, educating the personnel, and changing the tone at the top, which we can observe, because both events implicated executives.

When we analyze each situation, at all times, we need to consider the timing of the incidents. What was the stage of development of society? If it has ethical values and beliefs, is it still in the process of defining relevant indicators for bribery and corruption? Such scandals affect the company's brand, sales, and overall perception, and these have a direct effect on shareholders, employees, and customers, and an indirect effect on the credibility of corporations. Best indicators of these effects are fluctuations in share prices and the sales flow.

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