

6.1.12: Crisis Management

Learning Objectives

- Discuss crisis management and process improvement



Volkswagen

In 2015, the Volkswagen scandal surrounding emissions testing came to a close. What happened and how did it begin?

In 1999 the United States announced plans to raise emission standards starting in 2004, setting a new limit of 0.7g/mi, versus 1.0 g/mi of nitrous oxides, which contribute to smog, acid rain and the destruction of the ozone layer. German automaker Volkswagen responded by removing their diesel powered vehicles from US markets in 2007 while it awaited technology that would bring their engines up to these standards.

In 2008, the company introduced Clean Diesel Cars in the United States. And, when those cars came to the market they were incredibly efficient. So efficient, in fact, that the International Council on Clean Transportation asked the people at VW to help demonstrate the values of US diesel technology, hoping to get Europe to adopt these same regulations. In

the process of inviting VW to do this, the International Council on Clean Transportation took a closer look at their Clean Diesel Cars, and what they found wasn't a high performing, low-emissions engine.

This inspection didn't turn out well for Germany's largest automaker. Complicated and elaborate "defeat" software, meaning there was equipment rigged to cheat when it detected emissions testing in progress, had been masking damaging levels of emissions from the company's diesel engines. The Environmental Protection Agency, on the cue of the International Council's findings, did their own testing on VW's engines in 2014 and 2015, and when they told the automaker that their 2016 models would not be welcome on U.S. soil, company leaders confessed to the company's transgression.

Vehicle recalls, customer restitution and class action lawsuits were just the beginning of Volkswagen's emissions nightmare. After the scandal was revealed to the public in September of 2015, Volkswagen sales slipped, stocks plunged, and company leaders indicated that the 6.5 billion dollars they'd set aside to deal with the issue would not likely be enough.

Volkswagen found themselves in the midst of crisis management—responding and managing unexpected change within their organization. Two CEOs and three years later, Volkswagen, determined to leave the crisis behind them, invited in a new breed of leader: one who believed in sweeping change company-wide. Dr. Herbert Diess was invited to usher in a new era for Volkswagen and set the company on a more ethical, trustworthy path.

In one of his first tasks as leader of the company, Diess addressed shareholders in Berlin: "Volkswagen has to become more honest, more open and more truthful. Besides abiding by the rules and obeying the law, the key here is always ethics—a clear moral compass."

How had Volkswagen gone so wrong as to get to the point where leaders determined it was okay to break the law? And what kind of changes needed to be made to get Germany's largest automaker back on track again? What did they learn from their experience with crisis management?

Process Reengineering and Continuous Process Improvement

As of January 2020, Volkswagen is still trying to repair their brand image and infuse their company culture with honesty and ethics by simplifying processes. The concept of process reengineering was among the first things Volkswagen leaders considered. And, moving forward, this process reengineering appears to be a part of their change management strategy.

The idea behind process engineering is that management starts with a clean sheet of paper, so to speak, and rethinks and redesigns the processes by which an organization does work and creates value. In other words, they start with a clean slate. Overall, the process reengineering looks at three different areas:

- **Distinctive competencies.** These define what the organization does better than its competition: better products, a more efficient distribution system, and so on. Volkswagen leaders needed to review its distinctive competencies to remind themselves of where they wanted to be. In fact, leaders chose to look in another direction for success when they did this—that of electric cars. This new navigation may help separate them from their past transgressions.

- **Core processes.** These are the processes that transform materials, information, and labor into products and services for the customer. Volkswagen immediately began making moves that strengthened their goals for electric cars and recognized a need to put decision making back in the hands of the engineers and managers who run their processes.
- **Reorganize around horizontal processes.** Companies in this stage of the process employ cross-functional and self-managed teams, and focus on process rather than on function. Volkswagen made sweeping changes to their organizational structure to put experts in charge of decisions. By doing away with its rigid organizational structure and its top-down hierarchy, it introduced a new corporate culture—one that could uphold the levels of honesty and ethics that VW promised to its customers by introducing better checks and balances.

These processes lead to continued process improvement within the company's leadership.

Businesses look to achieve customer satisfaction by focusing on continuous improvement of all organizational processes, recognizing that aiming for acceptable standards is never good enough. Even excellent processes can be improved upon. In other words, improvement can be a goal for every level of the organization. In Volkswagen's case, for example, they recognized that their top-down decision making impaired their ability to keep executives honest and processes transparent.

Manufacturing uses continuous improvement processes to increase the uniformity of their products or services. Management often looks to employees for improvement ideas, and this might be an area that Volkswagen could also benefit from, as it enhances trust between employer and employee, a bond that is likely still fragile after these events.

Process reengineering and continuous process improvement aren't change management solutions, but rather initiatives that companies put into place so they don't find themselves in the same position as Volkswagen. Volkswagen can take steps with these measures today to prevent another crisis management issue in the future.

PRactice Question

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References

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