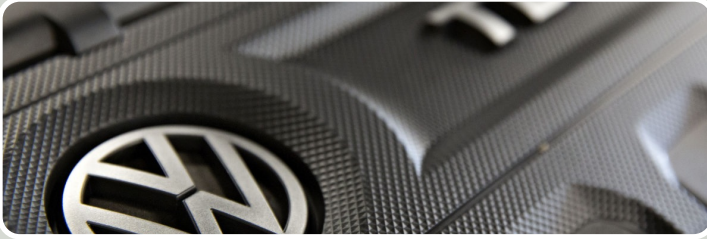


Business Leadership: Case Study #3:

VW Ethics Case Study Summative



In response to allegations that it skirted EPA emissions standards using some software trickery in its diesel four-cylinder models, a serious offence that could land Volkswagen billions in fines, the automaker's CEO Dr. Martin Winterkorn has issued a statement. To recap, VW is being accused of fitting some of its diesel-powered cars with a software algorithm that could detect a car was being emissions-tested and employ necessary countermeasures to reduce emissions; when no testing procedures were detected, the system would disable some of the emissions-reducing mechanisms—a big no-no. The precise reasons for Volkswagen's skirting of EPA regulations, which specifically prohibit "defeat devices" for emissions equipment, aren't presently clear. Nonetheless, with official investigations ongoing and the fallout only just hitting its stride, here's what VW's CEO had to say:

"The U.S. Environmental Protection Agency and the California Air Resources Board (EPA and CARB) revealed their findings that while testing diesel cars of the Volkswagen Group they have detected manipulations that violate American environmental standards. We do not and will not tolerate violations of any kind of our internal rules or of the law.

The trust of our customers and the public is and continues to be our most important asset. We at Volkswagen will do everything that must be done in order to re-establish the trust that so many people have placed in us, and we will do everything necessary in order to reverse the damage this has caused. This matter has first priority for me, personally, and for our entire Board of Management." – Dr. Martin Winterkorn

According to the EPA, Volkswagen has already admitted to installing so-called defeat devices in its diesel models going back several model years, so Winterkorn didn't need to do that again in his statement. Instead, he strikes a conciliatory note (while also pretty much admitting wrongdoing), adding that the company is doing everything it can to make things right. That might be more difficult than typical damage control, however, as Automotive News reports that the EPA is withholding final certification on 2016 model-year VW diesel models for the foreseeable future, a move that prevents Volkswagen from selling the cars—and that's on top of Volkswagen's self-issued stop-sale on 2015 model-year diesels still in its inventory. As AN points out, diesels account for roughly 20 percent of VW's U.S. sales, so in addition to the automaker's stock-market bloodbath after the EPA-violation news first broke (as of today, VW has lost \$16.9 billion in market value) and the potential for up to \$18 billion in EPA fines, the evaporation of one-fifth of its 2016 model-year U.S. sales would be quite the wilted cherry on top of a cupcake of financial loss. The investigation into VW's actions is ongoing, leaving the final analysis of culpability up in the air, but it's pretty safe to say Volkswagen's problems are only beginning.