



SPECIAL REPORT

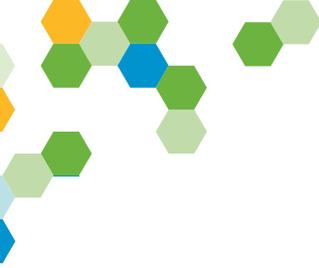
The protestant ethic and the spirit of capitalism

The Volkswagen case and the value of reputation

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I. COMPANY, COUNTRY BRAND AND INDUSTRY

The relationship between individual businesses and the country where they are founded is complex and circular: the nation's general prestige, which is usually referred to as "country brand," gives its companies a specific aura. When this aura is negative, it hinders the ability to obtain credit, markets, and talent, while increasing the burden of proof for the business. On the other hand, when it is positive, it opens doors, facilitates transactions, and in the worst cases, gives the benefit of the doubt.

Every country and business has a different "specific weight": Enron imploded and dragged the global firm Arthur Anderson down with it, but it can hardly be said that this seriously affected the country brand of the United States. This is because Enron was not viewed as one of the nation's emblematic or paradigmatic businesses, and because this brand is made up of a wide variety of countless companies. On the other hand, the perception of Mexico as a violent and corrupt nation does not have a negative impact on global corporations such as Bimbo, Femsa, Arca, or Lala because they are not owned by nor do they report to the government, and because they have clean and successful track records. These types of business help improve a country brand, as opposed to the opposite.

It is obvious that relationships and images are anything but static. In 1970, Japan was a recent ex-partner of the Axis, which manufactured cheap and poor quality products. By the early 1990s, the company and its products had earned an excellent reputation, and everyone studied its philosophy as well as its work and production methods. Something similar is happening with China, although it has yet to be seen.

In the case of Germany, the symbiotic relationship has become positive in a virtuous circle in which the leading country of the European Union, which left behind the stigma of World War II only a few years ago, gives and receives its prestige from the companies that represent it to the world, and the Volkswagen conglomerate plays a major role in this. In this case, the company is an emblematic and paradigmatic business. VW exemplifies the values of quality, trustworthiness, innovation, and state-of-the-art engineering that tend to be attributed to industrial German products (justifiably). In the background of this image lies something even more basic: the ethics with which business is done in Germany, which is their keystone of its reputation.

“The German country brand will need time and firm actions in order to fully rebuild its reputation”

This is why the discovery of a deliberate plan to deceive about the contaminating emissions of its diesel engines is particularly harmful to the company as well as to Germany in general, and even to the global automotive industry.

2. COMPANY

On this front, the damage is done. Shares have lost 40% of their value since August, the company is facing billions of dollars in potential fines, and there will likely be an effect on future sales. At this point, little can be done by explaining that the deceit only affected diesel engines. A brand's reputation is not proportionally divided among its various product lines. It is an all or nothing deal.

Once the scandal was made public on September 18th, the company reacted quickly by setting aside billions of dollars to face future fines and removing its CEO and other senior executives, in addition to giving explanations and asking for forgiveness. The company could have reacted worse, of course, but in this case, the reaction has limited positive effects for several reasons: by no means is this an unforeseeable or minor incident, or one that was caused by negligence or relaxed standards. This scandal was not caused by the solitary actions of a dark, hyper-ambitious employee who was out of his or her mind.

This was a deliberate and premeditated deceit that was discovered by chance when a small NGO tried to use VW as an environmentally friendly example in one of its experiments. The events were not revealed by the company as a result of an internal investigation, for example. Instead, it was clear that without this fortuitous incident, the company would have certainly continued with its deceit.

3. COUNTRY BRAND

German exports are unlikely to experience a sudden and significant drop. However, the German country brand will need time and firm actions in order to fully rebuild its reputation. Consumers can no longer assume that simply because a product is manufactured by a German company is a guarantee of the veracity of its labels or specifications, or the honesty of its commercial claims. VW will continue to have customers, but the stronger a company's reputation, the more trust that is lost. With the utmost respect, nobody would be surprised if a Russian company deceived its customers or if a Nigerian business hid information from consumers. On the other hand, it is also true that a generalized and long-standing reputation buys indulgences: a husband who slips up once after years of harmony is unlikely to find his suitcase by the door in the early hours.

“Volkswagen’s deceit hits at the heart of postmodernist beings: the awareness of how important it is to care for the environment and of the trust placed in companies”

German authorities must be severe and inflexible in the punishment and the reparations demanded from the company –20% of Volkswagen is owned by the government of Lower Saxony-. This would benefit the country brand as a whole and therefore the entire economy, which relies strongly on exports. In addition, now is the time for the corporate government to show its ability to right wrongs after failing to detect them in time. The dispute that took place a few months ago between Martin Winterkorn (the recently ousted CEO) and Ferdinand Piëch, the former chairman of the Board of Directors and a member of the controlling family, left some open wounds, but the company has the chance to get back on track as soon as possible. There is urgency, and there must be tangible results.

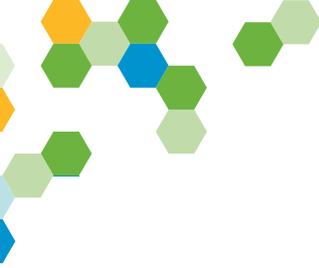
3. INDUSTRY

Unfortunately, the scandal affects more than just one company or country. This is the most delicate moment for the automotive industry since its creation 100 years ago. For the first time since their mass production began, vehicles are starting to lose strength as a status symbol. Not in developing countries, which tend to have horrible public transportation and emerging middle classes, but definitely in countries that create or globally establish the latest trends of what is considered cool. Environmental awareness,

a focus on health, bicycles, Uber, and car-free zones are coming together to change the mindset of teenagers who no longer include owning a car in their list of existential, tribal, or emotional priorities.

Second, if cars today are for many people the most complex machine that they will ever operate, this will not be the case for much longer. Sooner rather than later, driverless cars will be on the road. This simple fact will cause major upheaval: in terms of employment, because millions of people who make a living by driving motor-powered vehicles will lose their jobs; on a symbolic-social level, because the rite of passage to adult life (learning how to drive and getting a driver's license) will disappear; in terms of healthcare, because there will be significantly fewer traffic accidents, which are the leading cause of death between the ages of 15 and 30 in many countries; and on an economic and urban level, because it will be clear that owning a car is simply a net cost (in terms of time and money), and that it makes more sense not to own one but rather to use one of the multiple systems that will appear.

If sports cars happen to survive (reserved to the very wealthy, of course), they will be driven at full speed on private roads or accessible to the middle classes who will rent them by the hour in special tracks, just like children do today with go karts.



“VW unknowingly
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Volkswagen's deceit hits at the heart of postmodernist beings: the awareness of how important it is to care for the environment and of the trust placed in companies (their reputation) as key assets. It shoots down the myth of self-regulation, which is bad for many industries, and it requires a massive and drastic response.

This case has unfortunately shown that having a clear direction for building and maintaining a reputation is a central part of any business strategy today. This is also an opportunity to reflect on an industry for which this incident could accelerate its rate of transformation.

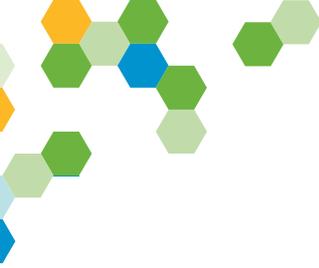
3. WHAT TO DO?

VW unknowingly lost its reputation the day it decided to tamper its engines. As of this point, and when the news is published on a global level, there is only one alternative: to admit its mistakes, to ask for forgiveness, to repair the damage that has been done, and to rebuild its reputation. This task must be done in parallel with all of the aforementioned items. In this case, it is a gigantic feat due to the domino effect that has been created throughout the entire automotive industry. There will be no shortage of competitors who will torpedo

the process or of other manufacturing sectors that will try to take advantage of the fall. However, if there is one thing that makes the patient's situation even more serious, it is the uncertainty for millions of vehicle owners in not knowing whether their car is affected by a virus that has been self-injected by the German company.

Volkswagen has no choice but to buy time in order to get ready for the impact. On the one hand, this time will help the company define a damage control strategy, but it will also increase the damage to its reputation once the news is published.

In this regard, once it is impossible to deny that the entire organism has been infected, the only alternative is to act. This is the point when the company announces that it is responsible for tampering millions of vehicles throughout the world (admitting mistakes). It also tries to prevent gangrene and show a certain level of ethical behavior by cutting some heads (required but useless for viral containment). This is followed by the attempt to apply an urgent cure. In this case, it consists of the announcement to fix the damage that has been done. The company announces that it will inspect all the vehicles at no cost to owners. However, this proves to be insufficient.



**“Competitors will not
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Consumer trust in the measures implemented by governments and industries to stop climate change is falling apart as the virus advances. It will be necessary to reconsider the model as well as the management and control systems. The debate on fossil fuels versus alternative energy is imminent. It will probably inundate round tables at the next COP 21. As a result, it will be necessary to reconsider strategies in many boards of directors. Specifically, reputation firewalls must be built in order to prevent infection

This crisis prevention policy must be based on solid pillars: ethics, social commitment, sustainability, innovation, and transparency. The industry as a whole has a lot at risk with how the Volkswagen virus is contained: its reputation, and therefore trust. Competitors will not be condescending; they will take advantage of the opportunity. The competitors that anticipate the play will be the ones to win the match.

The twin towers have fallen. We may be facing a new era for the motor industry .

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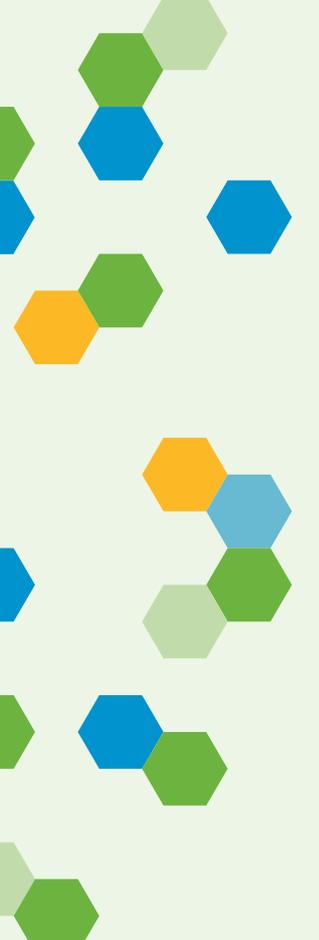
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