



Understanding Ethical Conduct of International Business Organizations through Cross-Cultural Lens: An Analysis of Underlying Cultural Issues in Volkswagen Emission Scandal of 2015

Brandford Shadrach Adams

Department of General Studies

Federal Polytechnic, Bali

Email:shadrachb.adams@yahoo.co.uk

ABSTRACT

Culture plays a critical role in ethical decision making especially in businesses that spans across national borders. This paper attempts an analysis of the underlying cultural issues in the Volkswagen Emission Scandal of 2015. It maintains that the underlying roots for unethical business practice by the global automobile giant (Volkswagen) goes beyond the drive to maximize profits as believed in many quarters but corporate culture that abhors failure and requires employees to perform and deliver on their task at all cost, the working environment that is averse to debate and all forms of dissent; and an autocratic leadership style are the enabling facilitators that pushed Volkswagen to the precipice of the famous emission scandal of 2015. The study is qualitative, it utilized secondary sources of data to do the analysis. It concludes with recommendations on lessons that other businesses, organizations etc. can draw from Volkswagen's 2015 experience.

Keywords: Ethical, Culture, Conduct, Business, Emission, Scandal

INTRODUCTION

The globalized 21st century is a period which challenge organizations to respond to emerging market trends without losing focus on longstanding and well-established social concerns and expectations (Wilson, 2015). One of the challenges they are confronted with is the spiraling effect their decisions, actions (inactions) can portend on their fortunes, that of their stakeholders and shareholders in their quest to maximize their value and profits. As a result, understanding ethical/unethical conduct through cross-cultural lens has become increasingly paramount (Cullen et al, 2004). In the light of this, the paper focus on the Volkswagen Emission Scandal of 2015 (see appendix) to analyze it underlying cultural variables.

In 2015, Volkswagen was discovered by US Environmental Protection Agency (EPA) to have installed a software called defeat device on its cars to concealed the true amount of nitrogen oxide their diesel engine was producing, making their diesel vehicles seemed emitting less pollution than what they really emit (Clothier, 2015; Topham *et al*, 2015; Hotten, 2015; Russell *et al*, 2016; Wilson, 2015). In a bit to conserve and protect the environment, the EPA has since 1970s been tightening emission control especially nitrogen oxide because of its harmful effect on the environment (Klier & Lin, 2016). The automobile giant deceptively portrayed it cars as environmentally friendly and in compliance with extant environmental laws. The cars were programmed to detect when their emission levels are being tested especially in the laboratory. But the actual result of emission test on the road was thirty-five to forty (30-40) times more than it showed in the laboratory (Hotten, 2015; Topham *et al*, 2015; Le Page, 2015). Volkswagen admitted to cheating, apologized and recalled thousands of it cars. Consequently, the company's stock price and annual profits



plummeted, eroding customers' trust and damage to its brand reputation (Caria & Hermans, 2016; Jim & Christian, 2016; Russell *et al*, 2016). Volkswagen has not only violated the law but have deceived customers, dealers, employees and the public about the nature of product being sold (Wilson, 2015) (see appendix for the group case study). Against the backdrop of the foregoing three main intercultural issues can be identified ranging from unethical practice, failing in their corporate social responsibility by contributing to climate pollution and their communication style. However, this paper will only focus on unethical practice.

Many theoretical models have recognized the importance of culture in ethical decision making especially in businesses that spanned across national borders. Thus, understanding how culture influences the ethical expectations will lead to deeper understanding of other societies and respect for the differences is vital for successful business relationships (Carroll, 1997; Robertson, 2000; Hampden-Turner & Trompenaars, 1993). Also, Fukuyama (1995, p.35) (cited in Sims (2009) believes the motivation behind ethical decision making is often hidden deep within the cultural background of the individual. 'The most important habits that make up cultures have... (to do) with the ethical codes which regulate behavior. Hunt and Vitell (1986) and Alexander (2007) also concur that cultural norms affect perceived ethical situation, perceived alternatives and perceived consequences. Volkswagen's deliberate act of inserting defeat device on the engine of their product does not only violate US laws but also deceived thousands of its customers, dealers, many of its employees and the public. This study will analyze the rationale behind this unethical behavior by looking at how the company's corporate culture, leadership style and the near absence of whistle blowing culture among its employees perpetrated the emission scandal which was busted in 2015. It will also conclude with useful recommendations to forestall future occurrences.

MATERIALS AND METHOD

The study is qualitative, it utilized different sheds of secondary sources of data to do the analysis. For instance, it relied heavily on cultural theories to clarify points.

Findings:

Analyzing the Causes of the Scandal

Weiner's (1985) attribution theory seeks to identify the perceived causes of success and failure for both the self and others. It also investigates the antecedents of causal beliefs and their consequences. This implies that it is natural for people either in Hofsteds' (1981, 1993) collectivist/individualistic societies or in Trompenaars' (1993) universalistic/particularistic to give possible explanation for any given action or attribute it to certain thing. For example, how does one know that one has or does not have the ability to complete a task and what are the effects of this belief? Volkswagen engineers who were given a target to come up with diesel engine that complies with the tough US environmental regulations within a short time frame and a tight budget might possibly have attributed the reason for cheating to something, themselves or someone. This position can be corroborated by Rotter's (1966) locus of control where he opined that individuals attribute responsibility for different events that occur. This he described as internal locus where people feel they are in control of their



actions and external locus where people think external forces determine their actions. The prevalence of the locus of control differ across cultures especially in individualistic and collectivist societies respectively. The relevance of the foregoing theoretical lenses is that they help us to look beyond the scandal and identify the underlying causes that trigger the Volkswagen emission scandal. There are two basic schools of thought on the possible causes, the first was given by the chairman of Volkswagen Hans Dieter Potsch (in Tovey, 2015);

'Developers of the engine could not find a way to meet tougher emissions standards in the US by permissible means within the time frame and the budget they had been given so they installed software to regulate exhaust gases depending on whether the vehicle was on the road or testbed...misconduct...flaws in our processes and attitude in some units of the company that tolerated breaches of rules'

Apart from the US tougher emission standards, timeframe and budget, three factors can be gleaned from the above; misconduct by some employees, flaws inherent in the company processes and a company culture that tolerated breaching of rules. In contrast, many analysts like Glazer (2016) and Goodman (2015) disagreed with the position of the top management of Volkswagen by pointing to the company's corporate culture of no failure, centralized hierarchy and decision-making structure that alienates the employees, an autocratic leadership style and a work environment that eschew debate and dissent which are the norm within the company before the scandal. Equally, Elson et al (2015) identified the rewarding system of Volkswagen as another possible reason the employees preferred to maintain silence about the rigging in the emission for a long time even if they thought otherwise.

DISCUSSIONS

Volkswagen's Corporate Culture

Although many observers believe that the drive to maximized profit was at the root of unethical practice by Volkswagen. But as can be seen from the foregoing, it goes beyond that. Investigations revealed that one of the underlying roots that fueled the Volkswagen deceptive action was the company's unique corporate culture (Goodman, 2015; Mansouri, 2016). Consequently, Glazer (2016) posits that one of the biggest lessons from the Volkswagen emission scandal is that culture dictates behavior. Even though it is a German company and has its headquarters domiciled in Germany, however, Volkswagen's corporate culture does not necessarily reflect the German culture which together with the US are what Trompenaars (1993) referred to as universalistic societies where ideas of culture, rules and regulations applies to all irrespective of the persons, entities involved and context. Although US seems to be more universalistic than Germany, this is exemplified by the aggressive nature with which the EPA pursued corporate malfeasance and their highhandedness in punishing those infractions with heavy penalties compared to EU to which Germany is a foremost member. Zhou (2016) and Stefano (2012) criticized EU regulators of advancing the commercial or political concerns of special interest groups and are somewhat soft on emissions compared to US. Volkswagen's action seems to portray it as an organization where particularism is occasionally the norm as the press release by the



management of the company revealed a situation where rule breaking by employees are tolerated with possible flexibility. It is also possible that the will to enforce those laws within the organization varies from department to department.

Equally, Goodman (2015), Glazer (2016) and Mansouri (2016) describes the company's corporate culture as a 'no-failure culture' which require the employees to deliver no matter the circumstances. Perhaps, the top management might not necessarily have openly shown that, but their body language as espoused in the ambitious goals and the working environment which detest debate and dissent might have suggested otherwise. For instance, the CEO Martin Winterkorn was described as a demanding boss who abhorred failure. Arguably, his root as a Hungarian, a group oriented, high power distant and particularistic society might have possibly informed his leadership style. The culture he cultivated led to an atmosphere where the employees perform their tasks in a critically centralized structure. He set an ambitious sells goal which aimed to penetrate and dominate the highly competitive US market. From Hofstede's (1993) cultural dimension, the US is a masculine society but the fact that Germany is more masculine than the US makes it more telling on the justification for the push by Volkswagen. Masculine societies are driven by competition, they are highly achievement-oriented and success-inclined; this possibly explains the vigorous drive and the campaign by Volkswagen to break into the US market in a big way and become the world largest carmaker. Thus, the demands and the expectations comes with a price and the employees of the company must meet them regardless of whether they have the capacity to fulfil the task. The company admitted to setting an ambitious target for its engineers under a tight budget and short time-frame as discussed earlier. The company engineers could not possibly meet expectations for price, performance and environmental compliance, hence resorting to 'defeat device' as a solution (Wilson, 2015). It is against this backdrop that Glazer (2016) believes a culture that discourages open dialogue can breeds cheating and other forms of fraudulent practices. What can be said from the foregoing is that the employees' action was motivated in part by their working environment and the culture that pervades the workplace (extrinsic motivation). Kinley (2015) citing a German newspaper *Der Spiegel* observed that the Former CEO Martin Winkerkorn oversaw an organization characterized by 'unquestioning culture challenging decisions and speaking up were discouraged'. Employees are always handed down a veiled threat to consider the task again, and if they are not capable to find a solution or to perform their task, there are candidates who are efficient to perform the task. This placed enormous pressure on the employees who always go for the option of saving their jobs. This fit into Hofstede's (1993) uncertainty avoidance also corroborated by House et al (2004) GLOBE, which looked at the degree to which people feel uncomfortable about ambiguity thus, relying on established norms, rituals and bureaucratic practices to navigate the future. They possibly have no idea what happens to their bills and families when they are sacked or quit. Glazer (2016) describes it as the 'culture that discourages open dialogue and limits checks and balances. Equally, Mansouri (2016) maintained that the working environment of Volkswagen is famous for 'avoiding dissent and discussion'. The courageous engineers and technicians who tried to draw the attention of their superiors on the cheat device in 2011 were ignored (Goodman, 2015).



Still on masculinity, Wacker and Sprague (1998) believes the type of information (which is another form of power) companies used to support decision making in masculine societies depend on its effectiveness and potency to give the organization a comparative edge over their competitors. In effect, whether the 'cheat device' inserted on Volkswagen's diesel engine was done with or without the consent of the top management, it gave them competitive advantage to dominate the US market, raised their share value, boost their brand reputation and raked in profits for them while the deception lasted. The company regaled and basks on the euphoria of several environmental protection and sustainability awards given to it until the bubble burst in 2015.

LEADERSHIP STYLE AND LACK OF WHISTLE BLOWING CULTURE

"Volkswagen is completely different from the other automakers ... It's not democratic; it's autocratic. It's a system focused on its roots and Wolfsburg. It's not at all global in its thinking" (Ferdinand Dudenhöffer, director of the Center for Automotive Research at the University of Duisburg-Essen in Germany in Goodman, 2015).

The above statement portrays the company as the one whose structure is highly centralized and is far removed from its employees whose inputs are barely considered at the top management. Goodman (2015) observed that the corporate culture of Volkswagen anywhere is inextricable from its headquarters in Wolfsburg. Thus, this leadership style of Volkswagen is what Trompenaars & Hamden-Turner (2004) refer to as authoritative which is more likely responsible for either knowingly or unknowingly invoking a climate of cheating without knowledge of the top management. Winkerkorn was more of an 'authority' than a 'resource' or 'conductor' (or might have all the elements). Though the top management of Volkswagen might not have directed the engineers to insert the defeat device; an environment where people cannot debate ideas or express themselves on what they feel will work or what is not right for them was at the roots of factors that led to cheating by the engineers and conniving silence by some employees (Kinley, 2015).

Perhaps, the governance structure of the company is probably determined by the two powerful families who own majority of the company's equity. For instance, Porsche and Piëch families owned majority of Volkswagen's equity and by implication, owned much of the voting rights leaving the German regional government and Qatar Investment Authority's sovereign wealth fund with minority stakes. Equally, other investors mostly own non-voting preferred shares. Hence, the board of directors is majority non-independent (Wilson, 2015). Using Friedman's (2002) shareholder theory, it is possible that the top management of Volkswagen is only concerned about projecting the interest of the shareholders being the economic engine of the company. Everything was probably geared toward maximizing profits for this category of people who the company is socially responsible to. Therefore, inputs from the employees are not important. This probably explains the company's autocratic style of leadership. For example, the statement by the labor leader of Volkswagen Bernd Osteloh after the company admitted to cheating on emission test proves the foregoing assumption valid. He maintained that the company's culture and approaches to dealing or interacting with its employees must change, some



value-based changes should be adapted in the culture of the company to allow employees to communicate with higher levels openly regarding any matter within the company, and to enable them to share their dissent opinion with their supervisors or chief position (Mansouri, 2016; Sherk, 2014).

It is therefore curious to discover that a German company which is expected to have some semblance of German national culture which Hofstede (1993) described as a highly decentralized low power distance society (LPD) at 35% compared to the US at 40%. Germany is known for its long tradition of 'co-determination' an attempt to minimize power inequalities in organizations through the establishments of supervisory boards that incorporates representatives from all segments of the organizations the aim of which is to reflect the views of all stakeholders in the daily running of the organization. Control is therefore disliked and leadership is challenged to show expertise. They are a low context culture and therefore known for their direct communication style (Hall, 1976). They are quasi-logical; thus, business interactions are unemotional and fact-driven (Johnstone, 1989); confrontational (Kozan, 1997) and no face saving concerns in a bid to maintain harmony, thus, assertive if placed on House *et al* (2004) GLOBE. On another hand, the culture in US is also low context, direct communication style, more of quasi-logical, confrontational and assertive, with the penchant to question or challenge authority.

It is therefore curious to see that with all these cultural credentials, not one employee among those with knowledge about the deception raised an alarm. Consequently, it is from the context of the above elements of German national culture that some observers raised a question on why the Volkswagen employees who knew about the defeat device remained quiet all the years it was perpetrated. One possible explanation was given by Elson *et al* (2015), they believe the financial incentives of Volkswagen rewarding system might have motivated the employees to remain silent and chose not to raise alarm or come out with a dissenting opinion. Volkswagen reward and bonus system is structured in such a way that employees can receive bonus as individuals and teams based on their performance and productivity. Bonus is in commensurate with the amount of remuneration that a staff is paid. Another possible explanation is cultural, for instance on the scale of Hofstede' (1993) cultural dimension, at 67% Germany is more collectivist compare to US. Loyalty is based on personal preferences, sense of duty and responsibility. It is also defined by the nature of contract between the employer and the employee. It is possible that their silence is out of loyalty to the company for its generous reward system which goes all the way even after retirement. Or perhaps, they remained silent thinking the company will sort the problem gradually. Equally, Raush *et al* (2014) opined that US nationals may perceive the salience of an ethical dilemma differently from the Germans. The US operates from more individualistic perception and watch out first for themselves (Resick *et al.*, 2011), therefore they act in the manner that benefit the firm but protect self (House *et al.*, 2004; Hofstede, 2001). In contrast, Germans are less individualistic, loyalty from employees is likely and could potentially hamper an individual's ability to make an independent decision regarding values or ethics (House *et al.*, 2004). Therefore, whistle blowing culture is likely higher among US nationals than Germans when unethical or immoral behavior is discovered (Hassink *et al.*, 2007). Finally, as a public face saving measure, Martin Winkertorn resigned as the CEO. This was not a private face because the blame was not



on him, it was the engineers and few other managers in that department that knew what was going on. His action of apologizing, taking responsibility was to save the company (Guirdham,2011).

But the emission scandal would not have occurred had Volkswagen's top management encouraged a culture of effective debate and constructive engagement. Jarnis (1982) believes that the success of a team depends on assigning the role of critical investigator to all its members. This will help them to avoid 'groupthink' which might be a recipe to failure. For instance, when few employees were said to have called the attention of their superiors in 2011 on the defeat device, but they were ignored. The structural faults identified by Jarnis as pointers to groupthink like lack of norms requiring methodical procedures; lack of tradition of impartial leadership; homogeneity of members' social background and ideology; and insulation of the group might have possibly played out at the top management since majority of company shares are owned by the two powerful families. For instance, a study by Wilson (2015) revealed that Volkswagen Board of Directors lacks independence because majority of the members are family representatives of the owners with unclear qualifications. Also, Ancona & Roberts (2004-2006) applying system theory to Kantor's four player model believes an effective organization is the one that works as a team with each of the four players reinforcing each other's role; domination by any player can hamper or undermine the health, balance and the effectiveness of the team. It is obvious that only Volkswagen's top management (mover) way of doing things was the final cause of action without recourse to what the employees (followers, opposers and bystanders) think thereby creating imbalance which resulted into scandal.

CONCLUSION

In the final analysis, it can be seen from the foregoing submissions that the underlying roots for unethical business practice by the global automobile giant (Volkswagen) goes beyond the drive to maximize profits as believed in many quarters; corporate culture that abhors failure and requires employees to perform and deliver on their task at all cost, the working environment that is averse to debate and all forms of dissent; and an autocratic leadership style are the enabling facilitators that pushed Volkswagen to the precipice of the famous emission scandal of 2015. Though Volkswagen is a German company, however, as can be seen from the above discussion, its corporate culture does not possibly reflect German national culture.

RECOMMENDATIONS

- 1) The adaptability to long-term market trends and the effectiveness of a company is determined by its corporate culture or governance. There is need for Volkswagen to align with the global best practices by cultivating a culture that embraces continuous learning which helps employees improve their skills. A culture that sees failure as an opportunity to try new things will inspire confidence in its employees because the working environment will not be under undue pressure.
- 2) Secondly, the particularistic culture of the company where there is flexibility in some departments as admitted by the top management need to change. Rules must apply to



- all irrespective of context. The company must be sensitive the cultural values of its host communities anywhere across the globe.
- 3) Thirdly, there is need for decentralization of decision making process and the institution of proper mechanism for checks and balances. Subject decisions to debate and allow the employees to freely participate in the process. Equally, there is need for the company to realize the culture of its employees as discussed earlier and work toward devising ways of running its affairs in tandem with those cultural elements. For instance, the low context, direct, confrontational, task-oriented and quasi-logical nature of its employees' culture will entails sharing of vital information with them on the direction of the company and a weekly or monthly listening session where employees are allowed the latitude to air their views and unimpeded atmosphere where dissent and varieties of issues about the company are discussed and debated. This will also include putting in place different means of getting feedback on the general direction of the company, and how they feel about it, what should be done to improve it. There should be regulations that protect the employees who express dissent and for whistle blowers.
 - 4) Equally, since it operates in masculine society, it can reward creativity especially by its employees either as individuals or teams who can come up with a creative way of solving certain challenges within a short possible time, a solution to which can give the company edge in the market. It is very important to give them the incentive and the enabling environment to work. For instance, in case of environmentally compliant diesel engine, the engineers had to resort to cheating, because the working environment was not conducive and they had to keep their jobs.

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Appendix

CASE STUDY

THE VOLKSWAGEN EMISSION SCANDAL

Volkswagen is a German multinational automotive giant and one of the world largest automobile manufacturing company with subsidiaries and branches across the globe with headquarters in Wolfsburg, Germany, the Volkswagen group owns Bentley, Bugatti, Lamborghini, Audi, Porsche, SEAT, and Škoda. It previously had an ambitious target of becoming the world's largest automaker by 2018. They saw an opportunity in manufacturing of diesel cars which was becoming unpopular among other automakers in US due to stringent environmental regulations. Thus, the goal was to crack into and dominate the diesel automobile market. But in September 2015, the United States Environmental Protection Agency (EPA) discovered that the automobile Volkswagen has unethically flouted the environmental regulations on emissions by inserting a software that concealed the true amount of nitrogen oxide Volkswagen's diesel engines were producing what the BBC (2015) referred to as a 'defeat device' or a software in diesel engines that could detect when they were being tested either in the laboratory or on the road, thus changing the performance accordingly to improve result.

This is despite a huge marketing campaigns through adverts and other avenues claiming its cars' low emissions. Particularly promoting their diesel cars as one of the most environmentally friendly, cost effective and fuel-efficient cars in automobile market. *Newsweek* (2015) reported that earlier in 2011, Volkswagen engineers and technicians tried to alert superiors about the emissions-rigging activities but were ignored. Equally, in 2014, when the US regulators raised concerns about the company's emissions levels, Volkswagen downplayed its severity by dismissing it as mere technical issues and unexpected real-world conditions.

But after the company was confronted with incontrovertible evidence by the regulators, it admitted to cheating emissions tests and lying about its compliance with environmental laws. They apologized and promised to launch an investigation on what transpired. Consequently, the company has recalled millions of its cars around the world with devastating toll on its market shares, annual profits, brand reputation and law suits from customers, dealers and NGOs. What started in the US spread to other countries like the UK, Italy, France, South Korea, Canada etc. with regulators, politicians and environmental groups questioning the legitimacy of Volkswagen's emissions testing.

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