

# Volkswagen AG

## Background

Volkswagen AG is a German automotive manufacturer we have been engaging with since 2008. In September 2015, the company was found to have programmed cars to undermine laboratory emissions testing for NOx emissions, known as the 'dieselgate' scandal. This resulted in the company facing lawsuits and having its brand tarnished, resulting in a significant drop in share price and costs estimated to be \$35bn<sup>1</sup>.

Since 2015, we have engaged with the supervisory and executive board and individuals at the company leading on culture change, and spoken at the company's annual general meetings. Furthermore, in our client vote recommendations, we have consistently advocated voting against the discharge of board members that were at the company at the time of the scandal. These actions were undertaken to understand the root causes of the scandal and how it could improve the underlying company culture.

## Our engagement

Immediately after the scandal broke in autumn 2015, we enquired about its scope and possible remedial actions required. We suggested the company undertakes a systemic review of the factors influencing the company culture to better understand the situation. Following our initial discussion in December that year, we felt there was limited acknowledgment by the company to change its corporate culture.

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In a joint investor meeting with the CFO in January 2016, we were concerned that he was unable to provide us with how the company intended to improve its corporate culture and leadership style. In the same year, we had discerning conversations with the supervisory board chair – who had previously been the company's long-term CFO – who would not accept personal responsibility for creating, or at least tolerating, an environment in which the emissions scandal could unfold.

<sup>1</sup> [Dieselgate Scandal Could Cost Volkswagen Up To \\$35 Billion](#) (forbes.com)

## Engagement objectives:



### Social and Ethical:

Company culture review



### Strategy, Risk and Communication:

Dieselgate emissions scandal

## Sustainable Development Goals:



At the AGM in June 2016, we supported shareholder resolutions seeking the appointment of a special auditor to investigate the role and potential liability of board members in the apparent corporate governance failures and the resulting emissions scandal. However, in early 2017, the head of integrity and compliance, who had been hired to improve the corporate culture and enhance the company's compliance systems, resigned after just one year in the role. We had concerns this could indicate the company's hesitant attitude towards culture change.

A couple of months later, the CFO and executive board member for integrity and legal affairs tried to assure us that the company was making good progress in overhauling its culture, highlighting key initiatives aimed at improving internal communication. However, the executives were reluctant to



commit to an independent, external culture review and the CFO told us that an external academic review of the company's culture is underway but would not be published.

In March 2018, we had a more encouraging meeting with the chair where he shared that the company is taking positive steps to address culture issues; by using employee surveys and introducing a new whistle-blower system. We welcomed these initiatives, however, we pressed for more transparency around the underlying key performance indicators (KPIs) that the company uses in assessing its progress on culture and governance improvements.

### **We supported shareholder resolutions seeking the appointment of a special auditor to investigate the role and potential liability of board members in the apparent corporate governance failures.**

In 2021, we participated in VW's virtual ESG event learning more about the company's focus on integrity and compliance. We also had a meeting with the supervisory board chair in December 2021 where we took stock of changes at the company since he became chair in the wake of the dieselgate scandal.

### **Changes at the company**

At various stages throughout our engagement, we have welcomed the company's progress in improving company culture. Initially in 2016, at the company's annual results conference, it shared that management intended to encourage openness in dealing with mistakes, and planned to carry out a systematic review and refreshment of the more than 10-year-old group values and develop behavioural guidelines in the form of a code of conduct.

### **At various stages throughout our engagement, we have welcomed the company's progress in improving company culture.**

In our March 2017 meeting, we were informed that an independent monitor would be appointed at the company to oversee culture change that would hopefully bring additional insights from the outside and strengthen its culture reform attempts. Later that year, we were pleased to learn that the company held culture and integrity courses for its senior management to encourage a culture of speaking up.

In March 2018, we were informed that the company had adopted employee surveys and introduced a new whistle-blower system. The company built on this in July to hold its first sustainability day for investors where the executive board member responsible for integrity and legal affairs explained to investors the company's approach in overhauling its culture. She highlighted the various efforts such as improved compliance processes. However, she could not elaborate on any specific KPIs that were used to assess the company's progress on improving its culture.

<sup>2</sup>The Domino Effect Of Volkswagen's Emissions Scandal (forbes.com)

### **The company held culture and integrity courses for its senior management to encourage a culture of speaking up.**

In 2021, we met with the chief integrity officer who reported on the Together4Integrity programme which covers a review of processes and perception workshops to assess the culture of employees. Although the company did not follow our advice for an external culture review, we gained some assurance from the chair that the Together4Integrity programme led to some changes in compliance processes and corporate culture. The chair convincingly shared how he incorporated questions on compliance and culture in interviews with management board members and how he received quarterly reporting updates from the integrity project lead.

In September 2020, we were pleased to see that Volkswagen met its commitment, under its Plea Agreement with the U.S. Department of Justice, to design and implement a compliance programme that would prevent and detect violations of anti-fraud and environmental laws. In a meeting with the chair in December 2021, he assured us the culture had improved.

Ultimately, we determine that our engagement on culture change was partially successful. Although the company did not undertake the external, independent culture review that we suggested, we were one of the key stakeholders pushing the company to take the role of company culture in the emissions scandal sufficiently seriously. The company has undertaken a comprehensive integrity project that has demonstrable improvements.



### **Next steps**

**We are one of the lead investors for the Climate Action 100+ engaging on climate and, in particular, the indicators of the net zero benchmark. Although Volkswagen has made some progress in setting science-based emissions reduction targets in line with 1.5°C, concerns remain. For instance, we are concerned with the lack of transparency of the oversight of lobbying through third parties. We had supported investors filing a shareholder resolution at the company to request better disclosure and were disappointed that this was blocked by the company. Furthermore, we continue to engage with the company on executive remuneration and the composition of the supervisory board which lacks independent directors.**



This case study has been fact-checked by Volkswagen to ensure a fair representation of EOS work carried out and changes made at the company.



**Lisa Lange**  
Engagement  
EOS

## Federated Hermes

### Federated Hermes

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