

# Volkswagen (VW) Scenario – Report to a Rental Company that is Assessing VW for Its Fleet

## Case Details

A major rental company is looking to replenish its fleet after getting rid of most of its cars during the COVID pandemic. It has tasked its procurement director, David Krugman, with finding the most viable car company to purchase its fleet. For a vehicle to be included in its fleet the rental company must ensure its reliability above everything else and study cost effectiveness as the fleet has to be changed frequently. The company doesn't expect to keep any car in the fleet for over three years whence they will sell the car through their used car program. Although traditionally buyers are reluctant to purchase used cars from a rental company, David, in collaboration with the director of Analytics at his company, Greg Milner, has come up with a new algorithm to keep the cars rotating across locations so that cars are used minimally and are in good shape for resale. When David and Greg first presented this vision to the company board, the board was circumspect of its viability but were soon convinced by the data.

After evaluating the viability of different vehicles David recommended VW vehicles for the fleet as VW set the industry standard for reliability in conjunction with the best fuel efficiency for the power they provide. David wanted to avoid an image of a rental company with a range of boring fleet options as he and Greg had found that there was a shift in the rental market and the new customers were looking for a different experience. VW promised them an excellent maintenance program and was on track to introduce electric vehicles shortly. As soon as the board found out that David was considering VW, he lost all goodwill he had built with the board. The emissions scandal was fresh on the board's mind. David now had to convince the board that the option with VW was not only the most viable in the current scenario but also a good long-term proposition.

The Chair of the board, Cadence Miller, was a legend in the automotive industry and had seen many companies wither and then make a comeback. She strongly believed in David's vision. With her support, David was able to get a new lease of life and work towards crafting a document that could support his plan. She advised him that he needed to convince the board that VW still has a strong reputation among consumers and can be trusted to deliver on its promises. She also advised him to be honest about his findings. With her support David was given a relatively generous budget to hire consultants to help him with his assessment.

Before assigning the outside experts their charge, David personally delved into the emissions scandal in depth. Previously, he worked in the rental business for a moving company and although he was aware of the scandal he had not paid too much attention to it. As he read through the news reports and committee findings, he found himself doubting his decision to recommend VW. He realized that the board was right in their concern for VW's current reputation. He also discovered that there were questions about the reporting from VW about their current fuel efficiency. Since his company was looking for a fleet that could be used across the country and the vehicles had to be certified to work in all states including California where the emissions standards were the most stringent.

He assembled a team that could provide him with different perspectives to shed light on two issues – whether he should trust VW and if they had taken care of their problems. He was looking to be convinced through strong arguments, as he, in turn, would need to convince the board. He was

mindful that some of the consultants might have competing interests and even private information therefore he had to read between the lines and not take all findings at face value.

Your goal is to provide David with the best advice on whether he should continue to recommend VW – why/why not? David also wants to know the reason for the ethical lapse and what the committee thinks of VW's response to the scandal? Can a company do the right thing after an ethical lapse?

## Consultants:

Barbara Perkins was the chair of a consumer advocacy group that had formed at the time of the emissions scandal to ensure that the Environmental Protection Agency (EPA) and the consumer protection bureau worked with VW to advance consumer interests rather than the interests of the company. Overall, she had been pleased with the way VW had treated consumers and was surprised at the legal action against their manager. In her previous life as a corporate lawyer she had never heard of a U.S. company ever holding anyone accountable for their mistakes or for putting the company's interest before the consumers'.

Emily Feinstein, Assistant Professor of Environmental Engineering, was a star researcher in the field of emissions who had spent time at the EPA before joining academia and ran the Emissions Calibration and Testing Lab (ECTL) at Andrew Hamilton University (AHU). She was a new graduate student at the time of the emissions scandal and remembered the case well as it was one of the primary teaching moments during her degree program. She was surprised to hear what VW had done was unsure if the technology EPA used was advanced enough to prevent such an occurrence in the future. As an environmental engineer she was still concerned with the thousands of VW cars parked across the country and wondered if they could be used.

Robert Meredith is the Director of the Automotive Environmental Advisory (AEA) group and an ex-EPA employee. He works as a consultant and advises companies on how to comply with EPA regulations and what to expect in future regulations so that companies can design their forthcoming vehicle accordingly. Regulations vary significantly across countries and therefore his expertise is in high demand. He also has a keen interest in understanding how and when companies might try to circumvent regulations and testing and the role of software and automation in this process.

Evan Sutton was a software developer who worked in the automotive industry, primarily in the domain of autonomous vehicles. He had a strong background in artificial intelligence (AI) and was recommended to David by an old college mate who was a venture capitalist (VC) in the Silicon Valley who had funded one of Evan's companies. Although these days Evan was largely working on the security issues related to autonomous transportation, he was an expert also on the different ways in which software was changing how cars worked.

Cynthia Perrotta was a stalwart of the automotive industry and had spent a long career with firms in the Detroit area. She was instrumental in handling the Ford Pinto disaster and was an advisor to Firestone when their tires had a performance issue resulting in many accidents, including fatal ones. She was trained as a mechanical engineer and had an MBA and was now largely a consultant on car design. She spent most of her time in Italy and when in Europe had been contacted by VW to help them manage their image after the emission scandal. She was the one who persuaded them to quickly accept their mistake, compensate consumers, and move on.

Ron Holland is Director of Compliance at the Marvin Group of Companies Inc. and its wholly owned subsidiary, Training School for Automotive Compliance (TSAC). Before joining TSAC, Ron spent 20 years in dealership management as a sales manager, GM, training director and compliance officer. He founded the Automotive Compliance Consultants Inc., a national automotive compliance resources and training firm. Ron has used his knowledge and industry experience to develop unique, compliance and reputation management solutions for automobile dealerships of all sizes. He believes the lines between ethics and compliance are getting blurry but they are distinct issues and he is circumspect of how much transparency within an organization especially of software will work.