

COMPETENT
BOARDS

ESG CERTIFICATE PROGRAM

CASE STUDY: VOLKSWAGEN DIESELGATE

**SESSION 12 | Good Governance and Becoming a
Steward of the Future**

Case Questions

1. With substantial visibility, industry leadership, and capacity, Volkswagen also assumes responsibility. What does Dieselgate teach us about how we should distribute accountability between governance and executive management?
2. Assume you are an incoming Volkswagen board member. The CEO has stepped down in the immediate aftermath of Dieselgate. What personal qualities, skills, and experiences does Volkswagen need for its next CEO?
3. What role does corporate culture play in protecting an organization from major ethical and reputational risks?
4. How can the board of directors influence management's compensation and incentive decisions towards ethics and integrity?
5. As the Chair of the Board, what questions would you ask management to ensure you provide oversight in ethically achieving the new strategy? What information/documentation would you ask for?
6. Given the recent news with Volkswagen's \$351 million in clawbacks, what do you foresee changing regarding D&O liability insurers and their impact on corporate governance? Will this affect how willing directors will be to take on directorships?

Background

With the increasing risks associated with climate change, accelerating business disruption, changing stakeholder and shareholder preferences, anti-corruption and transparency, and the COVID-19 pandemic, companies operating in the 21st-century face what seems like a tsunami of new challenges.

Corporate purpose and governance have changed significantly since the establishment of corporations in the early 17th century. Companies evolved from early non-profit-like institutions that served the public to colonial establishments, such as the British East India tea company, which engaged in the colonial trading of goods otherwise inaccessible in Europe.¹ Subsequently, the 1840s model of corporate personhood granted companies ground-breaking rights and laid the foundation for the recent corporate governance model.²

While the concept of corporate governance has existed for some time, the term was not used until the 1970s, and since then, relatively little has changed in corporate governance mandates.³ However, recently, expectations of corporate boards and executives began to shift,

¹ New Int. (2002). *A Short History Of Corporations*. <https://newint.org/features/2002/07/05/history>

² Ibid.

³ Price, N.P. (2018). *What Is the History of Corporate Governance and How Has It Changed?* Diligent. <https://insights.diligent.com/corporate-governance/what-is-the-history-of-corporate-governance-and-how-has-it-changed/>

especially with the advent of the COVID-19 pandemic.^{4 5} To address increased engagement, stakeholders and shareholders demand corporate governance that prioritizes diversity to address globalization and disclosure and data transparency.⁶⁷ The COVID-19 pandemic has brought forth an increasing number of questions on the role of corporations and the board in a global crisis. These questions include: What does the company's leadership prioritize? Does leadership prioritize cutting costs to ensure shareholder returns, balancing the company's survival with keeping employees safe and employed, or the survival of its suppliers?

Corporate governance is expected to meet fiduciary obligations and newfound sustainability obligations in the wake of shifting perceptions. Boards now find themselves faced with new risks and opportunities.⁸ Irrespective of the sector, governance is adapting. Corporate boards are beginning to shift their focus to company impacts, long-term thinking, and transparently managing risks. Often, this transition towards the future of corporate governance is spurred with a catalyst. The COVID-19 pandemic can be such a catalyst for many.

However, Volkswagen AG's catalyst was the Dieselgate scandal.

Headquartered in Wolfsburg, Germany, Volkswagen AG is one of Europe's largest auto groups comprising 12 different brands from 7 different European countries.⁹ Additionally, the Volkswagen Group offers various financial services, including dealer and customer financing, leasing, banking, insurance, and fleet management.¹⁰ The company operates 125 production plants worldwide, most of which are concentrated in Europe and Asia.¹¹

In 2015, the Dieselgate scandal was brought to the attention of world media – Volkswagen had fitted thousands of diesel cars with devices that allowed engines to fraudulently pass emissions tests by limiting performance (see [Figure 4](#))¹². In fact, it was revealed that Volkswagen AG operated a top-secret testing site at its Wolfsburg headquarters that was inaccessible to all but a few of the company's employees and executives.¹³ Engineers tested and uploaded emissions cheat software, which some executives were aware of but did not act upon.¹⁴ Shortcomings in Volkswagen AG's corporate governance were criticized publicly as far

⁴ Paine, L.S. (2020). *Covid-19 is Rewriting the Rules of Corporate Governance*. Harvard Business Review.

<https://hbr.org/2020/10/covid-19-is-rewriting-the-rules-of-corporate-governance>

⁵ Eccles, R.G. (2021). *Lessons From Covid-19 For Company Board Directors: Here's How To Upgrade Your Corporate Governance*. Forbes.

<https://www.forbes.com/sites/bobeccles/2021/03/29/lessons-from-covid-19-for-company-board-directors-heres-how-to-upgrade-your-corporate-governance/>

⁶ Ibid.

⁷ Zang, Atwal, & Kaiser. (2021). *Corporate Social Irresponsibility and Stakeholder Ecosystems: The Case of Volkswagen Dieselgate Scandal*.

<https://onlinelibrary.wiley.com/doi/epdf/10.1002/jsc.2391>

⁸ WBCSD. (2021). *Board directors' duties and ESG considerations in decision-making*.

<https://www.wbcd.org/Programs/Redefining-Value/New-pages-Testing/Redefining-Value/Stakeholder-capitalism/Making-stakeholder-capitalism-actionable/Governance-and-Internal-Oversight/Resources/Board-directors-duties-and-ESG-considerations-in-decision-making>

⁹ Volkswagen Group. (2020). *About Us: Group*. <https://www.volkswagenag.com/en/group.html>

¹⁰ Ibid.

¹¹ Ibid

¹² Burnett, S. (2017). *Everything You Need To Know About Dieselgate*. Motor 1 UK.

<https://uk.motor1.com/features/176853/everything-to-know-dieselgate/>

¹³ Ibid.

¹⁴ Ibid.

back as 2009, where the company was denounced for having the "worst corporate governance structure among Germany's blue-chip companies."¹⁵ It was regarded as a family-controlled company with an unfocused board.¹⁶

With regard to shareholders, Volkswagen AG was criticized for non-voting shares, its high executive pay, and its non-independent supervisory board members.^{17 18} Ferdinand Piëch, the company's chairman in 2009, was under a high degree of scrutiny as he is a large shareholder of Porsche, which now owns a 53.3% stake in the Volkswagen auto group.¹⁹ This raised concerns on the issue of transparency.

Upon the unfolding of Dieselgate events in 2015, IVOX, a German proxy advisor, stated that this type of incident was largely predictable due to Volkswagen's lax boardroom controls and 'peculiar' corporate culture.²⁰ The German government is also said to have played a role in this scandal, as Volkswagen AG is a large contributor to Germany's GDP.^{21 22} There is a degree of complicity between the German government and the automobile industry that may have led to governance shortcomings from both the state and the company.²³

Furthermore, research shows that Volkswagen's growth goals and internal controls may have hazed judgement.²⁴ During the time of the scandal, Volkswagen's CEO, Martin Winterkorn, was pressured to meet the goal of Volkswagen becoming the largest car maker internationally while trailing closely behind General Motors and Toyota motors in 2014.^{25 26} In the first quarter of 2015, Volkswagen was able to achieve its target.²⁷

There is speculation that the added pressure on employees to meet the company's steep targets and the board's lack of awareness of operations led to the decision made by a small group of employees and executives to push boundaries and "cheat the system."²⁸ Additionally,

¹⁵ Schäfer, D. (2009). VW governance 'worst' of German blue-chips. Financial Times.

<https://www.ft.com/content/0d3ab82e-dea9-11de-adff-00144feab49a>

¹⁶ Poier, S. (2020). Clean and green - The Volkswagen Emissions Scandal: Failure of Corporate Governance. ICM.

<https://yadda.icm.edu.pl/baztech/element/bwmeta1.element.baztech-f1bd5020-67c3-45d2-96cd-9a71be8dfa06/c/06.Poier.pdf>

¹⁷ Van der Heyden, L. (2015). VW's Board Needed More Outsiders. Harvard Business Review.

<https://hbr.org/2015/11/vws-board-needed-more-outsiders>

¹⁸ Schäfer, D. (2009). VW governance 'worst' of German blue-chips. Financial Times.

<https://www.ft.com/content/0d3ab82e-dea9-11de-adff-00144feab49a>

¹⁹ Porsche. (2021). Holding Structure. <https://www.porsche-se.com/en/company/holding-structure>

²⁰ Bryant, C., and Milne, R. (2015). Volkswagen's 'uniquely awful' governance at fault in emissions scandal. CNBC.

<https://www.cnbc.com/2015/10/04/volkswagens-uniquely-awful-governance-at-fault-in-emissions-scandal.html>

²¹ Petroff, A. (2015). What Volkswagen means to the German economy. CNN Business.

<https://money.cnn.com/2015/09/22/news/economy/volkswagen-germany-cars-economy/>

²² Gude, H., Hawranek, D., Traufetter, G. and Wust, C. (2015). Berlin Accomplices: The German Government's Role in the VW Scandal. Spiegel Online. <https://www.spiegel.de/international/business/vw-scandal-exposes-deep-complicity-of-government-a-1061615.html>

²³ Petzinger, J. (2017). Germany's diesel scandal shines a light on how cozy the government is with carmakers. QZ.

<https://qz.com/1045619/germanys-diesel-scandal-shines-a-light-on-how-indulgent-the-government-is-with-carmakers/>

²⁴ Ibid.

²⁵ Ibid.

²⁶ LeBlanc, J. (2014). The top 10 largest automakers in the world. Driving.ca.

<https://driving.ca/toyota/corolla/auto-news/news/the-top-10-largest-automakers-in-the-world>

²⁷ Volkswagen AG. (2019). Corporate Governance & Control Failures.

<https://sites.google.com/site/vwemissionsscandal/corporate-governance-control-failures>

²⁸ Ibid.

executive pay was linked to the company's performance, creating inappropriate incentive structures to meet targets in an unethical manner.²⁹

Academic research in the European Journal of Risk Regulation stated that for the company to move past the scandal, it must undergo a drastic overhaul in company governance, including rethinking the CEO's role, outsiders on their supervisory board, and how their current structure operates.^{30 31 32} Shortly after the Dieselgate scandal was exposed in September 2015, Chief Executive Martin Winterkorn resigned, marking the onset of several additional changes to management and the structure at Volkswagen.^{33 34}

Since taking strides in overhauling its corporate governance, Volkswagen's share prices have recovered to pre-scandal levels (see *Figure 1*). Plagued with legal obligations, lawsuits, and fines, the company still managed to outsell Toyota Motors and General Motors by volume in early 2018 and continues to push new technologies compared to their rivals.³⁵ CEO Matthias Müller stated in 2018 that while detrimental, the scandal pressured the company to address long-overdue corporate governance changes.^{36 37}

According to the Financial Times in 2018, Volkswagen continued to address cost-cutting, unnecessary spending, organizational complexity, 'a completely dysfunctional supervisory board', corporate culture, and innovation.³⁸ As of January 2018, Volkswagen decentralized decision-making and encouraged projects within the technology sectors of the company to address corporate culture issues.³⁹

In late 2018, Volkswagen unveiled a plan for 'Roadmap E' and pledged to unveil 50 electric car models by 2025.⁴⁰ The company is capitalizing greatly on battery production. They will invest €1.2 billion over the next four years into their Zwickau vehicle assembly plant in Germany, which formerly produced internal combustion engines.⁴¹ In June 2020, Volkswagen

²⁹ Ibid.

³⁰ Crete, R. (2016). *The Volkswagen scandal from the viewpoint of corporate governance*. European Journal of Risk Regulation (EJRR), 7(1), 25-31.

³¹ Milne, R. (2018). *VW needs to change more than just its chief executive*. Financial Times.

<https://www.ft.com/content/6b5efbaa-3d5e-11e8-b9f9-de94fa33a81e>

³² Graham, L. (2015). *VW: Time to overhaul governance*. CNBC. <https://www.cnbc.com/2015/10/05/vw-time-to-overhaul-governance.html>

³³ McGee, P. (2018). *What went so right with Volkswagen's restructuring?* Financial Times.

<https://www.ft.com/content/a12ec7e2-fa01-11e7-9b32-d7d59aace167>

³⁴ McGee, P. (2018). *Volkswagen makes sweeping changes to management and structure*. Financial Times.

<https://www.ft.com/content/9a0b092c-3e48-11e8-b7e0-52972418fec4>

³⁵ McGee, P. (2018). *What went so right with Volkswagen's restructuring?* Financial Times.

<https://www.ft.com/content/a12ec7e2-fa01-11e7-9b32-d7d59aace167>

³⁶ Ibid.

³⁷ IBIS Worldwide. (2015). *VW Crisis Highlights Governance Problems*.

<http://ibisworldwide.com/2015/news/vw-crisis-highlights-governance-problems/>

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ McGee, P. (2018). *What went so right with Volkswagen's restructuring?* Financial Times.

<https://www.ft.com/content/a12ec7e2-fa01-11e7-9b32-d7d59aace167>

⁴¹ Bailey, D. (2015). *Could the Volkswagen scandal power an electric car breakthrough?* The Guardian.

<https://www.theguardian.com/commentisfree/2015/sep/30/volkswagen-scandal-electric-car-diesel>

announced that the plant had produced its last combustion engine vehicle.⁴² As of August 2020, production of the brand's first all-electric SUV began at the Zwickau plant.⁴³ Volkswagen expects this plant alone to produce some 300,000 electric vehicles by the end of 2021⁴⁴. It is forecasted that the new site will become Europe's largest and most efficient EV factory and act as a cornerstone for Volkswagen in achieving its target of producing 1.5 million electric cars per year beginning in 2025.⁴⁵ Volkswagen's decision to focus on electrification has garnered the attention of other competitors in Germany, with CEO Herbert Diess pitting its largest plant against the Tesla factory under construction in Berlin.⁴⁶ As of January 2021, Volkswagen surpassed Tesla in battery-electric vehicle sales over the previous year.⁴⁷

Volkswagen believes that the key to long-term success lies in innovation, decarbonization⁴⁸, and electrification.⁴⁹ ESG ratings (see *Figures 2&3*) demonstrate that Volkswagen still ranks low in the industry despite its improvements. However, the company is starting to receive praise for its work in electrification. Tesla CEO, Elon Musk, complimented Volkswagen CEO Herbert Diess on Volkswagen's work in accelerating the electric vehicle movement.⁵¹ Volkswagen has also committed to the Paris climate goals and wants to be CO₂-neutral on the balance sheet by 2050; this includes vehicles, plants, and processes.⁵² ⁵³ In February 2021, Volkswagen was officially reinstated as a participant of the UN Global Compact, the world's largest corporate sustainability initiative, after a five-year break following the dieselgate scandal.⁵⁴ Volkswagen's shift in focus to sustainable transportation and corporate governance improvements may redeem the company in the years to come.

⁴² Beedham, M. (2020). Volkswagen now officially runs Europe's biggest electric car plant. The Next Web.

<https://thenextweb.com/shift/2020/06/29/volkswagen-now-officially-runs-europes-biggest-electric-car-plant/>

⁴³ Adomat, C. and Krebs, C. (2020). Volkswagen steps up electric offensive: Series production of ID.4 begins in Zwickau. Volkswagen.

<https://www.volkswagen-newsroom.com/en/press-releases/volkswagen-steps-up-electric-offensive-series-production-of-id4-begins-in-zwickau-6299>

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Bloomberg. (2020). VW CEO pits world's largest car plant against the new Tesla site. Europe Autonews.

<https://europe.autonews.com/automakers/vw-ceo-pits-worlds-largest-car-plant-against-new-tesla-site>

⁴⁷ Bloomberg. (2021). VW Sales Top Tesla in Europe After Incumbents Fight Back.

<https://www.bloomberg.com/news/articles/2021-01-27/vw-tops-tesla-in-bounce-back-year-for-europe-s-auto-incumbents>

⁴⁸ Schaffer, S. and Aydin, E. (2021). Volkswagen Board discusses decarbonization plan with independent Sustainability Council. Volkswagen.

<https://www.volkswagen-newsroom.com/en/press-releases/volkswagen-board-discusses-decarbonization-plan-with-independent-sustainability-council-7084>

⁴⁹ Carey, N. (2021). Only Volkswagen, Volvo doing enough to electrify in Europe. Reuters.

<https://www.reuters.com/business/autos-transportation/only-volkswagen-volvo-doing-enough-electrify-europe-study-2021-06-15/>

⁵⁰ Rauwald, C. (2021). Volkswagen Readies 'Massive' Rejig to U.S. Plans on Biden's EV Shift. Financial Times.

<https://financialpost.com/pmn/business-pmn/volkswagen-readies-massive-rejig-to-u-s-plans-on-bidens-ev-shift>

⁵¹ Klender, J. (2019). Tesla's Elon Musk trades compliments with Volkswagen CEO at Auto Award Show. Teslarati.

<https://www.teslarati.com/tesla-elon-musk-compliments-volkswagen-ceo-awards-show-video/>

⁵² Volkswagen AG. (2020). Climate Measures of the Volkswagen Group

<https://www.volkswagenag.com/en/news/stories/2020/10/29-climate-measures-of-the-volkswagen-group.html>

⁵³ Schaffer, S. and Aydin, E. (2021). Way to Zero: Volkswagen presents roadmap for climate-neutral mobility. Volkswagen.

<https://www.volkswagen-newsroom.com/en/press-releases/volkswagen-board-discusses-decarbonization-plan-with-independent-sustainability-council-7084>

⁵⁴ Ludewig, Aydin, E. and . (2021). Volkswagen is Officially Reinstated as a Participant of the UN Global Compact. Volkswagen.

<https://www.volkswagen-newsroom.com/en/press-releases/volkswagen-group-is-officially-reinstated-as-a-participant-of-the-un-global-compact-6826>

As the COVID-19 pandemic took hold over the global economy, attention turned to how corporate governance across industries responds to this economic disturbance. On April 16th, 2020, the company announced that it would be cancelling its 2020 forecast, reporting that it can no longer be achieved as demand fell 37.1% overall in March 2020.⁵⁵ After reporting a €1.4 billion loss across the first two quarters, Volkswagen has reported a return to profitability with €3.2 billion in operating profit in the third quarter, despite an overall drop in vehicle deliveries.^{56 57} While Volkswagen anticipated that its full-year 2020 operating profits would still be positive, the result was expected to be "severely lower" than the previous year.⁵⁸

Due to the pandemic, the company's production facilities located mainly in Europe and Asia had virtually come to a standstill, resulting in the closure of production facilities in China, Spain, Portugal, Slovakia, and Mexico.⁵⁹ Since Volkswagen has reopened its plants with the best possible prerequisites for a safe working environment, stating that the health of employees, customers, and business partners is still their top priority.⁶⁰ Volkswagen Chief Financial Officer, Frank Witter, says "we are cautiously optimistic that we will be able to continue to stabilize our business in the remaining months of the year."⁶¹

In light of the pandemic, Volkswagen has taken several measures to support its stakeholders, such as continuing to pay employees during production suspensions in Mexico.⁶² The company has also made efforts to support customers who may have recently purchased a vehicle and then lost employment due to the COVID-19 pandemic by allowing the deferral of car payments for up to 90 days.⁶³ Volkswagen's additional efforts are illustrated in their fast efforts to transform an auto part assembly line to manufacture personal protective equipment (PPE) in the form of ventilators, surgical masks, and gowns to combat the shortening supply of PPE provide work opportunities for employees.^{64 65}

⁵⁵ Reuters. (2020). *Volkswagen ditches outlook after COVID-19 hammers first-quarter profit*. Yahoo Finance.

<https://finance.yahoo.com/news/volkswagen-withdraws-outlook-first-quarter-120400128.html>

⁵⁶ Jones, G., Woodhouse, A., Wells, P., Provan, S., Dempsey, H., Badkar, M., and Rocco, M. (2020). *VW turns to profit with recovery in Europe and China*. Financial Times. <https://www.ft.com/content/c5d32c72-b980-39ec-9bfe-2eef971d13d2>

⁵⁷ Reuters. (2020). *Volkswagen returns to profit as pandemic recovery continues*. CNBC.

<https://www.cnbc.com/2020/10/29/volkswagen-returns-to-profit-as-pandemic-recovery-continues.html>

⁵⁸ Volkswagen. (2020). *Volkswagen Group measures reduce the effects of Covid-19 in the first half of the year*.

<https://www.volkswagenag.com/en/news/2020/07/2020-H1.html>

⁵⁹ Riley, C. (2020). *The world's biggest carmaker is shutting down in Europe*. CNN Business.

<https://www.cnn.com/2020/03/17/business/volkswagen-plants-europe-coronavirus/index.html>

⁶⁰ Ibid.

⁶¹ Jones, G., Woodhouse, A., Wells, P., Provan, S., Dempsey, H., Badkar, M., and Rocco, M. (2020). *VW turns to profit with recovery in Europe and China*. Financial Times. <https://www.ft.com/content/c5d32c72-b980-39ec-9bfe-2eef971d13d2>

⁶² Reuters. (2020). *Volkswagen extends Mexico production halt as coronavirus bites*.

<https://www.reuters.com/article/us-health-coronavirus-mexico-volkswagen/volkswagen-extends-mexico-production-halt-as-coronavirus-bites-idUSKBN21K0EK>

⁶³ Posky, M. (2020). *Volkswagen Wants to Make Coronavirus Car Buying Less Terrifying*. TTAC.

<https://www.thetruthaboutcars.com/2020/04/volkswagen-wants-to-make-coronavirus-car-buying-less-terrifying/>

⁶⁴ Volkswagen AG. (2020). *From making cars to ventilators*. https://www.volkswagenag.com/en/news/2020/03/cars_to Ventilators.html#

⁶⁵ VW Newsroom. (2020). *Volkswagen drives bigger to fight the COVID-19 outbreak*.

<http://newsroom.vw.com/community/volkswagen-drives-bigger-to-fight-the-covid-19-outbreak/>

In a statement, Volkswagen Group of America President and CEO Scott Keogh said that the company is committed to "helping our customers, our dealers, our employees, and our communities in a time of crisis."⁶⁶ Most recently, Volkswagen helped authorities in South Africa provide healthcare to those affected by COVID-19 by transforming one of its unused plants into a medical facility⁶⁷; however, the contract between Volkswagen South Africa and the Eastern Cape health department ends on March 31st, 2021, along with the contracts of 331 government-hired healthcare workers within it.⁶⁸ Volkswagen has yet to release a statement regarding its efforts to support employees and communities in the second half of the year.

As of June 2021, Volkswagen AG is set to receive about 288 million euros (\$351 million) as part of a deal with former top executives and a consortium of insurance companies to partly compensate for the financial fallout of Dieselgate.⁶⁹ Former CEO Martin Winterkorn has agreed to pay over \$14 million over his role in Dieselgate.⁷⁰ In September 2021, four former employees of Volkswagen accused of fraud went on trial over the Dieselgate scandal. Winterkorn will have a separate trial at a later date.⁷¹

Over a decade ago, ex-Siemens AG CEO Heinrich von Pierer paid 5 million euros in damages to his former employer. The payments from the D&O insurance consortium and Winterkorn both represent the highest of their kind in Germany.

⁶⁶ Ibid.

⁶⁷ European Commission. (2020). Volkswagen in South Africa – helping fight COVID-19 and protecting employees.

https://ec.europa.eu/international-partnerships/stories/volkswagen-south-africa-helping-fight-covid-19-and-protecting-employees_en

⁶⁸ Mgidi, S. and Kimberley, M.. (2021). End of the line for VW field hospital? Times Live.

<https://www.timeslive.co.za/news/south-africa/2021-02-17-end-of-the-line-for-vw-field-hospital/>

⁶⁹ Rauwald, C. (2021). VW Claws Back \$351 Million in Diesel-Scandal Damages Deal. BNN Bloomberg.

<https://www.bnnbloomberg.ca/vw-claws-back-351-million-in-diesel-scandal-damages-deal-1.1614847>

⁷⁰ Riley, C. (2021). Volkswagen's ex-CEO pays company \$14 million over his role in the diesel scandal. CNN.

<https://www.cnn.com/2021/06/09/business/volkswagen-martin-winterkorn-dieselgate/index.html>

⁷¹ Reuters. (2021). Four former VW employees go on trial in Dieselgate lawsuit.

<https://www.reuters.com/business/autos-transportation/four-former-vw-employees-go-trial-dieselgate-lawsuit-2021-09-16/>

Appendix



Figure 1. This graph compares the percent changes in share prices between Volkswagen AG (in blue), competitors BMW DE (in purple) and Daimler AG (in pink), and the German DAX index (in orange) from January 1st, 2015 to March 17th, 2022. (Source: [Yahoo Finance](https://finance.yahoo.com))

Volkswagen AG

Industry Group: Automobiles

Country: Germany

Identifier: ETR:VOW3

ESG Risk Rating

29.6 Medium Risk



Last Update: Oct 7, 2021

Ranking

INDUSTRY GROUP
Automobiles

44 out of 75

UNIVERSE
Global Universe

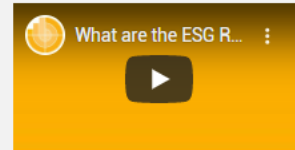
8348 out of 14473

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Industry Comparison

	ESG RISK RATING			INDUSTRY RANK	
Daimler AG	22.1		Medium	14 out of 75	
Toyota Motor Corp.	30.4		High	48 out of 75	
Honda Motor Co Ltd	28.8		Medium	40 out of 75	
Tesla Inc	28.5		Medium	39 out of 75	
Volkswagen AG	29.6		Medium	44 out of 75	

For corporate professionals interested in direct competitor insights

Sustainalytics' Peer Performance Insights gives an in-depth analysis of your company's ESG strengths and weaknesses compared to your competitors and industry performance. These insights can be used to identify areas of ESG improvement to help inform future management decisions that align with your organization's sustainability goals.

→ [Learn more about our Peer Performance Insights solution](#)

Our Approach to Calculating ESG Risk

The ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks.

Exposure

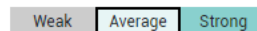
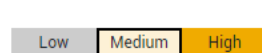
Exposure refers to the extent to which a company is exposed to different material ESG issues. Our exposure score takes into consideration subindustry and company-specific factors such as its business model.

Volkswagen AG's Exposure is **Medium**

Management

Management refers to how well a company is managing its relevant ESG issues. Our management score assesses the robustness of a company's ESG programs, practices and policies.

Volkswagen AG's Management of ESG Material Risk is **Average**



How do the ESG Risk Ratings work?

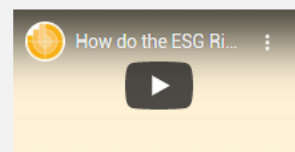


Figure 2. This figure highlights Volkswagen AG's ESG performance by percentile compared to peers in the automotive sector. (Source: [Sustainalytics](#))

MSCI CLIMATE

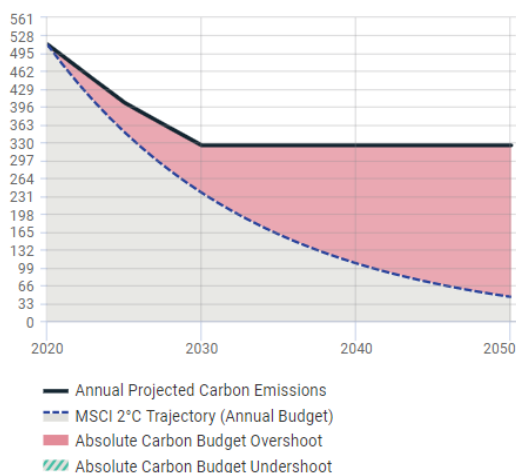
MSCI

IMPLIED TEMPERATURE RISE **3.51°C**

LAGGING ≥ 3.85°C	MISALIGNED > 2°C - < 3.85°C	2°C ALIGNED ≤ 2°C
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2°C Trajectory

Absolute emissions [Megatons CO2e]



Decarbonization data as of October 15, 2021

[Learn more about Implied Temperature Rise >](#)

Decarbonization Target

Does Volkswagen Aktiengesellschaft have a Decarbonization Target? YES

Target Year 2030

Comprehensiveness
% of company footprint covered by target 95.73%

Ambition
Projected reduction per year to meet stated target* 3.56% p.a.

Target data as of October 15, 2021

MSCI ESG

MSCI

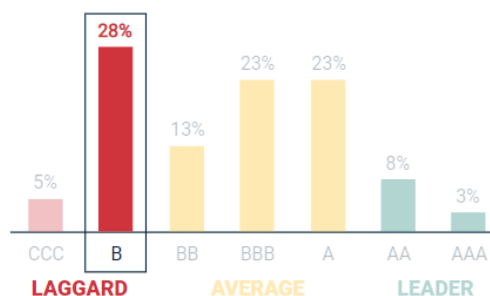
ESG RATINGS

CCC	B	BB	BBB	A	AA	AAA
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Volkswagen is a **laggard** among 40 companies in the automobiles industry.

ESG Rating distribution

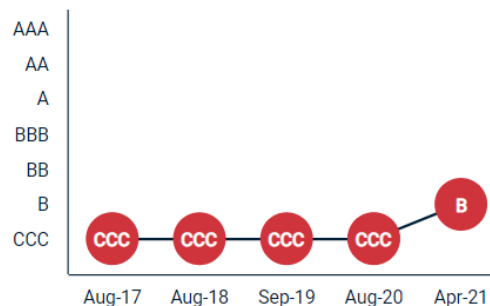
Universe: MSCI ACWI Index constituents automobiles, n=40.



Volkswagen was upgraded in April, 2021.

ESG Rating history

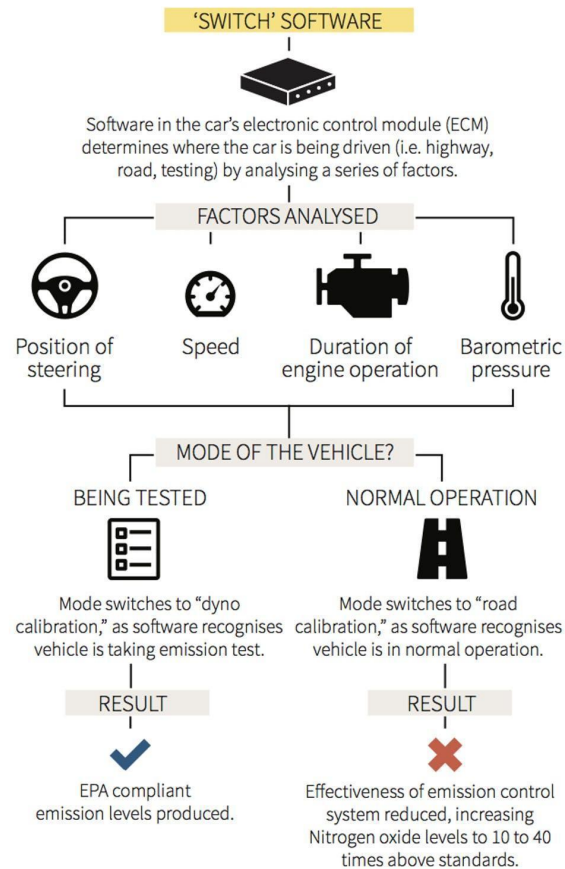
MSCI ESG Rating history data over the last five years or since records began.



We focus on the key issues material to the **automobiles industry**. Here is how **Volkswagen** compares to industry peers. For more details, visit the [ESG investing page](#).

Figure 3. This figure highlights Volkswagen AG's ESG and climate performance compared to peers in the automotive sector, alongside areas where they are considered ESG leaders, laggards, and average performers. (Source: [MSCI](#))

How Volkswagen's defeat device works



Source: U.S. Environmental Protection Agency

J. Wang, 22/09/2015

REUTERS

Figure 4. This schematic shows how Volkswagen AG could cheat emissions testing and how their defeat device works according to different driving profiles. (Source: United States Environmental Protection Agency & Thomson Reuters)

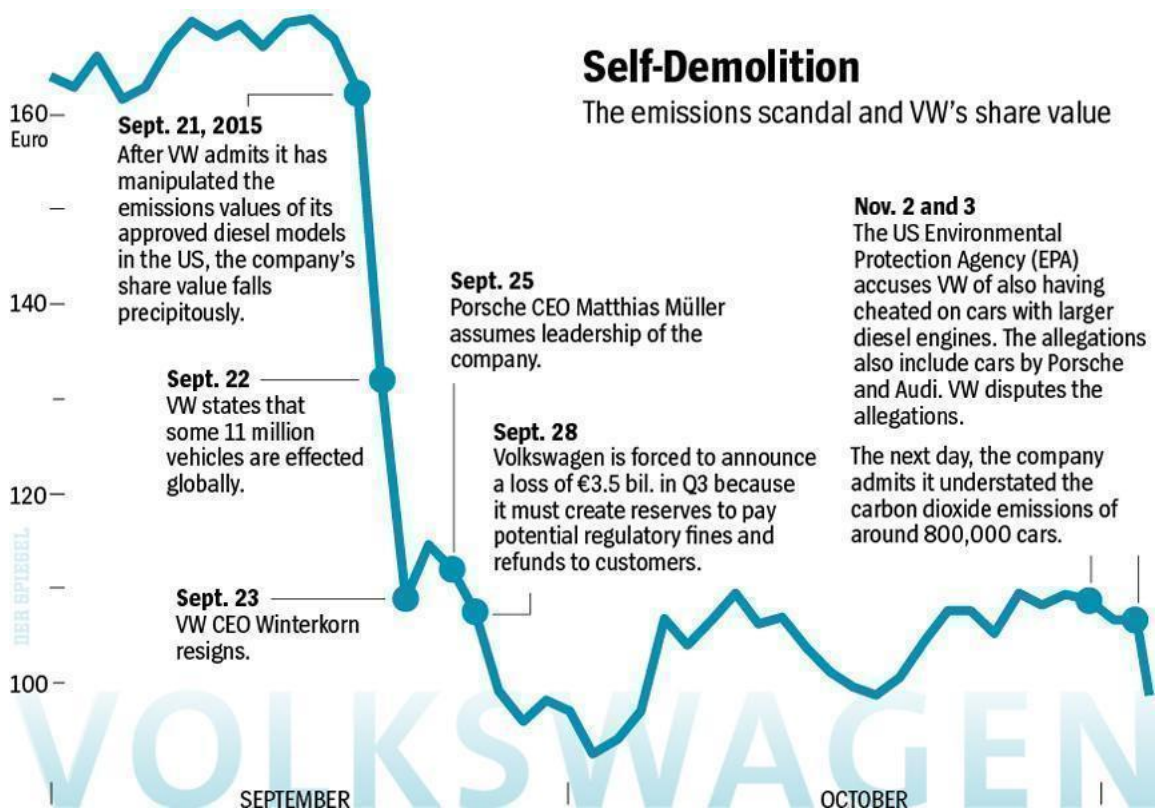


Figure 5. This figure highlights Volkswagen AG's diesel gate scandal's timeline while directly comparing events to rises and falls in share prices between September and October 2015. (Source: Spiegel Online)

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