Volkswagen Group has so far paid a high price for admitting it knowingly sold diesel model cars designed to manipulate emissions tests. It has felt the wrath of shareholders, suffered its largest ever annual loss and been forced into an US$15 billion restitution settlement in the United States.

By insisting that restitution will only be offered to consumers in the US and Canada, Volkswagen has adopted a crisis management strategy used by a raft of multinational companies that could see Australian consumers miss out.

This strategy is simple: highlight the unique characteristics of the most demanding markets, and exploit the weaknesses of institutions elsewhere in a bid to diminish or avoid restitution.

## Fallout

Volkswagen Group has admitted it installed “defeat devices” in 11 million diesel cars so that emissions under laboratory conditions appeared up to 40 times lower than under everyday operating conditions.

The reaction from consumers has been less severe than predicted, with the company’s worldwide unit sales dropping by only 2% in 2015. Unit sales in the US and Europe, the locations most affected by the scandal, even grew by 4.4% and 2.6%, respectively.

So far, the US - where the scandal originally broke - is the only market where significant advances have been made towards resolving the crisis, owing to its strong consumer protection ethos and aggressive enforcement.

A fortnight ago Volkswagen agreed to US$10 billion compensation for US consumers, the largest-ever settlement in US auto industry, coupled with the offer of a vehicle buyback or a technical solution (still to be approved by authorities).

The company also agreed to pay US$2.7 billion to offset excess diesel emissions and another $2 billion for investments in environmentally-friendly vehicle technology. In total, the company has agreed to pay nearly US$15 billion. The company set aside €16.2 billion to deal with the crisis, nearly all of which is accounted for by the (partial and provisional) US settlement.

## Resisting compensation elsewhere

But Volkswagen has resisted increasingly vociferous demands for restitution in other parts of the world, insisting that financial compensation will be reserved for customers in the US and Canada.

The company maintains that these customers deserve compensation because they bought a vehicle specifically advertised as a "clean diesel". It has further argued that US customers were investing in a niche technology compared with Europe where more than half of new cars sold are diesels.

In Europe, Volkswagen's significant political clout - the company is one the EU's largest employers and part-owned by a German Lander government – might offer some protection.

## What's happening in Australia

In Australia, Volkswagen Australia finally came clean with local customers in October 2015 , admitting that more than 90,000 of its vehicles, including Volkswagen, Skoda and Audi models, had been fitted with the device.

Australian consumers seemed to shrug off the scandal and Volkswagen's Australian sales increased by nearly 10% in 2015 . The lack of impact may be attributable to the fact that diesel models account for less than 10% of local sales.

For the past nine months the Australian Competition and Consumer Commission (ACCC) has been investigating whether Volkswagen engaged in false or misleading representations in their marketing of the affected vehicles. If customers relied on these representations when buying their cars, they would be entitled to a range of options under the Australian Consumer Law .

Meanwhile, class action laws suits have commenced. Last week lawyers appearing in the Federal Court for Volkswagen Australia denied the use of defeat devices in local models and argued that the fines and compensation agreed to in the US were irrelevant for the Australian context.

Volkswagen Australia has also argued the best outcome for its customers is a technical solution, chiefly in the form of a software update.

The company has recalled just one of the affected models in Australia although recent testing in Europe has raised doubts about the effectiveness of the proposed technical fix.

## Tried-and-tested tactics

Volkswagen's approach reflects a crisis management strategy employed effectively by other multinationals in the past.

In 2009 Maclaren recalled one million strollers in the US due to finger amputation risks for kids and offered a technical solution. Elsewhere the company continued to sell the same models and refused to offer a fix. It simply asked the parents to mind their children while closing the stroller.

It was only after sustained pressure from parents, regulators and media that the company reluctantly offered the same fix to those who approached it, but the company never issued a recall notice outside the US.

## Global integration, local responsiveness

Multinationals frequently pride themselves on providing high quality products and superior customer service to consumers compared to domestic companies.

To achieve this, multinationals attempt to realise the benefits of global integration while also maximising local responsiveness.

Global integration broadly refers to the centralised management of value chain activities (such as product design, procurement and logistics), while local responsiveness refers to adapting products and value chain activities to suit local consumer tastes and local stakeholder expectations, resulting in benefits such as premium prices, government subsidies and motivated employees.

But this approach has also exposed them to the risks of product failures.

Our research has shown that global product recalls are on the rise because of the disconnect between the design function at multinational headquarters and manufacturing operations spread around the world.

Coinciding with the rise in recalls is the rise in unethical practices in crisis situations, such as suppressing product failures and not reporting them to regulators so as to avoid or delay recalls.

While we have some understanding of company delays in issuing recalls in different markets around the world, we know very little about the phenomenon of differential restitution around the world.

But the notion of multinationals refining their mix of local responsiveness and global integration offers some clues. While the world is an increasingly interconnected place, most stakeholders of multinationals are firmly anchored at the level of the nation state, although some are moving towards a regional setting (for instance, the EU) or have begun to coordinate closely (for example, the US and Canada).

As a result, laws, regulations and associated institutions apply mostly at the national level.

## Exploiting institutional differences

Multinationals have always exploited institutional differences across countries through mechanisms such as differential pricing and tax arrangements. Increasingly they are also exploiting institutional differences by offering differential remedies in case of corporate wrongdoing. The fragmentation of stakeholders in different countries may even be reinforced by the companies.

For instance, in a recent press statement Volkswagen Australia's managing director, Michael Bartsch, was at pains to point out:

The relevant facts and complex legal issues that have played a role in coming to these agreements in the United States are materially different from those in … Australia.

In the same vein, the group's corporate website makes it exceedingly difficult to access the crisis communications provided to individual markets. Queries are either looped back to the local (Australian) emission website or require a valid VIN number in the overseas market. Such tactics help to keep individual countries and their stakeholders apart, and prevent countries with less bargaining power from obtaining comparable restitution.

To even the odds in negotiations with multinationals, stakeholders around the world must follow companies' lead and become more globally connected. Only through global coordination in developing and enforcing standards will stakeholders boost their bargaining power in negotiating with transgressing companies.

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*Hari Bapuji receives funding from Social Sciences and Humanities Research Council of Canada.*

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