

# VW and Uber

## Controversy, reputation risk and solutions

By Andrea Bonime-Blanc and Philipp Aeby

VW and Uber are only two of the most prominent cases in which controversy in ethical behavior, leadership, and corporate culture led to corporate crises and (lasting) loss of reputation. What are reliable strategies to prevent controversy?

One could argue that controversy is in the eye of the beholder. However, the world appears to be migrating to a place of a globally shared understanding of what controversy means, certainly in the context of an organization.

It can mean any number of different kinds of actions, behaviors, events, or decisions that can happen over time or all of a sudden, along a spectrum from somewhat damaging all the way to existential. Controversies can be the result of innocent, or not so innocent, unethical, negligent, intentional, or even criminal behaviors. And with the age of social media, what could have gone unnoticed just a few years ago is now vastly broadcast, amplified, and permanently recorded.

### Determining a controversy

Today, what is legal is not necessarily considered ethical. Certainly, laws and regulations within countries and internationally have a lot to do with determining what is legal – supposedly non-controversial – and what is not. But the determination of what is



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controversial goes well beyond the law to what might be considered generally accepted behaviors and norms. An example of increasingly accepted norms of behaviors in business, for example, can be found in the growth and spread of voluntary and normative codes of conduct within companies, within industries (e.g. the Extractive Industry Transparency Initiative), and across industry (UN Global Compact).

Critical in determining a controversy is the role of a wide spectrum of stakeholders who have expectations of the organiza-

tion that “perpetrates” the controversy. This role of stakeholder expectations is the key to understanding the financial and reputational consequences that might occur as a result of a controversy. Why is this calculation important? Because organizations can live and die by the behaviors and reactions of their stakeholders as the two following cases demonstrate.

### Controversy in practice I: the VW case

The Volkswagen AG case is that of a leading, mature, highly regarded global company whose reputation suddenly and dramatically imploded with both financial and non-financial consequences that will take months and years still to fully unfold. In 2015, the company was forced to recall millions of vehicles and became embroiled in a worldwide “emissions cheating device” scandal that forced the resignation of the company’s CEO, and caused the company to quickly lose 30 percent of its stock price value. The scandal spread to other VW brands, and the governments in several countries including Australia, Brazil, Canada, South Korea, Taiwan and the US announced plans to investigate the emission levels of vehicles manufactured by the VW Group. Clearly, this was not only controversial because it was against the law, but also, this behavior did not meet the norms and expectations of the stakeholders and led them to take adverse action against the company.

While the underlying risks that were most visibly responsible for this reputation-damaging event were consumer fraud and environmental fraud, the underlying causes had more to do with other strategic risks coming together over time: the failure of leadership and the failure of the culture built by the leadership team – apparently, an authoritarian culture of winning no matter what where it was not safe to speak up.

### Controversy in practice II: the Uber case

Unlike VW, the case of the US-based technology company Uber Technologies Inc is a dramatic example of a new type of company – one which merges a more traditional business model with a powerful digital sharing economy platform, allowing it to reach, scale, and upend the traditional model dramatically in such a way that it often breaks with the established business and legal practices. Among other acts or omissions, the company has appeared to act negligently in some cases with respect to conducting appropriate background checks on its drivers, something that has led the company to be perceived as controversial. Additionally, some of the company’s drivers have faced allegations of rape, assault, and sexual harassment in a variety of countries. The controversy is amplified as the legality of Uber’s services has been challenged in several countries, for example, France where two executives were charged with using deceptive commercial practices, operating an illegal taxi service, and illicitly storing personal data.

### Steps to prevent controversy

Both Uber and VW (and other companies that haven’t yet been exposed to controversy) should consider adopting strategically critical steps that should help prevent further controversies, maintain and restore their reputation:

- Build a risk and reputation resilient culture. The most important piece of a resilient organization is for its leaders to take culture seriously and a culture of smart risk and reputation management even more seriously. While this may be difficult in early-stage businesses, handling it right early on can actually provide a competitive advantage.
- Thorough stakeholder analysis and awareness. A company must understand who its principal and most important stakeholders are – beginning with its own employees and customers – and design its strategy, culture, products, and services to meet their expectations so that it understands what adverse developments will do to their opinion.
- Nimble crisis and risk management teams. Have a cross-functional team of internal experts working together on company risks with an action and resolution orientation focused on formulating and executing a smart risk appetite approach that, while aggressive, does not flaunt local laws and rules but instead works closely with local stakeholders to solve issues.
- Strategic risk governance. Provide the board of directors and investors with a strategic risk report on a quarterly basis, describing the top (most likely/heaviest-hitting) strategic risks to the business and what the company is doing to mitigate to these risks.



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