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Assessment 1

Written Report

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INTRODUCTION

Strategic Management is the continuous process of identifying, planning, managing, and utilising resources to gain objectives effectively. Sustainable business strategy refers to the steps taken by a company to improve its impact on the environment (Indeed, 2022). The following report is completed based on the case study of Volkswagen (VW). The work shows the business strategies followed by the organisation in the last five years and the evaluation of the changes made. It explains the sources and capabilities of the company and in which process they have aligned with their current strategy. The task continues to evaluate the competitive measures taken by the company because of sustainability and the environment.

BUSINESS STRATEGIES OF VW OVER THE PAST FIVE YEARS

Volkswagen is an active car business that has been making effective strategies throughout its operations in the automobile market. Currently, the New Auto is the Group strategy of the business where the company will transform into a software-oriented company, making the most use of technology and growing rapidly in important sectors like digitalisation and e-mobility (Volkswagen AG, 2023). The organisation is also slowly moving towards electric vehicles and thus, certain approaches like sustainable and cost-efficient production of charging infrastructure and battery systems have been adopted by the company. Along with this, the company has also come up with newer technological platforms which include mobility solutions, battery and charging, software and mechatronics.

Business organisations often undertake strategies for the betterment of products for making profits and doing good for the citizens. However, there have been businesses across many industries that have been facing the problem of choosing ethics over profit and because of this, companies have faced various issues and mostly legal complexities. Similarly, the giant German car company Volkswagen had to pay over 193 million Sterling Pounds to 90,000 drivers in England and Wales because of the cheating devices used by the company. The Environmental Protection Agency found that many of the Volkswagen cars were fitted with either defeat devices or software. These devices had the ability to change and adapt to optimise performance when being tested (Clean Air Claims, 2020).

Also known as the “dieselgate” scandal, the company had to face litigation from multiple nations and it included other things like fines, compensation, civil settlements, and buyback schemes. The defeat devices that fit in the car made the cars certified to European pollution standards. However, in reality, the cars were emitting more than 40 times more nitrogen dioxide than usual. This in turn negatively impacted the customers and the environment as well that affects almost 1.2 million citizens in the UK (BBC, 2023). However, in the primary times, before the company got caught, it made a lot of profits. The controversy does not only end here as the company was accused of modifying software on diesel engines of 3 litres in their models as well as in Porsche and Audi.

More than 480,000 cars were found with defeat devices in the US only which include other manufactured carts like the Audi A3 and some of the original models like Golf, Beetle, Passat and Jetta. It was estimated that almost 800,000 vehicles in Europe were fitted with the device and software and thus, irregularities were found. After the scandal, the EPA tested the engines and it was found that there those had computer software that could sense test scenarios and monitor air pressure, engine operation, speed and the position of the steering wheel. This scandal destroyed the company and its reputation because the thing that happened in the US spread to other countries like France, Canada, the UK, South Korea, Italy and most importantly Germany. Summing up all the tests, there were 8.5 million cars in Europe, 1.2 million in the UK, 500,000 cars in the UK and 2.4 million in Germany associated with the emission scandal (Jacobs and P. Kalbers, 2019).

Although the company has a lot of profits with the cheating device, however, according to the **Triple Bottom Line framework**, there are two other important aspects than profits that should be taken into serious consideration. Firstly, the people of the company and the society as a whole thus, practices and activities in a business must not only focus on making profits. The practices should also take responsibility for the people and their lives and well-being for implementing sustainability effectively (Ferro *et al.*, 2019). Social sustainability is important that

can also bring profitability and success to a business thus, the focus must be also on social surroundings, community and internal resources.

After the miserable condition of the company, the leaders of the Volkswagen Group apologised to the public for making a two-mode software. Along with this, the company was claimed to rebuild trust among the customers of Wales and England and the lengthy, expensive and complex trial process was mitigated with the settlement (BBC, 2023). The company changed this strategy because it seems to negatively impact the environment with a large emission of nitrogen dioxide which was even more than the normal vehicles release. Thus, the second aspect in Triple Bottom Line, the environment was also overlooked by the car company and caused much damage to the subject. Therefore, maintaining the environment through business practices is another important aspect that must be taken care of well.

VW resources and capabilities

The company has been implementing multiple strategies in its production and business operation for many years. However, to implement such plans and approaches, a business organisation needs to have adequate resources and capabilities. It might include professionals, experts, technology, financial support and many more and without all these, a successful implementation of plans is not possible. With the help of VRIO analysis, the unique strengths, resources and capabilities of Volkswagen and how it provides a competitive advantage will be evaluated.

Resources	Valuable	Rare	Inimitable	Organisation
Brand image	Yes	Yes	Yes	Yes
Global Presence	Yes	Yes	Yes	Yes
Employees	Yes	No	Yes	Yes
Distribution network	Yes	Yes	No	Yes
Technology	Yes	Yes	No	Yes

Table 1: VRIO Analysis Volkswagen

(Source: Created by the learner)

Analysis

From the above VRIO analysis, it can be seen that the organisation has acquired multiple opportunities to use its resources rightfully at the right times. Some of the important resources that have contributed to making the strategies effective are global brand presence and image, employees, distribution network, technology and finance. The brand image of the company is very well maintained where the company rebranded itself in 2019 stating some of the new strategies like putting people ahead, using effective digital media and 360-degree communication (Volkswagen AG, 2023a). As a result, this aspect makes the brand image rare and inimitable furthermore.

The brand image has been used effectively by the company and thus, it has been more successful in creating growth and progress within the industry. The Volkswagen Group is present in more than 150 countries and is also the largest company in the world (Volkswagen AG, 2023b). This states that the global presence of the company is huge and valuable for the company (**Refer to appendix 2**). It also implies that customers are a part of this presence and hence, they are valued by the company. Their position is undefeatable and cannot be easily replaced by other companies thus making it inimitable. The skills and expertise present in the company are valuable, however, they are not rare.

At the same time, the company has used its human resource wisely, making the current business strategies effective and successful. Being able to operate in so many countries and manufacturing vehicles for different brands, strong distribution networks and the channel is important. The company has its own dealerships and showrooms and production network located worldwide in 118 locations with 70 car manufacturing plants (Volkswagen, 2023). The company has used technology in its operations and production effectively this aspect thus also makes it valuable, rare, organised and inimitable.

VW HAS TRIED TO BECOME MORE COMPETITIVE WHILE TAKING INTO CONSIDERATION SUSTAINABILITY AND THE ENVIRONMENT.

Sustainability can be defined as the capability to support a process in the future (Salas-Zapata and Ortiz-Muñoz, 2019). However, in business, it is referred to avoid damage to natural resources to make sure it is available in the future. Volkswagen is believed to introduce eco-friendly products, which can match the natural environment. The main development constitutes low-emission technologies, autonomous solutions and mobility services. It is working on the operations to decrease the impacts on the environment and reach net zero and increase resource efficiency by reducing environmental external costs in production. The brand has a belief to improve air quality by introducing fuel-efficient, combustion engines and e-mobility as sustainable solutions (Volkswagen, 2023). It has taken steps towards sustainability constituting optimising the value chain from the excavation of raw materials, to recycling concerning ecological and social factors, a decrease of environmental impacts in production and introducing innovative solutions. However, studying a few years back the brand faced a huge scandal of not meeting the standards of sustainability and cheating in emission tests. VW has produced cars making them appear less polluting than the actual rate.

The Environmental Protection Agency found that 482, 000 VW cars were moving on the roads with the cheating device planted on them. According to EPA, VW's cars emitted between 237,161 and 948,691 tonnes of NOx every year (BBC, 2019). The defeat device is not an actual device but a programme in the engine software that shows the cars are controlled according to the test conditions. Clean diesel engines cut emissions with the help of techniques like adjusting air-fuel ratios and flow exhaustion and some cases putting a urea-based solution to show NOx harmless. VW made headlines on its upscale having a massive sell-off with an increasing company's market value of 16.9 billion dollars. It was later found out that 11 million vehicles worldwide are controlled by the defeat device which can hide the emission levels in the laboratory test. VW had developed turbochargers to increase accurate combustion along with technology to reduce nitrogen emissions. The cars got nitrogen oxide stuck in the exhaust systems.

The brand tried to take a short route to success however rigging scandal made them have a bad reputation with a series of the situation to direct and indirect stakeholders. In the previous year of the scandal, the organisation was among the leading automobile manufacturer after Toyota as referred from the appendix. The automobile group sold 10,217 million vehicles worldwide before the scandal broke out when its profits rose 10.5 billion pounds and its overall profit margin rose to 7.3% from 5.9% in 2013 (Poier, 2020). When the scandal got highlighted the brand faced a loss of sales and the stock market price was reduced. The share value dropped to one-third and greatly impacting the sales of Audi and Skoda. The rigging has greatly disrupted customer loyalty making them switch to its competitors. The scandal not only affects the organisation but also the dealers working for the company. When the sale of diesel cars was stopped it constituted more than 20% of the total sales making them suffer from thin gains and sluggish sales.

Thus, to support its dealers, the company came up with a package containing particular programs to help them in the difficult situation. The program includes an adequate amount of money in the form of bonuses and incentives for people struggling with lower sales and gains. Along with it, an extra fund was provided to the dealers to use in their needs. Volkswagen had taken steps to build its reputation again. The brand has recalled all the vehicles with the defeat device and offered a

package of 1000 dollars to the car owners. It has started putting money into Electric Vehicles as a key point to pull them out of the scandal period (Forbes, 2022). The newly launched cars would be based on a modular electric drive matrix and are in the process of selling the MEB platform to other organisations. The investments and promotion of electric vehicles created renewed sustainability.

RECOMMENDATIONS ON HOW TO FURTHER SUSTAINABILITY PRACTICES CAN HELP THE ORGANISATION TO DEVELOP COMPETITIVE ADVANTAGES IN THE FUTURE.

- Car Companies are expected to measure and control their greenhouse gas emission and take a step to reach net-zero vehicles by producing electrified-based goods and technological innovation in net-zero materials and components. Electric Vehicles were seen as a product through which one can receive only losses. However, in recent times EVs had made up 10% of car sales and most companies are expected to switch to producing electric cars. The batteries of the EVs can be renewed to 70% of their actual position and can be reused in energy storage applications (Hampshire, 2022). Using lightweight materials in vehicle manufacture is one of the best eco-innovations in the industry.
- Other than reaching net-zero targets and using batteries instead of fuel, sustainability is also important within human resources. Sustainable practices within human resources can be followed by a business organisation by achieving certain aspects like social, financial and environmental objectives. It is the role of the HR department of Volkswagen to implement rules, regulations and practices that will be addressing transparent and open communication which will help in maintaining a positive work environment. Providing motivation is also effective which shall be based on the intrinsic and extrinsic value of the individual employee. It is also important to define the targets and include all employees in the process (Forbes Human Resources Council, 2018).
- Along with engines and body parts, sustainability can be implemented in the interiors of vehicles through different approaches. The surfaces of the cars can be made from sustainable materials and this can be then applied to components of vehicles like seats, cockpit, headliner, floor, luggage

compartment and many more (Wellbrock *et al.*, 2020). Natural fibre materials can be used in vehicles and materials such as hemp, kenaf and flax and these resources can benefit a business by lowering the cost. Such materials do not degrade fast and break and this is another advantage that Volkswagen can get. Also, lightweight construction is needed to offer the best surfaces with great quality.

- Digital responsibility is another sustainable approach that the giant car company can adopt to gain a competitive advantage in the future. Human-machine interface is one of the most common areas of development and thus, self-driving cars are coming to emergence. Other than this, there are different areas that the car company can work in like data protection and security. Along with this, there should be strict guidelines for preventing data laws and against violations. Making sustainability targets is recommended to the company and then work on digital technologies and functions (PwC, 2023).

CONCLUSION

The work constitutes the business strategies practised by VW in the past five years and an evaluation of the changes made in the strategy making. It continues to discuss the brands' sources and capabilities in the last five years and how the company has aligned its resources in the present strategy. The report explains competitive measures the company has taken till now in the fields of sustainability and the environment. A few points are recommended on sustainability practices and how the brand can develop competitive advantages in the future.

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APPENDIX 1

Porter's five forces

Competition- the degree of competition is high. The biggest competitor of the brand is Toyota. It leads the automobile industry with a brand value of 59.7 billion dollars (Brand Finance, 2023)

Threat of new entrants- the degree of new entrant is low. The brand belongs to the top ranking in the automobile industry so a new introduction in comparison with VW is impossible.

Bargaining power of suppliers- the degree of suppliers is high. The company is known for its luxurious looks and high-end products. Thus, usual car products may have a lot of suppliers however lavish car products are hard to get.

Bargaining power of customers- the degree of customers is high. The number of cars sold in the UK has increased to 26% on February 2023 showcasing the demand of cars (The Guardian, 2023).

Threat of substitutes- the degree of substitutes is high. If there is an increase in prices of the vehicles and the petroleum cost, the consumers can switch to public transport and pool cars.

APPENDIX 2

SWOT Analysis

Strengths • The global presence of the brand is huge and operating in more than 150 countries (Volkswagen AG, 2023b). • The brand portfolio of the company is huge and widest in the automotive industry.	Weaknesses • Unethical behaviours and negative publicity due to controversies • Weak marketing activities and effort in countries are than in Europe.
Opportunities • The diversity in portfolio creates great opportunity for the brand to create profitability. • Producing eco-friendly cars is another opportunity for the brand to gain more customers.	Threats • The lawsuits due to controversies caused losses in millions • High competition in the automotive industry

Table 2: SWOT Analysis of Volkswagen

(Source: Created by the learner)

APPENDIX 3

Political: The political stability index of the UK in 2021 is 0.54 which shows that the indicator is on the stronger side (The Global Economy, 2022).

Economic: The current Gross Domestic Product of the UK was 3.13 US Dollars trillion in 2021 with a growth rate of 7.5%.

Social: As updated in September to November 2022, the employment rate in the UK was recorded at 75.6% and this can benefit Volkswagen with better employees (Office for National Statistics, 2023).

Technological: Expenditure on research and development from the government of the UK in 2020 was 61.8 Sterling Pounds and it has increased by 3.4 billion Sterling Pounds.

Environmental: Businesses operating in the UK must focus on certain aspects of the environment like pollution, sustainability, climate change and waste reduction.

Legal: The UK competition law focuses on rules like preventing abusive and anti-competing practices and other prohibition of activities.