

The Question of Ethics

The Volkswagen fiasco has thrown open a big Pandora box and questions the very ethos of the global auto industry.

If a reputed German manufacturer could be doing something as decidedly stupid as fudging emissions data, can we trust the others?

One would expect Volkswagen to be the last company to do some hanky-panky with rules. This is the German symbol of uprightness and discipline, controlled pretty much by the state, and takes pride in making cars whose doors shut with a thunk.

Heck, inside Wolfsburg, they scoff at the Japanese carmakers for making cars out of cardboard and how only the Germans can make quality cars.

Not Just Volkswagen

However, this rant is not about Volkswagen. Heck, there are skeletons in every closet. Look at GM India with its 'Tavera'gate, [a scam](#) that has an eerie similarity with the current VW mess.

GM also has its ongoing problems in the US where ex-employees blamed it for sweeping safety issues under the carpet.

Bordering the fine line between technical and ethical problems are the [□ issues](#), the Toyota [unintended acceleration issues](#) of 2010 and the Firestone-Ford Explorer [exploding tyres](#) from the start of the century.

A look at the past indicates that Volkswagen is not new to

being investigated. The FT recently dug up the group's [history of scandals](#).

Other German carmakers like BMW have had their tryst with corruption. In 2008, three BMW executives were fired after it came to light that [they had been bribed](#) by some suppliers of interior components.

Even the Japanese carmakers are not prone to being dishonest at times. In 1993, American Honda, fresh from great success in the North American market and the successful launch of Acura, [saw lawsuits and a full blown bribery and kickbacks scandal](#) that eventually resulted in more than twenty indictments and jail terms.

India – Deceptively Clean

Ironically, the Indian passenger vehicle market, all three million plus units of it, appears surprisingly clean. This is not a small feat for a country which ranks 85 (out of 175) in the [ranking of perceived honesty](#) by Transparency International. Far from any scams, Indian carmakers didn't even need ordinary recalls till about a couple of years back. The reason may be the complete absence of a body like the US National Highway Traffic Safety Administration (NHTSA) in India, which could monitor and investigate accidents triggered by technical failures. Sure we have bodies like NATRIP but they are in nascent stages and still finding their feet.

However, this does not mean that Indian carmakers don't have problems. As GM India's Tavera emission problems indicate, we have had our fair share of data fudging and test results doctoring going on. It's just that Indian agencies are not yet adept at catching the offenders and/or we as a society are characteristically tuned to be more forgiving to dishonesty.

As an aside, considering that 1.6-litre and 2.0-litre, the two

diesel engines whose data VW had fudged, are pretty much the ones most sold in India (across VW, Skoda and Audi), why hasn't the Ministry of Heavy Industries not announced a probe yet?

The Deeper Problem – Ethics inside Companies

An automobile on the road is like a loaded weapon and the failure of a critical component can kill people both inside and outside the car.

We deviate here and ask you a question. What if someone replaced every part in your car / bike with a similarly part but only 99% as good? What if this similar looking part was now only 90% as good?

The extrapolated inference of the above is quite dangerous. Looking at things sequentially, you may be looking at a machine only 50% as good as the original.

Now that's an interesting thought and we leave you with that for now and move on.

While researching Volkswagen's issues and the likely reasons to that, we realised that ethics are an issue across the industry. Blunders like Volkswagen are not done overnight and there is a reason why the US government has ordered an enquiry under the Department of Justice, something reserved for the gravest fraud cases. Such issues crop up not because of the follies of one person but because sections of the industry have gone rotten.

Corruption is an inherent part of the industry and is amply evident when one takes a deep look at how departments inside an OEM carry out business with vendors. A carmaker is an assembly operation reliant on hundreds of vendors to manufacture and sell cars. These vendors are responsible for

supplying components to providing various services to helping run the business run smoothly.

Them Purchasing Guys

One of the least highlighted issues and probably the dirty underbelly of the Indian automotive industry is the purchasing system. The purchasing departments are the most coveted jobs within the organisation and there seems to be good reasons for that. These are the guys who decide what components to buy and from which supplier. Most importantly, they also decide 'in what quantity' and 'at what price'.

A typical passenger vehicle program has 130-200 Tier 1 suppliers, many times that number of Tier 2 suppliers and numerous Tier 3 and material suppliers. Often the OEMs (read, purchasing guys) decide not only the Tier 1s but also the Tier 2. The powers of the purchasing departments are huge considering the competition in the industry is not insignificant. Gone are the days when you had 'default' suppliers for everything. Nowadays, most mainstream components have 5-6 suppliers and plenty of fence sitters willing to jump in if there was business to be won.

Most major component supplier groups now have sizes of more than USD 500 million and are willing to enter new component areas where there are opportunities or where there can be a technology provider. This has widened the field in most component areas significantly.

In short there are plenty of suppliers willing to woo the purchasing guys if there was any opportunity.

In most cases, the purchasing department, also known as supply chain department or vendor relationship departments in many cases, is responsible for purchases worth billions every year. That's a lot of money for a handful of people to control.

While we do not automatically assume that purchasing departments are corrupt, this huge money can be interpreted as a nice opportunity by those with a deviant mind.

Many of us, that is.

Tiers of Benefits

Depending on the organisation and the level of the executive within the pecking order, the benefits can be divided into tiers. At the lowest levels are low and mid-level executives. These are not yet decision makers but nonetheless important for smooth running of business for a supplier. These are also important because eventually some of them will become decision makers. The 'unwritten' benefits in these cases are expensive gifts like pens, watches etc. The beauty of the system is that even the participants do not think that it is unethical or corrupt to take gifts from the very people whose business depends on their decisions.

The next level is when you are someone important in the department, someone at least having the signing power for a certain set of components. Now it all boils down to your character. If you are street-level greedy and do not hide this character trait well, then Tier 1 and certain Tier 2 suppliers offer the opportunity of earning hard cash in lieu of your approvals. In certain cases, the hard cash may also be replaced by a small equity stake in a small company provided you can make the small company bigger by providing it business.

And then there is the top tier. You have risen through the ranks and now have 'brother;y' relations with most vendor promoters. You have also earned enough money that small level hard cash does not entice you. In most cases your reputation and name is too precious to be put at risk of being tarnished by a jealous colleague. At this level, the 'rewards' have to

be higher than cash.

Retirement Benefits?

One just has to scan through the lists of erstwhile and present directors in publicly traded Tier 1 suppliers and some familiar names jump out of the pages. These have been senior executives in automotive purchasing departments and in some cases departments which required advanced participation of suppliers in vehicle programs. They no doubt bring value to a Tier 1 supplier because of their experience but we do question the ethics behind the appointment. How honest would be a person in dealing with a vendor if he is eyeing a seat on the board after retirement.

To us this is the equivalent of a bureaucrat joining a think-tank after retirement when all the while he had been taking decisions on government funding to think tanks. The same also draws parallels with a bureaucrat joining a company as a senior executive or Director post retirement when he was the one taking decisions directly affecting the fortunes of the said company.

Family Ties

Things become even murkier when OEMs have family ties with Tier 1 suppliers. This is very prevalent in the two-wheeler industry where Hero, TVS and Bajaj all have family or friendly ties with some of their leading Tier 1 suppliers. Here it is even difficult to say if the purchasing department has any say in the decision making and if quality (at the right price) is the sole deciding factor.

Lack of Transparency

Most OEMs do not have mechanisms to internally check the honesty of their individual departments. An audit, perhaps done across every organisation, can only certain that every transaction has had a pair trail. However, how honest was an executive in taking certain decisions is something that cannot be ascertained.

Maybe, a way out can be a compulsory rotation of executives through the purchase department. Suppliers would be more reluctant to entertain an executive if they know that he would be rotated out after a certain time.

Another way out can be to take a leaf out of the election commission books and have senior executives file annual reports on their assets and net worth every year. Serious deviations can be tracked by auditors and explanations sought.

However, there is no better alternative than firm laws. Honda's 1993 bribery and kickbacks scandal in North America resulted in key executives serving jail. We event heard anything bad from American Honda since then.