CASE STUDY 11.2: CAR WARS AT WOLFSBURG

Over the past 15 years, Volkswagen Group (VW) ac-quired several fiefdoms Audi, Lamborghini, Bentley, Bugatti, Skoda, SEAT that jealously guarded their brand and continuously rebelled against sharing knowledge. One member of VW’s supervisory board (the German equivalent of a board of directors) commented that managing the company is “like trying to ride a chariot with four or five horses, each of which pulls in a different direction.” Then Porsche AG entered the fray. The luxury sports car company, which relies on VW for some of its production work, began acquiring stock in VW and eventually achieved a controlling interest. Porsche CEO Wendelin Wiedeking was aware of VW’s internal rivalries. “If you mix the Porsche guys with the Audi guys and the VW guys you will have trouble,” says Wiedeking. “Each is proud to belong to his own company.” Yet Wiedeking stirred up a different type of conflict as Porsche tightened its grip over VW’s supervisory board. Through an unswerving drive for efficient production and astute marketing, Wiedeking and his executive team trans-formed Porsche into the world’s most profitable and presti-gious car company. Wiedeking wanted to apply those practices at VW by closing down inefficient operations and money-losing car lines. “Wiedeking is a Porsche CEO from another corporate culture,” says German auto analyst Christoph Stuermer. “He’s out to maximize profits by cutting costs. And he snubbed everyone, telling off VW management, inter-fering with their way of doing business.” Ferdinand Dudenhoeffer, director of Germany’s Center of Auto-motive Research (CAR), agrees. “Porsche is very success-ful in being lean and profitable. It’s not going to be harmonious.” Particularly offended by Wiedeking’s plans was VW chairman Ferdinand Piëch, who had a different vision of Europe’s largest automaker. Piëch, whose grandfather developed the VW Beetle, placed more emphasis on spectacular engineering than exceptional profits. For example, he supported the money-losing Bugatti brand, which VW acquired several years ago when Piëch was CEO. More recently, Piëch championed the Phaeton, VW’s luxury car that broke new ground in innovation (it boasts 100 patents) but did not achieve commercial success. Wiedeking, on the other hand, believed that VW could be more profitable if it stopped producing the Phaeton and Bugatti. “Piëch sees his vision endangered by Wiedeking,” says Dudenhoeffer. “Wiedeking said that there are no holy cows at VW, no more Phaetons, no more Bugattis.” These ideas made Piëch’s blood boil. “Anyone who says that VW should pull the Phaeton doesn’t understand the world,” grumbled Piëch, explaining that luxury cars represent the only segment with double-digit growth. There is an unusual twist in the conflict involving Piëch, Wiedeking, and Porsche. Piëch is a member of the Porsche family. He is a cousin of Porsche chairman Wolfgang Porsche and owns a 10 percent share of the Porsche company. Piëch began his career at Porsche and became its chief engineer before moving to Audi and later VW. Furthermore, in what many consider a blatant conflict of interest, Piëch supported Porsche’s initial investment in VW. But when Piëch’s and Wiedeking’s plans ended up on a collision course, that initial friendly investment in the partnership turned into all-out corpo-rate war. “There was always a cease-fire between Piëch and the Porsches, but now it’s war,” claims auto analyst Ferdinand Dudenhoeffer. “This is like Dallas and Dy-nasty in Wolfsburg [the city where VW has its headquar-ters]. No company in the world is so self-absorbed with its problems.” Postscript Ironically, Porsche CEO Wendelin Wiedeking’s plans back-fired. Porsche had borrowed heavily to acquire its control-ling interest in VW while maintaining its own business operations. Some estimate that Porsche had loans of more than US$14 billion. Furthermore, VW shares increased substantially during the takeover process, so Porsche owed massive taxes for the increased “paper profits” of the shares it owned. The timing couldn’t have been worse. The great financial crisis hit the world, which cut Porsche sales and dried up funds, making it difficult for Porsche to pay inter-est on its loans and to renew loans that were coming due. In effect, it was on the brink of bankruptcy. In addition, a unique law allowed one German state (Lower Saxony), which had a 20 percent ownership in VW, to veto any im-portant decisions in the company, including Porsche’s con-trol of VW. Ultimately, Porsche agreed to give up its controlling interest in VW. Instead, it sold some of its business to VW and the Qatar government and, ultimately, agreed to be acquired by VW (rather than vice versa). Wiedeking lost his job as Porsche CEO, whereas Ferdinand Piëch (as chair-man of VW’s supervisory board) would effectively be head of both automakers. Complicated legal and financial matters have delayed the complete acquisition, but VW effectively manages Porsche today.

**Discussion Questions**

1. Identify and discuss the sources of conflict between Porsche and Volkswagen executives.

2. Describe the conflict handling styles used by Wendelin Wiedeking and Ferdinand Piëch. Were they appropriate in this situation?