

The Crisis Management Study of Volkswagen Diesel Emissions Scandal

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Abstract: In 2015, the automobile industry experienced one of the most devastating incidents that it has ever witnessed before. The Volkswagen Automobile Company engaged in an emissions scandal that tarnished the name of the company and the industry at large. The company was seeking to expand its market share and in the process decided to use some shortcuts to win more customers. It decided to use a diesel dupe device called a 'defeat device' that detected emission tests and altered the performance of the engine to achieve the required results. When the use of the 'defeat device' was detected by the Environmental Protection Agency, it was a big blow to Volkswagen, one of the most highly ranked motor vehicle companies in the world, in terms of brand image and profitability. The aim of this paper is to outline the entire scenario as it occurred, the consequences of the company's actions, and what needs to be done to correct the problem and repair its brand image.

1. Introduction

The primary motive of business is to make a profit, and that is the reason several companies seek to expand beyond their borders to overseas markets. The strategies and business approach employed by a company determine its performance in the market environment. Some companies are very smart in their approaches and can acquire a huge market share. To achieve such milestones, businesses ensure they have the best management and leadership teams. However, companies sometimes make mistakes and find themselves in difficult situations that have considerable effects on their operations. One such example is the Volkswagen Automobile Company, who found itself in a protracted emissions scandal dubbed the 'diesel dupe' in 2015. According to a report released by the Environmental Protection Agency, most of the automobile products that were being sold by Volkswagen between 2009 and 2014 were fitted with defeat devices (Zhang, Veijalainen & Kotkov, 2016). Essentially, this added component could detect testing of exhaust emissions and in response, change performance to fake the required results. Consequently, the German automobile giant admitted cheating on the emission tests, which resulted in a significant setback to the company's market performance. The company owners and directors had to react quickly to set things straight. The focus of this thesis is to examine this case comprehensively and demonstrate the best responses that should have been taken to repair its brand image and restore profitability.

2. Literature Review

2.1 The Crisis

In September 2015, Volkswagen found itself in a major crisis that extensively affected its reputation and business. Several individuals have written at great length about Volkswagen since the crisis unfolded with some focusing on explaining what happened while others have focused on providing solutions that can help the company restore its prestige. DeBord (2015) explains that Volkswagen was the second largest automobile company in the world after Toyota, especially in terms of car sales but that the recent crisis is likely to ruin its name and affect its business extensively. The company decided to deceive millions of its customers by integrating software called a 'defeat device' into millions of its diesel engine cars (DeBord, 2015). The function of this software was for the car to be able to detect when it was going through an emission test and alter performance to show that the vehicle was highly environmentally-friendly compared to its actual state.

Davies (2015) explained that the reason Volkswagen wanted to cheat on the emissions tests was

to increase the number of its car sales in the US market which has very high standards for diesel emissions compared to Europe. It was difficult for the company and many other firms in the auto industry to meet the requirements because they stipulated for minimisation of fuel performance and efficiency (Davies, 2015), making it difficult for automakers such as Volkswagen to advertise its products to the US and win customers. The company thought of a solution to this problem in the form of the 'defeat device' software that could detect and fake the emissions results to show that Volkswagen cars were environmentally friendly.

Furthermore, Coombs (2015) focused on the consequences of Volkswagen's actions when he mentions that the company had to recall at least half a million cars from the US, sold between 2009 and 2015, incurring losses worth \$18 billion. Volkswagen announced that at least 11 millions of its cars had the defeat device software installed, implying that its business was extensively affected by the device (Coombs, 2015). It further announced that any person who owned the diesel Audi A3 2009 to 2015 model was supposed to return it to the company to receive a new car or compensation. Moreover, Campbell (2015) focused on the stock market effects and explained that the company suffered a big blow when its shares fell by about 38% in just two days of trading. In fact, the company's CEO, Martin Winterkorn was forced to give a public apology on the issue (Campbell, 2015). Its efforts to acquire more of the US auto market fell flat because its reputation in the country and across the globe was highly negatively affected.

2.2 Crisis Management

A few scholars have written on the emissions scandal and addressed the concepts of crisis management that the company should have deployed to salvage its reputation and business. Volkswagen did a marvelous job of accepting and owning their mistakes. The company issued a public announcement concerning the scandal and declared a public apology to its customers and potential customers. According to Ishikawa and Tsujimoto (2011), this was a good move because when a crisis of such a nature occurs, the best crisis management approach is for the bearer to admit the imminent threat by confessing to the claim and making a public apology. Any person can make a mistake but admitting to it is always difficult. The fact that Volkswagen's CEO, Martin Winterkom, admitted to the issue and promised to address it effectively shows a positive way of managing the crisis.

Another significant approach that works effectively in crisis management is a change of leadership. Bernstein and Bonafede (2011) explain that a change of leadership shows the customers and stakeholders that the company's owners were not happy with the poor decisions made and that it has taken steps to change management to rectify the problem. Similarly, the directors of Volkswagen Germany held a series of board meetings and eventually decided to get rid of the company's CEO and few other leaders involved in the decision to use the defeat device software. On September 23rd, 2015, Winterkon made an official announcement that he was resigning as Volkswagen's CEO following the incident that had happened in which he agreed to take the blame (Bomey, 2015). This move contributed extensively to the restoration of the company's image.

3. Methodology

For research to be complete, there has to be a comprehensive study conducted. More precisely, the study has to respond to various questions. The specific research questions of this study are the following;

- 1) What crisis-management best practices did Volkswagen embrace effectively, and which did they not?
- 2) If you were hired to advise Volkswagen on strategy and tactics for managing the crisis going forward, what would you recommend?
- 3) What can organisations learn from this unfortunate incident?

To achieve a correct and comprehensive response to these and more questions concerning the Volkswagen crisis of 2015, a study had to be conducted using a qualitative research approach via secondary sources such as organisational reports, official websites, peer-reviewed journal articles,

eBooks, and Media News reports (Rudestam, Kjell, & Newton, 2015). These sources were useful because the issue was in the public domain and most news media highlighted it in their news feeds and websites. Several scholars and institutions also used the issue as a case study to teach students about business ethics and thus, these sources were credible and useful in completing this study.

The use of review during research design for assessing and analysing the sources was effective in getting pertinent findings. The review process involves both literature review and systematic review of relevant sources to discover the desired results (Azevedo, 2011). To explain this concept further, the study integrated three essential models: (1) the loyalty ladder model, (2) the SOSTAC model and (3) 3E model. It used these models to demonstrate how Volkswagen could restructure and rebrand to retain its success in the marketing environment. In other words, these models were integrated into managerial practices and recommended tactics that could be used to turn things around.

4. Findings and Discussion

4.1 Crisis Management Practices Embraced and Tactics that were not Employed

The first step in any crisis management programme is for the bearer to acknowledge the imminent threat. When Volkswagen was faced by the claim that their cars were fitted with defeat devices, they confessed and admitted that the claim was true (Painter & Martins, 2017 p.211). Accordingly, the admittance was their first tactic, knowing that they did not have any alternative way to spin the blame. In addition, further denials could have placed them in a worse situation (Aurand et al., 2017). According to a report released by Volkswagen's management regarding the issues, millions of cars had been fitted by the defeat device (Painter & Martins, 2017 p.212). However, the company is yet to reveal the person who was responsible for developing the device. This aspect of admittance showed a sense of responsibility, which is a crucial step in the crisis management program.

The Volkswagen Company chose a change in leadership as a crisis management tactic to overcome the scandal. Accepting responsibility for the problem, the company replaced Martin Winterkorn who was the chairman of the company's board at the time. Reportedly, Mr. Winterkorn resigned on September 23rd, 2015, some days after the revelation of the scandal (Lee, Ahn & Cho, 2017). The leader's resignation was necessary considering that he knew that the company was engaging in unethical conduct but did nothing to stop it. Therefore, the change of leadership was implemented as a significant step in managing the crisis and helped the company reinstate its brand and market position.

Volkswagen changed part of its strategic operations in response to the diesel dupe scandal. Particularly, after the ordeal, the company delved into manufacturing affordable and reliable cars (Zhang, Veijalainen & Kotkov, 2016). Through the move, the company sought to win back public trust based on the research, which revealed that more automobile consumers tended to care more about reliability and price of the cars compared to emissions (Georgievsky & Al Qudah, 2016). In addition, the company engaged in transparency protocols through which they hoped to convince members of the public that since the ordeal, they have not engaged in any questionable practices (Painter & Martins, 2017). Therefore, through embracing social responsibility as a tactic, the company has been able to gradually regain public trust.

Although Volkswagen chose the aforementioned strategies as crisis management protocols, it failed to implement some crucial aspects that could have helped it achieve better results. Particularly, the company should have positioned itself as a green company to win public trust more easily. Knowing that the company's image was tarnished in terms of irresponsible environmental practices; therefore, it should have focused on developing car models that depended entirely on clean energy. Besides, Volkswagen could have set its carbon emissions even lower than the standard level, which as a result, could have given it a higher leverage and capacity to restore its market position.

4.2 Strategy and tactics: Recommendations for Managing the Crisis

In response to the emissions scandal, Volkswagen should have deployed effective strategic methods. The company should have integrated a loyalty ladder framework in order to win back its

customer base and consequently, generate lifetime values (Murshad & Mohaidin, 2017). The primary impact of the diesel dupe was in respect to tarnishing the company’s brand. Thus, it was crucial for the company to adopt an operational model that would restore the relationship between the company and other stakeholders. This could have been done through a loyalty ladder model, where a relationship marketer is employed to help fix the relationship with the previous customer base. As explicated by the model’s developers, the first step in the process involves the provision of personalised services to consumers (Murshad & Mohaidin, 2017). Therefore, by providing services such as extreme comfort, speed, mileage, and low emissions to the environment, the Volkswagen Company would overcome the challenges emerging from the scandal.

Due to the setback caused by the situation, it is important that Volkswagen embraces a marketing model that can help restore its public relations. These models include the loyalty ladder model and SOSTAC model, both of which will be explained in greater detail below.

4.2.1 Loyalty Ladder Model

To address the problems facing Volkswagen, the company could integrate the loyalty ladder model (as shown below) to restore its image and win back its customers.



Source: Chaffey & Smith (2013)

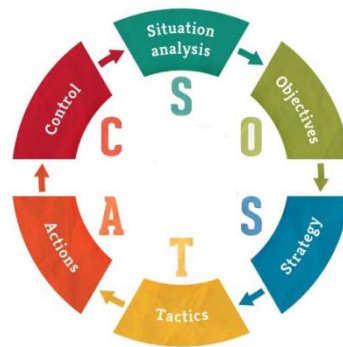
Fig.1

The loyalty ladder model contains various stages through which a product goes through before it lands in the hands of the consumer. Before a Volkswagen car is purchased, the customer is viewed as a prospect (Chaffey & Smith, 2013). Through extensive advertisement and marketing processes, the company manages to inform the prospective customer about their vehicles and persuades him/her to purchase them. After purchase, the person becomes a customer and once s/he loves the car and makes repeated purchases, s/he graduates to become a client due to the aspect of loyalty. After the consumer becomes highly loyal to the Volkswagen brand due to its reliability and ability to meet one’s needs, s/he becomes an advocate because s/he becomes a Brand Insistent (Chaffey & Smith, 2013). S/He campaigns for the brand through praising its usage and ability to friends and family. At this juncture, the brand is hard to extricate since it has a deeper meaning to the consumer. This is the exact process that Volkswagen went through in the quest to build its brand and a great deal of damage was done to its reputation in the 2015 emissions scandal. However, it is not too late because the company can still build its brand by deploying this model. The company has to restart the whole process using the loyalty ladder model and do the right things that meet business ethics as well as re-enrich customers to bond the brand with customers tightly (Aurand et al., 2017). For example, the company’s marketing team can support relationships with external customers by demonstrating to them that the issue has been dealt with and that the vehicles they are selling are now in perfect condition. It means that there will be direct indication and measurement of results between the team and the customers as they move along the loyalty ladder.

4.2.2 SOSTAC Model

Similarly, Volkswagen can utilise the SOSTAC model to win back its customers and restore its

good reputation. The SOSTAC model is essential for Volkswagen because it presents the best planning approach that can help the new management to make the right decisions and save it. The first key area is situational analysis where the company is analysed in terms of where it used to be, where it is now, and where it wishes to be in the future. The current situation is that Volkswagen is experiencing a crisis caused by a single mistake that was made by Mr. Winterkon and his team. Fortunately, a new team is in place to take over the process of planning for the future of the business. It means that through extensive meetings and deliberations using situational analysis, the solution will be easily realised. The team will analyse the current situation effectively and come up with proper measures.



Source: Edgyvblog (2017)

Fig.2

The second key area is objectives, whereby a plan cannot be conclusive without goals and objectives that it intends to achieve. What Volkswagen can do by using the SOSTAC model is to restructure its objectives using the results from situational analysis and determine both short and long-term objectives. The first objectives should be centred on how to rebuild its brand image through promotions, advertisements, and PR activities that prove to its customers that everything is solved and that Volkswagen cars are back to their best. Objectives are the steps that the plan has to follow in the quest to move from one key area to another (Strong, 2014). In fact, failing to meet one objective on the way may lead to massive failures in the future. At the same time, a plan cannot be complete without specific objectives. In this case, the objectives shall be set during normal meetings to comprise an all-encompassing decision. The team shall define the vision, align business goals with the objectives, set SMART objectives, and define dashboards along with other related activities (Bondrea, Adrian, & Geangu, 2010). Overall, the objectives set using a SMART approach such as PR activities focused on rebuilding brand image will play a key role in restoring Volkswagen to its previous performance.

The third key area is the application of strategy to meet the plan's objectives and goals. What strategy to be used depends on various issues decided by the planning team (Strong, 2014). Volkswagen should make the planning team deliberate on issues such as segmentation and targeting, positioning and employment of a marketing mix, multichannel experience, and contact strategy among others. Once all these are considered in the planning process, Volkswagen will manage to restructure and have developed a clear plan on how to rebrand. The next key area is tactics where the board will determine what it needs to do to get to where it wants to be. For example, the board will decide on resource allocations with regard to the Volkswagen automobiles, media schedule, 90-day plans, and digital roadmaps among other things. Once such decisions are made, Volkswagen should then focus on critical analysis to determine how to implement them. For instance, the 90-day plan should focus solely on restoring hope among the company's customers who had lost faith in their favourite brand. The plan should demonstrate to these customers that the problem has been rectified, the people involved in the mess are fired, and the new management has restored everything back on track. It can achieve this plan through PR exercise, advertisements, and promotional approaches which means that the management has to be highly tactical and innovative.

Through actions, the company must respond to the overall question of what is the company's plan.

In other words, the action that should be taken must be in line with the general plan laid down through the SOSTAC model. The last key area is control, which is interested in how performance is monitored (Bondrea, Adrian, & Geangu, 2010). What Volkswagen needs to do is to act on the objectives and plans developed above. This is the time to move things from conversations in boardrooms to concrete actions for improvement. The supervisors should go to the field and work closely with the manufacturing engineers to make sure the scandal is corrected. The marketing team should start the public relations activities to attract the attention of consumers. Once the engineering team has worked on one or two automobiles to perfection, it should give them to the marketing team to use in their PR exercises to prove to that indeed the problem has been corrected, and everything is back on track. At the same time, tools such as reporting platforms are very useful because they help provide direction and prompt control of performance. Therefore, there is no doubt that proper application of the SOSTAC model will enable Volkswagen to return to its glory days by repairing its name and reputation.

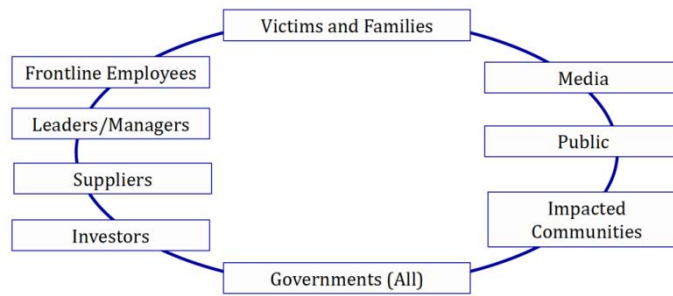
The SOSTAC and loyalty ladder models can provide an effective framework through which the company's management will be able to evaluate the immediate situation and develop the most suitable plan in dealing with the inherent challenges (Dahl, 2018). Essentially, the plan incorporates six hierarchical structures, which include (1) situation, (2) objectives, (3) strategies, (4) tactics, (5) actions, and (6) control (Dahl, 2018). Using the model, Volkswagen should be able to understand its position subsequent to the scandal. In response, management can evaluate the resources that are at its disposal, and the possibilities of using them to restore its market position.

Due to the potential challenges that might accrue from the plans to meet reinstatement, Volkswagen should consider effective risk management tactics. Notably, brand damage poses significant risks that might not be readily understood and therefore, are capable of imposing substantive challenges to the company's operations (Hupp, Robbins & Fournier, 2018). Furthermore, prior to adapting operational and repositioning strategies, it is essential to understand the challenges that might result and develop effective mechanisms to cushion the company against potential risks (Murshad & Mohaidin, 2017). What is more, the process would help in understanding and implementing alternative strategies. Lastly, risk management should integrate a continuity plan that can be used in retaining the most desirable results.

In a situation where Volkswagen's operations are severely affected, the company can choose to rebrand in order to gain a better footing back in the market. It could choose to partially or totally rebrand depending on the conceived damage from the crisis (Lee, Ahn & Cho, 2017). Reportedly, not all the company's cars were implicated in the scandal. Therefore, by rebranding the models and ensuring that they are compliant with the emissions regulations, they could ensure that they retained their profit levels that would have otherwise been lost. Accordingly, rebranding should be considered for the right reasons, which include meeting market standards, and therefore, can help businesses realign how it envisions its future operations. As observed above, the company could adapt the loyalty ladder and SOSTAC models to rebrand and restore its initial reputation. To maximise on the two models and ensure they enable Volkswagen to fully recover its image and customers, it should adopt a 360-degree view of the customers to understand their views concerning the whole issue, their positions, and their perceived solutions to the whole mess.

A 360-degree customer view has three important benefits that can enable Volkswagen to reach another level. First, it creates more strategic sales and marketing campaigns. Volkswagen can build more strategic marketing and sales campaigns by employing existing data. In this case, existing data can be acquired through social media platforms, such as Facebook and Twitter, where customers and potential customers post or comment on the issue of the defeat device software. Through reading and listening to the posts and views of its customers, the company can use this data to build more strategic sales and marketing campaigns to win these customers back by correcting its mistakes.

The 360° View



Source: Britton (2018)

Fig.3

Second, the company could attempt to manage to understand its customers and their behaviours. With an aggregate customer view learned through the existing data, the company can realise their habits and behaviours and come up with effective approaches to win them back. Lastly, Volkswagen could deliver more personalised shopping experiences to its customers. This way, Volkswagen could persuade customers to trust its products once more and win their hearts back. Thus, through rebranding, the company would be able to reinstate its market position and subsequently overcome the negative impacts.

4.3 What Other Organisations Learnt from the Volkswagen Incident?

The Volkswagen emissions scandal caused major challenges for the company, which intensively undermined its position in the automobile market. One major lesson that other companies should learn is that social responsibility is a major success factor in immediate business platforms. All entrepreneurs are expected to ensure that they do not engage in practices that undermine environmental interests (Painter & Martins, 2017 p.210). In this respect, other companies must ensure that they incorporate social responsibility models such as the Corporate Social Responsibility framework as shown in the picture below.



Source: Grayson & Hodges (2017)

Fig.4

As observed, the framework ensures that the company works together with communities by engaging the people in society, minding the environment, contributing to community development, and participating in corporate governance and ethics through integrating best practices (Grayson & Hodges, 2017). Therefore, this framework will be useful in conducting operations within respective industries and meeting environmental standards. Thus, the incorporation of the social responsibility framework can help cushion Volkswagen and other companies from unfavourable business outcomes.

Through the challenges experienced by Volkswagen, other companies can learn the value of crisis management and planning. Although the crisis that befell the German automobile giant was reasonably foreseeable, it is imperative to ensure that effective measures are put in place to address

problems that can undermine company performance (Georgievsky & Al Qudah, 2016). Knowing that the company was utilising an unorthodox mechanism in its cars, management should have developed its risk management protocols in such a regard. More importantly, other companies operating under similar mechanics must ensure that they acknowledge the potential harm and put in place the best measures to respond to the risks.

Ethical business conduct is imperative in immediate business platforms for reasons of public relations. Notably, most consumers and investors pay regard to ethical conduct in their decision-making practices (Comiteau & Cornelissen, 2018 p. 121). As evident from the success of businesses that brand themselves as consumer-centred, ethical values are significant in business expansion. Therefore, without abiding by ethical values while partaking business practices, the ability to achieve business goals and objectives are significantly diminished. Thus, the Volkswagen ordeal demonstrates how ethical conduct is crucial in business practices.

In order to overcome business related crises, management teams can engage the most effective management models. Such frameworks as risk assessment and the SOSTAC framework can be used in analysing the impacts of crises regarding the company's strategic operations (War & Guide, 2017). Subsequently, the models can be utilised to identify the most effective strategies that could help in revamping the company's operations. As evident from business analysts, it is important that managers embrace evidence-based strategic planning that has tested results (Murshad & Mohaidin, 2017). Thus, through the Volkswagen emissions scandal, other companies can learn the importance of incorporating evidence-based models in meeting improvements.

5. Conclusion

In conclusion, Volkswagen established a strong brand admiration over past decades. However, their brand admiration was damaged by the 2015 emissions scandal. The company engaged in faking emission tests using defeat devices that were fitted in cars manufactured from 2009 to 2014. Its discovery damaged the brand image of the company and ruined its operations. When brand admiration is damaged, the relationship between customers and the brand will also be affected and become vulnerable (Eisingerich, 2018). Also, it will result in customers no longer being loyal and may even cause them to forget the brand no matter how successful the brand has been in the past. Although the emissions scandal tarnished Volkswagen's brand, the company's management could have employed effective crisis management strategies in response. Some of the tactics that could have helped the company reinstate its market position at a faster pace include crisis management and strategic planning. Ethical business practices and social responsibility are essential in the automobile industry under the considerations of public relations, and abiding by regulations that bind industrial operations. Lastly, Volkswagen's emission scandal is a classic case which allows other companies to learn from Volkswagen's ordeal in terms of developing crisis management models and addressing potential challenges that can happen due to the failure to adhere to legal and ethical guidelines in the industry.

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