

Research Article

# The Volkswagen Scandal

*Kimani Maina Antony<sup>1</sup>, Simon Mwangi Muinuki<sup>2</sup>*

<sup>1,2</sup>Mount Kenya University, Thika Main Campus, Kenya.

## I N F O

### Corresponding Author:

Kimani Maina Antony, Mount Kenya University,  
Thika Main Campus, Kenya.

### E-mail Id:

toniemaina@gmail.com

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## A B S T R A C T

In September 2015 unexpected news from EPA in the US that Volkswagen had installed a defeat device in its diesel engine cars with the sole reason of cheating in toxic emission levels. At that time the company had risen through stiff competition to become the leading automobile brand around the world. The trust from the company on the brand was high with millions of loyal customers from virtually every region of the globe. This news therefore opened a can of worms that led to a major crisis in the company throwing the leadership of the company as they stared billions of dollars wasting out in losses.

This report is based on various reports gathered from the affected company, various media centres, professional articles, related books. The report concludes that issues of misconduct, lack of integrity and lack of emotional intelligence in the Volkswagen leadership may have been responsible for the current recent crises at the company. It has therefore been recommended that while changing of leadership is a positive move it is important to try a change in gender at the top management position. As a way of restoring the lost reputation, it has been recommended that the company compensates the affected customers and engage in environmental conservation efforts as part of its corporate social responsibilities.

**Keywords:** Manufacturing, Corporate Social Responsibilities, Automobile Industry

## Introduction

Volkswagen which means "people's car" in German, has a rich history that dates to 1937 when the company was asked to come up with a car model that every German family could afford (Volkswagen, 2015). By 2014 Volkswagen had already taken up a position among the leading automobile giants with a total of 13% of the global market shares (Boches, 2015). It will be remembered that back in 2007, Volkswagen, under the leadership of CEO Martin Winterkorn, launched a very ambitious strategic plan referred to as the "Strategy 2018" (Siciliano, 2015). Among the goals of this strategic plan was to foster growth within the company by increasing the unit sales to hit more than 10 million units annually through deployment of advanced technological and

intelligence innovations. The CEO of the company was particularly keen to overtake the General Motors and Toyota and lead the German firm to become the global leader in the manufacturing of passenger cars. Actually, in the first half of 2015 the company recorded the best performance in the automobile industry beating all its rivals in the global market (Mays, 2015).

On the 18<sup>th</sup> day of September 2015, a public announcement was made from the Environmental Protection Agency (EPA) from the US that Volkswagen had installed a computer device in its diesel cars whose software was intended to detect emission testing postures of the car and switch to safe mode (Jim and Christian, 2016). At safe mode, the car system would trap nitrogen oxides (very toxic emissions)

but in doing that it would consume a lot of fuel. After a successful emissions test the device would detect a normal ride and switch back to normal mode to save on the fuel but allow the toxic emissions (up to 40 times of the above the allowed levels) to flow out through the exhaust system (Thompson et al., 2015). This meant that Volkswagen had allegedly violated an important "Clean Air Act" by allowing the diesel engine to trade-off between fuel efficiency and clean emissions. Immediately after the news of the scandal were released, investigations started in multiple countries across the world including in the UK to confirm the toxicity levels in the Volkswagen diesel engines and also to try and find out the number of people who were aware of the scandalous action within the firm (Spector, 2015). As this unfolded, the Volkswagen stock prices at the Frankfurt stock exchange started experiencing a free fall forcing the company to admit that 11 million cars around the globe had been fitted with the non-famous defeat device. This confession sent shock waves across the world with the imagination of the amounts of nitrogen oxide that was secretly being released to the atmosphere. It is important to note here that nitrogen oxides are notorious in causing acid rain that poisons vegetation and soil while being associated to dangerous respiratory ailments such as asthma, bronchitis among other health complications (NBC News, 2015). This means that even as litigation measures continue around the world some of the impacts would be difficult to reverse. It is perhaps in realizing this that the Volkswagen leadership offered public apologies and recalled the diesel cars fitted with TDI engines from all the markets. This was followed by resignation of the CEO Martin Winterkorn alongside with his top executive in the US and the suspension of the managers in the research and development department.

In this report, we shall attempt to assess the extent through which this scandal was dependent on the company's leadership. In doing this we will examine the Volkswagen leadership against the standard norms of character, emotional intelligence, common sense values and trust. The report will also assess the company's crisis management preparedness and review whether or not the situation could be better with fair gender representation before giving recommendations on the best way forward for the company. The report is however being carried out within limited time and resources to allow for primary data collection and therefore it will only be based on secondary data. The data will be sourced online from recent media reports, company statements as well as books and relevant professional articles.

## **Findings and Discussion**

### **Leadership Styles**

In the 20<sup>th</sup> century, corporate leadership transformed

into a noble profession that was characterized by chief executives who reigned in their organization through top down approaches. As Gardner and Stough (2001) observes this could have been influenced by the experiences from the two World Wars that extended the military styles of leadership into the civilian corporate structures. The leaders focused on short term earnings to please the shareholders sometimes at the expense of the long term impacts. This ethical mishaps were summarized through the Enron scandal where trust from the business shareholders and other stakeholders was lost. The 21<sup>st</sup> century came with new challenges where the leaders were required to be fluent in relationship management skills with the ability to negotiate, network and plan-ahead of time (Association of Graduate Recruiters, 1995). In this century, the hierarchical systems are no longer working and the employees respond better in an open system where everyone is empowered and concentrated around serving the customers in accordance to the business mission and vision. Shifting of focus by the leaders from the customers to the shareholders where the systems are aligned towards profit maximization sometimes at the expense of the employees or general public is a dangerous and old-fashioned. It is important here that we try and examine Volkswagen leadership approaches against the spirit of the 21<sup>st</sup> Century.

It will be remembered that Ferdinand Piech served at the Volkswagen headquarters as the CEO for ten straight years before he took over as the chairman of the company's supervisory board in 2002 (Moulson and Pylas, 2015). Ferdinand who had an engineering background was known for his coercive and authoritarian leadership style where no free flow of communication could thrive as all commands were coming from the top and could not be questioned or discussed. It is Ferdinand who handpicked and mentored Martin Winterkorn (a prominent colleague and a fellow engineer) for the position of the CEO and therefore his authoritarian style of leadership, that allowed neither freedom for the subordinate staff nor open communication across the hierarchical structures did not come as a surprise to many.

As Ewing et al., (2015) argues it is a sorry state in the 21<sup>st</sup> century to find a leader with followers who feel completely unable to say that "that is not right". The leaders' style especially for multinational companies must allow room for contribution from other employees to ensure that decisions made are as a result of wide and differentiated thinking. Whereas the issue at hand was sensitive and important for any aspect of business operations in the company, even the senior executives seemed not to fully comprehend the intricacies of what had transpired because discussion, team work and challenging decisions was discouraged. The deliberate failure for the leadership to allow and maintain free flow of information both horizontally and vertically

within the organizational structure is a worrying trend that is also visible in other corporate bodies (Peterson and Seligman, 2006). If a leader thinks he/ she knows everything that there is required to make quality decisions then that is a good reason to initiate debates within the working place so that everyone can learn and understand the arguments upon which the decisions are based on and work under common inspiration. In the other hand, if a leader feels he is inadequate in a number of areas he/ she should also initiate debates to ensure that more ideas are raised to bridge the gap before making uninformed decisions (Moulson and Pylas, 2015). Therefore, in either way consultation is critical and this could have gone a long way in ensuring that the scandal did not occur in the first place. Layering of business operations and departmental specialization should not be taken as an excuse for failure to consult and allow information to flow across the department because at the end of the day, the leadership decisions will eventually affect the operations across all departments either positively or negatively depending on the quality of the decisions made (Boches, 2015). Whereas the approach from different leadership styles may differ, it is however important by all means to ensure that structures are in place for employees and other stakeholders to give their opinions and challenge the thinking of others in the decision making process.

### **Emotional Intelligence**

According to Dune et al., (2015) it is expected for leaders from the engineering background to have a problem with emotional intelligence for their mind are not aligned to understand and manage people's emotions though they understand and manage machines perfectly well. This is not to suggest that they cannot acquire skills in human management but rather to suggest that this should be done deliberately and with specific targets. Gardner and Stough (2001) identify self-awareness, social awareness, self-management and relationship management as the key pillars for emotional intelligence. A leader is expected to have self-confidence and the ability to accurately conduct a self-evaluation that brings about self awareness. Though Martin Winterkorn was a self-confident leader, he was unable to balance this important virtue with social awareness. Instead he was obsessed with himself and failed to exploit the potential of the other members through team work. It is a dangerous approach to assume that self-confidence substitute the need to be aware of the social environment and make efforts to take advantage of the situation for the common good. Social awareness or social skills refers to the ability of a leader to be conscious of the organizational dynamics and be able to respond appropriately and in good time. A self evaluation test by a leader should assess how an individual is responsive to the group dynamics beyond just being confident. This is important because it helps the

leader to integrate his/ her strengths with the prevailing situation at the workplace which therefore builds synergy to propel the organization forward. Considering Martin Winterkorn's reaction immediately after the scandal was made public where he vehemently denied any knowledge of the emissions cheating devise and any wrong doing by the company, we see a sense of lack of self-awareness and social skills. This is especially grounded when we consider his decision to resign from his leadership position just a short while later without any reference to his previous action and utterances that were still fresh in the mind of the listeners especially the employees, shareholders, consumers and other stakeholders. This action could only raise two broad possibilities, either he was aware of the game from the beginning or he was completely ignorant of what was going on in the company an option that is unlikely and can cast great doubts on his emotional intelligence and practical control of the company. If he was aware of the cheating from the beginning, his action of denial could have been taken as a confirmation for lack of interest in the stakeholders especially the customers (and the general public) who were all taken for a ride in propagating the company's interest in widening the profit margins (Ewing et al., 2015).

The third elements of emotional intelligence is self management and it measures the extent in which a leader is able to adapt to different working circumstances within the organization, remain transparent and be in a position to control his/ her own emotions. Bowley and Eddy (2015) points out that the Volkswagen CEO was a perfectionist and would suspend or heavily punish staff members for simple mistakes. This kind of outbursts and attempts to have everybody behave in the same manner is a sign of lack of emotional self control and failure to adapt into different working conditions and circumstances. As Gardner and Stough (2001) argue this failure could be born out of over-confidence and over-reliance on self and can only be addressed through honest assessment and appreciating the fact that everyone has an important role (however small) in the achievement of the ultimate organizational goals. The fourth element is based on relationship management where the leader is expected to make efforts to inspire and influence others towards a path of self-development through teamwork and collaboration. Again, as Bowley and Eddy (2015) notes, the Volkswagen leadership was more focused on pleasing the shareholders with fat pay checks and excellent structures of communication without consideration of the chicken that lays "the golden egg". The leadership led by Martin Winterkorn harassed the employees and did not take time to listen and consider their views. Communication took a top-down approach with no room for team work, collaboration, discussion or feedback because the word from the CEO was final.

## Leadership Character

The Volkswagen scandal is not the first corporate scandal to hit the global headlines because in the recent past we have heard of the FIFA, Toshiba, Turing Pharmaceuticals among other mind boggling scandals. All these scandals among others raise doubt on the leadership character with the big question being why our leaders are not learning from history. However, as Bowley and Eddy (2015) points out it is difficult for a leader to learn issues of character and culture from a different leader because the other party is always painted as the “devil” without really discovering that we might be sailing in the same seas. This realization comes late after a scandal is discovered and made public. In that sense therefore, it is important to examine and understand character through a universal view that would allow corporates to learn from each other regardless of the industry or geographical location. Peterson, Seligman (2004) points out six universal virtues that are critical in examining leadership character across different cultural contexts and different corporate structures. These foundational virtues include the virtue of courage, humanity, justice, temperance, transcendence and wisdom upon which a leader can relate and learn from other corporate leaders on consequences of unethical deeds.

The virtue of courage defines the most rational response that would be appropriate when confronted by physical, moral or psychological challenges. (Peterson, Seligman, 2004). In this case Volkswagen is faced by a moral challenge where it has to cultivate the courage to confront the immoral option of minting money through compromised means that cause immense pollution to the environment. However, the Volkswagen fear of missing its important goal targets amidst fierce rivalry and difficult environmental considerations is seen to outweigh the courage of the leadership and decision makers to embrace morality. The leadership lacked the moral acumen to choose the common good in line with the conservation of environment considering that this would mean that they forego sizable amounts of money in terms of lost opportunities. Maintaining a list of such unethical approaches as learnt from previous experiences, attempts or from other corporate institutions is a good way of acquiring and maintaining courage to confront the moral challenge. It is also important to avoid ambitious targets that would force the organization to go for any means (however immoral) to accomplish and go ahead of other competitors

The virtue of justice helps in cultivating a character that encourages fair treatment to those that deserve such treatment (Peterson, Seligman, 2004). For example corporate social responsibilities is a response by corporate institutions to give back to the society after a conviction that such societies deserve and have a right to such treatment.

It would have therefore be expected from Volkswagen to be seen at the forefront leading in environmental conservation efforts such as planting trees and maintaining existing forests. Such efforts could have cooled the fury from the public because the company could have been seen in the light of caring of the environment that the motor industry is known to be among the most notorious polluters. These efforts are however lacking but instead we are witnessing the opposite in terms of deliberate emission of excessive toxic gases that cannot be likened to any other player in the industry. This is similar to the virtue of humanity but this one goes beyond the simple demands for justice to include empathy of others by making deliberate efforts to do the best in considering the interest of others while propagating your own. This empathy focuses on how to reduce (or eliminate) human suffering as a result of poverty and diseases by ensuring that our actions become deterrents to such sufferings rather than being facilitators. The action of Volkswagen to literally “spread toxic emissions” that are dangerous to human health is in contravention to this fundamental universal virtue for it literally facilitated human suffering instead making efforts to reduce it by reducing emissions as seen with other rivals through technological innovations that gives hope for electrical cars or solar-run engines.

## Recommendation

Having assessed the situation and circumstances of the scandal it is important now that we make recommendation on what we strongly feel is the way forward for the company not only in the interest of the customers but also in the long term interest of the company’s recovery and reputation. First and foremost the company should commit fully to transparency and the top management should accept full responsibility of the scandal so that the apologies being made can make sense. The apologies should show empathy by showing sufficient redress on specific issues affecting the affected parties. In the meantime the company should work together with the government agents to fix the affected cars with true commitments towards emission reduction in accordance to the international standards.

Secondly, the company should set aside funds to buy-out the cars that are already in circulation for an appropriate price that would help in re-building consumers’ loyalty. The funds can further be used to establish robust activities on corporate social responsibility in areas of environmental conservation and absorption of green house gases for example through planting trees. This would act well in winning back the trust from the communities especially in markets that are seriously affected by the scandal.

Thirdly, we recommend that the company establish a dedicated research and development unit dedicated towards the creation of environmentally clean technologies.

One of the actions that the company can really delete the impact of the scandal and related attitudes from the minds of consumers is by designing a technology that would allow the world to fight toxic emissions from car engines. It can be good to start by embracing the technologies that are already coming up on the use of solar cells, bio-fuels, electric engines as well as hybrid cars and improve on their reliability and efficiency.

Fourthly, we strongly advice that the company should inculcate a corporate culture based on the universal virtues and which adheres to professional ethics and integrity that should become part of employee training, up-skilling and appraisal. It is strongly recommended to have a lady in the status and experience of Dr. Christine Hohmann-Dennhardt to head the company and recover its reputation and enjoy the benefits realized above. The company should further institute accountability structures and communication systems that would allow free flow of information in both top-bottom and bottom-up approaches. Finally, the company should institute legal channels and structures to ensure compliance to the new codes of conduct and culture. These structures should include means of disclosure of unlawful activities as well as anonymous systems for whistle-blowing by the members of staff. These structures should be clearly spelt out and understood by the employees and assurance given that anonymity shall be respected for the whistleblowers and those who willingly disclose their wrong doing.

Through these measures we strongly believe that the company will not only recover in its business operation but its reputation shall also be restored among its customers.

### Personal Reflection

It is amazing how some important aspects of leadership might look obvious in theory but proof so complex to apply in real life situations. Throughout the course one of my best highlight was on character in leadership. It is amazing to witness how character is an important foundational pillar upon which a business is built and established. This means that no matter how successful, no matter the years of experience, no matter the good image that a company builds, if the company's leadership does not observe professional ethics the whole business empire can come trampling down in days. Though I have been aware of the importance of professional ethics at work place, the issue of character has been brought out in a more vivid and practical where I felt as part of a leadership team or at least as a supervisor of a practical leadership team. This has helped me to get relate more intimately with the aspects of leadership character from an individual point of view rather than having a view of just attaining some additional knowledge in leadership. The other important highlight was on common sense. For a long time this concept was

just that, "common sense". However, in this module the concept has been presented in a different and deeper context leaving the message very clear that common sense is not always common, it is worked for. Issues like thinking about the welfare of the general public and giving it a priority within the business goal may be seen by many as an easy thing that every leader would just undertake, but I have learnt that once the demands of the shareholders and the quest for profits sets in, these common aspects can take the back stage. It was astonishing to realize that some leaders in the 21<sup>st</sup> century still forget that every decision made has consequences and one must be ready to bear such consequences for every action taken.

In the case study studied I realized that reputation that has taken years to build can be destroyed in just a single mistake. The case study came with hard lessons that I must at all times stand with my word and take full responsibility on the consequences of what I say and do. This means that as a leader I must learn to be honest, transparent and build a moral reputation in the society whose consequences I'll be proud to partake later. In addition it came out that in business character and good communication is everything and this safeguards the brand image. In the other hand lack of character leads to loss of trust and it can be difficult or impossible to earn it back. Learning from history is wisdom and I strongly believe that I don't need to wait to learn from my own mistakes.

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