

SPRING 2017 PROPOSAL

How To Recover From 2015 Dieselgate External

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EXECUTIVE SUMMARY \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

This report aims to provide solutions to Volkswagen's’ current reputation problem. In the aftermath of the emission scandal Volkswagen, and its unethical behavior, has done harm to the company’s reputation. The emission scandal was so big that the CEO, Martin Winterkorn, stepped down and promised not to be involved with Volkswagen anymore as a result of the scandal taking place under his leadership. Several engineers at Volkswagen developed a cheat emission switch and therefore disgraced the company and put it in a crisis. The company lost a lot of customers because of that incident and the company needs a plan to reconnect with customers and needs a plan how to move forward and be successful in the future. In preparing this proposal, I did research to find similar case studies where other car makers also were involved in a crisis. Research also has been done into appropriate measures in handling this type of PR disaster and how to move forward effectively.

This paper includes an explanation of my research findings, recommendations on what steps the firm can take to recover from that emission scandal and explanation why it will work. It suggests measures to ensure the recovery of the firm’s reputation.

**INTRODUCTION: THE CURRENT SITUATION**

In 2015 Volkswagen was involved in an emission scandal. Volkswagen violated the Clean Air Act with over 11 Million cars involved worldwide and about 550,000 vehicles in the US since 2008.

Volkswagen admitted that they manipulated the emission switch, so the car seemed more environmentally friendly than they were. The emissions from affected cars is [10-40 times higher](http://www3.epa.gov/otaq/cert/documents/vw-nov-caa-09-18-15.pdf) than everybody thought.

This resulted in a $14.7 billion settlement to compensate car owners and address environmental harm. The following timeline gives a full picture of what happened and where the firm stands now:

2008 Cheat device get installed in diesel engines

May 2014 Researchers from University of West Virginia discovered the ignition switch

September 2015 EPA announces that Volkswagen installed a cheat device to perform better at emission test and Volkswagen admits that the problem is worldwide and affecting over 11 million cars.

Impacted models were,the diesel versions of the Jetta, Beetle and Golf model years 2009-2015, as well as the 2014 and 2015 Passat diesel. Also, the diesel Audi A3 from 2009-2015 is involved in it.

CEO Martin Winterkorn resigns and Michael Horn is new CEO

October 2015 Michael Horn, Head of Volkswagen America testifies before US Congress blames it on a couple of engineers and management is not involved

March 2016 Michael Horn resigns and get replaced by Mathias Mueller, head of Porsche

June 2016 Volkswagen agrees to pay a settlement of $14.7 billion

 $10 billion in buybacks + compensation

$2.7 billion to EPA

$2 billion to develop zero emission vehicles

In the aftermath, the company took the right steps to recover from this scandal. The settlement Volkswagen agreed to was tough, strong, and consumer-oriented. It is significantly bigger than the civil penalties paid by other automakers, namely the more than $9 billion General Motors has paid so far over faulty ignition switches and the $1.4 billion Toyota paid over acceleration issues, according to the New York Times.

The five largest competitors in the global carmaker industry are Toyota (10.4 million units), Volkswagen (9.8 million units), General Motors (9.6 million units), Hyundai (8.0 million units), and Ford (5.9 million units) and each of those companies were involved in at least one major public controversy in the past. From a public relations perspective, it would be in the best interest of the company’s reputation for Volkswagen to devise and execute a plan of action to methodically repair the damage some of the engineers at Volkswagen caused, and ensure the durability of the firm.

“At Volkswagen it is our mission to build long term strategic partnerships with our customers. To assist them in making the right choices for their business needs, by minimizing fleet costs and providing world class customer service.”

* Volkswagen mission statement 2017

**CASE STUDIES: EVIDENCE FOR PERFORMANCE**

CASE STUDY 1

“The Volkswagen Scandal”, Robinson School of Business, by Britt Blackwelder, Katerine Coleman, Sara Colunga-Santoya, Jeffrey S. Harrison, Danielle Wozniak

General Motors was founded in 1908 by W.C. Duran. The company is based in Detroit, Michigan, some of their popular brands are Chevrolet. Buick, GMC, and Cadillac. Due to operational losses beginning in 2005, the company has received more than $30 billion in aid from the U.S. federal government. In exchange for the bailout funds, the company was forced to completely restructure. In 2014, General Motors had $156 billions of net revenue.

In March 2014, the Justice Department launched a criminal investigation into a delayed ignition switch recall. By the end of the month, GM announced an ignition switch recall for 2.6 million cars. GM knew that there was a potential issue with the ignition switch since early 2011. Despite the recall crisis, Tim Mahoney, Chevrolet’s Chief Marketing Officer said, “the latest data that we’ve seen is no major shift in purchase consideration… I think we’re holding up pretty well in spite of it all”.

CASE STUDY 2

“The case of Toyota recall” by Daniel Opoku

Toyota is the seventh largest car maker in the world and to second largest manufacturer of automobiles and has production facilities in 28 countries. They are the worlds third largest manufacturer of automobiles in unit sales and in net sales, Toyota has also created good customer relationship and provides customers with the products they need.

In September 2009, the US National Highway Traffic Safety Administration alerted the public that the floor mats in Toyota automobile may trigger the gas pedal and rapidly accelerate. Shortly after, the company recalled 3.8 million cars. Later acknowledging that it may be a mechanical issue, Toyota added an additional 2.3 million cars to the recall. In 2014, The U.S Attorney’s Office fined Toyota $1.2 billion for appearing to deceive the public. Cars in the U.S, Europe and China were affected. The company had to recall over 12 million cars worldwide and correct issues with the ill-fitting floor mats that could possible trap the accelerating pedal.

Most organizations should strive for consumer satisfaction rather than solely pursuing high profit without regard for the environment and consumer safety. Arrogance and choosing to ignore quality warnings when failures occur are also a problem facing many organizations. Toyota did not act until the number of cases and the media outcry became loud enough to get through to them. Perhaps it is not so much of an issue of technological quality that lead Toyota into this crisis, but rather they should look at their quality of leadership which may sometimes include selecting technology and keeping ears to the ground. Companies design and manufacturing information and traceability data should be shared with suppliers for effective root cause analysis.

**RECOMMENDATIONS**

 PROPOSAL PART 1 – Winning back customers trust

To ensure a new start the head of Volkswagen must change. We already announced that we have a new CEO – Mathias Mueller. Also, the company publicly acknowledged that there were cheating devices installed in some of the diesel cars. Volkswagen is trying very hard to gain the trust of its customers back. Former CEO Winterkorn admits that Volkswagen “broke the trust of [its] consumers and the public” but the new CEO Mueller is trying to win that trust back. In addition to the settlement, Volkswagen launched a "[goodwill](http://www.consumerreports.org/cars/volkswagen-rolls-out-goodwill-program-for-some-diesel-owners)" program in 2015. It offers affected diesel-car owners $500 pre-paid Visa card, $500 in dealership credit, and three additional years of roadside assistance. Car owners also have the option to sell the car back to Volkswagen. Owners can get between $5100 - $9900 back depending on mileage, features and age. For people who want to keep their cars, there will be a recall to bring the existing models up to regulations. The fix will likely be a software update for newer models. Lease holders get a similar deal, with VW agreeing to take the cars back and terminate the leases. The cash payments will be about half of what VW owners get.

 PROPOSAL PART 2 – Work on corporate culture

To prevent this from happening again, Volkswagen needs to work on their corporate culture. The key of handling this kind of crisis is taking actions, be transparent and being transparent to the customers. Channels matter. The new CEO needs to write a memo to all the employees and stakeholders and shareholders that such behavior is unacceptable. There should also be a statement for the public stating that the company won’t tolerate such behavior and that they are doing everything in their power to avoid such thing from happening again. All statements need to be written in active voice. If we use an active voice, that makes the people feel that the company is actively doing something against it and that they are working on a way out. The message need needs to be short and understandable. That is one of the keys for a good PR strategy (Goodman/Hirsch, 2015).

 PROPOSAL PART 3 – Stay away from diesel cars

Volkswagen did the right things to settle this issue quick. But the company should continue to try and make a cleaner diesel and refocus its energies into hybrid and electric models. Such technology is expected to benefit as environmental concerns grow and emission regulations are getting stricter. In general, this emission crisis lets customers wonder if a diesel car a clean car at all. There are cleaner options that we should focus on. Also, if we stay away from diesel cars, customer will more likely forget the whole crisis faster and trust in us again. Due to this latest emission scandal and cheat devices are not unique to this crisis. Therefore, the EPA will probably introduce new testing procedures and changes in regulations that will be much stricter and therefore harder to pass. That is another reason to stay away from diesel cars and move on to hybrid and electric cars. Consumers still trust in Volkswagen. Even after the crisis, consumers still see Volkswagen as reliable and affordable. The brand is strong enough to get over that crisis and the company was even growing. VW increased their sales by 0.6%

**CONCLUSION**

Overall, we can say that dealing with this kind of crisis won’t be easy and people most likely will still remember what has happened but we will convince them that we deeply regret what happened and that we will do everything to make what happened right again. We have taken a lot of steps forward and we keep on pushing forward, so that in the future we will be the biggest automobile company. The company should dedicate all efforts and resources into re-establishing credibility with the company. However, this won’t happen overnight. We need to be patient, follow the recommendation in order to be successful and move beyond what has happened in the past.

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