Volkswagen: DAS PROBLEM - Ethics and CSR challenges

Within the theme of the EBEN Research Conference that will be held in September 2016 in Palermo (Ethical behavior and ethical disclosure) we propose a special track on a recent case that many colleagues certainly have already discussed in their classes: The Volkswagen-case.

A short reminder of what has happened so far.

At the end of the first half of 2015 Volkswagen became worldwide number 1 car-producer, ahead of former champion Toyota. In September, however, the US-American Environmental Protection Agency (EPA) accused Volkswagen of cheating emissions tests in the US. EPA found that many VW cars had a “defeat device” or software installed in diesel engines that could detect when the cars were being tested, changing the performance accordingly to improve results. The programming caused the vehicles’ nitrogen oxide (NOx) output to meet the US standards during regulatory testing, but they would emit up to 40 times more NOx in real-world driving. The EPA’s findings cover 482,000 cars in the US only. VW has admitted ever since that about 11 million cars worldwide, including eight million in Europe, were fitted with the so-called “defeat device”.

As a consequence, VW became the target of regulatory investigations in multiple countries all over the world (from Australia to India, in many European and Latin American countries, and also in South Africa). Volkswagen’s stock price fell in value by about a third since the scandal broke and the carmaker had to announce its first quarterly loss for 15 years of € 2.5 billion. It is not yet possible to estimate the costs of a world-wide product recall to fix the problems and possible legal actions by car owners.

As a direct result of the scandal, Volkswagen group CEO Martin Winterkorn resigned and different top managers including the research and development heads of Audi and Porsche were suspended. VW has launched an internal inquiry and announced to publish the results in April 2016.

The consequences, however, exceed the scope of the company itself. The scandal raised awareness over the higher levels of pollution being emitted by all cars built by a wide range of car makers, which in real world driving conditions are likely to exceed legal emission limits. In addition, over the past decade and more, car makers have poured a fortune into the production of diesel vehicles – with the support of many governments – believing that they are better for the environment. The VW scandal together with latest scientific evidence suggests that this is not the case, and now there are even moves to limit diesel cars in some major cities. Diesel sales were already slowing, so the VW scandal came at a bad time.

Call for papers

The Volkswagen scandal can be analyzed as a case of business ethics, analyzing the observed deception, or - ironically – as a case in sustainability. However, it is also a case of leadership, corporate governance, and corporate culture. More specifically the VW case is a CSR case since the company’s social responsibility (broken trust of customers and public, manipulation of regulators,
social impact on employees etc.), its environmental responsibility (pollution, non-respect of emission standards, impact on public health etc.) and economic responsibility (sales figures down, fall of stock price value etc.) including economic sustainability are involved. Even the survival of the VW corporation can potentially be threatened through exorbitant fines and penalties to pay.

The aim of this call for paper is to engage scholars from different academic disciplines (management, leadership, business ethics, CSR, accounting, marketing, economics, finance, political science...) in a constructive exchange around one case study: the Volkswagen case, analyzed from various perspectives (strategy, stakeholders, communication, financial etc.). The VW case is also worth to be analyzed in its wider impact on the automobile sector, on the German industry, on the profession of engineers, on the financial markets. By extension, a comparison with similar cases in the sector could be analyzed.

Some suggestions for topics of analysis and possible research questions

**VW – A ‘sin’ company or business as usual? A historical perspective**

Drawing on the recent historic turn in management studies, Volkswagen could be analyzed in a long-term perspective going back at least to the 1970 when VW already had a scandal with manipulated engine emissions. A comparative analysis with scandals in the automobile sector in general could be fruitful.

However, Volkswagen has not only been involved in technology-based engineering fraud. In 2005, VW executives and labor union representatives engaged in sex parties with prostitutes in countries from Brazil to Germany, renting apartments to host these parties with corporate funds. One of the managers involved was the Director of Human Resources who was connected to powerful politicians, and also acted as the name-sake for the Hartz 4 law that substantially altered the German working world (Grover and Hasel, 2015).

**Communication**

CSR disclosure

In line with the overall topic of the EBEN RC on “ethical disclosure”, CSR disclosure could be an important angle of analysis for the Volkswagen case. One approach could consist of a critical review of CSR reports issued in the past by VW. Another interesting topic concerns the fact that many indicators such as the GRI or responsible investment is based on the interpretation of corporate disclosure. The Dow Jones Sustainability Index (DJSI) for instance crowned Volkswagen the world’s most sustainable car company only 10 days before the scandal became public. The measuring of corporate social responsibility performance, determinants of CSR disclosure and the validity of information organizations themselves provide are topics that need discussion and debate in view of the Volkswagen scandal. The case also raises the issue of the gap between managerial actions and the content of the disclosed documents.

Crisis communication
Since September 2015, Volkswagen has been under public scrutiny. How does the company communicate about the scandal and its negative social, economic, and environmental impact? The analysis of the corporate communication can be enriching for the understanding of legitimation strategies that companies use when threatened by the consequences of a public scandal.

Media coverage

Media coverage of the scandal can also be studied from different angles, since it concerns a multinational firm that is present in a large number of countries, with different degrees of involvement as a major manufacturer, buyer, competitor, or employer. A cross-country comparison could strengthen our understanding how strongly (or not) culture, local discourse and media coverage can vary in function of local stakeholders’ interests.

Corporate Governance

Volkswagen is a publicly listed company, with headquarters in Germany, which has a double tier system of corporate governance that involves employee participation. Major shareholders are the family of founder Ferdinand Porsche with 50.7%, the federal state of Lower-Saxony and the state of Qatar with 20% stakes each. Public shareholders hold less than 10% of the shares. In general, this board organization with main shareholders, strong stakeholders including employees through workforce representatives is considered to be a good solution to corporate governance and control issues. In the particular case of VW, some see this long-lasting close relationship between major stakeholders as one main challenge for an efficient corporate governance control.

Business ethics

Another area for analysis concerns the embeddedness of ethics in organizational policies and culture. The effective implementation of ethics and compliance policies in organizations to prevent deviant behavior is an ongoing concern for both research and practice. To what extent and how was deviant behavior occurring at Volkswagen and why was there seemingly no compliance with external regulation and internal guidelines. The issue of human agency has a critical importance and raises understudied questions of how actors involved in regulation and compliance actually work, interpret, struggle, and in fine miss to manage to implement regulation.

Stakeholder management

The stakeholder management approach aims to create value for all stakeholders (Freeman et al. 2010), and have the interests of all relevant stakeholders taken into account. The VW case offers the possibility to study the dynamics and urgency of various stakeholders’ claims. Whose stakes were harmed? How have different stakeholder groups in in different countries reacted to the scandal?
Reputation and legitimacy

At the occurrence of negative incidents, legitimations strategies aim at repairing or defending the incident that has caused a loss of legitimacy. Suchman (1995), for example, proposes a well-cited framework of organizational legitimacy that contains a subset of strategies aiming to repair a bruised corporate image. Often referred to strategies include the communication of organizational changes (internal investigation, stop of “defeat device”), the attempt to change stakeholders perception (“it’s only a technical problem”, “we fix it!”), the association with symbols that confer a high level of legitimacy, and adjustments in societal expectations as means for strategic disclosure (see also: communication). An analysis of the VW case could provide empirically grounded insights into the use and the efficiency of those legitimacy strategies, especially when comparing environments with different institutional pressures such as the US and Germany.

Industry and technology spill-over

Much attention from research has focused on reactions and processes from individual organizations to defend or repair their legitimacy after disruptions arisen from their own operations (see among others Shrivasta, 1988 and Suchmann, 1995). We know far less about possible or appropriate responses in case of a spillover affecting other organizations and their overall field (Yu et al., 2008).

The VW scandal is a good example where public scrutiny increases broadly following a scandal caused by one firm but affecting all organizations in the industry (Jonsson, Greve & Fujiwara-Greve, 2009). Drawing on institutional theory, one could examine how organizations may undertake efforts to minimize disruptions and defend their “license to operate”. Findings suggest that most organizations deploy defensive efforts in order to lower public scrutiny and to avoid suspicion of manipulating stakeholder expectations.

How organizations react to spillover effects and the threat of legitimacy depends also on their respective institutional environment. The Volkswagen scandal allows more than most scandals to compare re-actions in different institutional settings such as the US, Germany, European and Asian countries.

Another object of investigation could be the French carmaker RENAULT who suffered from state investigations on its emission tests in January 2016 as a consequence of the VW scandal.

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Literature


