

**Volkswagen Emissions Scandal in the US:
Crisis Analysis (May 2014 - Early November 2015)**



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Executive Summary

Beginning in 2014, Volkswagen (VW) became the subject of an ongoing scandal that today threatens the survival of the company. The company has admitted to installing devices that detect when a vehicle is undergoing emissions testing and reduces the engine power in order to pass. Conversely, when not being tested, these vehicles will enter a high-performance mode that does not meet the Environmental Protection Agency's emissions standards. Ongoing, the list of affected vehicle lines continues to grow. Public perception of the company has plummeted while the company scrambles to maintain consumer confidence.

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Introduction

Background

In May 2014, researchers at West Virginia University discovered an issue with Volkswagen's vehicles that would soon spiral into a potentially devastating blow to the company's future. The researchers found hard evidence that the company was cheating on the Environmental Protection Agency's emissions test. This flaw is grounds for the halt of sales for the huge number of affected vehicles as well as financial reparations to current owners. As a current, ongoing issue as of the writing of this document, Volkswagen continues to attempt to manage the fallout of this crisis.

Purpose

This white paper presents the findings from analyzing this crisis and Volkswagen's communication surrounding it.

Objectives

Specifically, the research objectives included investigating the following:

- How the media reported and influenced perceptions about the crisis
- How Volkswagen handled public perceptions about the crisis
- How pre-existing opinions toward the company affected the crisis resolution

Methodology

Communication has been gathered from digital news sources. This includes article excerpts and a sample of comments from readers.

The data is organized according to three phases of crisis communication as described by Tulika Varma in "Crisis Communication in Higher Education: The Use of 'Negotiation' As a Strategy to Manage Crisis".

Phase 1: denial, shifting of the blame, and evasion of responsibility

Phase 2: attempts to minimize effects or transcend the problem

Phase 3: resolution through apology and negotiation

Beginning with an outline/timeline by Cars.com, I further researched each major event of this crisis. Analyzing the data based on the assumption that the company's communications must each fall into one of these categories, a clear picture the company's strategy emerges.

Since this issue is ongoing, it was important to set a clear period of time I would research. I have chosen the periods of May 2014 to the beginning of November 2015.

Results and discussion

Phase 1: denial, shifting of the blame, and evasion of responsibility

In May of 2014, a study at West Virginia University found that the certain Volkswagen vehicle lines are polluting more than the legal limit. At this point, VW insisted that this was a fully unintentional software glitch. In December, the company initiated a voluntary recall of the supposedly affected 500,000 vehicles. However, tests performed after the company's prescribed fix still did not decrease emissions enough to pass the test¹.

Analysis: Volkswagen was well aware that a software glitch did not cause this problem, as the public realized later on. This attempt to hide the truth would come back to haunt the company. To make matters worse, the recall did not fix the issue, casting doubt on whether the company would be honest in the future.

Phase 2: attempts to minimize effects or transcend the problem

In July 2015, responding to VW's failure to resolve their emissions issue, the Environmental Protection Agency (EPA) threatened to halt sales of the company's 2016 diesel line. Only then does the company admit that they have intentionally installed "defeat devices" designed to cheat on the emissions tests. In short, these devices sense when a test is in progress and switch to a low engine-power mode with reduced emissions. In normal driving conditions, the device will switch the engine to normal operation. In this mode, noxious emissions are well above EPA maximums².

Analysis: Volkswagen seems to have realized at this point that the EPA would eventually find their defeat device. In an effort to control the message to the public, the company admitted what they had done. This was likely a smart move as an EPA announcement would make them seem like they were hiding the truth even more than they were. This was an attempt to minimize the fallout of just such an announcement.

Comments reveal that the public is appalled. The company marketed their diesel vehicles as a much cleaner alternative to gasoline and consumers paid a premium for that feature. The general perception is that VW's leadership and engineering must lack a

conscience; this lie not only affected the customer's wallet, but also the health of the environment around them.

Phase 3: resolution through apology and negotiation

In September 2015, the EPA began to press the Department of Justice to enforce statutory fines upon VW for up to \$37,500 per affected vehicle. This could total \$18 billion dollars. The news causes ripples in the stock market, crashing the company's share price by over 20%³.

VW's response was quick and sweeping. It halted the sales of the known affected vehicles and proactively announced that 11 million vehicles worldwide are equipped with this defeat device⁴.

The company's CEO, Martin Winterkorn, resigned. His successor, Matthias Muller, directed a recall of affected vehicles in the US^{5,6}.



Matthias Muller

In October of 2015, Muller announced the recall of affected US vehicles, to start in January 2016. The company assures customers that this recall will resolve the issue⁷.

The company's US chief, Michael Horn, apologized directly to Congress for VW's actions⁸.

Analysis: Prompted by a massive drop in company valuation, VW took swift action. Halting sales and admitting to the staggering number of affected vehicles showed the public that the company took this issue seriously.

The CEO swap was an attempt to transform the image of the company by showing a willingness to hold their people accountable. However, public comments on the topic

show suspicion regarding the premise that even this new CEO was unaware of the defeat devices.

The US recall, seen as inevitable to most, signals to the public a shift from denying responsibility to taking care of the issue. Volkswagen was unclear on what the fix would entail. Public comments seem generally concerned over how this issue could be resolved without negatively affecting engine performance. Many are convinced that the only reasonable resolution is for VW to buy the vehicles back from consumers for cash. These consumers may join one of the many class-action lawsuits now pending against the company.

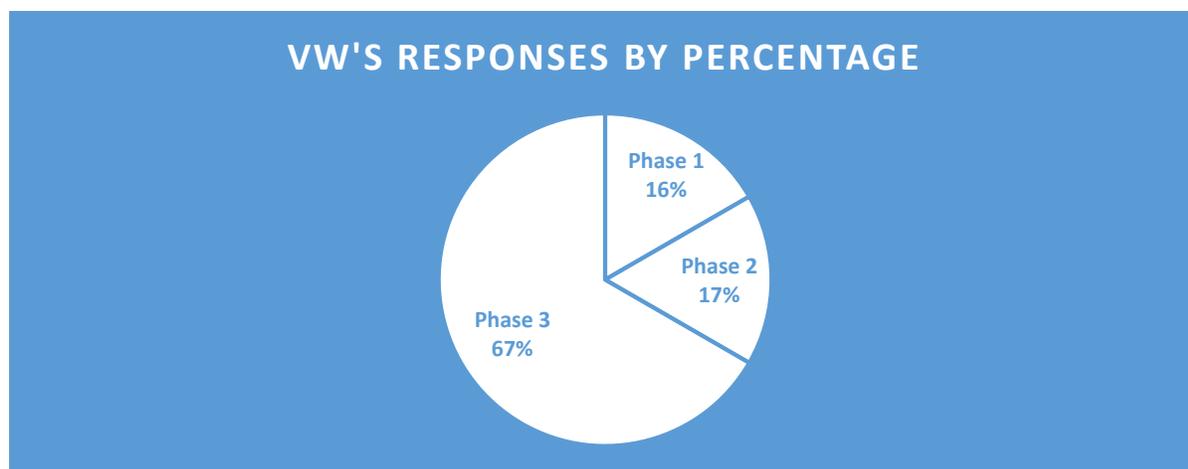
Michael Horn's apology was another attempt to make the company appear accountable for their actions.

Back to Phase 1: denial, shifting of the blame, and evasion of responsibility

On 2 November 2015, the EPA announced that an additional 75,000 Volkswagen vehicles in the US are equipped with the defeat device and fail emissions standards⁹.

The next day, VW announces that, in addition to the diesel vehicles announced thus far, 800,000 gasoline vehicles in Europe fail to meet emissions standards¹⁰.

Analysis: This may be VW's worst nightmare. They fought hard to keep control of the message, but these two announcements shed serious doubt on the company's honesty. The public fears that the company is still knowingly hiding illegal vehicle lines.



Conclusion and recommendation

I found that most of Volkswagen spent most of its time in Phase 3 (resolution through apology and negotiation). This reflects their intent to appear responsive to the crisis, sensitive and loyal to their customers, apologetic, and ready to move forward within the law.

However, their jump back to Phase 1 (evasion of responsibility) with the announcement of a new wave of vehicles never previously disclosed represents a clear and present danger to the company's capacity to recapture the public's faith. In this case, the ideal situation for VW would have been informing the public of every affected vehicle at the beginning of the crisis.

This opportunity, however, has passed. One of the biggest lessons here is that the public relations department needs to take very good care to push their company for complete and accurate information before they take any action. This may require becoming a sort of investigative journalist within your company. While this is indeed a huge undertaking in many companies, proper control of the public message requires the PR department to have full access to internal documentation.

I thank you for your interest in this document. If you have any questions or comments, please feel free to contact me using the information below.

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