

Does Volkswagen's Dieselgate *Exhaust* Its Daughter Brands?

MANAGEMENT DECISIONS

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Reactions and Decisions

Five-Point Plan by CEO Müller

"We will overcome the crisis" says Müller confidently in front of the other Volkswagen Group executive board members. He has elaborated a clear structure on which steps are necessary to realign the Group.

First, he addressed his speech to the affected customers, as they are "the core of everything that our 600.000 employees worldwide do". A top priority is to develop technical solutions and fixes for the customers of an affected diesel car. These are planned to be installed in January 2016.

Secondly, the CEO pointed out the immediate action of internally investigating the truth about what happened and how it could happen. The external consultancy firm Deloitte will conduct an audit on Volkswagen Group to support the internal inquiry. Those internal people involved in will have to face "severe consequences".

Thirdly, Müller wants to rearrange the brand, model and management structure of Volkswagen Group. Synergies between the brands, as well as the contribution each brand makes to the portfolio will be examined. Additionally, the management will be restructured to make it more decentralized. This will give it a greater independence to the brands and the companies they operate in.

As a fourth step, the CEO wants to retain the old core values of perfection and corporate social responsibility in the culture of the corporation. However, the way these values are communicated, as well as crisis management will be improved. Moreover, the corporate culture will be improved in terms of openness, cooperation, creativity and entrepreneurial spirit.

Lastly, the new Group's strategy for 2025 will not be about producing a high volume of cars in order to become the biggest car manufacturer in the world anymore. Instead, Müller plans to implement a strategy of qualitative growth, which will lead the Group's way onto successful path for the future.

Management Decisions

The first tangible action Volkswagen implemented was to offer a goodwill package to customers in the United States, including a \$500 prepaid Visa card, a \$500 voucher that can be redeemed at any Volkswagen dealership, and 24-hour roadside assistance for 3 years. This package, which was introduced approximately 1.5 months after the situation was first revealed, certainly aimed to placate a big part of the upset customers. The introduction was accompanied by an ad in 30 of the biggest newspapers in the US, including the New York Times and Washington Post, titled "We're working to make things right".

Internally, Volkswagen initiated a "Whistleblower program" that encouraged employees to come forward with any information they might have regarding the crisis. In return to their honesty, the company promised to not hold them liable for damages. This was, of course, a very essential step. Especially in this case, where the crisis incrementally spread from only affecting Diesel engines of Volkswagen cars in the US to also include other brands, countries and gasoline engines, the company was well-advised to identify any other issue that might arise in this context. As long as bad news keep surfacing, a company can naturally not start the attempt of re-gaining the stakeholders' trust.

Early in the crisis, Volkswagen also stated that any non-essential expenditures would be postponed or cut completely. Similar to the whistleblower initiative, this was an important signal to both investors and other stakeholders that the group focused all its resources on resolving the incident before thinking about going back to business-as-usual. At the same time, the car manufacturer decided to invest an additional 100 million euros in eco-friendly solutions (e.g. electric and hybrid vehicles) in the following year 2016. This shows that Volkswagen had a clear determination to maintain and even strengthen its core value of environmental responsibility. Similarly, Volkswagen also announced that the next generation of its VW Phaeton model will be entirely electric. Seeing that this is the flagship of the brand's lineup, making it electric is a strong statement for the future direction of Volkswagen.

Finally, another decision the management of Volkswagen took was to set aside not less than 6.5 billion euros in provisions. These were intended for measures to regain the customers trust and, naturally, to prepare for imminent lawsuits.

Brand Board Management Decisions

Apart from the more general management decisions mentioned above, Volkswagen also came to some resolutions regarding how they will deal with this crisis from the perspective of its daughter brands. Herbert Diess, the Head of VW's Brand Board of Management, declared the following:

"The Volkswagen brand is repositioning itself for the future. We are becoming more efficient, we are giving our product range and our core technologies a new focus, and we are creating room for forward-looking technologies by speeding up the efficiency program."

As mentioned in the five-point plan by CEO Matthias Müller, Volkswagen decided to retain its core values. At the same time, as Herbert Diess said, the company looked to reposition itself and find new points of focus. For example, one measure the manufacturer took was to integrate Porsche, Bentley and Bugatti into one brand group that allows the company to manage technological synergies among these brands in an improved manner. This shows that the Volkswagen Group was eager to increase control over the interdependencies of the different daughter brands. This is especially relevant, since the company also revealed that it would introduce a comprehensive

Modular Electric Toolkit across several brands for future electric vehicles. Thus, Volkswagen made a decision to maintain these economies-of-scale among the different brands despite the spillover effects that the crisis at hand had caused.

All daughter brands involved issued statements on their websites informing customers about affected models and recall initiatives. However, the wording of their announcements created some distance to the mother brand. Škoda, for instance, said that "ŠKODA has also obtained engines from the Volkswagen Group with this software and installed them in ŠKODA vehicles". This certainly gives an uninformed reader the impression that the brand has only bought engines from an external supplier (i.e. Volkswagen) instead of the fact that they are, indeed, part of the same company.