

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

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## **TEACHING NOTES**

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The authors prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

## Teaching Plan

The teaching plan of this brand management case represents a comprehensive guide on how to teach the presented case. It was conducted in order to assist the instructor to prepare, organize and structure the case in a more effective manner. Using these teaching notes, the case instructors will be able to lead a more efficient and engaging case discussion and to help students achieving the defined learning objectives. The teaching plan contains a summary of the main issues of the case, defines and describes the learning objectives, presents main and assisting questions, provides teaching suggestions and illustrates a suggested time and board plan. First of all, a case synopsis will summarize the case briefly.

## Case Synopsis

In September 2015 the United States Environmental Protection Agency (EPA) uncovered that Volkswagen is cheating on emission tests, allowing its cars emitting up to 40 times more of the legal pollution limit. Volkswagen installed an emission control cheating device, which is activated when a smog test is taking place. Although, the controls turn off again, when the smog test is over. After this announcement Volkswagen's stock price immediately lost 19.8 % (17 billion USD) of its value. Michael Horn, the CEO of Volkswagen America, stated: "Let's be clear about this, our company was dishonest. [...] We have totally screwed up". Volkswagen estimated that worldwide eleven million diesel powered cars could be affected. With this crisis Volkswagen portrayed the trust of its clients, the authorities and the entire public. Since the crisis came from within the company, affected the brand core and had an impact on the entire business, the reputation of Volkswagen was seriously damaged. However, Volkswagen installed this software not only in Volkswagen passenger cars. Due to technical synergies, the same motors were used in cars of the daughter brands Audi, Seat, Škoda and Volkswagen Commercial Vehicles. Therefore, the question arose, how the daughter brands should be managed in this crisis.

## Learning Objectives

While presenting this case, discussing Volkswagen's crisis situation and evaluating different management decisions, the case audience should achieve several key learnings. These will be defined in the following section.

Instead of being an isolated incident that will not repeat itself for other companies in different situations, the present case has indeed broad implications when it comes to issues of corporate brands and their reputation – not only for Volkswagen AG, but for companies in general. The analysis of this case provides the reader therefore with a wide array of learning opportunities, especially in the subjects of corporate brand

identity, corporate reputation, and brand structure. The following chapter will thus serve as an overview of the learning objectives of the Volkswagen case and connect it to relevant literature.

### *Corporate Brand Identity*

A (corporate) brand is made up of numerous elements, such as its personality, value proposition, or culture. However, arguably the most important of these factors is a brand's core – its values and promise (Urde, 2013; Roper & Fill, 2012). This is what gives a brand its essence and while positioning, for example, could change over time, the core should remain intact for a longer period of time (Kapferer, 2012). After all, the core is the whole *raison-d'être* of a brand. According to their website, Volkswagen's core values can be described as innovative, reliable ("offering enduring value"), and responsible (Volkswagen AG, 2014). It does not take a brand expert to see that the emission crisis has hit the car manufacturer at its very core, be it the (environmental) responsibility or the promise that customers can rely on Volkswagen. Even Michael Horn, CEO of Volkswagen USA, has said that "[this behavior] is inconsistent with our core values" (The Guardian, 2015).

The full effects such a damage of the kernel might have on a brand's identity can be made visible through the Corporate Brand Identity Matrix (CBIM), developed by Urde (2013). With 3 dimensions – external, external/internal, and internal, the core is placed at the very center of this 3x3 Matrix (see **Exhibit 1**). A strength of this matrix is the visibility of interconnections between several elements, for instance relationships (external) and culture (internal). All interdependences, however, need to go through the core to be effective. And this shows why it is so important to look at Volkswagen's core when assessing their crisis: if the core itself is affected, it can have a detrimental effect on all other elements that make up the brand's identity, be it position, competences, or expression (cf. Greyser, 2009).

### *Corporate Brand Reputation*

Of course, it is not only a brand's identity that can be affected by an issue like that, but maybe even more, a brand's reputation. This is why the original CBIM has been expanded to include reputation, establishing the Corporate Brand Identity and Reputation Matrix (Urde & Greyser, 2014). Again, having the core at the center, the extended matrix now includes reputational elements, such as willingness-to-support, relevance, or credibility (see **Exhibit 2**). When it comes to managing a crisis, this model can be used as a way of evaluating what parts of a reputation have been affected. This can be done, for instance, by assigning "grades" to each element looking at it both from before and after a crisis. Thus, when it comes to Volkswagen, it can be seen that most of the elements have indeed been hit, be it trustworthiness, credibility, performance, or relevance. However, it can also be argued that recognizability, for example, actually increased, as Volkswagen did not really have any choice but to improve the consistency and distinctiveness of its communication immediately.

Furthermore, the resignation of CEO Martin Winterkorn was a necessary step in the reputational crisis management of Volkswagen. As the Chief Executive Officer of any company is "inextricably linked with the reputation of the firm" (Roper & Fill, 2012, p. 53), he or she will be among the first to feel the consequences should said reputation be damaged.

Greyser (2009) also mentions that the most serious cases of reputational damage are those that affect the essence of the brand. He further emphasizes the need of "talking, being, staying authentic", and "defending authenticity" in times of crisis (Greyser, 2009, p. 597). While Volkswagen certainly was not practicing authenticity when it interfered with the emission tests, the way the car manufacturer admitted the fault without delay certainly was a good decision in terms of being authentic and drawing from the reputational reservoir (Greyser, 2009) that the company has built over time.

### *Brand Structure*

A big issue that has been identified in the Volkswagen crisis is the brand structure and architecture, mainly when it comes to the topics of portfolio diversity and spillover effects. For example, it can be said the mother brand Volkswagen Group has different relationships with its daughter brands. As it shares the same name with Volkswagen passenger cars and Volkswagen commercial vehicles, these mother-daughter relationships are naturally in closer association with each other than Volkswagen group is with Lamborghini or Ducati, for example (cf. Kapferer, 2012, p. 28). As a result, when the media is talking of "Volkswagen", i.e. Volkswagen Group, it can be expected that the average person will think of the VW passenger cars rather than the complete accumulation of brands in the corporation. It is debatable whether it is an advantage or disadvantage that one of the daughter brands is acting as a "protector" (Pearson & Mitroff, 1993, p. 57) facing the complete outrage due to the name parity, while the rest of the affected brands can keep a low profile.

Furthermore, as Volkswagen AG has a broad offer of cars - from affordable ones like Seat or Škoda, to the premium segment, which includes Porsche and Bentley, for example - the portfolio of Volkswagen AG is very diverse (Volkswagen AG, 2014). As a consequence, there is a vast amount of different target audiences and stakeholders. All of them require different pieces of information and cannot necessarily be addressed through the same channels (cf. Roper & Fill, 2012). For this reason, it is necessary to keep the possible negative spillover effects to an absolute minimum. Kapferer (2012, p. 318) argues that this is not a predominant issue where brands are fairly independent from each other. While this independence is certainly given when it comes to the (external) image of Volkswagen Group's brands, it is not the case when it comes to the internal perspective. After all, the engines affected by the crisis have been used for several of the daughter brands to achieve economies of scale (Top Gear, 2015). This is why the crisis has grown from initially only concerning VW passenger cars to also include other daughter brands like Audi, Seat or Škoda (Saarinen, 2015). It can be argued that the crisis has brought broad attention to the whole brand structure of

Volkswagen (and not just to the ones affected), and that many were not aware that all these brands belonged to one company. The task for the group, thus, was to ensure isolation of the daughters affected and protect the other brands from being dragged into the crisis. If the company failed at this task, it would face an incredible amount of unjustified negative spillover on the brands not involved (e.g. Lamborghini or Bugatti), which could potentially have severe consequences.

## Overview of Key Learnings

The focus in this case lies on understanding how spillover effects can occur and damage other brands reputation in a crisis. Evaluating the damage of identity and reputation elements and being able to create an action plan to save and restore the brand's damage are key learnings of this case. **Table A** illustrates an overview of all learning objectives of this case:

**Table A** Key Learning Objectives

Key Learning objectives		
<i>Remembering</i>	...the brand structure problematic of having the same brand name in both mother and daughter brand during a crisis.	Here: Volkswagen Passenger Cars (daughter brand) and Volkswagen Group (mother brand)
<i>Understanding</i>	...possible negative spillover effects on brands in a crisis	Here: "One rotten apple can spoil the whole barrel"
<i>Applying</i>	...managerial decision to save and restore brand's reputation	Here: Crisis communication, human resource management, brand positioning, etc.
<i>Evaluating</i>	...brand reputation in a crisis situation	Here: Use of theory - Corporate Brand Identity and Reputation Matrix (Urde & Greyser, 2014)
<i>Creating</i>	...an action plan for daughter brands when a corporate brand is in a crisis	Here: "Honesty", "Clarity", "Real action" and "Speed"

## Discussion Questions

In order to achieve the stated learning objectives, an engaging case discussion is essential. The instructor should therefore prepare questions to start and keep the discussion going. Therefore, the following main and assisting questions are proposed and highly recommended to be used by the instructor:

### *Main Question:*

- How are Volkswagen's daughter brands affected by the crisis and how should they be managed?

### *Assisting Questions:*

- How can Volkswagen rebuild trust without damaging the reputation of its daughter brands?
- How should they communicate? (Daughter vs. mother communication, external vs internal, to customer vs potential customer, etc.)
- Which brand decisions should be taken? (E.g. Strengthen brand core, (re)positioning, rebranding, sell or divest brands, etc.)
- Which human resource decisions should be taken? (E.g. decisions regarding CEO, board, managers, engineers, etc.)
- Would the effect be different if the mother brand name was not the same as the affected daughter brand name?
- Should Volkswagen brand take all the blame in order to save its daughter brands or should the daughter brands react actively on the crisis?

## Teaching Suggestions

Besides asking the correct questions at the right time, the effectiveness of teaching can even be further improved, while considering suggestions based on practice. Therefore, this chapter will try to provide the instructor with several teaching suggestions about media usage, general teaching advices and discussion and decision enhancers. A suggested structure and further insights can be found in the attached visuals. Beside the visuals, the instructor is provided with speaker notes and detailed description of each slide.

First of all, instructors should use a variety of media. Using for example the provided PowerPoint slides as visuals, a whiteboard for summarizing key discussion points and a flipchart to present the main questions of the discussion, helps the

audience to follow and memorize the case. It is highly recommended to implement video material of, for example, Volkswagen commercials, media announcements or expert discussions in order to attract the audience and present the case from perspectives. Furthermore, the Corporate Brand Identity and Reputation Matrix (Urde & Greyser, 2014) should be used as a theoretical and managerial tool to analyze the effect of Dieseldate on Volkswagen's reputation. To underline arguments from different perspectives the instructor should present quotes from different stakeholders and should prepare his or her view to be ready for the upcoming discussion. To be able to communicate more effectively and in a more personal way, the instructor could prepare and distribute name tags. Before starting the case discussion, it is recommended to give the audience a last chance for final questions. Afterwards, the instructor should integrate a role play and let the audience represent the Volkswagen executive team in order to create a more realistic management decision situation.

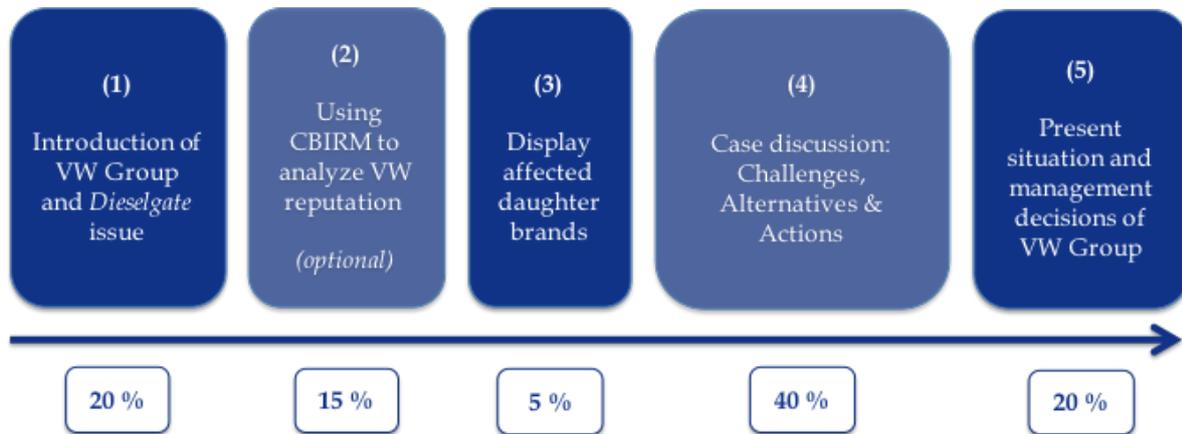
In the discussion, the instructor should act as a discussion leader and try to guide the debate without influencing the group decision. To maintain an effective ongoing discussion, the case question should always be visible and the discussion leader should remind the audience about the question and the role they are playing. During the debate, it is important to balance the emphasis of more active and passive discussion participants and to use the assisting questions in order to keep the conversation going. It is highly recommended to structure the discussion visually (e.g. on a whiteboard) in Challenges, Alternatives, Actions to display current arguments and combine thoughts and ideas of the audience on a visible media.

In order to define final management actions based on democratic group decision, voting tools (e.g. online audio response system Mentimeter or physical green, yellow and red ballot cards) should be used. When using the online voting tool Mentimeter, a "dummy question" should be stated at the beginning of the presentation to test and explain how the response system works. Finally, at the end of the discussion, the instructor could pick a voluntary participant who is asked to present a summary of the cases main issues and the agreed managerial action.

### *Time Plan*

In addition to the teaching decisions, a time plan is provided to give the instructor an idea of how much time is needed to spend on each section and to ensure that all material is covered in the allotted time. Since most presentations will have different time frames, the following graph shows an estimated time plan on a percentage basis. Having a 2 hours presentation time frame would therefore mean to spend about 24 minutes on the case introduction, 18 minutes on the evaluation of Volkswagens reputation damage, 6 minutes to highlight the effects on Volkswagens daughter brands, 48 minutes for the case discussion and group decision making and another 24 minutes to discuss the current situation and management decisions of Volkswagen Group. If the instructor only had a presentation timeslot of one hour or less, it is recommended to leave out the recommended CBIRM model to focus more on the case discussion and main issues of this brand management case.

**Figure A** Time Plan



*Board Plan*

In order to organize the main discussion points, a pre-prepared structure should be used by the instructor. According to Harvard Business School (2015), “there is a wide range of approaches to board use across case instructors, from a minimalist recording of main discussion points to the filling up of multiple boards with ideas drawn from nearly all contributions made during the class session”. Based on practical experience, we would recommend the usage of a problem solving and decision approach.

**Table B** Board Plan

Challenges	Alternatives	Actions
<ul style="list-style-type: none"> <li>• Comes from within</li> <li>• Affects core values</li> <li>• Affects different stakeholders, markets, target groups brands</li> <li>• Worldwide 11 million vehicles affected</li> <li>• Daughter brands mentioned in media</li> <li>• Uncertainty about Porsche</li> <li>• Upcoming lawsuits, investigations, Costs</li> <li>• restore reputation of VW without damaging daughter brands</li> <li>• Different relations to the mother brand</li> <li>• “motorcycle” “luxury cars” “sport cars” “trucks” “passenger cars”</li> <li>• Is the reputational reservoir big enough?</li> <li>• “Stop the bleeding”</li> </ul>	<p><u>Communication</u></p> <ul style="list-style-type: none"> <li>• actively vs passively</li> <li>• To customers vs potential customers</li> <li>• VW vs affected brands vs non-affected brands</li> <li>• VW takes all the blame to save its daughter brands</li> </ul> <p><u>Organization</u></p> <ul style="list-style-type: none"> <li>• Start from within, Internal Investigation</li> <li>• Change corporate culture</li> <li>• HR decision Board/CEO vs Management vs Engineers</li> </ul> <p><u>Brand</u></p> <ul style="list-style-type: none"> <li>• Reconsider vs Reposition vs divest brands</li> <li>• Change core values or keep and focus on them?</li> <li>• Possible Rebranding (Porsche Group) or new branding (product brand not corporate brand)</li> </ul>	<p><u>“Honesty”</u></p> <ul style="list-style-type: none"> <li>• Apologize in public</li> <li>• Reveal anything that might hurt the brand now</li> </ul> <p><u>“Clarity”</u></p> <ul style="list-style-type: none"> <li>• Collaboration with EPA, government &amp; public</li> <li>• Keep core values and strengthen them</li> <li>• Keep internal spirit up and change corporate culture</li> </ul> <p><u>“Real action”</u></p> <ul style="list-style-type: none"> <li>• fire CEO and responsible management, keep engineers</li> <li>• Fix technical issues</li> <li>• Reconsideration of brands</li> </ul> <p><u>“Speed”</u></p> <ul style="list-style-type: none"> <li>• Daughter brands communicate directly to customer</li> <li>• Stop advertising and start new campaign</li> <li>• Ensure employees know how to explain crisis</li> </ul>

A simple board structure in “Challenges”, “Alternatives” and “Actions” splits the board into three sections. The section “Challenges” will include all audiences’ comments regarding key case issues, the section “Alternatives” will cover reconciled options, and “Actions” will list all managerial decisions the audiences has agreed upon. To be prepared to organize the discussion comments, the case instructor should prepare a structure that has been filled out with ideas beforehand in order to be able to keep the discussion going. To provide the discussion leader with a potential structure, a board plan with the discussed problem solving approach structure is presented in **Table B**.

## Epilogue

Understanding and evaluating how spillover effects can occur and damage other brands reputation in a crisis and being able to create an action plan to save and restore the brand’s damage are key learnings of this case and can be analyzed from different management perspectives. Interestingly, this case covers a broad range of perspectives, which can be seen in the widespread of Volkswagens actual management decisions. For example, a human resource management decision was taken to install an internal “whistleblower program”. This was done in order to get down to the bottom of the problem and give all employees the chance of raising issues without fearing negative consequences. Additionally, a crisis related advertising and goodwill package was established to communicate and apologize to existing and potential customers. Furthermore, brand decisions were taken to keep their core values and even reinforce them. This can be proven by the decision of investing even more in eco-friendly solutions.

All in all, this can be used not only in brand and reputation management teaching, but also under several other management topics (e.g. general management, communication management, human resources management, etc.).

## Reflection

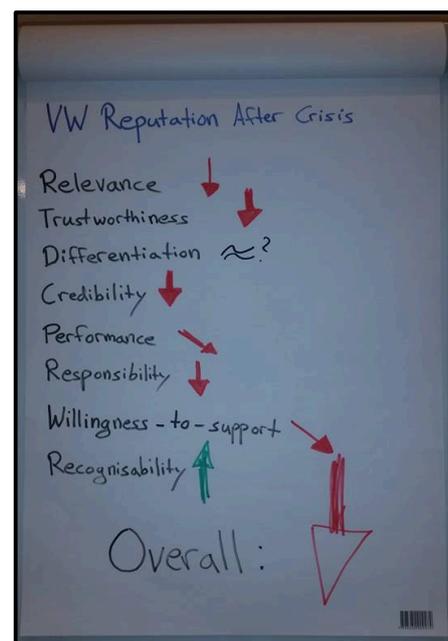
As part of the master level course *BUSN35 Corporate Brand Management and Reputation* the assignment was to write and present a management decision case. Therefore, a real life managerial problem had to be chosen and transformed into an academic case. A group of three students was asked to consider different scenarios and possible brand management cases.

During the first supervision with professor Mats Urde, the decision was made to choose the (back then) recent and crucial *Volkswagen Dieselgate* crisis. In this meeting Professor Urde offered us a unique opportunity to present the case in an executive teaching module at Ideon Agora in Lund, Sweden. This *EFL Business Solution Module* was instructed by Torbjörn Valfridsson and Mats Urde and scheduled on the 24<sup>th</sup> of November 2015.

Preparing for this exciting and challenging opportunity, several group meetings were essential in order to define a managerial problem which was suitable for a case discussion. We were challenged to maintain a management perspective of a case which recently occurred. News regarding Volkswagen and the crisis changed the perspectives nearly on a daily basis. We had to constantly remind ourselves not to focus on a problem solving but rather on a problem formulation and case discussion approach. Group meetings and further supervisions with professor Urde helped to define a clear case question and information needed for an engaging case discussion. Different video material was selected, animated PowerPoint visuals created, the online audio response system Mentimeter chosen and several media and discussion enhancing techniques applied. Two test runs were conducted in order to define different roles for each speaker and evaluate how the audience reacts to the presented material. The gained feedback was applied and some case parts were reconsidered and redesigned. One day before the executive teaching session, we decided to check the facility and do a last test run, practicing in the final setup. All these assessments helped us feeling more confident about the case and facilitated to bring it to perfection.

Finally, the case was presented to the executive managers who were highly motivated and pleased to take part and discuss if "Volkswagen's Dieselgate Exhausts Its daughter brands". The presentation and discussion lasted for 2 hours and 15 minutes and went smoothly without any unexpected incidents. The predefined time plan helped to stick to the given time slot even though we slightly overran the time limit by 15 minutes. Overall it has to be stated, that the audience listened interestingly and discussed really actively. Even before the discussion started, people wanted to express their opinion about the Dieselgate crisis. Therefore, we had to ease upcoming arguments and had to remind the audience about the presentation structure and the upcoming discussion. The decision of implementing the online live voting tool Mentimeter turned out to be a great success. People had no technical issues and the damage of Volkswagen's reputation could be quickly evaluated while using the reputation element questions of the CBIRM model (Urde & Greyser, 2014). This theoretical and practical model, helped to underline the impact of the Dieselgate crisis on Volkswagen's reputation. Interestingly the voting outcome showed the same results as in class and during our prior test runs. We summarized the results on a flipchart simultaneously to the voting. The final outcomes can be seen in the illustration beside.

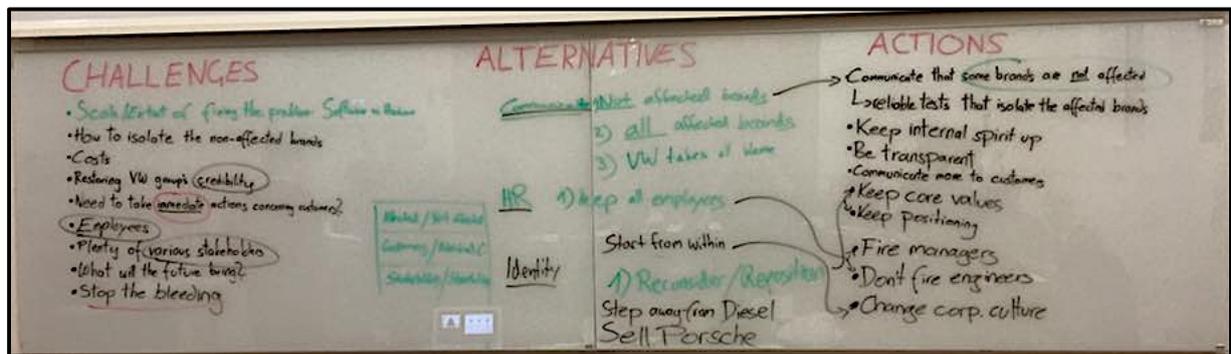
Figure A Crisis Evaluation



After evaluating the seriousness of the reputation damage, the audience was confronted by the case discussion question and brought into a role play. During the discussion it was a challenge to balance the emphasis of active and passive discussion

participants and to remind people of their role and the case topic, while simultaneously structuring all arguments on the whiteboard. The predefined board plan and the assisting questions helped a lot to lead and structure the discussion. The final outcome of the discussion can be seen below.

**Figure B** Board Plan



Being a student, it was a challenge to represent the discussion leader in an environment of more experienced executive managers. Therefore, it felt more difficult to guide or even interrupt ongoing discussions. However, an overall feedback revealed that the participants were really satisfied with the discussion and the entire case presentation. It was stated that “the group was really well prepared” and “did a really really great job”. The audience “loved the Mentimeter technology”, “learned a lot” and liked the “different selected media”. It was further said that “the group chose an interesting and relevant case”, “had a great balance between information and discussion” and “interacted with the group a lot”. Professor Urde and brand expert Valfridsson gave a personal feedback and were highly satisfied.

Nevertheless, there is always space for improvement. To lead a discussion in this environment was challenging. The way of approaching the discussion participants and balancing the weight between active and passive participants could be improved, while addressing the assisting questions directly to more passive participants. Furthermore, the position of the discussion leader should be central, facing every participant. If a discussion leader is walking around, he is sometimes not able to see every participant and should therefore be more observing. Additionally, the advice arose to use only dark pen colors for the whiteboard since the green colored pen was not clearly visible from the back row. However, professor Urde said that these are all “minor critiques” and “will easily be solved with further practice”.

All in all, it has to be stated that this assignment improved not only our theoretical but also our managerial capabilities on performing a problem formulation and case discussion approach. We are really happy that we received the opportunity to present our case in the EFL Business Solution Module. It was great that the audience was so interested and motivated to take part and discuss our case. We were really satisfied with the outcome and the great feedback. Overall we all agreed, that we definitely learned a lot. We believe, that this *Volkswagen Dieselgate* case has a huge potential and

should be used not only in brand management classes, but also in other business discipline.

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## Appendix

Exhibit 1 Corporate Brand Identity Matrix (Urde, 2013)

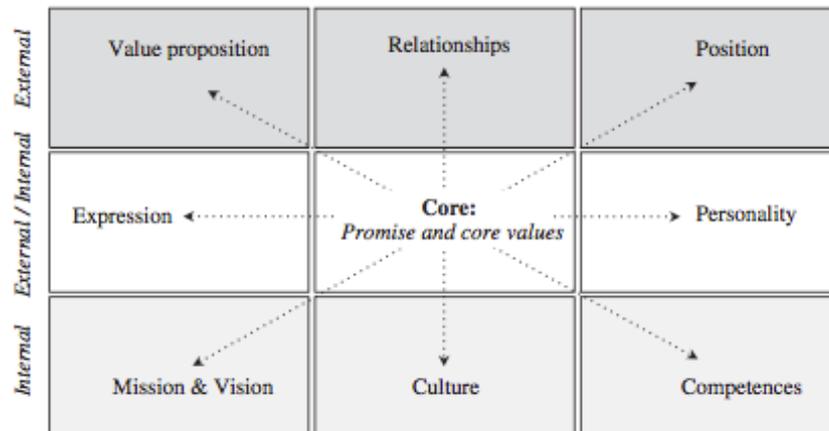


Exhibit 2 Corporate Brand Identity & Reputation Matrix (Urde & Greyser, 2014)

