“Walking the environmental responsibility talk” in the automobile industry

An ethics case study of the Volkswagen environmental scandal

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Abstract

Purpose – The purpose of this paper is to discuss the corporate behavior of Volkswagen in its emissions scandal. It describes and analyzes a complex ethics dilemma within the purview of corporate social responsibility (CSR) and corporate sustainability (CS) and examines how this dilemma impacts critical stakeholders, thus offering several "opportunities to learn" for professionals.

Design/methodology/approach – The case takes a stakeholder perspective, applying Cavanagh et al. (1981) and Gao’s (2008) ethical judgment framework. It is situated within a qualitative approach to textual analysis. Social actors, topics and evaluative statements were identified and grouped into broader categories.

Findings – Six major stakeholders were directly affected by Volkswagen’s behavior: customers, investors and shareholders, the US Environmental Protection Agency, German authorities, European institutions and society-at-large. Stakeholder concerns were condensed into three dominant themes: economic, legal and environmental. According to the ethical judgment framework, Volkswagen corporate behavior showed ethical problems, theoretically demonstrating that under no ethical principle was Volkswagen’s actions justifiable, even under instrumental justifications.

Research limitations/implications – The analysis was primarily based on corporate material and news media reporting. Consequently, diverse managers’ perspectives and opinions are not entirely captured.

Practical implications – This paper offers several "opportunities to learn" for corporate communication professionals.

Originality/value – The focus on stakeholder perspectives allows professionals to take an outside-in approach when evaluating the impact of corporate actions on stakeholders’ interests. The case analysis through Cavanagh et al. (1981) and Gao’s (2008) ethical judgment framework provides a practical theoretical instrument to assess corporate behaviors that can be used both as pre- and post-evaluations of corporate actions on CSR and CS issues.

Keywords Case study, Ethics, Corporate social responsibility, Automobile industry, Corporate behaviours, Environmental scandal

Paper type Case study

Introduction

During the past 15 years, public and political concerns for the physical environment and global climate change have increased. Regulatory and social movement initiatives have helped raise public and consumers’ awareness about environmental issues (Sampei and Aoyagi-Usui, 2009). As a result, such concerns have been reflected in corporate green agendas that adopt environmentally sustainable product and production management actions (Bansal and Roth, 2000). Yet, corporate green agendas have come with costs, especially for those corporations in which environmentally sustainable practices require substantial organizational changes, for example, those industries involved in non-renewable
energy, chemical production and automobile manufacturing. In the automobile industry, corporate social responsibility (CSR) initiatives are, for the most part, discussed in relation to a company’s environmental performance (Orsato and Wells, 2007), although researchers have also begun exploring the social dimension of sustainability (Rajak and Vinodh, 2015). Pollution, reduction of natural resources and waste management have become more evident to the public, and, consequently, expectations have increased about what policies should attempt to regulate (McPeak and Guo, 2014). Because cars’ fuel efficiency is related to CO₂ emissions, carmakers have experienced risk from escalating oil prices, together with government regulations of CO₂ emissions. Public debates and regulatory pressures have urged car manufacturers and their suppliers to assume an active role in addressing environmental problems to which the automobile industry contributes. It comes with no surprise that corporations’ investment in green agendas has increased during the past ten years (Bansal and Roth, 2000), as has their concern for corporate sustainability (CS) and CSR requirements (Rajak and Vinodh, 2015). But to what extent are car manufacturers able to meet stakeholder expectations without empty promises?

This paper presents a case analysis of a car manufacturer that is not “walking the talk” in its promise to be a socially responsible and sustainable corporation. The authors will examine the corporate behavior of Volkswagen, one of the world’s largest car manufacturers during one of its biggest scandals, by applying Cavanagh et al.'s (1981) and Gao’s (2008) ethical judgment framework. A scandal typically “denotes a ‘cause of moral stumbling’” (Kantola and Vesa, 2013, p. 296) with “the transgression of values, norms, or moral codes” (Thompson, 1997, p. 41). Critical events become scandals because of the immoral nature of the problem at the origin of the critical situation, the presence of a serious transgression and/or the questionable management as perceived by public opinion (Grebe, 2013; Maria, 2010). Volkswagen’s critical situation began when it became publicly known that the company had intentionally altered the test results on its vehicles to meet US clean air standards (Neate, 2015). Shortly after being accused of “cheating,” public opinion started questioning the morality and ethics of this carmaker in light of its reputation as a leader of CSR and CS initiatives (Fombrun, 2015). The case was chosen because it illustrates a rich and complex ethical dilemma of CSR and CS in the automobile industry and can stimulate reflection and prompt discussions in relation to CSR and CS in the automobile industry that serve for future actions (May, 2006). This paper concludes with reflections on the nature of Volkswagen’s unethical corporate behavior, and offers an “opportunity to learn” (Stake, 2005, p. 451) for corporate communication professionals.

**Literature review**

**CSR in the automobile industry**

In the automobile industry, the concept of CSR is often used interchangeably and/or together with that of CS. However, CSR describes a company’s general responsibility for economic, environmental and social aspects (Hutchins et al., 2013), whereas CS creates long-term consumer and employee value. Nevertheless, because CS denotes both an orientation to and an approach toward CSR initiatives, scholars note that these two concepts are converging (Keijzers, 2002; van Marrewijk, 2003). CS and CSR describe “the inclusion [by corporations] of social and environmental concerns in business operations and in interactions with stakeholders” (van Marrewijk, 2003, p. 102).

The automobile industry has mostly looked at mechanisms to make production more sustainable, for instance by focusing on lifecycle assessment, product design (Cousins et al., 2007), production and supply chain mechanisms (Tharumarajah and Kolotun, 2007), and disposal and recycling mechanisms (Smink, 2007). Scholars seem to agree that automobile manufacturers face several challenges in becoming sustainable, such as: over-capacity, saturated and fragmenting markets, capital intensity, and problems with achieving profitability (Orsato and Wells, 2007).
Today, it is not sufficient to manufacture environmentally friendly products that meet regulations. Organizations must operate according to a sustainable entrepreneurship model that deals both with the quality and volume of natural capital (Keijzers, 2002). Hence, they should think of their extended stakeholder networks with long-term objectives. Research dealing with the impact of CSR and CS initiatives on stakeholders has especially investigated the impact of car manufacturers’ sustainable investments and marketing objectives on stakeholder relations. Scholars have investigated whether car manufacturers’ CSR and CS initiatives and related stakeholder communications produce a positive impact on stakeholders’ opinions and purchase behaviors. A study by Loureiro et al. (2012) on Portuguese car consumers suggests that environmental performance is valued by car consumers much more than are CSR activities that are related to labor practices and community development. The extent to which environmental performance affects consumer purchase behavior is unclear. Lane and Potter’s (2007) study of UK consumers’ attitudes about low carbon vehicles discovered that environmental issues had almost no impact on purchase behaviors. A study on the adoption of electric vehicles (EVs) shows that sustainability and environmental benefits have a major influence on EV adoption by car buyers, but are ranked below cost and performance (Egbue and Long, 2012). Despite consumers’ increased awareness of environmental issues that are posed by the automobile industry, their purchase preferences, for the most part, are influenced by price and by product performance. So, what motivates car manufacturers’ investments in CSR and CS solutions?

**CSR motivations in the automobile industry**

CSR and CS are both considered strategic corporate resources. Consequently, researchers have examined what CSR and CS may offer to justify corporate investments. Many researchers agree that these investments contribute to corporate reputation (Bartlett, 2008; Fombrun et al., 2000), corporate legitimation and financial performance (Peloza, 2006), and consumer satisfaction (Loureiro et al., 2012).

CSR literature offers four major justifications for CSR and CS, representing four major theoretical understandings (Garriga and Melé, 2004). Motivations can encompass instrumental, political, integrative and ethical reasons. An instrumental motivation sustains the dominant economic logic of business; hence, CSR activities are sought to improve corporate financial performance, to improve reputation, to avoid regulatory sanctions and to attract new consumers, among other reasons. Thus, corporate investment on sustainable activities can be explained by the necessity to overcome the recent financial crisis that has affected the automobile industry, causing a drop in demand (Martinuzzi et al., 2011). The main driver for competitiveness in the global automotive sector is technological, especially in fuel and energy development (ECC, 2009).

Another justification is in the political arena. Consistent with political theories, corporations accept social duties for the right to participate in social cooperations and decisions (Garriga and Melé, 2004). The European automobile industry is a major employer of the skilled workforce (Eurostat, 2009) and is one of the largest producers of motor vehicles in the world, contributing substantially to the European economy (Martinuzzi et al., 2011). Given its central role in the European economy, the automobile industry actively seeks to shape political matters. The European Automobile Manufacturers’ Association (ACEA, 2017), representing 15 European-based automakers, is an example of corporations’ common effort to politically influence government regulations by investing and supporting CSR initiatives.

Another CSR motivation addresses stakeholders’ demands. Integrative theories offer a stakeholder-oriented reading on why corporations may invest in CSR (cf. Garriga and Melé, 2004), suggesting that corporate CSR activities should meet stakeholders’ demands for
social responsibility. Wen (2009) noted an increasing awareness among institutional investors of socially responsible investment (SRI). SRI is a “general manifestation of institutional activists’ desires in terms of responsible investing and rewards or penalizes corporations for their behavior in one or more socially responsible dimensions” (Wen, 2009, p. 313). Institutional shareholders having cross-border portfolios are becoming increasingly influential in global financial markets, and their activism and interest in SRI has grown, particularly in the past few years in the automobile industry (Wen, 2009). Other stakeholders’ demands, not the least of which is consumers’ expectations for clean and sustainable products, play a key role in corporations’ interest in bridging corporate objectives with societal demands. As stakeholders’ demand for social responsibly has increased, so has corporations’ investment in sustainable actions. By integrating stakeholder expectations with corporate objectives, corporations should respond to “the social demands that achieve social legitimacy, greater social acceptance, and prestige” (Garriga and Melé, 2004, p. 58). Finally, corporations can abide to superior justifications based on ethics considerations. Ethics theories offer a different motivational ground for CSR and CS that is founded on “the right thing to do” principle to achieve a good society. Such reasoning is in line with normative stakeholder theories (Friedman and Miles, 2006) that view CSR investments, not simply as a response to stakeholder concerns as integrative theories suggest, but as a free decision to contribute to the well-being of the communities in which these organizations operate. Large automakers such as General Motors, Volkswagen and Ford have been investing substantially in renewable energy projects to guarantee energy security in the future (Kaye, 2011). Although economic and regulatory motivations are important reasons to invest in such projects, those investments also provide benefits to a wide range of other stakeholders, including society-at-large; thus, these corporate actions can also be considered to be driven by ethics motivations. Importantly, these four CSR motivations can co-exist, although they represent different motivations, depending on the specific corporate situation and societal demands and, not least, on managerial discretion and interest in pursuing specific CSR actions (Haley, 1991).

After having discussed which motivations car manufacturers may have in investing in CSR and CS initiative, one must address the question of evaluating if car manufacturers’ actions meet stakeholder expectations. In the next section, the theoretical framework for assessing corporate actions used in this case study is presented.

Theoretical framework for assessing corporate actions
Conceptually, this paper is grounded in a stakeholder perspective. When analyzing the case presented in this paper, the authors considered the stakeholders affected by the corporate behavior. To this end, this section presents the theoretical approach for analyzing corporate actions that have ramifications on environmental issues.

A plethora of possible CSR and CS opportunities exist, and corporate managers must face investors and stakeholders’ pressures for social responsibility while meeting financial- and performance-related indicators when deliberating on CSR and CS actions (McPeak and Guo, 2014). Corporate managers must have a means for decision-making that allows them to justify their choices and to set corporate agendas. Management literature identifies several models of organizational decision-making, for example, the interactionist model of ethical decision-making (Trevino, 1986), the issue-contingent model (Jones, 1991) and the behavioral model (Bommer et al., 1987). This study is based on Cavanagh et al.’s (1981) normative model of ethical analysis and Gao’s (2008) ethical judgment framework, both of which are designed to evaluate corporate political actions. Given the socio-political nature of CSR and CS initiatives in the automobile industry, these two can be considered to be meaningful instruments to assess corporate actions that have ramifications on environmental issues. Furthermore, they are founded on ethics and, thus,
are better suited to assess organizations that are acting in the public interest while supporting their organizational interests in an ethical manner.

Cavanagh et al. (1981) developed a normative model to evaluate the ethicality of certain uses of power in organizations. Their model is basically a decision tree that can help managers assess the extent to which certain decisions are ethical. The decision tree is built upon three major ethical theories: Utilitarian Theory, Theory of Rights and Theory of Justice. Briefly, Utilitarian Theory posits that actions should be judged by the consequences that they produce, that is, actions that produce the greatest good for the greatest number of people. Theory of Rights posits that individuals have certain fundamental rights that should be respected in all decisions. Accordingly, ethical actions are those that do not interfere with the rights of others who might be affected by the decision. Finally, a Theory of Justice requires decision makers to be guided by equity, fairness and impartiality through three moral prescriptions: distributive rules, principles of administering rules and compensation norms. The authors suggest integrating these theories into a decision tree that managers can use to assess the extent to which their decisions are driven by ethical considerations. The tree asks whether a solution results in efficient satisfaction of interests both inside and outside the organization. Depending on the answer, the tree proposes different follow-up questions until the very end, when it suggests acceptance or rejection of the solution from an ethical standpoint. Gao (2008) extends this model by developing a framework that applies the principles of the three ethical theories, integrating these with four ethical corporate issues (goals, means, consequences and processes). Gao (2008) argues that organizations need to evaluate, not only alternatives and consequences, but must also assess the corporate goals that they intend to achieve through those alternatives, the means that they intend to use to achieve these goals, and the overall processes that such alternatives require. Decisions can be ethical, but the goals, means and processes may not be. This framework allows discovery of which of the four issues may be problematic, since it is not uncommon that an ethical action does not meet all four criteria. Gao (2008) argues that means and consequences are superior factors, because only if these two are appropriate can the action be considered ethical. If means and consequences are difficult to assess, then Gao (2008) suggests looking at goals and processes to make ethical judgments on a corporate action.

This framework allows the evaluation of corporate self-interests without demonizing them. After all, the business of business is business (Friedman, 1970), and corporations arguably cannot be expected to pursue activities that do not generate profits. Gao (2008) claims that self-interested activities are not inherently wrong. Referring to Hamilton and Hoch’s (1997) distinction of public interest, legitimate self-interest and illegitimate or selfish self-interest, Gao (2008) argues that only the last should be considered unethical. Promoting the interests of certain groups is ethical if these interests do not “necessarily come at the expense of others or at the expense of the general welfare” (Gao, 2008, p. 155). Such distinction provides justification for self-interested actions that are based on instrumental, political and integrative motivations for CSR and CS actions. The proposed framework had been developed to assess corporate political actions, with specific emphasis on lobbying activities. However, its inherent focus on the public interest and on moral duty to society-at-large makes this framework applicable to other corporate actions that have social and political ramifications. CSR and CS activities are corporate actions that are driven by the desire to meet stakeholders’ and societal demands. In the automobile industry, stakeholder interests are, for the most part, about environmental issues that have been “bread” for political debates for many years. Hence, a revised version of Gao’s ethical framework (see Table I), in which the scope of the ethical analysis is expanded to include broad corporate behaviors, was considered a suitable instrument for offering theoretically based reflections on ethical corporate actions.
Methodology

To meet the main objective of this study, a case study approach was chosen. Kruckeberg and Bowen (2015) define a “public relations case” as a detailed demographic/psychographic analysis of an individual or group of importance to the organization or client, a set of circumstances, real or hypothetical, exemplifying the occurrence of one or more public relations theories or methods. The scope of this case study is to help corporate communication professionals understand a corporate ethical dilemma and to offer reflections for education purposes. Although case studies are typically “bound” by time and space, using multiple sources of information allows insight into larger issues (Stake, 2005). Typically, the case study method is unduly criticized for not providing opportunities to generalize from case findings. To counter this criticism, Flyvbjerg (2006) recommends that a highly atypical or extreme case be selected to ensure that the case is rich in detail and involves more actors and mechanisms than does a less extreme case.

The chosen case is a recent extreme corporate crisis that has exposed Volkswagen and for which the organization has been highly scandalized, thus the appellative of “VW diesel-emissions scandal” (Atiyed, 2016). The case was researched using news coverage from leading newspapers and media releases from the Volkswagen AG official site. To identify relevant information, English-language news articles published in international newspapers containing a combination of keywords such as “Volkswagen”, “defeat engine”, “US Environmental Protection Agency” and “emissions scandal” were retrieved from LexisNexis. After removing duplicates, a total of 41 articles were included in the analysis. To add to these news articles, four company reports were collected in summer 2017. This material also served the purpose of compiling the case narrative describing the events.

This study is situated within a qualitative approach to textual analysis, and, thus, it is oriented toward criticism rather than social scientific investigation (Kuypers, 2009). The analytical strategy was inductive. Social actors, topics and evaluative statements were identified and grouped into broader categories. Frequencies were not important, as one occurrence of the data is potentially as useful as are many in understanding the events and corporate behaviors.

The analytic strategy consisted of a close reading of the news coverage of the critical event and the company’s material against the theoretical framework to generate macro themes around the four ethical issues: goals, means, processes and consequences. To discover whether Volkswagen actions were perceived by the corporation’s stakeholders as appropriate and in line with Volkswagen-alleged CS and CSR initiatives, utterances expressing evaluations of the company’s behaviors were also noted.

<table>
<thead>
<tr>
<th>Ethical issues</th>
<th>A corporate action is ethical if</th>
<th>Ethical principles</th>
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<tbody>
<tr>
<td>Goal</td>
<td>(1) For public interest or</td>
<td>(1) Utilitarian theory</td>
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<tr>
<td></td>
<td>(2) For the greatest number</td>
<td></td>
</tr>
<tr>
<td>Means</td>
<td>(1) Legal</td>
<td>(1) Theory of Rights</td>
</tr>
<tr>
<td></td>
<td>(2) Do not violate any basic human rights</td>
<td>(2) Theory of Justice</td>
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<td></td>
<td>(3) Do not do harm to others deliberatively</td>
<td></td>
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<td></td>
<td>(4) If do harm to others unconsciously, give corresponding compensation</td>
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<tr>
<td>Consequences</td>
<td>(1) Benefits exceed costs, or net benefits are positive</td>
<td>(1) Utilitarian Theory</td>
</tr>
<tr>
<td></td>
<td>(2) Do not do undue harm on others</td>
<td>(2) Theory of Rights</td>
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<tr>
<td></td>
<td>(3) Do not preclude others’ future actions</td>
<td></td>
</tr>
<tr>
<td>Process</td>
<td>(1) Transparent or</td>
<td>(1) Theory of Rights</td>
</tr>
<tr>
<td></td>
<td>(2) Disclose information enough for insiders and outsiders to make ethical judgment</td>
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Source: Gao (2008, p. 160)
Short case description

Volkswagen was established in 1946 in Wolfsburg, Lower Saxony, Germany. Today, Volkswagen owns 12 brands from 7 European countries: Volkswagen passenger cars, as well as Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, and Ducati, and Volkswagen commercial vehicles, as well as Scania and MAN (Volkswagen Group, 2017a). The second-largest automaker in the world, Volkswagen has enjoyed an excellent reputation and high brand loyalty. The company has been considered the most trusted corporate brand among the world’s most socially responsible companies (Fombrun, 2015).

Volkswagen claims to support several CSR projects worldwide that foster social development, culture and education, while serving the needs of regional structural development, health promotion, sport and the conservation of nature (Volkswagen Group, 2017b). Volkswagen has been investing substantially in electrical mobility, and its goal is to develop vehicles that offer the best possible fuel economy and resource efficiency. The Volkswagen Group is attempting by 2018 to have cut its specific energy and water consumption, CO₂ emissions, solvent emissions (VOC) and volume of waste per vehicle manufactured by 25 percent, compared to its 2010 baseline (Volkswagen Group, 2014).

Until the critical event had erupted in September 2015, Volkswagen was known as a brand that stood for quality, honesty and a commitment to its customers. In 2009, the Volkswagen Jetta TDI won the Green Car of the Year award for its “groundbreaking clean diesel” engine (Smith and Parloff, 2016). Perceptions changed when the US Environmental Protection Agency (EPA) issued a notice of violation of the Clean Air Act after it was discovered that Volkswagen had intentionally altered the test results on its vehicles’ turbocharged direct injection diesel engines to activate certain emissions controls only during laboratory testing to meet US clean air standards (Valentini, 2016). The incriminated cars were the Volkswagen Jetta, Beetle and Golf, as well as the Audi A3 that was produced from 2009 to 2015 and the Passat model that was produced from 2014 to 2015 (Rushe, 2015).

Shortly after the misdeed had become public, Volkswagen suspended sales of cars containing the company’s culpable engine and, since then, has recalled 8.5 million cars in Europe and 500,000 in the USA (Valentini, 2016). However, Volkswagen imputed the responsibility of this malfeasance to a small number of rogue employees, who operated without informing supervisory and management boards (McGee and Wright, 2016). The company has had to cover the costs of fixing the affected vehicles as well as compensation to consumers who had suffered damages as well as the company’s profit loss from reputational damage (Hotten, 2015). In February 2016, a memo was discovered that refers to the defeat device long before it was discovered by researchers at West Virginia University. There was even a warning to the Volkswagen CEO about the impending investigation by US authorities (Boston, 2016). Volkswagen’s position was damaged because its executives had knowledge of the investigation. As result, Volkswagen faced regulatory and criminal investigations. In its 2016 April report, Volkswagen reported a net loss of €1.6bn for 2015 – the worst earnings result since the company had been established 79 years before, stemming from how it had to set aside €16.2bn to cover the cost of the scandal (McGee and Campbell, 2016). In Spring 2016, the company launched an advertising campaign to re-build customer trust by focusing on people more than on technology. Volkswagen’s brand, Audi, had also dropped a longtime tag line, “Truth in Engineering”, in its 2016 Super Bowl commercial (Allen, 2016). In January 2017, Volkswagen agreed to plead guilty to criminal charges and signed a statement in which it declared its engineers had developed defeat devices to overcome the shortcomings of the diesel models and thus pass US emissions tests (Leggett, 2017). Later in spring 2017, a US federal judge ordered Volkswagen to pay a $2.8 billion criminal fine for rigging its diesel-powered vehicles (Roggers and Spector, 2017).
Analysis
In line with our theoretical framework and methodological approach, both stakeholder concerns and Volkswagen actions as portrayed by the media were analyzed. From a stakeholder perspective, stakeholder concerns are important elements to take into consideration when assessing Volkswagen’s corporate actions, since they represent the claims that these stakeholders have toward an organization.

Stakeholder concerns
The textual analysis of news media revealed that six major stakeholders were directly affected by Volkswagen’s corporate behavior: customers, investors and shareholders, the EPA, German authorities, European institutions, and society-at-large. News articles provided important information about these stakeholders’ main concerns in relation to the critical event. These concerns dealt primarily with three major themes: economic, legal and environmental topics. The economic theme was most prevalent and represented the concerns of financial stakeholders and customers. It dealt with questions related to the company’s profit loss due to reparation, penalties and reputational costs, whereas for the customers, the major discourses dealt with compensation for the damage and loss of trust in Volkswagen as a brand. To some degree, the news portrayed the concerns of the financial stakeholders group and the consumer stakeholder group in contra-position. Corrective actions that would have addressed the concerns of consumers would, on the other hand, have impacted the company’s overall financial and reputational performance, which were the top issues for financial stakeholders. In discussing the economic theme, journalists tended to convey a message of general gravity that resulted from the legal consequences of complying with corrective actions. The legal theme gained relevance after information of mismanagement and managerial responsibilities began to emerge from the investigations. This theme dealt with regulatory aspects related to the investigations and sanctions, regulations on emission limits, and the monitoring and controlling of the automobile industry. The social actors who were often cited when discussing the legal theme were political stakeholders. News coverage of the legal theme was often intertwined with the economic one, when discussing sanctions and fines and the impact on the company’s finances. Finally, the environmental theme was expressed mostly toward society-at-large, emphasizing the environmental consequences of Volkswagen’s actions for current and future generations. Interestingly, the environmental theme was primarily imbued with discourses indicating that Volkswagen was guilty of not meeting its CSR and CS objectives and stakeholder expectations.

Corporate action assessment
To assess the extent to which Volkswagen’s actions addressed stakeholders’ concerns in an ethical manner, a revised Gao’s ethical judgement framework was applied by identifying goals, means, processes and consequences as rhetorically expressed in the corporate material and news articles. Table II summarizes this analysis. As for the goals of Volkswagen’s actions, all news articles conveyed discourses that depicted the organization as having selfish self-interests (Gao, 2008), because Volkswagen did not consider the public interest of society-at-large nor of the majority of stakeholders’ interests. Volkswagen group “aspired to be the biggest seller of cars in the world”, and “sales of US diesels were crucial” to this goal (Smith and Parloff, 2016). Similarly, news coverage repeatedly used the word “illegal” when underlining that the actions – thus the means according to the framework – were illicit because Volkswagen group had altered the engines of several car models to compete in the US market. For several years, Volkswagen had attempted to remain competitive by designing an engine that could satisfy stringent EPA emissions regulations without sacrificing performance or fuel
The argument brought by journalists is that the software alteration may have seemed the only way to enter the market, yet it did violate basic human rights (Gao, 2008), as the right to know the truth on vehicles’ actual emissions was not respected. Arguably, the corporation did nothing illegal in producing those engines, but concealing the impact of its cars’ emissions and using software to alter test results to pass US emission standards were perceived to be unethical by the media. However, the company stated in several official documents that it did not intend to harm others deliberatively; thus, for a long period of time, it maintained the position of compensating only directly affected stakeholders. That position later changed once new investigations had revealed the culpability of the organization. Volkswagen not only pled guilty, but had to pay billions of dollars in fines (Roggers and Spector, 2017). When considering the consequences of the company’s actions, these consequences were clearly negative due to substantial material and reputational costs and because Volkswagen’s actions impacted air quality and, thus, quality of living and possibly health (Neate, 2015). The casual relation that journalists framed was that car emissions are linked to increased asthma attacks and other respiratory illnesses (Neate, 2015). Furthermore, Volkswagen’s

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<tr>
<th>Ethical issues</th>
<th>Volkswagen actions</th>
<th>Ethical principles</th>
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<tr>
<td>Goals</td>
<td>(1) Volkswagen alteration of turbo-engines to meet US emission standards was not for public interest (global society-at-large) (2) nor for the greatest number of interests (no benefit to stakeholders’ interests)</td>
<td>(1) According to Utilitarian Theory, the goals of Volkswagen behavior were unethical as they did contribute to short-term interests</td>
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<td>Means</td>
<td>(1) The means were illegal, because Volkswagen deliberately alternated engine mechanisms to control emissions (2) The means did violate basic human rights, because the right to know the truth on vehicles’ actual emissions was not respected (3) The means did do harm to others deliberatively, especially to society-at-large, by releasing more emissions than allowed, to customers and investors and shareholders who will directly experience the environmental damages (4) Volkswagen argued that it did harm to others unconsciously, but it did not want to give corresponding compensation to all damaged parties (only US customers were given compensation)</td>
<td>(1) According to Theory of Rights, Volkswagen means were unethical because they damage the rights of its main stakeholders (2) According to Theory of Justice, Volkswagen means were unethical, because these did produce harms to others and did not wanted to offer equal compensation to all affected stakeholders</td>
</tr>
<tr>
<td>Consequences</td>
<td>(1) Volkswagen scandal produced more costs (reputational and financial) than benefits (2) Volkswagen behaviors did undue harm on others, particularly customers, investors and shareholders who felt deceived, EPA, German authorities and European institutions who were defrauded for not following specific emission regulations (3) Volkswagen could preclude others’ future actions, since the emission problem has long-term impact on the environment and thus it can damage the future of society-at-large</td>
<td>(1) According to Utilitarian Theory, the consequences of Volkswagen behavior produced more negative results than positive (2) According to Theory of Rights, the consequences of Volkswagen actions impact negatively the future rights of others; thus, they are unethical</td>
</tr>
<tr>
<td>Processes</td>
<td>(1) Volkswagen behavior was not transparent nor did it disclose information enough for insiders and outsiders to make ethical judgment, thus damaging all main stakeholders of this case</td>
<td>(1) According to Theory of Rights, the processes were unethical because they were mostly driven by selfish self-interest</td>
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Table II. Application of the Volkswagen emissions scandal based on the revised version of Gao’s (2008) ethical judgment framework
behaviors impacted relational outcomes, since consumer and investor trust were lower than before the scandal erupted (Volkswagen Group, 2015). A fundamental consumer right was violated, that is, to receive truthful information on products and services. Volkswagen had branded its vehicles as environmentally friendly (Smith and Parloff, 2016), while several of its models were not. Shareholders and investors demanded compensation for Volkswagen’s drop in share value (Wissenbach, 2016), and so did the customers of these vehicles.

According to the criteria we have used in examining this case study, the processes undertaken by Volkswagen were clearly unethical. First, the company had denied the accusation, then accepted responsibility, but claimed this was an isolated, concealed action by a few managers (Rushe, 2015). Later, it became clear that the car manufacturer was not completely honest, since the management group had been informed about the problem and about the US investigations over a year before the scandal erupted (McGee and Wright, 2016). Our assessment of this case is that Volkswagen’s lack of transparency in handling this crisis suggests its deceitful intentions. Legitimacy is defined in terms of the degree of conformity of an corporation’s goals, actions and outcomes to societal norms and expectations (Gao, 2008) and this case shows a breach on this corporation’s license to operate.

Discussion and conclusion
This article presented a case analysis of a corporation’s not “walking the talk” in its promise to be socially responsible and sustainable. In our judgment, the case illustrates how a company that had branded itself as one of the most innovative and socially responsible corporations in the world and that had invested incredible resources to develop new eco-technologies was caught compromising its standards toward stakeholders for short-term economic reasons. Volkswagen tended toward excellence and had many of the attributes of an excellent organization, that is, as a top leader in CS in the automobile industry. However, one of Volkswagen’s main failure was a bias toward short-market results, which encouraged a culture of bypassing regulations through nontransparent practices, rather than acknowledging that sustainable vehicles have less performance than do non-sustainable ones.

Volkswagen circumvented environmental legislation by altering emission test results so that its cars could “meet” US environmental standards, meeting customers’ expectations by guaranteeing high performance (Egbue and Long, 2012), but at the expense of the physical environment.

From the point of view of Volkswagen stakeholders, this case shows the danger of becoming unethically competitive by manufacturing high-performing, but polluting, cars. The analysis shows that news media had discussed the critical event negatively and had depicted Volkswagen corporate actions as damaging the interests of many stakeholders to which the company has contractual and non-contractual responsibilities. Given that costs for corporations to become environmentally sustainable are typically absorbed by consumers, who must become aware of this “corporate investment” when making conscious and sustainable purchase choices (Urban, 2014), many Volkswagen consumers were depicted as feeling outrageously cheated for paying for something that was not there. Volkswagen’s corporate actions had negatively affected its stakeholder relations, not only consumer and investor relations, but also its political relations because German authorities, European institutions and the US EPA had lost trust in this car manufacturer’s claims of producing sustainable and clean vehicles. Thus, the critical event undermined Volkswagen’s earlier privileged position in the political arena. Bowen (2010) argues that “the very consequences of conducting business create stakeholders. Stakeholder groups are a part of organizational life, whether they are recognized by the organization or not.”
into the trap of attempting to increase its financial dividends by gaining a greater piece of US market share with highly competitive car models, which, however, were not ready to meet US emission standards, Volkswagen did not take into long-term consideration its stakeholders’ diverse concerns. Would Volkswagen’s financial stakeholders want to enter the US market illegally with those vehicles if they knew that they could gain economically? Probably not, since many institutional investors today are selective in their decisions of which organizations to invest and pay particular attention to SRIs (Wen, 2009).

Furthermore, the case shows that corporate environmental reporting – which in many countries is a compulsory activity – does not sufficiently account for actual corporate behavior in relation to CSR and CS matters. For most, corporate environmental reporting is a communicative action to disclose corporate policies and behaviors and to fulfill transparency and accountability demands. Vujnovic and Kruckeberg (2016) define transparency as: “Both voluntarily and involuntarily disclosed, easily accessible, shared information, which, through the means of new communication technologies, is usually immediate and inexpensive, if not free” (p. 124), whereas accountability is addressing “the information needs and concerns of all relevant stakeholders by providing reliable and relevant information” (Owen et al., 2001, p. 265). Neither was reflected in Volkswagen corporate actions. Bowen and Heath (2005) argue that organizations should operate with an outside-in approach and become increasingly transparent by committing to the interest of its stakeholders and stakeholders. This challenge of being transparent caught up with Volkswagen when several investigations show that senior managers were, indeed, aware of the production of defeated engines (Boston, 2016). If actions speak louder than words, Volkswagen’s corporate behavior during the critical event did the contrary of showing itself to be an ethical organization seeking “to demonstrate its integrity in the relationship with its stakeholders and publics as the essence of the organization’s interests” (Bowen and Heath, 2005, p. 89).

**What lesson can be learned from this scandal?**

Reputation is not a stable asset that fully protects an organization from any storm. A good reputation needs to be constantly cultivated through appropriate organizational behaviors. In the social legitimacy literature, “appropriate” is referred to as “legitimacy”. Legitimacy is often a conformation with social norms, values, and expectations of stakeholders (Oliver, 1996). In the digital area, stakeholders are becoming more savvy in finding corporate information. In this clouded information environment, stakeholders form expectations on the nature and real objectives of organizations and the nature of their ethical intents. It is a challenge, but also an opportunity, for corporations to identify and to balance stakeholder interests, to monitor and eventually to address their expectations so that they represent realities and not illusions of unattained objectives. This Volkswagen case indicates to us that sustainability and high performance in car vehicles is still far away from being true, at least until new engineering technologies become available. The case shows that Volkswagen was caught not “walking the talk”, because its CS promise in its product was not tenable. Rather, the result was making its image worst when the truth came out.

Acting ethically and morally is not simply a regulatory obligation; it represents an organization’s mission to be a fully stakeholder-oriented company to meet and positively contribute to its stakeholders’ social demands (Garriga and Melé, 2004). Acting responsible and morally would have meant educating Volkswagen’s stakeholders on the advantages as well as disadvantages of truly sustainable vehicles, with an honest view. By doing so, a company can create real, factual and responsible social demands that should, after all, be the foundation of organizational values, norms and cultures to which corporate communication activities also contribute.
This is an ideal case study of a preventable crisis that was caused by gross malfeasance and that turned into a large scandal for the company in focus and the automobile industry in general. The case study is contemporary and global in scope; had an immense negative impact on Volkswagen’s stakeholders; and, perhaps most instructive, illustrates the fragility of an organization’s reputation when a company is found not “walking the talk.” This case study also exemplifies how theory can provide answers to professionals’ ethical questions. Gao’s (2008) ethical judgment framework was adopted to evaluate corporate actions and their level of ethicality based on goals, means, consequences and processes related to the specific action. The theoretical framework indicated ethical problems across all four ethical issues, thus theoretically demonstrating that under no ethical principle was Volkswagen’s actions justifiable, even under instrumental justifications.

There are some limitations in this case study. The analysis was primarily based on corporate material and news media reports on the case. Consequently, the diverse managers’ prospectives and opinions are not entirely captured. Yet, given the sensitive nature of the case, it is unlikely that Volkswagen’s managers would have accepted an interview. While such qualitative data would have offered rich insights on managers’ motivations and considerations for the taken actions, the ethical evaluation that was based on a stakeholder perspective would not have resulted much differently.

References


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