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STAKEHOLDER MANAGEMENT DURING A CORPORATE CRISIS. VW DIESELGATE CASE STUDY.

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Abstract

The relationships between companies and their stakeholders play an important role in ensuring the successful management of the company. These relationships become particularly relevant in times of crisis, as companies are extremely vulnerable and rely on the trust and support of stakeholder groups to survive the crisis well.

This thesis explores this topic, employing the Volkswagen diesel emissions scandal as a focal case study for detailed examination. The VW diesel scandal of 2015, in which VW used defeat devices in diesel engines to manipulate emissions levels, has attracted a great deal of attention. The scandal had a particularly strong impact on customers as a stakeholder group who had manipulated diesel engines in their cars. Using qualitative research methods, including a literature review on the VW diesel scandal and expert interviews with stakeholder, the importance of effective stakeholder management and the factors that play a role in the Volkswagen case are examined. The results show that ineffective stakeholder management can lead to alienation and loss of trust, which can damage customer relationships in the long term. Key factors that played a major role in the VW-Dieselpgate stakeholder management were insufficient transparency and acceptance of responsibility, lack of communication and delayed and inadequate compensation.

Key words:

VW Dieselpgate, Stakeholder Management, Crisis Management, SCCT

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List of abbreviations

Situational Crisis Communication Theory.....	SCCT
Environmental Protection Agency.....	EPA
California Air Resources Board.....	CARB
Kraftfahrtbundesamt.....	KBA

Introduction

"The car" a concise and distinctive slogan for which Volkswagen was known worldwide for many years (Der Spiegel, n.d.). In 2015, however, the brand became associated in the minds of many around the world with a different term: The diesel scandal. This fraud scandal made far-reaching waves in the automotive industry. The former CEO of Volkswagen, Matthias Müller, commented on the diesel scandal in the 2015 annual report as follows: "As a result of the irregularities in diesel engines, which contradict everything that Volkswagen stands for at its core, we are in the midst of what is probably the greatest test in our company's history" (Volkswagen Group, 2015b).

The emissions scandal refers to the discovery that Volkswagen had extensively manipulated emissions tests to reduce the emissions of its vehicles. Moreover, Müller acknowledges it as one of the most vivid crises the car industry is having to tackle. The Company not only suffered serious disruption in terms of the automotive industry but also it has damaged the confidence of many of the Company's stakeholders. Customers with manipulated engines in their cars have been particularly affected (Volkswagen Group, 2015a).

The aim of this bachelor thesis is to examine and analyze the diesel scandal and the management of Volkswagen's customer relationships during the crisis. Using Volkswagen as a case study, it provides valuable insights into stakeholder management under extreme conditions and shows how it was perceived from the perspective of different customers. The importance of stakeholder management in crisis situations arises from the central role that stakeholders play for a company. How companies react to crises and deal with their stakeholders is crucial to the survival of an organization and ensuring its long-term success.

It should be noted that when the term Volkswagen is used in this document, it does not refer to the Volkswagen brand, but to the Volkswagen Group, which includes the Volkswagen, Volkswagen Commercial Vehicles, Skoda, Seat, Cupra, Audi, Lamborghini, Bentley, Ducati and Porsche brands (Volkswagen Group, 2023).

Structure of the paper

The structure of the paper is explained in the following. The first part of the paper discusses the motivation and purpose of the paper. Subsequently, the current state of research is presented and how the approach to stakeholder management in crisis situations and stakeholder management during the VW diesel scandal has been structured so far is examined. Chapter 3 presents the theoretical framework, stakeholders, stakeholder theory, stakeholder management and crisis management as a basis for analyzing and investigating the chosen research question.

In chapter 4, the specific objectives and the preceding research questions to be addressed in this thesis are presented. These will serve as a guideline throughout the thesis to achieve the objectives. The methodology of the analysis is then presented in chapter 5 of the thesis. The VW Dieselpgate case study will be represented in chapter 6. The results of the case study and the qualitative interviews are analyzed from chapter 7 onwards. Finally, the conclusions are presented.

1. Motives and purpose

1.1 Motives

1.1.1 The importance of stakeholder management during a crisis

All business organizations are susceptible to corporate crises. But organizations can ensure that their relationships with stakeholders remain strong. A strong relationship with stakeholders and thus greater attention to stakeholder management by management helps to maintain a company's good reputation in normal times and even more so in times of crisis (Van Der Meer et al., 2017). For a company to achieve success, it must recognize the significance of its stakeholders (Lewis et al., 2001; Ulmer, 2001).

Alpaslan et al. (2009) even suggest that good relationships can contribute to crisis prevention. This is also the opinion of Ulmer (2001), who believes that although a strong relationship with stakeholders cannot prevent every crisis, it is of great importance for the way the organization deals with a crisis that cannot be avoided. According to Alpaslan et al. (2009), a good relationship is characterized by the ability of an organization to understand how its stakeholders will behave in a crisis and to act accordingly. By applying the principles of stakeholder theory, organizations are increasingly practicing proactive crisis management.

1.1.2 The development of crisis management in organizations

As mentioned in the previous chapter, are unforeseen situations that trigger corporate crises an inevitable aspect of the life and functioning of organizations (Bradley & Alamo-Pastrana, 2022). But Corporate crises are becoming more prevalent for companies. A 2018 study by Deloitte found that nearly 60% of the 500 crisis management experts surveyed reported an increase in the frequency of crises compared to a decade ago. In today's fast-paced world, companies must be able to respond promptly to crises (Deloitte, 2018). Knowing how to respond to and overcome crises is therefore critical for organizations.

The Volkswagen Dieselgate scandal, which will be analyzed in subsequent chapters, is significant in this context and serves as an instructive example to illustrate crisis management in organizations.

1.2 Purpose

The following research questions were posed in this thesis:

How important is effective stakeholder management during a corporate crisis? What factors contribute to effective stakeholder management?

The importance of stakeholder management in crisis situations for companies and the associated communication with stakeholders, especially against the background of the VW Dieselgate scandal, is the motivation for this research paper.

This paper analyzes the significance of efficient stakeholder management in corporate crises, utilizing Timothy Coombs' SCCT theory. The theory emphasizes the role of communication and stakeholder perception in crisis management. The application of SCCT to the VW Dieselgate scandal demonstrates how a company's interactions with its customers can impact its response to crises (Coombs, 2013; Coombs, 2015).

In summary, using the VW diesel scandal as a case study, this study examines the importance of stakeholder management in corporate crises. The purpose is to examine how effective stakeholder management can affect and possibly even control the outcome of a crisis. The study aims to identify the different factors that contribute to or counteract effective stakeholder management.

On the one hand, it will analyze how Volkswagen has reacted to the crisis in the public eye and what measures it has taken in the wake of the scandal to manage its relationships with its stakeholders - in this case, its customers. On the other hand and in addition, direct insights will be gained through expert interviews with affected customers, one individual who followed the scandal through the media a manager from a global technology and automotive supplier group. By interviewing the stakeholders the author aims to understand how they perceived stakeholder management and what concrete impact this had on their perception and behavior towards Volkswagen.

2. State of the question

This section summarizes how stakeholder management in crisis situations and specifically in the case of the VW diesel scandal has been researched to date and presents the most important models and theories.

Maintaining positive relationships with stakeholders prior to a crisis can be beneficial in the event of one. According to Dorobantu et al. (2017), a stakeholder's conviction prior to a crisis is a determining factor in their support or opposition towards the company after the crisis.

It is also important to address the individual stakeholder groups, as they are not static and homogeneous segments. Each stakeholder group has different goals and needs. Therefore, each group requires a tailored approach to engagement and communication before and during a crisis (Dorobantu et al., 2017).

It is crucial for organizations to inform stakeholders before they learn about the situation from the media, as the media has a significant impact on stakeholder relationships.

According to a study by Van der Meer et al. (2017), organizations tend to distance themselves from the news media at the onset of a crisis, despite pressure from stakeholders. This pressure for information and explanations from stakeholders can have an impact on communicative relationships with stakeholders (Ndlela, 2019). It was observed that organizations often isolate themselves from their environment, prioritizing their relationship with management. This is done to gain a better understanding of the crisis situation at the management level before communicating prematurely to the outside world. This phase is known as the information vacuum in the academic world. It refers to the period between a crisis occurring and the organization's response. During this stage, the company has limited information, but stakeholders have a high demand for it. The absence of insight or information can complicate crisis management, as stakeholders may not understand the situation and therefore form their own opinions or share them with others. Through interactions with other stakeholders and observation of their reactions, stakeholders learn to integrate new information into their own beliefs. They then decide whether to support or criticize the organization (Van Der Meer et al., 2017). This can even cause uncertainty or panic among stakeholders. In addition, the spread of misinformation through social media can lead to it being perceived as news. Isolating an organization during a crisis can have a negative impact on crisis management. Therefore, it is advisable for organizations to promptly communicate with stakeholders to maintain complete control over the crisis and related information.

This demonstrates the organization's commitment and builds trust, while also conveying a sense of control. If the company does not have any information yet, it should still maintain a visible presence and not simply disappear from public view (Dorobantu et al., 2017; Ndlela, 2019; Van Der Meer et al., 2017)

It has been determined that the VW diesel scandal resulted in long-term damage to the company's reputation (Zhang et al., 2021).

Many customers were disappointed by VW's lack of transparency during the crisis and wanted answers and information about the fraud (Emily, 2023). A survey conducted by Deutschlandfunk (2016) one year after the diesel scandal revealed that many customers are dissatisfied because the process is dragging on and they have no guarantee for the behavior of the vehicle after the conversion.

Three years after the scandal broke, a study by market research firm 2HMforum and written by Brinkhus (2018) compared the ten car brands with the highest market share in Germany. The results showed that Volkswagen came last in the question "I always have full confidence in (...)"(Brinkhus, 2018). In addition, only 14 percent of respondents were fans and 28 percent classified themselves as opponents. VW was perceived as "the least serious, credible, fair and professional". Before the scandal, according to the same study, 22% were fans and only 8% were opponents (Brinkhus, 2018).

3. Theoretical framework

This paper uses the theoretical framework of stakeholder theory/management and crisis management. First, an overview of the existing literature on stakeholder theory and management is given and the most important studies and models that have contributed to its concepts and conclusions are presented. Crisis management and crisis communication are then discussed. To introduce the topic, the definition of corporate crises is first examined in more detail. The most important theories on crisis management and crisis communication are then explained. This is followed by a closer look at the theory of situational crisis communication as part of crisis communication. Lastly, the link between stakeholder management and crisis management is established.

3.1 Stakeholder

3.1.1 Definition Stakeholder

The term stakeholder was first mentioned in an internal memorandum of the Stanford Research Institut in 1963, and is defined as those groups without whose support the organizations cease to exist (Freeman & Reed, 1983). Nowadays, Freeman's definition is commonly used. According to Freeman, stakeholders are individuals or groups who are affected by or who can affect an organizations activities (Freeman, 1984, p.46).

Freeman and Reed suggest that the concept of a stakeholder can be divided into a broader and a narrower view. Public interest groups, protest groups, government agencies, trade associations, competitors, trade unions, employees, customer segments and shareholders are examples of the wider stakeholder perspective and relate to the definition above. The narrow stakeholder perspective includes any identifiable group or individual on which an organization depends for its continued survival. This includes employees, customer segments, suppliers and government authorities (Freeman & Reed, 1983).

3.1.2 The Stakeholder theory

According to Freeman and Phillips, stakeholder theory refers to a managerial concept of organizational strategy and ethics (Edward Freeman & Phillips, 2002).

Originally articulated by R. Edward Freeman in the 1980s, the stakeholder theory has established itself as an influential approach in corporate governance and ethics, underlining that businesses have responsibilities to a variety of stakeholders, including shareholders, employees, customers, suppliers, the community, and the environment (Freeman, 1984).

Stakeholder theory is based on the concept that a company's success depends on how well it manages its relationships with key groups such as "customers, employees, suppliers, communities, financiers, and others that can affect the realization of its purpose" (Freeman & Phillips, 2002, p. 333). The definition and essence of stakeholder theory are not clearly defined, but the idea is simple: "A Stakeholder Theory is one that puts as a primary managerial task the charge to influence, or manage the set of relationships that can affect the achievement of an organization's purpose" (Freeman & Phillips, 2002, p. 334).

Since its inception, the theory has continued to evolve and now encompasses diverse perspectives. Freeman suggests that it is more appropriate to view this theory as a genre within stakeholder theories, rather than as a monolithic theory (Freeman, 1994).

Since there have been so many different approaches and perspectives on stakeholder theory over the years, following Freeman's original formulation, the following is limited to some of the most important contributions.

Donaldson and Preston claim that stakeholder theory consists of 3 different branches. The first branch is descriptive, and describes how managers and stakeholders should behave (Donaldson & Preston, 1995; Ndlela, 2019; Parmar et al., 2010).

The second branch is the instrumental one and deals with the impact of stakeholders being treated in a certain way by managers, i.e. the links between stakeholder management and the achievement of corporate goals such as company growth (Donaldson & Preston, 1995; Ndlela, 2019). Finally, Donaldson and Preston (1995) cite the normative branch. The normative branch serves as a framework for interpreting the function of the firm and involves the identification of moral and philosophical principles for the operation and management of organizations (Donaldson & Preston, 1995).

All of these branches are assigned an important role in stakeholder theory, according to Donaldson and Preston (1995), but each branch has a unique methodology and role. The descriptive aspect aims to reflect and explain past, present and future conditions of companies and their respective stakeholders.

A connection between stakeholder approaches such as growth is established in the instrumental branch, and is usually limited to analyzing specific relationships between causes (in this case stakeholder management) and effects (in this case corporate performance) in detail. Donaldson and Preston (1995), however, assume that such a link is certainly implicit.

Since, according to them, the definition of stakeholders from the Stanford Research Institute mentioned above clearly implies that: “Corporate managers must include constructive contributions from their stakeholders to accomplish their own desired results (for example growth)” (Donaldson and Preston, 1995: 72).

Finally, the normative approach is considered, which attempts to interpret the role of the corporation and offer guidelines based on fundamental moral or philosophical principles (Donaldson and Preston, 1995). The descriptive and instrumental branches are exclusively part of the social sciences and deal with factual issues. The normative branch is explicitly morally oriented and is the responsibility of ethics experts (Parmar et al., 2010).

Donaldson and Preston believe that the normative branch to be the most important approach in stakeholder theory, this thesis is bolstered by the fact that the majority of contributions to the stakeholder literature are normative (Donaldson and Preston, 1995).

Jones and Wick (1999) criticize the theory of Donaldson and Preston (1995) and believe that there are important connections between the branches of the stakeholder theory and that these are not necessarily so categorical. Freeman (1999) also shares this opinion of the absence of a sharp distinction between the branches.

3.2 Stakeholder Management

A widely used definition of stakeholder management is Freeman's, who defines it as follows: "Stakeholder management as a concept, refers to the necessity for an organization to manage the relationships with its specific stakeholder groups in an action-oriented way" (Freeman, 1984, p. 53). According to Freeman, successful stakeholder management requires an understanding of the processes on at least three levels that an organization uses to successfully manage its stakeholders. The three levels are categorized into the rational level, the process level and the transaction level.

The first level involves identifying the organization's stakeholders from a rational perspective and understanding what is at stake for them.

In order to understand the company's stakeholders, it is useful to create a stakeholder map. To do this successfully, the company ideally has a historical analysis of the company's environment.

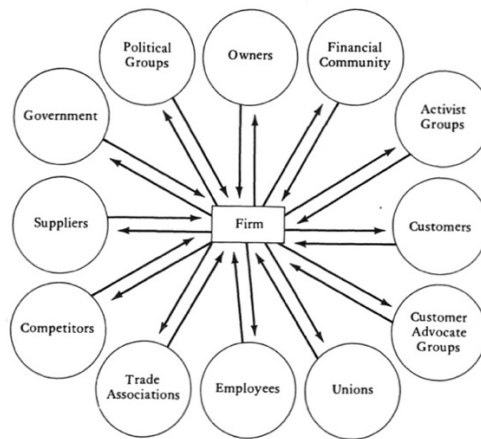


Illustration 1: Stakeholder map of a very large company (Freeman, 1984)

The stakeholder map presented is an example of a very large company. The stakeholder map of large companies will show similarities with the stakeholder map presented, however, there will be differences at the individual level, depending on the sector and region in which the company operates (Freeman, 1984).

Secondly, it is necessary to understand the organizational processes that are used to manage the organizations' relationships with its associated stakeholders, whether explicitly or implicitly. It is also necessary to examine whether the rational stakeholder map of the organization is consistent with these processes. Finally, it is necessary to understand the transactions or agreements that exist between the organization and stakeholders in order to assess whether these negotiations are consistent with the stakeholder map and organizational processes (Freeman, 1984). Freeman (1984) believes that the ability of how an organization considers and incorporates these three areas of analysis can be used to assess its stakeholder management competence.

Characteristics of stakeholder management

In order to address the diverse interests of stakeholders, companies need to develop strategies and conduct regular analyses that address the different needs of stakeholders.

Freeman stresses the significance of consistent and thorough communication with stakeholders (Freeman, 1984). He argues that “organizations that ignore their stakeholders are in big trouble, sooner or later” (Freeman, 1984, p. 165). Efficient stakeholder management requires a proactive attitude on the part of the company to establish credibility and build trust. This involves flexibly adapting strategies to meet changing stakeholder needs (Freeman, 1984).

3.3 Crisis Management

3.3.1 Definition Corporate crisis

The term crisis is used variably to describe various potentially damaging events or conditions for society, organizations, or individuals. As the scope of application is wide-ranging, there are no clear boundaries in the definition of a crisis (Ndlela, 2019). In this paper, however, the primary emphasis will be placed on corporate crises and their associated crisis management. Fink (1986), Pearson & Clair (1998) and Coombs (2015) propose distinct but complementary definitions on organizational crisis.

Both Fink and Pearson & Clair define a corporate crisis as a situation that has the potential to damage the public image of an organization or to disrupt normal business operations. Fink (1986) goes on to say that these are situations that can escalate and are scrutinized by the government and the media. Pearson and Clair describe the situations more precisely as "low probability, high impact situations perceived by critical stakeholders" (Pearson & Clair, 1998: 66). Coombs, on the other hand, emphasizes the perception aspect, arguing that it is ultimately the stakeholder's perspective that defines an event as a crisis (W. T. Coombs, 2015). Furthermore, Coombs states that a crisis is characterized by its unexpected and negative nature (Coombs, 2007b)

These different perspectives illustrate the complexity and multifaceted nature of what characterizes an organizational crisis. In addition, it demonstrates the centrality of stakeholders in a crisis, as it is essential to understand how stakeholders perceive the crisis (Ndlela, 2019).

3.3.2 Crisis Management

Looking at crisis management from a holistic perspective, it becomes apparent that it is easier to view crisis management as a process rather than limiting it to a single definition.

The process of crisis management can be divided into several lifecycles, which must be understood because they demand different actions (W. T. Coombs, 2015). As this is a life cycle perspective, it means that an organization's processes must be aligned with it. Therefore, crisis management must be integrated and taken into account every day to act not only during a crisis but also preventively (W. T. Coombs, 2015).

The literature frequently mentions three approaches for analyzing different models of crisis management: Fink's (1986) four-stage model, the five-stage model developed by Mitroff (1994), and a three-stage model used by Coombs (2015) which was later supplemented by Jaques (2007).

Fink's approach, which uses medical metaphors to illustrate life cycles, is the oldest of the three. He distinguishes the phases as follows: The crisis management process can be divided into four stages: prodromal, crisis outbreak, chronic, and resolution. During the prodromal stage, clues and signs of a potential crisis become increasingly recognizable. The crisis outbreak stage is characterized by an initiating event that causes associated damage. In the chronic stage, the consequences of the crisis persist while efforts to resolve the crisis progress. Finally, the resolution stage is marked by an unmistakable sign that the crisis has ended and is no longer relevant for those affected (Fink, 1986). Fink's model emphasizes that crises develop rather than arise suddenly, suggesting a proactive approach. Crisis managers should therefore recognize potential crisis situations and not just respond to them (W. T. Coombs, 2015).

Mitroff's approach to crisis management involves five phases. The first phase is signal recognition, where warning signs are identified and observed to prevent crises. The second phase is investigation and prevention, during which the organization's employees examine risk factors for crises and work to prevent their potential damage. The third phase is damage limitation, where members attempt to limit the damage to the affected parts of the organization and its environment. In the fourth phase, the focus is on getting the organization back to normal as quickly as possible. The final phase is dedicated to learning from the crisis and reflecting on the efforts made to overcome it (Mitroff, 1994).

Fink's (1986) and Mitroff's (1994) models both emphasize the importance of early detection in crisis management. Fink focuses on crisis avoidance, while Mitroff emphasizes active detection and prevention. Both stress the significance of damage limitation and the need to return to normal operations. Mitroff also notes that the effectiveness of crisis management can be determined by the speed of the restoration. In Mitroff's approach, the crisis management team can facilitate the recovery process, while Fink's approach charts the different speeds at which organizations recover.

Coombs analyses and draws on the three-stage model, which is frequently mentioned in crisis management literature but cannot be clearly attributed to a particular author. The three-stage model divides crisis management into pre-crisis, crisis, and post-crisis and also includes sub-phases (Coombs, 2015). This chapter and the next (3.3.3 Crisis communication with Stakeholders as part of crisis management) will primarily focus on the crisis event phase, as this is the most relevant for the purposes of this bachelor's thesis.

The pre-crisis phase is comprised of three sub-phases: signal detection, prevention, and crisis preparation. In this phase, it is critical that members act with foresight and take all possible precautions to avoid crises. Early warning signals must be recognized, such as a pattern of customer complaints indicating product defects, and appropriate measures must be taken. These measures can be divided into three categories: Problem Management, Risk Management, and Reputation Management. Problem management aims to prevent problems from developing into crises, while risk management aims to reduce risks. Reputation management focuses on shaping the relationship between stakeholders and the company to prevent any escalation that could damage the company's reputation (Coombs, 2015).

The crisis event phase is characterized by a triggering event that marks the beginning of the crisis and is considered over when the crisis is resolved. Management must acknowledge the crisis and take appropriate action. The phase can be divided into two parts: 1. crisis recognition and 2. crisis containment. Communication with stakeholders is crucial during this phase. More details on this topic will be discussed in the following chapter. Crisis recognition is primarily concerned with ensuring that members of the organization recognize and classify the crisis and gather information. Crisis containment involves the company's initial response, contingency plans, and follow-up issues (Coombs, 2015).

In the post-crisis phase, the objective is to evaluate how the organization can improve its preparedness for future crises. Additionally, it is crucial to instill confidence in stakeholders that the company has taken measures to overcome the crisis. Lastly, it is necessary to verify that the crisis has indeed been resolved (Coombs, 2015).

3.3.3 Crisis communication with Stakeholders as part of crisis management

Crisis communication aims to influence public perception of the organization and ensure that the organization retains a positive image or attempts to repair a tarnished image with stakeholders. Other objectives are to educate, persuade, or motivate specific stakeholders to act (Ray, 1999). Furthermore, in the event of a crisis, it is essential to prevent the effects from escalating, to limit the duration of the crisis, and to prevent the crisis from spreading to parts of the organization that have not yet been affected (Mitroff, 1994). Management should try to communicate as clearly and accurately as possible with stakeholders as early as practicable (Fink, 1986).

To explain the concept of crisis communication, Sturges utilizes Fink's model, which was previously introduced in the preceding chapter. Sturges (1994) suggests that distinct measures and types of communication are necessary for each of the four phases.

In the acute phase, when the crisis initially occurs, those affected are unaware of what is occurring. Stakeholders need information on the extent to which they are impacted by the crisis and how they can protect themselves. During the resolution phase, the crisis is considered to be over, so stakeholders are receptive to news that reinforces the organization's reputation (Sturges, 1994). Avoidance of sharp negative shifts in relationships with environmental constituencies is another objective communication strategies should have (Sturges, 1994). When determining the communication strategy, the organization must take into account the target audience, the nature of the crisis, the existing evidence, the extent of the damage, the company's reputation, and any legal issues that need to be addressed (Coombs, 1995, 2015).

Building on Benoit's work, Coombs developed the SCCT to create a model of messaging strategies that can be used in response to crises. This model is presented in the next chapter (Benoit, 1997, p. 179; W. T. Coombs, 2015)

3.3.4 The Situational Crisis Communication Theory (SCCT)

This chapter takes a closer look at the SCCT theory, Coombs developed the Situational Crisis Communication Theory (SCCT), which assumes that stakeholders' attribution of responsibility in a crisis plays a crucial role in a company's reputation. The theory provides crisis managers with guidelines for applying crisis communication strategies.

In addition, the theory aims to test them empirically and to preserve a company's reputation before and after a crisis (Coombs, 2007b). The level of responsibility varies depending on the type of crisis and necessitates distinct crisis communication strategies (Coombs, 1995).

The SCCT theory emphasizes how important it is to adapt the communication strategy to the respective crisis situation (W. T. Coombs, 2015).

Ten Crisis Response Strategies for the Crisis Management Team are included in the SCCT:

- Denial Crisis Response Strategies:
 - Denial: Managers claim that no crisis occurred
 - Attack the accuser: Managers confront person or group that claim the organization is in a crisis
 - Scapegoating: Managers blame some outside person or group for the crisis

- Decrease Crisis Response Strategies:
 - Excuse: Managers minimize the organizations responsibility for the crisis by denying any intent to do harm and/or claiming an inability to control events that led to the crisis
 - Justification: Managers minimize the perceived damage caused by the crisis

- Rebuilding Crisis Response Strategies:
 - Compensation: Managers offer money or other gifts to victims
 - Apologize: managers accept responsibility for the crisis and ask stakeholders to forgive them

- Bolstering Crisis Response Strategies:
 - Reminder: managers tell stakeholder about past good works of the organization
 - Involvement: managers thank stakeholder and/or praise stakeholder for their help during the crisis
 - Victimage: Managers remind stakeholder that the organization is a victim of the crisis as well (Coombs, 2013, p. 266)

The strategies were divided into four groups as they were perceived to be similar by the participants (Coombs, 2006). The goal of the denial strategy is the removal of any connection between the crisis and the organization. This involves discrediting the accusers, as well as denying and using a scapegoat strategy.

The decrease strategy aims to reduce the adverse consequences of a crisis by limiting the organization's control over it.

Apology and justification strategies are employed using this approach. The rebuilding strategy aims to enhance the organization's reputation by implementing measures and releasing statements that benefit stakeholders and counteract the adverse impact of the crisis. This can be achieved through apologies and compensation.

The final strategy supports the other three. Its purpose is to establish a positive relationship between stakeholders and the organization by using reminders, a positive approach, and a willingness to compromise (Coombs, 2015).

It is important to note that crisis managers employ various crisis management strategies. The last strategy, for instance, is used as a supplement, as previously mentioned. An exception occurs when denial is combined with rebuilding or diminishing, which leads to contradictions. The SCCT uses three factors to assess the threat to reputation. These factors are: The type of crisis, the history of the crisis, and the previous reputation (Coombs, 2015).

The crisis types are organized by crisis responsibility as follows:

- Victim Cluster: Very little attribution of crisis responsibility
 - Natural disasters
 - Rumors
 - Workplace violence
 - Malevolence
- Accidental cluster: Low attribution of crisis responsibility
 - Challenges
 - Technical-error accidents
 - Technical-error product harm
- Preventable Cluster: Strong attributions of crisis responsibility
 - Human-error accidents
 - Human-error product harm
 - Organizational misdeeds (Coombs, 2015, p. 180)

A summary of the SCCT recommendations for implementing the Coombs Crisis Response Strategies after identifying the type of crisis is shown in the illustration below.

1. Informing and adjusting information alone can be enough when crises have minimal attributions of crisis responsibility (victim crises), no history of similar crises and a neutral or positive prior relationship reputation.
2. Victimage can be used as part of the response for workplace violence, product tampering, natural disasters and rumors.
3. Diminish crisis response strategies should be used for crises with minimal attributions of crisis responsibility (victim crises) coupled with a history of similar crises and/or negative prior relationship reputation.
4. Diminish crisis response strategies should be used for crises with low attributions of crisis responsibility (accident crises), which have no history of similar crises, and a neutral or positive prior relationship reputation.
5. Rebuild crisis response strategies should be used for crises with low attributions of crisis responsibility (accident crises), coupled with a history of similar crises and/or negative prior relationship reputation.
6. Rebuild crisis response strategies should be used for crises with strong attributions of crisis responsibility (preventable crises) regardless of crisis history or prior relationship reputation.
7. The deny posture crisis response strategies should be used for rumor and challenge crises, when possible.
8. Maintain consistency in crisis response strategies. Mixing deny crisis response strategies with either the diminish or rebuild strategies will erode the effectiveness of the overall response.

Illustration 2: SCCT crisis response strategy guidelines (Coombs, 2007, p. 173)

The analysis section of this paper will later examine VW's SCCT strategy in the Dieseltgate scandal.

3.3.5 Relationship between stakeholder management and crisis management

As outlined in the previous chapters, stakeholder theory deals with the influence of groups or individuals on an organization and the management's response to this influence (Sturges, 1994). Companies need to constantly evaluate how they respond to their stakeholders because they operate in an unstable environment where change is always possible. Dealing with limited resources in the outside world and having limited means to respond to external groups is a challenge. The relationship between the organization and stakeholders plays a significant role in shaping the response to stakeholder pressure. For instance, management may initially consider a stakeholder group to be unimportant, only to realize the next day that it requires full attention (Stephens et al., 2014). When an organization responds to a crisis, it must be aware that a large number of stakeholder groups may be affected.

Companies often assume that their stakeholders have a positive attitude toward them, and then find out in a crisis that they were mistaken. This can lead to stakeholders distancing themselves from the organization in order to protect their own interests (Pearson & Mitroff, 1993).

4. Objectives and questions

4.1 Objectives

The objectives of this work are defined as follows:

1. Determine how companies should best manage their stakeholders during a crisis, Volkswagen case study will be used as a practical approach
2. Analyze what impact the Volkswagen Diesel scandal has had on it's consumers
3. Determine, what can be implemented from the Volkswagen case study for other companies or can be used as a deterrent example

4.2 Questions

In addition to the main research objectives, it is important to pose other complementary questions to support the course and direction of the work in order to achieve the stated objectives.

Based on this, the following questions have been developed and will be answered throughout the thesis:

1. What had been the actions that led to mismanagement of Volkswagen crisis?
2. How has the Volkswagen diesel scandal affected consumer trust and customer brand loyalty?
3. To what extent can the Volkswagen case study serve as a model for best practices in crisis management for other companies?

5 Methodology of the work

5.1 Design of the investigation

The research methods utilized in this thesis are qualitative and include a case study analysis and expert interviews with Stakeholders.

Qualitative research methods are used in this thesis as a case study analysis is used to understand and explore the specific context in which stakeholder management takes place. In addition, subjective experiences, interpretations, and reactions of affected customers are captured through interviews with Stakeholders. This qualitative approach makes it possible to identify specific contextual factors and crisis dynamics that go beyond the limits of qualitative methods. Expert interviews, press releases, and websites are utilized as sources of statements and comments (Goldenstein et al., 2018).

5.2 Case study literature review

Case studies are a method of systematically researching events, collecting and analyzing data and information and publishing the results to help researchers better understand the event. The purpose of a case study is to investigate the reasons behind the event, how it unfolded, and what implications it may have for future research (Flyvbjerg, 2006). In a case study, a single event is examined and linked to an existing theory. The research questions, „How important is effective stakeholder management during a corporate crisis? What factors contribute to effective stakeholder management?“ has already been defined. Building on this, the next chapter will deal with the literature review in order to describe our case study, the VW diesel scandal, in detail. The case will then be analyzed in Chapter 7 by establishing references to existing theories and answering the research questions and the further research questions based on our case study (Goldenstein et al., 2018; Pfeiffer, 2019).

5.3.1 Expert Interviews

As part of the qualitative research, four expert interviews were conducted. Expert interviews are a systematic data collection method based on theory, in which individuals with exclusive knowledge due to their experience, specific expertise, or skills are interviewed in the case of this thesis, Volkswagens Stakeholders (Gläser & Laudel, 2010; Kaiser, 2021). The number of interviews was determined based on the research of Marshall et al. (2013). According to their research, in the case of qualitative research and precise "single use cases," which is the case in this thesis, 4 interviews are considered sufficient to extract conclusions (Marshall et al., 2013).

In this bachelor thesis, interviews are conducted from different perspectives regarding the events of the VW diesel scandal, as it is important to the author to have as broad a perspective as possible from different stakeholders. In this case, the four experts which are stakeholder, consist of two customers who were directly impacted by the incident, which possess unique insight into how they were treated as stakeholders during the VW scandal. One individual who followed the scandal through the media to obtain a neutral opinion. And finally, an interview was conducted with a manager from a global technology and automotive supplier group to provide a perspective from the automotive industry.

The description of the experts is as follows:

E1: Customer of a Porsche affected by the diesel scandal, bought the car in 2015

E2: Customer of a Porsche affected by the diesel scandal, bought the car in 2014

E3: Not an affected customer, but has observed the scandal in the media

E4: Manager of a global technology & automotive supplier group

The interviews were conducted with two Porsche customers. It is important to consider that Porsche customers might have higher expectations of the car compared to customers of other brands within the Volkswagen Group, such as Seat. This could be due to the luxury status of Porsche cars, which demands high brand quality and excellent service, reflected in the higher price point. Additionally, both interviewees had legal expenses insurance for their car, which allowed them to sue VW without financial concerns.

The research perspective is broadened by including an independent person. This individual represents a larger group of customers who may have different expectations and experiences with the Volkswagen Group and its products.

The interviews aim to generate practical knowledge based on the stakeholders action orientation, knowledge, and assessments (Bogner et al., 2014). During the expert interviews, in-depth questions were asked about individual experiences to gather additional information.

5.3.2 Approach

The aim of the interviews is to generate specific information about a phenomenon under investigation that would not be available by other means, e.g. information about moods can also be collected (Kaiser, 2021). Three of the interviews were conducted online via the Microsoft Teams Meetings service and one interview was conducted in person.

The backup of the data is based on audio recordings, which were later secured by a full transcription.

It should be noted that the interviews were conducted in German and the author translated the direct quotes subsequently. As interview form, semi-structured, guided interviews were chosen. This format allows for a certain degree of control by defining questions, as well as the possibility to follow up questions in more detail or to refer back to a possible topic (Genau, 2019). The full interview guide, can be found in the Appendix.

As part of the interview guidelines, the questions were specifically tailored to the experiences of affected customers in order to capture a precise picture of their experiences. In the interviews with interviewees E3 and E4, questions that did not apply were excluded. To aid in understanding the following evaluation, a brief summary of the structure and formulation criteria is provided.

1. **Introductory Questions:** The interview begins with questions related to the VW Group, the interviewee's satisfaction with their car before the scandal, and their initial reaction to the scandal. These questions provide an opportunity for the interviewee to become familiar with the topic
2. **Experiences of those affected by the VW scandal and their assessment:** The main questions asked are how the time interval since the first announcement of the scandal by VW was perceived, how the statement was reacted to, how VW's communication was perceived, what expectations were placed on VW and how the crisis was managed by VW. The question is also raised as to whether those affected feel adequately compensated.
3. **Future outlook:** What is the expert's view of Volkswagen today, would the stakeholder buy a Volkswagen again, or even a diesel car from Volkswagen
4. **Closing question:** A final question that asks if the stakeholder has any further input or thoughts you would like to share on the topic.

5.4.1 Qualitative content analysis as a method of data evaluation

Mayring (2010) uses three different methods of qualitative data analysis, each of which is further subdivided into specific techniques.

The first method, summarization, aims to preserve essential content while significantly reducing the data.

The second method, explication, involves adding supplementary material to clarify unclear passages in the text for better comprehension.

In the structuring method, the pre-defined classification criteria, also known as categories, are compared with the material. This allows for deductive statements to be made about the data (Mayring, 2010).

This thesis uses the structuring method as a qualitative analysis approach. This method enables a systematic penetration of the extensive and complex data material of the case study. When evaluating the four stakeholder interviews conducted, it helps to effectively classify expert opinions into categories. This makes it possible to relate the case study and the expert interviews to the theoretical foundations of stakeholder management.

The subchapter that follows presents a category system based on theoretical considerations of stakeholder management during crisis situations. This system is designed to accurately document and assess relevant aspects (Mayring, 2010).

5.4.2 Categories and Dimensions as Theoretical Tools of Analysis

The evaluation of the interviews focuses on grouping the responses according to the supplementary research questions. Elements of the theoretical framework presented in the previous chapters are used to support the interpretation and analysis of the information obtained.

The following illustration shows this process:

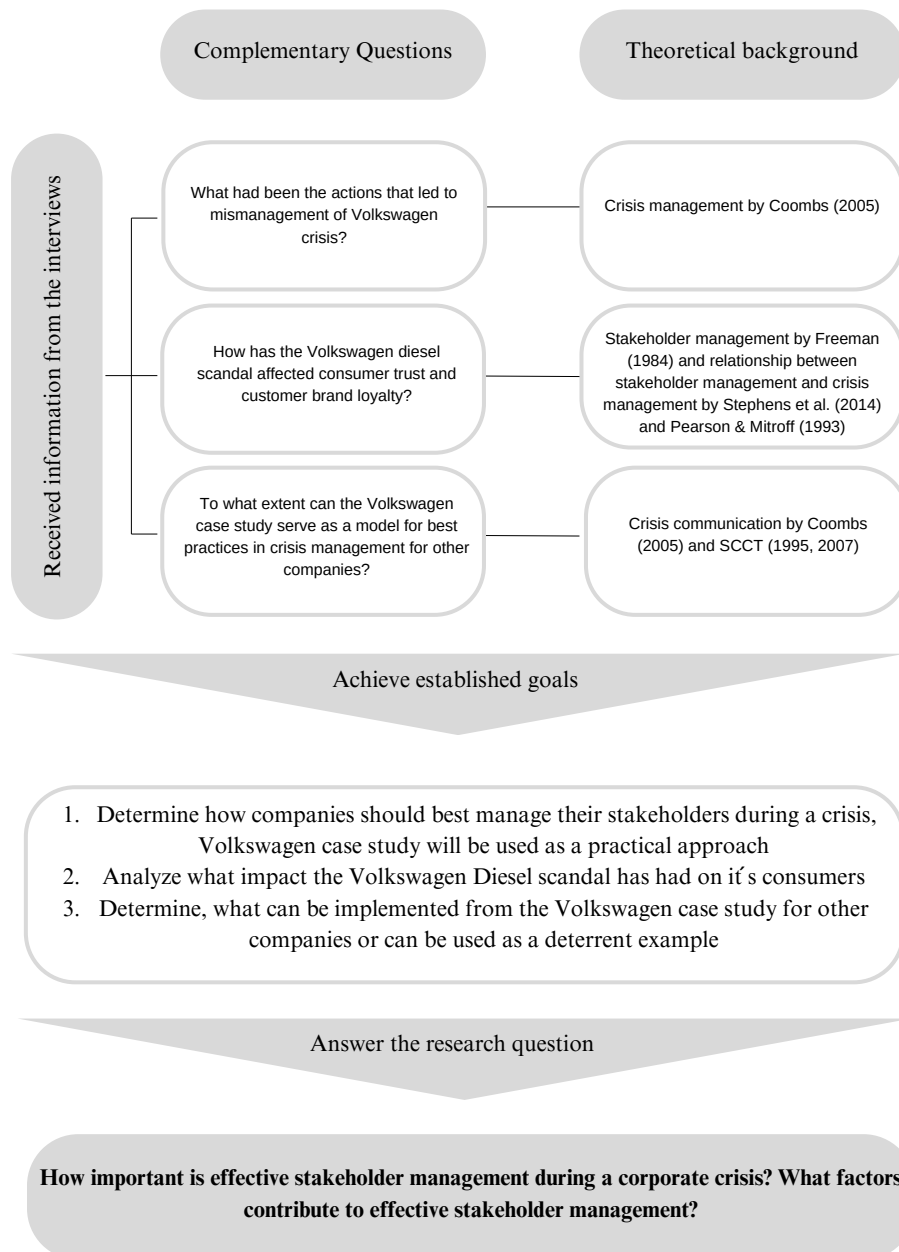


Illustration 3: Investigation procedure (Mayring, 2010)

6 VW Dieselgate Case Study

The following section presents the Volkswagen Group and provides an overview of the diesel emissions scandal.

6.1 Presentation of Volkswagen AG

The Wolfsburg-based Volkswagen Group is one of the world's leading manufacturers of automobiles and commercial vehicles and the largest automaker in Europe. It comprises ten core brands, including Volkswagen, Volkswagen Commercial Vehicles, Skoda, Seat, Cupra, Audi, Lamborghini, Bentley, Ducati, and Porsche. Oliver Blume has been the CEO of the Volkswagen Group since September 2022. With sales of \$279.2 billion in 2022, the Volkswagen Group is one of the largest car manufacturers in the world. The Volkswagen Group is guided by a set of corporate principles that include responsibility, honesty, courage, diversity, pride, cohesion, and reliability (Volkswagen Group, 2023).

6.2 Description and causes of the VW-Dieselgate-Scandal

To comprehend the scandal's progression, it is crucial to examine its background. In 2007, Volkswagen introduced a new diesel engine in Europe and subsequently in the USA. Since diesel engines are deemed unclean in the USA, Volkswagen marketed them as 'clean diesel' to enhance their appeal. VW has incorporated computer code into the car's software that recognizes whether the car is on the road or being tested on a test rig. If it is being tested on a test rig, the computer activates an emission control system that significantly reduces nitrogen oxide emissions. Without the test mode, nitrogen oxides were 40 times higher than allowed in the U.S (Breitinger, 2015; Seiwert, n.d.).

In May 2014, two American Jetta and Passat vehicles were found to have nitrogen oxide levels on the road that were significantly higher than laboratory levels, according to the International Council on Clean Transportation. This information was then reported to the US Environmental Protection Agency (EPA) and the California Air Resources Board (CARB). After the authorities asked for clarification, VW cited a software error and in December 2014, the company recalled half a million EA 189 diesel vehicles in the US to correct the issue through a software update (Breitinger, 2015; Seiwert, n.d.).

During a new measurement in May 2015, Carb discovered that the values remained excessively high. The authorities subsequently contacted VW and requested an explanation, as approval of the 2016 models would not be possible without one.

On September 3, 2015, Volkswagen (VW) acknowledged to the California Air Resources Board (CARB) and the Environmental Protection Agency (EPA) that their diesel vehicles were fitted with a defeat device that enabled them to circumvent the emissions control system (Breitinger, 2015; Seiwert, n.d.)

On September 18, the Environmental Protection Agency (EPA) announced that it is investigating the Volkswagen Group for violating the Clean Air Act. According to the EPA, Volkswagen used undeclared engine management software to bypass emissions standards in certain two-liter diesel engines produced between 2009 and 2015 (US EPA, 2019). In the proceedings, VW was threatened with a fine of up to 14.7 billion US dollars (Tagesschau, 2016).

Following VW's official statement on 20.09.2015 and the exchange between CEO Winterkorn and Müller on 25.09.2015, which will be discussed in more detail in the next chapter, on September 28, 2015, VW announced that the manipulation software had also been installed in Audi, Skoda and VW commercial vehicles. Volkswagen admitted to installing the software in around 11 million vehicles worldwide and announced an action plan to remedy the manipulated vehicles in October 2015. In November 2015, the EPA expanded its charges against VW to include other models, as well as Audi and Porsche vehicles (Breitinger, 2015; NDR, 2020).

Regarding those responsible for the Dieselgate scandal, Winterkorn claimed from the outset that he was completely surprised and that it was the fault of a few engineers. However, in 2019, a document from the end of May 2014 came to light. In this document, a head of product safety warned management of investigations by the US environmental authorities due to significant exceedances of legal emission limits in the emissions tests. This document was presented to Winterkorn at the time (Hage, 2019).

To this day, Winterkorn has not admitted to knowing about the manipulations. However, three key figures in the scandal have confessed to knowing about the manipulations. In April 2023, former Audi engine developer Giovanni Pamio admitted to asking employees for "intelligent solutions" to pass emissions tests.

The installation of software to detect tests was ordered by him. Later, Wolfgang Hatz, a former Porsche development board member, admitted that he and two other employees had ordered the installation of the control software. More recently, in May 2023 Rupert Stadler, the former head of Audi, has admitted that he had been aware of the manipulation of vehicles and that buyers were being harmed (Martin & Driftschröer, 2024; Peitsmeier, 2023). Stadler, Hatz and Pamio were sentenced to suspended sentences and fines (Tagesschau, 2023).

6.3 VW's response to the scandal

As noted above, Volkswagen admitted the manipulation to the Environmental Protection Agency (EPA) on September 3, 2015. However, the admission did not come until September 20, after the EPA had publicly accused Volkswagen. A total of 16 days passed between the U.S. discovery of the increased emissions and VW's official statement. On September 20, VW CEO Martin Winterkorn released a statement in which he apologized (NDR, 2020). In the statement Martin Winterkorn indicated that the discrepancies discovered in the diesel engines of the Volkswagen Group are entirely at odds with the company's values. He acknowledged that not all the answers are clear to him at present, but emphasized that there is an ongoing effort to investigate the situation with determination and to provide explanations as swiftly, thoroughly, and transparently as possible. Furthermore, Winterkorn expressed his profound regret over the breach of trust and offered a formal apology to customers, regulatory bodies, and the public for any wrongdoing. Addressing the issue of trust, Winterkorn asserted his commitment to rectifying the harm caused and to restoring confidence in a step-by-step manner. Regarding the matter of compensation, he assured that measures are being taken to avoid any adverse effects on customers and employees, pledging the utmost transparency and openness in these endeavors (Süddeutsche Zeitung, 2015).

Following Volkswagen's public statement about the scandal, the company took additional measures. Following the admission of the scandal, CEO Dr. Martin Winterkorn resigned from his position on September 23, 2015 and was replaced by Matthias Müller on September 25, 2015 (Volkswagen Group, 2015a).

Eight other employees who may have been involved in the manipulation were initially dismissed (new-facts, 2015). 450 internal and external experts are investigating the scandal (new-facts, 2015). The external investigations were conducted with the assistance of outside lawyers in Germany and the U.S. Volkswagen has decided to conduct external and independent emissions tests, following the results of internal audits.

Additionally, random tests will be carried out to verify the emission behavior of the vehicles in real driving conditions (Volkswagen Group, 2015b).

Several structural changes have been implemented to reduce management complexity, decentralize management, and ensure the long-term manageability of the Volkswagen Group. To reflect the significance of these issues, a new department will be created within the 'Integrity and Legal Affairs' division (new-facts, 2015).

6.4 VW's reaction in relation to customers

In addition to the statement by Martin Winterkorn, Volkswagen apologized to its stakeholders in its 2015 Group Management Report for its actions: “Volkswagen does not tolerate any infringements of rules or laws. The irregularities that occurred contradict everything Volkswagen stands for. The trust of our customers and the public is, and will remain, our most important asset. We are sincerely sorry that we have disappointed our stakeholders. We will do everything within our power to prevent incidents of these kinds from reoccurring and commit ourselves fully to winning back all of the trust.” (Volkswagen Group, 2015a).

Furthermore, customers could verify if their vehicle was impacted by the scandal by entering the vehicle identification number on the Volkswagen website (Volkswagen Group, n.d.). In January 2016, Volkswagen initiated a recall of impacted vehicles and notified affected customers via letter about the timing of the free update for their car (Volkswagen Group, 2015c).

6.5 Status Quo

This section briefly discusses the current status of the VW scandal. Court hearings have been going on for years to determine who is responsible. The last time Winterkorn testified as a witness was on February 14, 2024, and he denied any guilt because he only learned about the problem late and incompletely. However, as mentioned above, several managers have already confessed to having known about the illegal activities (Tagesschau, 2024).

In a landmark decision, the Federal Court of Justice sentenced Volkswagen to pay damages for the immoral and deliberate manipulation of the emission values of the EA 189 diesel engine. The Federal Motor Transport Authority (KBA) has recalled a total of 2.4 million affected vehicles with the EA 189 engine.

Cars with the EA 879 engine have also been recalled. In May 2020, the Federal Court of Justice ruled that Volkswagen must reimburse those affected the purchase price as compensation and return their cars (Dr. Schön, 2015).

Following is a look at Volkswagen's sales figures over the years. The graph illustrates the worldwide turnover in billions of euros of the entire VW Group from 2006 to 2022. It can be observed that turnover grew less strongly from 2015 to 2016 than in the previous year, but did not slump. Sales figures declined only in 2009 due to the financial crisis and in 2021 due to the coronavirus pandemic. The analysis suggests that the Volkswagen scandal did not have a significant impact on sales figures (Statista, n.d.).

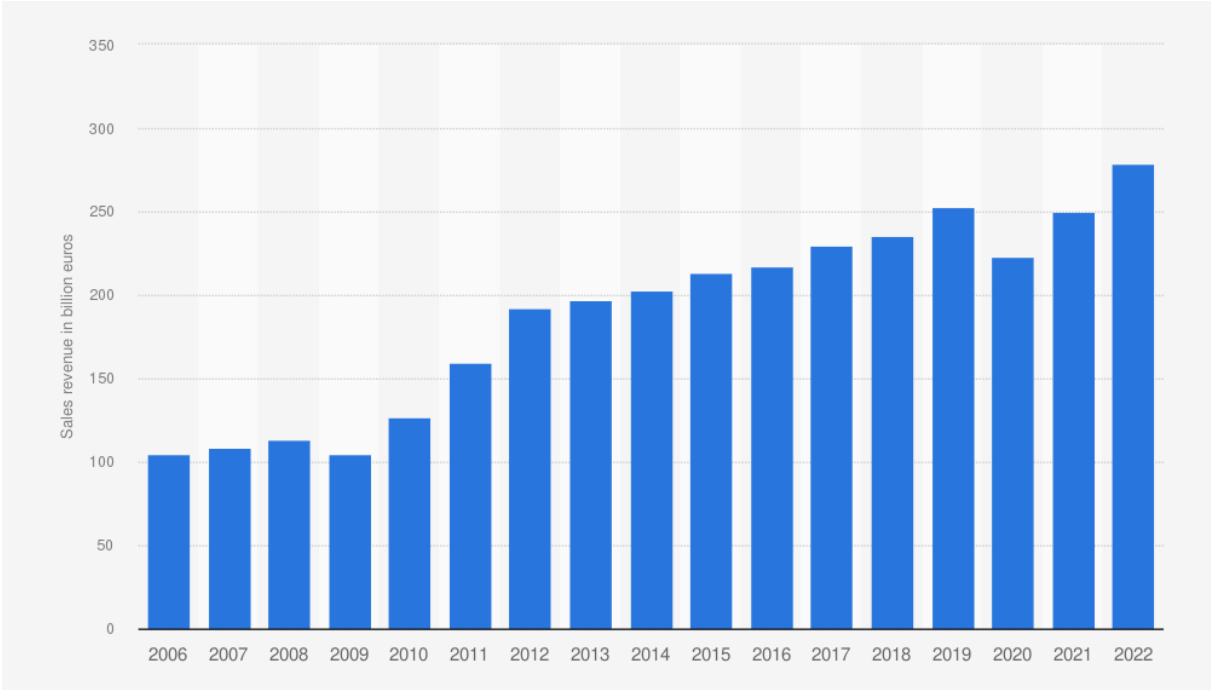


Illustration 4: Turnover in billions VW Group 2006-2022 (Statista, n.d.)

7 Data Analysis and Findings

Using the selected theory and models, the information gathered from the case study and interviews will be analyzed and an attempt will be made to answer the questions

1. What had been the actions that led to mismanagement of Volkswagen crisis?
2. How has the Volkswagen diesel scandal affected consumer trust and customer brand loyalty?
3. To what extent can the Volkswagen case study serve as a model for best practices in crisis management for other companies?

7.1 What had been the actions that led to mismanagement of Volkswagen crisis?

To address this question, the first step is to analyze the nature of the crisis that the Volkswagen diesel scandal represents. As per Coombs (2015), the Volkswagen crisis can be classified as an avoidance crisis. This crisis is attributed to the company's actions, as it could have been prevented by taking a different approach (Coombs, 2015). As previously stated in the case study, Volkswagen intentionally installed software in diesel vehicles to detect emission tests and adjust engine control accordingly. According to Coombs (2015), the crisis of avoidance can be divided into three subcategories:

- Human-error accidents
- Human-error product harm
- Organizational misdeeds (Coombs, 2015, p. 180)

As some engineers and Pamio, Hatz and Stadler as key figures have already testified, they were aware that the software was being installed, so human-error accidents and human-error product harm can be ruled out. The diesel scandal can be classified as organizational misdeeds, since those involved, who have confessed so far, were aware of their unethical actions. The determination of the crisis type according to Coombs' SCCT is fundamental for the following derivation of appropriate crisis communication strategies and the analysis of their application in the VW diesel scandal.

In the event of an avoidable crisis, Coombs recommends a rebuilding crisis response strategy, this includes the following elements:

- Rebuilding Crisis Response Strategies:
 - Compensation: Managers offer money or other gifts to victims
 - Apologize: managers accept responsibility for the crisis and ask stakeholders to forgive them (Coombs, 2013, p. 266)

The following analysis examines the case study and expert interviews to determine the extent to which Volkswagen implemented the crisis communication strategy recommended by Coombs.

Compensation

The initial step is to analyze how Volkswagen addressed the issue of compensation.

Customers could check the Volkswagen website to determine if their car was affected by the scandal (Volkswagen Group, n.d.).

Two scenarios have been experienced by those affected. In the first scenario, Volkswagen contacted affected customers in January 2016 by letter and informed them that they needed to perform a free software upgrade for their car (Volkswagen Group, 2015c). E1: *"I received a letter that I should carry out a software update due to the exhaust control units of this manipulation, but if I had done this, my process would have been broken. Especially as it was not known whether the values would actually be achieved if I did the update. So this is a process that you can no longer control or reverse if you have the update installed. And if you want to sell the car, you have to say, I have a diesel scandal emissions car. It wasn't clear whether that would still have been permissible in the EU, nobody could tell you. Many people then said that if you install the update, the engine will be damaged in the long term because the engine is not designed for it."* This indicates that Volkswagen took action to make the affected vehicles drivable again and offered this service free of charge, but Volkswagen did not fully clarify what the consequences would be.

The second option, which both affected customers experienced during their lawsuit against Porsche, involved Porsche offering an extra-contractual solution by proposing to buy a new Porsche. However, the injured parties would have had to pay the difference in the current value of the new Porsche. E2: *"The basic idea they said to me was: click yourself through the Porsche configurator on the Internet, choose a nice car and then we could talk about it. (...) But I refused because I wanted them to pay me the same amount as compensation, but the Porsche lawyer flatly refused. I thought that was cheeky, don't get me wrong, but it's like at the Turkish bazaar, where you play around and say, hey, come on, let's do it this way and then the matter is settled. No real commitment to saying, hey, it didn't go well, I want to keep you as a customer and now I stand by what happened."* This experience demonstrates that the company has acknowledged the need for action but was attempting to reduce compensation as much as possible and come out of the matter with a self-serving advantage.

Additionally, feedback from E2 indicates that this approach did not convey appreciation to the customers. However, from the perspective of a manager of a global technology & automotive supplier group, E4 shows understanding for this behavior: *"I don't know what more they should have done to accommodate the customers. Because nowadays it's like a huge avalanche, everything is put online and if someone posts that they've received compensation, then someone comes up with the idea of, oh great, we'll make a collective lawsuit out of it and then you're ruined as a company. So I can understand why companies are very cautious about this."* The Volkswagen case shows that the company was in a dilemma. They aimed to minimize financial damage to protect shareholders, as expert E4 noted. However, they also had to consider the needs of the affected customers.

Regarding the current compensation status of those affected, E2 has not yet (as of February 2024) received any money back from Volkswagen. In E1's case, the process has now been completed and she/her has received €54,000 of the €65,000 for which E1 bought the car. When asked if E1 felt adequately compensated, E1 replied: *"I have not been compensated, I have won a lawsuit with the aim of getting a reversal against deduction of a refund, after 6.5 years of litigation. This is not compensation, it is a coercive measure."*

The respondents' experiences make it clear that key aspects of the SCCT-swift action and transparent and customer-oriented behavior-were not implemented by VW (Coombs, 2015). The needs of the aggrieved parties were not adequately addressed due to lengthy processes, unclear implementation of software updates, and non-customer-oriented solutions.

The reported experiences conflict with Winterkorn's assurances to exhaust all options to avoid any negative impact on customers and employees. His previous assertions suggested a dedicated effort to protect these essential stakeholders' well-being (Süddeutsche Zeitung, 2015).

Apology

Continuing with Coombs' second suggested response strategy, the apology. According to Coombs, the apology consists of "managers accept responsibility for the crisis and ask stakeholders to forgive them" (Coombs, 2013, p. 266). In this case, Winterkorn issued an official statement apologizing to customers, authorities, and the public for Volkswagen's misconduct.

The 2015 Group management report also contained an apology in which Matthias Müller apologized for the first time as the new CEO and at the same time asked the Stakeholder to place trust in Volkswagen (Volkswagen Group, 2015b). This shows that Volkswagen has apologized profusely to all stakeholders.

The respondents show understanding for the total of 16 days that have passed between the discovery of the scandal by the USA and the official statement, i.e. the apology from VW. In the interview, the respondents were asked to rate the time interval on a scale of 1 to 10. 1 stands for too short, 5 for just right and 10 for too long. They all gave a 5.

E2: *"I think the vehemence was already communicated in the media and I think that was appropriate. You have to understand that the companies don't want to drop their pants and admit everything straight away."* E4 also confirmed this: *"It was simply about protecting, the company and also protecting yourself. That's why I think 16 days is a very short period of time, considering how gigantic this problem was. (...) I experience this every day, as long as you don't have to, people don't respond to issues for up to a year. So the 16 days is a joke, if VW hadn't first thought about how they should react to prevent damage to the company, VW would perhaps no longer exist."*

This retreat from public engagement following the crisis aligns with the findings of Van Der Meer et al. (2015) who identified such behavior in their study. The organization prioritizes taking care of the relationship with management before going public. However, Van der Meer et al. (2015) report that the respondents' understanding of VW's withdrawal is contradictory.

Coombs' definition emphasizes that managers must take responsibility (Coombs, 2013).

Winterkorn stated that he was unsure of how this could have occurred from his first official statement on: "Even I don't have the answers to all the questions at this point in time" (Süddeutsche Zeitung, 2015). After issuing this initial official statement, no member of VW's upper management voluntarily admitted guilt or took responsibility. As mentioned in the case study section, Stadler, Hatz, and Pamio have now confessed and taken responsibility, but only after years of litigation. Winterkorn has still not taken responsibility, although he is under great pressure from the trials (Martin & Driftschröer, 2024; Tagesschau, 2024).

The absence of transparency over time and the failure to admit guilt are concerning for those impacted. E1: *"They lied right up to the end, yes it was bad for Volkswagen that it came out, but you have to stand by it. That made the whole thing even worse."*

E2: *"When something like this happens, I don't expect this super turbo reaction right away, but at some point when everything is condensed and everything is clear, then you have to show a bit of sportiness and VW has absolutely not done that, it's going on for years now".*

Volkswagen has issued a formal apology to its stakeholders. However, the management has not taken personal responsibility for the crisis. Only after several years of trials and threats of imprisonment have some of those involved confessed. Winterkorn remains silent (Tagesschau, 2024). This contradicts Coombs' Response Strategy. The parties involved understood the delay in apologizing and confessing to the scandal. However, they are highly critical of the failure to take responsibility and the resulting lack of transparency.

Stakeholder Management

The next question looks in more detail at stakeholder management before the scandal and its potential impact. This section explains how stakeholder management was perceived during the scandal.

According to Coombs (2015), communication with stakeholders is crucial during the crisis phase. But both respondents said they received no direct communication from Volkswagen during the diesel scandal and that the company did not provide any support or contacts. E2: *"Even when I went to my dealership and asked for information, they said they didn't know anything and didn't actively approach me."* They obtained all information from the media until they received the letter in 2016, months after the crisis came up, informing them that their car was affected. Stakeholders need information on the extent to which they are impacted by the crisis and how they can protect themselves (Sturges, 1994). E1: *"I would have appreciated more cooperation. I felt abandoned. The client is king"*. Both affected customers would have preferred more personal communication, as it was uncertain how they would be compensated, and they were handling the matter on their own.

The respondents were also asked how they thought VW handled the scandal. E1: *"They have tried to sit it out so that the damage to the company doesn't get any worse and so that people lose the desire to do something about it as a result of their behavior."* E3: *"They pursued their economic interests, which I understood as an uninvolved party. As an affected person, I would see it completely differently."*

E4: „*In terms of the company, good, they have minimized the damage, they have used the crisis situation to set up a savings program that would otherwise not have been possible.*”

The views expressed suggest that Volkswagen prioritized internal interests in the course of the scandal from the perspective of those affected and the public, but it becomes apparent from the perspective of the affected customers that Volkswagen may not have sufficiently considered the interests of stakeholders.

E2: "*Design errors can happen, but in the case of deliberate and intentional fraud, the manufacturer should stand by it and compensate the customer. There is also no information on how many people have been compensated. Because if 3/4 of the people had been compensated satisfactorily, then you could say, well, I'm just at the last 1/4 where it didn't work out.*" Sturges (1994) argues that stakeholders are receptive to messages that enhance the organization's reputation during crisis management. Stakeholder E2 confirms this view and suggests that communication about the progress of compensation measures should be more transparent, which could have been beneficial for Volkswagen.

The damaged customers were also asked what they had expected from VW. E1: "*Open, cooperative approach to reversal after everything was on the table.*" E2: „*That you are accommodating to the customer, and that you don't have the feeling that you are the burden or have done something wrong, because I only wanted what I was entitled to and Volkswagen made the mistake.*“ This shows that, on the one hand, those affected would have liked transparent communication, as Fink (1986) advocated, and on the other hand, a proactive attitude on the part of the company to establish credibility and build trust and an openness to adapt the strategy to the stakeholders (Freeman, 1984).

7.2 How has the Volkswagen diesel scandal affected consumer trust and customer brand loyalty?

Attitude towards Volkswagen before the scandal

Companies often have an assumption that their stakeholders have a positive attitude towards them, and then in a crisis they find out that they were wrong. As a result, in order to protect their own interests, stakeholders may distance themselves from the organization. (Pearson & Mitroff, 1993). This distanced and negative attitude towards VW during the crisis, which was reinforced by a negative attitude before the crisis, is also made clear by the experiences and statements of E1. Four weeks after purchasing the car, E1 discovered that the brake disks were completely rusted.

E1 contacted the car dealer and sent photos to Porsche, but they did not recognize any defect and refused to take any action. E1 had a similar problem with a BMW E1 owned previously, but BMW replaced the brakes free of charge two years after the purchase.

This experience reinforced E1's negative attitude towards VW: *"That was also a reason why I sued, of course, because I said that a Porsche can't be like that, that it has corroded brake discs after 4 weeks and nothing is done about it. This is how Porsche has behaved regardless of the diesel scandal"*.

Prior to the scandal, E2 did not have any negative experiences with their car or customer service, resulting in a less negative view towards Volkswagen during the scandal compared to E1. When asked about how communication with stakeholders was perceived prior to the scandal, the difference in attitude also becomes evident. E1: *"Idiots, they were so arrogant when buying a car, and how they handled the brake discs problem, I had a BMW before and I was treated much better."* E2: *"They didn't actually communicate with me at all, but it's not necessary, I wouldn't do it either if everything is fine"*.

According to Freeman, companies must consider the interests and perceptions of their stakeholders (Freeman, 1984). E1's experience suggests that Volkswagen did not maintain a positive relationship with its stakeholders due to their uncompassionate and arrogant behavior.

Pearson and Mitroff (1993) argue that stakeholders may distance themselves from the organization to protect their own interests. This behavior can be seen from E1.

In contrast, E2's experience, which expresses general satisfaction, suggests that Volkswagen was successful in maintaining a positive relationship with its stakeholders prior to the scandal.

Post-scandal attitude

The stakeholders were asked whether their opinion of VW had changed since the scandal. E2: *"VW is no longer an option for me, despite good products, I am still unsure about Porsche. That now depends on the final verdict."* E1: *"I won't buy a VW car anymore, that has affected me in the long term"*. Based on both statements, the respondents' aversion to Porsche and Volkswagen can be perceived. They also express a lack of confidence in buying a car in the future. E1's statement is particularly indicative of a considerable loss of trust, as E1 assumes that the perception of the brand will not recover over time.

The customers who were affected by the scandal, E1 and E2, demonstrated a long-term decrease in trust and loyalty towards the brand. In contrast, E3, who had only followed the scandal in the media and was not directly affected, stated that the scandal had not changed their perception and that after the scandal they had bought another car from the Volkswagen Group. E4 agrees with the aforementioned viewpoint and therefore chose to buy a Volkswagen car, which was also a diesel, despite the brand's involvement in the scandal. This suggests that the scandal had only a limited impact on the perceptions of people who were not directly affected customers. This assertion can also be supported by the sales figures. As mentioned in chapter 6.5, Status Quo, sales did not decrease after the diesel scandal was revealed. This could indicate that consumer confidence across the board has not been significantly affected by the scandal.

7.3 To what extent can the Volkswagen case study serve as a model for best practices in crisis management for other companies?

Due to its enormous scale and global reach, the Volkswagen diesel scandal is an example of a multifaceted crisis and therefore represents an interesting case study for crisis management. The following analysis assesses the extent to which the scandal can serve as an example of best practice, focusing on Volkswagen's actions and their link to theoretical foundations. As previously mentioned in the response to the first question, Volkswagen applied the reparation strategy according to the SCCT. However, the company did not fully implement the strategy, as it failed to provide full compensation. The SCCT theory highlights the significance of adjusting the communication strategy during a crisis (Coombs, 2015).

In the case of Volkswagen, it was initially hesitant to disclose information. It took Winterkorn 16 days to release a statement and apologize. During this time, VW faced public pressure. On September 20, 2015, VW publicly admitted to the allegations instead of remaining silent. This indicates that Volkswagen is transitioning from initial silence to more transparent communication.

The company is pursuing an adjusted strategy and actively collaborating with regulatory authorities by conducting internal investigations (Volkswagen Group, 2015b). Additionally, VW demonstrated to the public its commitment to addressing the situation through structural changes, such as the establishment of the 'Integrity and Legal Affairs' department (new-facts, 2015).

Volkswagen has demonstrated its commitment to regaining the trust of stakeholders by implementing and publicly disclosing structural changes. However, the expert interviews revealed that Volkswagen's lack of transparency and responsiveness resulted in a loss of trust among customers. Additionally, the repair strategy, as outlined by Coombs (2015), was not entirely successful.

It is evident that effective crisis management can be achieved through dynamic and attentive adaptation of the communication strategy as highlighted by the SCCT model (Coombs, 2015). Volkswagen has implemented this by focusing their strategy on reparation and restructuring. This approach can be helpful for companies affected by similar crises. However, it should be emphasized that Volkswagen has not fully implemented SCCT, especially in terms of speed and full coverage of communication. To this day, there remain inconsistencies in VW's representation of those responsible, and compensation to customers has not been as accommodating as they would have liked, leading to a loss of trust. The VW diesel scandal shows how complex the challenges are that arise during a crisis and how important continuous development is during and after a crisis. In particular, it illustrates that stakeholders play an essential role and their needs must be highly prioritized. Therefore, the VW Dieselgate scandal is not necessarily a best practice case study for proper crisis management, but it is invaluable for other companies. By analyzing the crisis, other companies can learn from Volkswagen's mistakes and become aware of the complexity of crisis management, which encompasses many aspects and goes beyond the immediate crisis response.

8 Conclusions and discussion

In this chapter, a conclusion is formulated with regard to the research questions "*How important is effective stakeholder management during a corporate crisis? What factors contribute to effective stakeholder management?*". The limitations of the research are then highlighted and an outlook is given.

The discussion will begin with the second question, "What factors contribute to effective stakeholder management," as this will aid in answering the first part. The VW diesel scandal was chosen as a case study example due to its global impact. The VW Group, with its 10 brands, is one of the largest car manufacturers in the world, which is why this case caused a sensation not only in Germany, but worldwide (Volkswagen Group, 2023).

The main point raised in the interviews was the necessity of transparency. The analysis of the case study revealed that Volkswagen did not communicate transparently after the misconduct was uncovered, as it was only years later that top managers openly communicated that they were involved in the manipulation and bore responsibility for it. This angered the respondents and was not met with understanding. The affected customers also experienced a lack of direct communication and personal commitment, as Volkswagen did not provide a contact person or support structure. This caused the affected customers to feel undervalued and distanced.

Additionally, the time frame in which a company responds during a crisis is a crucial factor. While the respondents acknowledged the time VW needed to take a stance, they strongly criticized the prolonged delay and lack of accountability. The respondents felt deceived, as it is now evident that people in the top management knew about the manipulation and initiated it (Peitsmeier & München, 2023).

A further point to consider is the delay in implementing compensation measures. The respondents' processes have been ongoing for years and, in some cases, remain incomplete. This highlights VW's inability to promptly respond to a crisis, as recommended in theory, and contradicts Coombs' (2015) 'Rebuilding Crisis Response Strategy'.

In addition, through the expert interviews it has become clear that Volkswagen has tried to walk away with an advantage while dealing with the crisis and the damaged customers. This was met with understanding by the uninvolved interviewees, interpreting it through an economic lens, whereas the impacted customers exhibited scant sympathy.

The findings from the analysis clearly show which factors are important for successful stakeholder management. In summary, effective stakeholder management requires transparent and customer-oriented communication. Transparency is crucial in order to maintain and strengthen the trust of stakeholders. There should also be a strong focus on companies owning up to mistakes and taking responsibility for them. In addition, they should provide adequate compensation to affected parties in a timely manner in order to maintain or restore relationships with stakeholders.

The following section discusses the first research question: 'How important is effective stakeholder management during a corporate crisis?'

This analysis demonstrates that maintaining a good relationship with stakeholders is crucial for successfully managing a crisis. As discussed in the second question, Volkswagen failed to implement transparent and empathetic communication with its stakeholders and take full responsibility and appropriate compensation. The affected customers made it clear that their trust in Volkswagen had disappeared due to the unsatisfactory treatment they received and that they would no longer be Volkswagen customers in the future. The analysis of global sales figures, which have not declined, and the perspective of an unaffected respondent, who is a potential customer, suggest that the scandal has not significantly affected general consumer confidence. Therefore, it is important to differentiate between the perception of the scandal by affected customers and the general public.

Nevertheless, the analysis confirms that companies should place a very high priority on effective stakeholder management. This is crucial in order to maintain sustainable relationships with stakeholders and ensure long-term trust in the company, and not just to limit damage in crisis situations.

In conclusion, regarding the research questions previously formulated: "How important is effective stakeholder management during a corporate crisis? What factors contribute to effective stakeholder management?", effective stakeholder management is crucial for securing stakeholder trust and ensuring a company's long-term survival.

The analysis highlights the importance of transparent communication, prompt acceptance of responsibility, and straightforward implementation of appropriate compensation measures. The Volkswagen scandal illustrates that failure to comply with these factors results in a loss of customer trust.

Ultimately, it is important that companies always prioritize their customers and stakeholders. Maintaining a positive relationship with these groups is crucial not only in times of crisis, but also in regular business operations.

Summary

The scandal resulted in approximately 30 billion euros in financial damage to Volkswagen (NDR, 2020). In conclusion, Volkswagen has weathered the crisis well. A crisis can also provide opportunities for a company to start over. The term crisis is derived from the Greek word 'krisis', which means a 'decisive turn' (Duden, 2024). This turnaround can also be observed at Volkswagen, as the company has put a lot of focus on rediscovering itself after the scandal and has fully dedicated itself to the topic of electromobility. Electromobility is firmly anchored in Volkswagen's strategy and is attracting a great deal of interest both in the market and in social perception (Volkswagen, 2023).

Limits of the research

On the one hand, research is reaching its limits, as the court proceedings to clarify and assign responsibility for the scandal have not yet been concluded (as of February 2024). This ongoing development harbors the possibility that details could come to light in the future that could change the perspective of those involved once again or cast the scandal in a completely different light.

The group of experts was confined to German consumers, so it is uncertain whether Volkswagen was more accommodating to its stakeholders in the U.S., for example, in terms of compensation.

Outlook

Further research could be devoted to the question of identifying the global scope of those affected and determining the extent to which those affected were compensated and what proportion refrained from taking legal action.

There is currently no published research on this topic. Comparative studies with other car manufacturers, such as Mercedes, which were also affected by the scandal, would provide valuable insights (Eydlin, 2023). It would be particularly interesting to examine and compare the reactions of these companies to the scandal and the maintenance of their relationships with stakeholders.

Additionally, it would be valuable to compare and contrast their crisis management approaches. Subsequently, one could evaluate the effectiveness of the respective strategies in terms of safeguarding the interests and trust of the various stakeholders. This comparison could provide even deeper insights into stakeholder management and crisis management.

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Annexes

Expert interviews with Stakeholders of the VW Dieselgate Scandal

Questions:

General

- What do you think of when you think of the VW Group?
- How did you feel about Volkswagen's communication with its stakeholders before the scandal?
- Were you satisfied with your car and Volkswagen's customer service?
- Was it your first VW car or have you been a customer for many years?
- How did you first become aware of the diesel scandal?
- What do you remember, what was your first reaction?

Assessment of those affected/consequences of VW's response decisions

- On September 3, 2015, VW admitted fraud to the US Environmental Protection Agency, on September 18, 2015, EPA publicly accused the VW Group of manipulating emissions tests, and it was not until September 20, 2015, that then CEO Martin Winterkorn admitted this on behalf of the Group. There were 16 days between the discovery of the increased exhaust emission values by the USA and the official statement from VW.

A) On a scale of 1 to 10 (1 too short, 5 just right, 10 too long), do you think this time was too long or too short?

B) To what extent has this time gap changed your image of VW?

- How did you react to the statement?

- How would you rate the support you received in response to enquiries/concerns about the scandal?

- How was the communication from Volkswagen?

- Did you have a specific contact person you could always turn to?

- If so, what was their experience, did you communicate with them regularly?

- Do you feel adequately compensated?

- Is your case closed?

- What did you expect from VW?

- Do you wish VW had acted differently?

- In your opinion, how did VW handle the diesel crisis?

Future outlook

- What do you think about Volkswagen today, has your opinion of Volkswagen changed since the scandal?

- Would you or have you bought a Volkswagen car again after the scandal? Have you bought a diesel car from VW again?

Final question

Do you have any further input or thoughts you would like to share on the subject?