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Strategy Formulation Process in Crisis Management

Volkswagen Case Study

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Abstract

Aim: The aim of this study is to understand what strategies are used over time by a company facing a transgressional CSR crisis, in order to regain legitimacy, and towards which stakeholder group these strategies are directed.

Methods: In order to achieve our aim, Qualitative case study based on secondary data published by Volkswagen as well as news articles were used to identify what strategies the company used over time.

Results: To be able to answer our aim, different theoretical lenses were used; SCCT response strategies, legitimization strategies, strategy formulation process and stakeholder theory. Therefore, four main different strategies were identified, minimize attribution, blind adaptation to strategy 2025, US differentiation and internal moral reasoning. The former two were addressed to all stakeholders while the latter two were concerned with specific stakeholder groups.

Conclusions: Strategy formulation process during a transgressional CSR crisis is a complex procedure and literature on crisis management should move away from static frameworks towards a more dynamic understanding of how strategies can come to life. Coupled with the complexity of societal expectations in general, a company might have to adopt the paradoxical approach even for one stakeholder. Lastly, an addition to Situational Crisis Communication Theory is proposed.

Keywords: Crisis Management, Legitimacy, Legitimization Strategies, Corporate Social Responsibility, Stakeholder Theory, Situational Crisis Communication Theory, Strategy Formulation Process, Paradox
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Abbreviation List

VW Volkswagen
NO2 Nitrate Dioxide
CO2 Carbon Dioxide
EPA (United States) Environmental Protection Agency
CARB California Air Resources Board
NOV Notice of Violation
KBA German Federal Motor Transport Authority
SCCT Situational Crisis Communication Theory
CSR Corporate Social Responsibility

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We would like to extend our gratitude and appreciation to our supervisor Jörgen Elbe, who was a great help during the whole research process with his insightful comments and helped us to improve our thesis.

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1. **Introduction and Research Aim**

Corporate social responsibility has become “part of the reality of doing business in the twenty-first century” and no matter the beholder’s perception of this concept, it “is here to stay” (Beal, 2014, p. 11). Corporate Social Responsibility (CSR) is defined as the responsibility of corporations towards society, or acts that satisfy social needs beyond legislation and collective agreement with stakeholders and integrating social, environmental, and ethical concerns in their core operations (European Commission, 2011; Lii & Lee, 2012; Beal, 2014, Carroll 1979). As a stakeholder, we define “all those groups and individuals that can affect or are affected by the accomplishment of the organizational purpose” (Freeman, 2010, p.25).

One of the most notorious industries in terms of negative corporate social responsibility image and level of scrutiny exposure is the automotive industry. According to McPeak & Guo (2014, p.2), critics of this industry point out the externalities damaging the environment including CO2 emissions and its effects on climate change, but also in regards to “every phase from preassembly to post-use”. One of the most prominent companies in this industry is Volkswagen.

In September 2015, the United States Environmental Protection Agency discovered a software in many Volkswagen (VW) diesel car engines that altered the performance of the vehicle so that it could appear to produce fewer pollutants when being tested (Hotten, 2015). In relation to the installed defeat device, VW was perceived as not socially responsible, which led to a legitimacy threat.

According to Suchman (1995, p. 574), legitimacy is defined as “A generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions”. If an organization’s conduct is not in line with what is disclosed to stakeholders, a legitimacy threat can occur. But what happens when an organization’s legitimacy is threatened, when an organization experiences a crisis?
An organizational crisis is the “perception of an unpredictable event that threatens important expectancies of stakeholders and can seriously impact an organization’s performance and generate negative outcomes” (Jin & Liu & Austin, 2014. p 75). A legitimacy threat occurs when a company’s behavior is perceived as not in accordance with society’s norms (Farache & Perks, 2010, p.236). When coupled together, the concepts of organizational crisis and legitimacy threat will be conceptualized as CSR crisis for the rest of this paper.

One type of CSR crisis is transgressional. Transgressional crises possess premeditation as a prerequisite (intentional) and are ultimately initiated by the company’s own actions (internal). This study will be concentrating on transgressional crises, as the authors believe they can pose a bigger threat to legitimacy as the company can be seen as bearing the responsibility for the crisis. Furthermore, during a transgressional crisis, a company receives a higher rate of accountability, which can negatively affect further CSR initiatives as they are considered under a scope of suspicion (Coombs & Holladay 1996; Kim and Choi 2014, as cited in Kim & Choi, 2016). In order regain its legitimacy, a company is expected to engage in crisis management, or in other words to adopt some form of strategy.

In order to grasp strategies, one must consider, what is a strategy? Inkpen & Choudhury (1995) suggested that even when a formal strategy does not exist, an organization is always following one. Much research on strategy and strategic formulation process has been done (e.g. Inkpen & Choudhury, 1995; Mintzberg, 1978; Mintzberg & Waters, 1985; Stefanović, Prokić, & Milošević, 2012). A valuable lesson stemming from this research is that strategy formulation is a process and therefore time should not be disregarded. Therefore, the definition for strategy that will be adopted in this study is “a pattern in a stream of decisions or actions” (Mintzberg & McHugh, 1985, p. 161).

Another characteristic of the strategy formulation process worthy of note is that of how the organization is viewed. An organization can be viewed as operating in a context consisting of relationships between different actors (Håkansson & Snehota, 2006a). Under this theoretical lens, strategy
formulation is concerned with the interdependencies of the network’s actors and with mobilizing the resources that lie embedded in these relationships (Jüttner & Schlange, 1996). Moreover, the organization itself can be seen as a network of different stakeholders, with the management of the organization in the role of strategizing how maximum value can be obtained through these relationships.

To summarize, companies engage in CSR to gain legitimacy, but when they are perceived as not obeying society’s norms in this regard, a legitimacy threat occurs that can lead into a crisis. When a company is faced with a crisis it has to develop some kind of strategy in order to regain legitimacy. Or, in other words, the company must engage with its stakeholders within its context. However, since strategy formulation is a dynamic process, time should be taken into consideration.

Therefore, the aim of this study is to understand what strategies are used over time by a company facing a transgressional CSR crisis, in order to regain legitimacy, and towards which stakeholder group these strategies are directed.

“Empirical studies on how multinational corporations perceive and manage legitimacy threats in increasingly complex and dynamic environments are scarce” (Baumann-Pauly, Scherer, & Palazzo, 2016, p. 48). This study aims to answer this call for empirical studies. Furthermore, by donning a mix of different theoretical lenses this study hopes to shed some new light in the field of crisis management.

The structure of the rest of the paper is as follows. Firstly, a literature review is conducted in order to depict the current research on the field. The next section is devoted to the methodology the authors follow for this research. The following section contains the key findings and is followed by a section devoted to analysis and discussion of said findings. Lastly, a conclusion to the research is given, along with suggestions for future research.
2. Literature Review

In this chapter, literature relevant to this study will be presented, in order to provide readers with a comprehensive understanding of contemporary crisis management research.

Over the past years, a growing interest in the concept of business strategy and how it is managed has captured scholars’ attention. The network model suggests that businesses operate in a context consisting of a number of identifiable entities (actors). Such actors engage in continuous exchange relationships with each other in which each individual party exercises/utilizes considerable leverage on the organization (Håkansson & Snehota, 2006b).

Under this view, the complex business market can be seen as a network of different actors who engage in relationships with each other. Each relationship has its own resources and has its specific context (Håkansson & Ford, 2002). This mutual dependence between an organization and its counterparts is the starting point to achieve a common goal, as actors cannot achieve their goals without the resources possessed by another actor (Koppenjan & Klijn, 2004).

If this concept is coupled with Freeman’s (2010) stakeholder theory an interesting mix occurs. Each actor in a company’s network can be considered as a stakeholder. Much research is focused around the concept of stakeholders. Authors focus on who is a stakeholder (e.g. Friedman & Miles, 2002; Mitchell, Agle, & Wood, 1997), or even how stakeholders themselves try to influence a company (Frooman, 1999). The complexity of multiple stakes is often discussed (Crilly, Zollo, & Hansen, 2012; Devinney, Mcgahan, & Zollo, 2013; Pasha & Poister, 2017). The underlying agreement on the basis of this complexity is heterogeneous claims, stemming from stakeholders. Some authors consider a division among the same stakeholder group, for example in regards to disagreements about the appropriate action to be taken (Locke, Amengual, & Mangla, 2009; Pache & Santos, 2010). However, we believe there is an underlying implicit simplification in literature, as far as divergent demands are concerned, since they are assumed
to originate from different stakeholders, or just as a disagreement in the same group.

However, “it is important to bear in mind that organizations are social constructs” (Elbe & Emmoth, 2014, p. 211), as well. Given the fact that the organization is viewed as part of a context, it can be argued that the organization itself is a network, within the context. A network comprised of the management and internal stakeholders such as employees and investors. In this aspect, management can be viewed as tasked with balancing the different stakes in order for the company to be perceived as legitimate.

When a company loses legitimacy in its context it experiences a CSR crisis. Accordingly, Akpinar & Vinceze (2016) argue that stakeholders can be also viewed as a barrier threat, as they can deny access to important resources, impose terms, or partner with powerful actors. Thus, the focal organization and its actions should be perceived as legitimate in order to ensure the continuous access of resources held by another actor(s) in the network. Therefore, the legitimacy of an organization is considered as a resource that should be managed in order to secure resources from stakeholders (Elbe & Emmoth, 2014).

As Baumann-Pauly et al. (2016) posit, stakeholders have a tendency to treat an organization as a whole, when legitimacy is concerned. When a CSR crisis occurs, stakeholders will try to assign responsibility and identify the guilty parties. Attribution theory refers to this psychological tendency of people to understand what caused an event (Coombs as cited in Carroll, 2013). This holds even truer concerning negative events and the most common classification of causality is on the axis of external vs. internal (Coombs as cited in Carroll, Carroll, 2013). Furthermore, social actors assign attribution as a natural process, often without sufficient evidence (Coombs as cited in Carroll, Carroll, 2013). Crises can be conceptualized as four different types, based on two functions, control and intentionality. They are classified as follows from highest to lowest attribution:
1. Transgressional, where the company is perceived as having the intention of causing an event.
2. Accidental, where the company is perceived as having no intention of causing an event.
3. Faux pas, where someone outside the company is perceived as unintentionally causing an event.
4. Terroristic, where someone outside the company is perceived as intentionally causing an event.

(Coombs & Holladay, 1996)

By attributing causal responsibility to the company, the public can experience negative emotions such as anger which in turn could translate to a lesser legitimacy for a company (Coombs & Holladay, 1996). Crisis management can be used to protect legitimacy, with communication with stakeholders holding an essential role in the process (Barton, 2001; Benoit, 1995, as cited in Coombs, 2006). Furthermore, crisis response strategies can be employed to alter attributions or feelings stemming from those attributions (Coombs & Holladay, 1996).

One theory of crisis management is Situational Crisis Communication Theory (SCCT). According to Coombs (2006, p. 243), SCCT is a “theory-based, empirically tested method of selecting crisis response strategies”, which has three basic components: crisis situation, crisis response strategies and a method of matching the strategy to the situation. In order to understand what type of crisis situation a company is facing, four different variables must be considered (Coombs, 2006). These variables are crisis type, the severity of damage caused by the crisis, prior company history of similar crises and prior relationship of the company with stakeholders.

After identifying the crisis situation, SCCT posits that the company must provide stakeholders with instructing information and adjusting information (Huang, Lin, & Su, 2005). Instructing information consists of basic information regarding what stakeholders need to do to physically protect themselves from the crisis (Coombs as cited in Carroll, 2013). Adjusting information aims to offer psychological support to stakeholders such as conveying interest, informing what the company is doing to address the crisis.
and what caused the crisis. The main focus during a crisis is public safety as all communication should be concentrated on protecting people from the hazards of a crisis (Coombs as cited in Carroll, 2013).

After providing stakeholders with instructing and adjusting information, SCCT suggests adopting response strategies in line with the crisis situation (Coombs, 2007). These strategies can be grouped into four distinct categories, namely, deny strategies, diminish strategies, rebuild strategies and bolstering strategies. By using the strategy of denying, a company tries to prove that either the crisis is non-existent or that the company bears no accountability for the crisis (Coombs, 2006). The strategy of diminishing is about acknowledging the crisis as well as the company’s involvement while attempting to alter stakeholders’ attributions in order to minimize damage to the company’s legitimacy (Coombs, 2006). Rebuild and bolster strategies are used to repair legitimacy by trying to alter how the organization is perceived. Furthermore, Coombs (2006, p. 248) posits that “the more responsibility stakeholders attribute to the organization the more the crisis response strategy must seem to accept responsibility for the crisis”.

As already mentioned, SCCT posits the response to be appropriate to the crisis type, for example in cases where the crisis is associated with low attributions (accidental), the diminish response strategy should be applied (Coombs, 2007). Furthermore, the organization should be consistent in employing response strategies and try not to use a mix of deny, diminish and rebuild simultaneously as it will reduce the efficiency of the response (Coombs, 2007).

Crisis Response Strategies

<table>
<thead>
<tr>
<th>Denial crisis response strategies</th>
<th>• Attack the accuser: managers confront the person or group that claims the organization is in a crisis.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Denial: managers claim that no crisis occurred.</td>
<td>• Scapegoat: managers blame some outside person or group for the crisis.</td>
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</table>
### Diminish crisis response strategies
- **Excuse**: managers minimize the organization’s 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

### Rebuild crisis response strategies
- **Compensation**: managers offer money or other gifts to victims.
- **Apology**: managers accept responsibility for the crisis and ask stakeholders to forgive them.

### Bolstering crisis response strategies (supplemental strategies)
- **Reminder**: managers tell stakeholders about past good works of the organization
- **Ingratiation**: managers thank stakeholders and/or praise stakeholders for their help during the crisis.
- **Victimage**: managers remind stakeholders that the organization is a victim of the crisis as well

(Coombs as cited in Carroll, 2013, p. 264)

However, SCCT is mostly concerned with managing the attributions resulting from the crisis through communication with the stakeholders. Another approach to crisis management is provided by Scherer et al. (2013), who posit that in order to regain its legitimacy, the organization can employ three strategies, namely strategic manipulation, isomorphic adaptation and moral reasoning. Strategic manipulation refers to an organization trying to alter the expectations of society by influencing the viewpoint of key stakeholders. The isomorphic adaptation strategy involves the capitulation to societal expectation and the revision of the organization’s unwanted practices. Using the moral reasoning strategy, the organization can
participate in a dialog with its stakeholders, in order to find some moral middle ground (Scherer et al., 2013).

In order for the strategy to be chosen, two factors are deemed of utmost importance. The height of cost involved in the adaptation to societal expectations and the degree of homogeneity in said expectations (Scherer et al., 2013). For example, when the cost of adaptation is high and societal expectations heterogenic, a company is expected to follow a strategic manipulation strategy by attempting to alter the perception of the stakeholders who question its legitimacy in order to preserve its organizational practices intact.

Furthermore, a paradox approach is suggested where the organization adopts a mix of all three strategies at the same time (Scherer et al., 2013). According to Lewis (2000), a paradox occurs due to paradoxical tensions, for example conflicting demands. These paradoxical tensions can occur when contradictory demands, from one or more stakeholders, clash. Scherer and Palazzo (2007, 2011; as cited in Scherer et al., 2013), suggest that multinational companies that want to devote resources to CSR should find the paradox approach as highly applicable. But in order to understand how can a company simultaneously employ a mix of strategies we have to take a closer look at the strategy formulation process.

There is a plethora of research in the field of strategy and an abundance of articles proposing new theories (or reviewing existing ones) regarding the process of strategy formulation (e.g. Inkpen & Choudhury, 1995; Mintzberg, 1978; Mintzberg & Waters, 1985; Regnér, 2008; Sminia, 2009; Stefanović et al., 2012). Strategy formulation process was presented by Mintzberg & McHugh (1985, p. 194) in the form of an analogy aptly named as “grassroots”. The authors present strategies as weeds growing in a garden, often in unexpected places. These weeds can either be cultivated by the gardener (management) or grow on their own. If the garden is overrun by a new kind of weed, the strategy of the organization changes, as the garden is no longer producing the original plant. This process of change can be intended or not and the existence of a gardener is not necessary. Furthermore, this process seems to be following a seasonal pattern with “a time to sow and a time to
reap” (Mintzberg & McHugh, 1985, p. 195). Therefore, when new weeds start growing independently, the gardener can either try to uproot them or, realizing their potential usefulness, try to nurture them.

Strategy can be seen as a spectrum ranging from purely deliberate to purely emergent strategies (Stefanović et al., 2012). “Deliberate strategies are the ones that are realized as intended and emergent strategies are those patterns or consistencies realized despite, or in the absence of, intention” (Stefanović et al., 2012, p. 176). According to Mintzberg & Waters (1985), pure deliberate strategies possess precise intentions, are shared by all the actors in the organization and are realized exactly as intended. A pure emergent strategy, on the contrary, requires the complete absence of intention by the actor who initiates it (Mintzberg & Waters, 1985). Therefore, deliberate and emergent can be seen as the two ends of a spectrum under which a strategy falls (Stefanović et al., 2012). As Mintzberg & McHugh, (1985, p. 196) posit:

No organization can function with strategies that are always and purely emergent; that would amount to a complete abdication of will and leadership, not to mention conscious thought. But none can likewise function with strategies that are always and purely deliberate; that would amount to an unwillingness to learn, a blindness to whatever is unexpected.

Mintzberg (1978, p. 934), initially defines strategy as “a pattern in a stream of decisions”. A definition that is soon changed into “a pattern in a stream of decisions or actions” (Mintzberg & McHugh, 1985, p. 161). The definition, implicitly suggests that the strategy is a process where time is considered as an important factor. Furthermore, defining strategy this way would help us to understand the two sides of the strategy formulation process as intended and emergent. Another important aspect to consider is that when an emergent strategy is recognized by the management, it becomes the next intended strategy. For example, a manager may formulate a strategy through a planning process before he makes specific actions. On the other hand, a strategy may emerge unintentionally as the manager makes his decisions step by step. Furthermore, a strategy may even emerge from a different part of
the organization, or even be imposed by another actor in the network. For example, a regulator in the network may impose new legislation, which can divert other actors’ intended strategy towards an emergent one in order to adapt to the change.
3. **Methodology**

In this chapter, the research approach is explained. Furthermore, research design and strategy, a description of the case, data collection & analysis as well as research quality will be discussed.

3.1. **Research Design and Strategy**

The nature of the study is of longitudinal qualitative research. According to Saunders, Lewis, & Thornhill, (2012) the main advantage of longitudinal research is its ability to study change and development. Furthermore, it provides researchers with ways to measure the changes being studied over a certain period of time. According to Mintzberg & McHugh, (1985, p. 165) “to track strategies as we have defined them requires a longitudinal approach”.

Qualitative studies are associated with different strategies such as case study or ethnography (Saunders et al., 2012). This thesis will adopt single case study strategy as we intend to study the strategies used by VW to regain legitimacy in a time of transgressional crisis within its context. VW case is considered as a critical and unique case as it exposed the weakness of the current EU car certification system (European parliament, 2017).

According to Saunders et al., (2012, p.163) “qualitative research design studies participants’ meanings and the relationship between them”. According to Bryman, (2012, p 66) “a case study explores a research topic or phenomenon within its context, or within a number of real-life contexts”. Furthermore, in relation to our research aim, “the case study strategy also has considerable ability to generate answers to the question ‘why?’ as well as ‘what?’ and ‘how?’ questions” (Saunders et al., 2012 p.179).

3.2. **Case Description**

VW has admitted to the usage of illegal software in around 11 million of its diesel engines, in vehicles made from 2009 to 2015. This software commonly referred to as a *defeat device*, detected when the car was
undergoing emissions testing by calculating factors such as the position of
the steering wheel, the speed of the vehicle and how long the engine was
working. If the software detected that the car was being tested, it would alter
the engine’s performance to emit less Nitrate Dioxide (NO2), which is a
known pollutant. Barrett, al. (2015), estimate that around 59 people will die
because of the excess emissions. If the software detected normal driving
conditions, the engine would operate normally. In effect, this software
presented the vehicles as more environmental friendly when tested, which
constitutes a CSR based challenge. According to Coombs and Holladay
(2015), these kinds of challenges appear with an increased frequency in
modern corporations.

Since the software was installed deliberately and by company’s
employees this is considered a transgressional crisis. In order to protect its
legitimacy, VW had to engage with its network using some form of strategy.
Although there has been some research done on the VW scandal (e.g.
Bovens, 2016; Fracarolli & Lee, 2016) we were unable to locate any research
concerning similar dimensions. This case is interesting and relevant for our
study, as the scandal itself can be seen to have played a role in affecting the
context itself, for example, the imposition of new legislation over the
automotive industry in Europe.

3.3. Data Collection

The research aim is concerned with what strategies VW used in order to
regain legitimacy over time and to which stakeholder groups these strategies
were targeted. The first step was to employ the search engine Google using
these search words: Volkswagen, Volkswagen diesel crisis, VW, diesel
scandal, TDI, Volkswagen statements on the crisis, Volkswagen crisis
response. Secondary data in the form of news articles related to the VW crisis
were collected. After reading a few news articles the initial keywords were
enriched by the addition of electrification and mobility strategy, Transform
2025+, Diesel Gate, Environmental Protection Agency, EPA, international
council on clean transportation. Using the news articles gathered helped the
authors to formulate a rough timeline of the crisis and establish actions from different actors in VW’s network.

Afterward, further secondary data regarding the crisis was collected from VW’s websites including press releases and sustainability reports. Later, the authors rearranged the data in chronological order starting from 2005 onward to be able to interpret the actions VW used to handle the diesel crisis over time. Moreover, to achieve triangulation of the data, the media articles accessed through the internet were employed in order to locate any other disregarded VW communications. The data collected is expected to be the totality of VW’s published communication regarding the crisis, since the crisis originated.

3.4. Data Analysis

The research aim is concerned with understanding what are the strategies used by VW to address different stakeholders over time. Since we have defined strategy as patterns in a stream of decisions or actions, it means that strategy formulation is a process where time plays an important factor. It was evident that our role was to identify the timeframe of each action in order to be able to perceive the stream of patterns. Therefore, each piece of data was firstly categorized chronologically. After that, the initial coding process ensued, where the authors independently coded a portion of the data. This process revolved around identifying what strategies each action might indicate, towards which stakeholder and to what purpose.

During the next stage, the authors met, exchanged notes, and contrasted ideas and views regarding the coding process. After a consensus was reached, the authors proceeded with analyzing the rest of the data. After all the available data had been analyzed, the authors were in possession of a timeline of decisions/actions performed by VW, as well as actions/reactions of actors in VW’s network.

A further round of analysis was conducted, this time in a more holistic manner of establishing the patterns in the stream of decisions/actions. This resulted in a timeline that presented strategies, rather than indicators to strategies. Data was once again collected through online news articles and
inserted in the timeline until data saturation was achieved. “If one has reached the point of no new data, one has also most likely reached the point of no new themes; therefore, one has reached data saturation” (Fusch & Ness, 2015). The authors believe that stage was reached when no new actions/strategies were revealed by further acquisition and analysis of data. Using the timeline constructed, the authors were able to ultimately understand how the strategies evolved in the deliberate-emergent spectrum, as well as to what stakeholder they were directed towards in the network.

The process used is similar to that employed by Mintzberg & McHugh (1985). Similarly, the authors brainstormed matters relating to “patterns of strategic change”, “the relationships between deliberate and emergent strategies”, and “the relationship between strategy and structure” (Mintzberg & McHugh, 1985, p. 165).

3.5. Research Quality and Limitations

To ensure the quality of this research, several steps are taken. Firstly, the data itself is transparent, as VW’s one-way communication channels (press releases, sustainability reports, websites) are online and cannot be altered. This applies also to news articles as well. To further increase reliability, clear notes are kept. Furthermore, the authors worked independently for the first part of the coding process and in a later stage merged the codes to analyze the data.

This paper also faces some limitations. Although the methodology is following the footsteps laid down by Mintzberg & McHugh (1985), due to time and access limitations this study could not consider a longer time period. Moreover, internal or interpersonal communications may have helped shed a different light on the findings. Lastly, lacking access to VW’s management the authors cannot be fully aware of the actual intentions of the actors but rather have to understand and explain the intentions through their actions.
4. Key Findings

In this chapter, the key findings of this research will be presented. Numbers in parentheses signify the hyperlink, through which each piece of data was collected. The list of the links is included in the appendix.

4.1. Crisis Roots

The roots of VW’s diesel crisis lie in 2005, when the company, in pursuit of the intended organizational strategy of becoming the world’s biggest automotive company, decided to increase its share in the US market by promoting fuel-efficient diesel engines. To accomplish this goal the company produced the EA189 diesel engine. However, VW’s engineers soon realized that the newly produced engine could not pass the strict emission regulations in the US. According to VW (70), “a group of persons at levels below the Group’s Board of Management” due to time and budget limitations decided to install the defeat device in order to pass the US emission testing. The following figure provides a summary of the crisis timeline.

Crisis Timeline

<table>
<thead>
<tr>
<th>Period</th>
<th>Period 1</th>
<th>Period 2</th>
<th>Period 3</th>
<th>Period 4</th>
<th>Period 5</th>
<th>Period 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period Name</td>
<td>Engaging with US regulators</td>
<td>Blind Adaptation &amp; Minimize Attribution</td>
<td>Differentiation &amp; Internal Moral Reasoning</td>
<td>EU Recall Commences</td>
<td>Strategy 2025</td>
<td>US Recall Starts</td>
</tr>
</tbody>
</table>

(Source own creation)


On Spring 2014, the first accusations towards VW appear, as the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) launched an investigation into certain 2.0L diesel...
engines that had increased emissions when tested in normal driving conditions, compared to lab conditions. At this point VW employs the deny strategy of attacking the accuser by discrediting the findings, methodology, and data of the study presented. VW conducts in-house testing and on December 2nd, 2014 reports to the US authorities that the increased emissions were a result of "various technical issues and unexpected in-use conditions" (5), in an attempt to justify. VW arranges for the affected vehicles to be encompassed in an already programmed round of recalls happening in the US in the Spring of 2015.

During this period, VW’s communication regarding the diesel issue involves only one actor in the network, namely the US government. By using a combination of denying and diminishing, the company is trying to strategically manipulate the US regulators’ perception. However, even after the recall the engines still presented the same problem. After EPA threatened to withhold approval over VW’s 2016 diesel models (5,6), in essence banning the model from being sold to the US, VW reacted with a change in strategy.

On 21st of August 2015, some of VW’s executives unofficially admitted to EPA that a defeat device is installed in some 2.0L diesel automobiles, which altered the emissions of NO2 during tests. An admission that changed the course of the strategy from denying and diminishing to an admission of guilt. The admission to the defeat device led Volkswagen to engage in direct negotiation with a powerful actor in the network (US Government) in order to protect its legitimacy and therefore its operations in the US part of the network. We believe that this action represented a change in VW’s strategy towards the US government from strategic manipulation to moral reasoning in an attempt to rebuild its legitimacy.

On 3rd of September 2015, in a conference call, VW officially admitted to US officials about the defeat device in 2.0L diesel engines and continued direct negotiations with the US government. At this period of time, the strategic manipulation and moral reasoning towards the US government are the legitimization strategies adopted by Volkswagen.
4.3. **Period 2. 18 September 2015 - 9 November 2015 Blind Adaptation & Minimize Attribution**

On the 18th of September 2015, EPA issued a notice of violation to VW regarding approximately 500,000 2.0L diesel cars sold in the US from 2008 onwards (9). Later VW will present EPA’s move as “unexpected, because of the course of the discussions with the U.S. authorities until then” (69). At this point, VW realizes that the societal pressure was significantly higher than its initial estimation (69). That sudden wave of societal displeasure seems to stun VW that remains silent for 2 days.

On September 20, in accordance with SCCT, VW started addressing stakeholders with *instructing information* and *adjusting information*, often accompanied by *apologies*. The first days of the crisis VW addressed most of the stakeholders with a consistent message summarized in the statement of US CEO Michael Horn “we have totally screwed up” (12). On September 23 VW CEO Martin Winterkorn resigns. Two days later on September 25, Matthias Müller is named CEO and claims that his “most urgent task is to win back trust for the Volkswagen Group” (21). The new CEO also promises “maximum transparency”, “the most stringent compliance” and sets the vague goal of becoming “stronger than before”. A communication published on 13th October 2015 by VW stated: “Investments to be reduced combined with prioritization of projects for the future” (26). Furthermore, VW added that investments were to be focused on more environmentally friendly vehicles and electrical solutions. The authors perceive these actions as an attempt to *isomorphically adapt* to societal expectations, an effort to *rebuild*, although lacking a solid goal. A strategy we term *blind adaptation*. This strategy is coined as blind as it is not driven by an objective but is rather a reaction to stakeholders’ pressure.

Another date worthy of note is October 28th, 2015, when VW’s CEO Matthias Müller announced key priorities to realign the group. We identified three key priorities. The first priority was to introduce new structure into the group, in which the decision making will be decentralized to a greater extend in the future, with more independence for the brands and regions. The second priority was to realign the group culture and behavior through “the pursuit of
perfection, the employees' commitment and social responsibility in the Volkswagen Group” (29). The third priority was to transform the Group's Strategy 2018 into a Strategy 2025. (29). In essence, VW had to construct an image of learning and change to regain its legitimacy. In order to achieve that, VW began weaving threads of older intended strategies and newer emergent ones in an argument of how the company will change into a better organization. This amalgam of threads is part of the blind adaptation process.

Given the fact that VW’s legitimacy was severely affected by the sequence of actions surrounded the context of the crisis, VW chose to voluntarily reveal CO2 irregularities in 800,000 diesel engines accompanied with an apology. In this action, VW was trying to rebuild its legitimacy by isomorphically adapting to social expectations, by proactively reporting a negative aspect of its operations. VW also stressed that the company voluntarily revealed CO2 irregularities. Therefore, we believe this represents another example of the blind isomorphic adaptation.

As VW attempts to create a plan on how to fix the affected vehicles it has to procure approval from governmental actors. Government as an actor exercises some sort of power over other actors in the network (VW) and affects their processes and strategy formulation in the network they operate in. In order to procure approval, VW starts engaging in moral reasoning. On October 15th, 2015, VW initially agreed with German Federal Motor Transport Authority (KBA) for the recall of 8.5 million vehicles in Europe including 2.4 million vehicles in Germany while arguing and justifying to all stakeholders that “all of the vehicles affected remain technically safe and roadworthy” (27). However, we would like to point out that the negotiation and the decision by the German government did not take much time. In the meantime, no progress is reported in the US regarding a recall. Furthermore, no corrective measures against VW were taken by any government so far. Shareholders are also addressed using the negotiative tone of moral reasoning, e.g. when on September 30 the executive committee proposes that the general shareholder meeting scheduled for November 9, 2015, should be postponed, until shareholders’ questions can be adequately answered.
VW also promises to conduct an internal - as well as an external - investigation on how the crisis happened, in an attempt to sway the public’s perception as to who bears the responsibility, in the fashion of SCCT’s diminish approach. Combined with comments from various VW board members who claimed ignorance on the diesel matter, these actions lay the seeds of a strategic manipulation grass-root strategy that the company will start cultivating in future periods. This strategy is one of minimizing attribution towards the company. Furthermore, with VW’s legitimacy in shatters, the company’s choice to include an external party in the role of the investigator can be seen as an attempt to boost the narrative’s credibility.

On October 8th, 2015, the US CEO blamed the installation of the defeat devices on “a couple of software engineers who put this in for whatever reason” (24, 25). Although SCCT posits that scapegoating an external party can be part of a strategy to deny involvement, in VW’s case the scapegoat is an internal actor. The company is trying to minimize its involvement, thus using an internal scapegoat can be seen as more closely related to diminish. In accordance with legitimization strategies, VW’s management was trying to alter stakeholders’ perception and minimize the legitimacy damage. Therefore, we present this action as another example of how the emerging strategy of minimizing attribution mentioned earlier started to get momentum and began to be adopted by VW’s top management.

All the strategies presented in this period lie close to the emergent side of the spectrum, born out of necessity rather than deliberation. Alongside these emergent strategies, the intended strategy of strategic manipulation regarding the 3.0L engines is born. Although VW claims to be conducting an investigation over the extent of the crisis, the company did not communicate any information about a similar defeat device installed in its 3.0L engines, which was revealed later in the process. Therefore, we believe that VW was strategically manipulating its stakeholders in regards to 3.0L engines.

In a congressional hearing held On October 8th, 2015, Volkswagen was accused of violating the trust of US stakeholders while also accused of installing another defeat device in some of its 3.0L diesel engines. On this
day VW’s US CEO admits to the defeat device installed in some of the 3.0L diesel engines and issues a public apology. It’s worthy to note that all of VW’s 3.0L diesel engines from 2009 to 2016 are equipped with a defeat device. Therefore, we believe that VW’s US CEO was strategically manipulating the US officials by omitting that the rest of the 3.0L engines were also affected. On November 2\textsuperscript{nd} 2015, EPA issued an NOV for the identified 3.0L engines. In response to the NOV, VW communicated that “Volkswagen AG wishes to emphasize that no software has been installed in the 3-liter V6 diesel power units to alter emissions characteristics in a forbidden manner” (36). This is an effort to diminish by justifying the existence of the device, as VW is basically saying that there is a device installed in 3.0L engines, but it's not there to alter emissions results.

Therefore, this period can be seen through the prism of the paradox approach as the company is trying to come up with a plan on how to repair the affected 2.0L vehicles, lower the perceived attribution regarding the crisis, hide and later justify the 3.0L defeat device and present a facade of change and remorse through blind adaptation.


One of the dates worthy of notice in this period is 9 November 2015, when VW offered compensation to the US customers who owned affected 2.0L vehicles, in the form of a 1000$ “goodwill package” (59). Although for US customers that was a sign of VW succumbing to societal pressure and isomorphically adapting, for the customers in the rest of the world it meant something different. This decision was the birth point of an intended strategy, to treat US customers differently than the customers in the rest of the world. We argue that this strategy one of strategic manipulation towards non-US customers/stakeholders.

This compensation (as well as similar decisions that will be discussed in later periods), is an implicit admittance of responsibility from VW to its customers, as well as an attempt to mediate the damage caused. By differentiating treatment between two actors in the network, VW either
claims a lesser degree of responsibility for one or that a lower level of damage was caused to one. Both of these arguments appear later on in the company’s discourse. Out of the approximately 11 million affected 2.0L engines, about 500,000 were located in the US. According to Scherer et al. (2013), the cost of isomorphic adaptation is a factor of utmost importance when strategizing. In the US, the cost was disproportionately small compared to that of the rest of the world.

We term this strategy as more closely positioned to the intended end of the spectrum. We argue that a certain modicum of deliberation would have been required by VW’s management in weighing the cost of adaptation, in order to have a reason for said differentiation. It has to be made clear that the authors do not consider the validity (or lack thereof) of VW’s claim for this differentiation. In fact, this strategy could have been identified as moral reasoning towards non-US customers; if only the company had chosen to enter a discourse armed with these arguments. Instead, VW has repeatedly avoided discussing this point, presenting this position of differential treatment as non-negotiable.

Communication over the recall process is also colored by this strategy of US differentiation, with the most common argument used by VW being the “far stricter nitrogen oxide limits in the United States” (e.g. 49). In the US, VW engages in moral reasoning with EPA and submits an initial proposal for addressing the emissions problems in the company’s 2.0-liter diesel vehicles on 20 November 2015. In the EU, during this period, VW is slowly moving towards an isomorphic adaptation direction from the 25th of November 2015 onwards as it starts to present technical plans for how the affected cars will be repaired (46). The aforementioned difference in pressure from the US government becomes even clearer in this period, for example when the Department of Justice files criminal charges against VW on January 4, 2016.

Another action worthy of notice for this period occurred on the 19th of November 2015 when VW informed EPA that all 3.0L diesel engines from model years 2009 to 2016 were equipped with the software identified in the NOV of November 2, 2015. This marks the end of the strategic manipulation
of withholding information over the rest of the affected 3.0L vehicles. However, the strategic manipulation about how this software does not “alter emissions characteristics in a forbidden manner” (36) remains unchanged.

The strategy of Blind Adaptation gains, even more, momentum with various actions and decisions. The CO2 irregularities, for instance, are again proactively addressed on November 13 (40) and December 9 (48), when the company lowers its original estimation of affected cars from 800,000 to 430,000 to 36,000. Other decisions worthy of mention are aiming to build a leaner structure, making progress towards decentralization, and have future emissions tests evaluated independently.

In order for the process of becoming leaner to be unimpeded (for the grass-root strategy to sprout), VW engages in moral reasoning with its employees in order to find a common ground. Or as VW’s press release states “series of talks between the Board of Management and the employee representative body, in order to find a common path for the future of the company” (39). This presents the first step of an internally directed intended moral reasoning strategy. If VW is seen as a network itself, management then bears the mantle of repairing the relationship with the key actors in this network, i.e. its internal stakeholders. VW needs to win back the trust of its employees, and as will be shown in later periods, the trust of its shareholders as well.

Finally, the minimize attribution strategy seems to be adopted by VW’s management as an intended strategy on December 10, 2015, when the initial report of the internal investigation is communicated to the network (49). According to it, the crisis occurred due to three factors. “The misconduct and shortcomings of individual employees”, “weaknesses in some processes” and “a mindset in some areas of the company that tolerated breaches of rules”. Again, more time is requested for a more thorough external investigation.

To sum up, during this period VW adopts the minimize attribution strategy as an intended one, waters the roots of its blind adaptation, continues moral reasoning with governments about the recall, starts making
the first steps towards the recall process in EU, adopts diminish for all 3.0L engines and begins the process of US differentiation.

4.5. **Period 4. 11 January 2016 - 16 June 2016 EU Recall Commences**

As the title suggests, this is the period when VW started recalling affected cars in EU for repairs. More specifically, on 28 January the first 2.0L model, the Amarok, in Germany. During this period talks with EU governments in regard to the recall continue. Therefore, we have alternations between isomorphic adaptation and moral reasoning as VW tries to get approvals of its plans regarding the recall, and when that approval is granted, the next round of recalls.

In the US, however, the company faces more pressure from the governmental actor. For example, on 12th of January EPA and CARB reject VW’s plans for a 2.0L recall as they are lacking “sufficient detail” or “enough information for a technical evaluation”, “contain gaps” and “do not adequately address overall impacts on vehicle performance, emissions and safety” (61, 124). On April 21, VW submits another plan for the 2.0L engine recall in the US. Lawsuits keep piling up as well, for instance on 26 of March when the US Federal Trade Commission sues the company for deceptive advertisement.

The intended strategy of US Differentiation that began in the previous period takes a clearer shape. VW’s discourse regarding the differentiation is mainly built upon four pillars. Firstly, the claim that the engines sold in the US were “technically different” while also having to comply with stricter regulations. This meant that vehicles in non-US markets could and would be fixed. Thirdly, that the history of car recalls shows no reduction in resale value (e.g. 123). Lastly, VW goes as far as to claim that under EU laws the software “is not a forbidden defeat device” (125).

On January 11th, 2016 VW admits that the 3.0L models were also equipped with a defeat device, shifting its strategy on the issue from strategic manipulation to isomorphic adaptation. At least for the US, where VW chooses to extend its goodwill package of compensation to owners of 3.0L
affected cars as well. In the rest of the world that compensation is nowhere to be found. In its stead are the strategic manipulation arguments of the previous paragraph.

The internal moral reasoning discourse includes shareholders during this period as VW becomes the target of shareholder litigation “in connection with the allegation of a violation of disclosure obligations under capital markets law” (69). VW’s counter arguments revolve around the notion that EPA acted unpredictably when issuing an NOV, that the initial estimation on affected cars was lower, and that a “two-digit or lower three-digit million amount would be imposed” in fines, based on previous similar cases in the US in the past (69). VW’s argument towards its shareholders, in essence, is that the crisis was underestimated. In the annual report published on 28 April 2016 the company apologizes and attempts to justify the low number of dividends for 2016 (81). Furthermore, VW requests time in order to change in a holistic manner and become profitable again.

The annual report can also present an example of how the minimize attribution strategy remains unchanged during this period. The main arguments remain unaltered about how the external investigation still requires time to be completed and that no current or previous board members had any previous knowledge of the defeat devices. VW’s CEO during an interview even goes as far as to state that the company had “not the right interpretation of the American law” and regarding period 1 “we didn't lie. We didn't understand the question first” (122).

The blind adaptation strategy begins to open its eyes and focus on a goal of electrical engines, innovation, and digitalization, under the phrase of e-mobility. A branch of moral reasoning is born out of this adaptation on January 11 when the CEO claims that the “automotive future should not be left to Silicon Valley”. Rather, EU should lead the way “also in terms of infrastructure and the right legislative framework” (62). According to Scherer et al. (2013, p. 264), moral reasoning revolves around a discourse which “serves the well-being of society rather than egoistic motives or narrow interests”. The authors identify VW’s discourse as moral reasoning, as the company is trying to present a more ecological future, if the EU
government provides the infrastructure. Therefore, we can see that as the strategy begins to obtain more intended characteristics, its focus also starts to shift from isomorphic adaptation to moral reasoning.

During this period, VW’s blind adaptation begins to acquire moral reasoning characteristics as a clearer goal is set, moral reasoning with shareholders intensifies, the 3.0L issue is encompassed in the US differentiation strategy which gains, even more, momentum, while minimize attribution remains unaltered.

4.6. **Period 5. 16 June 2016 - 6 January 2017 Strategy 2025**

On June 16, 2016, VW officially announced its "TOGETHER – Strategy 2025" (85). This is a continuation of the emerging strategy of blind adaptation discussed in the previous periods. However, VW now has a clear goal in mind which entails becoming the leader of innovation in the automotive industry. This, according to the company, will be achieved by “transforming the core business and tapping potential new revenue streams”, “major electrification”, and developing “battery technology, digitalization and autonomous driving” as new competencies (85). This change is planned to be achieved through “Group-wide efficiency improvements and portfolio optimization” in order to both increase “profitability and efficiency” as well as become more “customer-driven and sustainable”.

Examples of how those goals are to be reached include on August 3, when the company introduces a new “particulate filter for petrol engines” (91), on October 25 VW inaugurates a “digital lab” in Berlin (95) and on November 28 when VW presents a new sustainability magazine (120). Now that the company has a distinct goal, articulated clearly by the leadership, the blind adaptation strategy loses most of its emergent characteristics and becomes the company’s intended strategy. Similarly, it’s no longer blind and no longer adaptation. The company is now engaging in moral reasoning with its stakeholders, not on the grounds of what is expected from the company itself but rather from the whole industry. Similarly to what Nike did when it
published the information of its supply-chain partners, VW tries to establish a new image for the automotive industry.

To achieve a leaner structure, however, VW needs to continue internal moral reasoning with its employees. On November 18, 2016, this line of negotiation seems to reach a meeting point when VW announces that no forced redundancies will occur in Germany until 2025, instead 30,000 jobs will be cut through buyouts, early retirements and the reduction of part-time staff. In North America, Brazil, and Argentina, the negotiation is assumed to be in process at the point this thesis is written since VW has said that jobs will be also cut but without disclosing a specific number. Further examples of this strategy are provided in the words of CFO Frank Witter “we will do all we can to continuously create value for our shareholders based on a solid financial position” and that the group will “remain an attractive investment and an excellent, reliable and secure employer” (85). However, shareholders’ response to this strategy appears to vary. For example, on June 22, 2016, at a shareholder meeting, Hans Dieter Poetsch, previously the CFO presently acting as the head of VW’s supervisory board, is accused of conflict of interest (86). Attempts to remove Poetsch were discouraged by Wolfgang Porsche, whose family is one of the major shareholders, and Joerg Hofmann, who is the head the German labor union

In the US on June 28, 2016, VW “Reaches Settlement Agreements with U.S. Federal Regulators, Private Plaintiffs, and 44 U.S. States” in regard to 2.0L engines (88). The settlement includes $2.7 billion to be paid to an environmental remediation fund, $2.0 billion in investments to promote zero-emissions vehicles in the US and up to $10.033 billion for the recall/buyout process - including a compensation bonus ranging from $12,475 to $44,176 per car. Faithful to the US differentiation, the company claims that the agreements “are not an admission of liability by Volkswagen” and “are not intended to apply to or affect Volkswagen's obligations under the laws or regulations of any jurisdiction outside the United States” (88). On November 2016 VW insists that “the software contained in vehicles with an EA-189 engine in the view of Volkswagen represents no unlawful defeat device under European law” (129). Furthermore, “a reliable determination
of morbidity or even fatalities for certain demographic groups based on our level of knowledge is not possible from a scientific point of view” (128). Another example of why this strategy is seen as strategic manipulation towards non-US customers is VW’s stance on how its cooperation with KBA “should not be burdened by a contentious dispute” (128).

As far for the minimize attributions strategy one action was identified in this period. On June 22, 2016, VW CEO once again blamed the crisis on “certain process deficits in some technical subdivisions in addition to misconduct on the part of individuals” (87). Although, according to our definition one action does not constitute a strategy, when the previous periods are taken into account the pattern is still evident.

Concerning the governmental actors in the network, on July 2016 three almost identical lawsuits against VW are filed in the US from the states of New York, Maryland, and Massachusetts, claiming that many VW employees were aware of the defeat device. In the US, VW still hasn’t begun the recall process, while KBA keeps providing approvals for different models to be recalled. Lastly, it is worthy to mention 21 December 2016, when KBA provides the final approval for the recall in EU.

To sum up this period VW shifts from blind adaptation towards an intended strategy of moral reasoning named Strategy 2025, continues internal moral reasoning, intensifies US differentiation, while some momentum seems to be lost in the minimize attributions strategy.


On January 6th, 2017, US regulators granted the approval on the recall for 2.0L engines. The approved modification requires both software and hardware replacement and will take place in two phases. We believe that VW employed isomorphic adaptation earlier when they presented the recall plan to the EPA and CARB. Therefore, the strategy of isomorphic adaptation associated with the recall of 2.0L engines is still ongoing as VW was granted the approval from the legislator to start the recall process. To point out the power relation in the network, VW couldn't just start the recall process until
the approval of such process is granted. This brings us to the argument that strategy formulation and implementation is dependent on, and affected by, other actors in the network.

On January 11th, 2017, EPA announced a 4.3 billion $ settlement for civil penalties for 2.0L and 3.0L vehicles (59). Furthermore, January 31st, 2017, VW agreed to pay further $1.3 billion in compensation to US customers and regulators for 3.0L vehicles, including payments of $225 million to an EPA environmental mitigation fund and $25 million to the California Air Resources Board to counter the effects of NO₂ emissions. In accordance with legitimization strategies, VW used the same isomorphic adaptation towards US stakeholders to rebuild its legitimacy. On the other hand, we argue again that VW was trying to alter non-US stakeholders’ perception by arguing that the rules and regulations in the US are much stricter than in the non-US part of the network in its continuous attempt of strategically differentiating between the US and non-US stakeholders.

What we noticed is that the interference, the influence and the power of the regulators in the network played an important role in influencing VW’s strategy formulation and implementation in the network. In March 2017, a joint action in EU was being discussed against VW, which means that the company may face litigation in national courts for alleged breaches of European law. According to the EU justice commissioner, “Volkswagen has breached European consumer legislation and this cannot be without consequences. I will support EU consumer authorities to bring this to the next level.” (126).

Another day worthy of note is 27 February 2017. On this day VW communicated that the company is collaborating with internal business units and other external parties for the purpose of transforming the group to one of the world’s leading mobility companies and in order achieve the strategy of 2025. In the Geneva International Motor Show held on March 6th, 2017, VW announced its first concept of a self-driving vehicle. In addition, VW announces that the new business field for mobility solutions, battery technology, autonomous driving and artificial intelligence will become the new core competencies in Volkswagen (112). At this period is was evident
that VW is still communicating how the company is changed, how VW will change, and how the industry will be changed, which reflected the continuous stream of moral reasoning strategy adopted in period 5.

In VW’s annual report published on 14th of March 2017, we noticed another action concerning the minimize attribution strategy. During this period, this strategy is only visible in one action, as in the previous period. We believe that more emphasis was given on how the company will change in the near future by utilizing the crisis as a learning curve and how the company will move forward, rather than focusing on the origin of the crisis. Although this might seem contrary to our definition of strategy, the patterns of inactions can be illuminating as well.

Lastly, it should be noted that only one action of internal moral reasoning towards shareholders was observed in the annual report of 2016, stating “we very much hope you will remain at our side on this journey” (70). This could also be the starting point for a pattern of inaction as well, or it may be due to the fact that data was gathered only until March 2017 due to time limitations.

Therefore, during this period VW begins recalls/buyout procedure in the US, continues the US differentiation, expands upon Strategy 2025, while also a low amount of actions regarding minimize attribution and internal moral reasoning were observed.
5. **Analysis and Discussion**

In this chapter, the analysis of the key findings is presented. The authors believe the following to be the most dominant streams of decisions/actions that occurred during VW’s diesel crisis.

5.1. **Main Strategies**

Figure 1 the four main strategies adopted by VW

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<th>Main Strategies</th>
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<td>Non Actor specific</td>
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<tr>
<td>Period No</td>
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<td>Minimize attribution emergent</td>
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(Source own creation)

*Minimize attribution* and *blind adaptation* strategies, under Non Actor specific, emerged in the second period. In period three, the *minimize attribution* became intended, while the emergent *blind adaptation* turned to the intended *strategy 2025* in period five. These strategies were targeted towards all stakeholders and ran in parallel to actor specific from period three onwards. The intended *US differentiation* strategy started in period three and is broken down into two strategies; intended *isomorphic adaptation* towards the US and intended *strategic manipulation* towards non-US stakeholders. The fourth strategy is intended *internal moral reasoning* which also started in the third period and was targeted towards internal stakeholders.
Summary of VW’s strategies:

- **Minimize attributions:** According to SCCT one of the main concerns that should be addressed when a manager communicates with the stakeholders is managing attribution. VW attempts to do that by essentially treating the crisis as not a transgressional one but rather an accidental. VW management tries to disassociate itself from the actions of some engineers who decided to install the software in order to meet timeline and budget limitations. According to the company, no order was given from the top for this software, rather it was a result of poor monitor systems and a lack of transparency. In essence, VW is trying to change the established narrative of the crisis and transform a perceived transgression into an accident. This strategy was not actor specific but rather communicated to all stakeholders. Although it began its journey as an emergent strategy articulated by different board members it soon became intended just three months after the crisis became public.

- **Blind adaptation to Strategy 2025:** Admittedly, even by the company itself, the crisis was underestimated at the beginning. The authors shall not discuss the validity of the arguments as to why, but rather agree that societal expectations were significantly higher than VW expected. At the face of such pressure from important actors in its network, the company realized it needed to present signs of remorse, organizational learning, and finally adaptation. The company’s discourse alternated between these three key points during the course of the crisis. At the more emergent period, the basic argument presented by the company was that they were sorry, they would learn from it and become better. When the main goals for the adaptation were identified and the strategy became intended the argument shifted to that they were sorry, they were in the process of learning from it and would lead the whole industry into a better state. This strategy is also directed to all stakeholders.

- **US Differentiation:** This presents a valuable example of how the theories presented in the second chapter meet. VW, maybe
considering that the cost of adapting to the entire network was too much to bear, turned its adaptational focus towards the US part of the network. In this part of the context, the company assumes a larger part of the responsibility (which is evident by how US settlements are “not intended to apply to or affect Volkswagen's obligations under the laws or regulations of any jurisdiction outside the United States” e.g. 90). With this greater responsibility come greater attempts at reparations in the form of compensations, which are not evident in the rest of the world. Although this strategy was mainly directed towards the governments and customers of the network, the rest of the stakeholders were affected as well. For example, in the US VW is obliged under the terms of the settlements to invest in green technologies in order to counter the externalities caused by the excessive emissions.

- **Internal Moral Reasoning**: As already discussed VW itself can be seen as a network. When the crisis became public, relationships inside this network were threatened by the lack of trust. From early on, the company started engaging in an intended moral reasoning with its internal stakeholders, namely employees and shareholders. In essence, the management had to negotiate both its right and its ability to lead the company.

5.2. **Non actor specific**

The strategies of minimizing attribution and blind adaptation to strategy 2025 seem to be targeted to all stakeholders, therefore we identify them as non actor specific. Some actions leading to these strategies were directed to more than one specific stakeholder, while the rest were not addressed to someone in particular. Since VW used two strategies towards all stakeholders, we have to understand why. One way of proceeding is understanding what issue each strategy is addressing. In its core, minimize attribution is concerned with who is to blame for the crisis, while the latter strategy is concerned with how the company will learn and make sure no
similar crises occur. Therefore, we can conclude that, for VW’s management, two issues had to be dealt with, in regards with every stakeholder. The fact that stakeholders can address multiple issues can partially explain the paradoxical tensions that would lead to the adoption of multiple strategies.

Regarding the *Minimize attribution* strategy: When the crisis entered the public eye, VW’s management had to cope with accusations of blame. The strategy we term as *minimize attribution* was employed as an emergent manipulation strategy to address that blame. The company’s management had to deflect two separate accusations of blame from the stakeholders. Firstly, the attribution for the decision making regarding the management and secondly, the attribution for the decision making regarding the whole company.

In essence, management - individually at the beginning, en masse as a company line a mere three months after the scandal - claimed ignorance for the installation of the defeat devices. Conveniently, this also presented a foundation for disassociating the whole company as well. If the crisis could be presented as a deviation, a critical failure of small part of the VW organism rather than a far spread cancer, the company (legitimacy) could be cured. Arguments of this strategy include the conduction of internal and external investigations into the diesel issue, blaming procedures and individuals and claiming ignorance. It is apparent that this is a *strategic manipulation* strategy.

As Baumann-Pauly et al. (2016) posit, stakeholders have a tendency to treat an organization as a whole, when legitimacy is concerned. In order to stop the miasmatic spread of de-legitimization, management can try disassociating the company from the wrongdoers, try to create an us/them distinction. This distinction might assist the company in repairing legitimacy, but it spawns a series of ethical questions as well. According to the grass-root theory (Mintzberg & McHugh, 1985, p. 195) as soon as a new weed is found out, it should either be uprooted, if it is a “destructive weed”, or cultivated, if it is “capable of bearing fruit”. However, what happens if a weed goes unnoticed until it’s too late? If management can claim lack of
responsibility when a weed destroys part of the garden, shouldn’t that same lack of responsibility be presumed when a new fruit-bearing plant emerges to populate the garden? And if management can morally consume a legitimacy fruit grown without its knowledge, shouldn’t it also bear the moral responsibility when that fruit is poisonous to legitimacy? For example, if a CSR initiative is undertaken by some employees of their own will and is noticed by management after it comes to fruition, should the company and its management also be considered as not responsible and thus not gain legitimacy?

Minimize attribution was directed to all the stakeholders, although small deviations appear in regards to different stakes. For their employees and shareholders, VW had to respond to accusations of knowingly cheating as well as to the vote of non-confidence over the management's ability to lead. For its customers and the governmental stakeholders, VW’s management also had to argue over its suitability to oversee the recall/reparation process. Accordingly, VW tries to enforce a view of unknowingly cheating, where the only responsibility the management bears is that of not identifying the weaknesses in the preventive systems.

It is evident that what the management is trying to achieve using this strategy is to alter the type of the crisis from a transgressional to an accidental. If this strategy is considered under the scope of SCCT, an interesting point arises. SCCT (e.g. Coombs, 2007) posits that after the crisis type has been identified, management should react with the appropriate strategies. Our case, however, presents an option not discussed by Coombs (2007). A company can also try to manipulate the narrative and present a crisis as a different type altogether. If this goal can be achieved, attributions towards the company should be reduced as a transgression is seen as bearing more responsibility than an accident.

Our case argues against what Coombs (2007, p.173) proposes a company “should” do, as VW chose to act as if the crisis was accidental by diminishing. Furthermore, the company went against SCCT’s (Coombs, 2007, p.173) suggestion about “maintaining consistency” as well and instead used a mix of response strategies. Overall, although SCCT helped us in our
analysis, the model appears to have some limitations due to it being too static. We believe this theory would benefit from further research on this new strategy of minimizing attribution, which as a first attempt of definition we term as trying to alter the crisis type, as well as with the inclusion of time as a factor.

However, the strategy of minimizing attributions appears to weaken during the last two periods. The authors believe that VW’s management was more engrossed in defending its innocence at the beginning of the crisis. As time passed the company did not need to react to accusations that often and therefore would only use this strategy when needed, i.e. when accusations resurfaced. However, this could also stem as a limitation of the data, as the last period, although important in our analysis because of the beginning of the recall process in the US, is a comparatively small period due to time constraints regarding this thesis.

Finally, the course of this strategy can also be seen using the grass-root metaphor provided by Mintzberg & McHugh (1985). After the diesel issue became public, several of VW’s board members claimed ignorance, laying the seeds for this grass-root strategy. In the role of the gardener, VW’s management nurtured these new weeds as they could act as an ingredient to the legitimation brew that had to be concocted.

The blind adaptation strategy emerged as a reaction to the NOV issued by the US government. The communication published by VW revealed the pattern of isomorphic adaptation strategy towards all stakeholders. Such communication was in form of admitting to the defeat devices installed, accompanied with apologies, reminder, changes in top management as well as changes in VW’s priorities. Given the fact that crisis has severely affected VW’s legitimacy, the appointed management needed to reduce the legitimacy damage and to win back stakeholders’ trust. Therefore, VW sets a vague goal of becoming stronger. This strategy emerged out of necessity, a reaction to stakeholders’ pressure and without any clear direction on the process to be taken to win back the trust of the stakeholders and therefore, its legitimacy. That's why we termed this strategy as blind adaptation. Blind in terms of complying to stakeholder pressure to protect its legitimacy but
lacking a solid direction. This strategy lays close to the emergent side of the spectrum as only a general direction is provided.

On the other hand, an emergent strategy isn’t necessarily only reactive. For example, when VW proactively disclosed information on CO2 irregularities. The disclosure took place a day after a second NOV, regarding the defeat device in 3.0L diesel engines, was issued. After two failed attempts of strategic manipulation, the company realizes the magnitude of scrutiny is too severe to be able to hide further irregularities. Instead of waiting until the CO2 emissions issue got revealed by a third party, VW chose to proactively disclose it. It was evident that VW management was trying to protect the company’s legitimacy by constructing an image of responsibility.

Furthermore, we noticed a change in the pattern of the blind adaptation strategy as it shifted to moral reasoning. As we moved forward in time, VW’s decisions become more focused and the strategy itself begins to open its eyes, focusing on a clearer direction. At this period of time, the blind adaptation gradually loses its emergent characteristics and starts to move to the intended side of the spectrum. The communication of the 2025 strategy by VW, made it clear to us that the pattern of blind adaptation strategy shifted to intended moral reasoning. The intended goals and changes planned for the group in 2025 strategy include “major electrification, developing battery technology, digitalization and autonomous driving” (85). It was evident that VW is reasoning its legitimacy with its stakeholders through presenting an image of transforming the group into an environmentally friendly, leading company of the future.

In view of the call from Baumann-Pauly et al. (2016) about more empirical studies, this strategy presents a valuable example of how a company can change from one legitimization strategy to another over time. Furthermore, under the emergent-deliberate spectrum (Mintzberg & Waters, 1985), it can be explained how an emergent strategy can become intended when leadership realizes its potential. Therefore, it can be said that a company can not only shift from one legitimization strategy to another but can also evolve one strategy through another.
5.3. **Actor specific**

Now that the main, non actor specific, strategies have been explained, it is time a closer look at specific stakeholder groups is taken. As mentioned before two of the main strategies identified are actor specific, namely *Us Differentiation* and *Internal Moral Reasoning*. However, it should be stressed out that these strategies run parallel to the non actor specific ones, for example, shareholders on period 4 are addressed with *internal moral reasoning, minimize attribution* and *blind adaptation*. Therefore, VW can be seen as employing the paradox approach (Scherer et al., 2013), in order to cope with the paradoxical tensions (Lewis, 2000), this time created by divergent demands of both different stakeholders and within the *same* stakeholder group. The next section will present in what way each stakeholder group was addressed differently.

US regulators were the first stakeholder to address VW in regards to the diesel issue. Although the strategy of US differentiation started later in the process, it is important to explain VW’s strategy in the first period as well. The company’s first response to US regulators was *strategic manipulation*. It was only when EPA exercised its power in VW’s network that the company had to resort to *moral reasoning*. But, as it turned out, VW’s relationship with the US regulators was too strained and *moral reasoning* lasted for only about a month before EPA decided to involve the public. A fine example, we believe, of how a bad relationship with a powerful actor in the network can affect all other relationships, how embedded a company actually is to its context. And in turn, how constrained the strategy formulation process actually is, in response to other actors’ actions.

In order to facilitate its stakeholders’ claims of repair over the polluting vehicles, VW had to engage in moral reasoning with governments, in regards to the recall process. This process of moral reasoning lasted until January 6th, 2017, in the US, almost a year and a half after the first NOV was served. In Germany however, the process of moral reasoning was comparatively short-lived, as the recall process began on January 28th, 2016, almost a year before the US. According to VW’s rhetoric, the increased length of the negotiation
process was due to stricter US emissions regulations that hampered the company’s engineers from concocting a viable solution. However, if the aforementioned strained relationship with the US regulators is taken into consideration, the picture might change. Especially if the facts that VW is a German company and Germany is also acting as a shareholder (131) are also examined. The German government may then be considered as having an interest in both stakeholders’ claims and VW’s survival, while the US government might lack the latter motive. If our assumption holds true, another ethical question arises, concerning the danger of a government acting as a shareholder. Nevertheless, in order to explain VW’s strategy of differentiation, the authors believed it would be helpful to present an example of governmental differentiation towards VW. Such differences in relationships between governments directed VW’s own strategy towards differentiation.

In the US, facing greater pressure as already presented, VW adapts to societal expectations. In regards to the government and general stakeholders, the company settles multiple lawsuits and compensates in the form of fines and green investments to counter the ill effects caused. US customers are also compensated no matter if they choose to have the engine repaired or sell the car back to the company. In the rest of the world, however, that is not the case. By March 22\textsuperscript{nd}, 2017 - the last date of data collected - no other government has presented VW with a lawsuit, although talks seem to be occurring in Australia and the EU. This difference in governmental pressure has enabled VW to pursue a manipulation strategy towards non-US customers, as the company wishes to evade paying the high cost of adaptation and is instead focused on repairing the affected cars. This constitutes a fine example of how even a single stakeholder group can create paradoxical tension due to the high cost of adaptation of its claims. Paradoxical tensions that only grow when encompassed in the general vortex of claims. Examined under this scope, it is no wonder why a company employs multiple legitimisation strategies over time to different stakeholders.
In order for all these strategies to be employed, VW’s management had to manage its relationships with internal stakeholders as well. This strategy we term as *internal moral reasoning*. We posit that this strategy began in the third period as in the second period internal stakeholders received a similar mix of blind adaptation and minimize attribution as the external stakeholders. For shareholders, the management had to negotiate its right to lead as well as present a plan that would lead the company back into profitability. In order to burden the costs of the crisis, as well of strategy 2025, VW had to negotiate with unions for job redundancies. This strategy lays close to the intended side of the spectrum as it possesses premeditation and certain goals in mind. Although the existence of this strategy is evident though the findings, due to access limitations the depth it is explored is limited as well.
6. Conclusion

This study attempts to contribute to the scholarly field of Crisis Management. The aim of this study was to understand what strategies are used over time by a company facing a transgressional CSR crisis, in order to regain legitimacy, and towards which stakeholder group these strategies are directed. In order to achieve that, VW was used as a case study. The company’s crisis communication, as well as news articles, were used to identify VW’s decisions/actions, which in turn revealed the strategies employed by VW. Two non actor specific strategies were identified, *minimize attribution* and *blind adaptation to Strategy 2025*, as well as two actor specific strategies, *US differentiation*, and *internal moral reasoning*.

To sum up the results, it can be concluded that the strategy formulation process during a transgressional CSR crisis is a complex procedure. Therefore, literature on crisis management should move away from static frameworks (e.g. SCCT, Coombs 2007) towards a more dynamic understanding of how strategies can come to life. Furthermore, literature also has to gain from examining the interconnected context of relationships a company is embedded in. Literature on legitimization strategies posits the adoption of the paradoxical approach to deal with heterogeneous expectations from stakeholders (e.g. Scherer et al., 2013). Under the aforementioned lenses, VW’s case revealed a different picture, as even *the same* stakeholder group can have different expectations and claims from a company. Coupled with the complexity of societal expectations in general, a company might have to adopt the paradoxical approach even for *one* stakeholder. For example, during period 6 customers in Germany are addressed with a mix of strategic manipulation (minimize attribution and lack of compensation for their vehicles) moral reasoning (strategy 2025) and isomorphic adaptation (vehicles are being repaired). Lastly, the identification of the *minimize attribution* strategy presented us with a strategy not included in SCCT. Instead of being restricted by the type of crisis, a company can instead focus on changing the narrative of the crisis’ type.
The authors cannot make a claim as to the success or not of these strategies, if the new plants in VW’s garden produced a useful crop, as that is beyond the scope of this research. Nevertheless, it might be interesting for future research to dwell on the efficiency of such claims in altering attribution and repairing legitimacy. Moreover, the authors would like to encourage future research on different industrial and attributional contexts. Furthermore, the authors would like to point out that treating each government as a separate actor was a simplification due to time limitations. As is evident even governments can be seen as networks of individuals or groups with different agendas in mind. Lastly, the authors believe that the research aim was achieved and that this depiction of the VW crisis will provide assistance in further crisis management research.
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