An Italian perspective of the “Dieselgate” related to Volkswagen’s brand image

Abstract

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The purpose of the paper is to analyse the point of view of Italian consumers regarding the emission scandal that involved Volkswagen in fall 2015: the so-called “Dieselgate”.

The following research question is investigated in the paper:

Which are the main Italian reactions toward VW brand after Dieselgate scandal?

After review of recent academic literature concerning awareness of the scandal, customer damage and perceived ethical behavior, more than 290 interviews have been conducted between September and December 2015. Despite the large impact of the scandal, Italian market has recorded an increase of +15.8% in its business result 2015 compared to 2014\(^1\). In fact, Italy is a European country with a fully developed import/export car market displaying several typical cultural features of Southern Europe.

The main implication for management is the change of brand image after a global scandal and also after practical actions such as product recalls. Comprehending customers’ reactions to the impact of a scandal is an excellent basis to better understand how to handle a situation of reputation crisis properly. The paper attempts to evaluate the product recall process including company communication as well as service provided by VW as it is perceived by customers and Italian car drivers in general. The paper will also measure the reaction of consumers regarding the unethical behavior of VW.

Key words: Brand Image, Italy, Volkswagen, Dieselgate, Scandal, Business Ethics

\(^1\) http://www.volkswagengroup.it/Apps/WebObjects/VGI.woa/1/wa/viewFile?id=1218&lang=it
Revision of the available academic Literature

Awareness and affection of a scandal and customer’s perception

According to Schlegelmilch et Al. (2005)\(^2\), during a scandal, audience involvement about its details is not desirable when the company behaved wrong, suggesting a low communicative profile. The opposite is recommended while the company is guiltless. Coombs (2007)\(^3\) stated that social involvement is, at the same time necessary, especially when big and diversified firms are involved. That is because of the big interrelation between nowadays business activities and the life of the society itself. A big multinational company carries heavy social responsibilities. Consequently, Kuhn et Al (2003)\(^4\) wrote that this interconnection became more problematic during the 21\(^{st}\) century due to the several scandals begun in the USA like Enron, Global Crossing and WorldCom. This has caused shocking and painful reaction by the audience. A crisis of confidence, connected to the high number of consistent scandals, created a sort of “international crisis in corporations” becoming a matter of public scrutiny, as written by Child (2002)\(^5\).

Again Coombs (2007)\(^6\): “Crises can harm stakeholders physically, emotionally and / or financially. A wide array of stakeholders are adversely affected by a crisis including community members, employees, customers, suppliers and stockholders”. The effects of a crisis are reflected at a first glance on stakeholders and then into firm’s reputation causing a reputational damage, emphasised by the media channels. A negative publicity can damage


multiple sides of a business (Coombs et Al (2001)\(^7\)). First of all, the negative publicity can impact on purchasing decision and customers’ satisfaction so, on the overall brand equity (Pullig et Al (2006)\(^8\)).

According to Kuhn et Al (2003)\(^9\), three factors affect firm’s reputation: initial crisis responsibility, crisis history and prior relation reputation. A crisis is considered intentional when consequent to human error accident, product harm and organizational misdeed (Coombs et Al (2002)\(^10\)). The evaluation of the previous aspect includes as moderator the third factor: company’s previous credibility. According to Schlegelmilch et Al (2005)\(^11\), when public perception is positive but, practically, it behaves unethically, ethics communication can hide problems for a bit of time and vice versa. When a company is not credible, it is not taken into good evaluation despite it is maybe behaving well. Here follows a chart in order to sum up the complex scheme by Schlegelmilch et Al (2005) in order to sum up this concept.

<table>
<thead>
<tr>
<th>Public perception of the company</th>
<th>Actual corporate behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Truly ethical</td>
</tr>
<tr>
<td>Positive</td>
<td>Ethics communication is successful and enhances the corporate image.</td>
</tr>
<tr>
<td>Negative</td>
<td>Ethics communication is not credible.</td>
</tr>
</tbody>
</table>

Evidently, as stated by Coombs (2007), when reputation shifts from positive to negative or vice versa, consumers’ interaction can be modified especially concerning people’s interaction with the firm: different kind of evaluations can be resettled/re-aligned to updated customers ‘perception. For this reason, again according to Schlegelmilch et Al (2005)\(^12\), when the


matters is of high public involvement, the consequent visibility can generate anyway an opportunity in order to demonstrate acceptability of responsibility and a renewed reliability.

Clients are becoming day-by-day more sensible concerning ethical issues otherwise the firm incurs in the risk of boycott (Beckmann, (2007))\textsuperscript{13}.

When a firm acts hypocritically, the risk of a boomerang effect can be concrete because it damages corporate image. In fact, corporate image is defined as the sequence of actions and of the fair reflection of overall ethical behaviour (Schlegelmilch et Al (2005))\textsuperscript{14}. According to Xie et Al (2009)\textsuperscript{15}, trust into a firm is a valuable resource, also if it is a non-profit organization. Hypocritical behaviour risks damaging this value that is fragile. One suggestion after a scandal, by Coomb (2007), is to maintain an ethical behaviour especially during the crisis management policies in order to address a psychological nearness to people damaged by the scandal. This suggestion comes from the fact that reputation is strictly connected to people’s emotion. Reputation can be compared to a bank account based on aggregated stakeholders evaluating the firm and their expectations. Again Xie et Al (2009)\textsuperscript{16} wrote that three core elements help to evaluate a business and its crisis handlings: competence, benevolence toward customers’ needs and integrity such as the coherence about declared standards. In fact, Schlegelmilch et Al (2005)\textsuperscript{17} defines credibility such as the results of the mixture of company’s ethics effort founded on its soundness and sincerity. According to Gildea (1994)\textsuperscript{18}, the main efforts should be properly focused on business practices, environmental norms and employees’ treatment.

The exasperation of the business practices and the interest in short term profits, are characterizing nowadays capitalism, losing the main focuses on fairness accepting sometimes also the manipulation of results (Kuhn et Al (2003))\textsuperscript{19}. At the same time, Bai et Al (2015)\textsuperscript{20}

\begin{flushleft}
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wrote that if a firm wants to increase trust, it should show its goodwill over time so it is a long-term challenge, different to the previous short-term business results. It is up to the firm choice to incur into a risk of a scandal or to invest in long term planning.

This challenge is going to increase daily the ethical business standards because of new laws or fairer practices worldly recognized. According to Lavidge (1970)21 "History suggests that standards will be raised. Some practices which today are generally considered acceptable will gradually be viewed as unethical, then immoral, and will eventually be made illegal" (p. 25).

This is a clear signal: not only a company should respect CSR norms avoiding manipulations but should improve its standard in order to be aligned to State and people expectations. The revision of the recent Literature has definitely shown that a scandal can be translated in opportunity if well managed and if the firm is well known by the audience because of its antecedent reliability. The informative component can play an ambiguous role, especially it changes the audience satisfaction according to the previous backgrounds. The perceived seriousness of the scandal is the result of the mixture between evaluation of original responsibility and customer damage. Finally, yet importantly, unethical behaviour is perceived as a form of hypocrisy while the best practices are addressing the business, possibly in the direction of a reliable and sustainable activity. Reliability and trust are values for a firm and a crisis risk to damage those precious items.

Methodology

This research considers a convenience sample collected from an online survey.

It has been collected between September and December 2016, immediately after the beginning of the Dieselgate scandal.

292 Italian respondents are the sample analysed.

After having profiled the respondents, several questions were purposed, all the multiple items are based on a Likert Scale.


The Likert scale shows the following criteria to be adopted in order to evaluate the answers and, consequently, the means:

1=disagree completely or unfavourable
4=neither disagree nor agree
7=agree completely or favourable

Every single macro chapter of the research shows the computation of the Cronbach Alpha, of the mean and of the standard deviation. More precisely, the “informative component” (Kuhn et Al (2003)\textsuperscript{22}) consists of 5 items, the “perceived seriousness of the scandal” (Coombs et Al (2002)\textsuperscript{23}) of 4 items, the “evaluation of ethical behaviour” (Schlegelmilch et Al (2005)\textsuperscript{24}) of 6, the “reasons to purchase VW” of 2 items and the “reasons to don’t purchase VW” of 5 items.

Before starting with the computation of the results, all the variables have been checked in order to be sure of their external (no overlap between the items) and internal (if all the items measure the proper factor) validity.

This analysis is crucial in order to guarantee an attribution of clear effects of each independent variable on the purchasing intention.

Then a factor analysis has been settled through a rotation matrix Varimax (Worthington et Al, 2006\textsuperscript{25}). The computation has been possible through the SPSS software, confirming the clear connection between each item and its variable. The results were reported in the following chart and every result show satisfying levels of factor loading (>0.40, the acceptable soil).

\textsuperscript{22} Kuhn, T., & Ashcraft, K. L. (2003). Corporate scandal and the theory of the firm formulating the contributions of organizational communication studies.\textit{Management Communication Quarterly}, 17(1), 20-57.

\textsuperscript{23} Coombs, W. T., & Holladay, S. J. (2002). Helping crisis managers protect reputational assets initial tests of the Situational Crisis Communication Theory.\textit{Management Communication Quarterly}, 16(2), 165-186.


Additionally, we have provided the internal validity of the scales through the estimation of the Cronbach Alpha for each one. This indicator has been satisfying because higher than 0.70 for each variable.

**Discussion of the results**

Before starting with the evaluation of the factors, this research profiles the starting point. The sample is used to drive a car regularly. More in detail, more than 40 respondents drives a Volkswagen regularly and, if we add also the Volkswagen Group cars to this number, we can say that more than 20% of respondents drives regularly a VW Group car. This is a clear signal of an heterogeneous sample that’s at the same time not to distance to Volkswagen experience.

Here follows the Varimix in order to compute the validity and then the results expressed in terms of Cronbach Alpha (always > 0.7), of mean and of standard deviation.

<table>
<thead>
<tr>
<th>Componente</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>Compared to the average person, I know a lot about VW's emission scandal.</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>I know a lot about the backgrounds of the emission scandal.</td>
</tr>
<tr>
<td>I understand very much about the emission scandal.</td>
</tr>
<tr>
<td>I consider myself having a lot of knowledge about the emission scandal.</td>
</tr>
<tr>
<td>I keep myself informed about VW's emission scandal.</td>
</tr>
<tr>
<td>No problems – major problems</td>
</tr>
<tr>
<td>No inconvenience – big inconvenience</td>
</tr>
<tr>
<td>No aggravation – major aggravation</td>
</tr>
<tr>
<td>No stress – high stress</td>
</tr>
<tr>
<td>VW does exactly what it says.</td>
</tr>
<tr>
<td>VW keeps its promises.</td>
</tr>
<tr>
<td>VW puts words into actions.</td>
</tr>
<tr>
<td>VW is a socially responsible company</td>
</tr>
<tr>
<td>VW is concerned to improve the well-being of society.</td>
</tr>
<tr>
<td>Statement</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>VW follows high ethical standards.</td>
</tr>
<tr>
<td>definitely not consider purchasing a VW - definitely consider purchasing a VW.</td>
</tr>
<tr>
<td>very unlikely purchase a VW - very likely purchase a VW.</td>
</tr>
<tr>
<td>I don’t know whether I can trust VW.</td>
</tr>
<tr>
<td>I would not purchase a VW, due to the emission scandal.</td>
</tr>
<tr>
<td>I would be afraid purchasing a manipulated car, that needs to be repaired/serviced.</td>
</tr>
<tr>
<td>I would be afraid purchasing a car that is affected by the emission scandal, which after being repaired has LESS POWER.</td>
</tr>
<tr>
<td>I would be afraid purchasing a car that is affected by the emission scandal, which after being repaired NEEDS MORE FUEL/drives less miles per gallon.</td>
</tr>
</tbody>
</table>

**Extraction method:** principal components analysis.
**Rotation Method:** Varimax with Kaiser normalization.
**The rotation has reached the convergence criteria in 5 iterations.**
<table>
<thead>
<tr>
<th>Italian Sample</th>
<th>Cronbach Alpha</th>
<th>Mean</th>
<th>Stand. Deviation</th>
<th>Min</th>
<th>Max</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informative component</td>
<td>0.897</td>
<td>3.973404255</td>
<td>1.376997781</td>
<td>1</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Perceived seriousness</td>
<td>0.933</td>
<td>2.755910165</td>
<td>1.840199194</td>
<td>1</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Ethical Behaviour</td>
<td>0.916</td>
<td>3.091071429</td>
<td>1.288331685</td>
<td>1</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>VW Purchase</td>
<td>0.874</td>
<td>3.8009</td>
<td>1.70872</td>
<td>1</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>VW Non Purchase</td>
<td>0.858</td>
<td>4.223184358</td>
<td>1.387962465</td>
<td>1</td>
<td>7</td>
<td>5</td>
</tr>
</tbody>
</table>

**Informative component**

Taking into consideration the mean, the Italian sample is moderately aware about the scandal but not too deeply. On one hand the mass media has shown daily upgrades into the TV news, websites and newspapers also supposing political and economic backgrounds. At the same time the respondents seem not being too informed in the deep. This is probably connected to a low curiosity about the details and a higher one for the macro-results. The informative component about the scandal is an important starting point in order to elaborate a personal point of view.

A moderate level of knowledge about the scandal is necessarily a starting point that will be mixed with the perceived seriousness of the scandal. A moral judgement can be settled independently from the awareness of the scandal but the practical consequence should be the results of a direct experience. The informative component is a starting point that should be mixed with the other factors in order to provide a complete overview about the consequent purchasing propensity.

**Perceived seriousness of the scandal**

Based on four questions, this parameter has shown evidently that this scandal hasn’t practically and psychologically affected the Italian sample. Low score means low involvement and few problems. The impact of this software manipulation hasn’t been suffered like a safety problems or a technical damage. No laws have restricted the usage of the manipulated cars and no extra costs have been charged on drivers. The reliability of Volkswagen hasn’t caused stress inside customers’ mind. Volkswagen Dieselgate has been ethical, not with practical repercussion. Additionally, the manipulated parameter in the
emission standards\(^{26}\) (NOx, nitrogen oxide) is not perceived as danger for the environment by the Italian sample. In fact just the American authority focused its attention on this parameter, not the European ones. This has been probably read by the customer as something caused more probably for a political reason than for an environmental one in order to avoid massive European cars penetration inside American market.

**Evaluation of ethical behaviour**

The perception of ethical behaviour by the customer toward Volkswagen is measured through this index. Commonly, we find a quiet perplexity toward Volkswagen concerning its hypocrisy because of this scandal, as theorized by Kuhn et Al (2003)\(^{27}\).

Here Italian judgment is more radical maybe because this parameter affects properly the damage caused by the Dieselgate which has been more ethical than with practical implications,, being coherent with Coombs et Al (2002)\(^{28}\)’s theoretical proposition. Volkswagen has been the only responsible for this environmental scandal despite what it declared, manipulating the software and consequently the level of pollution parameters. For this reason, the judgement has been very severe like put in evidence in the literature by Coombs et Al (2002)\(^{29}\). Italian perception is maybe influenced in this kind of judgement also because Germany is considered as a European benchmark and this scandal about manipulated software was totally unexpected especially by a German firm, as theorized by Schlegelmilch et Al (2005)\(^{30}\). The low mean score is the result of the perceived violation of CSR norms especially because perceived as a betrayal to the audience. This scenario can be the starting point of a desire of revenge or avoidance of the brand, finally measured in the purchasing intention.

\(^{26}\) [Link](http://www.volkswagengroup.it/news/volkswagen-group-italia-piano-d-azione-motori-diesel-eu5-tipo-ea-189)


**Volkswagen purchasing intention**

The results are aligned to the both negative and positive purchasing intention, very close to the neutral mean result (around 4). This is a clear signal of a low complex impact of the scandal on the Italian sample, approximately like if nothing has happened. If the perception of unethical behaviour can be a signal of disapproving toward Volkswagen’s behaviour, this hasn’t been translated in avoidance. Volkswagen has the possibility to manage the crisis in order to strength its pre-existent reputation. The results of this process are evidently put in evidence in the positive trend in the business result.

Despite the big risk affecting Volkswagen from multiple sides, Volkswagen has been able to maintain trust and a positive attitude by the audience.

**Implications for the management**

Volkswagen is facing a deep crisis that is revealing mainly a risk for the attitude toward an historical brand. For this reason, the managerial action provided by Volkswagen has a wide range of action also because this scandal has caused a drop in the shares value, legal actions by the American authorities and deep investments for the environmental compensations and for the product recall campaign for 11 million vehicles\(^\text{31}\). According to the nowadays estimations of 1.6 Billions of net losses.

The multiple sides in which Volkswagen has been affected needs a multiple and contemporary action in order to solve the problems. This scandal has implied several changes into Volkswagen internal organization with a new CEO\(^\text{32}\) and a new investment strategy, TOGETHER 2025. According to this background the answer to the research question

*Which are the main Italian reactions toward VW brand after Dieselgate scandal?*

We can answer that several factors has been taken into consideration starting from the awareness of the scandal, the level of its affection and the perceived hypocrisy toward previously declared CSR policies.

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One of the main goals of the crisis handling policy is to restore confidence and maintain a positive attitude toward this brand. The managerial community should evaluate this multiple point of view like a massive and coordinate practice having the key role to guarantee on one hand, a positive business result and meeting strengthening again customers’ feeling. The tendency toward a sustainable but reliable innovation will be the path for the future development several businesses, especially in the transports sector. Volkswagen made those kind of changes as a consequence of a scandal giving an extra speed to this market tendency. The aim of this change is perfectly described by the new company vision purposed by the new Volkswagen CEO Matthias Mueller during the press conference of the 16th June 2016: “Volkswagen is to be a globally leading provider of sustainable mobility.” It is coherent with the purpose of standard improvement described by Lavidge (1970).

**Conclusions**

The results have confirmed that this scandal has impacted more on the ethical sphere than on the practical one. Customer affection has been very low for this scandal. For this reason, the answers by the Italian sample shows a moderate interest in a revenge toward Volkswagen. It means that Volkswagen should pay for its misconduct also because it has betrayed customers’ expectation about the ethical standards. The abnormal parameter (NOx, Nitrogen Oxide) is measured just by the American Authority for the environment (US EPA), not by the European ones. Consequently, the product recall campaign is mandatory for the American Authority while not for the European one. The Italian customer has nowadays the possibility to join to this campaign or not. Volkswagen is renewing its reliable image in order to face the damages caused by the scandal and to preserve the historical customers’ positive attitude. The collection of those answers has been done through a questionnaire in the most uncertain months since the beginning of the scandal, September/December 2016. Despite this kind of situation, the Italian sample feel moderately aware about the scenario and its background also thanks to the overview provided by all the Mass Media channels.

33 Matthias Müller Chief Executive Officer Volkswagen Group Speech Press Conference “TOGETHER – Strategy 2025” June 16, 2016 Autostadt, Wolfsburg
On one hand, the Italian sample didn’t feel hurt by the scandal but wants to see a sort of punishment for Volkswagen because of its hypocrisy. On the other hand, the results of the questionnaire show that the Italian sample won’t avoid this firm in its purchasing evaluation.

In conclusion, in order to answer to the main research question of this paper, the Italian sample, since the beginning shows a moderate position toward the Dieselgate scandal. Also the number of cars registration in Italy shows +11%, the overall Italian business result of 2015 shows +15,8% compared to 2014 and persist growing estimation for the current year 2016. There is a sort of tendency to evaluate the brand mainly for its reliability also during the crisis management policy\(^\text{37}\). This kind of behaviour shows the tendency to forgive partially this unethical behaviour if, in parallel, supported by a clear recovery path and by a reliable product.

**Limitations and future research avenues**

The choice of the Italian sample was settled in order to evaluate the impact of a sort of neutral country concerning the Volkswagen Dieselgate.

In fact, Italy is not a country involved neither in the production of manipulated cars neither the place where the scandal was born.

Further research is should take into consideration the answer to this scandal at a distance of a longer arch of time since from the beginning of the scandal. Several extra variables should be considered like co-factors or moderators like patriotism and ethnocentrism.

Last but not least, further analysis can be settled only on Volkswagen Group drivers in order to evaluate the direct response to this crisis being maybe directly involved in the product recall campaign.

**References**

\(^{37}\) [http://www.volkswagengroup.it/Apps/WebObjects/VGI.woa/1/wa/viewFile?id=1218&lang=ita](http://www.volkswagengroup.it/Apps/WebObjects/VGI.woa/1/wa/viewFile?id=1218&lang=ita)


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**Sitography**


http://www.volkswagengroup.it/Apps/WebObjects/VGI.woa/1/wa/viewFile?id=1218&lang=it

http://www.volkswagengroup.it/news/matthias-muller-nominato-ceo-del-gruppo-volkswagen