

# GREENWASH AND ASK FOR FORGIVENESS LATER: A CASE STUDY

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## CASE DESCRIPTION

*On September 18, 2015, the U.S. Environmental Protection Agency (EPA) made a shocking announcement that some of Volkswagen's TDI diesel vehicles had a "defeat device" that allowed the nitrogen oxide (NOx) engine output to meet U.S. emissions standards during testing while the vehicle was emitting up to 40 times the permitted level in true driving conditions. The sophisticated scheme, also known as "Dieselgate," started with approximately 500,000 cars in the U.S., but the total of affected vehicles climbed sharply to nearly 11 million worldwide within days. The irony was that while Volkswagen was boasting about its eco-friendly, green image, its engineers were rigging millions of its theoretically clean diesel engines with software that tricked emissions tests.*

*This case is an excellent vehicle for demonstrating how greenwashing and deceptive advertising exist in today's world. The case highlights the significance of business ethics and corporate governance and could be used in an undergraduate green marketing or business ethics course. The case is designed to be taught in a 60–75-minute class and is expected to require 3 hours of outside preparation by students.*

## CASE SYNOPSIS

*Volkswagen entered the U.S. market in 1955, but it wasn't until almost half a century later that the German automaker found its niche in the U.S. diesel engine (which uses diesel fuel) category. VW adored diesel. It accounted for half the new cars sold in Europe, triggered by lax EU regulations. Diesel vehicles were cheaper than hybrids and packed more power under the hood yet still garnered more than 40 miles to the gallon. The U.S. market was a different game with more strict environmental standards. Thus the trick came down to how to engineer a mechanism to strip soot exhaust of its pollutants to meet the tough U.S. regulations. Situations in which there is a significant gap between the expressed and genuine commitments to sustainability, like Volkswagen's, is known as greenwashing - The greenwashing was certainly elaborate as it involved fraud and deception on a wide scale. VW spared no effort to mislead millions of unsuspecting customers in an attempt to position itself as one of the world's greenest carmakers. But it backfired! The company found itself in a plethora of legal nightmares, and its impeccable reputation and brands were severely tarnished. The scandal plunged the German auto giant into the deepest crisis of its history, costing \$30 billion in fines, recalls, buybacks, and class-action lawsuits. VW's revenues, profits, and market capitalization tanked for months. However, the new CEO, Matthias Müller, has managed to turn things around. Volkswagen*

*bounced back and became the largest carmaker in the world with 9 million deliveries in 2021. The multi-brand company, which also produces 10 prominent brands like Audi, Lamborghini, and Porsche in addition to Volkswagen vehicles, has been more aggressively moving into electronic vehicle manufacturing lately, investing billions.*

## **CASE BODY**

### **GREENWASHING**

Over the last two decades, environmentally friendly products, energy conservation, and sustainability have become vital topics in modern marketing. However, terms like “green,” “sustainable,” “eco-friendly,” and “organic” are being abused by corporations to attract the sophisticated consumer, giving rise to the greenwashing phenomenon. The popular term was coined by environmentalist Jay Westerveld in 1986 to criticize hotels that encouraged guests to reuse towels for environmental reasons but made little or no effort to recycle waste or reduce their footprints (Watson, 2016). Greenwashing essentially refers to situations in which there is a significant gap between the expressed and genuine commitments to sustainability. For instance, environmentalists often accuse oil companies of using sweeping vague or misleading environmental claims in order to tout their ecological friendliness when, in fact overall, their investments in renewable energy are small compared with the monetary amounts that goes into their fossil fuel divisions.

In a world in which greenwashing is widespread, it is imperative that each corporation establishes credibility in the eyes of the consumer. Corporate credibility refers to the degree to which consumers believe that a company is willing and able to deliver on its promises to satisfy consumer needs and wants. Being sustainable or green can be a powerful competitive advantage, as consumers are increasingly choosing green products and services and are willing to pay a premium for them.

Possible reasons for companies to engage in greenwashing include mounting pressure from different stakeholders and the potential benefits that can be gained in terms of profits, image, and reputation.

The recent attention given to combating climate change and conserving energy has led the U.S. Environmental Protection Agency (EPA) to tighten emission standards for vehicles. The German automaker, Volkswagen, is one of many companies guilty of greenwashing—claiming more about their environmental efforts than is factual. Ironically, the term “green” originally came into popularity through steady use by the Green Party that was founded in Germany in the late 1970s. The word’s use was in the context of preserving old, abandoned buildings (instead of building new ones) with the goal of curbing deforestation (Motavalli, 2011).

### **VOLKSWAGEN AG**

The history of Volkswagen dates to 1937, when a company called Deutsche Arbeitsfront was founded by the German government to manufacture affordable vehicles for the average

consumer. Two years later, production switched to military equipment during WWII. After the war, the factory was taken over by the British army, and the Volkswagen brand was created. For the next ten years, the Beetle model became increasingly popular on a global scale. Then the company gradually became the biggest automaker in Europe through several acquisitions. Today, the Wolfsburg-based empire encompasses 12 prominent brands: Audi, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Seat, Skoda, Scania, Man, VW Commercial Vehicles, and Volkswagen.

In 2021, The Volkswagen Group generated €250.2 billion in sales and €19.3 billion in profits, delivered 9 million vehicles worldwide, and employed 673,000 people (VW Annual Report, 2021). Volkswagen is also the 47<sup>th</sup> most valuable brand in the world, with brand equity of almost \$13.4 billion (Interbrand, 2021).

### **VOLKSWAGEN STAKEHOLDERS**

The Volkswagen “dieselgate” is an infamous illustration of how corporations can influence the ethical and legal aspects of the business environment. Undoubtedly, the VW diesel emissions scandal, with its epic proportions, has impacted various stakeholders, including:

- *Consumers: VW, by means of deceptive advertising and greenwashing, stripped its customers of the freedom to make rational choices and decisions. Customers were misled into believing they were owning and driving green cars that did not have a negative impact on the environment. Consumers now will be more vigilant than ever because this is unlikely to be the last of the high-tech greenwash.*
- *Employees: VW engineers took the myopic easy way out instead of determining a legitimate solution. The company could not meet emissions standards, so it devised fraudulent ways to cheat. While some employees resorted to the manipulation of the vehicles' emissions measurements, others may not have had any involvement, but they are linked to a fraudulent company.*
- *Dealers: The VW debacle left its dealership network struggling with lower sales and profit. The sale of Volkswagen diesel cars came to a screeching halt, disrupting dealers' operations and model inventories.*
- *Competitors: The competitive environment was rigged, providing the German automaker with an unfair competitive advantage. Other automakers did not stand a chance and lost sales to VW.*
- *Government Regulators: Volkswagen has blatantly disregarded the law by cheating government regulations in the U.S. and Europe. Thereby causing regulators to look incompetent.*
- *Shareholders: They were obviously worse off as VW shares lost up to 40% of their value.*
- *General Public: Probably the biggest tragedy of this entire scandal is the release of vast amounts of nitrogen oxide into the atmosphere. NOx gases cause smog, acid rain, and the formation of the ground level ozone which are linked to adverse health effects such as inflammation of the airways and respiratory problems including asthma, bronchitis, and emphysema (EPA, 1998).*

### **VOLKSWAGEN DIESELGATE**

VW could not meet diesel emissions standards, so it devised an elaborate way to cheat and gain certification for its vehicles. Obviously, that's both illegal and unethical. Although there is no concrete proof (yet), one might assume that the decision to develop, manufacture, and install the technological component for the scam came from the highest levels of Volkswagen management. An operation of this magnitude—rigging 11 million cars from 2008 to 2015—could not be the act of a few junior employees. Regardless of who was behind the scheme, the company intended to mislead consumers and government officials alike. The goal was to portray

a false image of eco-friendliness and become the world's biggest car manufacturer. The German automaker was nearly able to achieve this objective when it became the world's second-largest car manufacturer behind Toyota in 2015 (Schmitt, 2016). In the process, however, VW had broken a number of laws, including consumer protection and deceptive advertising statutes. U.S. laws criminalize fraud and tort strict liability for defective products. Installing software to cheat on the emissions test and obtain the required legal certifications violated the U.S. Clean Air Act. The law gave the U.S. government the power to recall vehicles and fine the auto manufacturer up to \$37,500 per defective car (EPA, 2009). Indeed, Volkswagen AG has agreed to spend up to \$14.7 billion to settle "allegations of cheating emissions tests and deceiving customers" in the U.S. alone (DOJ, 2016), though "Dieselgate" also affected European countries. The moral of the lesson is loud and clear: There is always a cost for ill-gotten gains.

### BEG FOR FORGIVENESS

The vexing and ubiquitous statements issued by many companies when get caught red-handed like: "we will look into it" or "we are sorry the public feels that way," simply will not work to assuage consumers any longer. Companies need to show that they are human, and that involves them taking responsibility for the situation and putting things in place to keep fraudulent situations from happening again. CEO Martin Winterkorn first blamed low-level engineers and denied any senior management involvement. When this proved false, he apologized and resigned his position as CEO (Vorstandsvorsitzender in German) of Volkswagen AG, the parent company of the Volkswagen Group. While an apology is critical, and there is value in humility, actions speak louder. Those actions must be seen following the apology, or the apology will ring hollow in the ears of the consumers and regulators. Volkswagen was penalized and mandated to pay \$30 billion to U.S. and E.U. regulators. An apology was basically not enough. Mr. Winterkorn is still confronting charges in Europe, and could face up to a decade in prison (Jolly, 2019).

There is no right way to approach to redemption. Alternatives could include:

- *Come clean. Be transparent, disclose everything, and show remorse.*
- *Cooperate with regulators: Turn in required documents and work with government officials sincerely and openly to reduce emissions and verify compliance with pollution standards.*
- *Offer a buyback program: Assure owners of the rigged vehicles that they will be taken care of. While their cars have lost value, the company should step in and allow returns or exchanges.*
- *Invest in local communities: Donate to local schools, hospitals, and charities.*
- *Commit to green R&D: Invest in sustainability research and development to build fuel-efficient and environmentally friendly vehicles, reduce carbon footprints and greenhouse gases emissions.*
- *Review internal control systems: Empower employees to speak up, and establish stronger accountability structures, practices, and standards.*
- *Revisit corporate culture: Establish a corporate culture of adherence to the law, ethics and integrity, social responsibility, and sustainability. VW employees should undertake training in the context of having a legal and moral duty to report any wrongdoing on the part of the company or co-workers, and top management should assure employees that absolutely no retribution will be taken against whistleblowers.*
- *Seek third party certification: Partner with reputable organizations or watchdogs to verify green initiatives and practices.*
- *Walk the talk: Tone down fluffy advertising themes and focus on developing innovative and valuable technology to satisfy various stakeholders. If a company spends more on its eco-friendly marketing campaigns than actually funding sustainability efforts and product development, greenwashing is inevitable.*

## ROAD TO REDEMPTION

Volkswagen has paid a steep price (\$30 billion) to manage the crisis and get out of the “Dieselgate” deep legal hole. However, rebuilding the company’s reputation back up to its former glory as a quality automaker that provides value to the consumer as well as an entity that acts in a legal, moral, and socially responsible manner is not so quick of a fixed. Volkswagen AG has traditionally been recognized as an outstanding multi-brand company, but the scandal has tarnished its brands thereby the company is portrayed as an unethical business that deliberately and consciously manipulated its consumers’ cars’ software to fabricate data. Volkswagen will be known as a company that deceived the U.S. and E.U. regulators and the public regarding emission standards compliance. If it didn’t get caught, it would have probably continued to fool governments and consumers. In today’s market, consumers have so many choices, and they can easily boycott companies engaging in questionable or fraudulent practices. If they had boycotted Volkswagen, the company’s road to redemption would have been much harder.

Indeed, powerful strategies do exist to reestablish credibility and minimize a long-term backlash. Showing instead of telling is the way to go. Advertising the company’s commitment to and involvement in sustainability efforts does not mean much if the advertising is not supported by practices to refurbish the company’s eco-reputation and green image, particularly pertaining to reducing emissions while maintaining superior performance. Demonstrating this new ethical value system and corporate culture to all its stakeholders as well as the communities where the company does business is key to re-earning trust and winning back customers. Moving away from diesel in the U.S. market and shifting to electric vehicles, which not only meet legal requirements but exceed the standards by using state-of-the-art environmental technology, was a good strategy. VW has been sparing no opportunity to show that it has become a good corporate citizen. For instance, amid the 2020 Coronavirus pandemic, Volkswagen modified its production lines to manufacture desperately needed medical gear and equipment. The German automaker tweaked some of its plants to make ventilators (VW News, 2020) and even face masks and gowns for healthcare workers (Szymkowski, 2020).

Table 1: VW’s Worldwide Deliveries (2015–2020)

Year	2015	2016	2017	2018	2019	2020
Vehicles	9,930,517	10,296,997	10,741,455	10,834,008	10,974,636	10,477,939

Source: [VW Annual Report](#) (2021)

In brief, despite the emissions scandal, Volkswagen was able to maintain its top ranking as an automaker, delivering nearly 9 million vehicles worldwide in 2021. Investments in electric vehicles and high-profile community service will help to solidify the crown on the auto giant.

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