An Italian perspective of "Dieselgate" related to Volkswagen's brand image

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Abstract

The purpose of this 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" scandal.

The following research question is investigated in the paper: What are the main Italian reactions towards the VW brand following the Dieselgate scandal?

After a review of recent academic literature concerning the awareness of the scandal, customer damage and perceived ethical behavior, more than 290 interviews were conducted between September and December 2015. Despite the strong impact of the scandal, Volkswagen has recorded an increase of + 15.8% in its business result on the Italian market for 2015 compared to 2014. 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 following practical steps such as product recalls. Comprehending customers' reactions to the impact of a scandal is an excellent basis for a better understanding of how to handle a situation of reputation crisis properly. This paper attempts to evaluate the product recall process including company communication as well as the 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.

Keywords

Brand Image; Italy; Volkswagen; Dieselgate; Scandal; Business Ethics

Review of the available academic Literature

Awareness of a scandal on customers' perception

According to Schlegelmilch et Al. (2005)¹, during a scandal, involving the audience with details is not desirable when the company has behaved wrongly, suggesting a low communicative profile. The opposite is recommended when the company is guiltless. Coombs (2007)² stated that social involvement is, at the same time necessary, especially when large and diversified firms are involved. This is due to the wide-scale interrelation between today's business activities and the life of society itself. A large multinational company carries heavy social responsibilities. Consequently, as Kuhn et Al (2003)³ wrote, this interconnection has become more problematic during the 21st century due to the several scandals that began in the USA such as Enron, Global Crossing and WorldCom. This has led to a shocking and painful reaction by the audience. A crisis of confidence, connected to the high number of consistent scandals, has created a sort of "international crisis in corporations" becoming a matter of public scrutiny, as reported by Child (2002)⁴.

Again Coombs (2007)⁵: "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 first glance on stakeholders and then on a firm's reputation causing reputational damage, emphasised by media channels. Negative publicity can damage multiple sides of a business (Coombs et Al (2001)⁶). First of all, negative publicity can impact on purchasing decisions and customer satisfaction and, consequently, on the overall brand equity (Pullig et Al (2006)⁷).

According to Kuhn et Al (2003)⁸, three factors affect a firm's reputation: initial crisis responsibility, crisis history and prior relational reputation. A crisis is considered intentional when it is consequent to an accident involving human error, harm to products and organizational misdeed (Coombs et Al (2002)⁹). The evaluation of the latter aspect includes, as a moderator, the third factor: the company's previous credibility. According to Schlegelmilch et Al (2005)¹⁰, when public perception is positive, but in practice the firm behaves unethically, ethics communication can hide problems for some time and vice versa. When a company is not credible, it is not taken into good consideration, although it may have been behaving well. Here below a chart sums up the complex scheme by Schlegelmilch et Al (2005) in order to summarise this concept.

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¹ Schlegelmilch, B. B., & Pollach, I. (2005). The perils and opportunities of communicating corporate ethics. Journal of Marketing Management, 21(3-4), 267-290

² Coombs, W. T. (2007). Protecting organizations' reputations during a crisis: The development and application of situational crisis communication theory. Corporate reputation review, 10(3), 163-176

³ Kuhn, T., & Ashcraft, K. L. (2003). Corporate scandal and the theory of the firm formulating the contributions of organizational communication studies. *Management Communication Quarterly*, 17(1), 20-57.

⁴ Child, J. (2002). The international crisis of confidence in corporations. *The Academy of Management Executive*, 16(3), 145-147.

⁵ Coombs, W. T. (2007). Protecting organizations' reputations during a crisis: The development and application of situational crisis communication theory. Corporate reputation review, 10(3), 163-176 (quotation pag 164)

⁶ Coombs, W. T., & Holladay, S. J. (2001). An extended examination of the crisis situations: A fusion of the relational management and symbolic approaches. *Journal of Public Relations Research*, 13(4), 321-340.

⁷ Pullig, C., Netemeyer, R. G., & Biswas, A. (2006). Attitude basis, certainty, and challenge alignment: A case of negative brand publicity. *Journal of the Academy of Marketing Science*, 34(4), 528-542.

⁸ Kuhn, T., & Ashcraft, K. L. (2003). Corporate scandal and the theory of the firm formulating the contributions of organizational communication studies. *Management Communication Quarterly*, 17(1), 20-57.

⁹ Coombs, W. T., & Holladay, S. J. (2002). Helping crisis managers protect reputational assets after (?) initial tests of the Situational Crisis Communication Theory. *Management Communication Quarterly*, *16*(2), 165-186.

¹⁰ Schlegelmilch, B. B., & Pollach, I. (2005). The perils and opportunities of communicating corporate ethics. Journal of Marketing Management, 21(3-4), 267-290

Public perception of the company	Actual corporate behaviour					
	Truly ethical	Not especially ethical				
Positive	Ethics communication is successful and enhances the corporate image.	Ethics communication enhances the corporate image in the short term but not lastingly.				
Negative	Ethics communication is not credible.	Ethics communication is ineffectual				

Clearly, 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 kinds of evaluations can be made /re-aligned to updated customers' perception. For this reason, again according to Schlegelmilch et Al (2005)¹¹, when the matter is of high public involvement, the consequent visibility can, in any case, generate an opportunity to demonstrate acceptability of responsibility and a renewed reliability.

Clients are becoming more sensitive every day to ethical issues and, consequently, the firm incurs the risk of boycott (Beckmann, (2007))¹².

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)¹³. According to Xie et Al (2009)¹⁴, trust in a firm is a valuable resource, even if it is a non-profit organization. Hypocritical behaviour risks damaging this fragile value. One suggestion after a scandal, made by Coomb (2007), is to maintain ethical behaviour especially by means of the crisis management policies in order to address a psychological closeness 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)¹⁵ wrote that three core elements help to evaluate a business and its handling of a crisis: competence, benevolence towards customers' needs and integrity such as coherence with the declared standards. In fact, Schlegelmilch et Al (2005)¹⁶ defines credibility as the results of the mixture of the company's effort towards ethics founded on its soundness and sincerity. According to Gildea (1994)¹⁷, the main efforts should be properly focused on business practices, environmental norms and the treatment of employees.

The exasperation of business practices and the interest in short term profits are, nowadays, characterizing capitalism which is losing its main focus on fairness sometimes accepting even the manipulation of results (Kuhn et Al (2003)¹⁸). At the same time, Bai et Al (2015)¹⁹ wrote that if a firm wants to increase trust, it should show its goodwill over time so it is a long-term

Beckmann, Suzanne C. "Consumers and corporate social responsibility: Matching the unmatchable?." *Australasian Marketing Journal (AMJ)* 15.1 (2007): 27-36.

¹⁹ Bai, X., & Chang, J. (2015). Corporate social responsibility and firm performance: The mediating role of marketing competence and the moderating role of market environment. *Asia Pacific Journal of Management*, 32(2), 505-530.

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¹⁴ Xie, Y., & Peng, S. (2009). How to repair customer trust after negative publicity: The roles of competence, integrity, benevolence, and forgiveness. *Psychology & Marketing*, 26(7), 572-589.

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¹⁶ Schlegelmilch, B. B., & Pollach, I. (2005). The perils and opportunities of communicating corporate ethics. Journal of Marketing Management, 21(3-4), 267-290

¹⁷ Gildea, R. L. (1994). Consumer survey confirms corporate social action affects buy. *Public Relations Quarterly*, *39*(4), 20. ¹⁸ Kuhn, T., & Ashcraft, K. L. (2003). Corporate scandal and the theory of the firm formulating the contributions of organizational communication studies. *Management Communication Quarterly*, *17*(1), 20-57.

challenge as opposed to the previous short-term business results. It is up to the firm to choose whether to incur a risk of scandal or to invest in long term planning.

This challenge is going to raise ethical business standards daily because of new laws or fairer practices recognized worldwide. According to Lavidge (1970)²⁰ "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 should a company respect CSR norms avoiding manipulations but it should improve its standard in order to be aligned with the State and people's expectations.

The review of recent Literature has definitely shown that a scandal can be translated into an opportunity if managed correctly and if the firm is well known by the audience because of its antecedent reliability. The informative component can play an ambiguous role, especially as it can change the audience's satisfaction according to previous scenarios. The perceived seriousness of the scandal is the result of the mixture between the evaluation of original responsibility and customer damage. Finally, yet importantly, unethical behaviour is perceived as a form of hypocrisy while best practices move the business, possibly in the direction of a reliable and sustainable activity. Reliability and trust are values for a firm, while a crisis risk damages those precious items.

Methodology

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

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

The sample analysed consists of 292 Italian respondents.

After profiling the respondents, several questions were asked, 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)²¹) consists of 5 items, the "perceived seriousness of the scandal" (Coombs et Al (2002)²² of 4 items, the "evaluation of ethical behaviour" (Schlegelmilch et Al (2005)²³ of 6 items, the "reasons to purchase VW" of 2 items and the "reasons not to purchase VW" of 5 items.

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

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

²¹ Kuhn, T., & Ashcraft, K. L. (2003). Corporate scandal and the theory of the firm formulating the contributions of organizational communication studies. *Management Communication Quarterly*, 17(1), 20-57. ²² Coombs, W. T., & Holladay, S. J. (2002). Helping crisis managers protect reputational assets after (?) initial tests of the

²⁰ Lavidge, R. J. (1970). The growing responsibilities of marketing. *The Journal of Marketing*, 25-28.

Situational Crisis Communication Theory. Management Communication Quarterly, 16(2), 165-186.

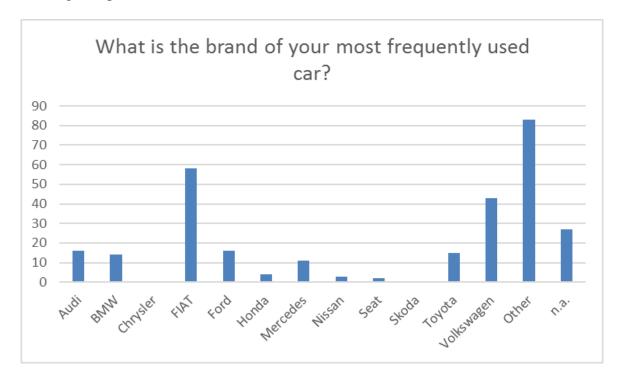
²³ Schlegelmilch, B. B., & Pollach, I. (2005). The perils and opportunities of communicating corporate ethics. Journal of Marketing Management, 21(3-4), 267-290

Then a factor analysis has been arranged through a rotation matrix Varimax (Worthington et Al, 2006²⁴). The computation has been possible using the SPSS software, confirming the clear connection between each item and its variable. The results were reported in the following chart and every result shows satisfying levels of factor loading (>0.40, the acceptable threshold).

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

Discussion of the results

Before starting with the evaluation of the factors, this research outlines the starting point. The sample is used to driving a car regularly. More precisely, over 40 respondents drive a Volkswagen regularly and, if we also add cars of the Volkswagen Group to this number, we can say that more than 20% of respondents drives a VW Group car regularly. This is a clear signal of a heterogeneous sample which is, at the same time, not too distant from the Volkswagen experience.



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

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²⁴ Worthington, R. L., & Whittaker, T. A. (2006). Scale development research: a content analysis and recommendations for best practices. The Counseling Psychologist, 34(6), 806-838.

Varimax

	Varimax Component							
	1	2	3	4	5			
Compared to the average person, I know a lot about VW's emission scandal.	1	.852	3	-	- 3			
I know a lot about the backgroundto the emission scandal.		,888,						
I understand a great deal about the emission scandal.		,698						
I consider myself as having a lot of knowledge about the emission scandal.		,901						
I keep myself informed about VW's emission scandal.		,821						
No problems – major problems			,915					
No inconvenience – great inconvenience			,938					
No aggravation – major aggravation			,854					
No stress – high stress			,908					
VW does exactly what it says.	,814							
VW keeps its promises.	,806							
VW puts words into actions.	,816							
VW is a socially responsible company VW is concerned with improving the wellbeing of society.	,762 ,739							
VW follows high ethical standards.	,791							
I would definitely not consider purchasing a VW - definitely consider purchasing a VW.					,652			
I am very unlikely to purchase a VW - very likely to purchase a VW.					,840			
I don't know whether I can trust VW.				,775				
I would not purchase a VW, due to the emission scandal.				,740				
I would be afraid to purchase a manipulated car that needs to be repaired/serviced.				,818				
I would be afraid to purchase a car that is affected by the emission scandal which, after being repaired, is LESS POWERFUL.				,706				
I would be afraid to purchase a car that is affected by the emission scandal which, after being repaired, USES MORE FUEL/drives fewer miles to the gallon.				,737				

 $Extraction\ method: principal\ components\ analysis.$

Rotation Method: Varimax with Kaiser normalization.

The rotation has reached the convergence criteria in 5 iterations.

Italian Sample						
	Cronbach Alpha	Mean	Stand. Deviation	Min	Max	Items
Informative component	0.897	3.973404255	1.376997781	1	7	5
Perceived seriousness	0.933	2.755910165	1.840199194	1	7	4
Ethical Behaviour	0.916	3.091071429	1.288331685	1	7	6
VW Purchase	0.874	3.8009	1.70872	1	7	2
VW Non Purchase	0.858	4.223184358	1.387962465	1	7	5

Informative component

Taking into consideration the mean, the Italian sample is moderately, but not too deeply aware of the scandal. On one hand, mass media has shown daily coverage on the news, websites and newspapers, also suggesting political and economic factors. At the same time, the respondents seem not to be too deeply informed. This is probably due to a low level interest in the details and a higher one for the macro-results. The informative component regarding 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 made independently of the awareness of the scandal but the practical consequence should be the result 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 of the consequent propensity to buy.

Perceived seriousness of the scandal

Based on four questions, this parameter has clearly shown that this scandal has not affected the Italian sample, either in practice or psychologically. A low score means low involvement and few problems. The impact of this software manipulation has not been experienced as a safety problem or technical damage. No laws have restricted the use of the manipulated cars and drivers have not been charged with any extra costs. The reliability of Volkswagen has not played on the customers' minds. Volkswagen Dieselgate has been dealt with ethically and has had no practical repercussions. Additionally, the manipulated parameter in the emission standards²⁵ (NOx, nitrogen oxide) is not perceived as being dangerous for the environment by the Italian sample. In fact, only the American authority focused its attention on this parameter, not the European ones. This has probably been interpreted by the customer as something due more probably to a political reason rather than an environmental one in order to avoid massive European car penetration on the American market.

Evaluation of ethical behaviour

The customers' perception of ethical behaviour regarding Volkswagen is measured through this index. In general, we find little perplexity towards Volkswagen's hypocrisy because of this scandal, as theorized by Kuhn et Al (2003)²⁶.

Here the Italian judgment is more radical maybe because this parameter actually affects the damage caused by Dieselgate which has had more ethical rather than practical implications, in

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 $^{^{25}\} http://www.volkswagengroup.it/news/volkswagen-group-italia-piano-d-azione-motori-diesel-eu5-tipo-ea-189$

²⁶ Kuhn, T., & Ashcraft, K. L. (2003). Corporate scandal and the theory of the firm formulating the contributions of organizational communication studies. *Management Communication Quarterly*, 17(1), 20-57.

coherence with the theoretical proposition of Coombs et Al (2002)²⁷. Despite its declarations, Volkswagen was the only party responsible for this environmental scandal, manipulating the software and, consequently, the level of pollution parameters. For this reason, the judgement was very severe as highlighted in the writings of Coombs et Al (2002)²⁸. The Italian perception may also be influenced in this kind of judgement because Germany is considered as a European benchmark and this scandal concerning manipulated software was totally unexpected especially involving a German firm, as theorized by Schlegelmilch et Al (2005)²⁹. The low mean score is the result of the perceived violation of CSR norms especially because it is perceived as a betrayal of the audience. This scenario can be the starting point for a desire for revenge or avoidance of the brand, finally measured in the purchasing intention.

Volkswagen purchasing intention

The results are aligned, in both the negative and positive purchasing intention, very close to the neutral mean result (around 4). This is a clear signal of a low overall impact of the scandal on the Italian sample, almost as if nothing has happened. Although the perception of unethical behaviour may be a signal of disapproval towards Volkswagen's behaviour, this has not led to avoidance. Volkswagen has had the possibility to manage the crisis in order to strength its pre-existent reputation. The results of this process are evident from the positive trend in the business result.

Despite the huge risk affecting Volkswagen from many sides, the company has been able to maintain trust and a positive attitude from the audience.

Implications for the management

Volkswagen is facing a deep crisis that is mainly revealing a risk for the public's attitude towards a historical brand. For this reason, the managerial action performed by Volkswagen has led to a wide range of reactions because this scandal has caused a drop in the share value, legal action by the American authorities and considerable investments for environmental compensation and for the product recall campaign involving 11 million vehicles³⁰. According to current estimates, the company is looking at 1.6 billion euros of net losses.

Having been affected on many sides, Volkswagen requires multiple and contemporary action in order to solve the problems. This scandal has led to several changes in Volkswagen's internal organization with a new CEO³¹ and a new investment strategy, TOGETHER 2025. Against this background, in answer to the research question

What are the main Italian reactions towards the VW brand following the Dieselgate scandal?

We can say that several factors have to be taken into consideration starting from the awareness of the scandal, the level of its affection and the perceived hypocrisy towards previously declared CSR policies.

One of the main goals of the crisis handling policy is to restore confidence and maintain a positive attitude towards this brand. The managerial community should evaluate this all these problems as a whole, like a massive and coordinated process with the main aim on one hand of guaranteeing a positive business result and, on the other, of strengthening customers'

²⁷ Coombs, W. T., & Holladay, S. J. (2002). Helping crisis managers protect reputational assets after (?) initial tests of the Situational Crisis Communication Theory. Management Communication Quarterly, 16(2), 165-186.

²⁸ Coombs, W. T., & Holladay, S. J. (2002). Helping crisis managers protect reputational assets after (?) initial tests of the

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²⁹ Schlegelmilch, B. B., & Pollach, I. (2005). The perils and opportunities of communicating corporate ethics. Journal of Marketing Management, 21(3-4), 267-290

³⁰ Blackwelder, B., Coleman, K., Colunga-Santoyo, S., Harrison, J. S., & Wozniak, D. (2016). The Volkswagen Scandal

 $^{^{31}\,}http://www.volkswagengroup.it/news/matthias-muller-nominato-ceo-del-gruppo-volkswagengroup.it/news/matthias-muller-nowinato-ceo-del-gruppo-volkswagengroup.it/news/matthias-muller-nowinato-ceo-del-gruppo-volkswagengroup.it/news/matthias-muller-nowinato-ceo-del-gruppo-volkswagengroup.it/news/matthias-muller-nowinato-ceo-del-gruppo-volkswagengroup.it/news/matthias-muller-nowinato-ceo-del-gruppo-volkswagengroup.it/news/matthias-muller-nowinato-ceo-del-gruppo-volkswagengroup.it/news/matthias-muller-nowinato-ceo-del-gruppo-volkswagengroup.it/news/matthias-muller-now$

feelings towards the company once again. The tendency towards sustainable as well as reliable innovation will be the path for the future development of several businesses, especially in the transport sector. Volkswagen has made those kinds of changes as the consequence of a scandal, speeding up this market tendency. The aim of this change is described perfectly by the new company vision proposed by the new Volkswagen CEO, Matthias Mueller, during the press conference of 16th June 2016: "Volkswagen is to be a globally leading provider of sustainable mobility"³². It is coherent with the purpose of standard improvement described by Lavidge (1970)³³.

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 concerning this scandal. For this reason, the answers of the Italian sample show a moderate interest in revenge towards Volkswagen. It means that Volkswagen should pay for its misconduct, one reason being that it has betrayed customers' expectations regarding ethical standards. The abnormal parameter (NOx, Nitrogen Oxide) is measured only by the American Authority for the environment (US EPA)³⁴, not by European ones. Consequently, the product recall campaign is mandatory for the American Authority while it is not for the European Authorities. The Italian customer now has the possibility to join this campaign or not35. Volkswagen is renewing its image of reliability in order to tackle the damage caused by the scandal and to preserve the customers' historical positive attitude. The answers have been collected by means of a questionnaire in the months of major uncertainty following the beginning of the scandal, September/December 2016. Despite this situation, the Italian sample felt moderately aware of the scenario and its background, thanks also to the coverage provided by all the mass media channels.

On one hand, the Italian sample did not feel hurt by the scandal but wanted to see a sort of punishment inflicted on Volkswagen because of its hypocrisy. On the other hand, the results of the questionnaire show that the Italian sample will continue to consider this firm in its purchasing evaluation.

In conclusion, in order to answer the main research question of this paper, from the beginning the Italian sample has shown a moderate position towards the Dieselgate scandal. Furthermore, the number of Volkswagen cars registered in Italy has shown an increase of +11% the overall VW Italian business result for 2015 shows +15.8% compared to 2014 and the estimated upward trend is continuing for the current year 2016. There is a tendency to evaluate the brand mainly for its reliability that has continued even during the crisis management policy³⁶. This kind of behaviour shows a tendency towards a partial forgiveness of this unethical behaviour on condition that, at the same time it is supported by a clear recovery path and by a reliable product.

Limitations and future research avenues

The Italian sample was chosen in order to evaluate the impact on a sort of neutral country with regard to the Volkswagen Dieselgate scandal.

³² Matthias Müller Chief Executive Officer Volkswagen Group Speech Press Conference "TOGETHER – Strategy 2025" June 16, 2016 Autostadt, Wolfsburg

Lavidge, R. J. (1970). The growing responsibilities of marketing. *The Journal of Marketing*, 25-28.

³⁴ Blackwelder, B., Coleman, K., Colunga-Santoyo, S., Harrison, J. S., & Wozniak, D. (2016). The Volkswagen Scandal

³⁵ http://www.volkswagengroup.it/news/volkswagen-group-italia-piano-d-azione-motori-diesel-eu5-tipo-ea-189

³⁶ http://www.volkswagengroup.it/Apps/WebObjects/VGI.woa/1/wa/viewFile?id=1218&lang=ita

In fact, Italy is not a country involved in the production of manipulated cars nor is it the place where the scandal began.

Further research should take into consideration the response to this scandal over a longer period of time from the beginning of the scandal. Several extra variables should be considered like co-factors or moderators such as patriotism and ethnocentrism.

Last, but not least, further analysis should be concentrated only on Volkswagen Group drivers in order to evaluate their direct response to this crisis, if, for example, they are directly involved in the product recall campaign.

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