

case 1-430-484
March 1, 2016
revised: November 1, 2016
September 16, 2020

Volkswagen's Clean Diesel Dilemma

"Regardless of whether there is an upturn or a downturn going on, our goal is to ensure the Volkswagen Group reaches the top of the automotive industry by 2018 — in both economic and ecological terms." ¹

— Martin Winterkorn
CEO, Volkswagen Group

Martin Winterkorn, CEO of Volkswagen Group, had just received stunning news. The U.S. Environmental Protection Agency (EPA) and the California Air Resource Board (ARB) had notified Volkswagen that they would begin investigating claims that some of the company's diesel engine vehicles were violating emissions standards. His sources informed him that this revelation was based on a study conducted by an independent research firm in West Virginia.

Sitting in his office in Wolfsburg, Lower Saxony, Winterkorn began to reflect on the ramifications this could have on his company. Since becoming CEO in 2007, Winterkorn had tried to make Volkswagen a global leader in car production as well as sustainability and clean transportation. The company had invested billions of dollars in research and development to create best-in-class diesel engines for the highly competitive North American automobile market.

If these claims were true, what would Volkswagen's next steps be? How could such violations be taking place in an organization of Volkswagen's prestige and reliability? How would this affect its brand and sustainability strategy? What will this mean for company leadership and governance? How can the damage be repaired with employees, the government, and its customers? And, as the company tries to look beyond this scandal, it must wonder whether it would have any cascading effects throughout the German economy and the auto sector? And more directly, what does this mean for the future market for diesel-powered vehicles?

The Volkswagen Group

Along with the Autobahn, the Volkswagen, or the people's car, was to be one of the linchpins for Adolf Hitler's "motorization" of Germany.² In 1934, Hitler commissioned automotive designer Ferdinand Porsche to create a car that could be affordable on a worker's wage as well as seat a family of five. The result was the

Published by WDI Publishing, a division of the William Davidson Institute (WDI) at the University of Michigan.

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