

Case Study #3

February 2020

## Volkswagen Since World War Two: Rebuilding the Corporate Reputation of the World's Largest Car Manufacturer



Herbie the talking Beetle stars in Disney's 1968 film, 'The Love Bug'. Source: The Walt Disney Company

### Introduction

The VW badge is a common sight around the world. Driven by millions across Europe and the Americas, Volkswagen automobiles are also familiar to consumers across Latin America, Africa and Asia. The German carmaker's cultural resonance is hard to miss: most famously, the Volkswagen Beetle 'Love Bug' is romanticised in stories of the 1960s counterculture. Alongside the iconic Volkswagen Type 2 camper van, the Beetle came to symbolise freedom and adventure for many young people in the United States.

Given this, it is perhaps easy to forget the company's roots did not exactly emphasise peace and love. Volkswagen started out in late-1930s Germany as a Nazi-funded prestige project; Adolf Hitler took a personal interest in the early development of the Beetle, seeing it as the vehicle that would motorise the Third Reich and displace Ford's Model T as the "People's Car".

Burdened with one of the worst origin stories imaginable, Volkswagen needed to put distance between itself and Nazi Germany in the postwar period. To achieve this, it refocused its factory towards delivering the Volkswagen Beetle: a cheap, reliable product that it hoped would appeal to domestic and export markets alike.

The iconic car came to be embraced by diverse communities from around the world over the following decades, transforming the German carmaker into a company with a global ubiquity by the 1980s. Its portfolio expanded to include sports cars and trucks, while its factories employed workers across the globe. Entering the new millennium full of ambition, Volkswagen strove for growth in new markets and dominance in long-standing car cultures; in the process, the crisis-prone company attracted a new set of risks to its corporate reputation.

*Case study prepared by Scarlett Mansfield and Jamie Haworth. Case study editors: Charlie Harris and Prof Christopher McKenna, University of Oxford.*



Hitler took personal interest in the Volkswagen project, providing hand-drawn sketches of suggested design improvements.

### Nazi Origins

Within a few months of seizing power, Adolf Hitler invited the renowned designer Ferdinand Porsche to Berlin to discuss producing a small, low-priced family car. The “Strength Through Joy Car”, Hitler hoped, would emulate the Ford Model T’s success in the United States and turn Nazi Germany into a nation of drivers. Forming part of the Nazi’s broader *Motorisierung* public spending drive, the Führer saw the project as a way to demonstrate his government’s commitment to boosting employment and industrial efficiency.

The Nazis ordered the creation of a new town, designed as a “model workers’ city”, where the German Labour Front built a factory geared towards mass production of the car.<sup>1</sup> Covering 50 percent more floor space than Ford’s site in Detroit, the *Volkswagenwerk* became the world’s largest factory in 1939.

Despite several thousands of Germans paying advance instalments on them, no ‘Strength Through Joy’ cars reached customers during the Third Reich. Instead, the Volkswagen plant turned to military production (on the back of 15,000 slave labourers) in World War Two, adapting factory lines to make bazookas and V1 missiles alongside army jeeps. It was only after Hitler’s defeat that Porsche’s design for an affordable “People’s Car” could finally be implemented.<sup>2</sup>

After the Allies divided Germany into four occupation zones in June 1945, the Strength Through Joy town (now named Wolfsburg) came to be located on the eastern fringe of the British sector. Its location proved to be a stroke of luck; if the Volkswagen factory had been five miles to the east – and therefore under Soviet control – its materials would have been stripped and transported to Russia. Equally, if it had come under American jurisdiction, Volkswagen’s potency as a symbol of the Third Reich would have made it a focal point for the United States’ efforts to strip Germany of all Nazi relics.<sup>3</sup>



Managing director Heinrich Nordhoff at Volkswagen’s Wolfsburg factory.

The British Occupation took a comparatively pragmatic approach to German industry, viewing the Volkswagen factory as a way of providing Germans in the region with a livelihood while simultaneously solving the British Army’s need for transport. The British Control Commission sent Major Ivan Hirst to the plant in August 1945, and ordered him to oversee repairs and raise the plant’s output of two-seater cars as quickly as possible. Volkswagen took priority in the military’s allocation of scarce resources, while its status as a mandatory production site helped it secure the state railways and post office as customers.

Lacking the required personnel and drained of funds, however, the British Occupation was ready to devolve control of Volkswagen by 1948. Henry Ford was famously offered the company for free that year, only to turn it down (the American businessman saw no future for the Beetle design).<sup>4</sup> After naming Heinrich Nordhoff as managing director, officials eventually handed administration of the company over to the West German government in 1949.

Under Nordhoff’s leadership, Volkswagen refined a single-model policy of production centred on the Volkswagen Beetle. He believed in the potential of Ferdinand Porsche’s original design and tasked his

engineers to perfect it. The subsequent improvements made to the Beetle – including everything from the engine to its ventilation system – transformed it from a clunky, noisy vehicle into a robust product. The cheap, yet sturdy, Beetle was quickly embraced by West Germans who were desperate for vehicles after the war. Sales surpassed one hundred thousand in 1951 and reached one quarter of a million by 1954.

Operating out of Austrian headquarters after the war, the Porsche design company watched Volkswagen's improving fortunes with interest. Ferdinand "Ferry" Porsche viewed the two companies as closely connected, pointing to his father's role in designing the Beetle. In 1948, he entered negotiations with Heinrich Nordhoff with the aim of building a collaborative relationship between the two businesses. Nordhoff's own relationship with the family strengthened in 1959 when his daughter, Elisabeth, married Ferdinand Porsche's grandson, Ernst Piëch. Many members of the Porsche-Piëch family would gain prominent managerial roles within Volkswagen after it became a partially privatised corporation in 1961.<sup>5</sup>

### **Thinking Small, Being Different**

From the beginning of his tenure, Nordhoff wanted to position Volkswagen as a company with an international customer base. Yet success in the United States was by no means guaranteed in the early-1950s – the director himself remarked that "exporting cars to America is like carrying beer to Bavaria".<sup>6</sup> The company first had to spend time familiarising customers with its product, focusing on cultivating a reputation for reliability.

To do this, it embraced lessons learned from Henry Ford in the 1920s. The American automobile pioneer had sent company representatives to each state in the early days of the Model T, instructing them to build trust with customers.<sup>7</sup> Car brands, Ford reasoned, could only achieve long-term staying power if drivers felt sure they could call on them in the event of a breakdown. Volkswagen embraced this mantra, consolidating a network of dedicated service shops across the United States over the 1950s. Its patient approach began to pay off towards the end of the decade, when the Beetle saw off threats from other European small cars, such as Renault Dauphine and Fiat 500, in part thanks to Volkswagen's reputation for quality service.

The American automobile press praised the Beetle's stamina, identifying its robustness as proof of the company's high standards. "Everything about this car is top notch," wrote one particularly enamoured reviewer, adding "those Germans are real craftsmen".<sup>8</sup> If Americans connected the Volkswagen car with German culture, it was not by rooting it in Nazism: they did so instead by citing its similarities with the country's traditional Mittelstand firms, commenting on Volkswagen's technical focus, attentive customer service, and long-term considerations.<sup>9</sup>

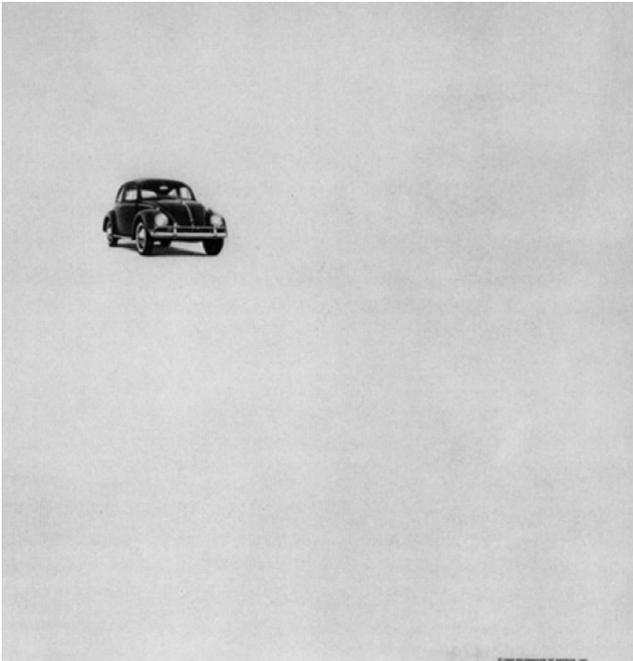
Yet reliability alone would not be enough to propel the company forward from its still marginal position in the United States car market. To achieve this, it needed to meaningfully differentiate itself from Detroit and convince American buyers that the Beetle offered something different.

At the time, the country's main carmakers followed a "bigger is better" philosophy that had started to grate on many middle-class Americans. Each year, the Detroit Big Three of Ford, Chrysler, and General Motors would unveil models complete with supposedly revolutionary changes that amounted to very little. General Motors handed \$30 million over to Madison Avenue advertising agencies in 1956, while Ford spent \$10 million on a bloated campaign for its new Edsel line in 1957. The general manager of Chevrolet revealed the industry's priorities when he boasted in 1957, "We've got the finest door slam we've ever had this year".<sup>10</sup>

The executives at Volkswagen sensed an opportunity to strike a chord with consumers increasingly suspicious of bold claims that were just marketing slogans. It searched for an advertising agency that could distinguish VW from the Detroit mainstream – one that could highlight the Beetle's existing reputation for honesty, without alienating those Americans sceptical of Madison Avenue's underhanded methods.

A relatively unknown Jewish-American firm named Doyle Dane Bernbach beat rivals to win the Volkswagen account in 1959. Delighted to add a car to their portfolio, the firm's creative leads looked for ways to distinguish their new client from the crowded field. Their first copy, shared in August 1959, avoided the hyperbolic language that had come to define car ads: "Is Volkswagen Contemplating a Change?" patiently explained to readers some of the 2,000 detailed changes made to the Beetle during its time in America. "The Volkswagen has changed completely over the last eleven years but not in its heart or face," it declared.

Doyle Dane Bernbach's adverts set themselves apart visually, sticking to a black-and-white scheme that drew attention to the Beetle's refreshing simplicity. Their 1960 advert "Think Small" is perhaps the most iconic example of how a degree of self-awareness helped Volkswagen achieve an air of unorthodoxy. Featuring a Beetle left-of-centre and at a distance, the advertisement listed the everyday benefits enjoyed by car-buyers who opted for the Volkswagen car. Promises of high gas mileage, small repair bills, plus the ability to "rack up 40,000 miles on a set of tires" all spoke to customers wishing to avoid abundance – increasingly common after the overindulgence of the 1950s. The humorous copy focused on quality and appealed to rationality: size mattered to consumers, Volkswagen admitted, but not in the way Detroit wanted it to.



### Think small.

Our little car isn't so much of a novelty any more. A couple of dozen college kids don't try to squeeze inside it. The guy at the gas station doesn't ask where the gas goes. Nobody even stares at our shape. In fact, some people who drive our little

never don't even think 32 miles to the gallon is going any great guns. Or using five pints of oil instead of five quarts. Or never needing anti-freeze. Or racking up 40,000 miles on a set of tires. That's because once you get used to

some of our economies, you don't even think about them any more. Except when you squeeze into a small parking spot. Or renew your small insurance. Or pay a small repair bill. Or trade in your old VW for a new one. Think it over.



The award-winning "Think Small" advert, 1960.

While still well-received, its adverts were viewed in a different light in Volkswagen's home country. The Beetle's presentation as sturdy, economical and trustworthy had made it endearingly weird in the United States; in West Germany, however, those were the very reputational qualities that had already cemented the car as a symbol of postwar stability.

### Stagnation

Buoyed by stable domestic demand and healthy exports, Volkswagen kept the Beetle at the core of its brand during the 1960s. It ventured into the sedan market with the Volkswagen Type 3 in 1961, also acknowledging calls for a larger family car in 1968 with the Type 4; yet neither model came fitted with current technology, feeling half-hearted and selling poorly as a result. The Type 3's share of domestic production in West Germany had not passed 16 percent by 1968, meaning that almost 70 percent of passenger vehicles made by Volkswagen that year were still Beetles.<sup>12</sup>

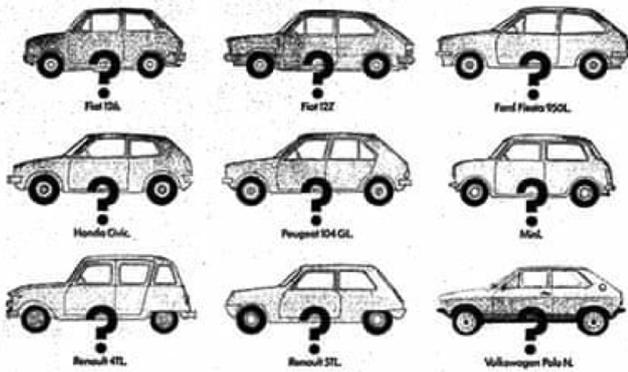
The car overtook the Ford Model T as the world's best-selling vehicle in 1972, but by then Volkswagen's engineers and executives shared a sense of unease that the company had grown too reliant on its original model. With Doyle Dane Bernbach's adverts now admitting "It's ugly, but it gets you there", it was clear that the Beetle had become a dated product in an increasingly competitive car industry.<sup>13</sup>

Executives in Wolfsburg accepted that Volkswagen needed to invest in expanding its product range or risk irrelevance on both sides of the Atlantic. Yet high inflation in West Germany weakened the viability of exports to the United States in 1973. Plus, the global oil crisis later that year exacerbated the company's

The campaign played a key part in elevating Volkswagen into direct competition with America's traditional carmakers. The firm's sales rose from 120,422 in 1959 to 563,522 in 1968, when it shipped no less than 40 percent of its production output to the United States.<sup>11</sup> The Beetle relished the unorthodox reputation it had acquired in this new environment, finding itself adopted by customers from vastly different cultural contexts.

Most famously, the Beetle and Volkswagen Microbus became symbols of the 1960s counterculture. These vehicles' popularity with a young audience made sense practically, given that college students needed affordable rides. But countercultural types also approved of the Beetle's nonconformist aura. Hippies included their cars in the psychedelia, often referring to their Beetles as living beings that needed nurturing. Volkswagens felt like companions – reassuringly simple to run and offering an alternative to throwaway consumerism.

With its profile enhanced by numerous awards, Doyle Dane Bernbach became a global firm in the 1960s. Opening a branch in Düsseldorf in 1963, the agency opted to recycle much of its tried-and-tested Madison Avenue content for a new German audience.



**We're not allowed to quote from 'Which?' magazine in an advertisement.**

**All we can do is recommend you study page 583 of the October issue.**

**Polo.** 

Promoting the Golf in 1978. Volkswagen often embraced humour to advertise its new models.

### Cultural Chameleon: *El Vocho*

While the Beetle faded from view in its home market over the 1970s, Volkswagen's original model still had an important role to play on the global stage. Backed by a confident West German government, Volkswagen executives searched for new international opportunities in the postwar period, building local factories to produce the Beetle in Latin America, South Africa, and Australia.

By the time it left European showrooms in 1978, the Beetle had been embraced by a wide, diversified customer base, with each new group of buyers bringing their own strands of folklore to the commodity. Known affectionately as the *vocho* in Mexico and the *fusca* in Brazil, the small car became an icon in Latin America. It also held cultural weight in Africa: the Ethiopian rebels who removed Haile Selassie from power in 1974 humiliated the emperor by forcing him to vacate his palace in the back of a humble Beetle.<sup>14</sup>

As was the case in 1950s North America, the Beetle's eventual ubiquity in places like Mexico did not arise solely on account of its technical features and affordability. The company's executives also needed to remain flexible across varying cultural terrain, finding novel ways to encourage new audiences to identify with its products. This process would not deliver results overnight: it demanded patience, time and money. Nordhoff therefore channelled the values of German family capitalism when he told his managers to pursue a "farsighted" policy towards Mexico in 1965.

Volkswagen nurtured good relations with the Mexican government, frequently demonstrating an awareness of the need to praise officials in order to secure opportunities within the country's planned economy. As it soon learned, however, political lobbying offered no shortcut to achieving national appropriation. The dangers of following such an approach were highlighted in 1967, when the company faced fierce local backlash to the construction of a new factory near the city of Puebla. Forced by authorities to sell their previously communal land on the site for a fraction of its market value, farmers hosted anti-government protests at the plant. Volkswagen's role in the expropriation soon came under media scrutiny, with one magazine declaring the Germany company "Like the Nazis".<sup>15</sup> Volkswagen's flagship factory opened to toned-down fanfare in May 1967; the company had benefitted materially from elite connections but also entangled itself in a dispute that harmed its local reputation.

From the mid-1970s, Volkswagen's now long-term advertising providers Doyle Dane Bernbach developed

problems as demand for new cars plummeted worldwide. Volkswagen posted losses of 807 million Deutsche Marks in 1974, while West German society as a whole struggled to come to terms with a severe recession and large-scale unemployment following decades of stable postwar growth.

Released between 1973 and 1975, Volkswagen's new range of cars managed to perform remarkably well in these harsh conditions. The company's pivotal release came with the Golf in 1974: complete with a hatchback, front-wheel-drive and water-cooled engine, it seemed to show Volkswagen embracing new trends while creating a future-proof model. The Golf answered Wolfsburg's prayers and became an instant bestseller in Europe: within two years, the company had produced more than one million units of it, helping profits rise to a remarkable 1 billion Deutsche Marks by 1976. Volkswagen survived a painful process of adjustment in a hostile economic climate and, thanks to the Golf, had a future in the European car market.

a series of *vochito* commercials for Mexican audiences. These looked to integrate the car into everyday life, presenting it as a familiar commodity that simply made sense in Mexico. One of the firm's earliest advertisements in the country made that link explicitly: featuring a Beetle-shaped loaf of bread, it declared the car a dietary staple – one with foreign origins, it accepted, but still perfectly suited to local tastes.

The prominence of its Puebla factory meant Volkswagen could champion the *vocho* as a Mexican-made product. One iconic 1977 advert, taglined “Don't Accept Any Mole”, compared the vehicle with Puebla's best-known local dish – drawing attention to the laborious preparation, skill and practice needed to get both right. By stressing the expertise of the Puebla workforce, the company underlined its car's credentials as something that Mexicans could take pride in.

Despite Volkswagen officials waxing lyrical about their vehicles inherent Mexicanness (*Mexicanidad*) in public, many workers involved in the day-to-day production process held less harmonious views of Puebla. These employees were proud to be part of such a prestigious factory but struggled with the tough conditions that their work entailed. Volkswagen managers had designed the plant to replicate the Fordist methods of production used after the war in Germany and thus shipped it the old-fashioned machinery no longer considered efficient (or environmentally-friendly) enough for operations in Europe. In turn, Puebla workers complained about noise, toxic smells and the sheer boredom of Taylorism in modern world.

Managers also ran the risk of strike action when they tried to block workers from receiving pay rises.<sup>16</sup> In 1987, members of an independent trade union at Puebla pushed for Volkswagen to reopen salary negotiations in the wake of alarming national inflation. Workers argued that car manufacturers in the United States were paid on average \$10 an hour, while nearly all of the Mexican car workers made less than \$1.45 an hour, those striking went without pay for 60 days over summer.<sup>17</sup>

Volkswagen executives expressed alarm when news of this industrial action reached them in Wolfsburg. The company had enjoyed a reputation as a generous employer in its domestic environment for a number of decades; they had offered their workers the best salaries available in the automotive sector, having become the first German company to introduce a 40-hour week in 1958. Not wanting media coverage of the conflict in Puebla to jeopardize the firm's global standing, the executives in Wolfsburg reversed course and publicly criticised Mexican managers for their “headstrong” tactics, paving the way for workers to secure a 78 percent pay rise.<sup>18</sup>

Despite episodes of industrial unrest, German officials generally felt confident lauding Volkswagen's exporting achievements. The company had boosted car ownership within Mexico's gradually expanding middle class in the 1970s, selling up to 100,000 units a year as its car became a common sight by the 1990s. When the Beetle finally ceased production in 2003, Volkswagen had made more than 1.4 million Beetles in Mexico. To this day, many *vocho* drivers still speak of their pride in owning a product of Mexican craft production.

### **Prioritising Growth**

The Puebla factory played an important role in Volkswagen's North American supply chain; when the quality of its output deteriorated, the company faced consequences across the region. In the early-1990s, poor industrial relations in Mexico would worsen Volkswagen's problems in the United States. Most damagingly, a major industrial dispute at the Puebla factory caused North American supplies of the Volkswagen Golf to run dry in 1993.<sup>19</sup>

Overall sales in the United States dropped below 50,000 that year. The company had lost substantial ground in the States over the preceding decade, as Americans snubbed its models in favour of fuel-efficient, affordable options from Japan. Volkswagen's reputation for reliability – which had been the cornerstone of its original gains in export markets – also eroded over the 1980s, with drivers complaining of frequent trips to their local garage.

Coming at a time when Wolfsburg reported a global operating deficit of around \$1.2 billion, the company's troubles in the United States eventually forced executives to act. Volkswagen appointed Ferdinand Piëch as its CEO in 1993, tasking him with structurally revamping the company. The former Audi and Porsche engineer (and grandson of Ferdinand Porsche) pushed for aggressive growth over the next decade, cutting costs and refining the coordination of Volkswagen's global network.

Piëch started by implementing production methods adopted from the period's dominant Japanese carmakers. Toyota had pioneered "just-in-time" supply chains in the 1980s that ensured parts were delivered to factories just before they were needed – meaning less money was tied up in the production process. The CEO cut further capital waste by streamlining the number of platforms the company based its cars on, allowing it to offer a variety of brands whilst reducing manufacturing costs.<sup>20</sup>

In a sign of its ambition under Piëch, Volkswagen adopted a new global strategy of product development that responded to the specifics of demand in different national markets. The company now controlled a number of notable brands: already holding majority stakes in Spanish carmaker SEAT, the subsequent acquisition of Skoda in 1991 boosted VW's presence in the post-Soviet regions of Eastern Europe. Volkswagen was therefore able to marry up models from its broad portfolio with markets it thought they would work well in.

Hoping that Skoda would replicate the success of Volvo as a solid, unpretentious brand, the company positioned Audi against more high-end vehicles from BMW. In an attempt to enhance Volkswagen's prestige, the company purchased luxury brands Bentley, Bugatti, and Lamborghini in 1998. Looking to avoid the short-sightedness that hurt the company in the early-1970s, Piëch reasoned that the new brands would help the company hang on to customers as they became wealthier and looked to upgrade. He suggested that they would lend some of their status to Volkswagen through a "halo effect" – enhancing the image of the everyday main brand and making it easier to charge a higher price.

Piëch's drive for improved efficiency and global expansion made an undoubted impact on Volkswagen's finances. The company passed the break-even point in 1994, and profit returned to one billion Deutsche Marks in 1997. Its fortunes grew less dependent on the Volkswagen Golf, as the company consolidated a more balanced product portfolio and demonstrated greater sensitivity to regional flux within global demand. The number of cars produced increased from 3.5 million to 5 million, while total sales doubled over the course of Piëch's tenure.

Employees frequently commented on the ruthlessness that underpinned the CEO's push for growth.<sup>21</sup> Having already replaced most of the board by the end of his second year in charge, Piëch became known for setting ambitious targets and punishing technicians when they failed to deliver on assignments.<sup>22</sup> Many industry analysts argued that the example set by him in turn encouraged his subordinates to behave the same way towards their juniors, stifling communication and holding Volkswagen employees back from openly discussing the company's mistakes.<sup>23</sup>



Volkswagen spent \$77 million promoting diesel cars to America in 2015.

Success in developing markets was vital for Volkswagen to achieve its bold "Strategy 2018". The company moved to strengthen its business in China, identifying the country's rapidly expanding car market as a priority. It invested heavily in the People's Republic through two government-owned companies, having entered joint ventures with Shanghai Volkswagen Automotive and FAW Volkswagen in 1984 and 1990 respectively.<sup>24</sup> VW executives took the region seriously, designing a series of cars specifically for domestic consumers that resulted in increase of more than a third of all sales to a record 1.92 million in 2010.<sup>25</sup>

In particular, Volkswagen's strategy of highlighting their "clean diesel" vehicles helped to boost sales worldwide, with a particular focus in the United States where diesel engines were less common in

domestic cars. Beating gasoline on fuel efficiency, diesel held a degree of novelty in America that the company hoped to reverse. However, diesel emissions can also be extremely damaging to the environment. Even if diesel produces less carbon dioxide than petrol, it also emits harmful nitrogen oxides and particles of air polluting black soot.

Unfortunately, company executives learned in 2006 that their trademark turbocharged direct injection (TDI) engine would not pass the US Environmental Protection Agency's strict standards in the country. But the executives did not want to spend extra money improving VW's emissions technology, nor add the required exhaust filters to its diesel cars; instead, the company looked for ways to hide its excessive emissions.<sup>26</sup>

And so the Volkswagen executives clandestinely developed computer software that allowed their cars to recognise when they were being tested for emissions. Volkswagen engines equipped with their illicit software could sense when they were under observation and simply adjust their emissions to deliver optimized results. The company installed these "defeat devices" in all of its TDI engines from 2009 onwards.

Remarkably, the company promoted these cars with a campaign that told Americans they were helping the environment by buying "clean diesel". Clever TV spots claiming "Dirty Diesel? That's just an old wives' tale" were aimed directly at environmentally-caring drivers wishing to reduce their carbon footprints. The company spent heavily to secure mainstream approval, launching its new (purportedly fuel-efficient) Passat model in 2011 with a hit Super Bowl commercial.<sup>27</sup> Watched by millions online, it featured a young boy dressed up as Darth Vader, attempting to use "the Force" around his home – and only finding success with his dad's new car.

Eventually, researchers at West Virginia University uncovered clues that Volkswagen had cheated in 2014, reporting that its clean diesel vehicles emitted 15 to 35 times the permitted amounts of nitrogen oxides during road tests. Executives in Volkswagen initially rejected the opportunity to proactively respond to the problem, as officials challenged the researchers' methods and provided alternative technical data in an effort to obscure the results. When Volkswagen recalled 280,000 vehicles and updated the engine software in 2015, it did not remove the cheat code: in fact, engineers used the opportunity to enhance the software so that it better recognised when a car was being tested.<sup>28</sup>

After misleading authorities for more than a year, the company finally confessed on 3 September 2015 to their malfeasance. Two weeks later, the Environmental Protection Agency held a press conference announcing Volkswagen's comprehensive violation of emissions regulations. In total, almost 11 million vehicles produced by the company were installed with defeat devices between 2008 and 2015.<sup>29</sup> The company had broken international laws, duped consumers, then attempted a cover-up that only worsened the situation. At the very moment the company had passed Toyota to become the world's biggest carmaker, Volkswagen faced criminal charges and historic fines adding up to \$25 billion.

While its initial response to the "Dieselgate" crisis amounted to arguing that senior executives knew nothing about the violations, Volkswagen quickly conceded to comprehensive reforms. The scandal prompted some internal policy changes. While its initial response to the "Dieselgate" crisis amounted to arguing that senior executives knew nothing about the violations, Volkswagen eventually admitted the need for comprehensive reforms: Volkswagen now grants senior engineers a say in their own deadlines and is expanding its whistleblower system. New CEO Herbert Diess has been particularly vocal about encouraging a "culture of constructive dissent" that allows workers to hold their managers to account – a far cry from the company culture under Piëch.<sup>30</sup>

### **Restarting Volkswagen**

One of Volkswagen's most enduring strengths is its advertising – the company's well-engineered PR machine has been used to effectively shift the narrative time and again. Whether aligning themselves with Mexican values in the wake of striking local workers or (rather more impressively) shaking off long-standing associations with Nazism, the firm has showed a remarkable talent for acknowledging, addressing, and repackaging past controversies in order to manage its own reputation and narrative.

Corporate executives employed the same strategy in response to Dieselgate. In 2019, the company launched a new ad campaign (premiering during the American NBA finals to maximise exposure). In it,

a harried VW engineer listens in a darkened room to highly-critical radio reports about Dieselpgate. As Simon & Garfunkel's *Sound of Silence* plays, a montage unfurls: the same engineer begins designing and building VW's new concept car, the I.D Buzz – an updated, electrical version of the company's iconic 1960s Microbus campervan. The ad concludes with a simple message: 'In the darkness, we found the light. Introducing a new era of electric driving.'<sup>31</sup>

The advertisement aimed to admit VW's recent mistakes, while alluding heavily to the firm's glory days decades earlier. The soundtrack was clearly chosen to evoke the countercultural style of its older models, and the campaign came at a time when returning to 'retro' car models was very much in vogue: the Fiat 500 and the Mini had recently been resurrected (with great success) by Fiat and BMW respectively. It was also intended, in classic VW form, to narrativise the company's historic failings. The advert repackaged the scandal as a first act in order to tell a story of subsequent redemption – in this case electric cars, a cause to which VW had begun to devote the majority of its resources. Though the campaign launched in 2019, the ID Buzz was a concept car, not destined for the market until 2022. As the ad was not created to actually sell any cars, it was strategically directed to sell increasingly-doubtful consumers on Volkswagen itself.

The narrative was clear: where once VW had occupied the role of the nimble, honest industry outsider, it had recently lost its way. Dieselpgate cost the firm many of the credentials that have historically granted it such success. VW relied upon a reputation for reliability and practicality, alongside a countercultural cool diametrically opposed to the bloated, morally bankrupt car giants that once played Goliath to its stylised David. An electric camper van – a perfect synthesis of VW's cutting-edge innovation and iconic history – was a way to reshape and reclaim that narrative, allowing VW to continue to outpace its past.



Volkswagen's I.D. Buzz, a modern, electric reinterpretation of the VW Microbus.

### Endnotes

<sup>1</sup> Simon Reich, *Fruits of Fascism: Postwar Prosperity in Historical Perspective* (New York, 1990), p. 157.

<sup>2</sup> Reich, *Fruits of Fascism*, p. 165.

<sup>3</sup> Steven Tolliday, 'Enterprise and State in the West German Wirtschaftswunder: Volkswagen and the Automobile Industry, 1939-1962', *Business History Review* 69 (1995), p. 288.

<sup>4</sup> Andrea Hiott, *Thinking Small: The Long, Strange Trip of the Volkswagen Beetle* (New York, 2012), p. 500.

<sup>5</sup> The Federal Republic and state of Lower Saxony both maintained 20 percent stakes in the company, meaning that state actors and private shareholders held an interest in Volkswagen. See Tolliday, 'Enterprise and State in the West German Wirtschaftswunder', p. 340.

- <sup>6</sup> Rieger, *The People's Car*, p. 199.
- <sup>7</sup> Hiott, *Thinking Small*, p. 591.
- <sup>8</sup> Rieger, *The People's Car*, p. 200.
- <sup>9</sup> For an overview of Mittelstand firms, see J. Fear, 'German Capitalism' in McCraw (ed), *Creating Modern Capitalism*.
- <sup>10</sup> Hiott, *Thinking Small*, p. 27.
- <sup>11</sup> Rieger, *The People's Car*, p. 199.
- <sup>12</sup> Rieger, *The People's Car*, Ch. 6.
- <sup>13</sup> Rieger, *The People's Car*, p. 235.
- <sup>14</sup> Rieger, *The People's Car*, p. 257. Chapter 7 of Rieger's book provides a comprehensive overview of Volkswagen in Mexico.
- <sup>15</sup> For an investigation into Volkswagen's political ties to the military dictatorship in Brazil, see Antoine Acker, *Volkswagen in the Amazon: The Tragedy of Global Development in Modern Brazil* (Cambridge, 2017).
- <sup>16</sup> Rieger, *The People's Car*, p. 271.
- <sup>17</sup> Rieger, *The People's Car*, p. 271.
- <sup>18</sup> Rieger, *The People's Car*, p. 272.
- <sup>19</sup> David Kiley, *Getting the Bugs Out: The Rise, Fall, and Comeback of Volkswagen in America* (London, 2002), p. xi.
- <sup>20</sup> Ewing, *Faster, Higher, Farther*, p. 47.
- <sup>21</sup> *The Economist*, 'Bad Smell: The Volkswagen Emissions Scandal', June 3 2017.
- <sup>22</sup> For further examples of management style, see Jack Ewing and Graham Bowley, 'The Engineering of Volkswagen's Aggressive Ambition', *The New York Times*, December 13, 2015.
- <sup>23</sup> *The Times*, 'Ferdinand Piëch obituary', August 28 2019.
- <sup>24</sup> Eric Thun, *Changing Lanes in China: Foreign Direct Investment, Local Governments, and Auto Sector Development* (Cambridge, 2006).
- <sup>25</sup> Engelbert Wimmer, 'Volkswagen: The Surprise Challenger' in Mark Schneider (ed), *Motoring the Future: VW and Toyota Vying for Pole Position* (London, 2012), p. 34.
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