INFLUENCE OF SUDDEN INCIDENTS ON THE BRAND REPUTATION OF A FIRM AND ITS REACTION
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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: GESTÃO E COMPETITIVIDADE EM EMPRESAS GLOBAIS

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ABSTRACT

The automotive industry always has been crisis prone and with the most recent Volkswagen emission incident, this dissertation aims at understanding the effects of a crisis on the brand reputation of the affected firm, measured with 4 different frameworks (namely the RepTrak model, the Interbrand method, Young&Rubicam’s Brand Asset Valuator and Keller’s Customer-based Brand Equity), and its behaviors reacting to it during the course of the crisis. To provide a base for comparison, two case studies about Ford and Volkswagen were considered and contrasted. Examining the companies’ cases, it showed that both enterprises dealt rather similar with the incident faced, proving that the firms did not learn from prior similar incidents occurred to third parties. In determining the adequacy of the initiative actions compared to the theoretically suggested ones, it was found that neither company followed the suggestions made by existing literature and that the companies’ own actions proved rather inadequate, happening with delay, trying to hide the own misdeeds and eventually losing their customers’ trust. Deducing lessons learned for future crisis-affected enterprises, the two cases proved beneficial in confirming the essentiality of speed and timeliness in a crisis situation, the relevance of admitting oneself to the scandal before the media covers it, sincerity and consistency in one’s words and actions, equity in the treatment of affected parties and the importance of regarding the own situational context.

Keywords

Critical incident, brand reputation, brand equity measurement, crisis management, Ford, Volkswagen
RESUMO

A indústria automobilística sempre foi propensa a crises e com o incidente mais recente da Volkswagen manipulando valores de emissões, esta dissertação se dirige a compreender os efeitos de uma crise na reputação da marca da empresa afetada, medida com quatro modelos diferentes (para ser exato o modelo RepTrak, o método Interbrand, o Brand Asset Valuator de Young&Rubicam e o Customer-based Brand Equity de Keller), e seus comportamentos frente à crise. Para fornecer uma base para comparação, dois estudos de caso sobre Ford e Volkswagen foram considerados e contrastados. Examinando os casos das empresas, exibiu que ambas empresas lidaram com os incidentes encarados de uma forma parecida, provando que nenhum deles aprendeu de incidentes parecidos encarados por terceiros no passado. Determinando a adequação de ações iniciativas comparados com as sugeridas por teorias, constatou-se que ambas as empresas abdicaram das sugestões da literatura vigente e que suas tomadas de ações foram inadequadas, por conta de seu atraso e tentativa de ocultação dos próprios delitos, resultando em perda de confiança de seus clientes. Deduzindo lições para potenciais empresas afetadas de crises no futuro, ambos os estudos se mostraram proveitosos ao ratificar a importância da velocidade e tempestividade em uma situação de crise, a relevância em antecipar à mídia pública em se admitir o escândalo, sinceridade e consistência nas palavras e nas ações, equidade no tratamento de terceiros afetados e a importância de considerar o contexto da situação.

**Palavras Chave**

Incidente critical, reputação da marca, medida de marca, gestão de crise, Ford, Volkswagen
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<thead>
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<th>ACRONYM</th>
<th>FULL FORM</th>
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</thead>
<tbody>
<tr>
<td>BAV</td>
<td>Brand Asset Valuator</td>
</tr>
<tr>
<td>CARB</td>
<td>California Air Resources Board</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>EPA</td>
<td>Environmental Protection Agency</td>
</tr>
<tr>
<td>ICCT</td>
<td>International Council on Clean Transportation</td>
</tr>
<tr>
<td>NHTSA</td>
<td>National Highway Traffic Safety Administration</td>
</tr>
<tr>
<td>NOx</td>
<td>Nitric oxide</td>
</tr>
<tr>
<td>PR</td>
<td>Public Relations</td>
</tr>
<tr>
<td>SCCT</td>
<td>Situational Crisis Communication Theory</td>
</tr>
<tr>
<td>VP</td>
<td>Vice President</td>
</tr>
</tbody>
</table>
1. Introduction

Coca Cola, Johnson and Johnson, Toyota, Samsung and most recently United Airlines: All these companies have one thing in common besides being internationally renowned companies – they all suffered from some more and some less severe crises over the course of their existence. Crises are recurrent events, able to hit both companies and private persons for more than one reason. Especially for companies, crises can have a distinctive effect on operations as well as image, often negatively impacting both. In these situations, it is crucial to manage the crisis to limit negative outcomes for the company, to re-establish the company’s reputation and to turn back to normal operations.

The Institute for Crisis Management (2017) recorded more than 600,000 crisis stories covered in the media throughout the year 2016, with mismanagement accounting for nearly 30% of those crises, which is also supported by the fact that about only 50% of all companies around the globe have an effective crisis plan implemented (Institute for Crisis Management (ICM), 2017). Mismanagement as reason for the emergence of a crisis was followed by discrimination and white-collar crimes, showing that most crises occurred directly involved people. One of the industries that was most affected in 2016, representing one of the most crisis-prone, is the global automotive industry which recalled over 53 million vehicles.

Thus, this study focuses on the case studies of two companies in the automotive sector which at different points in time were affected by a crisis, examining the impacts the crises had on the respective company’s financial results, reputation as well as operations. Furthermore, the company’s responses to the crises will be analyzed, and the two cases will be compared also with respect to the particular situations. The multiple case studies approach was chosen as methodology, as it allows best to compare complex practical issues in a real-life setting but on a common theoretical basis (Yin, 1994). This implies easier opportunities to compare the ways in which the companies were affected and to grasp for which reasons the chosen reactions were either appropriate or ineffective. The study will be limited to two multinational enterprises, both from the automotive sector, to be able to provide a common ground for comparison. Ford Motor Company and Volkswagen AG were chosen since both automotive manufacturers were well established brands the moment they were affected by a crisis. Moreover, one case presents a current phenomenon, whereas the other happened some time ago, so two different decades are covered.
Even in 2016, after the crisis, Volkswagen was the automotive OEM with globally most registrations: 9,968,198 light-vehicles of the different Volkswagen Group brands (including VW, Audi, Porsche, Bentley, Seat, Lamborghini, Bugatti and Skoda) were registered throughout the year. Ford, on the other hand, ranked sixth, with 6,340,416 new registrations of the brands Ford and Lincoln, after corporations like GM, Toyota, Renault-Nissan and Hyundai-Kia (Eckl-Dorna, 2017). Comparing the global market share of the world’s largest car manufacturers in 2016, Volkswagen ranked second with 7.1%, closely followed by Ford with 6.8% of global market share (Statista, 2017a). Since its crisis in 2000, Ford’s global market share continuously decreased on a yearly basis (Statista, 2017b). Within the European Union, Volkswagen has a clear standing: based on the newly registered cars, VW dominates the European market with 23.9% of all cars, whereas Ford only contributes 7% (Statista, 2017c).

This topic was chosen out of interest in both the field of marketing, branding and reputation as well as in the automotive sector. So far, few studies give a satisfactory, descriptive and explicit answer to the matter to be investigated in the research at hand, especially comparing more than one company from the same industrial sector having been affected by critical incidents. Therefore, this dissertation contributes to existing literature insofar that it provides a base of comprehension to all corporate actors facing a crisis situation and fearing for their brand reputation, and more specifically to the automotive sector.

1.1. Research Question

How did critical incidents affect the brand image and equity of Volkswagen and Ford and how did specific crisis management tools applied, prove useful to reestablishing the former level of brand image and equity?

The purpose of this study is to gain a deeper understanding of branding, reputation and crisis management as well as the topics’ application to practice. Thus, the research and comparison should shed a new light on crisis management and the effects crises have on brand reputation, eventually influencing the collective understanding of it. The ultimate goal is to provide a base of comprehension to corporate actors in automotive sector facing a crisis situation and fearing for their brand reputation.
1.2. General Objective

The objective of this thesis is to examine how two companies in the same sector, Ford and VW, are affected by critical incidents at different points in time and how they react to it to reconstruct their former brand image and equity. The overall purpose focuses on the understanding of brand reputation and brand equity measurement and is ought to provide insights into crisis management and how companies react in response to critical incidents damaging the reputation of their brand, applying the revised theory to the two case studies.

1.3. Specific Objectives

The more general objective stated before will be broken down into four more specific objectives closely related to each other. They aim at an analysis of both Ford’s and Volkswagen’s reaction in a crisis which affected their brand equity, by comparing recommendable actions and evaluating activities based on the nature of their impact on the solution of the situation. Objective 1 addresses the ways in which both companies were affected by a critical incident. It closely examines the impacts the critical incidents had on both company’s brand equities and elaborates on the brand equity indicators measuring this impact. Consequently, objective 2 is to analyze how the companies reacted to the critical incidents and the affected brand equity. The focus lies on both crisis management and measures aimed at rebuilding the brand image after a sudden incident destroyed it. Objective 3 subsequently elaborates on which measures of crisis management used by either company proved useful or not on the base of brand equity measurement, identifying useful outcomes as those improving brand equity and enhancing brand reputation. To conclude, as objective 4, the similarities and differences identified in the processes are analyzed to draw conclusions on what both companies could have learned from each other, scrutinizing why some actions worked for one company but not for the other.

1.4. Structure of the Work and Main Findings

This work is structured into three main parts: a theoretical basis, methodology and the results. The following research will first establish the theoretical case for the understanding of brand reputation, its measurement and crisis management before scrutinizing in the methodology section how data was collected and analyzed during the research process, further illustrating the two case studies selected. Thereafter, the results found regarding the objectives stated before are presented, and to conclude the thesis’ value and contributions are illustrated.
The main findings include that both companies did not have a crisis plan in place and were affected heavily by the crises especially in their reputation and in their stock prices, as customers lost their trust into the brands. The crises were of similar smoldering nature, having been known to the companies long before becoming public, with both crises stemming from humans – for Ford human failure, and for VW human misbehavior. Both should have applied a rebuilding posture to try to regain the customers’ sympathy by apologizing, asking for forgiveness and offering compensations, however tried to come up with different and rather inappropriate strategies for handling the crisis. Deducted conclusions of what the companies should have done to counteract any brand reputation loss on a first basis include confessing the incident encountered to the public before the media gets a hold of it, thus providing sincere and consistent information in both one’s words and one’s actions in a timely manner, not making showing favoritism in the treatment of stakeholders. Furthermore, it would have been essential to regard the contextual situation of the crisis and the environment, to adjust the own behavior to the external circumstances before any crisis can happen.
2. Literature Review

The theoretical approaches addressed in this study comprise three main fields: Brand evaluation, reputation and their measurements, and crisis management. These conceptual frameworks and theories present the context which relates to the phenomena to be studied.

Schultz and Schultz (2005) provided an overview of the three main ways to determine the value or the reputation of a brand, which would comprise customer-based brand metrics, incremental brand sales and branded business value. Customer-based brand metrics contains both qualitative and quantitative measures to gain an insight in customers’ understanding and awareness of the brand, as well as the relationship with it. Both Aaker (1991) and Keller (1998) developed on concepts of brand equity focusing on the customer approach. A drawback in the sole focus on customers is that these concepts rarely connect to financial measures. The second way, incremental brand sales, examines the cash flows generated by the brand in the short-term, thereby focusing on financial measures and opposing the previous pathway. Common indicators to be analyzed include the ROI to calculate past returns and the ROCI (returns on customer investment) to predict future returns. Due to the short-term focus of this pathway, it lacks the ability to analyze the total financial brand value. Lastly, the branded business value measures the long-term value the brand delivers to the corporation, viewing brands as corporate asset, a view supported since the phenomenon of brand equity emerged (Shocker & Weitz, 1988). Branded business valuation includes the brand name, trademark and the logo as well as the culture, people and programs contributing to the brand experience. In the process of this analysis, financial data and qualitative data – derived from the market or the industry – are combined to arrive at the total economic value of the brand (Schultz & Schultz, 2005).

<table>
<thead>
<tr>
<th>Customer-based brand metrics</th>
<th>Incremental Brand Sales</th>
<th>Branded Business Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualitative &amp; quantitative measures → customers’ understanding and awareness</td>
<td>cash flows generated by the brand in the short-term → financial measures</td>
<td>long-term value the brand delivers to the corporation → brand as corporate asset</td>
</tr>
<tr>
<td>REPUTATION</td>
<td>BRAND EVALUATION</td>
<td>BRAND EVALUATION</td>
</tr>
<tr>
<td>e.g. Aaker (1991) and Keller (1998)</td>
<td>e.g. indicators such as ROI or ROCI</td>
<td>e.g. brand name, logo, trademark, culture, people, programs</td>
</tr>
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</table>

Table 1 Brand Equity Measurement, based on Schultz & Schultz (2005), created by the author
2.1. Reputation

Reputation of a company is commonly defined as the perception a broad group of stakeholders has of an organization and of its corporate actions, constituting an intangible asset of high value to the corporation (Coombs, 2006). Thus, reputation is a more-dimensional phenomenon that is not too easy to grasp and more than just one of many aspects in brand evaluation. Reputation in fact can influence the whole conglomerate organization behind one brand on corporate level, as will be seen in the case studies.

Fombrun and Shanley (1990) found proof that the public constructs the reputation of a company by evaluating its competitive position within its industry through indicators such as market and financial signals which analyze performance, institutional signs assessing the company’s conformity to social norms and strategic signs rating the corporate strategic position. Hence, the authors define reputation to be most influenced by corporate economic, social and competitive behavior. However, there are also some organizational aspects which have an influence on reputation: strategy, culture, as well as the company’s mission and vision. Smythe, Dorward and Reback (1992) combined these organization-internal characteristics and described reputation as strategic asset that has to be managed actively, starting within the organization – thus within the organizational aspects strategy, culture, mission and vision, that have to be defined thoroughly before – and afterwards being conveyed by all internal parties involved with the company to the external public via the company’s actors’ behavior which will eventually shape the perceptions external parties have about the company as a whole. Eisenegger (2005) argued that reputation connects both organizational and behavioral aspects and is the renown of trustworthiness, expectation conformity and identity with the company. Stakeholders are both influenced by corporate reputation and by times shape it themselves. Internal stakeholders such as employees are
shaped by the cornerstones of the corporation’s identity and through belonging to the company can actively through the own behavior shape the company’s reputation by influencing external parties’ perceptions – the key here is coherence (Smythe, Dorward, & Reback, 1992), although reputation may vary with stakeholder groups (Burke, 2011).

Dowling (1986) explained that companies with good reputation have easier access to capital markets and investors, and attracting potentially higher qualified applicants, making a good reputation attractive. Fombrun (1996) emphasized that the building of a good and long-lasting reputation, corporate actors are needed to dedicate themselves to building and maintaining relationships with the four main contact groups both inside and outside the organization: employees, investors, customers and society. He further highlighted awards as one popular way for companies to shape their reputations by gaining public awareness for their good deeds: by competing with other industry members for the best products, the leanest processes, the highest environmental standards, the most inspiring company leaders or the most impacting social performances (1996, pp. 166-191). Schreiber (2011) developed a seven-step process to develop reputation, in which companies first define what they want to be known for, and then identify where the company already creates value. Through research the company finds how stakeholders see them, based on which they frame a promise to stakeholders through a positioning statement. Next, they engage internally with employees so the corporate culture changes and relate the communications to this new culture to lastly develop a scorecard to measure the process’s progress. In addition to that, Hitzbleck (2011) defined reputation as aspect shaped by corporate communication as the key to corporate success, thus having to be rated just as risk factors, financial indicators or other aspect.

A brand name can influence the way the product or service is perceived by the public (Calkins, 2005). As a brand is simply defined as what a product, service or the whole one-brand-company is expected to deliver, consequently brand reputation is characterized as aligning the expectations of stakeholders with the actual performance delivered (Tucker, 2011). Brand image, on the other hand, is defined as the perceptions of past, present and future customers about the products manufactured or the services supplied by the corporation (Bruno, 2015). Both, brand image and reputation focus on the public’s opinion on the company. Brand image therefore can be seen as a component of reputation, especially of the reputation of one conglomerate. In practice, the distinction between brand image and reputation is hard to sustain, which is why the terms are often used interchangeably (Elliott & Percy, 2007).
2.1.1. RepTrak Model

The most famous ranking on companies’ reputations is Forbes’ “World’s Most Reputable Companies”, which is based on a reputation measurement tool created between 2005 and 2006 by the Reputation Institute, called the “RepTrak” - a model which based on seven dimensions analyzing the company’s reputation emphasizes the emotional bond of customers with a corporation and the impact of this bond on the customers’ rational behavior (Reputation Institute, 2016a), therefore using the first path presented, customer-based brand metrics. Fombrun, Ponzi and Newburry (2015) validated the model empirically, studying five stakeholder groups across six countries, and proved the seven dimensions as stable and acknowledged the RepTrak as adequate tool for measuring stakeholders’ perceptions of companies (see Appendix 1).

![RepTrak Diagram](image)

Figure 1 The RepTrek Model (Reputation Institute, 2016a)

The RepTrak model defines four elements as central to a corporation’s reputation: trust, feeling, esteem and admiration. These four elements make up the inner circle around the “pulse” of the corporation, which represents the emotional connection between the customers and the brand. These elements are expanded into seven rationality dimensions, the outer circle, that determine for which reasons the customers have the emotional connection to the brand. The dimensions namely are leadership, performance, products and services, innovation, workplace, governance, and citizenship. The model measures how the respective company is perceived by customers to deliver value within each of these categories.
The middle circle is featuring 23 attributes – functioning as performance indicators – which are thought to represent best the reputation of a company and which correlate with the rationality dimensions. Therefore, each of the 23 attributes accompanies one of the seven outer dimensions and is of importance within this dimension. The dimension leadership for example assesses if the company’s leaders are perceived as visionary and supportive to the company, whereas the performance measures the company’s finances, its profitability and opportunities for future growth. In the products and services dimension the customers evaluate quality and value and determine if the customer needs are met. Innovation stands for the company’s potential to adapt to changing desires and environments, and the dimension workplace defines customers’ views on the employees’ situation within the company. Governance rates the perceived ethics, fairness and transparency and citizenship assesses if the customers perceive the company to be environmentally friendly, socially committed and a good corporate citizen. (Reputation Institute, 2016a)

Eventually, the model comes up with a score, ranking the company evaluated according to the seven different dimensions stated before, each having a different influence on the final overall score (see Appendix 1). The color of the middle part of the model represents the final score of the company – ranking from poor/bottom tier (red), weak/vulnerable (orange), average/moderate (yellow), strong/robust (light green) to excellent/top tier (dark green). (Reputation Institute, 2014)

**2.1.2. Young and Rubicam’s Brand Asset Valuator**

The Brand Asset Valuator (BAV), launched by Young and Rubicam in 1993, also focuses on the customers’ perspective (Young & Rubicam Inc., n.d.). It is the world’s largest database of brand information explicitly derived from the customers (Young & Rubicam Group, 2016). The model does not only consider indicators aiding in evaluating past performance, but also serves as early-warning system (Young & Rubicam Germany, 2004). The BAV is composed of four pillars (see Appendix 2): differentiation, relevance, esteem and knowledge. Each pillar reflects the customer’s perceptions and mirrors corporate reputation, whereas grouped together the four pillars account for the overall brand’s asset value based on consumers’ perspectives on the brand’s reputation.

Differentiation is the extent to which the uniqueness of the brand differentiates it from other brands, a factor related to premium margins, and relevance implies the adequacy of the brand
in terms of appeal and need fulfillment as perceived by customers, relating to market penetration. These two first pillars – differentiation and relevance – together form the brand’s strength, which determines the future value of the brand and its potential rather than it reflects the historic one. The relevant differentiation is the base for a successful and dynamic brand (Young & Rubicam Germany, 2004).

The third pillar, esteem, assesses the respect and reputation of the brand and refers to a brand’s delivery on promise, whereas the fourth and last pillar evaluates the knowledge customers have about the brand and the emotional bond they share, addressing the customer experience. The last two pillars – esteem and knowledge – make up for the brand’s stature, which is an evaluation of the brands past performance and indicates the goodwill a brand benefits from.

Relationships between the four pillars therefore reveal insights about the brand’s past, current and future performance.

![Brand Asset Valuator](BAV Consulting, 2013)

Young and Rubicam go one step further and with the brand strength and brand stature provide a two by two matrix, called Power Grid, in which a brand’s development stages are illustrated. The Power Grid expresses the strengths and weaknesses of the respective brands, just as the development perspectives it features. The ideal brand journey starts in the bottom left as a new brand and ideally passing the upper left of unrealized potential, staying there as niche player, or arriving at the upper right with leadership status (see Appendix 2).

### 2.2. Brand Value Evaluation

The brand image consumers have in their minds, thus the company’s reputation, influences the brand equity, which is also known as the brand’s value (Kotler & Keller, 2011). Aaker
(1991) defined brand equity as “a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm’s customers.” According to him, brand equity is influenced by brand loyalty, brand awareness, perceived quality, brand associations and other proprietary brand assets. Keller (1995) also sees the components of brand awareness and image as well as especially brand knowledge as a source to brand equity. Up to the present date, there exists no uniform approach to measuring brand value, which would help to determine to measure the impact of a crisis situation on the two case studies to be examined.

Generally, in the field of brand value, it is of advantage to measure the brand equity, as terms like reputation, image, identity or brand are often used interchangeably across different fields of study, have however different meanings and importance for the company. For the terms already constructing confusion, there emerged the difficulty of finding a common base for measurement. (Dowling & Gardberg, 2012) For this reason, this work will focus on various models that measure the brand equity of a company and its brand, including the Interbrand Model, Millward Brown’s Brand Dynamics Pyramid and Keller’s CBBE model.

2.2.1. Interbrand’s Brand Valuation Model

An important concept this time in brand evaluation is Interbrand’s “Brand Valuation Method”, created in 1988 in cooperation with the London Business School and revised in 1993. The Interbrand method takes various factors into consideration in the calculation of the final result of the brand’s value (Interbrand Zintzmeyer & Lux, 2006): marketing, financial and legal aspects. By combining these differing aspects of both qualitative and quantitative data in three main components to be analyzed, the Interbrand model belongs to the third pathway: branded business value. The model consecutively computes five different steps to in the end determine the brand’s overall value (see also Appendix 3 for a detailed explanation of the brand value calculation process). As a first step, the brand’s market is segmented. Subsequently, three different analyses are performed, namely a financial analysis, a demand analysis and a competitive analysis. These three analyses are interdependent in the calculation of the brand’s value and are based on the three main aspects through which a brand creates value: the brand as communication platform (relevant for the financial analysis due to the continuity of the brand attracting higher investments), differentiation from competitors (relevant for the demand analysis due to the influence on buying decisions) and customer
retention and loyalty (relevant for the competitive analysis due to brand recognition causing higher loyalty) (Interbrand Zintzmeyer & Lux, 2005).

Figure 3 The Interbrand Method (Interbrand Zintzmeyer & Lux, 2006)

In the process of calculating a brand’s value according to the Interbrand model the first step is to segment the respective company’s market into segments to consider every business segment individually, as according to the different segments the private and business customers might have differing subjective perceptions about the brand.

Thereafter, in the financial analysis, the company’s financial data is integrated into the model by calculating the economic value added (EVA), and the demand, learned from the demand analysis, defines the role of the brand (RBI = role of the brand index). The EVA is necessary to be able to calculate the portion of the brand towards the excess profit. As, however, the brand is not the sole component responsible for the excess profit, the RBI aids in determining the significance of the brand itself in the demand behavior, represented as percentage indication. Thus, these two datasets combined define the brand earning, by multiplying the EVA with the percentage of RBI. (Interbrand Zintzmeyer & Lux, 2006)

In the next step a competitive benchmark analysis determines the brand’s strength (BSS = brand’s strength score). The BSS is a measure to determine the likelihood of the time customers will continue to buy the brand. It does so by comparing seven variables with 40
sub-attributes to both the competition and an ideal and risk-free situation. These seven variables are the market dynamics, the stability of the brand in the past, the rank or market leadership of the brand and hence its status in the market, the development trend of the market, support to the brand and its management, the diversification of the brand’s risks and lastly the legal protection of the brand. Subsequently, the brand discount rate, which states the brand’s risk factor, is derived from the BSS through a transformation function. The stronger the BSS, the lower is the rate. Discounting serves as adjustment of future revenues to their present economic value. (Interbrand Zintzmeyer & Lux, 2005)

Eventually, the model calculates the brand’s value by computing the net present value of forecasted earnings of the brand (EVA * RBI), which are discounted by the brand’s discount rate (Interbrand, 1997). Interbrand’s brand valuation method was the first worldwide to be certified in 2010 by ISO norm 10668 about brand value measurement (Presse Portal, 2010) and since then internationally applied.

2.2.2. Millward Brown’s BrandDynamics Pyramid

Millward Brown’s BrandDynamics Pyramid is another model describing the journey a customer passes through on the way to ultimate brand loyalty (Millward Brown, 2008). It was developed by Millward Brown, a British multinational market research company, in the mid-1990s. The BrandDynamics model has already been applied to 17,000 brands over 175 product categories in more than 35 countries and with it gained international recognition (Millward Brown, 2004).

The model, usually in the form of a pyramid, features five stages from bottom to top: presence, relevance, performance, advantage and bonding (see Appendix 4). With each stage, the loyalty of customers towards the brand grows, and simultaneously the increasing width of the inverted pyramid represents the higher revenue potentials based on the augment in loyalty (Hollis, Farr, & Dyson, 1996). The model aids in gaining appreciation of the stages of current customers on their way to loyalty and graphically illustrates the relations customers have with the respective brand (Millward Brown, 2004). The sizes of the single levels hereby represent the proportion of the brand’s customer pool on each of the stages, implying that the shape of the model does not necessarily have to be the one of a pyramid. Due to implying the outcome of financial profits as a factor of the model and simultaneously considering customers’
perspectives, the Brand Dynamics Pyramid falls into the third category of Schulz and Schulz: branded business value.

![Brand Dynamics Pyramid](image)

Figure 4 Brand Dynamics Pyramid (MillwardBrown, 2004)

The first stage, presence, explains the scope to which the brand is present in the market. Customers on this stage are aware of the brand but do not have formed emotional bonds with the brand yet. Relevance, on the next stage, determines the appeal of the brand to the customers, who analyze the offer in regard to their needs. Consequently, performance addresses the extent to which the promises the brand made to its customers through stating its relevance for them are fulfilled. The fourth stage – advantage – examines the advantages which the customers perceive the brand to have over its competitors, thereby testing the brand’s unique value to the customers that differentiates it from its competitors. Lastly, on the fifth stage, bonding determines the brand’s ability to create loyalty among its customers, thus implying with higher loyalty a high customer retention rate. (Millward Brown, 2008)

### 2.2.3. Keller’s Customer-Based Brand Equity

Keller (1993) elaborated another concept with the customer in the focus: customer-based brand equity (CBBE), which he first introduced in 1993. The CBBE model (see also Appendix 5), shaped in the form of a pyramid with four layers, focuses on how to build a strong brand instead of on how to measure its value and recognizes that strength and value of a brand are both built within the minds of the customers (Keller, 2001).
The four key levels in the creation of a successful brand are identity, meaning, responses and relationships – subsequent from bottom to top (Keller, 2001). Brand identity is thought to ensure the consumers’ identification with the brand and to create broad and in-depth awareness. Secondly, brand meaning symbolizes the brand’s establishment of a meaning and associations inside the customers’ heads, trying to meet their needs. The third stage, brand responses, triggers the customers’ preferably positive responses to the first two levels. Brand relationships on the fourth level seek to translate the responses obtained on the previous level with the objective to create an intense and active loyalty relationship between the brand and its customers.

As a prerequisite for the layers to be achieved one after another, the model features six brand-building blocks inside the pyramid (see Appendix 5): brand salience on the identity level, brand performance and brand imagery on the meaning level, and brand judgment and brand feelings on the responses level. Brand resonance, i.e. loyalty, on the highest relationship level can only be achieved after all other building-blocks have been successfully established. (Keller, 2001)

### 2.2.4. Intersections of Brand Reputation Models

Based on the components of the CBBE, Keller describes brand audit, brand tracking and brand equity management system – all relying on the customers’ perspectives – as key features of a measurement system (Keller & Sood, 1995). Keller’s CBBE model resumes the concepts of both Millward Brown’s BrandDynamics Pyramid and Young and Rubicam’s
Brand Asset Valuator, thus also combining financial interests of the company with pure customer perceptions on the enterprise.

The five stages of the BrandDynamics Pyramid (presence, relevance, performance, advantage and bonding) can be closely related to the four ascendant levels of Keller’s CBBE model (identity, meaning, responses and relationships). Millward Brown’s brand presence represents Keller’s brand identity, and the relevance and performance of the brand in the pyramid can be found again in the brand’s meaning in the CBBE model. The advantage of the brand is reflected in the responses in the CBBE model and the last stage in the pyramid, bonding, equals the relationships with the brand in Keller’s model.

Moreover, the four pillars, building the foundation of Young & Rubicam’s BAV model, are also directly relatable to elements within the stages of Keller’s CBBE model. The pillar differentiation represents Keller’s element of ‘superiority’, meaning the uniqueness of associations with the brand. The second pillar, relevance, is reflected in the CBBE element ‘consideration’, implying the strength of associations with the brand. Esteem, BAV’s third pillar mirror in Keller’s ‘credibility’, also known as the favorability of associations with the brand. All of these three elements from the CBBE model are part of the third level, ‘responses’, and represent the judgments customer’s make about the brand. The fourth pillar, knowledge, eventually emblematizes the fourth level of Keller’s CBBE model ‘resonance’, which stands for full brand awareness and loyalty on behalf of the customers.

As seen with the concepts before, some connect to each other, whereas others address different fields regarding a brand. For this reason, Keller’s CBBE model will be used for both case studies to provide an overview of the brands’ images and determine the brands’ relationships with their customers. Up to now, no study connected more than one of the brand valuation models, which is why in this study for triangulation reasons the RepTrak model, the Interbrand method as well as the Brand Asset Valuator will be considered to provide comparable results within each case study. The Brand Pyramid by Millward Brown will not be regarded further, due to its high similarity in structure and features with both the CBBE model and the Brand Asset Valuator, as it will not be able to provide new and additional insights, which would not have been covered with the previous models introduced.
2.3. Crisis Management

“Our greatest glory is not never falling, but in rising every time we fall”
- Confucius

The second big theoretical part to be covered in this study is crisis management. Before digging deeper into the field of crisis management and communication in the business context, it is important to develop and understanding of crises per se. Thus, in the following, crisis will be defined, and crisis typologies and the origins of crises will be reviewed.

A crisis in the business context – i.e. a business crisis – is defined as “any issue, problem or disruption which triggers negative stakeholder reactions that impact the organization’s business and financial strength” by the Institute for Crisis Management, short ICM, (2016).

Throughout literature, there exist numerous proposals on the typology of crises, but none of them was generally agreed on. The ICM (2016) differentiates between four main types of business crises: sudden, perceptual, smoldering and bizarre. On the company’s blog, ICM Senior Consultant Smith (2012) explained that a sudden crisis involves natural disasters, accidents or violence in the workplace without prior warning, thereby being a disruption to the company’s operations. Perceptual crises do not actually state a real problem to the company itself, however people perceive there to be one (Harvard Business School Press, 2006). Smoldering crises are states which are potentially harmful to the company, are known or should be known to at least a part of the people in the organization, however, are ignored and nothing is done. Lastly, bizarre crises are extreme situations which are hard to believe, almost unimaginable, to the people involved and thus are unpredictable, nevertheless have to be managed (Smith, 2012). According to the latest ICM Annual Report (2016), almost 78% of all crises incurred in 2015 were smoldering crises which could have been prevented.

Coombs and Holladay (2002) classify crises types by attributing the extent responsibility for the crisis to the company. The first category is called “Victim Crises” and implies that the company has none to minimal responsibility for the crisis, for example in the case of natural disasters, rumors, violence in the workplace or malevolence from external parties. “Accident Crises” make up for the second category and ascribe low responsible for the crisis to the company, such as in cases of technical errors causing either accidents or product harm. The company is seen as most responsible in the case of “Preventable Crises” where human error
causes accidents or product harm or where members of the organization commit misdeeds, all of which could have been prevented if managed accordingly.

Hoque (2016) identifies three main types of crisis that could happen to a company: personnel crisis, systematic crisis or contextual crises. A personnel crisis is attributed to the severe individual misconduct regarding ethics or the law by persons holding key functions in the company. Systematic crises center on the supply chain or the operations of a company – so to speak all systems in the organization – and may affect quality of the presented service as well as customer interactions. Contextual crises again origin in the external surrounding environment of a business in numerous possible ways, however, deeply impact the company by affecting the context it operates in.

Lerbinger (1997) provides a classification model, in which crises, on the base of the crises’ causes, are divided into three broader categories with seven sub-categories. Hence, Lerbinger’s classification takes a first step into combining the type of the crisis with the origin or cause of the crisis in only one model. The broad categories are crises due to the physical environment, crises due to social or human environment and crises due to management failure. The first category, the physical environment, includes natural disasters or technology failure as the cause of a crisis, thus, crises causes not directly harking back to the company itself. In the second category, human or social environment, crisis causes such as confrontation or malevolence are comprised, meaning that the crisis is caused by the behavior of either people inside or outside the company having a stake in it. The third and last category contains management failure in the form of deception, skewed values or misconduct, therefore originating in the misbehavior of key players within the organization.

Regarding the origin of a crisis, Hammerich and Lewis (2013) found eight main sources from which a corporate crisis originates: poor strategy in facing competition, poor execution, disruption, success, time, change of leadership, navigating transformation. Poor strategy connotes the suboptimal adoption of strategic measures due to a feeling of superiority or reluctance to change, which shows in little preparedness for the sudden appearance of competitors. Further, poor execution is characterized by not meeting quality, time and precision standards, thereby lacking behind the competition and not meeting the customers’ needs. Disruption as the origin of a crisis means that the organization cannot keep up the development pace of the market and new technologies and therefore loses market share. Although success at the first glance seems contradictory as one of the origins of crises,
success can lead to hubris and sophomoric inertia. Time can insofar be a crisis-triggering factor as steady performance may seem not overly concerning, however if every competitor constantly moves forward at a fast rate, oneself might soon lack behind. Crises can emerge from a situation of leadership change especially if the organization itself is not accustomed to change. As a consequence, the inability to navigate transformation and thereby the incapacity to meet changing consumer needs or comply with volatile environments can ultimately also lead to a business crisis.

Moreover, the ICM crisis report states the major crisis categories in 2015 were mismanagement (31.41%), white collar crime (decreased to 13.35%) and consumer activism (7.75%), followed by environmental damage (6.21%) (Institute for Crisis Management (ICM), 2016). Observing these categories according to their severity one finds two main broad rubrics: on the one hand the ‘failures’ which originated in quality issues and on the other hand ‘crises’ stemming from to for example ecological impacts or the company’s organizational culture.

2.3.1. Coombs’s Crisis Management Phases

Coombs (2007a) divides crisis management into three different phases: pre-crisis, crisis response and post-crisis. Each of these phases puts the emphasis on different actions, which will be investigated in context with the two case studies at hand to determine which actions proved useful and which did not (objective 3).

The pre-crisis phase is part of the company’s risk management program. Both Coombs (2007a) and Littlejohn (1983) perceive crisis management, and especially its first phase, as a systematic approach to be able to handle an eventual real crisis in the future. The pre-crisis phase focuses on the prevention of and the preparation for the crisis, by designing an organizational crisis structure, selecting the personnel for a crisis team, developing the crisis team, conducting audits and developing a crisis management plan. Hereby the company reduces the risk of being overwhelmed by a crisis due to early warnings through regular audits. Simultaneously, an organization is more likely to respond to a crisis in a systematic and ordered way, thereby being able to continue daily operations even in a crisis situation.

In the second phase, crisis response, a company is actively managing and responding to a crisis faced. This phase can be divided into two different stages. First, the initial response is the public communication in which the company should follow a simple policy: be quick,
accurate and consistent. Hereby the company makes sure it is the first in communicating the problem, provides accurate information to the public and ideally speaks with one voice only, always conveying the same set of information. A current trend in crisis management is called “stealing thunder”, which implies the organization to be the first to report the crisis. Although this might appear counterintuitive to most management, who normally does not prove affinity to disclose negative information about the own company, this behavior leads to less reputational damage caused by the crisis (Claeys & Cauberghe, 2012). Addressing these three directions – being quick, accurate and consistent – helps the company to focus on public safety, also conveying empathy with the victims hit by the crisis providing them with stress and trauma counseling. One of the latest trends in crisis management is the so-called internal crisis communication, which addresses how management communicates with the employees about a crisis, informing them about how they are affected by the crisis. During a crisis, employees also can become ambassadors for the company, turning into corporate assets, if trained and informed correctly (Frandsen & Johansen, 2011). The second stage deals with reputation repair and behavioral intentions. The company in crisis chooses a combination of repair strategies, which accommodate the victims of the crisis, hereby aiming at repairing corporate reputation. The most effective strategy would be an apology on behalf of the company, taking full responsibility for the crisis and apologizing for any harm caused.

The last phase, post-crisis, takes place after the crisis has been averted, however still needs some attention. Although the company returns to focus on its daily operations, it still has to commit to any promises made during the crisis response phase: providing subsequent information on the crisis and the recovery process as well as implementing corrective actions and investigating the causes. Within the company, it is essential to analyze the behavior during the crisis response phase, to realize the lessons learned and integrate those into the crisis plan to be able to improve the next crisis response phase in case of a next crisis.

Overall, Coombs emphasizes crisis communication as an essential step in every crisis management situation. In this view, he is supported by Keller who sees the keys to an effective crisis management in how the company’s response to the crisis is communicated and eventually perceived by the consumers: both swiftness and sincerity matter (Keller, Apéria, & Georgson, 2012). Swiftness involves a fast response to the crisis, to be able to control and interfere the spreading of unfavorable media coverage as well as word of mouth. By this, the company prevents bad impressions on behalf of the customers to counteract brand switching. Sincerity, on the other hand, impacts crisis communication even more than swiftness does.
Sincerity implies acknowledging publicly the effects’ severity on the consumers as well as the company’s readiness to take all essential and feasibly steps to resolve the matter.

2.3.2. Gaines-Ross’s 12 Steps to Recovering Reputation

Leslie Gaines-Ross (2008), chief reputation strategist at the PR firm Weber Shandwick, published a book on how to safeguard and recover reputation after damage, including a 12-step manual on how to rebuild reputation after a crisis. Gaines-Ross’s manual covers the same process Coombs (2007a) does, however does not stop after the post-crisis phase but continues to instruct how to recover the company’s and brand’s reputation. The 12 steps in the manual fall into four subsequent phases: Rescue, Rewind, Restore and Recover.

The first phase, Rescue, harbors the first four steps of the manual. Step one “take the heat – leader first” suggests that the CEO or one other corporate leader – if not personally involved in the incurrence of the crisis – should be the only official spokesperson during a crisis, representing the face of the company. Taking the heat implies communicating directly and transparently about the incident incurred, best not stalling to face the public and providing a sincere apology to show empathy. In the second step “communicate tirelessly” implies that the company should communicate with both their employees and the public, so internally and externally, to quickly share honest information and the current state of affairs to on the one hand reassure employees and on the other hand to calm the waves with the public. The third step warns: “Don’t underestimate your critics and competitors”. Gaines-Ross states that in a crisis situation one should consider opponents’ voices just as much as favorers’, because although not wanting to hear their opinions the company might later need the insights. In a fourth step the company should “reset the company clock” meaning that the focus should lie on the actions to be taken next instead of solely analyzing the reasons which led to the incident. Action-taking even has to be accelerated and everybody inside the company has to be involved in the turnaround mission. (Gaines-Ross, 2008)

Rewind, the second phase, considers the reasons for which the company ended up in a crisis situation and covers the steps 5 and 6. The fifth step signifies to “analyze what went wrong and right”, studying the own failure – often in a task force – to see what should never be repeated as well as the successful actions, so that the employee’s eagerness to overcome the failure increases. Additionally, companies should continuously look for signs which indicate potential threats, not only during an analysis afterwards. The sixth step calls on the companies
to “measure, measure and measure again” to visualize progress in the process of reputation recovery, through benchmarks and real-time data. (Gaines-Ross, 2008)

In the third phase, Restore, the active change begins and the steps 7 to 9 are covered. During the seventh step, the company needs to “right the culture” by changing it for the better: into an inclusive and honest environment with a high-standard set of values, where every employee believes in himself and has the persuasion to be treated fairly. The eighth step advises to “seize the shift” not only in the organizational culture, but also in practices and business models relating to outer trends which were not noticed or even ignored before. In the ninth step the company is called upon to “brave the media” – to withstand negative press which further drains the company but to benefit from using the right media in the right way to convey important messages to the public. These messages should be unbiased and feature also public negative opinions to demonstrate the company’s full awareness of the situation. (Gaines-Ross, 2008)

The fourth and last phase, Recover, ultimately deals with the last three phases and focuses on building public awareness of the soon to be coming high and its retention in the long-term. The tenth phase, “build a drumbeat of good news”, emphasizes the importance of the sum of smaller steps which over time restore the public’s perception of the company and its brand. Easy language and supporting symbolic actions should support this process, not to overwhelm the general public all of a sudden. Furthermore, proof for the recovery other than indicators such as share prices or profit have to be found – be it a new and motivated executive team or the recovered positivity of the employees. The eleventh step warns the company to “commit to a marathon, not a sprit” and clearly emphasizes the long-term vision of the recovery process which has to continue also after reaching milestones. The twelfth and last step eventually highlights the importance of not letting a crisis happen again and alerts the company to “minimize reputation risk” by planning and being prepared. (Gaines-Ross, 2008)

2.3.3. Coombs’s Situational Crisis Communication Theory

The situational crisis communication theory, SCCT, is a theory developed by Coombs (1995, 2007a) that argues the company should strategically match the response to the crisis to its level of responsibility and the threat the crisis poses to the company’s reputation. Through comprehension of the crisis situation and the company’s level of responsibility in it, the latter is able to define the most appropriate crisis response strategies to protect the own reputation
the maximum possible (Coombs, 2007b). Hence, the SCCT and the crisis response strategies are directly linked to the crisis typology introduced before (Coombs & Holladay, 2002). Basically, as a rule of thumb, it can be said that the higher the threat to the organization’s reputation, the more accommodative the respective company should be in developing reactions to the crisis and the stakeholders involved. The level of reputational risk, i.e. the threat posed to the company by the crisis, is determined by the company’s level of responsibility for the crisis, the company’s crisis history and the company’s prior reputation regarding attention to the relationship with stakeholders.

Remembering the crisis categories, one recalls that the first one, the “Victim Crisis”, attributes minimal to no responsibility to the company and the “Accident Crisis” low responsibility and no intention as well. The “Preventable Crisis” however accredits high levels of responsibility to the company as the crisis would have been avoidable with better behavior on behalf of the company and its representatives. (Coombs & Holladay, 2002) In a first step, to specify the reputational risk to successfully implement the SCCT, the company identifies the type of crisis and determines the level of responsibility it holds, or at least how much responsibility is attributed to the company by outside parties. Subsequently, the second step serves to reexamine the corporate history on prior crises as well as prior reputational damage in relation to its stakeholders. Lastly, the company uses the information gained through the responsibility analysis and the revision of the company’s history and uses it to define the reputational risk the company is confronted with. It is important to note that the two steps are interdependent, as a repetition case of a “Victim Crisis” may have the same effect on the company as a first-time “Accident Crisis” (Coombs, 2007b).

After defining the company’s reputational risk, the organization might initiate the process of strategic crisis response development. Their purpose is to repair the company’s reputation, to change the public’s perception of the company and to minimize all possible negative effects on the company (Coombs, 1995). Through the choice of a certain crisis response strategy, the company conveys to the public how far it accepts the responsibility for the crisis attributed to it (Coombs, 2007b).

Coombs (2007b) identified ten different crisis response strategies representing four different postures taken by the company: denial, diminution, reconstruction or bolster. Each of the postures features two or three different strategies of crisis responses. The first three postures – denial, diminution and reconstruction – are primary crisis response strategies, whereas the last
one, bolster, unites secondary crisis response strategies. Denial strategies aim at eradicating any connection between the company and the crisis events to prevent damage. Diminution strategies on the other hand accept the crisis as an event happening to the company however do not take full responsibility for the crisis. Reconstruction strategies attempt to influence the stakeholders’ perceptions about the company, hereby overwriting the current negative ones with prior positive ones. Lastly, bolster strategies avail the good relations between managers and stakeholders to stabilize the company’s reputation already during the crisis. In Table 2 the ten different strategies are displayed within the respective posture and category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Posture</th>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary</strong></td>
<td>Denial Posture</td>
<td>Attacking the accuser</td>
<td>Company searches direct confrontation with the external accuser(s)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Denial</td>
<td>Company publicly negates the existence of a crisis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Scapegoating</td>
<td>Company blames external party for the existence of the crisis</td>
</tr>
<tr>
<td></td>
<td>Diminishing</td>
<td>Excusing</td>
<td>Company tries to reduce perceived responsibility for the crisis by stating no intention to trigger the crisis or mentioning triggers outside the company’s scope of influence</td>
</tr>
<tr>
<td>Posture</td>
<td></td>
<td>Justification</td>
<td>Company tries to reduce perceived damages generated by the crisis</td>
</tr>
<tr>
<td></td>
<td>Rebuilding</td>
<td>Compensation</td>
<td>Company tries to compensate victims for their losses by offering money or gifts</td>
</tr>
<tr>
<td>Posture</td>
<td></td>
<td>Apology</td>
<td>Company apologizes for crisis, asks for forgiveness and publicly takes full responsibility for the events happened</td>
</tr>
<tr>
<td><strong>Secondary</strong></td>
<td>Bolstering</td>
<td>Reminding</td>
<td>Company wants to convince stakeholders of its integrity by reminding them of its good work in the past</td>
</tr>
<tr>
<td>(supplemental)</td>
<td>Posture</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ingratiation</td>
<td>Company praises stakeholder and reminds them of the company’s good work in the past</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Victimage</td>
<td>Company explicitly explains to the stakeholders how itself is a victim and affected by the crisis</td>
</tr>
</tbody>
</table>

Table 2 Crisis Response Strategies, adapted from Coombs (2007b, p. 170)

Generally spoken, Coombs (2007b, p. 173) suggests the usage of denial strategies only in cases of rumors or when some competitors try to challenge the company. In the case of a first-time victim crisis and good relationships between the company and its stakeholders, it might even be possible to spare official strategies and simply brief the public and rectify information. This is always to be the first step in every crisis response (Coombs, 2010). Diminution strategies are the most appropriate if the company has little to no responsibility,
as in a victim crisis if the company already experienced similar incidents or in a first-time accident crisis and a positive relationship to stakeholders. Rebuilding strategies are adequate if the company suffers from a history of accident crises or negative relationships to stakeholders in the past, as well as in any case of a preventable crisis. Furthermore, they should mostly be used in addition to the other crisis strategies. One essential factor to be taken into consideration is the consistency in the responses of the company. (Coombs, 2007b)

2.4. Theoretical Exhibit

The following two tables will give a summary of the theories and models elaborated on before to allow an easier comparison and a quick overview over the theoretical basis of this work. The first table covers the reputation measurement tools seen in the first part of the literature review and relates them to one another, whereas the second table summarizes the crisis management approaches presented in the second theoretical part.

### 2.4.1. Reputation Measurement

<table>
<thead>
<tr>
<th>Concept</th>
<th>Definitions</th>
<th>References</th>
<th>Relations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RepTrak</strong></td>
<td>Reputation measurement tool: emotional bond of customer with corporation</td>
<td>Reputation Institute (2005-2006)</td>
<td>Concept doesn’t relate to any other concept used</td>
</tr>
<tr>
<td><strong>Interbrand method</strong></td>
<td>Brand valuation method: considering financial, market and brand factors</td>
<td>Interbrand (1988)</td>
<td>Concept doesn’t relate to any other concept used</td>
</tr>
<tr>
<td><strong>Consumer-based Brand Equity (CBBE)</strong></td>
<td>Strong brand building: identity, meaning, responses &amp; relationships</td>
<td>Keller (1993)</td>
<td>Integrates both BAV and Brand Pyramid (see the models on the next page)</td>
</tr>
<tr>
<td><strong>Brand Asset Valuator (BAV)</strong></td>
<td>Brand value measurement: focus on the customer perspective (differentiation, relevance, esteem and knowledge)</td>
<td>Young &amp; Rubicam (1993)</td>
<td>Stages relate to CBBE (continued next page)</td>
</tr>
<tr>
<td>BrandDynamics Pyramid</td>
<td>Creation of brand loyalty: presence, relevance, performance, advantage and bonding</td>
<td>Millward Brown (mid 1990s)</td>
<td>Stages relate to CBBE</td>
</tr>
</tbody>
</table>

Table 3 Theoretical Exhibit on Reputation Measurement Models, created by the author
### 2.4.2. Crisis Management Theories

<table>
<thead>
<tr>
<th>Author and Theory</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coombs’s</strong></td>
<td><strong>Phases</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Pre-Crisis Phase:</strong> Risk management program: prevention of and preparation for crises</td>
</tr>
<tr>
<td></td>
<td><strong>Crisis Response Phase:</strong> Active management of and response to a crisis; initial response and reputation repair / beneficial intentions</td>
</tr>
<tr>
<td></td>
<td><strong>Post-Crisis Phase:</strong> Return to daily operations and keeping the promises made during prior phases</td>
</tr>
<tr>
<td><strong>Gaines-Ross’s</strong></td>
<td><strong>12 Steps to Recovering Reputation</strong> (2008)</td>
</tr>
<tr>
<td></td>
<td><strong>Rescue Phase:</strong> 1. Take the Heat – Leader First 2. Communicate Tirelessly 3. Reset the Company Clock 4. Don’t Underestimate Your Critics and Competitors</td>
</tr>
<tr>
<td></td>
<td><strong>Rewind Phase:</strong> 5. Analyze What Went Wrong and Right 6. Measure, Measure and Measure Again</td>
</tr>
<tr>
<td></td>
<td><strong>Restore Phase:</strong> 7. Right the Culture 8. Seize the Shift 9. Brave the Media</td>
</tr>
<tr>
<td><strong>Coombs’s</strong></td>
<td><strong>Situational Crisis Communication Theory</strong> (2007)</td>
</tr>
<tr>
<td></td>
<td><strong>Denial Posture:</strong> 1. Attacking the Accuser 2. Denial 3. Scapegoating</td>
</tr>
<tr>
<td></td>
<td><strong>Diminishing Posture:</strong> 4. Excusing 5. Justification</td>
</tr>
<tr>
<td></td>
<td><strong>Rebuilding Posture:</strong> 6. Compensation 7. Apology</td>
</tr>
</tbody>
</table>

Table 4 Theoretical Exhibit on Crisis Management Theories, created by the author

On the base of existing literature which emphasizes the importance of crisis communication in the field of crisis management, the research in connection to the two case studies (Ford and Volkswagen) will closely examine the crisis communication actions to address the objective of how the companies reacted to the critical incident (**objective 2**) and to compare the behavior of the both companies (**objective 4**).
3. Methodology

The methodological approach chosen for this study is the one of a qualitative analysis, specifically implemented by multiple case studies. Qualitative analyses provide answers to the comprehension of a topic and understand its backgrounds and its natural setting (Abusabha & Woelfel, 2003), which for this small two-case study is of higher value than qualitative studies which usually generalize findings collected form a rather large sample (Creswell, 2003). A case study approach as research tool enables an in-depth explanatory research study “about a contemporary set of events over which the investigator has little or no control” (Yin, 1994, p. 9) and therefore goes hand in hand with the explanatory research question of this study, not only exploring cases in literature, but using the data extracted to try to explain the matter at hand also considering the contextual and situational data. With case studies being open-ended, they provide the best methodological choice for the development of the research at hand, due to the fact of not assuming any preliminary interpretations or observations, but studying the cases in an unbiased manner (Yin, 1994). This methodological choice – two explanatory case studies – allows comparing two companies from the same sector, namely Ford and Volkswagen, regarding their organizational behavior in crisis situations. Companies with the same sectorial background enable a more adequate comparison, because they operate in the same field, in the cases at hand manufacture the same product, use similar resources and rely on similar technologies, and target the same broader market segment. Both Ford and Volkswagen recently experienced a crisis which affected their brands. However, both companies were affected to a different extent and reacted differently as well. Eisenhardt (1989) argues that a comparison of a pair of cases, i.e. their similarities and differences, is one of the tactics that lead to higher understanding of both events in the end. Thus, the aim of this qualitative study is to collect data on both companies and analyze how the effects and reactions differed, categorizing the findings along a framework elaborated by the author. This framework sets the following structure along which both case studies will be analyzed.

<table>
<thead>
<tr>
<th>Category</th>
<th>Company’s Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timeframe</strong></td>
<td>When did the incidents happen and for how long did the respective company experience its consequences? What was the contextual situation upon incurrence of the crisis like?</td>
</tr>
<tr>
<td><strong>Company crisis history</strong></td>
<td>Did the company already have prior experience with crises? Which were the motives for eventual prior crises? How did the company deal with crises throughout its corporate history?</td>
</tr>
</tbody>
</table>
Table 5 Categorical Framework of the Case Studies, created by the author

<table>
<thead>
<tr>
<th>Reasons for crisis</th>
<th>What were the main reasons and thus the cause of the crisis?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Countries involved</td>
<td>Which are the countries affected by the company’s crisis? Are there patterns recognizable?</td>
</tr>
<tr>
<td>Reimbursement</td>
<td>How – if at all – did the company try to reimburse its customers for products affected by the crisis?</td>
</tr>
<tr>
<td>Relationship with other companies involved</td>
<td>If corporate partners were involved in the cause of the crisis, how did the company handle the relationship?</td>
</tr>
<tr>
<td>Search for help</td>
<td>How if at all did the company search for external help in the course of crisis management?</td>
</tr>
<tr>
<td>Reactions / Behavior</td>
<td>How did the company react both internally and externally to the incurrence of the crisis? Which were measures taken? When were these measures taken? How did corporate representatives behave in public?</td>
</tr>
<tr>
<td>Crisis plan</td>
<td>Did the company have a crisis plan in place or did it see the necessity to establish one?</td>
</tr>
<tr>
<td>Damage incurred</td>
<td>Which were the consequences the company experienced? How exactly did it suffer from the crisis? What were the after-effects?</td>
</tr>
</tbody>
</table>

In the following analyses the case studies will provide a more extensive view on the crises incurred by considering both the course of the crises and the circumstances and histories of the companies instead of simply stating the answers to the questions above. However, a short and comprehensive summary on the findings answering the frameworks’ categories can be found in Appendix 12.

3.1. Theoretical Sample

The sample chosen for this dissertation to determine the effect of sudden incidents on a firm’s and brand’s reputation as well as the crisis communication actions chosen to reinstall the prior level of reputation comprises the car manufacturers Ford Motor Company and Volkswagen AG in the automotive industry. These two cases were selected due to several criteria: first of all, the fact of both companies operating in the same industrial sector provides certain homogeneity in the conduct of the study by establishing a common base for particular comparisons. Both companies are situated in the automotive industry, both are OEMs, and thus deal with similar operation procedures and technology standards, as well as struggles, as both are dependent on the differentiation from competitors by targeting a different market segment or targeting the same segment in a different way and both need to understand the importance of publicly emphasizing their uniqueness towards potential customers. In addition,
both companies were economically highly successful, well established and trusted brands by the time they were affected by a crisis. Eventually these common contextual aspects of the two cases to be studied aid in an easier illumination of the differences and similarities in the companies’ struggles, just as their responses to their respective situations. Furthermore, the currency of the Volkswagen AG case provides the opportunity to work with recent data and the simultaneous comparison with the Ford Motor Company case offers the chance to compare current to prior information. Both crisis cases generated high public attention and provoked international reactions, thus providing this study with a variety of publicly accessible data. Regarding the first case, Ford Motor Company, special attention will be paid to the period from August 1999 to December 2002, whereas for Volkswagen AG the emphasis lies on the most recent years, starting in May 2014 until the present (2017). Both timeframes represent the period in which the respective organization faced a critical incident affecting the company and its brand.

3.2. Data collection

Although having decided for a qualitative approach, the case studies will integrate qualitative and quantitative data. Eisenhardt (1989) explained that “case studies typically combine data collection methods such as archives, interviews, questionnaires and observations [and that] the evidence may be qualitative (e.g., words), quantitative (e.g., numbers), or both.” (Eisenhardt, 1989). She emphasizes that the combination of various data collection methods is most adequate to ensure triangulation of facts and data. This study will make use of both qualitative and quantitative data to comprise the complexity of the two case studies, but is utilizing almost exclusively secondary data to cover the public’s reactions to the crises incurred and comprehend the perceived change in reputation of the respective organizations as well as to interpret how the companies’ actions were perceived. The exceptions will be company press releases, annual reports and statements by company officials to ensure a first-hand evaluation of crisis response strategies and communication measures.

The data needed for the two case studies as well as for the background theories are mainly gathered by extensive literature review on existing theories in the fields of construction of brand image and crisis management, as well as trustworthy academic papers on the two case studies (secondary data). Triangulation of secondary data and sources is supposed to increase validity, reduce bias and gain deeper insights into the situations of both companies. The case studies therefore cover a two-sided evaluation: annual reports, press releases and statements
by company officials cover the company side of reporting (primary data), whereas renowned journals and magazines, stock exchanges and newspapers incorporate the side of the public coverage (secondary data). For the newspapers and magazines as secondary sources, renowned national and international broadsheet papers were chosen, such as Times Magazine, Forbes, Bloomberg, The New York Times, CNN Money or The Wall Street Journal, always consulting more than one source on the respective data or fact to increase its validity.

Interviews are not conducted, as in this case consistency is not ensured. Within Ford it is difficult to find people who first already were with the company at the time of the crisis and who secondly dealt directly with the resolution of the crisis at the turn of the millennium. Although this might not have been the case in the Volkswagen case, thanks to the topicality of the events, the aggravating issue here is justified doubt that due to the sensitivity of the topic the company and insiders would give biased and subjective statements, euphemizing the negativity of the issue. Higher objectivity is granted if observing the matter with some distance. For the reasons of on the one hand potential biases and on the other hand a lack of consistent interviewing possibilities within both companies, direct interviews with the companies were not considered as source of information.

3.3. Data analysis

To analyze the data collected, this paper will make use of the content analysis technique, in which the content of textual data is interpreted in its meaning. To make sense of the data collected and to organize it, the analysis combines both categorizing and contextualizing strategies. By categorizing the theoretical background and conceptual frameworks the initial text is fractured into discrete elements and re-sorted into categories by topic, which helps to get a hold of the underlying concepts. Contextualizing the case studies, on the other hand, contributes to the understanding of the data in context and identification of relationships among the different elements within the two cases. Hereby it eventually is possible to connect the themes found in the context with the results found in the categorizing analysis. The analysis of the data follows the framework of the research objectives introduced before, covering both theoretical and practical data in connection with reputation, crisis management and communication and the two case studies Ford Motor Company and Volkswagen AG. First in the information gathering phase, both primary data (company annual reports, press releases and statements) and secondary data (newspaper articles, journals and sectorial publications) were gathered. Thereafter, the data was categorized and analyzed regarding to
its thematic correspondence to reputation, crisis management or the impacts on the brand. In the third step, the individual case studies were contextualized, and the data was attributed regarding their rankings, the newspaper echo, financial indicators as well as press releases, annual reports and statements. In the appendix can be found a matrix connecting the research questions with the methodology suggested, to identify how each of the components of the methodology will help to get the data to answer the research questions (see Appendix 6).

To be specific, for the development of the Ford case, around 50 newspaper and magazine articles and five documents each from the NHTSA and the corporate parent have been referenced, although for triangulation of the information, many more have been read. In the Ford case, unfortunately no extensive data was available on company statements or press releases from the time of the crisis, which is why more newspaper articles were considered. For Volkswagen, on the other hand, also 50 newspaper and magazine articles were references, due to the case’s currency, 36 corporate documents were utilized, as well as close to 20 official documents from authorities or governments. For the Volkswagen case, the same as for the Ford case applies: many more sources were considered for the triangulation of information and for opinion building than eventually were quoted.

Regarding its validity, the research might have been prone to threats in three different categories, which however will be ruled out by meticulous data collection, evaluation and analysis, proving alternative hypotheses on the topic wrong, instead of only proving this study’s views right. First, the threat in description, describing the risk of inaccurate or incomplete data was reduced by considering two different angles of data sources and combining them to get access to the whole picture. Namely, these angles comprise the company and the public. Secondly, the threat in interpretation, which contains the risk of imposition of the researcher’s understanding, was minimized by scrutinizing the perspectives of both two angles of data sources and similarities within those perspectives, to provide a solid foundation for stated data. Lastly, the threat in theory, the risk of non-consideration of divergent findings, was decreased by the close examination of both perspectives and especially the search for more evidence on the deviating data or theory.

3.4. Case Studies

In the following two chapters the crises incurred at the companies Ford Motor Company and Volkswagen AG will receive a thorough examination. Both chapters will follow a similar structure to provide better possibilities for comparison. First, the crisis itself will briefly be
presented to gain an understanding of the exact time, the occurrences within and external to the companies and the reasons for the crises. Secondly, the companies will be introduced shortly, their histories will be exposed, especially their values will be presented, and their performance at the point of time when the crisis hit them will be elaborated on. Afterwards, a short context aids in the integration of the two crises into their situational settings regarding countries, politics, economics as well as sociocultural aspects. The last part will then present the proceedings in a timely manner, demonstrating both the publics’, including governments and media, actions and reactions to the events and the companies’ responses. A timeline for each company’s crisis sequential events can be found in the appendix (Appendices 9 and 11), as well as a table summarizing the findings in a categorical framework (Appendix 12). The timeline will be presented as well in table-format at the end of each case section. To ensure a better comparability, first both companies’ situations are elaborated on in a purely descriptive way, before in the following section both companies’ will be analyzed regarding the brand reputation and their crisis managements to have the direct contrast.

3.4.1. Ford Motor Company

The Ford Motor Company was involved in tire recalls between 2000 and 2002 after tread separations (see Appendix 7) through heavy use of the tires at high speed in hot environments led various Ford models equipped with Firestone tires to severe accidents, some with lethal consequences. The incident went through the press as “Firestone tire recall” or “Firestone/Ford tire controversy” and was the largest recall in the history of automotive companies until that point. After causing several accident-deaths and other severe injuries, Firestone tires, the standard equipment on Ford SUV models and light trucks, were recalled. It was discovered that the main reason for the faultiness were quality control problems at one of the tire supplier’s production sites in the early 1990s. During the course of the investigation Ford Motor Company was incriminated for having known of the defectiveness however failing to act (Reference for Business, n.d.), mainly because the incident in the US was not the first one of its kind. Already in the 1990s, countries in hotter climates, such as Saudi Arabia, Venezuela or Oman, had fallen victim to defective Firestone tires on Ford automobiles.

Ford is a globally operating automotive and mobility company (Reference for Business, n.d.) with two main sectors: automotive as its prime sector and financial services as a secondary sector (Thomson Reuters, 2016). The company was founded in 1903 and has its corporate headquarters in Dearborn, Michigan (Ford Motor Company, 2015) and currently employs just
under 200,000 employees (Forbes, 2017). Already one year after its foundation, in 1904, Ford opened its first international subsidiary in Canada. In 1913, Ford introduced the moving assembly line production, for which it gained international appreciation (Ford Motor Company, 2015). Ford’s automotive sector market is divided into five regions: North and South America, Europe, Asia Pacific and Middle East & Africa, with over 70 plants all over the world (Statista, n.d.). Within the different regional segments, the company sells different brands, however the mode of selling – through independent dealers and distributors – is the same around the globe. The business revenue generated by Ford Motor Company originates 95% from the automotive sector and only 5% from financial services, whereas revenue regarding geographic distribution comes in more than 60% from the US, followed by UK, Canada and Germany with all less than 10%. (Thomson Reuters, 2016)

The company has a history of crises: already in 1921, Ford suffered from a lack of liquidity for four months, which however shortly after could be resolved by a transfer of vehicles to Ford’s independent dealerships, leaving the company even with cash in excess. In 1937, Ford got a summons due to alleged unfair labor practices, slightly spattering the company’s reputation, but this matter was resolved shortly after as well. In the decade thereafter, Ford Motor Company faced a severe management crisis after Henry Ford’s son Edsel died at young age and left the company with a lack of capable managers to take over his responsibilities. Two years later the deceased’s inexperienced son, Henry II, became Ford’s new CEO and with the help of external forces averted more severe financial problems. In the 1970s, the Ford Motor Company again suffered from severe reputation damage, as several incidents occurred in which collisions of two Ford models – the Pinto and Bobcat – caused gas-tanks to explode. The 1990 to 1992 economic crisis also deeply affected Ford, imposing huge losses on car manufacturers. (Reference for Business, n.d.) As the Ford/Firestone crisis involved the tire manufacturer Bridgestone/Firestone, Firestone's crisis history is mentioned briefly as well. The company was prone to tire recalls: in 1978 Firestone recalled 14.5 million tires after tread separation endangered the customers and additionally had to pay a USD 500,000 fine. Due to the weakening after this crisis the company agreed on a merger with Bridgestone Americas.

The Ford-brand was always considered reliable by its customers (Andruss, 2012), caused among others by its consistency. This consistency can be found in the brand’s logo as well, which since its adoption has undergone only incremental change. The Ford lettering on the logo is patterned on Henry Ford’s signature, thus giving the customers a promise (Car Brand Names, 2017a). Furthermore, Ford is considered one of the most patriotic brands in the US.
Ford’s organizational values center around its vision: having great products for a strong business to create a better world – thus focusing on the three P’s: people, products and profits. Values within the greatness of the products are the products’ quality, safety, sustainability and innovation, whereas the business emphasizes growing without having to sacrifice profits (Ford Motor Company, 2015).

When in 2000 the issue of separating treads became public after several complaints and accidents caught the attention of the authorities, the companies were facing a unique situational context in the USA, the main country involved in the tire-recall crisis, although the prior happenings in other countries came to speech again. Politically, 2000 was an election year, with a new presidency (George W. Bush’s first term) starting in January 2001. Due to the tire crisis’s currency, politicians used the incident to increase their poll ratings by showing their care for consumer protection. The crisis was used as “corporate potboiler” to augment the politicians’ own popularity, who in turn tried their best for the crisis to stay in the publics’ minds and in the media to make the most use of it during the elections (Woellert, 2000). In March 2001, while the tire incident was still present in news coverage, the US was confronted with a mild (considering customer spending and the impacts on GDP) economic recession until the end of the same year (The National Bureau of Economic Research NBER, 2001). Although the impacts on GDP and consumer spending were minor, businesses were affected more: after a peak in the year before, the investments dropped lower than during any recession before. The drop in investments came along with the try to align cost structures with the market demand, therefore leading to layoffs and an increased unemployment rate (Lansing, 2003). Socio-culturally, it was the beginning of the “local”-trend with customers ready to hate corporations in case they would not comply with their “responsibilities” that came with the increasing power of the MNEs (Bernstein, 2000). The internet society was only in the early stages of its development. Although people increasingly had access to the internet, social networking sites were almost non-existent and only came up with Friendster in 2002, followed by LinkedIn in 2003, MySpace and Facebook in 2004 (History Cooperative, 2015). This means, during the Ford/Firestone crisis the public was rather influenced by classic media such as printed newspapers and journals as well as TV and radio.

In this study, the period to be investigated covers the time from April 1999 to December 2002, i.e. the times from the first recalls outside the US until Ford’s settlement payment to the government. In the following, the sequence of events will provide the basis for the further analysis of Ford Motor Company’s actions and behaviors in the progress of the crisis.
Already in March 1999, confidential talks between Ford and Firestone not yet known to the public revealed that Ford Motor Company had doubts about the safety of Firestone tires after having noticed some failures abroad. Firestone, however, emphasized the quality of its products and conducted several in-company tire tests to reassure Ford Motor Company that the tires had no impact on the accidents incurred abroad (Power & Simison, 2000). Five months later, in August 1999, Ford recalled all tires with tendencies to tread separation in 16 foreign countries, in some of which they even caused deadly accidents, with the largest recalls happening in Saudi Arabia, Oman, Qatar and Venezuela (Bradsher, 2000a). The failure was linked to extended high-speed driving in hot climate (Bradsher, 2001). None of the incidents abroad were reported to US authorities or the public, although tire defects had been known to both companies since 1996. Only on May 2nd, 2000, the National Highway Traffic Safety Administration (NHTSA) opened a full investigation on the (lethal) accidents after nationwide within the US a number of 90 complaints on the issue accumulated. Additionally, the NHTSA was told by a third party about the foreign recalls the year before (U.S. Department of Transportation - National Highway Traffic Safety Administration, 2001). Later, Ford stated no obligation by law to tell the NHTSA or other American official authorities about foreign recalls (Isidore & Slud, 2000).

In July 2000, after realizing the seriousness of the crisis and in connection the efforts of public relations, Firestone hired Fleishman-Hillard International Communications Inc., a public relations agency, to assist the company in external communications during the incident (Sharp, 2000). The same month, on July 28th, Ford Motor Company set up a war room and established a 500- person crisis response team at Ford’s headquarters in Michigan. Further 4,000 to 5,000 employees were involved in data and technical analyses, external communications with customers, dealers and the press, legal and governmental affairs, and in staffing a 24-hour customer hotline which increased from 300 to 800 employees. Jacques Nasser, Ford Motor Company’s CEO, participated in daily meetings and personally got in touch with dealers, suppliers and customers, and replaced the “quality” in Ford’s old motto with “customer” – “Customer is Job One”. (Simison, 2000)

The next month, on August 4th, 2000, the American tire retailer Sears stopped the sale and distribution of the affected Firestone tires (CNN Money, 2000a), due to safety concerns. After Sears’ sales stop the day before, pressmen were not able to reach Firestone officials for a statement on August 5th (Reuters, 2000). Only a few days later, on August 9th, and three months after the opening of NHTSA’s investigation, Ford and Firestone announced the recall
of 6.5 million tires of three different models, which were original equipment to Ford light trucks and Ford SUVs, i.a. the Ford Explorer (CNN Money, 2000b). Ford emphasized the companies did not want to wait to act although the NHSTA investigation was not closed yet. Due to a lack of replacement tires on behalf of Firestone, the recall process was to be divided into three phases, covering different states in each phase, with the process being terminated by summer 2001 (CNN Money, 2000c). Ford, however, not agreeing with Firestone emphasized that everybody, no matter the state, should directly search to replace the tires, therefore also having other manufacturers supplying tires to the recall (Simison, 2000).

Only few days after the recall, on August 13th, after internal data analyses at Ford it became public that the source of defectiveness of many of the recalled tires were quality-control problems in the mid-1990s as well as bad working methods of employees at one of Firestone’s production sites (Grimaldi, 2000). The very same day, Ford Motor Company placed ads in Sunday newspapers to reassure its customers of the safety of Explorers with Firestone tires (CNN Money, 2000a). The company showed no intention to end its business relationship with Firestone, however, argued in favor of higher quality standards and tests of the tires (CNN Money, 2000d).

“We have confidence in those tires. [...] We’re certain the population of tires affected by the problem have been identified by the recall.” - Jerree Martin, Ford spokeswoman (CNN Money, 2000e)

The day after, after revision of official Firestone documents at Ford, the latter released evidence to the public, proving that Firestone had known about the faulty tires in the US already in 1997 after receiving several complaints (Bradsher, 2000b). Ford stated not having been informed about the incidents until learning about them through own analyses of Firestone data by the beginning of August 2000. Customers continued to purchase the Ford Explorer model, however, with tires from Firestone’s competitors (primarily Goodyear or Michelin), leaving Ford dealers switching tires of Explorers on stock (CNN Money, 2000e).

On August 15th, 2000, the NHTSA officially announced the linkage of deaths to the Firestone tires, having received more than 750 complaints by the day (NHTSA, 2000a). One day later, 41 newspapers nationwide featured ads with details on the process of the reimbursement policy by switching tires at authorized sites affiliated with Bridgestone, Firestone or Ford as well as at independent dealers. The tire producer reimbursed up to 100 USD per tire included in the recall. In case of switching at independent dealers the customers had to fill in a form and send it to Firestone. Initially Firestone wanted to exclude from the reimbursement
customers who independently exchanged tires at locations not explicitly in relation to either Ford or Firestone after August 16th. However, after a court in Kentucky got a restraining order against this move, Firestone extended the reimbursement program the next day to an indefinite timeframe, although company officials stated not having known about the order and denied the extension had to do with it (CNN Money, 2000f). Due to a tire shortage in response to the recall, Ford, on August 20th, announced a planned shutdown of three of its plants for three weeks starting eight days later to use the tires for the recall (Simison, 2000). Firestone announced increased production at Bridgestone Japan with tires being flown to the US by plane as soon as produced (CNN Money, 2000g).

The same day Ford closed its plants, August 28th, the company’s CEO Jacques Nasser publicly apologized on television (Albaum & Duerr, 2011). However, the next day it became public that Ford knew of the faulty tires before, as print-media covered the Venezuelan incident from the 1990s extensively (CNN Money, 2000i). By that time, the number of complaints to the NHTSA had augmented to 1400 with more than 250 injuries (NHTSA, 2000a). Firestone advised NHTSA, that it “would not voluntarily expand the recall at this time” (NHTSA, 2000b), although further 1.4 million of its tires gave reason to believe they were defective (Albaum & Duerr, 2011). After only two months Firestone’s PR agency Fleishman-Hillard resigned in September 2000 whereupon Firestone hired Ketchum as its new PR agency (The Wall Street Journal, 2000).

“We know that we have been slow in responding to public concerns, that we underestimated the intensity of the situation, and that we have been too focused on internal details. We are determined to change all that.” - Masatoshi Ono, CEO of Firestone, in a statement announcing the hiring of new PR firm (The Wall Street Journal, 2000)

On September 1st, Firestone released a statement regarding the NHTSA Customer Advisory the day before (Karbowiak, 2000) in which it promised a free inspection for worried customers at Firestone service centers and the replacement of tires with competitive brands and at no cost (NHTSA, 2001). However, it did not agree with the NHTSA’s initial decision on the defectiveness of the additional tires (Bridgestone, 2002). The same day, the Venezuelan government started a criminal investigation against both companies on alleged cover-up (Toro & Swoboda, 2000). Five days later, on September 6th, 2000, the U.S. Congress opened hearings on the Firestone and Ford tread separation problem. During the hearings, Ford blamed Firestone for full responsibility and denied any wrongdoings although not having followed the producer’s tire pressure standards. Firestone on the other hand took
full responsibility but implied that the Ford car model itself would have been a part of the problem and that the wrong pressure level (which apparently reduced the risk of the car rolling over) had increased the heat on the tire (Wald, 2000a).

“Unfortunately, I am not able to give you a conclusive cause at this time. However, you have my word that we will continue until we find the cause” - Masatoshi Ono, CEO of Firestone (Wald, 2000a)

Whereas Ford’s Nasser at first did not plan to testify at the hearing and wanted to send two other executives, Firestone’s Ono agreed immediately (CNN Money, 2000i). During his testimony, Ono apologized, however later stated that the apology should not be misinterpreted as a guilt admission, only as sympathy for the people involved (Ackman, 2000).

"I come before you to apologize to you, the American people and especially to the families who have lost loved ones in these terrible rollover accidents. I also come to accept full and personal responsibility [. . .] for the events that led to this hearing.” – Masatoshi Ono, CEO of Firestone (Alonso-Zaldivar & Jackson, 2000)

During the hearings, analysts from the New York Times stated that the probability of crashes and lethal accidents with a Ford Explorer being related to tire problems was three times as high as the probability of other SUVs (Wald & Barbanel, 2000). Nevertheless, during Nasser’s hearing, on September 12th, the Ford Motor Company’s CEO stated that “this is a Firestone tire issue – not a vehicle issue” (CNN Money, 2000h). Additionally, to prove their point, the company insisted that Ford Explorers equipped with Firestone’s competitors’ tires have accounted for far less accidents than the ones with Firestone tires (Greenwald, 2001). Furthermore, Nasser denied any knowing of the issue before the recall in August (CNN Money, 2000i), although the information about foreign recalls in 1999 was already publicly known. Moreover, regarding the US, in 1996 a Texan TV station broadcasted a report on faulty Firestone tires and inquired various complaints from Texans.

“Because tires are the only component of our vehicles that are separately warranted, Ford did not know that there was a defect with the tires until we virtually pried the claims data from Firestone's hands and analyzed it ourselves. [...] From this point forward, when we know something, so will the world.” - Jacques Nasser, CEO of Ford Motor Company (CNN Money, 2000i)

As the investigation committee requested more documents concerning the tested tired, Ford promised to “certainly going to comply with everything” (CNN Money, 2000j). On this day, Bridgestone Japan’s, Firestone’s corporate parent, president Kaizaki made his first public appearance since the recall and admitted that the corporation had failed to closely regard quality control (Tanikawa, 2000).
Still in September, Ford announced that soon it would let its customers choose the brand of tires their car would be equipped with (Pellegrini, 2000), providing a range of brands to be chosen of, including Goodyear, Michelin, Continental and Firestone. The month after, the US Congress passed a law that obliges car manufacturers to the reporting of recalls or replacements due to safety issues abroad also to the US authorities (Wald, 2000b).

By December 2000, Bridgestone, corporate parent of Firestone, reduced its earnings forecast by 81% and announced USD 750 million only used to cover the tire recall and possible legal action. Additionally, the expected earnings for the fiscal year 2000, ending end-December, of USD 596.6 million predicted in August were downgraded to USD 116 million. Furthermore, sales by the end of the fiscal year are expected to be 2.4% lower than predicted (Bloomberg News, 2000). Firestone’s internal investigation revealed faulty manufacturing processes at its plant in Decatur, IL, and confirmed the recalls to be the best action taken to ensure customer safety (CNN Money, 2000k). The plant faced workers’ strikes from 1994 to 1996 and in the meantime contracted inexperienced replacement workers (Krueger & Mas, 2004). On January 12th of the following year, Yoichiro Kaizaki, the president and chief executive of the Bridgestone Corporation, resigned. For the Japan-based company this was seen as a way to resume responsibility for one’s actions, however, the president denied both taking the blame and stepping down because of the crisis. He stated the company needing fresh wind as his 2-year term would end. Additionally, in the US, three further top managers, one of them Masatoshi Ono, stepped down and the management team was largely replaced. The new face of the company in the tire crisis was former executive VP John Lampe (Tanikawa, 2001). In April 2001, after the company’s change of management, Firestone introduced its “Make it Right” campaign. In a first phase, print and broadcast advertising with the new CEO John Lampe would explain the details of the new direction, which would be manufacturing and quality control. The second phase, advertisements with well-known race car drivers, would afterwards confirm the significance of maintaining tires for safety reasons (Barboza, 2001a; Parry, 2001).

On May 22nd, 2001, Ford announced a program to recall all Firestone tires of one special model mounted to Ford Explorers, accounting for 13 million tires not recalled in August 2000 (NHTSA, 2001), despite the fact that Firestone had considered them safe the year before (Greenwald, 2001). After Firestone learned of the program from the newspaper (Bradsher, 2001b) the companies scheduled a meeting at the end of which Bridgestone/Firestone ended its 95-year relationship as a supplier to Ford (Aeppel, White, & Power, 2001), justifying the
move by falsely being blamed alone for the incidents (The New York Times, 2001). The month after, on June 27th, Firestone announced the closure of the Illinois plant that produced the faulty tires in December (CNN Money, 2001a; Kilborn, 2001), however company officials stated the decision would rest upon economic reasons and not on the tire crisis (Barboza, 2001b).

After the final number of fatalities was corrected to 271 (NHTSA, 2000a) on September 5th, the NHTSA published the “Engineering Analysis Report and Initial Decision” on October 4th which came to the conclusion that one Firestone tire model on SUVs from before May 1998 was faulty (U.S. Department of Transportation - National Highway Traffic Safety Administration, 2001). Thus, the company announced further replacements on 3.5 million tires involved (Gilpin, 2001).

On October 30th, 2001, Ford Motor Company replaced Jacques Nasser (CNN Money, 2001b) as CEO with William Clay Ford, the great-grandson of the company’s founder. The company had suffered from the impact of the crisis, followed by a market share decline in a highly competitive market (BBC, 2001).

“‘The change helped the company return its focus to its core operations – building cars – and it realigned the company’s values to emphasize its employees and the quality of its products’” – Ford Corporate Website (Ford Motor Company, 2015)

Few months later, in January 2002, Ford announced the closure of 5 plants, cutting of 35,000 jobs around the world to grow profits and cut costs (Isidore, 2002). Only in October 2002 for the first time in years, Ford exceeded the estimates for its third quarter (Ford Motor Company, 2002). When the settlements began on December 21st, 2002, Ford agreed to pay USD 51.5 million to the state government, accepting the charge of having misguided consumers about the safety of its SUVs and not having unfolded the known risks regarding the tires, but denied any wrongdoing concerning the accidents (Reuters, 2002).

During the tire crisis, Ford ultimately paid USD 3.5 billion for the recall, lawsuits and out-of court settlements (Albaum & Duerr, 2011). Its US market share declined to 19.1% (2003), down from 22.6% in 2000 (Statista, 2017b). The company closed five plants, laid off 35,000 workers, and replaced its CEO. Furthermore, the company’s market capitalization decreased from USD 65 billion by the end of 1999 to USD 17 billion by end 2002 (Bloomberg, 2016a). As the market capitalization equals the sum of the market values of all outstanding shares, this could either imply that the number of shares outstanding was reduced over these years
through buy-backs or that the value of the shares outstanding dropped dramatically: at Ford it was a mixture of the two reasons (for a more detailed analysis of Ford Motor Company’s stock price development see Appendix 8) (Bloomberg, 2016b).

<table>
<thead>
<tr>
<th>Date</th>
<th>Happenings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999, March</td>
<td>confidential talks between Ford and Firestone about tire quality</td>
</tr>
<tr>
<td>1999, August</td>
<td>Ford recalls tires with failure-tendencies in 16 countries (not yet in the US)</td>
</tr>
<tr>
<td>2000, May</td>
<td>NHTSA opens full investigations after learning of domestic and international incidents</td>
</tr>
<tr>
<td>2000, July</td>
<td>Ford sets up a war room with a 500-people crisis response team</td>
</tr>
<tr>
<td>2000, August 13</td>
<td>Ford nationwide publishes newspaper ads to emphasize the safety of their cars and the tires</td>
</tr>
<tr>
<td>2000, August 14</td>
<td>Ford releases documents proving that Firestone knew about the quality issue in 1997, but claims to not have been informed until August 2000</td>
</tr>
<tr>
<td>2000, August 16</td>
<td>Ford goes public with the instructions on the reimbursement process</td>
</tr>
<tr>
<td>2000, August 22</td>
<td>Ford announces to shut down three plants to use the tires on stock for the recall</td>
</tr>
<tr>
<td>2000, August 28</td>
<td>Ford’s CEO Nasser publicly apologizes on TV</td>
</tr>
<tr>
<td>2000, August 29</td>
<td>Public news coverage on the recalls abroad in 1999</td>
</tr>
<tr>
<td>2000, September 04</td>
<td>The U.S. Congress opens hearings on the tire issue during which the two companies involved mainly blame each other (“This is a Firestone tire issue – not a vehicle issue”)</td>
</tr>
<tr>
<td>2000, September 28</td>
<td>Ford announces to let its customers choose the tire brand their cars will be equipped with</td>
</tr>
<tr>
<td>2001, May 22</td>
<td>Ford announces to replace all tires of one certain model (independent of the production year) although considering them safe the year before → end of the business relationship between Ford and Firestone</td>
</tr>
<tr>
<td>2001, October 30</td>
<td>Ford replaces Nasser with William Clay Ford as CEO</td>
</tr>
<tr>
<td>2002, December 21</td>
<td>Settlements begin and Ford agrees to pay USD 51.5 million but still denies any wrongdoing</td>
</tr>
</tbody>
</table>

Table 6 Summary of the Course of Happenings at Ford
3.4.2. Volkswagen AG

The Volkswagen group was involved in a scandal commonly known as the Volkswagen emission scandal or “dieselgate”. VW installed defeat device software in the engine control unit in the Type EA 189 engines of worldwide approximately 11 million cars to circumvent the American exhaust emission standards (EPA, 2015a). With the cars’ normal emission performance during use, Volkswagen’s diesel models would not have been allowed for sale in the USA, as they would not have received the needed EPA certification. The motor control unit normally measures several actuators within the car to guarantee optimal performance at the lowest consumption possible (Gates, Ewing, Russell, & Watkins, 2017), thereby complying with the exhaust values. As the car recognizes when it was being tested, so that the antiskid system does not block the wheels, the software installed adjusted the emissions by changing the waste-gas circulation only in the test mode to comply with the standards (Volkswagen AG, 2017d). The car manufacturer knew about the fraud years before its release to the public in May 2014, when higher emissions were reported to the EPA (Ewing, VW says old memo told Winterkorn of emissions irregularities, 2016a). However, only in September 2015 the scandal got highest media coverage, after being publicly declared as violation to the American Clean Air Act.

Volkswagen (VW) as a company was founded in 1937 in Wolfsburg, Germany, where its headquarters are located to this day. In 1960, through the privatization of the company after it had been state property after the Second World War, Volkswagen became a corporation. Nowadays the company employs about 610,000 people and owns 120 productions sites in 31 countries (Volkswagen AG, 2017a). Volkswagen operates within two main business sectors: automotive (including passenger cars and utility vehicles) and financial services. In the automotive sector, Volkswagen owns 12 brands from 7 European countries, including amongst others Audi, Seat, Bugatti, Porsche, and Lamborghini (Volkswagen AG, 2017a).

VW features a history of crises, especially in the last three decades. In 1993, the López-scamd got extensive media coverage, after the former director of GM, López, transferred to Volkswagen and was accused of industrial espionage by taking secret documents from his prior employer with him. López was dismissed and VW paid USD 100,000 in recompense to GM (Blüthmann, 1996). In 2005, the company faced a corruption scandal involving monetary bribes, luxury trips and services from prostitutes for VW’s works council to influence their decision making – several managers involved were dismissed and convicted, the financial
damage for the company amounted to around € 5 billion (Ritter, 2005). The same year in the US the American Volkswagen unit was imposed a fine of USD 1.1 million after the EPA issued a warning to the company that a defective exhaust part caused their carbon monoxide emission levels to exceed the amount allowed by law. Although the defectiveness of the parts went back to 1999/2000, the EPA only learnt about the incident later, as the company did not forward the complaints it received to the authorities (EPA, n.d.). Four years later, in 2005, the at that time chairman of the supervisory board Piëch publicly argued out a power play with Porsche’s Wiedeking, who intended to buy VW. Eventually, Porsche was not able to accomplish the acquisition; however, the press extensively covered the power play between the two men. The final outcome was that VW bought Porsche in 2012 (Hawranek, 2009). Six years later, in 2015, Piëch entered in a public power play again, this time against the own company’s CEO Winterkorn whom he tried to bring down – unsuccessfully. Piëch eventually stepped down in April 2015 as chairman himself, whereas Winterkorn continued as VW’s CEO (WirtschaftsWoche, 2015).

The Volkswagen brand always symbolized German engineering and technical excellence, making success throughout the world as a popular brand (Car Brand Names, 2017b). The company’s organizational values comprise responsibility and sustainability for the society, economy, and environment (Volkswagen AG, 2017b) and with a special focus on people (Volkswagen AG, 2017c). The company explicitly states: “Sustainable, collaborative, and responsible thinking underlies everything we do.” (Volkswagen AG, 2017b).

The emission scandal had a worldwide impact, however the focus in this case study lays on the US due to two reasons: the scandal became public in the US and the defeat device was implemented to receive the permission for sale on the US market. Nevertheless, most cars - 8.5 of 11 million (Bundesstrafgericht, 2016) - affected were in Europe, thus the respective governments’ reactions will also be part of the timeline as several European countries started investigations against Volkswagen. In the US, where in contrast to the European Union it is possible to sue a whole company and not only a representative of it, the company was sued on state and federal level for violation of the Clean Air Act and consumer protection.

The situational context within the US, especially prior to the crisis, had an impact on the company. Politically, the time from 2014 to 2017 in the US fell mostly into the time of Obama’s second term, in which he emphasized amongst others climate change as priority to be dealt with domestically. In this context, the Climate Action Plan was issued, which led the
EPA to drastically reducing the carbon emissions from power plants (Miller Center of Public Affairs, University of Virginia, 2017) but also to improve efficiency standards for vehicles and buildings (US Climate Action Network, 2014). In 2013, a plan for better preparedness of US citizens for the climate change also in transportation was issued (The White House Office of the Press Secretary, 2013). Since 2014, the US economy was constantly growing and did not face any crises (Trading Economics, 2017). Sociocultural trends on the rise are particularly smart products, products that are connected and take corrective action themselves, as well as the “zero concept” in such context that cars produce no emissions, accidents or fatalities (Singh, 2014). Social media have gained popularity, with already more than half of all adult online users being registered at two or more social media sites, and even though the growth of new users has slowed down, the user engagement has increased a lot (Duggan, Ellison, Lampe, Lenhardt, & Madden, 2015). This popularity of social media and the engagement of its users emphasize the urge for a company to maintain consistent communication with audiences on different channels, as social media eases connectivity.

The period to be covered in the VW case ranges from May 2014, i.e. from the moment the EPA was informed about the irregularities in VW diesel cars, to the present. The following sequence of events further aids in analyzing VW’s behavior and actions during the crisis.

When VW wanted to enter the US-market with diesel cars in 2008, in the course of the preparation since 2005 the company developed a new engine in which engineers changed software algorithms to meet US emission norms without needing a higher budget from superior levels (Ewing, 2015a). Various parties involved, both employees and supervisors, actively agreed on deceiving the US (Reuters, 2017a) until the scam was revealed in 2014.

On May 5th, 2014, after taking road tests with the cars (Whoriskey & Warrick, 2015), the ICCT reported the initial finding that two Volkswagen models, namely the Jetta and Passat, had significantly (10 to 40 times) higher "in-use" nitrogen oxide emissions on the road than allowed in the US (Franco, Sánchez, German, & Mock, 2014). The ICCT reported these findings to both the EPA and CARB (Kretchmer, 2015). On May 23rd, 15 months before admitting the scandal to regulators (Neate, 2016), Dr. Martin Winterkorn, Volkswagen’s CEO, received a memo about the ICCT tests on VW’s diesel models, however it was unclear how much attention was given to the memo (Meys, 2016).

As Volkswagen in America issued a voluntary recall in December 2014 for the defective exhaust parts mentioned before, the company harnessed this occasion to offer the solution of
recalibration of 500,000 motors in its diesel cars in the US market (Whoriskey & Warrick, 2015). Nevertheless, on July 27th, 2015, CARB and the EPA issued a statement announcing to no longer certify Volkswagen's 2016 diesel lineup as further tests after the recall showed no decrease in the emissions (Vlasic & Kessler, 2015). The lack of this certification would make the cars not eligible for sales in the US (Reuters, 2017a; CARB, 2015). In response to that, the company established a diesel task force after the realization of having violated US law in August 2015 (Meys, 2016). On September 3rd, 2015, Volkswagen eventually admitted to the EPA to having equipped the models with a so-called defeat device which would allow to circumvent and defeat the vehicle's emission control system when the car was being tested, and confessed to the cars emitting 10 to 40 times higher emissions than allowed on the roads (Reuters, 2017a). Two weeks after Volkswagen’s confession, CARB and EPA announced in a notice of violation that the defeat device technology, that had been installed in approximately 500,000 Volkswagen 2.0L TDI cars, violated the Clean Air Act (EPA, 2015b). Only at this point the general public became aware of the situation and the defeat device as Volkswagen publicly admitted to cheating in the US emission tests (Plungis, 2015). In a statement by VW, the company reassured its customers that the cars were safe to drive and that customers would not have to take any action (Volkswagen of America, 2015a). Two days after EPA’s publication, VW AG’s CEO Winterkorn apologized and the company ordered an external investigation, telling US dealers to halt the sale of 2015 models (Kresge, 2015).

“I personally am deeply sorry that we have broken the trust of our customers and the public. We will cooperate fully with the responsible agencies, with transparency and urgency, to clearly, openly, and completely establish all of the facts of this case.” Prof. Dr. Martin Winterkorn, CEO of Volkswagen AG (Volkswagen of America, 2015b)

Still in September 2015, the German minister for economic affairs expressed concern that the scandal might shed a bad light on the whole German automotive industry (Rushe & Farrell, 2015) just as Volkswagen admitted the number of worldwide affected vehicles accounted for 11 million (Ewing, 2015b). In an ad hoc statement regarding the US the company stated its highest priority at that point was to regain the customers’ trust and to avert any damage from the customers (Volkswagen AG, 2015a). In a video statement by Winterkorn, he deemed the irregularities in the motors contradictory to Volkswagen’s values, admitted to not having all the answers by then but promising transparency, speed and thoroughness (Volkswagen AG, 2015b). After class action lawsuits were filed in Canada and the US Department of Justice launched investigations in the Volkswagen case (Russell, 2015), Volkswagen of America’s CEO Horn said:
“And in my German words: We have totally screwed up. We must fix the cars to prevent this from ever happening again and we have to make this right. This kind of behavior is totally inconsistent with our qualities.” - Michael Horn, CEO of Volkswagen of America (Clothier, 2015)

One day after his video statement, on September 23rd 2015, Winterkorn resigned being “not aware of any wrongdoing on [his] part” as released in an ad hoc statement (Volkswagen AG, 2015c).

“As CEO I accept responsibility for the irregularities that have been found in diesel engines and have therefore requested the Supervisory Board to agree on terminating my function as CEO of the Volkswagen Group. I am doing this in the interests of the company even though I am not aware of any wrong doing on my part.” - Prof. Dr. Martin Winterkorn, CEO of Volkswagen AG (Volkswagen of America, 2015c)

In response to Winterkorn’s resignation, the previous chairman on the company’s Porsche unit, Matthias Müller, was appointed Volkswagen’s new CEO on September 25th (Volkswagen AG, 2015d). A further change in management was realized with former CFO Hans Dieter Pötsch being announced chairman of the supervisory board of Volkswagen AG (Volkswagen of America, 2015d). The same day, the supervisory board blamed a small group of engineers and technicians for the scandal which already had been suspended (Volkswagen of America, 2015d). In a press conference, also released as video statement on behalf of the board of directors, Huber, interim chairman before Pötsch’s assumption of the post, declared the test manipulations a moral and political disaster for the company with VW itself being as shocked as the public about the illegal behavior of engine developers and technicians. Huber made a public apology and asked for a chance to regain the lost trust, whereas newly announced CEO Müller emphasized patience, as accuracy was most important (Volkswagen AG, 2015e). Soon after, VW contracted a new head of external communications, investor and external relations, Hans-Gerd Bode (Volkswagen AG, 2015f), who led the company to damage control, starting with both structural and operational changes (Trefis Team, 2015). Furthermore, with a new officer for compliance, Dr. Christine Hohmann-Dennhardt, headhunted from Daimler to start at Volkswagen in January 2016 (Volkswagen AG, 2015g) as well as a newly contracted corporate strategist, Dr. Thomas Sedran (Volkswagen AG, 2015h), the management change was completed by the end of October.

On September 27th, 2015, Volkswagen of America launched www.vwdieselinfo.com, an information site with frequently asked questions about the emission scandal as well as company statements and a video message from the CEO of Volkswagen of America (Volkswagen of America, 2015e). This was one of many national websites maintained
through the process of the crisis (Volkswagen AG, 2015i). Furthermore, a new strategy was introduced, focusing on five key points: first helping customers affected by the emission issue, second continuing to resolve the matter with all consequences, third introducing new structures into the enterprise, fourth realigning the corporate culture and leadership behavior, and fifth developing the priorities into a strategy until 2025 (Volkswagen AG, 2015j). Müller also called a works assembly at Wolfsburg informing the workforce honestly about the current happenings and the next steps to be taken and thereby intended to strengthen the unity of the workforce (Volkswagen AG, 2015k).

By October 2015, according to a study by the GPRA (Gesellschaft für führende PR- und Kommunikationsagenturen in Deutschland, in English association of Germany’s leading communications agencies with PR background) only 43% of all Germans still had trust in Volkswagen, a number which decreased further to 40% in May 2016 (GPRA, 2016), and sales in the UK dropped by 10% (Manager Magazin, 2015a). Moreover, throughout the month of October, not only did German authorities raid VW’s Wolfsburg headquarters (Manager Magazin, 2015b) after German prosecutors had initialized judicial inquiries the month before (Staatsanwaltschaft Braunschweig, 2015), but several European countries started investigations or lawsuits against Volkswagen. First Sweden started to check if Volkswagen had to pay the outstanding taxes (Finanzen.net, 2015), soon after France started an investigation for fraud due to higher than allowed nitric oxides eventually reclaiming subsidy payments for ecofriendly cars (Handelsblatt, 2015), Italy investigated suspected trade deception and consumer fraud (Zeit Online, 2015) and Spain, by the end of the month, also started to look into the manipulated emissions investigating subsidy fraud and the violation of environmental laws (El Universo, 2015). Switzerland had announced already in September to issue moratorium on affected VW diesel cars (Hagenbüchle, 2015). In November, the European Commission also started an investigation against Volkswagen, but additionally announced the implementation of tighter standards for authorization systems, especially vehicle registration offices (Manager Magatin, 2015c). The same month, Brazilian authorities issued a BRL 50 million (approx. € 12.3 million) fine on Volkswagen for fraud (Globo, 2015) and urged the company to present a plan on the corrections of the cars (Portal Brasil, 2015). In January 2016, Austrian authorities started a mandatory recall of VW cars to update the manipulated software and consumer advocates checked for possible compensations (Möchel, 2016). The month after, VW began with technical modifications on cars in Europe (Volkswagen AG, 2016a). In South Korea, the second recall after the one in the US in
December 2014 took place in November 2015 (Lee, 2015). The latest country to sue VW for alleged emission fraud was Australia in September 2016 (Kaye, 2016).

In the US, Volkswagen met the U.S. Congressional Committee to which the company drafted a plan to rectify the crisis, to hold the parties responsible liable for their actions, and to guard against similar future events (Plungis, Voreacos, & Katz, 2015). In his testimony before the Congress, Volkswagen of America’s CEO Michel Horn said that:

“These events are fundamentally contrary to Volkswagen’s core principles of providing value to our customers, innovation, and responsibility to our communities and the environment. [...] We will find remedies for our customers, and we will work to ensure that this will never happen again.” – Michael Horn, CEO of Volkswagen of America (Volkswagen of America, 2015f)

On November 2\textsuperscript{nd}, 2015, the EPA found more cars with the installed device (EPA, 2015c): in a second notice of violation the authority informed Volkswagen, Audi and Porsche that the manipulated software had also been found in eight vehicles with 3.0L TDI motors, built between 2009 and 2016 (Volkswagen of America, 2015g). Volkswagen denied the manipulation of those motors, however promised full cooperation to the EPA (Volkswagen AG, 2015l). One day later, after internal investigations, VW admitted additional to the irregularities in the specification of NOx emission values that up to 800,000 cars could be affected by irregularities in carbon dioxide emissions as well (Volkswagen AG, 2015m). This number was later corrected to 36,000 (Volkswagen AG, 2015n). The company released an ad hoc announcement specifying its further proceedings and reassuring the customers that their safety was not at stake (Volkswagen AG, 2015m). As a first step towards remedy for the US customers in November 2015, Volkswagen started offering gift cards for VW dealers of USD 1,000, a visa card with USD 500 and 24/7 roadside assistance for three years as goodwill package for 2.0L TDI owners (Volkswagen of America, 2015h). This package was extended to the 3.0L TDI vehicles affected in January 2016 (Volkswagen of America, 2016a).

In Europe, German car regulators expanded the investigation in the emission manipulations by November 2015 to over 50 models from different car brands, amongst them also Mercedes, BMW, Jaguar Land Rover, Ford, Volvo and Nissan (Reuters, 2015). The German minister of transport announced unheralded tests to faster disclose further manipulations with other brands (Die Welt, 2016). In December, Volkswagen stated to contract external parties conducting emission tests in the future and announced a new, more decentralized structure with more independence for regions and brands (Volkswagen AG, 2015o). That day at a news
conference, VW after an internal investigation eventually admitted in public to the scandal having its origins in individual misconduct in 2005 (Boston, Varnholt, & Sloat, 2015).

“No business justifies crossing legal and ethical boundaries.” – Hans-Dieter Pötsch, Chairman of Volkswagen AG (BBC, 2015)

By the end of November 2015, Volkswagen of America submitted an initial proposal to the EPA on how to address the defeat devices in the 2.0L TDI models (EPA, 2015d), which however was rejected in January 2016 for not fully complying with the legal prerequisites by being not specific enough, lacking exact descriptions of the repairs to be done, as well as not addressing the impacts on safety and car performance (CARB, 2016a; EPA, 2016a). The same month, on January 4th, 2016, the American Department of Justice, on behalf of the EPA, sued the whole Volkswagen group – including Volkswagen AG, Volkswagen Group of America Inc., Audi AG, and the Porsche AG - for violations against the Clean Air Act (Department of Justice, 2016a). The lawsuit covered over 580,000 vehicles in the United States (EPA, 2016b), for each of which preliminary fees were set between USD 32,000 and 37,000 (Jopson, Chon, & Wright, 2016), with only the eventuality of it directly impacting the Volkswagen shares (Milne, Chon, & Sharman, 2016). By February 25th, 2016, Volkswagen was presented a court order obliging the company to provide a definite response on its capability to comply with EPA regulations in the diesel models affected and on the intended repair of affected cars (Shepardson, 2016). The next month, on March 9th, 2016, Michael Horn stepped down as president and CEO of Volkswagen Group of America and the interim CEO Hinrich Woebcken, former regional head, was announced (Reuters, 2016).

In April 2016 after a belayed shareholders’ meeting, VW released the official numbers for 2015, recognizing €16.2 billion exceptional charges for global activities in relation to “dieselgate”, such as legal risks, technical modifications or repurchases, resulting in a loss of € -5.5 billion after tax, which led the company to expect a decrease of 5% in revenues for the following year 2016 (Volkswagen AG, 2016b).

On June 28th, 2016, VW reached a settlement agreement over the 2.0L TDI vehicles with all parties involved: US regulators, private persons and 44 US states. In this context, Volkswagen committed itself to vehicle buybacks, lease terminations, modifications as well as cash payments to the owners of about 475,000 affected vehicles (EPA, 2016c). VW had to spare USD 10 billion for modifications, terminations and buybacks, USD 603 million for consumer protection claims, USD 2.7 billion to donate into an environmental remediation fund and
USD 2.0 billion to aid initiatives promoting zero emission vehicles (Volkswagen AG, 2016c). In total, the company was facing payments of up to USD 14.7 billion (EPA, 2016c). Two weeks later, by the beginning of July 2016, the recall plan for 3.0L TDI vehicles was rejected by CARB (CARB, 2016b) just as the one for 2.0L TDIs had been before. By December 2016, after changes in the plan Volkswagen achieved an agreement to resolve the 3.0L TDI claims with environmental regulators (Volkswagen of America, 2016b), which included - like the 2.0L TDI agreement - the recall of around 63,000 cars and buybacks, lease terminations or modifications of another 20,000 vehicles. Additionally, for the 3.0L TDIs, Volkswagen agreed to pay USD 225 million into an environmental trust and USD 25 million for the promotion of zero emission vehicles (EPA, 2016d; Volkswagen AG, 2016d). The last settlement known was the one with private 3.0L TDI car owners in February 2017 with buybacks and lease terminations for some models and modifications for others (Volkswagen of America, 2017; Volkswagen AG, 2017e).

In June 2016, authorities initiated investigations against individual persons involved in the Volkswagen issue. First, on June 20th, German district attorneys suspected ex-CEO Winterkorn of market manipulation for the reason of having informed the financial markets too late about the risks involved in the scandal to be unrevealed (FAZ, 2016). This investigation was later broadened for Winterkorn allegedly having known about the defeat device earlier than stated, thus being guilty of the offence of illegal advertising under the law of unfair competition (FAZ, 2017). In September, a VW engineer in the US, with the company since the 1980s, pleaded guilty to conspiracy and admitted lying to the authorities even after the latter started to ask questions (Department of Justice, 2016b). After his testimony, Oliver Schmidt, a Volkswagen compliance executive in the US, was arrested on fraud charges (Reuters, 2017b). Five further German employees and executives, all working in fields related to engine development, quality management and product safety, with only Schmidt residing in the US, were indicted for their roles in the nearly 10-year conspiracy (Department of Schmidt, 2017). On January 11th, 2017, the company came to a settlement with the US government which resulted in Volkswagen having to pay USD 4.3 billion in fines and penalties, pleading guilty for three felonies under US law: the conspiracy to defraud the United States and the company’s customers, including the violation of the Clean Air Act by deceiving both U.S. customers and the EPA and hiding the deception from U.S. regulators, obstruction of justice for destroying documents related to the software, and finally the entry of goods into the US by false statement (Department of Justice, 2017).
Until the end, Volkswagen denied any wrongdoing in Europe, as the company stated that according to European law a defeat device was not illegal by law and exhaust emission standards were higher in the EU than in the US (Hulverscheidt, Ott, & Riedel, 2016). Nevertheless the scandal struck Volkswagen hard: by October 2016 Volkswagen had accrued liabilities for the emission scandal of roughly € 18 billion (Menzel, 2016), a value which steadily increased since the scandal became public in 2015 (Tagesschau, 2016) and which experts believed to still exceed the current level. In 2015, the company reported an annual deficit of € -5.5 billion (Volkswagen AG, 2016b). Stocks plummeted after the emission scandal became public (Bloomberg, 2017) and until this day did not recover to the level prior to the scandal (for a detailed analysis of Volkswagen’s stock see Appendix 10), and just as in the Ford case, Volkswagen’s market capitalization decreased by approximately € 25 billion (Bloomberg, 2016c). Consequently, the company announced job cuts in Germany to boost profitability (Ewing, 2016b) and stepped out of the US market with diesel cars, from now on only distributing SUVs and electric cars in the United States (Fernandez, 2016). CEOs and executives stepped down, were suspended or replaced and the company within the US settled separately both 2.0L and 3.0L TDI cases with many affected actors. Eventually, VW was facing long-term ratings of BBB+ by Standard & Poor’s and of A3 by Moody’s – both with negative outlook (Volkswagen AG, 2017f).

Appendix 12 provides a brief overview of both case studies, structured by categories developed beforehand to ease the comparability and thus the following comparison of the case studies regarding Ford Motor Company and Volkswagen.

<table>
<thead>
<tr>
<th>Date</th>
<th>Happenings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-2008</td>
<td>Engine development for the penetration of the US-market with diesel cars</td>
</tr>
<tr>
<td>2014, May 05</td>
<td>Initial finding of emission deviations by the ICCT</td>
</tr>
<tr>
<td>2014, May 23</td>
<td>Internal VW-memo about ICCT findings to CEO Winterkorn</td>
</tr>
<tr>
<td>2015, July 27</td>
<td>VW diesel cars are not eligible for sales in the US anymore (CARB and EPA will no longer certify the vehicles)</td>
</tr>
<tr>
<td>2015, August</td>
<td>VW establishes a task force in the matter</td>
</tr>
<tr>
<td>2015, September 03</td>
<td>VW admits to including a cheat device into its diesel motors</td>
</tr>
<tr>
<td>2015, September 18</td>
<td>CARB and EPA launch a notice of violation in the VW matter</td>
</tr>
<tr>
<td>2015, September 23</td>
<td>VW’s CEO Winterkorn resigns but does not admit any guilt</td>
</tr>
<tr>
<td>2015, September 25</td>
<td>Müller is appointed the new CEO of Volkswagen AG</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
</tr>
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<td>--------------------</td>
<td>-------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>2015, September 27</td>
<td>Launch of country-specific websites for the crisis process</td>
</tr>
<tr>
<td>2015, September 30</td>
<td>VW starts to replace the management team, and shows change</td>
</tr>
<tr>
<td>2015, October 08</td>
<td>VW meets the U.S. Congressional Committee outlining their plan to dealing with the incident</td>
</tr>
<tr>
<td>2015, November 02</td>
<td>CARB and EPA launch a second notice of violation in the VW matter, after finding more vehicles involved</td>
</tr>
<tr>
<td>2015, November 05</td>
<td>VW releases an ad hoc announcement specifying the further proceedings to its customers; the European Commission starts an investigation</td>
</tr>
<tr>
<td>2015, November 09</td>
<td>VW offers compensation packages for its US customers</td>
</tr>
<tr>
<td>2015, December 10</td>
<td>Results of the internal investigation show individual misconduct at the heart of the incident</td>
</tr>
<tr>
<td>2016, January 04</td>
<td>The DOJ sues the VW Group for violating the Clean Air Act</td>
</tr>
<tr>
<td>2016, March 09</td>
<td>Horn steps down as president of Volkswagen of America</td>
</tr>
<tr>
<td>2016, November 03</td>
<td>VW denies any wrong-doing in Europe (device not against the law)</td>
</tr>
<tr>
<td>2017, January 11</td>
<td>VW settles with the US government for USD 4.3 billion</td>
</tr>
</tbody>
</table>

Table 7 Summary of the Course of Happenings at Volkswagen
4. Results

The chapter on the findings from the two case studies is structured into two phases. The first phase covers the respective company’s reputation, illustrating it through rankings about the brand’s equity, and focuses on the question of in how far and in which ways the company was affected by the crisis, responding research objective 1. The second part of the chapter then contrasts the two companies’ behaviors during the crisis with each other’s behavior as well as with theoretical concepts, thereby responding research objective 2 and 3 and laying out the basis for the fourth research objective which will analyze key takeaways to conclude.

4.1. Ford Motor Company’s Reputation

<table>
<thead>
<tr>
<th>Models</th>
<th>BEFORE (Year 2000)</th>
<th>AFTER (Year 2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RepTrak Model</strong></td>
<td>Dimensions “Performance” and “Product/Services” as the most important; image of a reliable firm, therefore consumers trusted it</td>
<td>“Product/Services”: lack of quality “Performance”: reduced profitability and results worse than expected “Governance”: lack of openness and transparency “Leadership”: Nasser is appealing</td>
</tr>
<tr>
<td><strong>Interbrand method</strong></td>
<td>Value USD 36,368 million Rank 7</td>
<td>Value USD 20,403 million Rank 11</td>
</tr>
<tr>
<td><strong>Brand Asset Valuator (BAV)</strong></td>
<td>Brand Stature: High Esteem and Knowledge → quality products and high awareness Brand Strength: Intermediate Differentiation and Relevance → car manufacturers with similar offers and strong competitors</td>
<td>Esteem declined due to quality issues, awareness still high (maybe also due to the crisis and news coverage) Relevance declined when customers during the crisis switch to competitors with perceived higher quality</td>
</tr>
<tr>
<td><strong>Customer-Based Brand Equity</strong></td>
<td>Consumer Judgments: quality and credibility of brand and products Consumer Feelings: security Resonance: loyalty and attachment</td>
<td>Brand Performance: product not reliable enough Brand Imagery: promised corporate values not delivered</td>
</tr>
</tbody>
</table>

Table 8 Crisis’ Influence on Ford’s Reputation, created by the author

Before the crisis affected the company and its brand, Ford was perceived as being reliable, offering high quality and, according to the corporate values, had high concern for products, people and the planet. Through the tread separation incidents, this image suffered and Ford’s reputation was damaged: a company that cared for product quality should not have quality problems even with its suppliers’ products, and a company that cared for people should not endanger the lives of its customers.
In the RepTrak Model, this change in reputation for the negative would be displayed in the alteration of several of the model’s dimensions and attributes, and in a severe damage in some of the models’ elements representing the relationship between the customer and the corporation. As the full model was only created in 2005 to 2006, the author’s estimates will determine the critical incident’s impact on the brand’s reputation. The highest change would have taken place the dimension “products/services”, as the attribute of high quality of the products has been severely impacted by the tread separation and following rollovers. Furthermore, during the course of the crisis, the dimension “performance” would also have suffered, as the attributes of profitability and the provision of better results than expected could not been met, as shown with the decreasing sales figures and stock prices. Moreover, in the dimension “governance” Ford failed to meet the attribute of openness and transparency by not providing information about known defects in a timely manner, but hiding the failure for several years. On the other hand, in the dimension “leadership”, during the process of the crisis Ford’s CEO Nasser acted as an appealing leader to both the public and the company’s employees. However, the superiority of the negativity in the first dimensions prevailed and Ford’s reputation suffered, leading eventually to a fierce loss of customer’s trust into the company thereby guiding the customers’ rational behavior with the result of less purchases.

Interbrand already published their report on the “Best Global Brands” since 2000, when Ford was valued at USD 36,368 million and rested on rank 7 of the rating. Over the course of the crisis, Ford constantly lost ground and the company’s value was decreased: in 2001 the value had been reduced by 17% in comparison to the year before, leaving the company on rank 8, and by 2002, Ford’s value was decreased by another 32% with the company being ranked 11th with a value of USD 20,403 million. 2010, with Ford Motor Company being listed on rank 50, was the first year the firm reported an +3% increase in value compared to the year prior. Still, in 2016 (the latest ranking available), Ford’s value was reported at USD 12,962 million (Interbrand, 2017a). (Find the company’s value development since 2000 in Appendix 13)

The Brand Asset Valuator’s measures on its clients are also not publicly available in detail for the timeframe regarded in this study, however, in 2013 Young & Rubicam’s affiliated company BAV Consulting provided public information on some of its clients’ reputations, among them Ford (see Appendix 14), which, according to the author, represents as well the brand’s image before the crisis incurred. Ford had high esteem, represented in the brand by being considered one of the most patriotic US brands and offering high quality products, and high knowledge, with be customers having high awareness of the national and established
Relevance of the Ford brand scored a little lower than the first two categories, showing that due to high competition the brand is not considered the most important one, also because the even lower differentiation shows that Ford is not perceived as being utterly unique. After the crisis, however, the esteem would have scored considerably lower, due to the quality issues. Knowledge as well as differentiation would not have been impacted, whereas the relevance might be negatively affected as after the crisis competitor’s brands would have gained image in comparison to Ford.

Considering the Customer-Based Brand Equity, before the incident, Ford was on a very good way, involving the customers on the third (customer response) and fourth step (relationships): Ford was a credible brand with high quality standards (Consumer Judgments), and conveyed a feeling of security to its customers (Consumer Feelings), constructing the base for the customers’ loyalty (Resonance). The crisis, however, affected already the second stage “meaning”, proving the product not to be reliable (Brand Performance) and thereby hurting the company’s values (Brand Imagery) as people and products did not seem as important as stated. Nevertheless, the experience of the brand (Brand Imagery) mitigated the effects.

### 4.2. Volkswagen AG’s Reputation

|-------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| **RepTrak Model**       | 2014: Rank 12  
2015: Rank 14  
“Citizenship”: high involvement with society → CSR programs etc.  
“Performance”: profitable and well-established firm across markets  
“Products/Services”: reliable brand with renown German manufacturing | 2016: Rank 123  
Dimensions with biggest losses are:  
“Governance”: no transparency about happenings, unethical behavior of company and people involved in scandal  
“Citizenship”: polluting the environment  
“Leadership”: no moral but lying, violation of self-set values |
| **Interbrand method**   | 2014: Value USD 13,716 million  
Rank 31  
2015: Value USD 12,545 million  
Rank 35 | 2016: Value USD 11,436 million  
Rank 40 |
| **Brand Asset Valuator (BAV)** | Brand Stature: High Esteem and Knowledge → quality products, German manufacturing and high international awareness  
Brand Strength: Intermediate Differentiation and Relevance → car manufacturers with similar offers and strong competitors | Esteem declined due to breach of trust and not keeping the promise given (corporate values)  
Relevance declined as company in comparison to competitors is not seen as most appropriate brand to purchase anymore |
<table>
<thead>
<tr>
<th>Customer-Based Brand Equity</th>
<th>Consumer Judgements: high quality, credibility and superiority (German manufacturing)</th>
<th>Brand Performance: customers questioning reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consumer Feelings: security and social approval</td>
<td>Brand Imagery: company not complying with own corporate values</td>
</tr>
<tr>
<td></td>
<td>Resonance: loyalty and attachment</td>
<td>➔ Meaning of the brand suffered</td>
</tr>
</tbody>
</table>

Table 9 Crisis' Influence on Volkswagen's Reputation, created by the author

With a score of 74.9, in 2014 Volkswagen ended up on rank 12 of the Rap Trak’s Global 100 of the world's most reputable companies, reaching a “strong/robust” reputational score in the model (Reputation Institute, 2014). In a regional comparison of Europe, Volkswagen was even listed on rank 4. One year later, in 2015, before the emission scandal became public, Volkswagen scored 75.0, being ranked 14th with still a “strong/robust” overall score, but having lost places in a regional comparison: with other companies and their reputational scores catching up, Volkswagen ranked 10th within the region of Europe (Reputation Institute, 2015). In the global comparison, despite ending on rank 14, VW was ranked among the global top ten in the category of “citizenship”. Generally, in 2015, Volkswagen performed best in the categories of “performance” and “products/services”, followed by “innovation” and “leadership” (Reputation Institute, 2015) – with “citizenship” being the company’s worst dimension, despite the rank in the global top ten. In 2016, after the crisis became public, Volkswagen suffered from a huge impact of the scandal on its reputation. Overall, the company’s reputational score decreased by 13.7 points to a final score of 61.3 – residing in the “average/moderate” category and listing VW on rank 123 (Reputation Institute, 2016b). After the company had had strong scores in all but one dimensions ("citizenship" with average score), those scores dropped to average scores in all dimensions but “governance” and “citizenship” in which the company faced weak scores (compare Appendix 15). The biggest drops were reported in “governance”, where the company’s lack of transparency and the non-admitting of the crisis to the public and the unethical behavior of VW, especially the people primarily involved in the crisis, led to a 17-point decrease, followed by “citizenship”, which dropped by 14.8 points after VW was publicly renown for not being environmentally friendly due to the extremely high emission ejections of its cars, thus rather harming than helping the society. Another dimension highly affected was “leadership” with a decrease of 10.9 points, especially caused by VW’s executives demonstrating lack of moral, constantly lying to the public and openly violating the company’s own values. Lastly, the “products/services” dimension dropped by 10.5 points, indicating that VW products were not regarded as being of the same high quality they were valued before. The overall drop in
reputation led to a decrease of people’s perception of all dimensions and eventually also the change in consumers’ behaviors. (Reputation Institute, 2016b)

Interbrand also recorded a decline in Volkswagen’s corporate value, although not as dramatic as in the Rep Trak Model. In 2014, VW was considered a “top riser” increasing by 23% to rank 31 with a value of USD 13,716 million (Interbrand, 2014), but already in 2015, the company’s value was reduced by 9%, placing VW on rank 35 (Interbrand, 2015). By 2016, Volkswagen’s brand value sank by another 9% to USD 11,436 million on rank 40 (Interbrand, 2016). Volkswagen’s growth history (Interbrand, 2017b) shows a constant increase in brand value with the year 2014 showing the high- and simultaneously turning point of this development (compare Appendix 16 for the development). Thus, due to the dates, it can clearly be concluded that this drop was caused by the emission scandal.

Within the Brand Asset Valuator, if providing publicly accessible studies, Volkswagen would also have suffered from a severe decline in value. Once providing quality products and conveying highest standards and reliability through original German manufacturing to its customers, through its cheat device VW broke its customers’ trust into the company and did not comply with its own-set corporate values, directly impacting the “Esteem” with the company afterwards not being highly regarded anymore. Nevertheless, the public is still highly informed about the company, especially as a scandal always digs deep in a company’s history, operations and corporate behavior, thus the dimension “Knowledge” probably would not have suffered from a decline. Regarding Volkswagen’s Brand Strength, one finds a similar initial situation as with Ford, because for a car manufacturer, even if targeting various segments, the competition within each segment is not so much differentiated. However, due to Volkswagen’s label “made in Germany”, the brand gained some relevance in comparison to other competitors. After the scandal became public, the label somewhat lost its effect, and the “Relevance” declined as customers do not anymore see Volkswagen as the most appropriate brand for them to purchase.

Lastly, in the Customer-Based Brand Equity model, Volkswagen would be considered having resided on the third and fourth stage before the crisis (responses and relationships). VW was perceived as producing cars of high quality, more credible and superior to its competitors (Customer Judgements), thus providing the perfect car for “the people”, gaining social approval by conveying security (Customer Feelings). These customer responses led to loyal customers who – once bought a VW – would be attached to the company (Resonance). Like
Ford, the crisis affected VW already on the second stage (meaning), as customers now questioned the reliability of the cars (Brand Performance) and witnessed the company not complying with its own values (Brand Imagery), now making it comparably harder for the company to step up on the levels again.

4.3. Crisis Management at Ford Motor Company and Volkswagen AG

First, both companies’ crises had to be defined within the crisis categories and origins introduced before, to be able to determine the respective best response to the crises (see Appendix 17 for the detailed framework) (Adkins, 2010). Volkswagen’s emission scandal would be characterized as a clearly preventable crisis, having been known to members of the organization before and being caused by misbehavior of some of the members, therefore leading to the conclusion of best applying the rebuilding posture as crisis response strategy. While the crisis originated from the human and social environment, with employees misbehaving through actively deciding for cheating, it was aggravated through management failure, namely the misconduct of executives by deciding on not instantly telling the truth. The source of the crisis lies in a combination of time constraints, namely the pressure of penetrating the US market, and partially hubris, by being aware of one’s unethical behavior but nevertheless considering and implementing it for one’s own good, not minding potential negative consequences for any party involved.

Ford’s crisis, however, falls into the category of an accident crisis, in which the company was to be hold only partially responsible, because Firestone also was directly involved in the problems. Due to the company’s history of crises and already having suffered from reputational losses in the past, the optimal crisis response strategy for Ford would also be a rebuilding posture. Like the Volkswagen case, Ford’s tire crisis originated in the human and social environment, however, differed in the specific reason that the crisis involved a further company, Firestone, which originally employed the workers not thoroughly doing their job. Furthermore, the crisis became worse through the management’s behavior in trying to deny the crisis. Poor execution can be seen as the source of the crisis, as Firestone (with the tires) and Ford (with the Explorer model) independently were unable to meet quality and safety standards and were not able to resolve the situation together.

Both crises, Volkswagen’s and Ford’s, were smoldering crises, that had been known to the companies long before response measures were taken and the wrongdoings were admitted to the public, implying that they could have been prevented altogether.
What does Theory say?

Crisis Management Phases:

1. Pre-Crisis Phase:
   Risk management program
   Not prepared – company-wide crisis management not in place
   Ford
   Volkswagen

2. Crisis Response Phase:
   Active management of and response to a crisis
   Not effective – putting blame on Firestone, “apology” not sincere, slow reactions
   Not effective – inconsistency in statements, lacking accuracy, apology, internal comm.

3. Post-Crisis Phase:
   Return to daily operations and keeping promises
   Breach of collaboration with Firestone, poor economic results, reimbursements
   Differing across countries – different promises, still internal contradictions, news coverage

Recovering Reputation:

RESCUE
1. Take the Heat
2. Communicate
3. Reset the Company Clock
4. Don’t Underestimate Critics
   Nasser as main spokesperson, slow reactions in communication, ignoring Firestone’s arguments, focus too much on the past and its analysis
   Winterkorn first official public statement, after resignation new spokesperson, lack of external communication with clients, not disclosed scandal by themselves

REWIND
5. Analyze Rights and Wrongs
6. Measure
   Internal investigations with results used to blame Firestone
   Internal investigations to detect reasons for crisis, measurement of reputation recovery (external)

RESTORE
7. Right the Culture
8. Seize the Shift
9. Brave the Media
   Change of slogan to “customer is job one”, active publishing of newspaper ads, announcing focus on quality-products
   Dismissals of employees responsible for the scandal, change of strategy, own crisis homepages for communication

RECOVER
10. Build Good News
11. Commit to the Long-term
12. Minimize Reputation Risk
   Change of CEO after high-phase of crisis, drop in economic results (job-cuts and plant closures)
   Strategy of “customer first” until 2025, still too much negative press, do they have learned from the crisis?

SCCT:
Rebuilding Posture – Compensation and Apology
   Scapegoating, compensation, excusing and “apology”
   Compensation, apology and partly victimage

Table 10 Crisis Management - Comparison Theory and Practice, created by the author

According to the Crisis Management Phases theory by Coombs, Ford could have acted better, if the company had been prepared better. However, Ford did not have a crisis management plan for a crisis of such extent, thus, was not able to respond to it in an effective way. Instead, Ford kept on blaming Firestone as sole causer of the crisis, showed slow reactions, e.g. in only announcing the recall three months after the crisis became public, and offered an apology to the public which the next day was overshadowed by more lies on behalf of the company.
getting known to the public. Already during the crisis, Ford granted reimbursements in the recall of Firestone tires, which eventually led to Ford letting its customers choose their preferred tire brand. Ford was not able to directly get back to normal operations, as the crisis on the one hand involved the breach of the company’s collaboration with Firestone, and on the other hand deeply affected its economic results. Volkswagen did a poor job in every of the three phases as well. The company was not prepared for the crisis they faced, and a company-wide crisis management plan was not in place, at least not to the extent the company would have needed it, which was especially shown in the company’s slow reactions and by the severity it was affected. In its responses to the crisis, VW was not effective as well, which was mainly caused by the company’s inconsistency in statements, the lack of accuracy in the information shared with the public (such as the range of vehicles affected by the scandal which had to be corrected to more afterwards) and the pure lies told by company representatives. On the positive side has to be mentioned, that VW did apologize – although not efficiently as the apology did not come with the company as a unity taking responsibility – and did internally communicate the proceedings to the employees through workers’ assemblies at sites. Volkswagen is still located somewhere between the second and third phase, as continuously new information about the company, its internal conflicts between executives or the crisis receives media coverage. The keeping of promises, however, VW works on a country-to-country basis, partly promising and fulfilling compensation packages, such as in the US, whereas other customers in also affected countries (e.g. in most European countries) were not even offered anything.

Regarding the 12 Steps to Recovering Reputation by Gaines-Ross, already in the rescue-phase, Ford committed some severe errors: instead of admitting to the crisis and disclosing it themselves, the company was facing accusations of external parties. Further, Ford showed slow reactions in its communication methods, revealing new information only with time lags. The company ignored and denied all of Firestone’s accusations against the company and focused too much on an analysis of the past and the proceedings which led to the crisis, hence the slow reactions regarding forward-looking actions. Ford did, however, name its CEO Nasser the main spokesperson of the company to provide a single source of information. In the rewind-phase, Ford conducted internal investigations on the matter, but as a result only blamed Firestone more. To restore its reputation, Ford changed its internal slogan to “customer is job one” and announced its focus on the production of quality-products. It used TV commercials and nation-wide newspapers to place ads to convey its message to the
customers. In the *recover-phase*, Ford tried to convey the image of a new corporate focus through it replacing its CEO after the high-phase of the crisis had passed, but nevertheless the economic results, apparent from Ford cutting jobs and closing plants, as well as the reputational scores continued to suffer from the crisis.

VW acted according to some of the categories, but not all. Starting with the *rescue-phase*, Volkswagen was not able to disclose the scandal itself, but only admitted to it after being accused publicly, so the company lost the first chance of making a step into the direction of reputational repair. In its communication, the company tried to focus on two main speakers – namely Group CEO Winterkorn and American CEO Horn – however, both of them resigned after a short time into the crisis, which is why the company somewhat lacked consistency in its external communication. Further, VW was not able to inform its customers as fast as possible after the scandal became public, e.g. the information homepage was only launched three weeks after the company having admitted to the cheating. In the *rewind-phase* Volkswagen did launch internal investigations to detect the reasons for the crisis and its reputational score was even measured by external parties not contracted by the company. In the *restore-phase*, VW dismissed a group of employees whom they decided to blame after the conclusion of the internal investigations, however, the company did not unitedly accept the responsibility. The company implemented various national crisis homepages, providing the company with a channeled communication towards the stakeholders. VW changed the company’s priorities and wanted them to become the new strategy until 2025, thus also committing to the long-term in the *recover-phase*. Moreover, VW exchanged basically its whole management team responsible for the handling of the crisis, wanting to demonstrate to its stakeholders the purity of the new vision. It proved, however, difficult for the company to build up on good news, as at the present state the media covers more negative and attention-grabbing news.

Considering Coombs’ SCCT, both companies should have reacted by taking a rebuilding posture, applying compensation and apology as strategic choices while taking full responsibility for the events occurred. Ford applied a mixture of four strategic responses to their crisis, acting mostly contrary to the suggested reaction. Applying the scapegoating strategy, Ford blamed Firestone for being fully responsible for the crisis, in addition also using the excusing strategy to externally diminish the own perceived responsibility for the crisis. To some extent, Ford also applied the compensation strategy, as the company offered reimbursement for Firestone tires on the affected vehicles. The apology strategy was also tried
to be applied, however, as Ford never took full responsibility, this strategy was not perceived as being meant sincerely. The symbolism of sincerity came with the company’s closure of three plants to spare tires for the recall, wanting to be perceived as a caring company.

For the Ford/Firestone tire crisis it is vital to also consider the relationship of the two companies themselves. It might be the case that Ford Motor Company only appeared to have done a mediocre performance, being comparably open with the public and reacting relatively fast, since Firestone’s performance in crisis reaction was extremely poor. Firestone had responsibility in the issue, nevertheless tried to share the blame with Ford instead of focusing primarily on own measures to do things right. Firestone’s reactions were even slower and more inadequate than Ford’s and the company’s CEO took much too long to make a first public appearance. Eventually, after a public apology and the acceptance of responsibility, the latter stepped back and with him many other executives were exchanged. Firestone posed as the victim in the whole scenario, basing this posture on being made the scapegoat by Ford, and later launched their “making it right” campaign, which did not follow any proper crisis communication objectives. By, within this campaign, featuring professional racers, Firestone tried to switch to a bolstering posture, demonstrating that its brand was still trustable.

Volkswagen, on the other hand, largely reacted in the suggested way, although it applied both strategic choices only partially across its affected geographic markets: the company offered maintenance to all its customers, but real compensation was only offered to affected customers in the US. Furthermore, VW never fully took the responsibility with the whole company, but always blamed a small group of people within the company. Additionally, by blaming only this selected group, the corporation to some extent applied the victimage strategy by positioning the company as a victim to the responsible group’s actions and decisions, which however was not acknowledged well by the public, especially the media.
5. General Discussion

After elaborating explicitly on both case studies, their sequences, occurrences and peculiarities, it is now time to close the loop and get back to the initial problem set: How did critical incidents affect the brand image and equity of Volkswagen and Ford and how did specific crisis management tools applied, prove useful to reestablishing the former level of brand image and equity?

Although both cases in the beginning might have seemed to not resemble at all on a first glance, the closer analysis showed quite some similarities between the two situations. Both companies experienced huge negative effects from the incidents faced, mainly on reputation, stock price and customer loyalty. Looking even closer, focusing on the underlying reasons instead of on the outcomes, it becomes obvious, that both crises even resembled in their kind. Both incidents were of a smoldering type, implying that they were internally known long before they were addressed. Further, both incidents’ causes can be ascribed to the employees involved – although for different motives. Despite these different motives and based on their backgrounds, theory suggested a rebuilding posture to both companies. Nevertheless, neither company did apply any crisis management tool provided by theory which would have helped to reestablish the brand reputation. Instead, the companies applied own tools, which in their implementation rather hindered the actors from restoring prior levels of brand reputation.

Both Ford and Volkswagen were highly affected by the critical incidents faced (objective 1). Regarding their reputation, both companies were highly publicly regarded before, representing values which the customers trusted into and supported. But one error let them suffer for so much longer than the actual crisis lasted; having such effects like a stock price recovery that took very long after the stock prices plummeted, negative effects on the companies’ finances after reimbursements and financial penalties, reputational losses and the danger of customers switching to other manufacturers. One of the most severe damages incurred was the customers’ drop of trust in the companies, resulting in the decrease in reputation. Trust is a sensitive construct that does not recuperate quickly through corporate statements, but needs constant actions proving the company’s trustworthiness for it to regrow.

In their reactions (objective 2), both companies were primarily concerned with internally resolving the crisis before evenremembering to restore the customers’ trust. Many of the latter already had switched brands, as the time taken by the company until addressing the customers took too long, and the trust had already been damaged at its core due to previous
lies and misguiding behavior on behalf of the companies. The companies however showed similar behavior in their reactions (objective 4), with both companies trying to avoid their duties, in confronting the public and in addressing the critical matter in a timely manner, for as long as possible. Taking into consideration their crisis communications, none of them stuck to the theoretical suggestions reviewed before but developed own strategies of minor effectiveness (objective 3). For Volkswagen, suggestions or passive learning would have been even more essential, as this most recent scandal could partly have been prevented – at least in its dimensions – if the company would have learned from the negative example Ford or other historical crises in the automotive industry gave. While neither company was effective in not following the theories, they were to some extent when following them, proving that intuitive strategies were less appropriate. Both companies lacked preparation and did not convey authenticity, expressed by the many inconsistencies in their communications and behaviors. Especially preparation is a serious point to be taken into consideration, particularly because crises are present across all industries and times, so that companies should not be caught by surprise but rather proactively prepare themselves for possible crises scenarios. Regarding communications, it helped both companies to convey a united corporate face to the public.

The five main realizations from the two cases are explained in the following: First of all, getting public with the scandals by themselves and as early as possible could have provided the companies with a sincerer image and thus an advantage over the scandal being revealed by outside parties. Although the theory by Gaines-Ross suggested it, none of the companies used this knowledge to their advantage. Secondly, a sincere apology and actions mirroring this attitude are the keys to a successful turnaround in a crisis situation where words must be in line with actions. Nevertheless, both companies were inconsistent with the messages conveyed to the public by both their words and deeds. Furthermore, the initial speed is essential. However, this does not imply telling things that are not known for sure. Speed is used in the sense of pure velocity of appearance in front of affected parties, not in terms of providing information faster than they have been confirmed, as lies are worse than having the public waiting. Fourthly, the companies should have shown equity and consistency in the treatments of different customers, instead of favoring some over others, as it was the case with Volkswagen’s varying reimbursement policies around the world. Lastly, the context is highly important in understanding a crisis. The nowadays higher awareness to climate change complicated the situation for VW even more, as shown by an US-law posed shortly before the scandal became public, toughening regulations and sharpening awareness to the issue.
6. Managerial Implications

In practice, this dissertation helps by having tested the theoretical suggestions regarding reputation and crisis management / crisis communication using two real-life scenarios and their actions both in line with and against suggestions made in theoretical literature, comparing the intuitive approach with the theoretically suggested one and matching their effectiveness. For further managers in similar situations this general knowledge will be of use to be able to avoid typical pitfalls elaborated on, to eventually reestablish the company’s reputation onto levels of before the critical incident.

In terms of actions this means that managers and other responsible persons facing a critical incident within their company should guide the actions along the realizations explained before. It is very advantageous for companies in crisis situations to tell the public the truth as soon as possible, before they find out any other way. Although this might on a first glance sound counter-productive to most managers, who prefer telling good news over bad ones to prove own capabilities, the company can demonstrate its integrity by combining the announcement with a sincere apology on behalf of the face of the company – apologizing and stating the facts known so far, however not making empty promises, let alone lying to the public. Furthermore, this apology should be done the soonest moment possible. In this regard, preparation is everything – if the company has a crisis plan at hand and already a crisis response team in place, they will be able to react much faster, thus eventually suffering less from a crisis than an unprepared firm. Moreover, it is essential to treat all parties involved with fairness and respect, not privileging one stakeholder group or one country over the other, but disclosing publicly the matter of equity and fairness.

6.1. Limitations

By studying two cases about companies from the same sector which suffered from a similar type of crisis, this study is able to propose a contribution to both theory and praxis. In theory, few prior studies connected various brand equity measurement tools to triangulate the findings. This research furthermore practically links crisis management activities, especially communication, to the brand’s change in value during the process of a crisis, measured by brand equity. This study does not pretend to present a generally valid formula on how to treat a product quality crisis involving recalls in the automotive sector, however contributes to the general knowledge of interested parties in two ways. Firstly, the study provides the indication to compare the own critical incident and the situation faced with companies operating in the
same sector to get a better understanding of similar situations and get inspired or deterred by practices introduced by the other company. Secondly, the dissertation presents the use of brand equity measurements to get a hold of the company’s competitive position in the market, both on base of customer perception and financial indicators.

6.2. Future Work

Taking into consideration the limitations of this dissertation in its scope, addressing only two companies within one sector, further research in the field of brand reputation, reputation measurement and crisis communication should broaden the view on the topic. This could involve conducting research on a broader scale to approach more companies in the study of different crises affecting companies in the same sector to provide a more holistic image about this industrial sector. A second possibility could even be an opening of the investigation’s view to search for commonalities in other sectors crossing various industries and comparing those outcomes with the findings of this dissertation, to examine if an integrated approach to the solution of crises would be valid independent of the company’s operative business.
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APPENDIX

Appendix 1: Reputation Institute: RepTrak Model, source: www.reputationinstitute.com

Reputation Score and its Weighting by the Rep Trak Model (Reputation Institute, 2014)
Appendix 2: Young & Rubicam: Brand Asset Valuator, source: www.yr.com/BAV

Four Pillars of the Brand Asset Valuator

Power Grid of the Brand Asset Valuator
Appendix 3: Interbrand: Brand Valuation Model, source: www.interbrand.com

1. Segmentation

2. Financial Analysis
   - Economic Profit

3. Demand Analysis
   - Role of Brand Index (RBI)

4. Competitive Analysis
   - Brand Strength Score (BSS)
   - Brand Risk (Discount Rate)

5. Brand Value
   - Net present value of brand earnings
Appendix 4: Millward Brown: BrandDynamics Pyramid, source: www.millwardbrown.com

Customer-Based Brand Equity Pyramid:
What does each level signify in the relationship between brand and customers?

Sub-dimensions of Brand-Building Blocks:
Which categories determine the single dimensions within each level of the pyramid?
**Appendix 6: Link between Research Questions and Research Methods:**

<table>
<thead>
<tr>
<th>What do I need to know?</th>
<th>Why do I need to know this?</th>
<th>What kind of data will answer the question?</th>
<th>Where can I find the data?</th>
<th>Whom do I contact for access?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change of performance indicators of the two case studies.</td>
<td>To answer the question how the companies were affected by the critical incidents.</td>
<td>Indicators: stock prices, sales figures, employee turnover, rankings in introduced brand equity concepts.</td>
<td>In corporate annual reports, the stock exchange, and company rankings.</td>
<td>Internet, Bloomberg, Interbrand’s Best Global Brands Index, RepTrak Ranking, BAV and CBBE.</td>
</tr>
<tr>
<td>Crisis measurement tools used by both of the two cases.</td>
<td>To understand how the companies reacted to the crisis and how they tried to reestablish brand reputation.</td>
<td>Both press releases (cover company view) and public media, mainly worldwide newspapers (cover public view).</td>
<td>In corporate press releases and newspaper lead articles dated around the occurrence of the incident.</td>
<td>Internet, newspaper archives, company websites and databases</td>
</tr>
<tr>
<td>Reactions from the stakeholders on crisis handling activities.</td>
<td>To analyze which crisis measurement tools proved useful and which not.</td>
<td>Direct stock market effects, public statements, supplier or buyer actions.</td>
<td>In newspaper articles, industry journals, poss. petitions and campaigns.</td>
<td>Databases, newspaper archives, internet in general.</td>
</tr>
<tr>
<td>Context of both case studies: industry situation, world and country economy, politics, society, trends and company situation.</td>
<td>To find similarities and differences in the two cases and the reasons for these.</td>
<td>World economic indicators, country specific industry data, company history.</td>
<td>In economic country profiles, economy and industry indicators, industry reports, past corporate annual reports.</td>
<td>Databases, company websites and archives, consulting firm’s country profiles.</td>
</tr>
</tbody>
</table>

Tread separates from the rest of the tire after excessive use for high-speed-driving in hot climate
Between May and July of 2000 (pink circle) Ford’s stock price showed a first decrease, when the crisis and Ford’s involvement in it got the first huge media coverage after the investigation was opened. As a reaction, in July Ford understood the seriousness of the situation and set up the “war room”. By the beginning of August 2000, when the recall was announced, the stock price plummeted (red circle).

In late August 2000 Ford introduced a “Value Enhancement Plan”, i.e. the recapitalization with new stock, which increased the trading volume and was used as a measure to stabilize stock performance (green circle and green square). Ford increased the number of share outstanding by exchanging 1 old stock through 1.748175 of the new ones; optionally also for 1 new one plus USD 20 in cash (Ford Motor Company, 2017). This move also lowered the market capitalization (Isidore, 2000).

Until December 2000 the stock price was more or less constant during the hearings, with the two companies blaming each other, before by the end of December Firestone itself found the process at its plant faulty (yellow circle). During the next months, from January to March 2001, Ford’s stock recuperated slightly, mainly because the company got fewer media-
coverage, as the focus was on Firestone’s defective tires. When the two companies terminated their relationship in May 2001, Ford registered falling stock prices again (blue circle).

In September 2001, the company suffered from the impacts of 9/11, before slightly recovered in October 2001, when Nasser was replaced as the CEO (orange circle), which also could reflect the public’s recurring trust due to a change of management.

In January 2002 Ford stocks had high trading volumes after the announcement of plant closures and layoffs globally (yellow square), which happened again in October 2002, after the company announced that it eventually would exceed the estimates for that quarter.
**Appendix 9**: Ford Motor Company’s sequential crisis events – milestones

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1999, March</strong></td>
<td>confidential talks between Ford and Firestone about tire quality</td>
</tr>
<tr>
<td><strong>1999, August</strong></td>
<td>Ford recalls tires with failure-tendencies in 16 countries (not yet in the US)</td>
</tr>
<tr>
<td><strong>2000, May</strong></td>
<td>NHTSA opens full investigations after learning of domestic and international incidents</td>
</tr>
<tr>
<td><strong>2000, August 13</strong></td>
<td>Ford nationwide publishes newspaper ads to emphasize the safety of their cars and the tires</td>
</tr>
<tr>
<td><strong>2000, August 16</strong></td>
<td>Ford goes public with the instructions on the reimbursement process</td>
</tr>
<tr>
<td><strong>2000, August 22</strong></td>
<td>Ford announces to shut down three plants to use the tires on stock for the recall</td>
</tr>
<tr>
<td><strong>2000, August 28</strong></td>
<td>Ford’s CEO Nasser publicly apologizes on TV</td>
</tr>
<tr>
<td><strong>2000, September 04</strong></td>
<td>The U.S. Congress opens hearings on the tire issue during which the two companies involved mainly blame each other (“This is a Firestone tire issue – not a vehicle issue”)</td>
</tr>
<tr>
<td><strong>2000, September 28</strong></td>
<td>Ford announces to let its customers choose the tire brand their cars will be equipped with</td>
</tr>
<tr>
<td><strong>2001, May 22</strong></td>
<td>Ford announces to replace all tires of one certain model (independent of the production year) although considering them safe the year before end of the business relationship between Ford and Firestone</td>
</tr>
<tr>
<td><strong>2001, October 30</strong></td>
<td>Ford replaces Nasser with William Clay Ford as CEO</td>
</tr>
<tr>
<td><strong>2002, December 21</strong></td>
<td>Settlements begin and Ford agrees to pay USD 51.5 million but still denies any wrongdoing</td>
</tr>
</tbody>
</table>
Appendix 10: Volkswagen Stock Price between May 2014 and March 2017, source: Bloomberg 2017

In September 2015, when the emission scandal became public after CARB and EPA’s announcement of Volkswagen having violated the Clean Air Act, the company’s stocks plummeted (yellow circle) and the transaction volume skyrocketed (red square), implying high insecurity among the investors and an increasing lack of trust into the company.

By the beginning of October 2015, the stock price showed a slight increase (yellow circle) when the company confidently presented the future strategic directions and communicated openly with the public about the measures to be taken, which in turn indicates a slowly recovering shareholders’ confidence.

However, since the scandal became public, VW stocks never fully recuperated and now level out at a much lower level than before (blue circle).

In January 2016, the announcement of the lawsuit against VW in the US with openly discussed speculations of fine payments of at least USD45 billion led the stock to successively decrease in price again (pink circle).
### Appendix 11: Volkswagen AG’s sequential crisis events – milestones

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2005-2008</strong></td>
<td>Engine development for the penetration of the US-market with diesel cars</td>
</tr>
<tr>
<td><strong>2014, May 23</strong></td>
<td>Internal VW-memo about ICCT findings to CEO Winterkorn</td>
</tr>
<tr>
<td><strong>2015, August</strong></td>
<td>VW establishes a task force in the matter</td>
</tr>
<tr>
<td><strong>2015, September 18</strong></td>
<td>CARB and EPA launch a notice of violation in the VW matter</td>
</tr>
<tr>
<td><strong>2015, September 25</strong></td>
<td>Müller is appointed the new CEO of Volkswagen AG</td>
</tr>
<tr>
<td><strong>2015, September 30</strong></td>
<td>VW starts to replace the management team, and shows change</td>
</tr>
<tr>
<td><strong>2015, November 02</strong></td>
<td>CARB and EPA launch a second notice of violation in the VW matter, after finding more vehicles involved</td>
</tr>
<tr>
<td><strong>2015, November 09</strong></td>
<td>VW offers compensation packages for its US customers</td>
</tr>
<tr>
<td><strong>2016, January 04</strong></td>
<td>The DOJ sues the VW Group for violating the Clean Air Act</td>
</tr>
<tr>
<td><strong>2016, November 03</strong></td>
<td>VW denies any wrongdoing in Europe (device not against the law)</td>
</tr>
<tr>
<td><strong>2014, May 05</strong></td>
<td>Initial finding of emission deviations by the ICCT</td>
</tr>
<tr>
<td><strong>2015, July 27</strong></td>
<td>VW diesel cars are not eligible for sales in the US anymore (CARB and EPA will no longer certify the vehicles)</td>
</tr>
<tr>
<td><strong>2015, September 03</strong></td>
<td>VW admits to including a cheat device into its diesel motors</td>
</tr>
<tr>
<td><strong>2015, September 23</strong></td>
<td>VW’s CEO Winterkorn resigns but does not admit any guilt</td>
</tr>
<tr>
<td><strong>2015, September 27</strong></td>
<td>Launch of country-specific websites for the crisis process</td>
</tr>
<tr>
<td><strong>2015, October 08</strong></td>
<td>VW meets the U.S. Congressional Committee outlining their plan to dealing with the incident</td>
</tr>
<tr>
<td><strong>2015, November 02</strong></td>
<td>CARB and EPA launch a second notice of violation in the VW matter, after finding more vehicles involved</td>
</tr>
<tr>
<td><strong>2015, November 05</strong></td>
<td>VW releases an ad hoc announcement specifying the further proceedings to its customers; the European Commission starts an investigation</td>
</tr>
<tr>
<td><strong>2015, December 10</strong></td>
<td>Results of the internal investigation show individual misconduct at the heart of the incident</td>
</tr>
<tr>
<td><strong>2016, March 09</strong></td>
<td>Horn steps down as president of Volkswagen of America</td>
</tr>
<tr>
<td><strong>2017, January 11</strong></td>
<td>VW settles with the US government for USD 4.3 billion</td>
</tr>
</tbody>
</table>
### Appendix 12: Categorizing Framework to structure the findings from both case studies

<table>
<thead>
<tr>
<th>Category</th>
<th><strong>Ford Motor Company</strong></th>
<th><strong>Volkswagen AG</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timeframe</strong></td>
<td>From April 1999 until December 2002</td>
<td>From May 2014 until the present</td>
</tr>
<tr>
<td><strong>Company crisis history</strong></td>
<td>Suffered from various prior crises due to both managerial and product failure reasons</td>
<td>History of crisis mainly in regard to individual managerial misbehavior resulting in negative press</td>
</tr>
<tr>
<td><strong>Reasons for crisis</strong></td>
<td>Defective tire production at one of Ford’s supplier’s sites in the mid-1990s</td>
<td>According to the company, the reason was individual misconduct of a small group of engineers</td>
</tr>
<tr>
<td><strong>Countries involved</strong></td>
<td>Mainly USA, but also other countries with warmer climate</td>
<td>Most cars affected in Europe, the USA key country (the motive) and countries worldwide being impacted</td>
</tr>
<tr>
<td><strong>Reimbursement</strong></td>
<td>Recall of tires and replacement, reimbursement of up to USD 100 per tire</td>
<td>Voluntary recall, reimbursement strategy unequal around the world, favoring some customers</td>
</tr>
<tr>
<td><strong>Relationship with other companies involved</strong></td>
<td>First solidarity with the supplier of faulty tires, later breach of trust, mutual accusation until the termination of the relationship</td>
<td>-</td>
</tr>
<tr>
<td><strong>Search for help</strong></td>
<td>Only Firestone contracting a public relations agency – Ford no search for external help</td>
<td>Ordering an external investigation and in the future emission tests only conducted externally</td>
</tr>
<tr>
<td><strong>Reactions / Behavior</strong></td>
<td>Not telling the truth, establishment of a war room and hotlines, placing newspaper ads, shutdown of plants to use tires as replacement, public apology of CEO (only 2 months after public news), during hearings only blaming each other, replacement of CEO</td>
<td>First hiding the cheating, then corporate admission of guilt, statements to the public, launch of websites, public apology of CEO (2 days after public news), resignation of CEO, no personal/individual guilt admissions, changes in management, blaming small group, new strategic direction</td>
</tr>
<tr>
<td><strong>Crisis plan</strong></td>
<td>Not in place from the beginning, later establishing huge crisis response team</td>
<td>No prepared crisis response plan.</td>
</tr>
<tr>
<td><strong>Damage incurred</strong></td>
<td>Reputation loss, drop in stock prices, huge penalty payments, reimbursements, decline in market share, layoffs, plant closures, substituting managers and the CEO</td>
<td>Reputation loss, deficit in 2015, stock values plummeted, liabilities of € 18 mn, resignations of CEOs &amp; executives, decrease in long term ratings with negative outlooks, no more supply of diesel cars to the US</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Crisis Type</th>
<th>Situation</th>
<th>Organizational History</th>
<th>Recommended Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accident Crisis</td>
<td>No crisis history and no prior reputation problem</td>
<td>Diminishing posture</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Crisis history and prior reputation problem</td>
<td>Rebuilding posture</td>
<td></td>
</tr>
<tr>
<td>Challenge</td>
<td>Unjustified</td>
<td>Denial posture</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Perceived to be justified</td>
<td>Rebuilding posture and corrective actions</td>
<td></td>
</tr>
<tr>
<td>Victim Crisis</td>
<td>Crisis history and prior reputation problem</td>
<td>Diminishing posture</td>
<td></td>
</tr>
<tr>
<td>Rumor</td>
<td>Denial posture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preventable Crisis</td>
<td>Denial posture</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Due to the companies’ backgrounds, both Ford and Volkswagen are suggested taking a rebuilding posture. Volkswagen follows the path of a preventable crisis, thus directly leading to the resolution of a rebuilding posture. Ford on the other hand suffered from an accident crisis, had prior reputation problems and a crisis history and eventually also ends up with the suggestion of taking a rebuilding posture.