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The Missteps of the Two Giants: A Case Study on Volkswagen and Toyota with Regards to Dieselgate Emission Scandal and Recall Crisis

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The Missteps of the Two Giants: A Case Study on Volkswagen and Toyota with Regards to Dieselgate Emission Scandal and Recall Crisis

Japan has been for a long time considered as a role model in terms of the level of manufacturing industry. However, in recent years, we have seen scandals revolving around the notable Japanese manufacturing companies. Kobe Steels, Nissan Motor, Mitsubishi Motors, Takata Corp and Toshiba Corporation, to name a few. These corporations have been on headlines in the past few years, and many of them are still reeling from the consequences. Japan, as a nation, is currently facing aging population and low birthrate. Continuous company frauds and misconducts might leave a serious and long damage to its economy and its future.

Meanwhile, the concept of Corporate Social Responsibility (CSR) has taken front stage in the business world by becoming the key element of sustainable competitive advantage that benefits the company, society, and environment. Corporations are indeed spending significant amount of financial budget on CSR communication. However, scandals and misconducts by corporations seem to never cease.

The chosen topic for my dissertation is a case study on two global automotive companies, Volkswagen (VW) and Toyota, during times of their respective scandals with an emphasis on how the two cases are similar and different. Volkswagen’s case is known as Dieselgate Emission Scandal, where VW was accountable for having their diesel-powered cars equipped with “defeat device” to dodge the emission regulations. Whereas, Toyota’s Recall Crisis was about its major manufacturing defects of sticky gas pedals, floor mats, and brake problems. Both companies were heavily affected by their scandals.

This study is primarily based on corporate social responsibility (CSR)/corporate social irresponsibility (CSI) theory, organization theory, and crisis management theory. The aim of this dissertation is to shed a new light on Volkswagen and Toyota’s cases by adapting the perspectives of the theories mentioned above. The conventional wisdom is that both VW and Toyota’s cases are examples of CSI. However, by carefully analyzing their crisis management during the turbulent, I aim to point out that while their management had flaws and misjudgments, there were some silver-linings for Toyota’s case, especially when it is compared with the VW case.

In addition to pointing out what Toyota did correctly, the final part of this dissertation draws three managerial implications: conduct company-external CSR, top-down management with competent aides as the organization structure, and act openly, interactively, and swiftly in case of crisis.
The Missteps of the Two Giants: A Case Study on Volkswagen and Toyota with Regards to Dieselgate Emission Scandal and Recall Crisis

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Thank you.
Michita Tsuboi
**Chapter 1: Introduction**

1. **Purpose**

Japan has been for a long time considered as a role model in terms of its products they produce. However, in recent years, we have seen scandals revolving around the notable Japanese manufacturing companies. Kobe Steels was caught for over falsified figures, Nissan Motor and Mitsubishi Motors’ misconducts, Takata Corp for its defective airbags, and Toshiba Corporation for its accounting scandal. These have been on headlines in the past few years, and many of them are still reeling from the consequences. Japan, as a nation, is currently facing aging population and low birthrate. Continuous company frauds and misconducts might leave a serious and long damage to its economy and its future.

Meanwhile, the concept of Corporate Social Responsibility (CSR) has taken front stage in the business world by becoming the key element of sustainable competitive advantage that benefits the company, society, and environment. According to a cross-country 2017 KPMG survey, 75% of the 4,900 companies answered that they issue CSR reporting. It is not about to report or not to report, rather an undeniable mainstream business practice worldwide. Moreover, many firms are now engaging in active CSR advertisement, using TV ads, print brochures, or social media to publicize their good deeds. Corporations are indeed spending significant amount of financial budget on CSR communication. However, scandals and misconducts by corporations seem to never cease.

Although there are various ways to tackle the wide-ranging issues of company scandals, it is essential to focus and dig deep into certain perspective. Therefore, the chosen topic for my dissertation is a case study on two global automotive companies, Volkswagen (VW) and Toyota, during times of their respective scandals with an emphasis on how the two cases are similar and different.

2. **Academic Perspective**

This study was primarily based on corporate social responsibility (CSR) and corporate social irresponsibility (CSI) theory, organization theory, and crisis management theory. The aim of this dissertation is to shed a new light on Volkswagen and Toyota’s cases by adapting these perspectives. The consensus is that both VW and Toyota’s cases are examples of CSI. However, by carefully analyzing their crisis management during the
turbulent, I aim to point out that while their management had flaws and misjudgments, there were some silver-linings for Toyota’s case, especially when you compare it with the VW case.

3. Outline
As written above, this dissertation will be a case study between Volkswagen and Toyota. After introducing the company history of both Volkswagen and Toyota, I will review literatures regarding CSR, CSI, and VW/Toyota scandals. Following the literature review are brief summaries of Dieselgate emission scandal and Toyota recall crisis. Next part is method and findings. Here I will examine each case and dive into whether VW and Toyota’s cases were similar or different. Through this analysis, I should be able to point out that even though both VW and Toyota’s cases exhibited their flaws, Toyota managed the situation slightly better than VW. This is quite contrary to the general wisdom as Toyota’s case tends to be presented as an example filled with to-nots. In the closing part of the dissertation, we will see the managerial implications from the two cases, which are in short, the best formation of the organization is to be top-down management with competent aides and the best way to respond to a crisis is to be open, interactive, and swift.

Chapter 2: Overview-The Two Giants and Where They Came from
1. Volkswagen

Volkswagen Group was founded by the German government in 1937 to mass-produce a low-priced “people’s car.” The company was originally operated by the German Labor Front (Deutsche Arbeitsfront), a Nazi organization. The Austrian automotive engineer Ferdinand Porsche, who was responsible for the original design of the car, was hired by the German Labor Front in 1934, and ground was broken for a new factory in the state of Lower Saxony in 1938. The outbreak of World War II in 1939 occurred before mass production could begin,
and the factory was repurposed to produce military equipment and vehicles. Volkswagen’s military involvement made its factory a target for Allied bombers, and by the end of the war the factory was in ruins. It was rebuilt under British supervision, and mass production of the Volkswagen began in 1946. Control of the company was transferred in 1949 to the West German government and the state of Lower Saxony. By that time, more than half of the passenger cars produced in the country were Volkswagens.

Volkswagen production expanded rapidly in the 1950s. The company introduced the Transporter van in 1950 and the Karmann Ghia coupe in 1955. Sales abroad gradually grew and became one of the most successful automobile companies in the world.

Joint ownership of Volkswagen by the West German government and the state of Lower Saxony continued until 1960, when the company was mostly denationalized with the sale of 60 percent of its stock to the public. Since the 1950s Volkswagen has operated plants throughout much of the world, including in Mexico, Brazil, China, and the United States. In addition to passenger cars, the company also produces vans and commercial vehicles. Volkswagen owns several other automotive companies, including Audi and Porsche in Germany, SEAT (Sociedad Española de Automóviles de Turismo) in Spain, Škoda in the Czech Republic, Bentley in the United Kingdom, Lamborghini in Italy, and Bugatti in France.

2. Toyota

Toyoda Automatic Loom Works, Ltd., a Japanese manufacturer founded by Toyoda Sakichi. Its first production car, the Model AA sedan, was released in 1936. The following year the division was incorporated as the Toyota Motor Company, Ltd., an automotive spin-off headed by Toyoda Kiichiro, Sakichi’s son. Toyota subsequently established several related companies, including Toyoda Machine Works, Ltd. (1941), and Toyota Auto Body, Ltd.
(1945). However, faced with wrecked facilities and a chaotic economy in the aftermath of World War II, the company was forced to temporarily suspend its automotive production.

By the 1950s Toyota’s automobile production factories were back in operation, and to gain competitiveness the company began a careful study of American automobile manufacturers, owing to perceived U.S. technical and economic superiority. Toyota executives toured the production facilities of corporations, including the Ford Motor Company, to observe the latest automobile manufacturing technology and in turn implemented it in their own facilities, yielding a nearly immediate increase in efficiency. In 1957 Toyota Motor Sales, U.S.A., Inc., was established, and the following year the company released the Toyopet sedan, its first model to be marketed in the United States; it was poorly received because of its high price and lack of horsepower. In 1965 the Toyopet, completely redesigned for American drivers, was re-released as the Toyota Corona, marking the company’s first major success in the United States.

During the 1960s and ’70s the company expanded at a rapid rate and began exporting large numbers of automobiles to foreign markets. Toyota acquired such companies as Hino Motors, Ltd. (1966), a manufacturer of buses and large trucks; Nippondenso Company, Ltd., a maker of electrical auto components; and Daihatsu Motor Company, Ltd. (1967). For several decades Toyota was Japan’s largest automobile manufacturer. The company continued to thrive in the American market as well, gaining a reputation for its low-cost, fuel-efficient, and reliable vehicles such as the Corolla, which was released in the United States in 1968.

The company experienced significant growth well into the 21st century, with innovations such as its luxury brand, Lexus (1989), and the first mass-produced hybrid-powered vehicle in the world, the Prius (1997). In 1999 Toyota was listed on both the London Stock Exchange and the New York Stock Exchange.

Chapter 3: Scandals
1. Dieselgate Emission Scandal
In mid-2015 Volkswagen briefly held the distinction of being the world’s largest car manufacturer by volume after surpassing Toyota Motor Corporation. However, shortly thereafter, in September, Volkswagen faced a public relations crisis when the U.S. Environmental Protection Agency (EPA) determined that the manufacturer’s diesel-powered cars contained software that altered the vehicle’s performance in order to pass emissions tests (see Figure). Their Diesel cars are accused to be 10-40 times dirtier than allowed to, according to EPA standards. Volkswagen admitted to installing the “defeat device,” and it recalled more than 10 million automobiles worldwide. In the United States alone, the carmaker faced fines of more than $4 billion (see Exhibit 1 for the timeline).
Figure: What does the defeat device do if it detects test conditions? (The Guardian, 2015)

2. Toyota Recall Crisis

After years of continuous success, Toyota faced significant financial challenges: plummeting sales stemming from the global financial crisis of 2008 as well as an international safety recall of more than eight million vehicles in 2010. The manufacturing defects which caused financial loss of around US $ 5.5 billion and setback to its brand image. Initially the company considered floor mats as the only cause of the accidents but as more accidents were reported from other parts of Europe, it was understood that scenario is not as simple as it seemed. The major manufacturing defects identified were sticky gas pedals, floor mats, and brake problems. During the year 2009-2011 the company and its suppliers had suffered heavy monetary losses. 

(see Exhibit 2 for the timeline).

Chapter 4: Literature Review

There are many researches done in the field of corporate social responsibility (CSR) and some in that of corporate social irresponsibility (CSI).

1. CSR Literatures

What is CSR? There are hundreds of CSR definitions, but here I will cite the one from International Organization for Standardization’s Guidance Standard on Social Responsibility, ISO 26000, issued in 2011. It states:

“Responsibility of an organization for the impacts of its decision and activities on society and the environment, through transparent and ethical behavior that:
- contributes to sustainable development, including health and the welfare of society;
- takes into account the expectation of stakeholders;
- is in compliance with applicable law and consistent with international norms of behavior;
- And is integrated throughout the organization and practiced in its relationships”

In the field of CSR, there are two dominating theories: agency theory and stakeholder theory. In short, the former can be seen as an unfriendly theory for the CSR and the latter can be seen as a CSR friendly theory.

Agency Theory is a relationship theory that explains the relationship between one or more individuals (principal) who appoint one or more individuals (agents) to do some responsibilities on his behalf. From a corporate world point of view, it is the shareholders of the company (principals) appointing managers of the company (agents)
to maximize their wealth. (Bouckova, 2015). Milton Friedman’s argument can be classified as agency theory. Friedman (1970) argues that only human beings have a moral responsibility for their actions and it is managers’ responsibility to act solely in the interest of shareholders. He also states that social issues and problems are the proper province of the state rather than corporate managers, even saying that managers are not capable of and should not decide what is in society’s best interest. Hence, Friedman criticizes the idea of wider CSR. In summary, his view of CSR is a rather narrow one, which means that CSR is basic economic responsibilities. His claim is categorized as shareholder view of the firm which focuses on shareholders and the relationship between shareholders and managers.

Meanwhile, stakeholder theory is a broad and extended view of CSR which emphasizes on wider societal responsibilities. In his paper, Archie Carroll (1991) conceptualizes the pyramid of corporate social responsibility. According to Carroll, “four kinds of social responsibilities constitute total CSR: economic, legal, ethical, and philanthropic.” Economic responsibilities are about being profitable and is the foundation upon which all others rest. Legal responsibilities are about obeying the law as law is society’s codification of right and wrong, and you are expected to play by the rules of the game. Ethical responsibilities are about being ethical. It is the obligation to do what is right, just, and fair. Philanthropic responsibilities are about being a good corporate citizen. It is where you contribute your resources to the community so that the members of the community can improve quality of life. Hence, Carroll’s view can be included in the stakeholder view of the firm, including other partners than shareholders into the governance process. Furthermore, according to Werther and Chandler (2011), the current definitions of CSR is “to pursue goals in addition to profit maximization and a responsibility among a firm’s stakeholders to hold the firm accountable for its actions.”

2. CSI Literatures

Then, what is the definition of CSI? According to Lange and Washburn (2012), CSI is “a certain harm occurs through corporate activity” or “the behavior of the company infringed legal or social norms of acceptable behavior.” Furthermore, “irresponsibility, distinct from responsibility, is often not discussed explicitly in the CSR literature, but the implication is that irresponsibility is simple the opposite side of the responsibility coin—that is, the failure to act responsibly.”
Scheidler, Schons, and Wieseke (2016) categorized over 500 CSI incidents into 8 types: consumers, employees, supply chain activities/overseas operations, public stakeholder, shareholders, competitors, environment, and animals.

The question arises here: why are there two distinctive definitions when CSR and CSI are basically both sides of the same coin? One reason is that people tend to think more thoroughly and longer when it comes to firms’ negative behaviors compared to those of responsible ones. As Shaver (1985) observes, “people are never blamed for doing good.” Furthermore, CSI has its negative consequences.

Pfeffer and Salancik (1978) claim that “widespread external perception that a firm has acted in a socially irresponsible manner can have negative consequences for a firm, since an organization’s success—indeed its survival—depends, in part, on satisfying normative expectations from its environment.” Needless to say, “an organization that is seen as a bad actor in society can have a hard time attracting customers, investors, and employees.” (Fornbrun, 1996) In worst cases, companies can lose the license to operate.

3. Literatures on VW and Toyota Scandals
With regards to Volkswagen and Toyota, there are abundant number of researches and articles comparing the two giants’ differences in strategy, technology, and corporate culture. The list of comparisons continues. However, there are not many researches focusing on comparing the two scandals. It is focused on either one or even when it is compared, it is solely about their financial downturn from respective scandals.

Let us look at the literatures on VW first. Tan-Kantor (2016) used the VW scandal as a mean to explore the extent to which the financial performance of VW Group affects the company’s corporate social responsibility. Tan-Kantor further suggests that there is a direct link between a company’s financial performance and a role for corporate social responsibility and the environment, especially in relation to the promotion of a company financial performance that indirectly enhance customer satisfaction and brand/reputation.

Mačaitytė and Virbašiūtė (2018) explore the relationship between the social responsibility of an organization and three variables: the stock market of the organization, the financial performance of the organization, and the reputation index by
the organization set during the scandal by using the VW case. They discovered that unethical behavior committed by a world-known corporation indicated negative effect on the corporate’s stock price, financial performance, and reputation. Therefore, it is quintessential for them to reaffirm commitments to the environment with more transparency and responsibility in its action rather than statements.

Merenda and Irwin (2018) claims that scandals for VW were nothing new and it has occurred to them from time to time. One of which is prostitution and bribery scandals in late 2005. Also, they pointed out several factors that drew VW to the scandal, which are ambitious revenue and vehicle goals, high labor and manufacturing costs, and the VW group’s system.

Regarding Toyota’s recall crisis, there are a great deal of literatures as well, and most of them are on the same ground of criticizing Toyota’s crisis management. Stephan (2016) argues that Toyota has taken the phrase “damage control” in a wrong way, which is a strategy that an organization deploys in its public and government relations in order to convince outsiders that whatever happened, things are not as bad as what people think. Stephan states that Toyota’s misleading minimizing of the seriousness of recalls showed lack of judgment and concern for the safety of the driving public. Due to these reasons, Toyota had to face significant consequences, but one important lesson they learned from it is that customer anxieties and fears are just as real as defective mechanical parts.

Backhaus and Fischer (2016) conducted a research on brand damage from CSI and how deep/long it can last. Through their analysis on YouGov Brandindex, they found out that after the recall crisis, Toyota’s brand attention (“about which of the following brands have you recently heard anything positive/negative through media, advertising, or word-of-mouth?”) increased, but their brand strength (“aggregate score of items below, between -100 and +100 based and on comparison with other brands within industry) faced a significant drop. This is no surprise given the turn of events, but it is still worth pointing out how Toyota’s crisis affected not only financially, but also from the brand perspective.

Piotrowski and Guyette (2010) have done a survey on business school students and adults regarding the recall crisis. According to the survey, “majority (57%) of the sample felt that Toyota leadership’s handling of the recall was somewhat disappointing
or very poor. Moreover, few respondents (18%) had any confidence in the veracity of public statements from Toyota.” However, noteworthy, only 13% felt that Toyota would probably not regain its prominence in the auto sector.

Also, there are many arguments comparing the Toyota case with Johnson & Johnson’s Tylenol case. “In 1982, Johnson & Johnson pulled its Tylenol products off the shelves over safety concerns. At the time, the handling of Tylenol won praise. Tylenol sales tanked, but then recovered.” (Dignan, 2010) Many claim that Tylenol and Toyota are similar in terms of its company size, impact of the incident, and the nature of crisis, which is safety. However, Toyota’s management was accused of covering up the problem and criticized for taking too much time dealing with it.

4. The Research Gap
As I mentioned earlier, there are not many literatures when it comes to comparing the two giants’ scandals, but it is essential to refer to them here so that we can have clear picture on where the research gap lies in this matter. Georgeevski and AlQudah (2016) discuss the financial impact on both companies after their scandals and claim that VW’s scandal is a gas-emission cheating while Toyota is responsible for over 400 car accidents. Hence, VW will still finish as the second largest world car producer albeit its damage on their brand reputation.

As stated above, there are quite a few numbers of literatures that deal with VW’s dieselgate emission scandal as well as Toyota’s recall crisis, but there is still a wide gap when it comes to comparing those two. Moreover, if you were to look at how Toyota has recovered from the crisis, there should be something that has been done correctly by Toyota during the peril. This is the research gap where this paper will dive into. Before we go into details, let us briefly look at the facts of both cases,

**Chapter 5: Methodology and Findings**

1. Methodology
In this chapter, I will pick up some of the points written in each CSR report, examine if they were based on agency theory or on stakeholder theory, and what the effects and reactions were from their scandals, and if there were any differences in terms of their speed of recovery from the incidents. In that matter, I will compare VW and Toyota on how each leader dealt with public regarding respective scandals, and what that could
implicate. With this regard, the analysis will briefly touch upon public apology theory.

Regarding speed of recovery, I will explore how their performances in several areas have changed over the years following their incidents. VW’s case surfaced to the world in the fall of 2015, so it has been 3 years since then. Hence, I will compare the data of Toyota from January 2010 to January 2013 and those of VW from September 2015 to September 2018. The data cited for comparison will be their financial performances, brand strength,

2. Findings: CSR Reports and Reality
a. Which year of the CSR reports?
Instead of analyzing the latest CSR reports where you can obviously expect to see tremendous remedy plans and actions filled with the scandals that have happened, let us examine the CSR reports just before the scandals for both VW and Toyota detailed in this study, to have a better comparison between CSR reports and reality. Therefore, VW’s report will be from the year 2014 and the Toyota one will be from the year 2009.

b. VW
“We run our business responsibly and with a long-term perspective along the entire value chain. Everyone should benefit from this – our customers, our employees, the environment and society.”
(Volkswagen, 2014)
Before the scandal, VW was one of the most responsible businesses to the sustainable world and claiming the top spot in the Dow Jones Sustainability Index. However, the tagline of VW’s Sustainable Value Enhancement 2014 now rings hallow. There are several points that need to be mentioned regarding this report.
One is their Key Action Areas (see Figure). In 2014, VW wrote down their detailed action plans in the area of environment, society, and governance, which are based on the results of dialogs, workshops, symposiums, public debates, social media, questionnaires, evaluations and projects with their stakeholder. As for environment, focus is appeared to be on new environmental imitative such as electronic cars, not on auditing the existing systems for enhancement of environmental friendliness and to confirm the claims the company makes for its environmental achievements. Is VW’s current executives seriously taking ecological leadership into account after the scandal? This is an important question, but what is seems for now is that VW had to make more inroads towards more transparent and responsible leadership in the ecology area instead of mere statements.

As part of the action plan, VW The Volkswagen Group published an environmental strategy to become the ecological leader in the automotive industry by 2018 concentrating in four environmental related areas as shown in Figure.
VW also stated that their organizational structure is designed to assure environmental factors into account to their decision making. In order to do so, they established Green KPIs with a holistic approach as shown in Figure.

Figure: VW’s group environmental strategy (Volkswagen, 2014)

Figure: VW’s environmental strategy’s holistic approach (Volkswagen, 2014)
However, the detailed plans mentioned above all lack monitoring and control measures. It is unclear who is looking after, how it is quantified, and to what extent it is done. It is apparent that the action plans were merely a compliance gadget.

Furthermore, VW went in depth on their plan to cut down CO2 emissions. They aimed to cut the average CO2 emissions of their new passenger car fleet from the current 126 grams per kilometer to 120 grams by 2015 (see Figure). They even stated their aim to reduce emissions to 95 grams by 2020 in the different part of this report.

![Figure: CO2 emissions of the VW Group's European (EU 28) new passenger fleet](Volkswagen, 2014)

Although we can see improvements in cutting down emissions, there is something peculiar about this section. Instead of explaining about how lower CO2 emissions are beneficial for the environment and the society, VW stresses on abiding the law and regulations in Europe. Moreover, now that we know about the dieselgate emission scandal, we cannot help ourselves but to see the figures shown in the exhibit with suspicion.

Also, in the report referred was the external environmental awards VW has received in the past: “most environmentally friendly vehicles” awards in all classes in 2014 from Autotest (the magazine for car buyers published by Auto Bild) and Ökotrend (the independent environmental research institute), “Green Truck 2014” award from specialist journals “VerkehrsRundschau” and “Trucker”, “Gold Medal Award 2013 for Sustainable Development” in May 2014 from the non-profit World Environmental Center, to name the few. Given the scandal, these awards might also do not represent
what VW stood for.

c. Toyota

“The CSR Policy has been compiled based on the Guiding Principles at Toyota and takes into consideration Toyota's relations with stakeholders. By having all employees implement this policy, Toyota aims to become a company that is admired and trusted by society.”

(Toyota, 2009)

In June 2009, Akio Toyoda, 53, grandson of Toyota’s founder, was named president. It was not an easy time for Toyota around that time. Toyota has recorded a net loss for the year 2008 and was still struggling to overcome the financial crisis that started in the U.S. This report covers CSR as one of the topics regarding corporate philosophy, and then allocates three major chapters as key business aspects: environment, social, and economy.

In the corporate philosophy part, CSR is emphasized as an important topic. Through their company internal discussion, Toyota has defined their CSR activities as below shown in Figure. Since Toyota’s scandal was involving around sudden acceleration, let us focus on social and safety aspects here. In the overview, you can see that Toyota considers “customer first policy” and “vehicle safety” as key components, at least on paper.
However, the question is whether these key components coherently implemented throughout the organization? There is no clear description on how these CSR activities are conveyed to employees. As you can see in Figure, Toyota included CSR Committee as one of the committees tied to board of directors and managing officers, but it might have been the case that there was no practical system to implement what was decided at the CSR committee, or even if there was a system, it is fair to say that it was not functioning properly.
Let us move on to the social aspects. This part is divided into 5 areas: customers, employees, business partners, shareholders, and global society/local communities. This is a standard stakeholder view on CSR. What stands out in this part is that the report spends exactly half the pages on the fifth area, global society/local communities. It was around the time Toyota had reached the top position in the world in automotive industry, so it is natural that they decided to focus heavily on this area.

Ironically, one of the headlines in this area is “pursuing dependable safety and the elimination of traffic casualties.” Here, Toyota explains their effort in improving safety on both elements, which is to reduce the number of traffic accidents in the first place and then to minimize the injuries from the accidents. They further show us various safety measurements with pictures. (see Figure)
Figure: pictures of safety measures implemented in Toyota cars (Toyota, 2009)

However, one striking point about this section is their overview on accidents in the world. Their main goal is how to tackle the situation in emerging markets such as China and India. Toyota claims that “an inability to provide education and the lack of a traffic environment appropriate to the increased number of automobiles appear to be behind the increasing number of accidents.” (Toyota, 2009) Toyota, as the newly top car selling company in the world, was inclining towards the emerging markets, but ultimately, the recall crisis arose from one of their most stable markets.

Regarding the customer relations section, Toyota emphasizes the importance of “customer-first activities” (see Figure), which is to meet the expectations of customers and society.

![History of CF Activities](image)

**Figure: History of CF Activities (Toyota, 2009)**

However, this discipline is vague on how and what exactly their customer-first activities are. Toyota pointed out the importance of incorporating customer feedback in product creation, but it was about their achievement in making a customer-friendly-brochure.

Although “customer assistance center” which is, to put it simply, a customer call-center, has been operating since 1982, it is unclear to what extent the feedbacks from the center was conveyed throughout the organization. Toyota seemed to have had the necessary touchpoints to collect customers’ opinions, but they failed to transfer the valuable
information to the top management or to the CSR committee.

Similar with VW, Toyota had been receiving numerous external awards before the scandal. From 1980 to 2009, Toyota received the top prize of Japan Car of the Year Award for total of 9 times, 1 time behind Honda. Furthermore, Toyota was well recognized outside of Japan as well: “Top-Performing Brand” in 2009 for Lexus by J.D. Power and Associates, “Energy Star Sustained Excellence Award” in 2009 by EPA, and “Environmental Achievement Award” in 2009 by EPA, to name the few.

d. Financial performances
Now, we will look at how the scandal affected their financial performance. In Figure, we can see to what extent the scandals had negative effects on both companies (see Figure and Figure). VW’s share price fell 39 % in about 2 weeks, while Toyota’s dropped 22% in the similar time frame.

Figure: VW’s share price between September 1 to December 21, 2015 (red arrow indicates around the time the scandal surfaced to the public)
Source: Nasdaq
Figure: Toyota’s share price between January 1 to March 31, 2010 (red arrow indicates around the time the scandal surfaced to the public)

Source: Nasdaq

e. Brand reputation
At the same time, brand reputations for both companies suffered from the scandals as well. YouGov BrandIndex conducted a Buzz score survey. A Buzz score is defined as if a person heard anything about the brand in the last two weeks, through advertising, news or word of mouth, they are supposed to answer either positive or negative.” A Buzz score can range of -100 to 100 with a zero equaling a neutral position. For example, a score of 35 means that 35% more people said they were positive than negative about the brand. As you can see in Figure, most of the time, VW’s Buzz score was in the 5 to 15 range and that of Toyota was in the 30 to 40 range. They both plummeted after the scandals were discovered. The lowest score was VW at -46 and Toyota tat -65. Their trajectory was quite similar as you can see below.
Meanwhile, the brand consultancy Interbrand announces their Best Global Brands every year. According to the ranking, VW and Toyota both dropped their spots after the scandals: VW from 31st (year 2014, pre-scandal) to 35th (year 2015) and Toyota from 8th (year 2009) to 11th (year 2010). However, their paths are slightly different at the moment. While Toyota slightly improved their place to 10th in 2013, 3 years after the recall crisis, VW still declined to 41st in 2018, also 3 years after their incident.

**Similarity and Differences of the Two Cases**

1. **Similarity: CSR from Egoistic Motivation?**
   What is the similarity we see from both cases? According to Macey (2008), in Germany and in Japan, the fundamental premise behind a corporation is not the notion of a promise to maximize value for shareholders. Instead, the fundamental corporate promise is that the corporation is a creation of the state whose goals are to serve myriad and often conflicting societal interests.

   However, it appears that despite the different agency view in Germany and Japan that gives more prominent to society and despite CSR strategies and policies both VW and
Toyota put in place, both of the companies are displaying through the scandals that they were following a pure agency model focusing only on maximizing the shareholders’ wealth. All the CSR initiatives appeared to be more of a mere tool than an intrinsic motive to attract customers and stakeholders who are concerned about environment and society.

2. Difference 1: Moral Leader or Leader in Desperation?
Where do they differ? One distinctive factor that separates the two cases is moral licensing and moral cleansing. According to Zhong, Liljenquist, and Cain (2009), moral licensing means that “moral act leads to immoral act (moral capital)” and moral cleansing means that “immoral act leads to moral act. (compensation)” We could speculate that one of the reasons why VW was caught in CSI is that they were considered as one of the most respected and highly regarded corporates in the world before the scandal, known for their CSR activities. This factor might have led VW achieve moral credits, which allowed them to engage in less ethical behaviors. Moreover, leaders’ moral identity symbolization was another factor in VW’s case. This concept means that “the degree to which being moral is expressed outwardly to the public through actions and behavior, will moderate the CSR-CSI relationship, such that the relationship will be stronger when CEOs are high on moral identity symbolization rather than low on moral identity symbolization.” (Ormiston and Wong, 2013) Even before becoming the CEO of VW, Winterkorn was a visible figure. He became Honorary Professor of the Technical and Economic University of Budapest and of Technical University of Dresden, served as a member of the University Council at the TU Dresden and at the TU Braunschweig, and was featured both in the 2007 and 2008 Power List of American automotive magazine Motor Trend. Currently, Winterkorn is being charged of indictment with fraud and conspiracy in the case of on May 3, 2018 in the U.S. Hence, it is too premature to judge if Winterkorn knew of the defeat device, but we can conclude even Winterkorn had not been aware of the rigging, his moral credits achieved through years of success at VW affected his right judgments.

Meanwhile, Akio Toyoda had just succeeded the CEO position from Katsuaki Watanabe in June 2009. Toyota was already in a turmoil after facing deficit from the financial crisis in 2008. Toyoda, as a newly-appointed CEO, was in the process of shifting the company direction from expansionism, which was the basic company strategy from mid 1990s, to a more lean and efficient management. Therefore, Toyota’s case was not the case of moral licensing nor moral cleansing. The recall and its following consequences
were part of the negative effects from the previous strategy and the mishandling of quickly evolving situation by the newly formed management.

3. Difference 2: The Irony of Corporate Culture
The next differentiating aspect of VW and Toyota is related to the difference in corporate culture, which is in short, VW being the top-down corporate culture and Toyota being the bottom-up culture. This contrasting corporate culture played differently to both companies.

Ever since Piëch became the CEO, VW has had the strong inclination towards top-down culture. This was very beneficial as an automotive company since automobile is an extremely complicated product composed of numerous parts with cutting-edge technology. Fast and thorough decision-making process of top-down corporation is compatible with this sort of industry. However, the irony is that this very top-down culture did not function as it was supposed to in the dieselgate emission scandal. Some reports indicate that Winterkorn had known about the existence of “defeat device” a year before the scandal emerged. Normally, we expect that this issue would had been corrected by the leader as soon as it was known to the strong leader, but this was not the case unfortunately. As of now, trial on Winterkorn is on going with regards to whether he had been responsible for the installment of defeat device from the beginning. We will need to wait until the truth is revealed, but it is fair to conclude that the top-down culture did not work in this case.

On the other hand, Toyota’s bottom-up culture stems from two factors, which is its “on-site policy” (gemba-shugi) and its Japanese origin. Toyota has been known for emphasizing its on-site opinions since that is where the products come from and where minor defects or issues are meant to be solved. This mentality has worked wonder to achieve its high quality and standardized products. In terms of its origin, Toyota as a Japan-born-company, has the inclination to make decisions in a bottom-up manner. What has been decided in lower levels of the organization is expected to be refined and revised upward throughout the organization. By the time, it reaches the top tier of the organization, the decisions are almost defined. This bottom-up culture of Toyota was not effective when the recall crisis arose. There were reports and complaints regarding the sudden acceleration coming in from the customers at the early stage of this crisis. However, the information was not swiftly conveyed to the higher levels of Toyota. The slow delivery of important pieces of information and the bottom-up decision making, which is in general slower than that of
top-down, caused Toyota to act slow to the crisis.

In short, both companies failed to act quickly at the very early stages of their respective scandals. Their management style, either top-down or bottom-up, did not play in favor for crisis response. VW’s top-down management, which is in theory supposed to be the best management style for these circumstances, did not function properly due to Winterkorn’s failure to act promptly. On the other hand, Toyota’s bottom-up management was too slow to respond. What can we learn from their mistakes? That is what I intend to explore in the next chapter.

4. Difference 3: How Did They Apologize to the Public?
Another differentiation factor of VW and Toyota cases is how they publicly apologized when the media attention was at its peak. The former issued a video message while the latter attended a public hearing by the House of Representatives at the U.S. Here we will analyze the two apologies through the perspective of crisis communication.

According to Coombs and Holladay (1996), there are four crisis types, which is the basis for how to respond to each crisis. External control (divided into internal and external) and intentionality (divided into intentional and unintentional) provide orthogonal dimensions that can be crossed to form a 2×2 matrix. Internal refers to a crisis caused by something the organization itself did. External refers to the crisis being created by some agents outside of the organization. Intentional refers to some actor committing the crisis act purposefully, and unintentional means the crisis event was not committed purposefully.

<table>
<thead>
<tr>
<th>Internal</th>
<th>1. Accidents</th>
<th>2. Transgressions</th>
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<tr>
<td>External</td>
<td>3. Faux Pas</td>
<td>4. Terrorism</td>
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<td>Unintentional</td>
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There are five strategies to address to crisis: denial, distance, ingratiation, mortification, and suffering. “Denial claims there was no crisis or the blame for the crisis is not the organization’s. Distance accepts the crisis, but tries to weaken the link between the organization and the crisis. Ingratiation seeks to win public approval of the organization. Mortification tries to gain forgiveness for the organization. Suffering portrays the organization as a victim in the crisis.” (Coombs, 1995)

VW’s case is undoubtedly the case of transgressions as they had built in the defeat device to dodge the emission regulations. Toyota’s case is a difficult one to categorize as
sticky gas pedals, floor mats, and brake problems were not intentional defects. However, given that their response to complaints being delayed and their interactions with the authority not being prompt and accurate, Toyota’s case can be categorized rather to transgressions than to accidents. According to Coombs and Holladay (1996), transgressions “provide no recourse but to address the organizational image. The only viable option is to improve perceptions of the organization. An organization must show how it is returning to the adherence of stakeholder expectations.” Hence, either ingratiating or mortification strategy would be appropriate for both cases. Based on this view, let us examine each case.

a. VW’s Public Apology of Prof. Dr. Martin Winterkorn

Exhibit 3: Volkswagen CEO Apologizes for Emissions Scandal (Youtube, 2015)

The then CEO of VW Martine Winterkorn issued a video apology on the 22nd of September while the car company came under fire for an emissions testing scandal (see Exhibit 4 for full English translation). In this video statement Winterkorn apologizes to the public, but takes the distance strategy rather than ingratiating or mortification by stating that “it would be false, if because of the terrible mistakes of a few, the hard and honest work of 600,000 people is put under a general mistrust. Our team does not deserve that.” This is clearly a mistake in this situation because the dieselgate emission was done on organizational level rather than by a few rotten apples. This is shown by the number of vehicles that were rigged with the defeat device. Moreover, instead of having a public press conference, issuing a video statement also does not work in favor for VW in terms of gaining forgiveness from the public or winning approval of the organization.

b. Toyota’s Apology of CEO Akio Toyoda
Exhibit 5: Toyota CEO Apologizes for Recall, Accidents (Youtube, 2010)

On the other hand, Toyota’s apology can be considered as a combination of ingratiation and mortification. Toyota CEO Akio Toyoda was summoned to the House of Representative’s public hearing in Washington D.C. on February 24, 2010. The hearing lasted over 3 hours. What differed from VW’s video apology? The hearing was held in public, which allowed the questioners, in this case congressmen, to inquire on Toyoda directly. This is a more effective way to gain approval from the public than simply issuing a video statement. In his opening statement, Toyoda stated the corporate philosophy, causes of the recall issues, apology to the public, and further safety measures as a company. The remarks made in this statement was an appropriate way to improve the perceptions of the corporate and to show how Toyota will return to the adherence of stakeholder expectations. The hearing received positive reviews in general.

Chapter 7: Managerial Implications

Now that we have come closer to the end of this paper, what can we learn from the cases of VW and Toyota? We can draw implications from two perspectives: CSR/CSI and crisis communication.

1. To Company-External CSR or Not?
We have seen in depth earlier that both VW and Toyota were engaging in company-external CSR activities, but did it benefit them in reality? Were they too satisfied with their external CSR? We can judge that their means have become the end. Edinger-Schons, Scheidler, and Bartels (2017) organized a field experiment in cooperation with a retail company and discovered that customers who received
information on internal (employee oriented) CSR were more favorable on the company than those who were receiving external one. One of the reasons for customer’s preference for company-internal CSR is “customer’s awareness of employee mistreatment in many companies has increased through media reports.” Another reason would be that “starting to develop a CSR strategy from within the company is seen more intrinsically motivated than starting to engage in highly visible external CSR while neglecting the same ethical stance on the inside.” (Edinger-Schons, Scheidler and Bartels, 2017)

Therefore, we can conclude that the best solution is to organize CSR activities both internally and externally. External CSR should also not be forgotten as one of the means because it is still a way to reach out to the public. Naturally, this simultaneous strategy would be costlier, and companies would not be so keen on engaging in activities that are not profitable. However, then again, we have seen in VW and Toyota’s cases, where companies were not very honest in their CSR reports and eventually costed them enormously with their CSI incidents. It is fair to say that internal/external CSR activities done from the good will is the best solution.

2. What is the best management style? -Top-down, bottom-up, or else?

As we have seen in the previous chapter, neither top-down (VW) nor bottom-up (Toyota) worked well in their scandals. Then, what is the most ideal management style for organizations? Is there an alternative to it? My suggestion is that top-down management with competent aides is what organizations should aspire for.

Why top-down management rather than bottom-up? The reason is because top-down management is better in terms of quicker and swifter decision making. Companies, especially in the manufacturing industry, are required to make fast responses when something unexpected occurs. Bottom-up management, as seen in Toyota’s case, can be too slow to adapt to the situation.

However, as we saw with VW’s dieselgate scandal, top-down management may not function if the leader is not acting dutifully. The inevitable risk lies within the quality of the leader. How can we overcome this risk while keeping the top-down style? Hence, my suggestion to place competent aides comes in. What does it mean by “competent aides?” In every functional organization, skillful aides or close associates to the leader is essential. If the leader is not supported by capable members, he/she cannot lead the organization to the right path. In terms of top-down management company, what kind of aides or close associates are needed? The most important aspects are that these aides can raise their opinions and concerns about decisions to the leader without hesitation and
can deliver honest discussions. Also, those opinions must be driven by objective analysis, not something drawn from emotions nor personal vendetta. Therefore, top-down management with competent aides is the most ideal shape of organization.

3. When and How to Address to the Public in Case of Crisis?
The two cases show us it is important to swiftly address to the public when a scandal arises. When we say addressing, it does not mean it can be done via video in a closed room. It must be conducted as quickly as possible with the public’s eyes. In the age of digitalization, negative words of mouth spreads faster than ever and stays longer. Exposing oneself to the public in amidst the turmoil can be quite risky as you can never know what kind of words or behavior could be taken negatively. However, at the same time, slow reaction to the public’s concern will lead to much more chaos as you saw in Toyota’s case. Therefore, the recommendation for this topic is that in times of crisis, be swift, open, and interactive.

Chapter 8: In Conclusion
VW’s dieselgate emission scandal and Toyota’s recall crisis have left significant impacts on both companies. However, the two cases are just the tip of the ice berg given the amount of CSI we see around the globe. This study examined the recent scandals from the two giants in the auto motive industry. We have seen that although both corporations were engaged in their CSR activities respectively, both failed to live up to the standard they raised. We have also discovered that there is similarity in both cases, but at the same time, there were some differences in their leadership. The difference in leadership eventually led to their difference in how they addressed to the public when media attention was heated up. Also, we were able to look into what is the best form of an organization. This dissertation was able to shed a new light on a comparison which had not been done thoroughly in previous researches. Through this research, I have addressed three managerial implications. Hopefully, these findings would be able to guide companies facing problematic situations in the future.
Exhibit 1: Timeline of VW’s dieselgate emission scandal

*2005: VW tries to make a new diesel engine, the EA 189, to conform to much stricter U.S. pollution standards that focus on cutting nitrogen oxide (NOx) emissions. A group of VW employees, whose identity is still being determined, decided to use software to modify engine performance to cheat emissions tests.

*May 2014: The California Air Resources Board (CARB) receives a study published by the International Council on Clean Transportation (ICCT) which shows NOx values for VW diesel vehicles deviate significantly between bench testing and road operation. CARB requests an explanation from VW.

*May 23, 2014: A memo about the ICCT study is prepared for Martin Winterkorn, then VW group CEO, which was included in what the company calls his “extensive weekend email”. VW says it has not been documented as to whether, or how much, Winterkorn took notice of the memo.

*Nov. 14, 2014: Winterkorn receives another memo that contains, among other items, information on current product defects and which refers to costs of approximately 20 million euros ($22 million) for the diesel issue in North America.

*December 2014: VW offers to recalibrate the first- and second-generation EA 189 diesel engines as part of regular service work in the hope that the engines will then pass muster with CARB.

*In 2014: Winterkorn received information on problems with U.S. diesel emissions tests. The issue “did not initially receive particular attention at the management levels” since management regarded it as a “technical problem that did not differ from other everyday technical problems,” VW said in a 2016 statement summarizing its response to a shareholder lawsuit.

*Summer 2015: VW’s Committee for Product Safety (APS) establishes a diesel task force after CARB tests show modified engines still produce excessive levels of NOx. VW retains U.S. law firm Kirkland & Ellis to advise on questions related to U.S. emissions law.

*July 27, 2015: Some VW employees discuss the U.S. diesel problems on the sidelines of a regular meeting about damage and product issues, in the presence of Winterkorn and Herbert Diess, head of the VW brand. VW says it is still constructing details of the meeting and establishing whether those present understood the change in software violated U.S. regulations. VW says Winterkorn asked for further clarification of the issue.
End of August 2015: VW technicians give a full explanation of causes for discrepancies in NOx emissions to VW’s in-house lawyers as well to U.S. attorneys from Kirkland & Ellis. A management board member - not identified by VW - realizes the software changes constitute a defeat device prohibited under U.S. law.

Sept. 3, 2015: VW formally communicates information about the defeat device to CARB and the U.S. Environmental Protection Agency (EPA) during a meeting. Winterkorn is informed in a note, dated Sept. 4.

Sept. 18, 2015: The EPA issues a public notice of violation of the Clean Air Act to VW, alleging that model year 2009-2015 VW and Audi diesel cars with 2.0-liter engine included defeat devices. The disclosure by U.S. regulators comes as a surprise to VW which had hoped to resolve the case “amicably” with U.S. authorities without having to make a disclosure. VW admits to 11 million vehicles affected worldwide.

Sept. 23, 2015: Winterkorn resigns, saying his departure cleared the way for a “fresh start.”

Sept. 25, 2015: VW appoints Matthias Mueller, head of its Porsche unit, as new chief executive.


Jan. 4, 2016: The United States Justice Department files a civil suit against VW seeking up to $46 billion for Clean Air Act violations.

March 29, 2016: The U.S. Federal Trade Commission files a lawsuit against VW for false advertising over claims that diesel vehicles were environmentally friendly, saying U.S. consumers suffered “billions of dollars in injury.”

April 22, 2016: VW posts a 4.1 billion euros operating loss for 2015, thanks a 16.2 billion euros hit to pay for the emissions scandal.

Oct. 25, 2016: U.S. District Judge Charles Breyer in San Francisco signs off on a settlement with federal and California regulators. VW agrees to spend up to $10.03 billion on vehicle buybacks and owner compensation and $4.7 billion on programs to offset excess emissions and boost clean-vehicle projects.

Nov. 22, 2016: VW says it will stop selling diesel vehicles in the United States.

Dec. 22, 2016: U.S. District Judge Breyer says an agreement in principle has been reached to provide “substantial compensation” to owners of about 80,000 3.0-liter diesel vehicles.

Jan. 4, 2017: VW says CEO Mueller will skip the Detroit auto show.

Jan. 10, 2017: VW says it is in advanced talks with the U.S. Department of Justice and U.S. Customs and Border protection to reach a $4.3 billion settlement of criminal
investigations and legal fines in connection with the emissions cheating.

*Jan. 11, 2017: VW’s supervisory board meets to discuss U.S. settlement.

(Source: Reuters, January 11, 2017)

Exhibit 2: Timeline of Toyota’s recall crisis

* 2000: Toyota launches program known as “Construction of Cost Competitiveness for the 21st Century” with the aim of cutting costs of 180 key car parts by 30 percent, saving nearly $10 billion by 2005.
* February/March 2004: Private Insurer State Farm notifies NHTSA of a worrying trend in claims of unintended acceleration in 2002 and 2003 model year Lexus ES300s and Toyota Camrys.
* December 31, 2004: Toyota vehicles accounted for about 20 percent of all unintended acceleration complaints filed with NHTSA in 2004, up from 4 percent in 2000.
* August 2005: NHTSA begins a review of concerns about the electronic throttle and uncontrollable acceleration on 2002-05 model year Camry, Solara and Lexus ES models. The investigation is closed in January 2006 without a defect finding.
* September 2006: NHTSA opens an investigation of 2002 to 2006 model year Camrys and Solaras based on complaints of short duration acceleration without pressing the accelerator. The investigation ends without a finding of a defect.
* 2006: Following a surge in global recalls, Toyota head Katsuaki Watanabe apologizes for “quality glitches.” Toyota delays some new models by up to half a year.
* March 2007: NHTSA opens an investigation into pedal entrapment concerns in the model year 2007 Lexus ES350. The agency upgrades the investigation in August 2007, two weeks after a fatal crash involving a 2007 Camry. In September, NHTSA determines floormat entrapment as the cause of the crash and tells Toyota a recall is required. The automaker recalls 55,000 all weather floor mats for the 2007 and 2008 model year Camry and Lexus ES350.
* September 2007: Former Toyota attorney Dimitrios Biller signs a severance agreement with the automaker. He claims he found “numerous” cases where the company concealed evidence from the courts and the U.S. government. Toyota “strongly disputes” this claim.
* October 2007: Consumer Reports influential vehicle quality survey drops three Toyota
vehicles, including a version of the Camry, from its recommended list. The verdict: “After years of sterling reliability, Toyota is showing cracks in its armor.”

* December 2007: Toyota’s U.S. sales for 2007 hit 2.6 million units. It has displaced Ford Motor Co as No. 2 in the U.S. market and is on the cusp of unseating General Motors Co as No. 1 on a global basis.

* December 31, 2007: Toyota accounted for 23 percent of all unintended acceleration complaints filed with NHTSA in 2007.

* April 2008: NHTSA opens investigation of unwanted acceleration due to a trim panel interference on the 2004 model year Sienna minivan. In January 2009, Toyota recalls 26,501 Sienna minivans to replace floor carpet.

* June 2009: Akio Toyoda, 53, grandson of Toyota’s founder, is named president, replacing Watanabe, 67. Yoshi Inaba is called out of retirement to head Toyota’s U.S. operations.

* August 2009: Fatal crash in Santee, California, of a 2009 model year Lexus ES350. Investigators find pedal entrapment by a floor mat may have contributed to the crash.

* September 2009: NHTSA officials tell Toyota they expect a recall to address possible defects in pedal design in addition to floor mats. Toyota tells agency it will recall the pedals.

* October 2009: Toyota recalls 3.8 million vehicles in the United States to address the risk that floor mats could trap the accelerator pedal in an open position. The recall is expanded in January 2010 to more than 5 million vehicles.

* December 15, 2009: NHTSA officials meet Toyota executives in Japan seeking prompt action on safety issues. Toyota commits to improving its responsiveness.

* December 31, 2009: Toyota accounted for 33 percent of all unintended acceleration complaints filed with NHTSA in 2009.

* January 16, 2010: Toyota informs NHTSA that accelerator pedals made by supplier CTS Corp may have a dangerous “sticking” defect.

* January 19: At a meeting in Washington including Inaba and U.S. sales chief Jim Lentz, NHTSA asks Toyota to take prompt action. Hours later Toyota tells NHTSA it will issue a recall.

* January 21: Toyota announces recall for about 2.3 million Toyota models to fix sticky pedals.

* January 25: NHTSA tells Toyota it must stop selling vehicles that have acknowledged defects even if it does not have a remedy.

* January 26: Toyota halts U.S. sales of eight models, including its best-selling Camry and Corolla sedans, and says it will halt production for the first week of February.
* January 28: Toyota meets with NHTSA to review its pedal fix. NHTSA says it has no objections to the fix.
* January 29: NHTSA opens investigation into CTS pedals. NHTSA asks CTS if it sold pedal to other carmakers and when it discovered reports of problems.
* February 2: Toyota reports a 16 percent drop in January U.S. sales. Monthly U.S. sales drop below 100,000 for the first time in more than a decade and Toyota’s U.S. market share falls to its lowest level since January 2006.
* February 2: NHTSA renews investigation into Toyota’s electronic throttle control system. U.S. Transportation Secretary Ray LaHood says, “While Toyota is taking responsible action now, it unfortunately took an enormous effort to get to this point.” Toyota says it will cooperate with the probe.
* February 3: LaHood warns recalled Toyota owners to stop driving, then withdraws his remarks, saying it was a misstatement. Toyota says it is examining braking complaints about its 2010 model Prius hybrid.
* February 4: NHTSA opens investigation into at least 124 consumer complaints about brakes on Toyota Prius hybrids.

(source: Reuters, February 23, 2010)

**Exhibit 4: Public apology of Prof. Dr. Martin Winterkorn (English translation)**

Ladies and Gentlemen, the irregularities with diesel engines from our corporation oppose everything that Volkswagen stands for. I also currently don’t have the answers to all the questions. But we are in the process to unsparingly reveal the background. For that purpose, we are currently putting everything on the table – as fast, thoroughly and transparent as possible. And we are continuing to closely cooperate with government and regulatory authorities. The speedily and comprehensive investigation has the highest priority. This is our obligation towards our customers, our employees and the public. And to say it bluntly this can never occur again.

Ladies and Gentlemen, many millions of people around the world trust our brands, our cars and our technologies. I am endlessly sorry that we disappointed this trust. I apologize sincerely to our customers and the regulatory agencies and the public for the misbehavior. Please believe me that we will do everything to undo the damage that was done. And we will do everything to win back your trust step by step.

In our corporation, more than 600,000 people work to build the best cars for our
customers. And talking directly to our employees, I am saying, I know how much effort and great, true sincerity you do your jobs day in and day out. It is clear to me that now much will be questioned now. I understand that.

But it would be false, if because of the terrible mistakes of a few, the hard and honest work of 600,000 people is put under a general mistrust. Our team does not deserve that. That’s why we ask – I ask – for your trust in our way forward. We will uncover this. We are working intensively in necessary technical solutions and we will do everything to undo damages done to our customers and employees.

I give you my word.

We will proceed with the highest possible openness and transparency.

(source: Fortune, September 22, 2015)

Exhibit 6: Toyota president Akio Toyoda's statement to Congress

"Thank you, Chairman Towns. I am Akio Toyoda of Toyota Motor Corporation. I would first like to state that I love cars as much as anyone, and I love Toyota as much as anyone. I take the utmost pleasure in offering vehicles that our customers love, and I know that Toyota's 200,000 team members, dealers, and suppliers across America feel the same way. However, in the past few months, our customers have started to feel uncertain about the safety of Toyota's vehicles, and I take full responsibility for that. Today, I would like to explain to the American people, as well as our customers in the US and around the world, how seriously Toyota takes the quality and safety of its vehicles. I would like to express my appreciation to Chairman Towns and Ranking Member Issa, as well as the members of the House Oversight and Government Reform Committee, for giving me this opportunity to express my thoughts today.

I would like to focus my comments on three topics – Toyota's basic philosophy regarding quality control, the cause of the recalls, and how we will manage quality control going forward. First, I want to discuss the philosophy of Toyota's quality control. I myself, as well as Toyota, am not perfect. At times, we do find defects. But in such situations, we always stop, strive to understand the problem, and make changes to improve further. In the name of the company, its long-standing tradition and pride, we never run away from our problems or pretend we don't notice them. By making continuous improvements, we aim to continue offering even better products for society. That is the core value we have kept closest to our hearts since the founding days of the
company.

At Toyota, we believe the key to making quality products is to develop quality people. Each employee thinks about what he or she should do, continuously making improvements, and by doing so, makes even better cars. We have been actively engaged in developing people who share and can execute on this core value. It has been over 50 years since we began selling in this great country, and over 25 years since we started production here. And in the process, we have been able to share this core value with the 200,000 people at Toyota operations, dealers, and suppliers in this country. That is what I am most proud of.

Second, I would like to discuss what caused the recall issues we are facing now. Toyota has, for the past few years, been expanding its business rapidly. Quite frankly, I fear the pace at which we have grown may have been too quick. I would like to point out here that Toyota's priority has traditionally been the following: First; Safety, Second; Quality, and Third; Volume. These priorities became confused, and we were not able to stop, think, and make improvements as much as we were able to before, and our basic stance to listen to customers' voices to make better products has weakened somewhat. We pursued growth over the speed at which we were able to develop our people and our organization, and we should sincerely be mindful of that. I regret that this has resulted in the safety issues described in the recalls we face today, and I am deeply sorry for any accidents that Toyota drivers have experienced.

Especially, I would like to extend my condolences to the members of the Saylor family, for the accident in San Diego. I would like to send my prayers again, and I will do everything in my power to ensure that such a tragedy never happens again.

Since last June, when I first took office, I have personally placed the highest priority on improving quality over quantity, and I have shared that direction with our stakeholders. As you well know, I am the grandson of the founder, and all the Toyota vehicles bear my name. For me, when the cars are damaged, it is as though I am as well. I, more than anyone, wish for Toyota's cars to be safe, and for our customers to feel safe when they use our vehicles. Under my leadership, I would like to reaffirm our values of placing safety and quality the highest on our list of priorities, which we have held to firmly from the time we were founded. I will also strive to devise a system in which we can surely execute what we value.

Third, I would like to discuss how we plan to manage quality control as we go forward. Up to now, any decisions on conducting recalls have been made by the Customer Quality Engineering Division at Toyota Motor Corporation in Japan. This division confirms whether there are technical problems and makes a decision on the necessity of
a recall. However, reflecting on the issues today, what we lacked was the customers' perspective.

To make improvements on this, we will make the following changes to the recall decision-making process. When recall decisions are made, a step will be added in the process to ensure that management will make a responsible decision from the perspective of "customer safety first." To do that, we will devise a system in which customers' voices around the world will reach our management in a timely manner, and also a system in which each region will be able to make decisions as necessary. Further, we will form a quality advisory group composed of respected outside experts from North America and around the world to ensure that we do not make a misguided decision. Finally, we will invest heavily in quality in the US, through the establishment of an Automotive Center of Quality Excellence, the introduction of a new position – Product Safety Executive, and the sharing of more information and responsibility within the company for product quality decisions, including defects and recalls.

Even more importantly, I will ensure that members of the management team actually drive the cars, and that they check for themselves where the problem lies as well as its severity. I myself am a trained test driver. As a professional, I am able to check on problems in a car, and can understand how severe the safety concern is in a car. I drove the vehicles in the accelerator pedal recall as well as the Prius, comparing the vehicles before and after the remedy in various environmental settings. I believe that only by examining the problems on-site, can one make decisions from the customer perspective. One cannot rely on reports or data in a meeting room.

Through the measures I have just discussed, and with whatever results we obtain from the investigations we are conducting in cooperation with NHTSA, I intend to further improve on the quality of Toyota vehicles and fulfil our principle of putting the customer first.

My name is on every car. You have my personal commitment that Toyota will work vigorously and unceasingly to restore the trust of our customers.

Thank you.”

(source: Guardian, Feb 24, 2010)
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