



European Forum on Paradox and Pluralism

Nova SBE Twinning Project

MANAGING PARADOX MINI-CASE SERIES

The false mastery of paradox: the case of Volkswagen

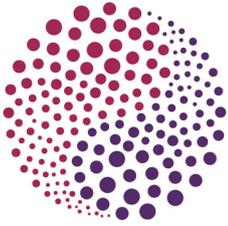
Medhanie Gaim¹ and Miguel Pina e Cunha²

¹ Umeå School of Business, Economics, and Statistics

² Nova School of Business and Economics

October 2020





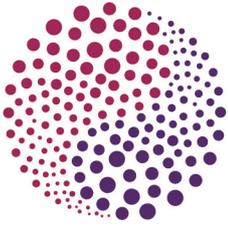
European Forum on Paradox and Pluralism

Nova SBE Twinning Project

THE CASE

In 2008, Martin Winterkorn announced that in 10 years Volkswagen will be a global economic and environmental leader among automobile manufacturers. In what was called “Strategy 2018,” VW management set a yearly sales target of 10 million cars that would overtake the likes of Toyota. Central to the strategy was the diesel cars in the US market. However, unlike the European market, the US market had a tougher regulation regarding emission putting pressure on VW meaning the diesel engine had to be clean. It also meant meeting multiple demands from regulators who aim to reduce emissions and customers who want fast and cheap cars. VW’s answer to meet all these demands means accommodating contradictory and interrelated requirements of power, fuel efficiency, and clean emissions, a paradox.

Although it was technologically impossible to accommodate the paradox, VW claimed to have achieved the goal of producing a car that is a fast, cheap, and green diesel car. In reality, they installed a defeat device that switched on emission controls only when vehicles were undergoing emission testing. The result was that millions of VW clean diesel cars were pollution as much as 40 times the legal limit in the US. The defeat device continued the appearance that VW’s clean diesel embraced performance, efficiency, and emission. A publication by graduate students from West Virginia University brought the attention of irregularities which were then confirmed by EPA and CARB in 2015. VW has since admitted cheating on emissions tests in the US and is facing the consequences to date. 11 million cars had been engineered to defeat laboratory tests, 8 million of which were sold in Europe with nearly half a million sold in the US. After the scandal, VW’s response to correct the emission problem resulted in poorer performance because the technological conundrum was not solved in the first place, the choice between power, efficacy, and emission was apparent.



European Forum on Paradox and Pluralism

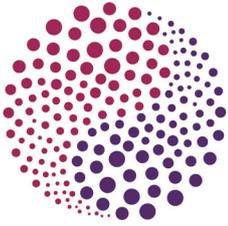
Nova SBE Twinning Project

Amid the scandal, the governance structures and the management styles of VW were central. Engineers who failed to accommodate the paradox fit the engines with defeat devices because there was an outlook that failure is not an option. The leadership in VW ruled by fear and intimidation of those below them through a governance structure, composed of family control, government ownership, and labor influence, that insulated VW from external voices and pressures. Such a governance structure and the leadership style were among the reason why those who had to materialize the paradoxical promise that those at the top promised resorted to cheating instead of admitting defeat.

As a result of the scandal, the CEO resigned and others on top were either accused, arrested, and some awaiting trial charged with fraud. Five years after the scandal broke, the VW emission scandal is still in the headline with new accusations and when former executives are going on trial. Financially it has so far cost VW around 35 billion dollars with no sign of stopping. The damage to shareholders, dealers, employees, and VWs reputation and the damage to the German brand is vast.

The VW emission scandal raises several interesting questions:

- How has the stretch goal of accommodating performance, efficiency, and sustainability contributed to the misconduct?
- Why did engineers fit the defeat device instead of admitting failure?
- How did the management style and governance system contribute to the misconduct?



European Forum on Paradox and Pluralism

Nova SBE Twinning Project

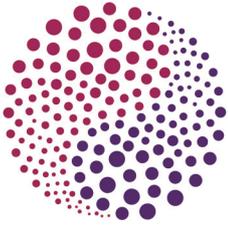
Useful sources

Gaim, M., Clegg, S., & Cunha, M. (2019). Managing impressions rather than emissions: Volkswagen and the false mastery of paradox. *Organization Studies*.
doi:<https://doi.org/10.1177%2F0170840619891199>

About the Authors

Medhanie Gaim is an Associate Professor of Management at Umeå School of Business, Economics, and Statistics, Umeå University.

Miguel Pina e Cunha is the Fundação Amélia de Mello Professor at Nova School of Business and Economics, Universidade Nova de Lisboa



European Forum on Paradox and Pluralism

Nova SBE Twinning Project

TEACHING NOTE

Interesting issues to discuss using the case also include:

- **How do paradoxes change in nature across levels?** This is interesting because the paradox at the top was a promise of grandiosity, a goal, if achieved would put executed on the top of the industry. For the lower managers and engineers, the paradoxical challenge was immense especially those who tried in the industry failed. So, the nature of the paradox was different across levels.
- **What does it take to accommodate paradoxes?** At individual and organizational levels. What are the conditions that must be in place for individuals to think and act paradoxically? How do governance structure and leadership style affect when organizational members are presented with paradoxical goals?

Areas:

Organizational paradox, stretch goals, corporate misconduct

Keywords:

Volkswagen, emission scandal