Assessing Volkswagen's Decision-making in the 'Dieselgate' Scandal: A Business Ethics Perspective

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I acknowledge that this work is my own, and I used ChatGPT 4.0 (OpenAI, 2025) **to proofread my final draft only**. OpenAI, 2025. ChatGPT [Online]. ChatGPT. OpenAI. Available from: https://chatgpt.com/.

Summary:

This paper examines Volkswagen's (VW) ethical misconduct in the 2015 emissions scandal, where the company installed illegal defeat devices in over 11 million diesel vehicles to manipulate emissions tests. VW's actions led to significant financial penalties, reputational damage, and widespread stakeholder harm. Using utilitarianism as an ethical framework, the paper evaluates VW's decision-making

process through a cost-benefit analysis (CBA). The findings suggest that while VW benefited in the short term by maximizing profits and maintaining a competitive advantage, the long-term consequences, such as legal repercussions, loss of consumer trust, and supplier disruptions, outweighed these benefits. Through this ethical perspective, the analysis concludes that VW's decision was unethical, as the overall harm to stakeholders exceeded the self-serving benefits. Additionally, even after considering some limitations of this analysis, it still demonstrates that utilitarianism is a rationale and robust framework that should be applied in future ethical business decision-making.

Background:

The Volkswagen group (VW) is a German manufacturer in the automotive industry, established in 1937 (Volkswagen Group, 2017) and is now regarded as the largest car manufacturer in Europe (Volkswagen Group, 2024). However, from 2015 to 2019, VW faced fines, lawsuits and significant reputational damage totalling over $32 billion (Jacobs and Kalbers, 2019) due to a decision they made around 2007. VW had installed illegal software called defeat devices, in over 11 million diesel cars worldwide (Jung and Sharon, 2019). This software allowed their diesel cars, to cheat emissions tests and appear compliant with governmental regulations. During testing conditions, the software reduced nitrogen oxide (NOx) emissions by 40% to meet standards (Hotten, 2015). However, under normal driving conditions, emissions exceeded the allowed levels. This software arose due to the tightening standards on NOx emission limits set by both, the United States (Environmental Protection Agency) and European regulatory bodies (The European Union). These stricter standards were implemented due to the increasing evidence of the harmful effects of

air pollution on the environment and human health (Jonson et al., 2017). Additionally, the automotive industry was recognised as a substantial contributor to global emissions (Williams and Blyth, 2023). Therefore, this industry specifically, has faced increased regulatory pressure and a higher demand to transition to sustainable alternatives, such as electric vehicles (EV).

Moreover, this business decision not only impacted VW, but also negatively affected the company's key stakeholders. Such as, the employees, consumers, suppliers, investors and the regulatory bodies (Zhang, Atwal and Kaiser, 2021), all faced significant costs due to VW's decision to use defeat devices. Given the scale of this scandal, its impact on the wider car market and key stakeholders, and the significance of its ethical violation, it is essential to analyse VW's decision-making from an ethical perspective. Therefore, this paper will explore the ethical theory of utilitarianism and its application in structuring the decision-making process. The impact of VW's decision on key stakeholders, will be analysed by comparing the actual outcome, with what could have occurred if the decision had been made using a utilitarian perspective. This analysis will indicate whether VW's situational incentives have influenced my opinion on the extent of the ethicality of the scandal, and the extent of the stakeholder impacts between decisions.

Business Ethics:

Utilitarianism is an ethical theory that focuses on the consequences of an action rather than the action itself. This theory would define an action as good, if its outcome is morally beneficial. Utilitarianism typically encourages the use of 'System 2 thinking', which requires more reasoning and logic, compared to using passion and

instinct to make decision-making (Białek and Neys, 2017). Therefore, when applied to modern business decision-making, it has a focus on limiting harm to others and achieving the best intended outcome for all stakeholders. Jeremy Bentham and John Stuart Mill are considered key philosophers of utilitarianism (Ghanbarian, 2023). While they offered contrasting definitions on the theory, they shared a common view that it can be used in a social setting to create the best collective outcome through rationale reasoning. In support of this, Mill's principle of 'Community of Advantage' promotes mutual benefit and creating a shared value (Qizilbash, 2021). Therefore, this theory is particularly relevant for analysing VW's decision-making process to use defect devices and how this affected each stakeholder. The theories emphasis on the greatest amount of happiness, highlights why it is the most relevant framework for evaluating the ethicality of VW's actions, given the significant harm caused to each stakeholder.

A key element of Utilitarianism is a cost benefit analysis (CBA). A CBA is a modern breakdown used to evaluate all potential outcomes of an action, to identify the option that would cause the least amount of harm or, provide the greatest happiest to the affected groups. It involves comparing each action (typically two), weighing their costs and benefits for each group, and determining the best course of action to achieve the optimal future outcome for all involved. However, not all consequences have the same amount of impact therefore, Bentham and Mills defined how an impact of an action can be measured. They proposed the felicific calculus, which is 7 dimensions that should be considered when scoring the significance of a cost or benefit (Martin et al., 2021). This includes the intensity, duration, certainty, proximity, fecundity, purity and extent of the action on a stakeholder (Martin et al., 2021). This

further shows the utilitarian perspective and structure considers the long-term, moral benefit of actions and the rationale behind them. Which offers an insightful perspective when analysing VW's decision, due to the collective unethical impact on the stakeholders. Therefore, a CBA can be applied to analyse the difference in impact between the decision made, (of using illegal software), or the other possible action (to not use illegal software). This comparison can be seen in Table 1.

Table 1:

	YES		**NO**	
	Cost	**Benefit**	**Cost**	**Benefit**
Company (VW)	A chance of penalties and obtaining a bad reputation (Jacobs and Kalbers, 2019) **-7**	Saves money, maximises profit (Zhang, Atwal and Kaiser, 2021) and looks like they are responsible **+8**	Loss of their competitive advantage (Mujkic and Klingner, 2019) **-6**	In the long run would have saved more money, remained competitive and respected **+7**
Employees	Lack of transparency and trust impacts job	Working for a company who is succeeding in the industry	No cost **0**	Working for a compliant and responsible company (Tenney, 2024)

	security (Abdul Hamid, 2019) **-5**	(Naseem et al., 2011) **+3**		**+4**
Consumers	Using a company that's using illegal software and greenwashing **-4**	Appear to have a compliant car (Coad, de Haan and Woersdorfer, 2009) **+4**	No cost **0**	Car emissions would be under the legal limit (Coad, de Haan and Woersdorfer, 2009) **+4**
Suppliers	Similar negative impact on reputation, profit and demand (Jacobs and Singhal, 2020) **-6**	Steady contract and a high demand for diesel cars **+4**	No cost **0**	More market and profit opportunity (Zailani et al., 2015) And working with a responsible company **+6**
Regulatory bodies	Public and private backlash due to continued environmental and health impacts	No benefit **0**	No cost **0**	Legal compliance and health issues would have reduced **+7**

	-8			
Total	**-11**		**+22**	

Table 1: see Appendix for table description and key.

Table 1 shows from the company's perspective, installing the software appeared to offer greater benefits compared to not installing it. However, the scores assigned to each action indicate that there was still some benefit for VW to choose to not install the software. Despite this, the perceived benefits of installing the software outweighed the extent of the risks. However, a possible cost for the company to install the software was the risk of being publicly caught by legal authorities. If discovered, VW could face significant penalties including financial losses, reputational damage and possible long-term changes in their competitive advantage (Li et al., 2018). For example, some legal consequences they might have faced include criminal fines, settlements and possible lawsuits (Meagher, 2023). Additionally, the possible reputational damage has the potential to impact consumer interest and demand of VW's products especially, their TDI engines, which established their leading position in the diesel car market (Miravete, Moral and Thurk, 2015). On the other hand, the benefits of using the defect devices were greater. It had the potential to save them significant amounts of money that would be used for innovating and researching greener diesel technologies (Pere Condom-Vilà, 2017). Furthermore, by using the software it could maximise the profits of the company (Zhang, Atwal and Kaiser, 2021) and maintain their competitive advantage. Additionally, by presenting their diesel cars as eco-friendly or compliant with standards, VW could gain the perception that they were a responsible company. This

could result in a higher consumer respect to the company, contributing to a better company reputation which, has links to higher consumer interest and loyalty (Sirdeshmukh, Singh and Sabol, 2002).

Alternatively, Table 1 shows from the employees' perspective, the costs of VW installing the software present to outweigh the benefits. This is due to the lack of transparency and disclosure towards the VW employees which, causes a significant moral offence. Additionally, due to the potential public backlash and economic impact of the company, it has the potential to affect job security and employment. Especially, as VW is known as a large employer in Europe and specifically, Germany (Kesimli, 2017). In support of this, if employees seek new employment after the scandal, they might face challenges due to the reputational damage associated with VW. A study by Sawaoka and Monin (2014), found that employees indirectly associated with unethical behaviour by their employer, may face negative moral perceptions in future job opportunities. On the other hand, if VW chose not to install the software, employees would avoid these potential costs and alternatively, benefit from working for a company who is legally compliant and is morally aware. Research shows that employees often show more positive behaviour when working for an organisation that are responsible (Kim and Han, 2018).

Similarly, Table 1 shows that from the consumers perspective, which is arguably VW's most important stakeholder (Greenley and Foxall, 1996), the decision to install the software could negatively impact them as well. It can be assumed that the consumers would not be unaware that VW's diesel cars has illegal software in them therefore, this lack of disclosure raises significant ethical issues. Furthermore, by VW

misleading their consumers into presenting their diesel cars to be environmentally friendly, promotes greenwashing. Research by Aurand et al (2018), suggested greenwashing can have long-term negative effects on the consumers' perception of a company, possibly damaging their relationship and emotional connection with VW. Moreover, due to the moral offence and possible financial losses caused by using the decision to use the software, it can promote consumers to engage in negative behaviour, such as protests (Antonetti, 2020). This highlights how this decision could cause emotional distress to consumers, impacting their mental well-being. On the other hand, consumers would likely benefit more if VW chose not to install the software. The transparency and honesty from VW to consumers, promotes long-term loyalty due to their alignment with governmental standards (Sirdeshmukh, Singh and Sabol, 2002). This action would likely lead to greater consumer happiness, as higher responsibility from a company has links to consumer satisfaction (Martínez-Falcó et al., 2023) Although, there presents to be a lack of research on the benefits for consumers to purchase from an ethically reasonable company especially, in the automotive industry. However, due to the evidence that shows the negative impact on consumers buying from an unethical company, it suggests if consumers bought from an ethically responsible and transparent company, they would more likely feel happier.

Furthermore, Table 1 shows it would be a significant cost for the suppliers if VW installed the software. Arguably the suppliers are the most affected stakeholder based of the felicific calculus and the codependent relationship between the suppliers and the company (Rajagopal and Rajagopal, 2008). Additionally, evidence shows if VW were caught using the software, the resulting reduction in profits could

similarly impact the suppliers' profits, due to the lack of consumer demand (Jacobs and Singhal, 2020). Furthermore, this study by Jacobs and Singhal (2020), shows the suppliers with more revenue dependence on VW would have greater profit losses. Given VW's a leading German manufacture, it can be suggested that the amount lost would be significant for the suppliers therefore, affecting their financial income for a longer period of time. In addition to financial loses, VW's possible reputational damage could also affect the suppliers (Shah, Singh and Puri, 2017), further impacting the long-term costs of this decision. Alternatively, if VW had chosen not to install the software, it could have maintained a mutually beneficial relationship with the suppliers. The existing demand for VW diesel cars and the economic gain from this were already significant. In 2001, diesel cars had grown by 36% (Zhang, Atwal and Kaiser, 2021), suggesting VW's market position thus, supplier profit, were growing and in a significant position over 5 years before VW chose to use the software. This further shows the suppliers would benefit more from VW's decision to not install the software.

Finally, the regulatory bodies, such as the Environmental Protection Agency (EPA) and The European Union (EU), who set the emission standards in place, would also be negatively affected if VW chose to use the software (Table 1). Similarly to the suppliers, the regulatory bodies could face high costs if VW installed the software, as this directly goes against the standards they implemented. The standards were tightened in response to the growing evidence of the harmful effects of NOx and other greenhouse gases on the natural environment and public health (Jonson et al., 2017). Therefore, if VW were to install the software, a diesel car could emit up to 40 times more NOx pollution than permitted (EPA, 2019), contributing to the

environmental and public harm. However, the regulatory bodies would still be affected if VW chose not to install the software, as VW diesel cars would still be producing over the new limit. Although, it can be assumed that if VW did not install the illegal software the only other action would be for VW to comply to the newer standards therefore, investing in the cleaner technology. This action would ultimately align with this stakeholder and present to be the more beneficial option. However, due to the CBA framework this action cannot be explored further, suggesting a possible flaw in the CBA application.

Overall, it's clear from the CBA (Table 1), which focuses on the utilitarianism perspective, that VW should have not installed the software as it created more costs than benefits for every other stakeholder. The short-term benefit of VW using the software outweighed the cost of not doing anything and therefore, ultimately investing time and money into cleaner technology. However, while this analysis shows a rational and quantifiable decision process, the challenges the utilitarian theory faces need to be considered, as this might question the credibility of this analysis. For example, while the felicific calculus provided a quantifiable measure and definition to the costs and benefits, the decision to quantify an action still remained subjective to who is making this decision. This makes the theory challenging to replicate and it allows emotional bias, affecting the credibility of an outcomes impact. Additionally, while analysing the range of impacts on the stakeholders, it is unrealistic every cost and benefit would be considered, again showing this analysis might perform differently due to the variety of possible judgements. However, Thomas Schelling proposed vicarious problem solving, which focuses on viewing an action from the other players perspective (Dodge, 2012). This

can be used as a solution and applied when analysing the impacts on the stakeholders as it will be judged based of their perspective. With this in mind, this vicarious problem-solving perspective has been applied during this CBA (Table 1). Furthermore, while this theory presents to have application challenges it presents as a reliable framework when evaluating a business decision with ethical consequences.

Conclusion:

In conclusion, this business ethics analysis highlights the unethical dynamics of VW's decision to use the defect devices, due to the wider stakeholder negative impacts. The utilitarian analysis showed invaluable insight into the significant difference in impacts between VW's decisions on their key stakeholders. While the situational incentives possibly explain why VW made this decision, it is arguable given the scandals long-term emotional, financial and environmental impact on the stakeholders, it cannot be justifiable for its rationale. Due to this and the CBA, it suggests a more ethical approach, prioritizing transparency and sustainable innovation, could have yielded long-term competitive advantages while aligning with environmental and regulatory standards, and maintaining healthy stakeholder relationships. However, since this was not explored further, future research should analyse the costs and benefits of VW choosing more responsible and sustainable alternatives, and how this would impact the key stakeholders and possibly the wider market.

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Appendix:

Table 1: shows a CBA of VW choosing to use illegal software (YES) and choosing not to use the software (NO), and how each action impacts each key stakeholder (left). The numbered scoring system is based of Bentham and Mill's felicific calculus (-10 to -7 is a high cost, -6 to -4 is a medium cost, -3 to -1 is a low cost, 0 is nor a cost or a benefit, 1-3 is a low benefit, 4-6 is a medium benefit and 7-10 is a high benefit). Overall, the action 'NO', to not install the software, presents to be the best action as the numerical impact is +22 compared to the action 'Yes', to install the software, which is -15.

This assignment brief:

- **(1) Background: Description of the case** (about 500-1000 words suggested length)

What organization is involved and what happened? Briefly introduce the organization you are focusing on and briefly explain the salient aspects of the decision you want to analyze. Be sure, as far as possible, to focus only one decision or situation, but pay particular attention to the background. In other words, what were the main things that were going on that meant a decision needed to be made? Resist the urge to provide a long list, just talk about the two or three key factors relevant to the decision, and do this briefly!!

- **(2) Business ethics perspective: Critical evaluation of the decision based on theoretical perspective(s) relevant to business ethics** (about 1500-2000 words suggested length)

What do you conclude about the case from a business ethics perspective? The best approach is usually to **choose one theoretical perspective** and use this to analyze the case in depth rather than applying several approaches but each very superficially. Be sure to focus on why your analysis leads you to conclude that the decision made was ethically right or wrong or was due to a particular factor or set of factors. That is, you need to show convincingly how you have come to this conclusion, using theoretical logic and empirical evidence. This is where other sources will be useful in providing support for your argument. Your evidence might come from a mixture of media stories, NGO reports, company reports, academic articles, and case studies, etc. – but be sure to make clear where your evidence is from and how objective you think it is. You will then need to discuss how you conducted your analysis and why the theory or theories you have chosen are appropriate for making this decision. To complete this part, you will need to read beyond the required readings and to thoroughly research your chosen theory as well as your chosen case. Take the reader step-by-step through your analysis showing how exactly you are applying your theory to the case and what it reveals. A critical application of a theory will also require you to evaluate how effective the theory is in explaining or resolving the case.

Grading

The largest proportion of the marks will be allocated to both ethical analyses – business ethics (2) and market ethics (3) – so make sure your emphasis is on these two parts but do not ignore the first part. Do not forget to evidence your statements both with data and with logic derived from academic literature.

Specifically, you will be graded on the following four components, assessed against the School's generic marking scheme for postgraduate assessments (see below):

- Knowledge - how well do you understand, explain, and apply the theoretical subject material as well as knowledge about the case? Do you demonstrate expert knowledge on the case and the theory, or are there errors or omissions in your understanding?
- Support for Argument - how well do you support your arguments with relevant evidence and literature? Do you have enough of the right evidence, logic, and citations to back up your points convincingly or are you relying mainly on unsupported claims, conjecture, or irrelevant evidence?
- Analysis - how well do you analyse the subject material using relevant theory and concepts? Have you selected the right theory to effectively analyse your case and are you successful in using the theory to develop a compelling argument and reach a convincing conclusion? How original and thorough is your analysis?
- Presentation of Argument - how well do you write and present your paper? Do you have a clear and logical structure, clarity in your writing, and helpful tables, figures, and/or appendices? Is your referencing accurate and sufficiently comprehensive?