Stock Market Reaction to the Volkswagen Diesel Emissions Scandal

Abstract

The growing literature on responsible sourcing focuses on the potential downstream impacts of unethical suppliers on buying firms, and advocates for better supplier selection, monitoring, and development. However, little attention has been paid to the upstream consequences of unethical customers on suppliers. We provide empirical evidence on the effect of the 2015 Volkswagen diesel emissions scandal on the financial performance of VW’s suppliers, business customers, and competitors. Our analyses of suppliers and customers are based on a global sample of firms collected from announcements in the business press, as well as the Bloomberg SPLC and Compustat Segments databases. In addition, we study firms that are in industries potentially subject to contagion or competitive effects, including motor vehicles parts manufacturers that are not Volkswagen suppliers, motor vehicle manufacturers, and motor vehicle wholesalers, retailers, and rental agencies. We discuss the important implications of our work to managers, researchers, and regulators.