Toyota off the cliff?: Lessons in leadership

By Alan Pang, Director, Aon Consulting Global Research Center

Anne Ezal died on February 25, 2007, after the Toyota Camry she was riding in accelerated over a cliff and crashed into the sea below. Anne and her husband, Bulent Ezal, were headed to lunch at the Pelican Point Restaurant in Pismo Beach, California. The restaurant is located on the edge of a cliff, above the Pacific Ocean, with the parking lot adjacent to the restaurant. Bulent rode the brake as he approached a parking space and had come to almost a complete stop, when the Camry suddenly accelerated, jumping a small curb, crashing through a fence and over the bluff. The vehicle fell 70 feet to the rocks below, and turned over once, coming to rest in the surf. Bulent later recovered but Anne died of her injuries.1

Similar reports, accompanied by waves of recalls by Toyota, have become daily grist for media commentators. As a model in Lean Production, People Involvement and Customer Loyalty, Toyota has fallen off its pedestal in just a blink of an eye.

The roots of Toyota’s culture are under challenge and people question whether their admiration of Toyota’s path toward excellence was misplaced. Recently, public criticism has focused on complaints of too much computerization, problems with global sourcing, and the effects of Toyota’s single-minded pursuit of becoming the world’s largest automaker. In fact, the recent criticism of Toyota in these three areas demonstrates how leadership holds the keys to success, and failure, to organizational transformation.

New technology and leadership

Under the leadership of Fujio Cho and Katsuaki Watanabe, Toyota’s Chairman and Vice Chairman respectively, Toyota has transformed its principle of using “only reliable, thoroughly tested technology that services your people and processes.” Both executives steered Toyota in new directions while trying to maintain the corporate culture that underpinned its success. Cho was a strong advocate of environmentally friendly automotive technology, such as the hybrid-electric Prius2 and led the company’s effort to position Toyota as a market leader in this field. Watanabe, for his part, spearheaded Toyota’s efforts to increase capability for building large gas-guzzling cars and small trucks in pursuit of increased US market share.3

Toyota’s recent strategy to become the world’s number one automaker has been underpinned by using new know-how, new technology and new materials to improve, perfect and break through auto design and manufacturing. However, the strategy also required that Toyota shifted its focus from manufacturing engineering and built-in-quality toward research and development and product design.

Simply put, when a company shifts its focus from lean production to technology-innovation, there is an embedded obstacle – culture change. On the one hand, the essence of lean production dictates the elimination of waste. On the other hand, the uncertainties in new product development require that the manufacturer build in redundancy to manage the risks of the unknown and ensure a high level of safety. Trying to balance lean production with the need for redundancy is a difficult act that

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requires the leadership to be instrumental in making key decisions as well as leading and managing the change.

**Global sourcing and leadership**

Toyota's accelerator problem brings to the fore an issue related to product development – that of global sourcing and managing global suppliers. Toyota's American parts supplier, CTS, manufactured the pedals fitted in the recalled cars. Cars fitted with pedals made by Denso, Toyota's Asia parts supplier, did not need to be recalled.  

Regardless of where a supplier is located, automakers worldwide put a new product through a rigorous process of “problem prevention” before it is finalized and launched. After the new product hits production, there is another lengthy process of “problem resolution” that addresses product design defects.

Based on the level of cost of the parts and components plus the level of complexity, suppliers go through additional screening based on their categorization into four alternative groups:

<table>
<thead>
<tr>
<th>Complexity</th>
<th>Cost</th>
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<tr>
<td>Low</td>
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<td>High</td>
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**Sourcing Categories**

- **Accruing Returns** (low cost and complexity)
- **Relationship Management** (high cost and high complexity)
- **Low Hanging Fruit** (low cost and low complexity)
- **Strategic Sourcing** (high cost and low complexity)

These measures are the dynamics in the quality control world governing the quality of parts and components and their alignment with the final vehicles. Companies, such as Toyota, that focus on lean production, would prefer to work with suppliers in the lower left quadrant.

Most global automakers have invested heavily in the past decade to improve their global sourcing/supplier management system for alignment with their product development and production. The need for global sourcing was highlighted during the 2007 earthquake that occurred off the coast of Niigata prefecture. The earthquake damaged a major engine-parts manufacturer, forcing production to halt at the plants of Japan's 12 automakers, including Toyota. The episode revealed the fragility of Toyota's famous and much-copied "just-in-time" production system. The event led to the vast expansion of Toyota's supplier base worldwide soon afterwards.

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5 The 4 Quadrant categorization of suppliers has its source in General Motors University's Worldwide Purchasing Global Symposium.

At the same time, as product design becomes more sophisticated and high-tech, vehicle manufacturers are forced to delegate more design details to suppliers. The vehicle manufacturers must rely on their suppliers for the necessary technical expertise due to the part’s complexity and sophistication. For those vehicle assemblers that have been used to managing suppliers in the quadrants of low return or low complexity, another culture shift is necessary, one that comes from within but hits back from outside.

Dedicated to the belief of “be more like the tortoise than the hare,” Toyota is confronted by a crossroad’s choice. Which should it pursue: a newer and more innovative technology; or a more reliable and error-proof design and production? Toyota must also decide if it wants:

> Less expensive and faster go-to-market products or safer ones with more complex testing and validation; and

> More revolutionary and eye-catching technology breakthrough or more quality through continuous improvement and attention-to-details.

Toyota’s decisions on strategic positioning impacts its cooperation with suppliers. The suppliers’ original alignment of competitive advantages, core capabilities and value propositions needs to change along with that of Toyota’s. Such changes, unavoidably, will be reflected in vehicle quality, customer satisfaction, and even customer safety.

Some would view this as a by-product of the vehicle maker’s strategic move directed by its leadership. Others think the leadership should consider such impact as part of the change management alongside strategic planning shifts. Whatever it is, the key is the alignment, especially with corporate culture, people capabilities, acceptance of stress and pressure, and the ability to coordinate and change.

World no. 1 and leadership
When the uncontrolled acceleration problems metastasized into the greatest calamity Toyota had experienced in its 73 years, the new president (Akio Toyoda) virtually disappeared from view until Feb. 5th’s suddenly convened press conference. According to Japanese reports, even the day before the press conference, Toyota executives were more concerned about keeping their president quarantined from the safety problem than using him to address it effectively. Kyodo News Agency, citing a person close to Toyota senior managers, said they were “looking for ways to handle the matter without damaging the president.”

Even after Toyota had suspended US production of eight models, company officials “continued to emphasize that it was not serious problem that required the appearance of the president.” A Transport Ministry official said: “It’s hard to believe this is the global Toyota.” Here, the embedded Lean Production culture of “stopping to fix problems” also fueled the fire as it caused panic among customers who did not understand that “suspended US production of eight models was not a serious problem.”

Obviously, inside Toyota there is some confusion about what is going on and what the next step is.

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During the past decade, Toyota has aggressively expanded into China, the Czech Republic, France, Poland, Russia, and the US by setting up assembly plants, parts and components supplier bases and engineering entities.\textsuperscript{10} During the past five years, Toyota was also busy changing its leadership. A look at Toyota’s financial indicators (especially related to Human Capital Market Value, Human Capital Revenue and Human Capital Value Added),\textsuperscript{11} shows clearly that Toyota has undergone major changes.

Even though Toyota set its ambition to become the world’s No. 1 automaker decades ago, the pursuit of that goal had been low key until 10 years ago. The company focused on standardization, continuous improvement, just-in-time, built-in-quality and people involvement. It expects that by so doing, it would ultimately achieve its long-term ambitions to be Number One.

This low key and risk-averse approach also was reflected in the way Toyota entered the US market. While other Japanese manufacturers boldly leapt in with their own manufacturing facilities, Toyota tested the waters first by setting up a joint venture manufacturing facility with General Motors. It established its own plant only after gaining the experience and establishing the confidence necessary to go it alone. Toyota then copied this approach when it entered the China market. Through its cooperation with FAW and Guangzhou Automobile, Toyota was able to gain experience and quickly catch up with such “early birds” as Volkswagen, General Motors, and Honda.

When the American auto giants started to falter, a unique opportunity to more quickly achieve its ambitions to be No. 1 presented itself to Toyota. At the same time, however, the company was confronted with a hard choice. The path to high growth required common product platforms, multiple models, faster facelifts, new launches, reliance on new technology and emphasis on innovation. All these initiatives exerted pressure on Toyota’s Lean Production culture – “waste reduction, process stability, being more like a tortoise than the hare”.\textsuperscript{12}

The new leadership certainly has felt the pressure. It is the responsibility of the leaders to sort out the alignment and coordination between strategic direction and operating model; their new competitive advantage and their deeply rooted company culture; the national culture at the headquarters’ location and customer behaviors in overseas markets; hardcore lean brown fields in its historical strategic markets, and the newly set up green fields in the emerging markets.

Leadership will require wisdom to arrive at a sound solution. Nevertheless, we can place trust in a Toyota that has during the past seven decades evolved from an automatic loom maker in rural Japan to become the world’s No. 1 automaker. Its history displays the strengths of this impressive organization. Toyota has repeatedly exhibited a bold vision, starting from its founder’s shrewd observation of mass production’s weakness to the company’s dedication to lean production systems rooted in people involvement. It launched into the western markets assisted by the two oil crises, and familiarized itself with the ways of a global operation by stitching up a joint venture with the incumbent world No. 1.

In Toyota there is no word for “problem”; rather there are “opportunities for improvement.” Hopefully, the recall crisis will be treated once more as an opportunity to align its lean production culture and its operation excellence capabilities with its desire to leverage new technology; to continue sourcing from the globe while continuing to stay on the No. 1 pedestal. A transformation already is apparent.

\textsuperscript{10} “History of Toyota,” Toyota’s corporate website, \url{http://www2.toyota.co.jp/en/history/2000.html}.
\textsuperscript{11} Competitors represented by Ford, Honda, Hyundai and Volkswagen; data source: http://finance.yahoo.com:
\begin{itemize}
  \item Human Capital Market Value = (Market Value – Book Value) ÷ No. of Employees
  \item Human Capital Revenue = Revenue ÷ No. of Employees
  \item Human Capital Value Added = EBIT ÷ No. of Employees
\end{itemize}
Toyota has become less defensive and has responded quickly to new complaints of defects. Leadership is no longer absent and now appears to be leading from the front.

For HR professionals, this is also a great opportunity for to observe how a non-western world-class organization can turn itself around by its leadership’s wisdom in crisis and change management.

Never again will Anne Ezal’s tragedy happen. When someone is stepping on the brake for a complete stop while facing the sea on the edge of a cliff, what he or she can expect is to get out the parked car safely and be greeted by the sea breeze and an enjoyable lunch.

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