Toyota Recall Crisis Management & Corporate Culture Vitality

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Abstract

This article explores the elements of Toyota’s unique corporate culture in the context of the 2009-2010 recall crisis, which threatened the company’s reputation for producing high quality, safe and reliable automobiles. This culture, built around principles of teamwork, respect, and continuous improvement, it is argued, enabled the firm to bounce back from the crisis in a relatively short period of time and regain its leading position in the global marketplace.
Introduction

In August of 2009, Toyota faced a serious crisis. Until that point, the Japanese had been widely regarded as the manufacturer of the safest and most reliable cars in the world. Over the course of the next six months, Toyota would recall more than 10 million vehicles in the U.S. It would be accused in the national media of turning a blind eye to customer safety, of losing its way and putting profits before quality, and of deliberately hiding electronic defects that could make vehicles unsafe.

Toyota’s public image, so carefully cultivated over 50 years by focusing on continuous improvement and serving the customer, was severely damaged. This crisis started in the United States and at first Toyota viewed it as a regional problem that could be handled by the local management. However, in the Internet age, nothing stays local for very long, and it soon became a global crisis.

Lately, we have witnessed a series of mishandled corporate crises, including Enron, Lehman Brothers and AIG. A variety of explanations have been offered, but the common thread is a corporate culture that was created by leaders who had the maximization of profits as a top goal and were ready to cut ethical corners to accomplish it.

Toyota though was always a model of organization and corporate culture, with hundreds of companies trying to adopt its principles and organizational structure. Would all these, though, be enough for Toyota to survive the crisis which was imminent?

Chapter 1

Before we start studying the case of the Toyota 2009 crisis, it is important to briefly explain the meaning of a corporate crisis and crisis management. A crisis can be defined as “a major occurrence with a potential negative outcome affecting an organization as well as its publics, services, and/or a good name” (Fearn-Banks, 2001). On the other hand, not all crises have dreadful implications. As Fink (1986) indicates, a crisis is a “turning point...characterized by a certain degree of risk and uncertainty.” Through a situation of crisis, an organization may make a turn in order to achieve better performance and escalate its corporate culture.

Crisis management includes the identification of threats to an organization and its stakeholders, as well as the methods used by the organization to deal with these threats. Due to the unpredictability of global events, organizations must be able to cope with the potential for drastic changes to the way they conduct business. Crisis management often requires decisions to be made within a short time frame, and often after a critical event has already taken place. In order to reduce uncertainty in the event of a crisis, organizations often create a Crisis Management Plan.

A Crisis Management Plan is the communications and decision- making
component of an overall Business Continuity Plan (BCP). A thorough Crisis Management Plan facilitates rapid communication to ensure overall safety to both internal and external stakeholders. It also incorporates policies and procedures to perform an impact assessment, and a plan to control media interaction during an event or crisis. Creating a Crisis Management Plan often includes the following steps:

1. Assess the organization must accurately assess the situation and must consider all facts objectively to develop a clear picture of the situation.

2. Engage the organization must strive to engage all key stakeholders and trust key insiders who, have knowledge that will help in analysis or planning, or will be significantly impacted. This will make decision-making and internal communications far more effective for the organization.

3. Plan once data has been gathered and a team of key stakeholders has been ensured, the organization must develop “best,” “typical,” and “worst” case scenarios based on key variables and assumptions. Planning enables the company to act quickly, confidently, and effectively in response to an unprecedented crisis.

4. Act being proactive and not reactive is a difficult part of crisis management. This is because the line between proactive and reactive is not always very clear. However, if an organization follows the aforementioned steps, however, the line between being pro versus reactive becomes more identifiable. Objective assessment and planning leads to confidence within the company management.

5. Communicate any organization facing a crisis must communicate transparently and honestly. The organization needs to consider and respect their audience to know how best to tell them what they need to know, when they need to know it. (Steve Tobak, 2008)

Chapter 2

This essay will study the crisis that Toyota faced between 2009 and 2010, when the company recalled more than 8.5 million vehicles from the American market, and how Toyota managed this it. Before that, it is helpful to learn some things about the Japanese motor manufacturer.

The Beginning

Toyota was born out of the tinkering of Sakichi Toyoda who grew up as the son of a poor carpenter in a region inhabited by rice farmers. In the late 1800s, as Japan was trying to catch up to the West and its industrialized nations after more than 200 years of being closed to the outside world, the Japanese government encouraged the growth of small-scale manufacturing across the country. The women of Toyoda's family were involved in weaving, using manual looms which had not changed much in a century.
Sakichi Toyoda tinkered in his workshop for decades, refining his loom designs by trial and error, hoping to ease the manual labor of his female relatives. After many modifications and upgrades to the looms, Toyoda invented a mechanism that would stop the loom automatically as soon as the thread broke. According to Toyoda, he “freed the man from the machine” so that people could spend their time doing value-added work instead of monitoring the machine. This and other innovations were so groundbreaking that the Platt Brothers of England, the world’s dominant loom maker, eventually bought the right to one of Toyoda’s most popular looms. The proceeds from the sale funded the start-up of Toyota Motor Corporation.

This shift from looms to motor vehicles was driven by Sakichi Toyoda’s son, Kiichiro. In 1929, Kiichiro began travelling to the United States, learning all he could about automobile and machine tool factories. By 1937, Toyota Motor Company was the center of the business. The dominant model of manufacturing systems before Toyota’s rise as a global leader was the pursuit of economies of scale.

This approach focused on driving down the cost of production by increasing the amount that was produced at every step of the process. Inevitably this caused a build-up of inventory and quality problems increased. They were, however, tolerated as it was believed that reducing defects was far more expensive than maximizing efficiency and throwing away the flawed products. Toyota proved the opposite to be true. If waste and quality problems were eliminated the company could operate far more cheaply and keep customers much happier. The process for eliminating waste and errors that Toyota has developed was founded on the insight of Taiichi Ohno, who recognized that a Toyota as an organization had to have a systematic way of solving problems. His focus was on drilling down to the root of any problem by asking “why” five times.

It is interesting to know that Ohno’s problem solving process was later enhanced by an American who was dispatched by the U.S. government to Japan after WW2 in order to assist Japan in its rebuilding process. This American was Dr. W. Edward Deming whose ideas became the foundation for the modern quality movement. As the years went by, Toyota retained in its foundation the attitude of continuously seeking quality and improvement.

The Toyota Way

Corporate culture is a strategic trait for which most organizations do not have appropriate management. It acts as a common system of values and beliefs. Corporate culture is therefore a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behavior for various situations. Although a company may have its "own unique culture," in larger organizations there are sometimes conflicting cultures that co-exist owing to the characteristics of different management teams. Organizational culture may affect employees’ identification with an organization (Ravasi- Schultz, 2006).

The organizational culture of Toyota, better known as the Toyota Way is defined as a house with two pillars—the pillar of respect, along with the pillar of
continuous improvement. Respect for people extends from the employees on the shop floors, to the vast network of partners, and out to the customers and the communities in which Toyota does business. Continuous improvement indicates the continual improvement of products, processes and staff in all levels of the organization. These twin pillars rest on a foundation of five core values:

- **Spirit of challenge:** Toyota accepts challenges with a creative spirit and the courage to realize its own dreams without losing drive or energy. (J. Licker, 2001)
- **Kaizen Mind:** Kaizen is a mandate to constantly improve performance. At Toyota, it’s the way people in the company think at the most fundamental level, harking back to Deming’s never ending PDCA cycle, inspired by Taiichi Ohno.
- **Genchi Genbutsu:** A Japanese term meaning “Go and See to Deeply understand,” acting more as a philosophy of how leaders must make decisions.
- **Teamwork:** At Toyota, the view that individual success can happen only within the team and that teams benefit from the personal growth of individuals is built even in the promotional process and incentives for performance.
- **Respect:** In many ways Respect is the most fundamental of the core values. It is a broader concept than the previously mentioned pillar “Respect for People,” i desire to contribute to society through producing the best products and services. This extends to respect for the community, customers, employees and all business partners. It means that every Toyota team member must take responsibility for his actions and its effects on others.

Toyota’s approach to leadership and operational excellence was based on the philosophy and culture expressed through the Toyota Way, which extended back to the company’s founding. While almost everything since then has changed, the commitment to its culture of continuous improvement, respect
for the people and putting customers first, has remained unchanged.

**Growing to Lead in the U.S.A. and the World**

The culture of the Toyota Way was one of the most important competitive advantages that allowed Toyota to become the largest automobile manufacturer in Japan and expand into other markets in Asia. When Toyota planned to enter the U.S. market in the late 1950s, its strategy would seem laughable to anyone outside the company. By 1970, however, Toyota was the number two imported vehicle brand in the United States, behind VW. During the 1990s Toyota was steadily gaining market share on General Motors. By 2000 everyone expected Toyota would overcome GM in becoming the world’s leading car company.

From 2002 to 2007 everything seemed to be going according to plan. In fact, 2003 to 2007 was the most profitable five years in the company’s history. By 2008, Toyota was ranked fifth in Fortune’s list of America’s most admired companies. It also ranked highest among all automakers, and in 2009, the Toyota assembly plant in Higashi-Fuji, Japan, received the Platinum Plant Quality award for producing vehicles with the fewest defects and malfunctions. Consumer’s Report 2009 reliability rankings, found that three of the five most reliable brands were Toyota’s cars (Toyota, Lexus and Scion).

With the summit within reach and every part of the company seemingly stronger than ever before, Toyota suddenly confronted one of the most difficult periods in its history, when, during the Recession, serious allegations of major safety and quality problems in the United States led to the recall of millions of vehicles.

**Chapter 3**
On August 28, 2009, in San Diego, California, Mark Saylor and his wife, daughter and brother-in-law, were killed when their Lexus, on loan from a dealer who was servicing their own vehicle, went out of control at more than 160 km/h, causing the car to collide with another vehicle and crash into a ravine. The family’s high-speed tragedy was recorded live for all to hear via a 911 (U.S.A.’s emergency phone number) call, which the co-driver was able to make before the fatal crash pleading for help and saying that the gas pedal was stuck and that the brakes had failed. Such a dramatic event understandably caught the nation’s attention, especially since Mark Saylor was a veteran California Highway Patrol Officer. The details of the crash made the event even more significant since the vehicle proved to be a Lexus ES 350, a model of a passenger car whose floor mats had been recalled by Toyota in 2007 on the account that they could possibly trap the accelerator.

From then on, it was easy for many to jump to the conclusion that either Toyota had failed to fix the floor mat problem in the 2007 recall, or that something much more serious was wrong with the Toyota vehicles. These suspicions about what really happened in San Diego set the stage for a remarkable series of events that made up the greatest threat Toyota had faced since the World War II.

Over the course of the next six months, Toyota would issue three separate recalls related to vehicle speed control that affected more than 7 million vehicles. Along the way Toyota would be accused by the media, politicians and customers of hiding information and putting lives at risk. The company’s leading reputation for quality and safety would take a massive blow in the eyes of many. It would lose its dominant market position and spend billions of dollars on recalls and incentives to lure back customers.

The Saylor Accident

While the Saylor accident seemed to be a result of shocking negligence on Toyota’s part, very few people were aware of the actual details of the crash. As in every fatal accident, the San Diego County Sheriff’s Department conducted an investigation of the accident. The 29-page report revealed some interesting facts that virtually eliminate all doubt about the cause of the accident: a floor mat from the wrong vehicle which was incorrectly installed in the Saylor’s car by the Lexus dealer who loaned it to the family.

One of the first things the investigator noticed when examining the car was that the floor mat in the ES 350 was a mat designed for the Lexus RX400h, a sport utility vehicle with much more driver floor space. Additionally, it was not correctly pinned down. Despite a checklist distributed to Toyota dealers by the central management that specifically identified the importance of installing the correct floor mats in each vehicle, Mark Saylor drove away from the dealership with the wrong mat.

The most compelling piece of evidence, however, is that a few days prior, another customer, Frank Bernard— who had been using the same car before the Saylors—had complained that the floor mat had stuck the gas pedal to the floor so firmly that he could not even free it with his foot. After continued breaking, he
managed to slow down the car and shift it into neutral, bringing it to a complete stop and then turning off the engine. He removed the floor mat and went on with his business without further problems. When he returned the car to the dealer, Bernard warned the dealership about the problem that had occurred, but his warning went unheeded. Three days later, Mark Saylor, would not be as lucky as Frank Bernard.

However, these details from the Saylor accident were not available until 25 October, 2009, when the police report was completed. In the meantime, there was only the vague information about a Toyota car driven by a trained police officer, which accelerated out of control, killing himself and three other people. By the time the police report was available, the public and the media had already begun to speculate about the cause of the accident, with many pointing the finger at the vehicle electronics or a sloppy job of the 2007 floor mat recall Toyota enacted.

_Prius Brakes Further the Frenzy_

On February 3 the NHTSA (National Highway Traffic Safety Administration) announced that it had received more than 100 complaints about the braking performance of the Toyota Prius 2010. With the frenzy over the sticky pedals at its peak, the announcement was like pouring gasoline on a bonfire. To the public it seemed only another Toyota defect that could severely compromise driving safety.

Once again the facts were ignored. In reality, the complaints were that the brakes did not respond immediately when breaking specifically at slow speeds on bumpy and slippery surfaces. This was worrying for any Toyota driver who was being bombarded at the time with a media attack on Toyota about out of control vehicles and sticky pedals. In truth, it was not a delay of the actual braking mechanism, but a matter of the ABS (antilock braking system) taking control of the regenerative braking system, a switchover which took three-hundredths of a second. Therefore, there was no delay on braking ability only on the feel of the pedal.
Chapter 4

There are crises that require immediate attention and action to put out the fire, stop the bleeding, and contain the problems. That was certainly the case with the recall crisis, since for the first few months of 2010 the company was entirely focusing on reacting to the crisis before beginning any process of improvement, which would involve identifying and resolving the root causes of the crisis, not just dealing with the symptoms. Part of the reason why the company remained in reactive phase for so long was that the senior leadership in Japan simply did not appreciate the depth of the crisis that Toyota was encountering in the United States.

For decades Toyota worked hard to create a reputation of the highest quality and highest value automobile producer in the world. Now headlines were accusing the company of abandoning its core principles and putting customers in danger. The most important reactions from Toyota were not public announcements, but actions addressing the concerns of the customers. The media frenzy had made all Toyota owners understandably worried that their cars could at any point accelerate out of control. The two key contact points with the customers were the dealerships and the Toyota’s customer service centers.

Dealerships

As the front line for most customers, the dealers were the first to be aware of how frightened the customers were. It was not uncommon for many to refuse to drive their cars to the dealers for the fix to be installed. In these cases, many dealers sent tow trucks to pick up the vehicles, a service which Toyota eventually offered to all customers who wanted it. Almost all dealers extended their service hours, with many of them staying open 24 hours a day during the first week of the
recall. Central management also offered all dealerships sums of money to be able to handle the difficult situations which could occur. They did not give specific guidelines of how to use it, showing their confidence in employees’ abilities.

**Toyotas Call Center**

At the Toyota Call Center in California where customer calls usually average about 3,000 calls per day, the call volume went up to 96,000 calls per day during the first week of the recalls, and remained at a level of 50,000 calls per day for the next few weeks.

The Call Center was perhaps the first place where the Toyota Way began having an impact on the whole situation. The call center is one of the places where many employees have their first job in Toyota. All those who had advanced in their career at Toyota were immediately called back to take calls from customers; even some executives took turns in helping to respond to the massive amount of customer inquiries.

Fortunately Toyota had recently invested in a call center computer system, less than 12 months before the crisis struck, to improve the quality of customer interaction and service. The efforts made by the dealership and call center employees reminded many customers why they had trusted Toyota in the first place.

**Containment**

At this point, it was too early for Toyota to begin to deal with the ultimate source of the problem; but to ensure that no further damage was done while the longer-term efforts of improvement kaizen were to begin, the company pursued three tactics. The tactics that were followed might best be summed up in three statements:

- Accept responsibility
- Don’t blame the customers, suppliers, dealers or anyone else
- Put customers first

One of the key decisions in containing the crisis was not to contest any of the fines that were levied by the NHTSA. Although the validity of the fines could reasonably be called into question, Toyota negotiated an agreement to accept the fines while not agreeing with the NHTSA’s basis for levying them.

Furthermore, Akio Toyoda’s series of public apologies, his admissions that the company did not live up to his standards, and his commitments of looking forward to find ways to improve quality were all devices to encourage the whole company to look inward for placement of responsibility, and to hold to the Toyota Way principle of continuous improvement.

**Chapter 5**

The 2009 recall crisis was not the first crisis Toyota had faced. The
company had to literally rebuild from the ashes of Japan after World War II, fighting through a period near bankruptcy. Toyota had proved resilient to a number of challenges and crises, from recessions to dramatic increases in the strength of the yen to the 1973 oil crisis and so on. The company was a model of resilience, a company that could defy business cycles and maintain a steady path of growth and progress. But the recall crisis plus the recession period in which it happened was a greater challenge that anything Toyota had faced.

Considering the non-stop battering Toyota took, first from the recession and then from the full force of the American media and political scene, the resilience of the brand is remarkable. Toyota’s U.S. sales dropped by 16 percent in January 2010, followed by a 9 percent drop in February even though overall car sales in the United States had increased. By March Toyota managed to boost sales by 35 percent and by May, according to a list compiled by Reuters, the Camry, Corolla, RAV4 and Prius were among the 20 top selling vehicles in the United States. In addition, the Camry had regained its crown as the top-selling midsized vehicle. There was also a major fall in stock price during the peak of the crisis in February 2010 by 21 percent, followed by a steep gain by February 2011, a 31 percent increase from low point in August 2010. Toyota’s place at the top of the industry awards lists was restored by fall of 2010. Toyota topped all automakers in end of the year awards, including those from Insurance Institute for Highway Safety, Consumer’s Report, Intelliochoice and Motorist Choice.

Given the lost sales and the high cost of the recalls and fines, it was impressive that in the fiscal year ending in March 2010, Toyota reported a global profit of $2.2 billion and has remained profitable for each quarter since. By August, Toyota’s share had increased by 33 percent from the value they had in February. Furthermore in the November 2010 Consumer Reports, the company vehicles ranked 17 among the ‘most reliable’ cars on the road—the most of any automaker.

**The Toyota Way’s Role in the Crisis Management**

The Toyota Way’s culture was that which drove Toyota’s response to the crisis. We will thus examine the key roles of each specific element in the Toyota Way.

**Spirit of Challenge**

One of the easiest reactions to a crisis is passivity—especially if the crisis seems to be driven by external forces. The Toyota Way’s emphasis on the spirit of challenge is about fighting passivity. For Toyota the ultimate challenge is perfection. The recall crisis highlighted how far Toyota had to go to reach that goal. To turn the recall crisis into a growth opportunity required plunging back into major efforts to improve the company directly on the heels of what many felt had been a tremendous accomplishment during the recession. Maintaining that energy for improvement was an outgrowth of the cultivation of the spirit of challenge.

**Respect for People**

During the crisis, respect for people manifested itself in the decision to
avoid finger-pointing and blaming customers, suppliers or dealers for the
problems Toyota was facing. Akio Toyoda says that when he was preparing to
speak in front of the Congress hearings, this culture led him to a decision about
how to respond to questions and accusations, stating:

“At the time I was very severely criticized. People suggested that I was
trying to escape from the problems in the United States or that I was lying
which was absolutely appalling. It was very difficult for me to face. But one
thing that I decided was I would not point fingers at somebody else. I
decided I would never blame others.” Genchi Genbutsu

Gemba is a Japanese term meaning where something is happening.
Genchi Genbutsu is the value of going to the Gemba and trusting those at the
Gemba to make decisions. Not following through to this specific trait of the Toyota
Way was one of the root causes of the severity of the recall crisis. Decisions on
recalls and communication were not being made at the Gemba. There was too
little “going and seeing” and the fact that the highly ranked Japanese management
had not understood the size of the crisis until January 2010 was a result of lacking
in the Genchi Genbutsu element. The recall crisis revealed that Toyota had
missed the mark in its commitment to Genchi Genbutsu, but the renewed
commitment also allowed for rapid actions when the shortcoming was revealed.

Kaizen Mind

The role of Kaizen in Toyota’s response to the recall crisis is fairly obvious
and accompanied the company throughout the whole situation. At no point did the
company panic and start making changes without a thorough analysis of the
problems and solutions that would improve the company’s operations. The
application of the kaizen mind is what led to the actions Toyota took.

Teamwork

Teamwork was evident in the Toyota Motor Sales call center during the
flood of calls related to the sticky pedal issue. It also became evident in the way
various parts of the organization came together to find a solution to the sticky
pedals and get parts and training out to dealers.

The communication problems, however, were issues shown to be a weak
point. In response to these cross-company communication weaknesses, Toyota
put enormous resources into streamlining communication, dramatically
increasing travel to “go and see,” creating weekly quality conference calls among
executives’ across functions and more.

Turning the Crisis into an Opportunity

Improving Kaizen and turning a crisis into an opportunity for growth are
dependent on correctly identifying the real problems, not just the ones presumed
by outside observers. In a highly visible global step, Akio Toyoda and the board
created a “Special Committee for Global Quality.” In its first meeting in March 2010, the committee announced a six-point plan:

1. Improve the quality inspection process.
2. Enhance customer research by establishing customer information research offices in each region to collect information faster.
3. Establish an ‘automotive center of quality excellence’ in key regions.
4. Engage support from outside experts by creating an external quality review panel.
5. Improve regional autonomy, listen carefully to each and every customer and improve quality based on that.
6. Increase communication with regional authorities.

Epilogue

Toyota’s resilience in the face of this major crisis during the Recession, has been remarkable. The company has restored profitability and clawed back most of its retail market share, both globally and in the Unites States. Toyota’s top reputation which was a product of years of hard work took a major blow but that is a fact that the company must accept and put efforts into rebuilding. Taiichi Ohno once said, that you must empty a full cup before you attempt to clean it. Toyota also had to see its weaknesses with were not evident because of success, through this crisis that it faced and with its continuous improvement mentality invest in fixing any internal problems.

In truth, Toyota began solving this crisis over 70 years ago, when its organizational structure was first established. There is an old saying that character is what a person does when other don’t look. Culture is what a company does when senior management is not looking. These collective actions that happen are more important to a company’s direction and fate, than anything a leader can say or do. Even when a crisis strikes these actions are unlikely to change much, they are driven by the culture and culture simply is not a thing that can be changed quickly. So crisis response in any company must start building a strong culture long before a crisis hits.

The Toyota Way culture was always alive and strong in most parts of the company, but it needed to be awakened and raised to a higher level. These improvement were exactly what was witnessed at Toyota through these crises, Toyota’s experience shows that with a strong culture built over decades of living the values, these results are possible, even in a crisis, even while operating a $4 billion loss and even while being falsely accused by media and politicians of reckless disregard for customers.

Challenge is the source of energy to go beyond goodness to greatness. While this crisis was severe, for Toyota it was a challenge that the company sees as a path for improvement. The goal is never a steady state or returning to status quo, but after enduring and defeating each crisis, the goal is to emerge stronger and wiser.

“Before you say you can’t do something, try it.” Sakichi Toyoda
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