Toyota’s Fall from Grace, Japan’s Moment of Truth

By Jeff Kingston

TOYOTA’S FEEBLE CRISIS management skills were on full display in the recent recalls involving more than 8.5 million cars worldwide with defects ranging from iffy brakes and dangerous gas pedals to squirrelly steering and leaky oil hoses. Chief Executive Officer Akio Toyoda was missing in action for two weeks while share prices imploded and customers anxiously waited for a reassuring response.

The slow wheels of decision-making by consensus coupled with a highly centralized management system left the giant automaker playing catch-up to the news cycle. As a result of lackluster leadership, Toyota transformed a recall problem into a brand-threatening crisis. Belatedly, the company has awakened from its torpor and moved from denial to accepting that it has a crisis and needs to restore its tarnished image. The implications of this surprising stumble go well beyond Toyota, serving as a wake-up call for corporate Japan, while the reaction of the domestic media and politicians serve as a barometer of change in a country often portrayed in terms of stagnation and gridlock.

 LOSING TRUST

All carmakers produce defective cars at some point; recalls can be a way of reconnecting with customers and demonstrating that the producer is listening and cares. But Toyota has become arrogant and complacent. It started out by suggesting that it didn’t have defective cars, but rather defective customers who don’t understand how anti-lock braking systems work. This was a bizarre, self-inflicted wound and a colossal public relations gaffe. Soon after, a smoking gun was found: an internal memo surfaced from July 2009 in which Toyota executives were gloating about how they saved more than $100 million by bamboozling safety regulators.

Later, CEO Toyoda’s damage control performances on Capitol Hill and Larry King Live were good and exactly what the company needed, raising even more questions about why he went missing for two weeks. But now Toyota faces more tough questions about its systematic stonewalling of safety regulators and revelations that it has long known about product defects. It is further damning that it withheld such information in several lawsuits, preferring to settle out of court with disgruntled customers rather than fixing the problems.

Winning back customer trust is imperative, and clearly Toyota now gets it. Toyoda made this painfully clear in his contrite testimony, accepting responsibility, apologizing and laying out an action plan to rectify how the company is managed. He acknowledged that the company had confused its priorities, putting volume and profits ahead of quality and safety. He promised to decentralize management and streamline decision-making by giving more autonomy to overseas executives in charge of regional operations. Toyota also plans to re-emphasize quality control, an essential first step towards winning back customers who feel betrayed and uncertain.

As he was eating humble pie on the Hill, Toyoda admitted that the company had lost touch with its customers and was not listening to them or its overseas executives. In his view, Toyota suf-
fers from big company disease and is no longer the nimble player that took global car markets by storm. Regaining this edge is crucial to many of Japan’s iconic producers — Sony comes to mind — who seem to be resting on their laurels. Corporate Japan needs to discover the drive that propelled it to the top and can look to corporate Korea to recall what it used to be like. Much is at stake because Toyota’s tarnished image comes at an awkward time for its China strategy and also threatens to spatter the brands of other Japanese exporters who command a price premium because consumers believe that Japan produces better products. Toyota has given them reason to wonder if this is still true.

GLOBAL RISK
The problems at Toyota have drawn attention precisely because it has been so successful and a benchmark for other manufacturing companies around the world. Culture has played a role in this crisis, but some of the same tendencies and lack of crisis management savvy haunt executives around the world. Excessive deference to authority, reticence about challenging designs and decisions made by consensus, a rigid management hierarchy, overly centralized decision-making and a top management aloof and out of the loop about problems, lay at the core of Toyota’s problems, and reflect cultural predilections.

Having said that, not a few executives recognize much that is alarmingly familiar. Simply put, in many companies it is not a shrewd career move to be the bearer of bad news. Myopic as it may seem, it is not only Japan where customer interests and product safety take a back seat to company profits and career aspirations. Toyota’s fiasco should be a wake-up call for companies everywhere, reminding them just how much they risk when they betray customer trust and why doing the right thing is in everyone’s best interests.

PORTENTS OF CHANGE
Toyota is paying a steep price for complacency and pursuing growth at all costs. The mishandling of the recall and press communications is a sobering reminder about how urgently an insular company and self-effacing CEO need to adapt to global expectations. In Japan, the media have been surprisingly critical of a company that represents much of what the nation takes pride in. It has become an iconic symbol of manufacturing prowess with a brand that has been synonymous with quality and reliability.

The obsessive attention to detail and precision in manufacturing, known as monozukuri, is a hallmark of the Japanese business ethos that has suddenly become a question mark. Toyoda was hammered in the Japanese media after his first press conference for the slow response and embarrassing the nation on the world stage. To some extent there has been a rallying of support for the “home team,” but the press has been characteristically feisty. Conspiracy theories about Japan being made a scapegoat for America’s economic problems have a certain appeal and are understandable given the nexus of events — the “Lehman shock” (as the sub-prime mortgage debacle is known here in Japan), Chrysler and GM going into receivership and US President Barack Obama’s political troubles — but the political and media mainstream in Japan are not giving this much credence, and less so as the revelations, and recalls, pile up.
Seiji Maehara, the Minister of Transport, has also taken a surprisingly critical stance towards Toyota and launched an investigation. On a number of occasions he has openly chastised the company for being insufficiently sensitive to customers’ concerns and urged greater transparency in dealing with defects and safety regulators. Under the Liberal Democratic Party (LDP) that dominated Japanese politics starting in 1955, government ministers played an industry-sympathetic role consistent with the cooperative and collusive relations that characterized the Iron Triangle (big business, the bureaucracy and the LDP). But last year, voters ousted the LDP, repudiating the tawdry ways of Japan, Inc.

Voters also have grown frustrated with the lack of fresh thinking about Japan’s prolonged malaise, the so-called Lost Decade of the 1990s that shows no signs of abating. The newly elected Democratic Party of Japan is more critical towards Japan’s producer-oriented paradigm and, among other things, is shifting spending away from politically motivated roads and bridges to nowhere in favor of social programs that more directly benefit households.

A cabinet minister repeatedly smacking Toyota in such a public way is symbolic of a wider transformation in Japan, a gradual and incremental process favoring greater transparency and accountability, one also evident in a more assertive media. In the past, Toyota could have managed the domestic media and ministers, but trying to do so now is much riskier and less likely to succeed. The freer flow of information and higher public expectations conspire against Toyota’s culture of secrecy. Its selective curtailing of media access during Toyoda’s trip to the US backfired and was zinged by the excluded reporters as an effort to spin coverage and control information, again showing how much the company needs to break bad habits (and hire better public relations advisers).