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國際學碩士學位論文

Crisis Management:
The Toyota Way Leadership, Recall, Recovery

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Crisis Management: The Toyota Way
Leadership, Recall, Recovery

August 2015

Graduate School of International Studies

Seoul National University

International Area Studies

Grace Jaesook Lee

Crisis Management: The Toyota Way

Leadership, Recall, Recovery

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Crisis Management: The Toyota Way
Leadership, Recall, Recovery

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ABSTRACT

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After the Japanese automaker Toyota Motor Corporation reported a loss of US\$1.5billion in 2008 due to the global financial crisis, Toyota found itself in a highly publicized recall crisis with major pressure from the U.S. government and the National Highway Traffic Safety Administration (NHTSA). Unfortunately, the recalls for faulty pedals and unintended acceleration in the US from 2009-2010 came at a trying time for Toyota. However, the recall crisis allowed Toyota to acknowledge it had lost its way, by compromising the fundamental founding principles of quality and customer safety during its rapid global expansion.

Many scholars have criticized President Akio Toyoda's immediate crisis response of denial and delayed response, and have further suggested the necessary changes to company within recover from not only its reputation, but also, from another crisis situation. A major underlying root

cause of the crisis was the company's straying from "The Toyota Way" as the corporate leaders focused on rapid expansion and cutting costs. Thus, this paper will attempt assess the recovery status of Toyota post-crisis by examining the Toyota leadership pre-crisis: Hiroshi Okuda, Fujio Cho, and Katsuaki Watanabe, and post-crisis leadership under Akio Toyoda with the realignment with the Toyota Way by addressing the shortcomings of his predecessors.

Keywords: Crisis Management, Corporate Recovery, Toyota Way, Recall Crisis, Toyota Management, Corporate Leadership

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CHAPTER I. Introduction

On August 28, 2009, in Santee, California, a 2009 Lexus ES350 suddenly accelerated out of control and resulted in the death of Mark Saylor, a California Highway Patrol officer and three family members. The preliminary reports indicated the accident was due to a defect with the vehicle's floor mats, which caused the accelerator pedal to stick and the driver unable to take control of vehicle. On September 29, 2009, Toyota announced a recall of floor mats on 4.2 million Toyota and Lexus vehicles (MacKenzie & Evans, 2010). On January 21, 2010, and the next wave of recalls were called to address the issue with sticky pedals leading to unintended acceleration, and faulty hybrid anti-lock brake software called for another recall in February (Camuffo and Weber, 2012). Although recalls are not uncommon in the automobile industry, the unexpected involvement of the U.S. government and media attention questioning the quality and safety of Toyota's vehicles marked a turning point for not only global sales, but also Toyota internally.

Toyota's newly appointed president Akio Toyoda flew to Washington to apologize to the Saylor family and every customer affected by the recall. He also admitted the recalls were in part a backlash of

Toyota's rapid growth. In 2007, just two years before the recall crisis, Toyota outranked American automakers Ford and Chrysler as the second most popular automobile brand in America, and earned a record breaking US\$15.1 billion in profits, the greatest in Toyota's history (Rajasekera, 2013). So, how did Toyota, a company praised for its superior Toyota Production System and the Toyota Way find itself at a center of a recall crisis?

Many scholars and analysts have found Toyota had "lost its way" before the crisis, by continuously compromising Toyota's founding principles to accomplish its goals for faster expansion and greater profits. Therefore, it would be difficult to call the events of the recent recall crisis completely unexpected. By examining the Toyota's leadership prior to the crisis, the dilution of the Toyota Way principles and leadership agenda of the corporate management pre-crisis, the major underlying cause for the crisis becomes much more transparent. Then, by examining President Akio Toyoda's leadership and reinstatement of the Toyota Way principles post-crisis as a major part of his leadership agenda, Toyota's crisis management and recovery will be attempted to be evaluated.

This paper is organized as follows: Chapter Two provides a literature review of crisis and crisis management and the Toyota recall crisis. Chapter Three follows with an explanation of Toyota's Corporate Structure and The Toyota Way. Chapter Four analyzes the Toyota leadership before the crisis. Chapter Five further analyzes Toyota's leadership under Akio Toyoda after the crisis. Chapter Six evaluates Toyota's recovery status with the reincorporation of the Toyota Way. Chapter Seven concludes with the findings and further discussion.

Chapter II. Literature Review

Corporate Crisis and Crisis Management

Crises are prevalent and common in business and small and large corporations are all susceptible in different scales and magnitude and worldwide (Heller & Darling, 2012). Crises can gravely damage a company financially when operations are disrupted and can result in a loss of market share as well a large number of lawsuits (Coombs, 2007). Crises also threaten the company's value asset and corporate reputation, where a shift from favorable to unfavorable could devalue not only the corporate image, but many financially significant relationships contingent on the favorable corporate reputation (Coombs, 2007b). Corporate crises have also been referred to as a "Black Swan" due to the unpredictable timing of crises and their massive impact, but in retrospect, corporate crises are not completely random or unpredictable (Taleb, 2007).

Crisis management, unlike a quick-fix solution, is a systematic approach that allows business operations to function properly and normally during a crisis situation (Heller & Darling, 2012). The crisis management

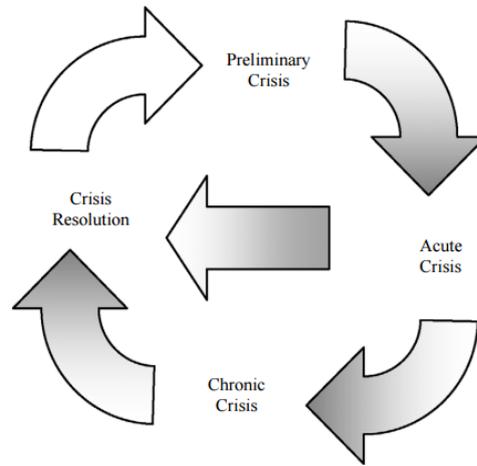


Figure 1: Crisis Management Paradigm (Heller, Darling, 2012)

paradigm identifies four stages of a crisis: the preliminary crisis, acute crisis, chronic crisis, and crisis resolution, as showed in Figure 1. The earlier the crisis is detected the easier for a crisis to be managed, and, the ethnocentric view of crisis management involves a fast response time for a minimization of damages to the operations and reputation of the company (Heller & Darling, 2012). However, in the case of the Toyota, Toyota missed its moment of opportunity to turn the crisis around. The Toyota leadership was harshly criticized for its initial denial of the safety problems and the negative media attention Toyota received for several weeks further damaged their reputation as a quality automobile retailer worthy of trust in the United

States (Heller & Darling, 2012). Despite the criticism for a delayed response to the crisis, Toyota rerouted from a denial to apology crisis-response strategy (Coombs & Holladay, 2008). Although eventually Toyota did take responsibility for the safety issue and those affected by the recall, with the underlying root causes of the recall unaddressed, Toyota was already on its way towards the chronic crisis stage. Now, five years post crisis, Toyota is currently in the chronic crisis stage, which encompasses post crisis recovery and opportunities for winning back customer trust in the company and its automobiles.

Responses to Toyota Recall Crisis of 2009-2010

Initially, Toyota did not take responsibility for the sudden unintended acceleration in Toyota vehicles, blaming the customers for using floor mats that could entrap the acceleration pedal which was the cause NTSA after investigations into the Saylor incident. Toyota then cited the extra friction caused by the driver's shoe could in rare cases caused the electronic accelerator pedals tactile response, which causes the pedal to stick. Toyota found the US supplier, CTS Corporation, at fault, but CTS quickly deflected the blame by explaining the unintended acceleration problems exist across

models and older vehicles that CTS did not supply accelerator pedals for (Camuffo and Weber, 2012). The unintended acceleration was not issue confined to the vehicles produced in the United States. The recalls continued through Europe, China and later worldwide, and Toyota found itself in a global crisis.

Toyota, also, unfortunately, became a major victim to the high risks of global production which is evident with the increase in the number of recalls as the proportion of Toyota vehicles produced overseas increased (Kang, 2010). From Figure 2, it can be inferred that the quality of Toyota

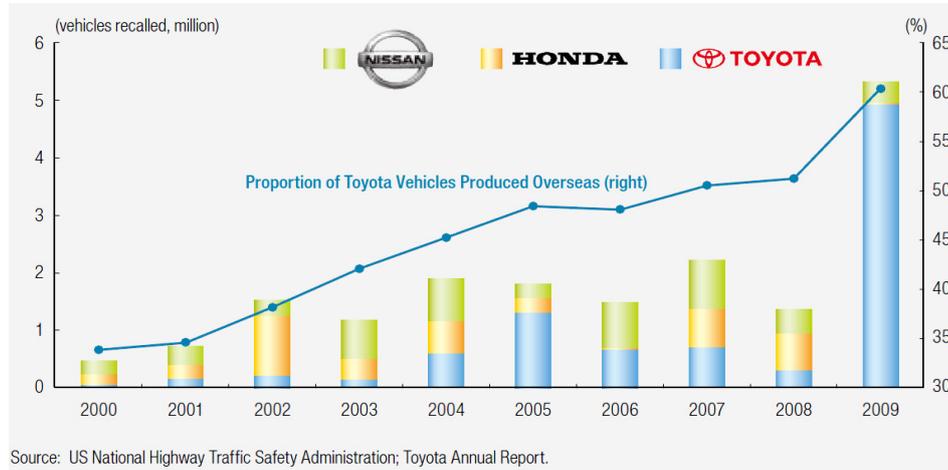


Figure 2: Toyota's Overseas Production and Recalls (Kang, 2010)

vehicles was compromised to some extent for a larger volume of vehicles to be produced outside of Japan. Even for large corporation like Toyota, to produce overseas, the company must see cuts in costs and loss in quality is a major risk companies must risk (Kang, 2010). For Toyota, such a major decision to expand production facilities abroad must come from the top management. Thus, if the top management decided to expand globally knowing the risks of their product quality and safety loss, then Toyota's leaders are, at least in some part, responsible for the recall crisis, and consequently, in violation of Toyota's core founding principle of putting their customers first.

The recall crisis marked a turning point for Toyota because not only was it the automobile giant's first major international crisis, but also, it was the first time Toyota seriously damaged its company image, credibility, and reputation (Seeger, 2010). The root causes of the recall, how Toyota should manage the crisis to recover their losses was immediately the center of discussion. Some analysts concluded Toyota was equipped with poor leaders to deal with a crisis due to the shifting of blame and betrayal of Toyota lean management and Toyota Way principles (Camuffo and Weber, 2012).

In a crisis situation, corporate leaders are individuals who take responsibility for successful management and the individuals affected and implement the right plans to implement changes to the benefit the stakeholders and the entire organization (Heller & Darling, 2012). Heller and Darling distinguish good corporate managers as people who control company resources and procedures and accomplish the company goals and objectives. However, effective corporate leaders will “do the right thing” by communication and guiding the corporation operations (Heller and Darling, 2012). Thus, crisis management is unsuccessful with ineffective corporate leaders who take on the responsibility of corporate managers, as in Toyota’s recent crisis situation.

The plans for global expansion are the responsibility of the Toyota corporate management, the inability of the top management to address the known quality and safety risks in favor of financial incentives is corporate leadership issue. This would support Liker and Cammuffo’s analysis that the Toyota’s corporate leaders were losing focus of Toyota’s original founding philosophy, purpose, and system and lead the company to crisis.

Andrews, Simon, Tian, & Zhao (2011) research also found the decisions of the Toyota during the recall crisis were not was “promised” by

the Toyota Way. In their analysis, reproduced below as Table 1, they outline the gap between what Toyota promised, which correlate to, the Toyota Way principles, and the official responses of Toyota, which can be interpreted as the Toyota's ineffective corporate leadership.

What Toyota Promised	What Toyota Did
Customer Focus Jidoka (quality at the source) Andon (empowered employees) Kaizen (continuous improvement) Think LongTerm (even at the expense of short-term financial gain) Genchi Genbutsu (see for oneself) Nemawashi (slow decisions with consensus) Hansei (reflection) Kaizen (continuous improvement)	Suggested User Error Insufficient Testing A Strong Push to be "Number 1" Years of Living with Customer Complaints Fought Recalls to Reduce Expenses Ignored Complaints Poor Decisions, Wrong Conclusions, Did Not Consider Other Options Quick to Blame Improper Mats Long Wait for Design Fixes

Table 1: The Gap Between the Promise and the Practice
(Andrews, et al., 2011)

Thus, it would be essential to analyze the Toyota leadership that led up to the recall crisis and analyze how the leaders “lost the way” in their planning for Toyota’s growth. The next chapter will first introduce the

Toyota Way and the founding principles that the success of Toyota was built upon.

CHAPTER III. The Toyota Way

Fujio Cho, the former president of Toyota, stated that Toyota has “adhered to the core principle of contributing to society through the practice of manufacturing high-quality products and services” (Toyota Way, 2001). The company does not have a specific mission statement, but Toyota’s core principle of contribution to society has been the foundation upon which Toyota’s business policies and management practices had been built upon. In order to fully understand the management structure of Toyota, it is important to understand the foundation of the Toyota Way and the Toyota Production System (TPS), which make up the Toyota’s DNA that has been passed down from the founders of the company (Liker, 2004).

The Toyota Way is held up by two main pillars: respect for people and continuous improvement (*kaizen*). Katsuaki Watanabe, former president of Toyota, explained that respect for people meant supply partners and its customers, noting that workers in the assembly line are customers. This respect for others will enforce stronger teamwork and work more carefully to satisfy and respect the products that customers will receive. This “Toyota mind-set” will also be a driving force for continuous improvement in an

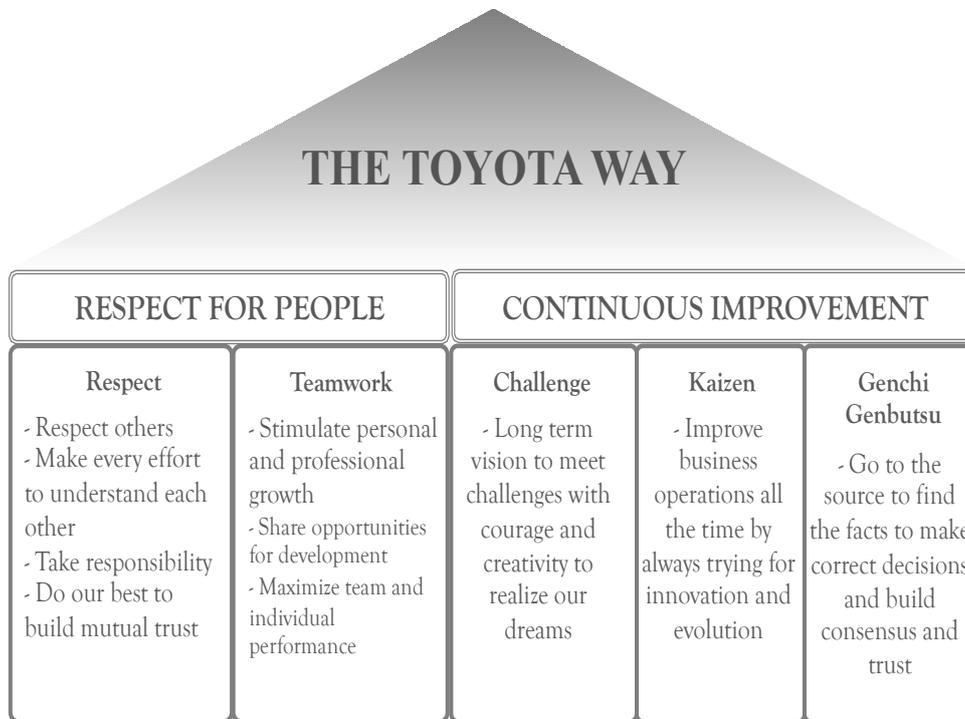


Figure 3: The Toyota Way (Liker, 2004)

individual's work and team and eventually strong results for the company. The principles also strive to create a strong drive to challenge through improvement and innovation.

The five principles of the Toyota Way: respect, teamwork, challenge, kaizen, and genchi genbutsu are originally from Toyota Group founder Sakichi Toyoda. In the early stages, Toyoda developed a more efficient and low cost pull production system to compete with the big American

automobile companies Ford and GM and their mass production system. The Just- In-Time approach allowed Toyota to implement a system that manufactured fewer, but, higher quality vehicles for the customer while eliminating waste (*muda*) in terms of time and material costs on the assembly line. The jidoka concept reduced the errors and defects on the line and finished products for the customer, by giving operators on the production line the option to detect, stop, and fix problems right away when detected. In order for jidoka to function properly, a standardized process and leveled production create a stable foundation for operations to stop for one single error or defect and fix problems efficiently.

The Toyota Production System is represented below as a house in Figure 4. The house symbolizes the importance of the system's reliance on teamwork as well as the importance always keeping a strong foundation. One weak pillar or a failing standardized process would weaken the entire system.

The Toyota Way has also been applied and used as Toyota's management philosophy and base. Jeffrey Liker simplified the 14 management principles into 4 main sections (Figure 5) to show how the

Toyota Way fuels the Toyota Production System as well as Toyota's business and management of the company (Liker, 2004).

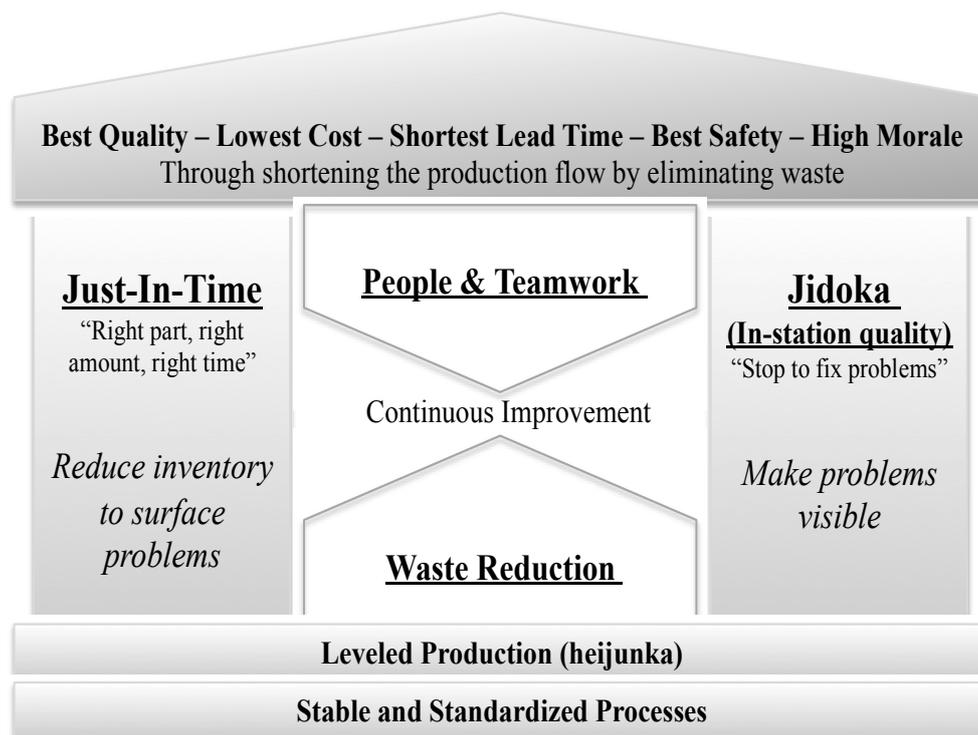


Figure 4: The Toyota Production System (Liker, 2006)

The lowest level of Toyota Way is Long Term *Philosophy*, which serves as the foundation of the Toyota's management philosophy. Management should not lose sight of the long term goal adding value to the

customers, society, and economy, and should not be compromised for short-term financial goals. All management and operational decisions for the company should be based and rooted from the long term philosophy of adding positive value to the customers and society.

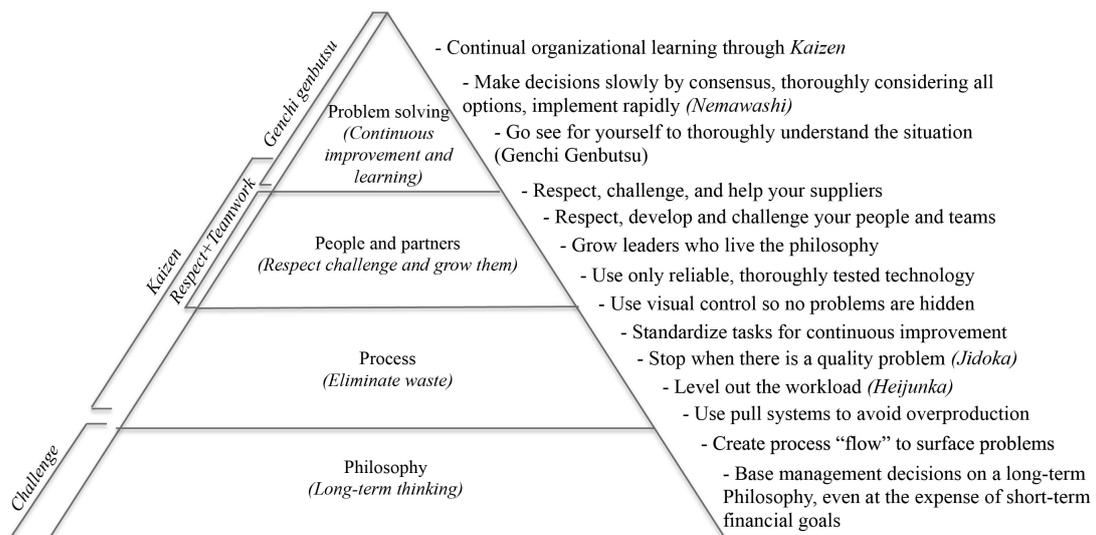


Figure 5: The Toyota Way 4P Model (Liker, 2004)

The second level is *Process*, which stands for the belief that “The Right Process Will Produce the Right Results”. Toyota’s long history of learning and years of experience perfecting and standardizing TPS, Toyota knows the right process will produce the best quality at the lowest cost. The third level of Toyota Way stands for *People and Partners*. Toyota believes in having its employees continuously improving and learning into leaders that can teach their work and values to others. It also serves as a basis for teamwork within Toyota where all employees share in the Toyota philosophy and responsibility of learning and solving problems together. This principle is also applied to Toyota’s suppliers and partners. Toyota respects and challenges them to develop by working with them to achieve challenging targets together. The top and highest level of the Toyota Way is *Problem Solving* where *genchi genbutsu* is a main part of the problem solving process to fully understanding any problem. From identifying root problems to consensus led decision making to rapid implementation (*nemawashi*), this problem solving method establishes a stable process for *kaizen*, which ideally prevents old problems from reoccurring again.

The Toyota Way is a synergy embedded within the company and the Toyota employees practice the principles together. Corporate leadership should practice and follow the same. Their vision and management goals for

Toyota should also align with the Toyota Way. Prior to the recall crisis, the corporate leadership started to transform Toyota, thus weakening the stability and value of the Toyota Way. The next chapter will examine the corporate leadership prior to the recall crisis.

CHAPTER IV. Toyota Leadership: Pre-Crisis

Hiroshi Okuda(1995-1999

Hiroshi Okuda(奥田 碩) was the leader that started the aggressive globalization of Toyota to challenge the company with new business opportunities. Prior to his tenure, Okuda was aware Toyota's big company disease, and he wanted to face the competition aggressively. Also, Okuda inherited his position at a low point in Toyota history, profit targets were not met and most importantly, Toyota was losing its market share in its own domestic market.

One of Okuda's main priorities was to win back 40% of the market share in the Japanese automobile market. He recognized one of Toyota's main problems was its outdated designs. Toyota's old designs were not successfully competing against Honda's hot trendy vehicles. Thus, he quickly mobilized to address the problem. He pushed his design studios to create new vehicles to compete with rivals and pushed engineers to speed up time Toyota's 24-month product development cycle, which was already superior to that of its American counterparts (Bremner, 1997).

Okuda also fought aggressively to compete globally, especially in the American market. He challenged Toyota to outsell Honda at home, and GM and Ford overseas. He pushed for new vehicles for the American market as well as production to be moved to the United States. This would cut costs Toyota would have to spend to export cars to meet growing demand in the US, and the company would no longer have to suffer from the volatility of the yen when exporting vehicles. Okuda then spearheaded the establishment of the factory in Indiana, where he planned to start production of Toyota's first truck, the Tundra, solely to be sold in the US market. Under his tenure, another plant in West Virginia was established to produce engines and transmissions. In 1996, Toyota Motor Manufacturing North America, Inc. was established to manage and oversee the American manufacturing plants. Also, under Okuda's leadership, the first version of Prius, Toyota's hybrid-electric car, was designed and later become a huge success in the US market.

Hiroshi Okuda was an innovator who transformed Toyota for the changing times. He practiced kaizen and embodied the Toyota Way in his management of the company. He would spend a lot of his time in Toyota city meeting and speaking with engineers (*genchi genbutsu*). Also, Okuda had a plethora of knowledge about Toyota and the fact that he had spent his

entire life with the company after graduating from Hitotsubashi University with a business degree. Through his Toyota way training throughout his employment at Toyota, he was able to grasp the necessary Toyota foundations, but also move on to new challenges to compete and meet the changing needs and conditions of the automobile industry.

Okuda's commitment to the Toyota Way however could be called into question. Okuda's vision to globalize Toyota and decentralize the production of vehicles overseas was not a standardized part of the Toyota production process. The strict standards of high quality and excellence Toyota was built upon and the problem solving system of constant control and check would be more difficult to maintain once production was displaced outside of Japan. However, in Okuda's defense, building Toyota plants overseas was an economical move to eliminate waste, since Toyota was already losing its market share and exporting costs and domestic material costs were problems and in need of improvement. Okuda also had difficulty gaining the blessing and support of Eiji and Shoichiro Toyoda of the Toyoda family. Okuda eventually was able to convince the older generation and even move to build a plant in Taiwan, where Toyota's Corona became a success.

The aggressive leadership of Hiroshi Okuda was a blessing for Toyota, and which started to see profits and real changes and innovation that allowed for Toyota's rapid rise to the top automobile manufacturer in the world. Okuda was able to reinvigorate Toyota not only because the desperate conditions of the company, but also because Okuda led his vision with the confidence that Toyota could challenge the biggest rivals in the industry. Okuda was a numbers man, very sharp on sales targets and would do everything he could to achieve them.

Thus, it would be difficult to neglect the fact that despite Toyota's turn for a more globalized future, Okuda managed the company under financially based motives. Okuda had led Toyota away from the Toyota Way. He compromised Toyota values for financial returns. Okuda saw overseas expansion as not just a buffer for Toyota's declining dominance in the domestic market, but as a way to keep Toyota competitive and making profits for its stakeholders. Okuda was in a situation where keeping Toyota financially afloat was more important than micromanaging to check the Toyota Way was being taught to every employee. Okuda set the precedence for a leadership culture where the Toyota Way principles of quality and safety could be compromised for profits.

Fujio Cho 1999-2005

Fujio Cho (張 富士夫) was named president of the company with the former president Hiroshi Okuda serving as chairman of Toyota Motor Corporation. This essentially meant President Cho would continue to lead Toyota with Okuda's management system and vision to globalize Toyota and continue to globalize Toyota.

President Cho was educated as a lawyer and had also spent his entire life with Toyota. He spent nine years as the general manager at the Kentucky plant, and the mastermind behind TPS, Taiichi Ohno, was his mentor. He adhered to TPS principles attempted to emulate the TPS system in his management style and structure. Cho was very knowledgeable about the production process and worked to standardize production overseas. During his tenure, Toyota plants became "global lines" where standard production equipment were used globally to give lines and plants the flexibility to greatly control production. Cho also realized the lack of efficient global leaders that could train and operate production lines overseas under the Toyota Way. In order to solve this, the Global Production Center was established to train workers without having to send out Japanese managers overseas.

Pushing sales and production targets, President Cho continued to globalize Toyota with the guidance of Okuda. However, Cho was able to see the problems with rapid overseas expansion. Due to the high costs to expand business overseas and the aggressive financial targets imposed by Okuda, Cho had no choice but to continue to push plants overseas were pushed to produce more and sell more. Toyota did see a jump in profits during Okuda and Cho's leadership, however, the lower quality in their products and the excessive cutting of costs and materials for their vehicles were becoming apparent to the workers as well as their customers. Okuda had transformed Toyota to become a global company with supply meeting demands, but the it was questionable whether quality products were being produced at too low of cost. Also, with the demanding production targets and sales targets from Cho and Okuda management, the respect within Toyota was fading.

Katsuaki Watanabe 2005-2009

Katsuaki Watanabe(渡辺 捷昭) is a Keio University graduate with a degree in economics. Like his predecessors, he spent his entire life working for Toyota. Before Katsuaki Watanabe became president, he led the Construction of Cost Competitiveness 21st Century (CCC21) plan. This

plan was in line with Toyota's kaizen philosophy to eliminate waste, and by 2000, when the plan was initiated, cutting costs had essentially also become part of Toyota's main priorities and identity. This plan was implemented to stay in competition with other manufacturers like Nissan and Renault forming an alliance to cut costs through joint purchasing (Magee, 2007). This plan was very successful and Watanabe was praised for his leading role, where over five years Toyota saw more than \$10 billion costs cut by working with suppliers to reduce production costs and increasing quality (Magee, 2007).

Once Watanabe became president of Toyota, he focused on his strength: cutting production costs and sustaining a 10 percent operating profit margin. Due to CCC21's success, in 2005, he continued with a new initiative under the name Value Innovation, which Watanabe described as an "aggressive version of CCC21". Watanabe wanted to ensure that Toyota would be able to utilize the saved production costs to fund the development of new vehicles and attract more customers (Kim, 2007). The truth was that the new cost saving initiative was aggressively looking for cheaper materials and the quality Toyota had built its reputation upon would be shattered in the increasing cases of recalls. The turning point, of course, would be in 2009, when Watanabe would be replaced by Akio Toyoda, when

cutting costs had gone to an extreme. The profit based corporate leadership started by Okuda had lost its way and forgot the values the company was founded upon and the principles that had led to its success.

Bloomberg quoted Jim Press, Toyota's former U.S. chief, "The root cause of their problems is that the company was hijacked, some years ago, by anti-(Toyoda) family, financially oriented pirates". Examining the leadership and goals of the leadership prior to the crisis, the Toyota Way was pushed aside, to say the least, or manipulated to enforce financial driven goals of the leaders. The transformation of Toyota that Okuda envisioned was innovative and conscientious of the changing times of business and the industry. However, in attempt to compete and outcompete rivals, Toyota lost its core competitive advantage, the Toyota Way. As the leaders stressed production targets and lower costs, it broke down the respect and long term philosophy of putting the relationship with suppliers before the short term financial goals. Most importantly, the leaders lost vision of Toyota's guiding principle of creating value for society and its customers. Unfortunately, the leaders were more focused on protecting the future of Toyota's financial standing that it overlooked the problems of mass production, which ironically was why the founders of Toyota Motor Company founded and implemented the Toyota Way.

CHAPTER V. Toyota Leadership: Post-crisis

Akio Toyoda 2009- 2015

President Akio Toyoda (豊田章男) graduated from Babson College with an MBA and gained experience in Toyota's China operation as well as a joint venture with GM in California. As the face of Toyota during the US recall crisis and the bloodline to the founding Toyoda family, Akio Toyoda admitted Toyota had "lost its way" and needed to "go back to the basics". In his statement in Toyota's 2009 Annual Statement, he stated that Toyota would be implementing a stronger product-oriented management model focusing on "Customer First and genchi genbutsu philosophies". He did not mention cutting costs, only that Toyota would take review every aspect of business as if it were the customer and "reduce costs and continue to offer customer cars they truly want at a price they can realistically afford". President Toyoda's commitment to Toyota's DNA and the Toyota Way are strong. In 2010, after Toyoda was forced to recall cars globally and also shut down of production at New United Motor Manufacturing Inc., Toyoda still focused on customer first and genchi genbutsu philosophies and emphasized the Toyota's "commitment to quality" and "reforging bonds of trust."

In March 2011, Toyoda announced the “Toyota Global Vision”, which reemphasizes their customer first and commitment to quality and optimistic future by being “rewarded with a smile by exceeding your expectations”. After the recall crisis, Toyoda realized the damage Toyota’s image and reputation, which he addressed in this vision to reinstate a positive future and positive image for the company. The image of a tree was used to portray the Global Vision and reinforce the Toyota Values: The Toyota Way, The Guiding Principles of Toyota, and The Toyota Precepts. Also, the world “sustainable growth” is used to emphasize Toyota’s softer innovative image, and President Toyoda has invested a substantial amount of time and energy to pursue socially ecofriendly and gas efficient vehicles, for example their joint venture with Tesla Motors.

Toyoda’s direct experience during the recall crisis allowed him to see how globally disconnected Toyota had become; he saw a need for a change in Toyota’s management structure to meet the goals of the Toyota Global Vision. He reduced 27 board of directors to 11 to increase faster communication and decision making. He specified that the roles of the board would be to decide the direction of Toyota, but the regional and functional operations would be the responsibility of the chief officers of the respective region. He also reformed the reporting structure, so decisions

would be made between two most knowledgeable, the chief and deputy chief officers. Also, Toyoda announced that the chief officer position, previously held by a senior managing officer or a board member, would now be filled by the most knowledgeable about the responsibilities of the position. While caught under fire when under pressure during the US recall crisis for responding so slowly and unresponsive to the quality issues reported to regional offices, Toyoda saw the urgent need to improve decision making and communication flow. Thus, this reorganization was made to directly address this problem which was passed down from the previous leadership.

Toyoda made an additional change by establishing a new position of executive general manager where more direct management was needed, but he specifically appointed executive general managers “as the chief engineers who oversee vehicle-development projects; as the heads of principal technological sectors, such as engines, bodies, and electronics; and as plant managers”. He stated that they will not be required to attend corporate policy meeting or any distractions that would distract them from their operations. This was action in response to Toyoda’s loss of trust in the weakened production system under the previous leaderships, and also his way of showing his confidence in Toyota’s production system and his reliance on the engineers for innovation. Since Toyota was no longer relying

on aggressive cuts in production costs, Toyoda had to rebuild Toyota's future. He has been investing in Toyota's new competitive advantage: the Toyota Way and engineering innovation.

CHAPTER VI. Toyota's Recovery Status

This paper argues that the US recall crisis had brought to light the loss of the Toyota Way through the financially driven leadership of Okuda, Cho, and Watanabe. Post crisis, Toyota's president Akio Toyoda has been leading Toyota back to its roots to recover from the damage. In order to further analyze, how Toyoda has utilized the Toyota Way to manage the crisis, the paper will refer to the study based on the Theory of Constraints by Simon Wu, Mauricio F. Blos, Hui Ming Wee, and Yi-Li Chen (Wu, 2010).

The Theory of Constraints (TOC) is a Problem Solving Model¹ developed by Eliyahu M Goldratt that has management applications by identifying the root cause of problem and eliminating them and influence change (Wu, 2010). The TOC thinking process and TOC logic trees diagrams are used in the problem solving process (Wu, 2012; Dettmer, 1997; McMullen, 1998). In Wu's case study of Toyota after the recall crisis, TOC thinking processes and logic trees were utilized to identify the root causes of the problems, objectives to implement, and detailed plans to eliminate the

¹ A "Problem Solving Model" can be used not only to simply solve problems but monitor, evaluate, and manage them (Wu, 2010).

problems. The results showed that tree root causes of Toyota's recent recall were due to: poor corporate governance, overly rapid expansion without proper check in place, and low cost oriented culture (Wu, 2010). In essence, these causes correlate to the poor leadership pre-crisis, and the loss of the Toyota Way in corporate management. The TOC process results show that the following action plans were needed: follow through better transparency within the company, and strengthen the respect and teamwork between Toyota and suppliers, stop cutting unnecessary production costs, refocus Toyota operations with the Toyota Way, and reestablishing Toyota's management roles (Wu, 2010).

Wu's study and findings with the TOC thinking process ends with detailed actions plans for Toyota to overcome its setback, which is rearranged in Table 2. Now, five years post crisis with Akio Toyoda as president, the implementation of the TOC action plans can determine the status of the Toyota Way of recovery. In the Table 3, the actions taken and implemented under Toyoda after the crisis have been listed to show the steps Toyoda has taken to restore the Toyota Way.

To recover the difficulties in communication and the comprehension of regional issues outside of Japan, especially the United

Improving Ideas	Action Plans
Conducting Corporate Governance in Western Countries with Western Style	<ol style="list-style-type: none"> 1. Communicate customers issues transparently, and deliver solutions that they need. 2. Need a major breakthrough in public relations: first, to improve dialogue with U.S. safety regulators. 3. Perform the test-retest after repairs carried out. 4. Forming a quality advisory group composed of respected outside experts will ensure Toyota not to make a misguided decision. 5. Build up local management team including quality & safety divisions. 6. Set up across departmental communication organism. 7. Organize cross functional task forces to immediately fix customers, complaints.
Set up the Culture of Low Cost but High Quality and Meet Safety Requirements	<ol style="list-style-type: none"> 1. Follow up suppliers to work according to Toyota Supplier Quality Assurance Manual. 2. Reduce parts purchasing cost only under quality assurance. 3. Make sure the fresh operators follow quality on job training 4. Confirm all operators follow assembly SOP every day. 5. Testing the cars & safety parts under varying conditions. 6. Re-visit Toyota Way & back to original basis of Toyota Production System.
Has Proper Check Organism in Place for Any Overly Rapid Expansion	<ol style="list-style-type: none"> 1. Document assessed impacts & risks to the extent possible (create a risk/impact database) 2. Set up 5 years of business plan including people development before onto a new job. 3. Conduct on job engineering training for all engineers. 4. Conduct on job supervision training for group leaders & supervisors. 5. Toyota should rethink its employees, performance evaluation to eliminate employees, hiding mistakes. 6. Set up models & functions, complexity limitations for production & design. 7. Establish Organization Strategic Development Center to prevent impact from any overly rapid expansion

Table 2: Improving Ideas and Action Plans (Wu, 2010)

Improving Ideas	Checklist
Conducting Corporate Governance in Western Countries with Western Style	<ul style="list-style-type: none"> -Established Special Committee for Global Quality -Established Independent Quality Advisory Panel (chaired by former US Transportation Secretary -Appointed Chief Quality Officer for North America-Steve St. Angelo -Appointed Chief Safety Executive for North America-Dino Triantafyllos -Appointed 4 North American leaders to join 5 others as presidents of plants in the U.S., Canada
Set up the Culture of Low Cost but High Quality and Meet Safety Requirements	<ul style="list-style-type: none"> -Start Safety System now standard across all lineups - Smart Stop Technology brake override system standard on all new models - Set up Event Data Recorder(black boxes) for better data collection - Expanded product development cycle by 4 weeks - Developed next-generation virtual test dummy
Has Proper Check Organism in Place for Any Overly Rapid Expansion	<ul style="list-style-type: none"> -Set up Design Quality Innovation Division in Japan and transferred 1,000 engineers to focus on design and quality issues -Created new team of 100 engineers to audit vehicle quality issues -Refined global Early Detection, Early Resolution (EDER) system to include a wider variety of sources -Opened our electronic technology to review by outside experts, including NASA, the National Academy of Sciences and engineering firm Exponent -Establishing 6 additional Product Quality Field Offices throughout NA to improve our ability to detect and respond to customer and quality issues

Table 3: Toyota Way Recovery Evaluation
(Compiled by author)

States, Toyota's strongest market, Toyoda established a Special Committee for Global Quality and appointed foreign officers for specific regions based on expertise instead of sending officers from Japan. As he had announced in his Toyota Global Vision, Toyoda has changed the way Toyota has previously mismanaged global operations with managers without the necessary specialized expertise. To ensure the better quality and prevent another massive recall in the region, Toyoda has appointed several leaders with the best qualifications to manage the operations in the North America.

President Toyoda also started to push for kaizen and higher quality in technology, and he lengthened the product development cycle that previous leaders had shortened. By changing and relaxing production systems to stop and build quality products, Toyoda has been restoring the Toyota Way. Toyoda has also invested in technology and employment of engineers to improve and detect quality issues. Toyoda has learned from the mistakes of his predecessors and he is improving Toyota by taking it to recovery by being prepared by having the proper systems in place detect quality defects and regain safety for Toyota's reputation, and thereby regaining the trust of customers.

CHAPTER VII. Conclusions

In this paper, the failure of quick response to warnings of a product defect led to a massive recall that damaged the corporate reputation and financial standing of a top automobile manufacturer. Crisis management studies showed that a quick response to a crisis would lead to a faster recovery (Heller and Darling, 2012). However, with ineffective corporate leadership during to lead during a crisis situation is not ideal.

Toyota Motor Company is Japanese automobile manufacturer that had built its success upon a standardized and well thought out production process with a Just-In-Time approach based on continuous improvement (*kaizen*) and was respected for its cost effective high quality products. Toyota's success led to other business outside the industries trying to emulate the company way of management with The Toyota Way. In the mid-1990s, Toyota experienced many economic difficulties and found Toyota was losing a lot of money producing vehicles domestically and exporting them. Thus, the corporate leadership of Toyota decided to globalize Toyota and take production of Toyota vehicles global.

Taking Toyota's production facilities overseas had many risks, however, what Toyota leadership neglected was the importance of Toyota

values. As Toyota's leadership expansion became more financially motivated, Toyota had internally lost its internal values as a company that contributes to society with its high-quality products and services. The pre-crisis leadership called for more aggressive cuts in production costs and increased production targets and sales targets globally. The Toyota values of teamwork, kaizen, and respect that the company was built upon were quickly fading away along with the quality of its vehicles.

The quality of Toyota's products, company reliability, and integrity were all under question when the fatal accidents implicating defective Toyota vehicles became public in 2009. The recall crisis allowed the new leadership at Toyota to reflect and see that the root of the crisis was the loss of the Toyota Way. However, Liker described, "the Toyota Way is to confront problems openly, find the root cause, solve the problems and learn" (Liker, 2015), and that is exactly what Toyota did. Under the guidance of Toyota leadership pre-crisis: Hiroshi Okuda, Fujio Cho, and Katsuaki Watanabe, Toyota was able to radically transform into a global company, but there were many undesired effects that were also acquired. Under the leadership of President Akio Toyoda, he managed the crisis with the realignment of the Toyota Way. President Toyoda has started a new Toyota global culture and has been leading Toyota on the road to recovery.

The importance of corporate leadership was an importance factor in direction of the company. If the corporate leadership's vision loses vision of the company's core values and philosophies, the stability of the company is also lost. Even a large company like Toyota has lost its way, but as this paper has attempted to show, the post-crisis leadership is working on Toyota's recovery. For further studies, it would be important to follow President Akio Toyoda's full tenure as president and examine how consistent his policies follow the Toyota way. Also, further studies should be done to evaluate how much impact corporate leadership has on the speed of recovery from a crisis situation

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