



THE SPIRIT OF CHALLENGE

At the end of 2007 Toyota was on top of the world. It was one of the most dominant car companies globally that had been continuously profitable for 50 years. At the heart of the auto giant's rise was its culture — the Toyota Way, a set of management principles and business philosophy that guided its way to operational excellence. Then in 2008 came the global recession, and in 2009-2010, Toyota was hit by the recall of over 10 million vehicles. In both cases, the company was caught off guard and found that a root cause of the challenges it faced was its failure to live up to its own principles. In their new book, *Toyota Under Fire*, authors Jeffrey K Liker and Timothy N Ogden provide an insider's account how the company has come out of the most challenging years of its postwar existence. In this extract from the book, the authors outline how the specific elements of the Toyota culture drove its response to the crises.

One of the easiest reactions to a crisis is passivity — especially if the crisis seems to be driven by external forces, like the Great Recession. There is a tendency to simply throw one's hands in the air and proclaim, "There's nothing we can do." That's especially tempting in a large, multinational corporation, where it's often difficult for individuals to perceive that their actions matter. This feeling of insignificance is a major barrier to positive action. The Toyota Way's emphasis on the spirit of challenge is about fighting passivity. The Toyota Way 2001 puts it this way: "Change is our constant partner. It frustrates and challenges. It brings out the best in all of us.... As we meet the challenge of change, we will ensure our vigor and vitality." Emerging from the recession and a \$4 billion loss with a company that was stronger — and capable of surviving the recall crisis — required extraordinary action throughout Toyota. It was the culture that allowed the entire company, from the shop floor to the purchasing offices to the customer ser-

vice center, to focus immediately and actively on cutting costs while protecting capability. There was no single project that made a material difference in cutting overhead costs at factories or returning the company to profitability so quickly. It was the cumulative value of thousands of projects that were launched simultaneously, almost instantaneously, that made the difference. That's the spirit of challenge in action.

For Toyota, the ultimate challenge is perfection. The recall crisis highlighted just how far Toyota had to go to reach that goal. To turn the recall crisis into a growth opportunity required plunging right 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 again an outgrowth of the cultivation of the spirit of challenge.

Finally, it's the spirit of challenge that Toyota will have to draw on to complete its recovery and continue its steps toward improvement. It will

no doubt be tempting for many people in the company to take a deep breath and pat themselves on the back for bouncing back quickly and strongly from the recall crisis. But the work is not done. As Edward Niedermeyer noted, the recall crisis has been a huge boon to Toyota's competitors because it eroded Toyota's "halo." The Toyota Way 2001 states that "we welcome competition, knowing that we will learn from the challenge and become stronger because of it." Thus Toyota has to be ready to accept a whole new challenge as the recall crisis fades — rebuilding that halo and beating a reinvigorated competition.

Respect for people

The Toyota Way principle of respect for people manifested itself in many ways during both crises. It is respect for people that drives Toyota's commitment to exhaust every other possibility before laying off team members. It's respect for people that drives Toyota's willingness to put extraordinary trust in hourly employees to find and solve problems. These decisions paid off over and

over during the last few years. Renee McIntosh, an hourly team member at Toyota Motor Manufacturing Kentucky (TMMK) who was on special assignment leading the quality circles program for her area when the recession hit, saw the payoff from the decision not to lay off team members:

I never knew anybody who was seriously concerned about losing their job. But you started seeing team members, who were not really pro-Toyota, they started caring more than they did before.... There was an attitude change through the whole shop. People really wanted to kick in and wanted to help.... People were saying: "We've got to step up."

If Toyota hadn't maintained that commitment to its people during the recession, it would not have had the resources to create SMART teams or an engineering division focused on customer experience.

During the recall crisis, respect for people manifested itself in the decision to avoid finger-pointing and blaming customers, suppliers, dealers, or anyone else for the problems that Toyota was facing. This

wasn't a policy edict that was issued by senior executives; that policy didn't have to be issued at all. The approach was a natural outgrowth of the culture of respect for people. Akio Toyoda says that when he was preparing to speak at the congressional hearings, this culture led him to a decision about how he would respond to questions and accusations:

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 never point fingers at somebody else. I decided I would never blame others....

Genchi Genbutsu (Go and see to understand)

The first written communication to the entire company from Akio Toyoda after he assumed the presidency in 2009 was an article for an internal newsletter in which he wrote: "We managed to create a culture.... where those who learned the truth of the *gemba* were the most respected. In this culture there is no such thing as manager and subordinate. Job titles are unimportant. In the end, who sees wins; and winning means being close to the objects, close to the *gemba*."

The *gemba* is where it is happening — whatever it is. It could be where a car is being built, where the engine is being tested, where the car is being investigated by the dealer for problems, or where the customer is driving the car. These are all *gemba* in the Toyota culture. *Genchi genbutsu* is the value of going to the *gemba* and trusting those at the *gemba* to make decisions.

This cultural trait manifested itself during the recession in the number, variety, and autonomy of the *kaizen* projects and quality circles that were launched to cut costs and improve productivity. There is simply no way that senior plant managers could have closely overseen, or even provided meaningful input to, the vast number of projects going on. Those projects were carried forward by the people at the *gemba*. In the same way, the decisions on caring for customers during the recalls were left to the dealers and the customer service representatives — they were the ones at the *gemba*.

We've noted several times that not following through on this value 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" on the part of engineers. But it was the deeply embedded cultural value of *genchi genbutsu* that allowed Toyota to muster the resources to fix many of those problems quickly....

The recall crisis revealed that Toyota had missed the mark in its commitment to *genchi genbutsu*, but that renewed commitment also allowed for rapid action when the shortcomings were revealed.

Kaizen mind

The role of *kaizen* mind in Toyota's response to the Great Recession and the recall crisis is fairly obvious. At no point did the company panic and start making changes without a thorough analysis of the problems and a search for solutions that would improve the company's operations. The application of *kaizen* mind is what led to the actions that Toyota took.

Toyota repeatedly attributed the recall crisis to communication problems, and it is clear that the process of getting from customer concerns to concrete action to address those concerns was anything but lean. One exception was the call center, but it could not address the real root cause of the problem. What it could do was provide one of the best sources of data on the real customer concerns — it could bring the problems to the surface....

Of course data are only data; they do not solve problems. The problems have to be solved in design, engineering, sales, customer support, and manufacturing....

Reinforcing *kaizen* mind is also the focus of the investment in the new "customer first" training centers that are being deployed around the world. These centers are not just lecture halls where a "customer first" mantra can be repeated over and over again. They are centers where team members practice problem solving from the customer perspective. It is very hands-on work to improve the *kaizen* mind of those who are going through the training.

Teamwork

Everyone preaches teamwork, but unfortunately, it is often poorly practiced. We believe that teamwork was practiced quite effectively within departments in Toyota and within sections of the company. Teamwork was evident in the Toyota Motor Sales (TMS) call center during the flood of calls related to the sticky pedal recall. It was evident in the plants as they adjusted to reduced hours and plant shutdowns during the recession, and then adjusted again to self-sufficiency. It was 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

BOOK EXTRACT

**TOYOTA UNDER FIRE:
LESSONS FOR
TURNING CRISIS INTO
OPPORTUNITY**

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OGDEN
PUBLISHER:
TATA
MCGRAW-HILL
PRICE: ₹425
ISBN: 978007-
1331869**



were issues that cut across these divisions, and this was shown to be a weak point. This too violated a core principle of the Toyota Way, perhaps best expressed by former president and chairman Eiji Toyoda: "I want you to think for the entire company rather than yourself alone. Coordinate with other divisions, and lead on, no matter what, to concrete results."

This attitude of thinking about the entire company is all well and good, but in a complex global enterprise, it is impossible for everyone to communicate with everyone else. Each person we spoke to at Toyota thought of himself as a team player. This was drilled into them from the day they entered the company. Yet working in whatever teams they were part of was not enough. There needs to be a constant focus on understanding the weak points in teamwork and communication and looking to improve those blockages that prevent the right people from communicating about the right things. This is an endless journey for every company....

A never-ending cycle

We can't emphasize enough that Toyota's efforts in response to the crisis were neither radical changes nor short-term "projects." The efforts were to a large degree the same agenda that Akio Toyoda had set when he first became president, more than six months before there was any thought of the recall crisis: to strengthen core Toyota values.

Akio Toyoda grew up in the family that had founded Toyota values. It is evident to anyone who spends time with him that he still cherishes the core principles today in a very personal way.

When Liker visited Japan to do the interviews for this book, Akio Toyoda made a point of telling the story (memorialized in the Toyota museum) of his great-grandfather, Kiichiro Toyoda, taking personal responsibility for fixing a customer problem. One day Kiichiro happened to drive by a broken-down Toyota truck. He stopped, climbed under the truck, and helped the driver repair it. Back at Toyota headquarters, he went to the engineering department to explain the problem and give the engineers the task of finding and fixing the root cause. Later, he went to the factory to make sure that the fix had been properly implemented and that no future Toyota vehicle would suffer the same problem. The point of the story is not that senior executives should be climbing under vehicles or replacing sticky pedals; it's that everyone in Toyota, no matter what level she is in the company, should take errors and defects personally — and do everything she can to make sure that the root cause is found and the problem fixed. A problem that affects a Toyota customer is never "someone else's problem." 📌

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