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Looking At Management Through



Recall Incident

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Grace Luk
May 12, 2010



INTRODUCTION

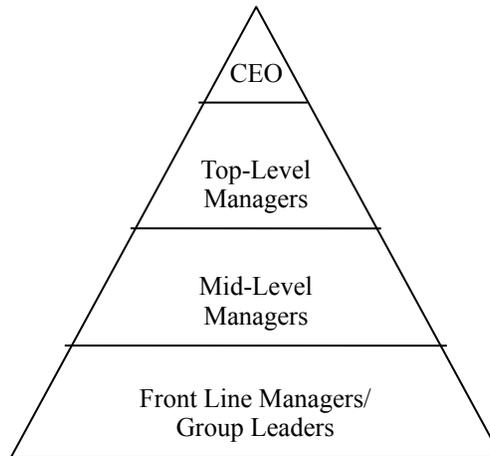


Figure 1 The Management Pyramid

Management is all about efficient and effective use of resources; organization and planning; decision-making and productivity. Managers are driven to make use of their managerial skills in order to achieve the common goal (objectives) with the employees on behalf of the company. There are various styles of management, such as lateral, top-down and bottom-up management, through the hierarchical levels as shown in Figure 1. There are transactional and transformational managers who are leading the team to achieve the common goal of the corporation. In this research paper, I am going to write about Toyota and its management team based on the recall incident. How Toyota management responded after the huge number of recalls resulting an image and branding crisis and a downfall of sales. I will also analyze if the Toyota management team are effective and efficient in this incident.

BAD-GROUND

There are a lot of negative comments on Toyota's management team after the announcement of the defects found at certain Toyota models. In fact, Toyota has admitted that the defects are come from the US assembling plants. The crashes and complaints skyrocketed from 2009, with almost six times more crashes and complaints than Ford, G.M., Chrysler and Honda (see Appendix 1 "Crashes and Complaints..." table). (Injuryboard.com, 2010) Toyota was blamed to

be too greedy in their expansion by hiring non-skilled workers at the assembling line. Those workers might even not share the same work ethics that Toyota has been holding since the company was founded in 1973. According to the Toyota internal document, "The Toyota Way 2001," published in April 2001, the principles described by Toyota in its management philosophy, The Toyota Way, are: Challenge, Kaizen (improvement), Genchi Genbutsu (go and see), Respect, and Teamwork. Obviously, the Toyota management in the recall incident has shown us a defect in their management. Luckily, the Toyota management learnt from the mistake quickly and responded in a very strategic way in order to gain back the trust from the customers. (Wikipedia.org, 2010)

WHAT MAKES A MANAGER "GOOD"?

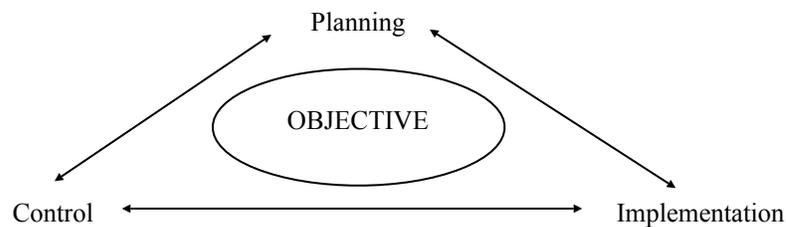


Figure 2 A flow diagram showing the mechanism between various qualities in order to achieve the corporate objectives

A good manager is expected to be efficient and effective with good and precise communication, well-organized, well-planned, knowledgeable, reliable and respectful. These are the qualities we expect from the manager. Figure 2 shows how a good manager should be able to have good planning skills, setting up goals with control and put things together with knowledge for implementation to reach the objectives. At the same time, the manager should encourage and practice group dynamic to achieve the goals.

TOYOTA MANAGEMENT

Toyota management is meant to be quality assurance. According to Robert Heller at his article "Toyota Management", Heller pointed out that Taiichi Ohno, a key architect of the Toyota

management style, developed the Toyota Production System. Ohno stated on behalf of the management of Toyota that: "I feel strongly that the word 'work' refers to the production of perfect goods only. If a machine is not producing perfect goods, it is not 'working'." (CBS News, 2010) Toyota is very serious in their production. Hence, when there was a recall occurred by the end of 2009, Toyota had already recalled 4.2 million vehicles by the end of January 2010 regarding floor mats could bend across gas pedals, causing sudden acceleration (CBS News, 2010). It absolutely shows the strategic management and quick responses from Toyota. However, at the same time, the recall incident has obviously revealed some defects of the Toyota management.

EFFECTIVE MANAGEMENT = SMART

Toyota management has followed a S.M.A.R.T. move after they received complains about the defects. S.M.A.R.T. stands for: *Specific, Measured, Agreed, Realistic and Time Bond*. From the complains about the floor mat got stuck underneath the gas pedal causing sudden acceleration of certain models, Toyota management decided to stop the sale of the related models nationwide immediately. They **specifically** announced which models and what year made were involved in the global recall. There are standards and **measures** for the recall, including the **agreement** to repair those problem cars to a satisfied level. The CEO of Toyota, Akio Toyoda, the grandson of Toyota's founder, gave his apology to the families of victims of accidents in Toyota vehicles in Japan in February. He also admitted that the rapid growth of the company directly led to serious safety issues. He reassured that safety should be the **realistic** focus of Toyota production (CBS News, 2010). After the recall has been announced, Toyota was trying to think and act quick in order to beat the drop of the sale and its image. This involved a quick decision-making **time**. Although Toyota was facing many problems and critics during the recall incident, Toyota management has shown its effective and efficient decision-making through the practice of S.M.A.R.T. move. From there, Toyota gains back the trust from the customers.

STRATEGIC CONTROL: SWOT

Toyota not only has made the SMART move, it has also applied the strategic control by identifying the SWOT (Strengths, Weaknesses, Opportunities and Threats). Those reveal Toyota's Managing By Objectives (MOB) ability when dealing with the recall incident. The following paragraphs summarize the SWOT thinking process that Toyota has gone through.

Strength:

Toyota is a famous and trust-worthy international brand. It has a very good international standing. Its quality is among the best car sellers. It has the top selling Japanese light vehicle sales in US (see Appendix 1 "US light vehicle sales, 2000-9" table). Toyota means high quality, low maintenance, reliable and fuel efficient vehicles with widely available spare parts to the customers. Toyota also stays strong in the used car market. They are also very competitive and have a long history of competing and going foot in foot with Honda. Toyota has a huge dealers' network around the world, which makes the products more reachable. Customers generally have a good impression on Toyota.

Customer loyalty is another big strength to Toyota. Even though the recall incident have created a lot of noise hurting the reputation of Toyota and the trust from the customers. The long history and good image of Toyota has put Toyota in a strong position to pick up the pieces and move on to the next step faster during the decision-making process from the management. The sales go back up quickly after the recall incident. Indeed, in a long run, the recall does not damage the reputation of Toyota that much resulting a big drop of the value of Toyota products (US News, 2010).

Toyota caters to all kinds of users. They have lunched "Scion" for the youth market (aged 16-30, with College degree, median income \$30,000-\$50,000 per year) because the younger customer has a greater "lifetime value" (which means the younger customers have a big potential) to the market.

Weakness:

Toyota has a superb record for reliability and durability BUT considered typically at high purchase prices. Since Toyota has been at the top of the vehicle sales list. It could result a big media coverage when Toyota was facing the recall problems.

Opportunities:

Toyota deals vary regionally, but in most parts of the country, Toyota is offering 0% APR financing on some models. Complimentary scheduled maintenance for up to 2 years for some buyers. That makes Toyota stays competitive in the market (US News, 2010). According to the latest sales report in April, there is a general increase in Toyota car selling (see Appendix 2).

New model of Avalon 2011 has just released and receiving good reviews from various reports (usnews.rankingsandreviews.com, 2010).

Toyota management reapplies the philosophy which the company has hold for nearly 4 decades. New promotion emphasizes safety and customer preference. All new Toyota vehicles will include a mechanism by the braking system overriding the gas pedal (CTV.ca, 2010).

Although Toyota is facing problems, the brand is still staying strong and most customer are still having confidence in their vehicles. Toyota quickly launched TV commercials interviewing new buyers who recently purchased their Toyotas after the recall (Toyota.com, 2010). From the information posted at the Toyota website and the TV commercials Toyota has put recently. They portraited a positive image of Toyota and strong customers loyalty (marketwatch.com, 2010). Americans continue to rate Toyota favorably (manufacturing.net, 2010).

Scholarship program raises the corporate image of Toyota, by showing that Toyota has community responsibility. That creates the perception that Toyota is a corporation cares about the community even its goal is making profit. Toyota's **TAPESTRY** Program is already in its 20th year. There is \$550,000 available to teachers for innovative projects in science education. Toyota can also consider expand their scholarship to not just high school teachers, but also

college students who generate innovative ideas in science and/or engineering (Toyota.com, 2010).

Toyota has lots of female drivers who have strong purchasing power and decision-making influence in the market. Studies show that women purchase about 55 percent of all Toyota vehicles in the U.S. (Edmunds.com, 2010). They should target female drivers as well as other users.

Threats:

There are similar cars competing with Toyota. In fact, after the recall, all the promotions from other brands are targeting the importance of safety which made Toyota a big embarrassment in their recall incident. The media reports also worsen the situation. The Toyota sales in US has slid 16 percent to a 10-year low back in January 2010 (Bloomberg.com, 2010). In fact, there are lots of complaints after the recall which kept Toyota busy dealing with those complaints and costing them lots of money.

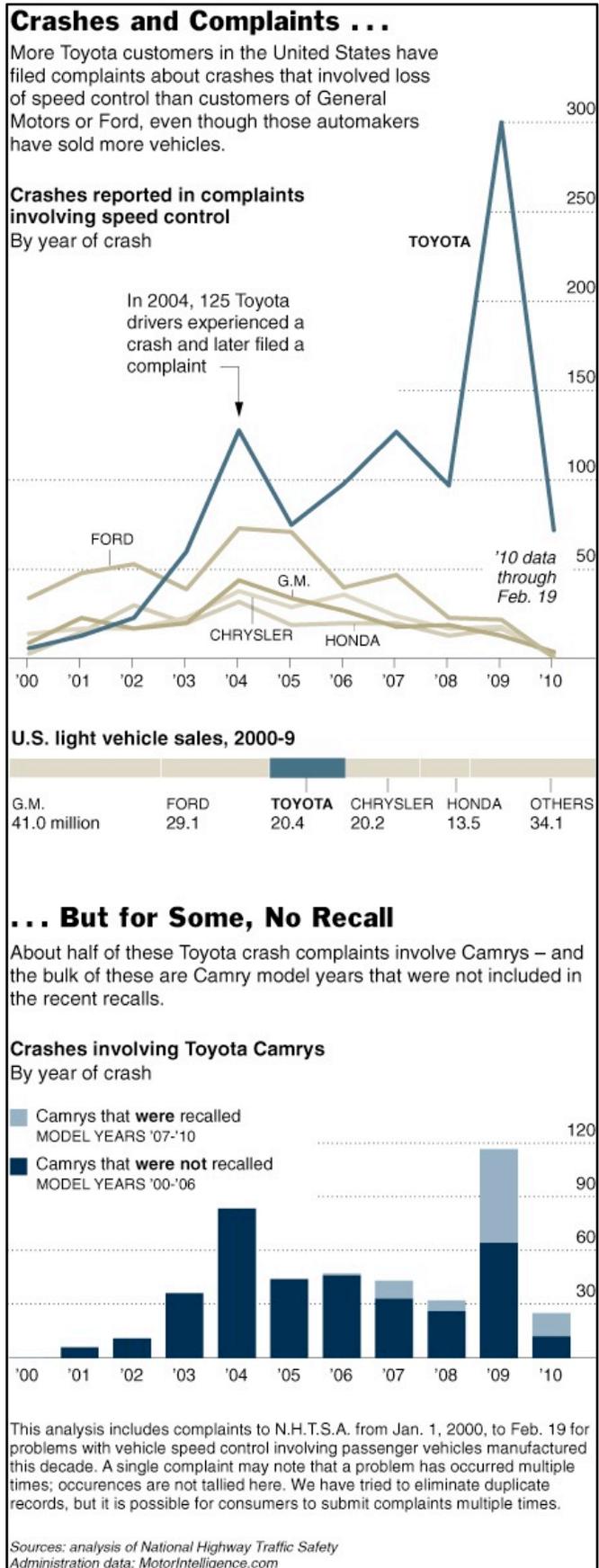
CONCLUSION

Toyota has faced a huge recall problem due to its previous management errors in production. They have been trying their best in solving the problems and recapped the philosophy brought down for nearly four decades. From the S.M.A.R.T. move to the S.W.O.T. thinking process, Toyota has survived from the mistakes and put themselves into another level in the vehicle industry. Customers have also shown their loyalty to Toyota because to various strengths and opportunities Toyota possesses. The Toyota management team should have learnt a serious lesson through this recall incident and become more effective and efficient thereafter.

APPENDIX 1: Toyota Recall: Camry Vehicles Not Subject To Recall Have Acceleration Problem

Posted by Brett Emison
Wednesday, March 03, 2010
10:46 AM EST

Source: analysis of National Highway Traffic Safety Administration data;
MotorIntelligence.com from *New York Times*



APPENDIX 2: Toyota Retail Sales, April (page 1)

TOYOTA RETAIL SALES (INCLUDES FLEET & HAWAII) April, 2010						
	— CURRENT MONTH —			-- CALENDAR YEAR TO DATE --		
	2010	2009	DSR % CHG	2010	2009	DSR % CHG
YARIS	3,862	8,118	-52.4	16,375	23,225	-28.8
COROLLA	27,932	18,534	50.7	91,672	78,132	18.5
CAMRY	27,914	25,324	10.2	96,509	92,523	5.4
VENZA	4,854	3,793	28.0	17,059	11,197	53.9
AVALON	2,812	2,066	36.1	7,612	8,460	-9.1
PRIUS	12,555	8,385	49.7	40,793	32,662	26.1
SCION xB	1,643	2,036	-19.3	6,198	7,481	-16.3
SCION tC	1,171	1,526	-23.3	4,007	5,515	-26.6
SCION xD	763	880	-13.3	2,945	3,730	-20.3
TOTAL TOYOTA DIV. PASS. CAR	83,506	70,662	18.2	283,170	262,927	8.8
ES	4,396	3,549	23.9	13,528	12,320	10.9
HS	1,076	0	N/A	4,529	0	N/A
LS	1,182	765	54.5	3,967	3,221	24.4
SC	32	83	-61.4	113	310	-63.2
GS	514	468	9.8	2,176	2,586	-15.0
IS	2,701	2,324	16.2	10,032	9,303	8.9
TOTAL LEXUS PASS. CAR	9,901	7,189	37.7	34,345	27,740	25.0
TOTAL TOYOTA PASS. CAR	93,407	77,851	20.0	317,515	290,667	10.3
SIENNA	8,688	6,181	40.6	23,078	25,848	-9.8
RAV4	14,851	11,126	33.5	55,325	39,457	41.6
FJ CRUISER	1,281	841	52.3	5,132	6,136	-15.5
4RUNNER	4,200	1,380	204.3	14,287	8,143	77.2
HIGHLANDER	7,026	5,595	25.6	27,072	21,764	25.6
LAND CRUISER	177	177	0.0	616	625	-0.5
SEQUOIA	995	1,200	-17.1	3,537	6,579	-45.7
TOTAL SUV	28,530	20,319	40.4	105,969	82,704	29.4
4X2 TACOMA	4,579	4,499	1.8	16,812	17,167	-1.1
4X4 TACOMA	4,828	4,528	6.6	17,108	16,797	2.9
TOTAL TACOMA	9,407	9,027	4.2	33,920	33,964	0.9
TUNDRA	8,949	6,156	45.4	29,106	24,505	20.0
TOTAL PICKUP	18,356	15,183	20.9	63,026	58,469	8.9
TOTAL TOYOTA DIV. LT TRUCK	55,574	41,683	33.3	192,073	167,021	16.1
LX	258	264	-2.3	1,108	1,162	-3.7
GX	746	505	47.7	5,533	2,210	152.9
RX	7,454	6,237	19.5	26,896	25,152	8.0
TOTAL LEXUS LIGHT TRUCK	8,458	7,006	20.7	33,537	28,524	18.8
TOTAL TOYOTA LIGHT TRUCK	64,032	48,689	31.5	225,610	195,545	16.5
TOTAL TOYOTA DIV.	139,080	112,345	23.8	475,243	429,948	11.6
TOTAL LEXUS	18,359	14,195	29.3	67,882	56,264	21.9
TOTAL TOYOTA	157,439	126,540	24.4	543,125	486,212	12.8
MEMO:						
DOM. COROLLA	27,173	15,353	77.0	89,086	61,883	45.4
DOM. CAMRY	27,653	24,583	12.5	95,675	90,464	6.8
DOM. RAV4	5,116	3,353	52.6	15,902	8,379	91.7
DOM. HIGHLANDER	5,861	0	N/A	21,139	0	N/A
DOM. PICKUP	18,356	15,183	20.9	63,026	58,469	8.9
DOM. RX	5,916	4,395	34.6	21,044	16,302	30.4
SELLING DAYS	26	26		100	101	

APPENDIX 2: Toyota Retail Sales, April (page 2)

TOYOTA RETAIL SALES (INCLUDES FLEET & HAWAII) April, 2010						
	--- CURRENT MONTH ---			-- CALENDAR YEAR TO DATE --		
	2010	2009	DSR % CHG	2010	2009	DSR % CHG
TOYOTA DIV. IMPORT CAR	21,014	24,867	-15.5	73,738	90,923	-18.1
LEXUS IMPORT CAR	9,901	7,189	37.7	34,345	27,740	25.0
TOYOTA DIV NA BUILT CARS	62,492	45,795	36.5	209,432	172,004	23.0
TOTAL TOYOTA CARS	93,407	77,851	20.0	317,515	290,667	10.3
TOYOTA DIV. IMPORT LT TRUCK	16,558	15,766	5.0	65,391	67,746	-2.5
LEXUS IMPORT LT TRUCK	2,542	2,611	-2.6	12,493	12,222	3.2
TOYOTA DIV NA BUILT LT TRUCK	39,016	25,917	50.5	126,682	99,275	28.9
LEXUS NA BUILT LT TRUCK	5,916	4,395	34.6	21,044	16,302	30.4
TOTAL TOYOTA LT TRUCK	64,032	48,689	31.5	225,610	195,545	16.5
SPORT UTILITY VEHICLES	35,707	26,484	34.8	134,374	105,092	29.1
Memo: Lexus Sport Utility	8,458	7,006	20.7	33,537	28,524	18.8
SMALL VANS	8,688	6,181	40.6	23,078	25,848	-9.8
PICKUPS	18,356	15,183	20.9	63,026	58,469	8.9
* NORTH AMERICAN BUILT VEHICLES						
COROLLA	27,173	15,353	77.0	89,086	61,883	45.4
CAMRY	27,653	24,583	12.5	95,675	90,464	6.8
VENZA	4,854	3,793	28.0	17,059	11,197	53.9
AVALON	2,812	2,066	36.1	7,612	8,460	-9.1
SIENNA	8,688	6,181	40.6	23,078	25,848	-9.8
RAV4	5,116	3,353	52.6	15,902	8,379	91.7
HIGHLANDER	5,861	0	N/A	21,139	0	N/A
PICKUP	18,356	15,183	20.9	63,026	58,469	8.9
SEQUOIA	995	1,200	-17.1	3,537	6,579	-45.7
RX	5,916	4,395	34.6	21,044	16,302	30.4
TOTAL	107,424	76,107	41.1	357,158	287,581	25.4
N.A. VEHICLES % OF TOTAL	68.2%	60.1%		65.8%	59.1%	
SELLING DAYS	26	26		100	101	
DSR = DAILY SELLING RATE						

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