

19. Lessons from the recent Toyota problems

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It started long back!

- Toyota had received 2000 complaints on 'unintended acceleration'
- It went thru multiple Govt investigations since 2002
- In Federal enquiries covering 2002-2005 models investigators found 20% of 432 complaints involved sudden or unintended acceleration; the rate of accidents was considered '**unremarkable**' in the context of millions of vehicles sold!
- Questions:
 - Did regulators focus exclusively on mechanical issues and not electronic?
 - Was the federal agency forceful with Toyota or accepted low hanging fruits for explanation?

What really triggered the current backlash?

- The accident happened on Dec 26 2008
- A Toyota Lexus ES 350 sedan driver called in total panic to say his accelerator was stuck.
- The crash immediately thereafter killed 4 people.
- This tragedy forced Toyota and Govt to sit up and take notice

Current state of affairs

- Toyota has suspended production in North America in 8 models
And stopped selling these cars too
- Models that Toyota has stopped selling accounted for one of every 10 new-vehicle sales in the United States in December and 57 percent of Toyota's sales in 2009. But the recalls are hurting Toyota's entire line up.
- Edmunds.com expects sales of the Toyota brand to fall 75 percent
- 9 million cars recalled
- On 5 feb 2010 Toyota CEO , Akio Toyoda apologised for the faulty vehicles.
- Chrysler and Hyundai are offering trade ins to Toyota customers

The problem

- Floor mats
- Pedal assemblies
- (In flagship Prius) malfunctioning brakes
- Questions:
 - Is Electronic system also a problem?
 - Co founder of Apple Steve Wozniak said his 2010 model Prius had an accelerator that goes wild and suggested there may be a software problem.

Government reaction

- Transportation secretary Ray LaHood told a Congressional committee that owners of recalled Toyota should take their cars off the road.
- He later backed off that remark.
- Two congressional committee hearings planned
- The Feb 10 hearing will be attended by North America CEO Yoshimi Inaba
- Japanese Govt has ordered Toyota on 3 feb 10 to investigate the brakes in Prius.

Toyota reaction

- Has been slow
- Toyota had said originally in a statement the sticking gas pedals were rare.
- Recently Toyota released a graphic showing a fix for accelerator pedals in recalled vehicles.
- It is still grappling with the problem(s)

Ford learns from Toyota and how!

- Mr. Mulally of Ford liberally borrowed from Toyota's playbook — focusing on fuel efficiency, quality and so-called global cars to sell in markets around the world.
- He even hired away a top Toyota executive, James Farley.
- **Ford posted a record \$2.7 billion profit for 2009!**
- It has \$25.5 billion in cash
- Ford never took the Govt dole!

Cause-1

- Toyota has a long standing reputation for safety and good design.
- In a mad rush to become world no. 1 did Toyota **sacrifice quality for quantity?**

Causes -2

- According to famous MIT professor and Toyota author Steven J. Spear, Toyota tragically **abandoned its continuous improvement and innovation process**, which relies on an empowered and educated workforce.
- He says
- “While studying Toyota, I met with front-line teams charged with solving problems related to quality, productivity, and safety. They were often given many months to find solutions, and, in a few cases, their work was extended beyond a year so they could master the skills of problem-identification and resolution.”
- “But in recent years **Toyota forgot its slow but steady approach**, driving instead on developing new products more quickly, building new plants and expanding supply networks.”

Causes -3

- Harvard Business School's Rosabeth Moss Kanter calls it "the 15 minute competitive advantage."
- "As many technology companies have seen to their peril, you can leap much too far into the future by **seeking revolution, not evolution, leaving potential users in the dust.** But steady progress — step by single step — can win internal support and the external race for share of market or share of mind. Especially if you take each step quickly."

Causes -4

- Did Toyota's risk management fail?
- From a traditional risk management standpoint, ignoring the problem (by paying out on the few lawsuits that popped up) may have been the "correct" choice.
- But risk models need to take into account that **human life has more intrinsic value than any amount of money paid out in claims** (or generated in sales). Using this as a condition in your model means that any loss of life directly attributable to your product should result in a resource-intensive study to determine the scope of the issue and then recall those products involved. Such actions cannot take 2 years to complete.

Next steps..

- John Paul MacDuffie, a management professor at the Wharton School said the public reaction to the recalls demonstrated that Toyota had to take major steps to address the problem — “the corporate equivalent of stopping the line,” he said.
- “Reputations take a long time to build up and they can be damaged quickly,” he added. “Right now it’s all very chaotic, and it looks pretty bad.”
- James P.Womack, however says “Betting against Toyota has been a good way to lose money”-
 - he is an author who writes extensively on Toyota.
- How Toyota comes out of this crisis will also have many lessons for us

The many lessons...

- Don't get into a rat race
- Slow and steady win the race
- Evolution better than revolution
- If your reputation is built on 'quality' platform, never ever compromise on that
- Learn to give higher weightage in your risk management when human life is at stake – the numbers do not count here- react fast to such risks
- Never become complacent
- Your best practices will be learnt by others and they may surpass /surprise you!



Source: Articles in Bnet, NY times etc.