

# Toyota's ethical issues



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Business ethics, guiding decision-makings and policies, is concerned with good and bad or right and wrong behaviors and practices within business context(Carroll and Buchholtz, 2008, p242). Based on its great influence on the thinking and acting of all economic entities, whether private companies or state-owned enterprises, business ethics has become a real hot business principle. It appertains to relations between stakeholders and shareholders, between employees and employers, between customers and corporation; it dedicated to product quality, customer satisfaction as well as social responsibility. With the imperative consensus on the reconstruction of social values, business ethics is bound to be pivot and prerequisite for business. However, Carroll and Buchholtz (2008) stated actual business ethics seems to be improving but not at the same pace as public expectations are rising(Carroll, 2008, p242). Furthermore, the economic globalization piles increasing pressure on international business ethics. From the case of Toyota's recall problem, it is drawn that business ethics is ubiquitous and affects a company's development and prosperity strongly. For the purpose of this essay, it is essential to identify its significance and implementation in enterprises.

This essay will firstly elaborate Toyota's ethical dilemma involved in its recall. Following this, it will analysis the origin that creates Toyota's ethical dilemma, with a combination of some related theories about business ethics, such as Stakeholder Model, Corporate Social Responsibility (CSR). Finally, some considerable recommendations for Toyota to address this problem will also be made.

## **2.0 Toyota's Ethical Dilemma**

### **– General Background of Toyota**

Toyota Motor Corporation is a multinational corporation headquartered in Japan. Through tremendous development, it currently boasts about 183 billion in annual sales and is the world's largest automaker, which has the business of which covers many countries and territories including America, Europe, Africa and Asia (Pride et al, 2009, p243). Since its foundation, Toyota continuously conducted business activities under the guiding principle of 'contributing to the development of a prosperous society through the manufacture of automobiles'. The guiding principle, as well as Toyota's CSR policies, serves as the foundation of its business (Toyota Official Website, 2010). However, now Toyota faces a series of embarrassment caused by its vehicle recall. In the beginning of 2010, due to a defect in its accelerator pedals, the company recalled eight million cars around the world (The Times, 2010). The global large-scale recall focalized Toyota once again.

### **– Ethical Problem Involved in Toyota's Recall**

Apart from its quality defect, more and more people began to accuse of Toyota's loss of ethics as a big business before and during its recall. Despite under multi-accusation and criticism, lacking initiative, Toyota did not respond timely. Originally, it attributed the safety issue to the floor mats and denied defective vehicles design; subsequently, its quality problems can not be covered up any longer. Nevertheless, in order for protecting its own business interests and corporate image, Toyota still took the chances and did not recall involving vehicles. Even when appearing in the U. S. Congressional hearings, Toyoda firmly insist that electronic throttle control system has nothing to do with the safety issue, throwing the issue of pedal safety to <https://assignbuster.com/toyotas-ethical-issues/>

Toyota's suppliers. More specifically, according to U. S. lawmakers, Toyota hid internal test data in its 'secret book' and refused to hand over evidence of safety defects involving its cars. At the same time, documents obtained by the Congressional Oversight and Governmental Reform Committee demonstrated that Toyota deliberately withheld key information of crash victims (The Times, 2010). Finally, Toyota could not quibble about its intention to try to conceal the defect or reduce the recall range, which is also a direct challenge to its reputation.

Clearly, Toyota's approach is not a right one that a responsible company should adopt when problems exist. To some extent, this is not a blunder of its decision-making but the lack of business ethics.

#### **– Effects of the Ethical Problem to Toyota**

At present, Toyota's recall problem seems not to be curbed but ever-widening. Having recalled a wide scope of vehicles, Toyota still has to face the U. S. criminal probe and litigation. What is more severe, with its market having been seriously affected, Toyota also suffered a crisis of confidence worldwide, which is undoubtedly a deadly threat to the world's top-ranked automaker. It is considered that Toyota has paid a terrible price due to ethical dilemma rather than quality problems.

### **3.0 Analysis and Discussion**

There are multiple reasons that caused Toyota's recall crisis, including supply chain mismanagement and its stringent cost control etc. While, the root on ethical dimension should not be neglected.

**– Toyota Attach Great Importance to Economic Benefits but Neglect Corporate Social Responsibility (CSR)**

Toyota exceeds General Motors in 2008 as the world's largest automaker. It is in this process that Toyota introduced a relentless cost control and simultaneously reduces its concern for quality. Toyota acknowledged that in the past decades, Toyota was committed to expanding business scale and economic benefits, elevating market share and lowering costs; while giving up priority to product safety. In the harsh reality of competition, Toyota gradually goes away from the traditional Corporate Social Responsibility (CSR) it has been proud of in a sense.

Corporate Social Responsibility (CSR) is a business' concern for society's welfare; a capacity to treat the stakeholders of the firm ethically or in a responsible way, and it is interpreted by managers who consider both the long-range best interest of the company itself and its harmonious relationship to the surrounding society (Lamb, 2008, p66). As for its wider aim, Hopkins(2007) suggested that it is to create the higher and higher standards of living for people both within and outside a certain company, while preserving the profitability of this focal corporation (Hopkins, 2007, p16). Corporate Social Responsibility is comprised of three concepts, including Corporate Social Responsibility(CSR1), Corporate Social Responsiveness(CSR2) and Corporate Social Rectitude(CSR3).

Banerjee (2007) defined CSR2 as the ability of a corporation to respond to social pressures. Compared to CSR1, which has a normative basis to instruct a company what should to do, CSR2 provides a more strategic and managerial focus; that is, it is about what issues a firm choose to address

and its policies and actions to address the issue (Banerjee, 2007, p20). CSR2 can be reactive, defensive or responsive. Unfortunately, Toyota adopted the reactive one; it did not make an active response, let alone an effective one. It was not until the crisis went beyond control that Toyota appeared to apologize to the consumer and explained the situation. To our knowledge, CSR2 is a part of social policy process, whose concentration is on the organizational process for determining implementing and evaluating the firm's capacity to anticipate, respond to and manage the issues and problems arising from claims of stakeholders (Sims, 2003, p51). The undisputed is that in its CSR2 process, Toyota's reaction is passive and slow all the time, which also illustrated its attitude as prevaricated, procrastinative and arrogant.

When it comes to CSR3, it refers to the moral correctness of the policies or actions taken (Carroll and Buchholtz, 2008, p56). Frederick in 1987 indicated CSR3 involved a pervasive sense of rightness, respect and humanity that would put public's values and ethics at the center of the company's concern, policies and main decision-makings (Scherer, 2008, p57-58). However, in its recall process, Toyota treated consumers in different regions in significantly differentiated way. As can be seen from Figure 3. 1, compared to the large amount of recalled vehicles in U. S. and European markets, the number of those in Japanese, in particular Chinese market is very small. In China, the world's fourth largest market of Toyota in 2009, the recalled number is only 75, 552, only accounting for one-tenth of Toyota's total sales in China, and one-third of the quantity recalled in Japan. What is more, type recalled is only the RAV4, while others are excluded. However, they belong to the list of

Camry, Crolla and Highlander that has been recalled in U. S. market. Meantime, observant people have found such a delicate situation. In the U. S., in addition to apologizing, Toyota would also pay a high cost, which is comprised of not only the huge recall loss and kinds of fine, but also claims from U. S. consumers. Yet for Chinese consumers, Toyota is unwilling to provide alternatives, let alone financial compensation. Undeniably, Toyota is quite familiar with the hidden rules in Chinese auto market, where a comprehensive recall system has not been established, and it is adopting an 'appropriate' way in accordance with Chinese law to deal with the recall. However, for Toyota—a company who always seek excellence, not breaking the relevant laws and regulations is not enough to convince people. In the CSR3 context, Toyota did not serve Chinese customers who are the same important to it equally. Although within the law, its discrimination against Chinese consumers is not an ethical behavior.

Source: China News (up to 10 February, 2010)

### **-Toyota Puts its Focus on Shareholders but not Stakeholders**

From a general view it seems that corporate stakeholders show the trend of proliferation and diversification. Therefore, it is necessary to clarify and thus effectively balancing the interests and needs of various stakeholders. To achieve this, it can draw reference to the Shareholder and Stakeholder Model. The Shareholder Model, known as an external and independent orientation, is to improve the wealth prospects of investors. On the contrary, firms who adhere to the Stakeholder Model promote an internal control focus and will promote its performance and thereby offer favorable returns for stakeholders who share an interest in the company. This will stimulate a

supportive and positive environment for the company (Kakabadse, 2004, p234). In the recall, the stakeholders facing Toyota is not just consumers, but also government, regulators, competitors and media etc.. Hence, Toyota should not only be quick to solve problem in recall, but also be cautious to balance its stakeholders' expectations and needs. Kakabadse (2004) also pointed that the pursuit of profit for shareholders may become secondary when aim of Shareholder Model sharply conflict with the broader stakeholder's requirements. Put in another way, Stakeholder Model should be preoccupied with wealth creation for shareholders; if not, there will exist great contradictions between corporates' economic benefits and stakeholders' interest, leading enterprises into ethical censure. Toyota's recall problem is just a typical. Toyota, addicted to the competition with General Motors, has been expanding its global scale. However, its proud 'Lean Manufacturing' loses control after rapidly spreading all over the world, with the balance between minimum cost and optimal products being broken. In order to maintain constant revenue, Toyota place cost reduction overwhelmed, largely abandoning stakeholders' interests; therefore its product quality problems are boomed to arise. In a sense, it is because Toyota ignored a balance of interests of stakeholders that contributed to its present ethical dilemma.

## **Recommendations**

### **– Restore the Situation**

Now the primary task for Toyota is to contain the intensified situation. It has been found that product recall has become one of the recognized best practices to maintain corporate reputation when quality problem and crisis



emerged. So it is acceptable that Toyota recall all of its defective vehicles regardless of their amount. Although great expenditure on recall is unavoidable and the brand may be frustrated severely, but consistent large-scale recall will allow consumers to experience Toyota's sincerity and faith; that is, its ethical commitment as a responsible big business, which will enable Toyota to win more loyal customers. From the viewpoint of long-term, it is still beneficial and adoptable. At the same time, compared with that about its vehicle defects, the criticism is more about Toyota's passive attitude. So Toyota should lower its profile to actively cooperate with all involved stakeholders including those investigation departments to expect a clear description of the incident.

#### – **Re-establish Image and Credibility**

To a certain extent, Toyota's original good image in the minds of consumers has been subverted because of the recall. If Toyota had made sincere response to consumers, the product problem may not turn into today's huge crisis. So it is urgent for Toyota to take positive actions and re-establish its image and credibility. Some practical ways to be considered are as follows. Firstly, Toyota must re-win consumers' confidence and support. On the one hand, it could modestly listen to customers' opinions and feedback to effectively address their concerns; on the other hand, Toyota may visit its clients frequently to show its stick to quality and safety; last but not the least, it must act in a moral way to treat every consumer fair. Overall, Toyota should spare no efforts to get customers' understanding and continued support. Secondly, Toyota could actively cooperate with some powerful media who act as the government's mouthpiece to publicize its ' correct

behaviors'. With positive publicity or promotion of those media, it is feasible for Toyota to re-create its image as a noble company and to restore consumers' confidence to it.

– **Revise its Vulnerabilities**

Business ethics, as the same as a company's commercial objective, can be achieved by management. Among them, communication plays an essential role. Besides, the reason why Toyota fell into troubled water is not just confined to those ones stated above; it is also because Toyota failed to meet the expectations of international media and consumers to handle problem crisply. Because there exist flaws on the respect of its communication management. In fact, as a multinational corporation, Toyota still followed the traditional Japanese-style communication, which is often procrastinative and burdensome. Meanwhile, as far as the balance between the interests of stakeholders is concerned, the issue worthy to review for Toyota is still its management of communication with its stakeholder. However, it is never too late to correct. The lessons drawn from this crisis is that Toyota should stress and enhance its communication management. Moreover, for Toyota, strategic communication should be emphasized, which should be used not only as a means or method of conflict resolution, but also as a tactic from the strategic perspective. To establish strategic communication, it is far enough to launch kinds of internal and external communication mechanisms; what is more important, various communication methods, such as international public relations, lobbying and advertising etc. should be made the most of. On the basis of communication's great importance for

multinational company to solve or eliminate ethical conflict, Toyota should pay attention to it.

## **Conclusion**

Laura Hartman (2003), past president of the Society for Business Ethics, said that business ethics, whose focus is on corporate citizenship and ethical management behaviors, recognizes principled leadership, moral awareness and participates in social changes (Vega, 2007, p648). However, in the process of business internationalization, the biggest challenge facing a company derived not only from its business objective, profit, the strategy and the technology; but also from the lack of business ethics, which support its ongoing survival. Toyota is one that suffered ethical crisis caused by its vehicle recall. It attaches much more importance to economic benefits than Corporate Social Responsibility, and also focus on shareholders but not stakeholders; all these produced its current ethical dilemma. As can be seen from the Toyota case, an enterprise, even a big one, must respect ethical issues. In this regard, an effective communication, as a tactic or a strategy, can help to solve ethical conflicts and balance interests of stakeholders.

In short, business ethics is going from the edge to the center of management and becomes the strategy of corporation. So any corporation should value ethics and regard it as the starting point of any decision-making and action. Only when its wealth objective is consistent with the expectations and request of both the public and society, it can get enough support and achieve further success.