

Case study of toyotas vehicle recall management essay



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This study focuses on the risk of reputational damage from a crisis situation and uses the Toyota recall crisis as a case study. The study examines Toyota's actions – as relates to preserving its reputation – as more than 8 million of its motor vehicles are recalled from 2009-2010. In order to do this, Toyota's actions are benchmarked against critical risk factors identified in the Roads to Ruin report conducted by Cass Business School for Association of Insurance and Risk Managers in Industry and Commerce (AIRMIC).

The findings from the case revealed that a serious breakdown in Toyota's culture and a violation of its clearly stated principles of quality and customer-focus were the root causes of its reputational decline. Upon closer examination of the Toyota case, we find that the Toyota crisis escalated majorly because the company seemed to have no plan whatsoever to prepare for a crisis of the magnitude it faced and hence failed to protect its reputation. The case goes on to highlight various risk management that can be incorporated by businesses, managers and CEOs to preserve their reputation in crisis situations and avoid common pitfalls that lead to reputational decline.

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Executive summary

This paper explores the subject of corporate reputation and the risk a crisis situation poses to a company's reputation. The main objective of this study is to extract risk management lessons from a crisis situation that can be used by managers and CEOs to avoid reputational decline in similar circumstances. The paper is structured as a case study that focuses on

Toyota Motor Corporation as it faced the greatest threat to its reputation – the recall of its vehicles in 2009. It explores key factors that made Toyota vulnerable during the recall and explores the effects of the recall on Toyota's reputation.

In order to determine the underlying risk factors that exacerbated the crisis, Toyota is benchmarked against critical risk factors identified in the 'Roads to Ruin' report – a research report on risk management by Cass Business School for AIRMIC. The report was chosen because it provides a rich source of lessons about risk, risk analysis and risk management by detailing over one hundred specific 'lessons about risk' from different case studies of companies in reputation-damaging crisis situations.

Upon closer examination of the details of the Toyota case, we find that Toyota's reputation was damaged because the company seemed to have no plan whatsoever to prepare for a crisis of the magnitude it faced and hence failed to protect its reputation. Amongst other reasons for Toyota's reputational decline were these factors: management were not communicating effectively with stakeholders during the crisis; decision making was centred in Japan where the company was head-quartered making the crisis response very slow. We also find that Toyota shelved its corporate values which made it a symbol for quality in its quest for growth.

In order to understand the Toyota crisis, the paper starts off with a brief introduction of Toyota Motor Corporation, highlighting its businesses and its reputation before the recall crisis. A timeline of the recall is also included to provide an overview of the flow of events during the period under review.

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Literature on corporate reputation, its importance and ownership is reviewed in the second part of this study whilst chapter three sets out the methodology employed in this study. Chapter four and five represent the crux of this work – examining Toyota’s actions in more detail. The research work ends with important recommendations for managers for preserving reputation in a crisis situation.

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CHAPTER 1: Introduction

“ Glass, China, and reputation are easily cracked, and never well mended.” - Benjamin Franklin.

A few years ago, if we talked about companies with good reputations, the Japanese carmaker Toyota might have been mentioned. 2008 in particular was a good year for Toyota; Toyota was arguably one of the top brands worldwide, scoring high points for reliability and product quality on various reputational studies. It was the 6th top brand in the world according to interbrand’s ‘ Top 100 brands in the world’ list and was highly reputed for its reliability, customer-focus, and world-class quality. By the 27th of February, 2009, Toyota had moved up to third place on the “ World’s Most Admired” list, behind only Apple and Berkshire Hathaway. The company had the coveted ‘ AAA’ rating from Fitch and customers and car-enthusiasts alike had come to equate Toyota with quality. Even the company’s philosophies, visions and advertising campaigns were unequivocal in stressing its commitment to quality

However as Toyota recalled vehicle after vehicle in 2009, its pristine reputation for quality was badly damaged. Toyota literally drove into a reputational crisis like it had never seen before; the crisis was exceptionally damaging to the company's reputation as it struck its perceived core competence – safety and quality.

Company Background

TOYOTA MOTOR CORPORATION is a Japan-based company mainly engaged in the automobile and financial business. The Company operates through three business divisions. The Automobile segment is engaged in the design, manufacture and sale of car products including passenger cars, minivans and trucks, as well as the related parts and accessories. The Finance segment is involved in the provision of financial services related to the sale of the Company's products, as well as the leasing of vehicles and equipment. The " Others" segment is involved in the design, manufacture and sale of housings, as well as information and communication business.

For its automotive operations – which is the focus of this study- Toyota produces and sells passenger cars, minivans and commercial vehicles, such as trucks. Toyota's vehicles can be classified into two categories: conventional engine vehicles and hybrid vehicles. Toyota's product line-up includes subcompact and compact cars, mini-vehicles, mid-size, luxury, sports and specialty cars, recreational & sport-utility vehicles, pickup trucks, minivans, trucks and buses. The Company's subcompact and compact cars include the four-door Corolla sedan and the Yaris.

In North America, Europe and Japan, Toyota's luxury line-up consists primarily of vehicles and other luxury sport-utility vehicles sold under the Lexus brand name. Toyota sport-utility vehicles available in North America also include the Sequoia, the 4Runner, the RAV4, the Highlander, the FJ Cruiser and the Land Cruiser, and pickup trucks available are the Tacoma and Tundra. Toyota also sells the Century limousine in Japan. Toyota's product line-up includes trucks (including vans) up to a gross vehicle weight of five tons and micro-buses, which are sold in Japan and in overseas markets. Trucks and buses are also manufactured and sold by Hino, a subsidiary of Toyota. Hino's product line-up includes large trucks with a gross vehicle weight of over 11 tons, medium trucks with a gross vehicle weight of between five and 11 tons, and small trucks with a gross vehicle weight of up to five tons.

More than its cars, Toyota is well known for its 'TOYOTA WAY' – a set of principles and behaviours that underlie the Toyota Motor Corporation's managerial approach and production system. These principles have been taught in various business schools and adapted in various organisations. The principles are summarised in the figure below:

Figure : The Toyota way (Source: Hispage TONOWay)

1. 2 The Recall Crisis

Toyota's recall fiasco took a disastrous turn on the 28th of August 2009 in San Diego, California. According to news reports, Mark Saylor and his wife, daughter and brother-in-law (Chris Lastrella) were killed when their Lexus, on

loan from a dealer, careened out of control at more than 100mph, collided with another vehicle, and crashed into a ravine, setting the car ablaze.

Figure : Inset is a picture of the vehicle after the accident (Source: PowayPatch)

The family's high-speed tragedy was captured via a 911 call; the fear in the caller – Chris Lastrella's voice was apparent as he said ' there are no brakes... we need to pray' and finally, their high-pitched screams as the car crashed.

Over the next six months following this incident, Toyota would issue three separate recalls related to vehicle speed control for over 8 million vehicles; costing the company hundreds of millions of dollars in sales and immeasurable reputational damage. As the crisis intensified, Toyota became the target of adverse media attention with criticisms coming from various stakeholders for its actions during this period, and for its delay in identifying the fault and recalling the affected vehicles.

1. 3 Timeline

This section provides a chronological flow of the events leading up to and surrounding the recall crisis

2000 A cost cutting exercise called “ Construction of Cost Competitiveness for the 21st Century” is launched by Toyota with the aim of reducing the cost of 180 car parts by 30% and saving \$10 billion by 2005.

31-12-04 Toyota's vehicles accounted for about 20% of all unintended acceleration complaints filed with National Highway Traffic Safety Administration (NHTSA), up from 4 percent in 2000.

26-09-07 First " floor mat" recall in US of 55, 000 vehicles to correct possible driver's floor mat causing accelerator pedal entrapment.

28-08-09 Off-duty California Highway Patrol officer Mark Saylor is traveling on Highway 125 in Santee, California (northeast of San Diego), with three family members, when the 2009 Lexus ES350 he is driving suddenly accelerates out of control, hits another car, tumbles down an embankment and catches fire. While the car is careening down the highway at speeds estimated to exceed 100 mph, his brother-in-law calls 911 and reports that the car has " no brakes." All four are killed in the ensuing crash.

14-09-09 Preliminary reports from Toyota and local authorities indicate that the Lexus, which had been on loan from Bob Baker Lexus of San Diego, where Saylor's personal Lexus vehicle was being serviced, may have had the wrong floor mats installed, interfering with the gas pedal.

29-09-09 Toyota announces it is recalling the floor mats on 4. 2 million Toyota and Lexus vehicles.

2-10-09 Newly installed Toyota CEO Akio Toyoda publically apologizes to the Saylor family members killed in the accident and to every customer affected by the recall.

30-10-09 Toyota begins sending letters to owners notifying them of an unspecified upcoming recall to fix the unintended acceleration issue. In the letters Toyota says “ no defect exists.”

2-11-09 NHTSA takes the highly unusual step of publicly rebuking Toyota, calling a company press release re-iterating the statements made in the 30 October letter to owners “ inaccurate” and “ misleading,” noting that the floor mat recall was an “ interim” measure and that it “ does not correct the underlying defect.” Toyota publicly apologizes.

02-11-09 Second “ floor mat” recall in US of 3. 8 million Toyota and Lexus vehicles to correct possible driver’s floor mat causing accelerator pedal entrapment.

25-11-09 Second recall of 3. 8 million vehicles amended to additionally reconfigure accelerator pedal.

26-12-09 A Toyota Avalon crashes into a lake in Texas after accelerating out of control. All four occupants die. Floor mats are ruled out as a cause because they are found in the trunk of the car.

21-01-10 Toyota recalls another 2. 3 million Toyota-brand vehicles because of a problem with the gas pedal. Toyota says “ a rare set of conditions which may cause the accelerator pedal to become harder to depress, slower to return or, in the worst case, stuck in a partially depressed position.” The company says the new recall is unrelated to the floor mat recall, but also announces 1. 7 million Toyota vehicles would be affected by both recalls.

26-Jan-10 Toyota stops selling eight models in the US after being sanctioned by the NHTSA to halt selling vehicles with acknowledged defects. Toyota does not say why it has waited five days to stop sales after announcing the recall.

29-Jan-10 Recall extended to 1. 8 million Toyotas in Europe and China.

02-Feb-10 U. S. Transportation Secretary Ray LaHood sharply criticizes Toyota's response to the accelerator pedal concerns, telling the Associated press that Toyota may be " a little safety deaf" and that " while Toyota is taking responsible action now, it unfortunately took an enormous effort to get to this point."

09-Feb-10 Recall of 437, 000 Prius vehicles and other hybrid vehicles worldwide to correct possible faulty hybrid anti-lock brake software

23-Feb-10 Public hearings of various committees of the U. S. House of Representative regarding the Toyota safety issue. At the hearing, Toyoda publicly apologizes before Congress and pledges renewed commitment to quality and safety from Toyota.

24-Feb-10 Akio Toyoda, president and CEO of Toyota, issues the following statement at the congressional hearing:

" Toyota has, for the past few years, been expanding its business rapidly. Quite frankly, I fear the pace at which we have grown may have been too quick. I would like to point out here that Toyota's priority has traditionally been the following: First; Safety, Second; Quality, and Third; Volume. These priorities became confused, and we were not able to stop, think, and make <https://assignbuster.com/case-study-of-toyotas-vehicle-recall-management-essay/>

improvements as much as we were able to before, and our basic stance to listen to customers' voices to make better products has weakened somewhat. We pursued growth over the speed at which we were able to develop our people and our organization, and we should sincerely be mindful of that. I regret that this has resulted in the safety issues described in the recalls we face today, and I am deeply sorry for any accidents that Toyota drivers have experienced. Especially, I would like to extend my condolences to the members of the Saylor family, for the accident in San Diego. I would like to send my prayers again, and I will do everything in my power to ensure that such a tragedy never happens again."

1.4 Aims and Objectives

The Toyota case study is an insightful one as it involves the review of management response in a crisis situation that involved major loss of lives and regulatory action. By focusing on Toyota's management response, the aim of this study is to provide useful recommendations for preserving corporate reputation in a crisis situation. The work will focus on Toyota's response, its crisis management and the effect of the crisis on the company's reputation. In so doing, the author aims to extract essential risk management lessons from the case.

The objectives of this study are to:

Trace the underlying cause of the crisis using the risk factors identified in the Roads to Ruin Report by Cass Business School for AIRMIC.

Evaluate the impact of the incident on the ratings, profitability and reputation of the company.

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Evaluate the actions of the CEO, highlighting what he did well and what he did not do so well.

Outline the main consequences of the crisis for shareholders and other stakeholders

Outline the key risk management lessons to be learnt.

Every reputational crisis is different and there is no panacea for a reputational crisis but this research work seeks to provide a valuable tool for protecting and managing reputational risk when a crisis occurs.

In order to fulfil the objectives listed above, the following research questions will be answered:

What made Toyota particularly vulnerable during the recall crisis?

How did the recall crisis and its ensuing consequences affect the financial position and reputation of the company?

How was the recall handled?

How could it have been better handled?

What lessons can be learnt such that a future crisis is managed better?

What was the impact of failing to meet its stakeholder's expectations on Toyota's reputation?

CHAPTER 2: Literature Review

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To see ourselves as others see us!

It wad frae monie a blunder free us,

An' foolish notion

Robert Burns

Every individual, every company, every organisation – be it a large multi-national or a small food kiosk by the corner- have one thing in common; a reputation. Over time, ' every contact, every media mention, every rumour, every leak, every piece of gossip (whether true or not) will play its part in forming an overall impression of an organisation's standing'. This built up reputation not only has a significant impact on share price; but also influences the strength of the brand and determines its competitive advantage amongst its peers. As Bill Margaritis puts it: ' a strong corporate reputation is a life preserver in a crisis and a tailwind when you have an opportunity'

2. 1 Corporate Reputation: An Overview

In recent years, the idea of reputation as a strong business asset has received increased recognition in management literature. Series of publications have appeared dealing with the benefits of positive corporate reputations, risks to reputation, and reputational risk management. This increased interest grew out of a realization that an organization's reputation is a major determinant for its short run and long run success and differential advantage in any business environment. Furthermore, the last decade has seen many of the world's most admired companies descend from their once

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lofty positions. In light of all these, it is not a surprise that corporate reputation has started to feature prominently on Swiss Re's and Aon's study of the top ten risks identified by corporate executives. This emphasises the point that management and other stakeholders have started to see the importance of corporate reputation and the various factors that make up the reputation of their firm.

Fomburn (1996) defines reputation as the 'overall estimation in which a company is held by its constituents' which can be formed based on 'the net perception of a company's ability to meet the expectation of all its stakeholders'. This perception will usually be based on both the organisation's actions and inactions such that 'everything an organisation does, and does not do, has a direct impact on their reputation' Dolphin (2004). Other authors, such as Bromley (2001) emphasize the differing nature of reputation and describe reputation as 'the distribution of opinions about a person or organisation'

A more balanced view of corporate reputation according to (Warwick, 1992) is the view that corporate reputation is in itself an aggregate evaluation made by stakeholders of how well a company is meeting stakeholder's expectations based on its past behaviour. (Atkins, et al., 2006), also address corporate reputation and reputational risk from this perspective and define reputational risk as the 'threat to a company's reputation resulting from a failure to meet stakeholder's reasonable expectations of an organisation's performance or behaviour'. 'Corporate reputation should (also) be considered in terms of its historical context, i. e. a corporation's track record.

A company's standing in the community and in the marketplace all help shape its reputation' Fomburn (1996).

A ' reputation is much more than brand image, and includes factors such as trust in the organisation's integrity and how it will conduct itself in the future, both at the corporate level and through the actions of its management and staff.' . (Atkins, et al., 2006). It is also an important form of corporate capital that determines to a large extent the company's worth, quite simply, it is ' an index of a company's worth or value' (Bromley, 2000). In determining corporate value, most authors have come to agree that a reputation is an indicator of a company's future performance. ' A favourable reputation is powerful enough to convince the undecided to choose a certain product or service and dissuade existing customers from moving to a competitor; whereas a damaged reputation can be irreparable and in extreme cases, lead to a company's down fall' (O'Rourke, 2004). ' In order to build a favourable reputation, four attributes need to be developed: credibility, trustworthiness, reliability and responsibility'.

Reputation is in itself intangible, untouchable and most times immeasurable. ' Reputation often can't be quantified, compared against hard benchmarks or analysed in the same way as financial or other numerical data. Its management requires softer skills such as sound judgement, an ability to anticipate future trends and requirements, understand stakeholder concerns, listen carefully, consider dispassionately and respond constructively.'

(Rayner, 2003). A ' good' corporate reputation can take many long years to build; it can be destroyed in an instant through an ill-considered ' off-the-record' remark, a lapse in personal behaviour, an ethical blunder in the <https://assignbuster.com/case-study-of-toyotas-vehicle-recall-management-essay/>

supply chain or an inadequate response to a crisis. In the words of Warren Buffet who is considered the most successful investor of the 20th century ‘ it takes twenty years to build a reputation and five minutes to destroy it’.

An area where authors share different views is as regards ‘ ownership of reputational risk’. The first school of thought argues that one person or a group of people be appointed with the sole responsibility of preserving the company’s reputation. It is probably due to the inefficiencies of some CEOs over the years in safeguarding reputation that some authors argue that a reputation officer or a reputation department be charged with the responsibility of handling and sustaining the corporate reputation. Others have criticised this view for various reasons, the main one been that, appointing a chief reputational office tends to remove the awareness of the importance of safeguarding corporate reputation from the Board of Directors and other top executives.

Another school of thought is the one which states that every member of the organisation is responsible/accountable for the corporate reputation. As good as this argument might sound (it does make some sense for everyone in the organisation to be aware of maintaining the organisation’s good name), the loophole is in the danger that this leaves the accountability for corporate reputation as everyone’s task which in most times equals no one’s task.

The third school of thought argues that the responsibility for corporate reputation should rest on the CEO. According to this school, various studies have shown that CEO’s understand the importance of a good reputation and hence should safeguard it. However, studies have also shown that few CEOs

put any structure in place to safeguard the reputational asset of the organisation. It is disappointing to note that many CEO's who are supposed to be the custodians of the company's reputation have actually been the villains responsible for tarnishing the company's reputation. (This was certainly the case with AIG's Hank Greenberg).

One important reason why CEOs should be responsible for reputational risk rests on the fact that when people think of a company, they are usually thinking of the CEO, with his actions/inactions invariably contributing to the reputation of the organisation. As Dr Leslie Gaines-Row pointed out in an interview, failure to maintain a good reputation should rest squarely on the shoulders of the CEO because in her own words:

' CEOs increasingly find themselves in the spotlight during crises and are without question a strategic player in reputation recovery. Their success in managing reputational difficulties is one of the determining factors in whether stakeholders retain confidence in the company and believe that reputation will eventually be restored. For this reason, failure to maintain a good reputation rests squarely on the CEO's shoulders. ... (Studies show) that nearly 60 percent of the blame is attributed to the CEO when crisis strikes. As the company's public face during times of crisis, and the company's chief reputation officer, the CEO should remain visible, and communicate honestly, transparently and proactively. CEOs must also present themselves to stakeholders, whether it is customers, financial analysts or employees, consistently with the company's vision, code of conduct and values. By taking responsibility, acting quickly and

compassionately, listening carefully, and establishing clear priorities, the CEO can set an example for reputation recovery for the entire organization.'

' Reputation is the most important asset entrusted to a CEO' (Schreiber, 2011). Not all CEOs recognize that, but a growing number do. In a 2009 global study, AON Insurance asked 551 CEOs to rank the relative importance of 31 risk factors. Reputation was ranked No. 6. In past AON studies before the current financial crisis, reputation was the top-ranked CEO risk factor. But, what is troubling is that two-thirds of the respondents had no " formal reputation risk plan" in place, and that figure has not changed substantially'.

2. 2 Effects of a Favourable Corporate Reputation

Strong reputations act as cushions in case of a crisis and have the ability to protect a company from harm caused by a crisis. ' A favourable prior reputation protects the organisation's reputation during a crisis in two aspects: it gives the organisation the benefit of doubt, which means that if a consumer holds a general favourable view of the company, the consumer might assign the company less crisis responsibility which in turn result in less reputational damage from the crisis; secondly, it acts as a shield, which serves as a part of the larger psychological phenomenon of expectancy confirmation, emphasizing that stakeholders will focus on the positive aspects of the organisation and ignore the recent negative information created by the crisis (Coombs and Holladay). In these ways, a good prior reputation perceived by consumers has the potential to reduce attributed crisis responsibility and dismiss the impact of the crisis. Strong, trustworthy reputations will usually always mean greater resilience in crisis situations. '

The occasional lapse of a reputationally strong company is likely to be <https://assignbuster.com/case-study-of-toyotas-vehicle-recall-management-essay/>

regarded as a one-off aberration, because it has a solid track record and its values and business ethos are clearly understood' the reaction will most probably be a shrug and a 'that's not like them' rather than a 'there they go again' (Rayner, 2003).

A typical case is that of oil companies who were ranked rather low in public opinion. In cases where oil companies have faced major crisis, consumers have been less sympathetic with these corporate group. The BP case and the Exxon Valdez case are typical examples. A study in the late 1990s of the performance of US companies during the 1987 stock market crash found out that the shares of the ten most admired companies dropped less and recovered faster, while the shares of the ten least admired companies plunged three times as far – a very strong indication that having a good corporate reputation can pay real dividends.

Various authors have identified several benefits of a good corporate reputation:

(Atkins, et al., 2006) state that a good reputation is 'highly valuable and can benefit a company enormously. Potentially, it can result in:

Banks being willing to supply loans on more favourable rates and terms:

Good employees being attracted to work for the organisation, and their services being retained

Investors being more likely to place their capital in the firm;

Improvement in sales

Maintenance and enhancement of market share

Public perception of the organisation as an asset to the society in which it operates

(John & Croft, 2003), identify similar benefits:

Securing profits and future cash flows

Attracting new business partners

Securing investment

Attracting new customers – word-of-mouth

In→, uencing political and legal affairs

Human capital: retaining good staff and attracting the best employees

Allowing easier entry to new markets and brand extensions

Enabling successful mergers and acquisitions

Helping to reinforce relationships with suppliers and distributors and other direct stakeholders

Enhancing relationships with NGOs or corporate activists that potentially could be aligned against you

2. 3 Area of Further Research

One area of interest for future research work identified while carrying out this research work is on handling reputation risks from social networking

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sites and other online media sources – the so called web 2. 0. Web 2. 0 allows users to interact and collaborate with each other in a social media dialogue and the mediums include social media sites like Facebook, blogs, twitter and other mediums which allow people to freely air their opinions. This area is important because in recent times, a lot of companies have had their reputation damaged through web 2. 0 mediums. What makes web 2. 0 dangerous is that response time is very limited; the most time an organisation has to squelch rumours or avoid a reputational disaster is 24 hours. It would be immensely helpful if further research is done into helping companies and various organisations cope with the risks from these mediums.

CHAPTER 3: Data Collection and Research Methodology

3. 1 Data Collection

Data has been collected from a wide range of secondary sources; newspaper articles, academic journals and online resources. This study was also based on documents from five categories of media: (i) print newspapers, (ii) online editions of print newspapers, (iii) the Associated Press newswire, (iv) Blogs, and (v) Internet forums.

3. 2 Methodology

The research is tailored as a case study. This method gives a multi-perspective approach, incorporating the views of direct stakeholders, indirect stakeholders and the interactions between these two groups.

This case study will be based mainly on secondary data. The paper will comprise the collection of secondary data from a broad variety of sources

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such as business academic journals, books, reports, newspapers and internet articles on the Toyota vehicle recall crisis. All information will be taken from the public domain and the author has put into consideration the possibility of errors in press reports and other sources.

The research will use various underlying risk classifications identified in the ‘ Roads to Ruin’ report by Cass Business School for AIRMIC to trace the underlying cause of the crisis. The ‘ Roads to Ruin’ report is a highly valuable guide for this research as it investigates the origins and impacts of over twenty major corporate crises of the last decade. The report was chosen because it provides a rich source of lessons about risk, risk analysis and risk management detailing over one hundred specific ‘ lessons about risk’. This will be particularly helpful as I develop my recommendations on this subject. A crisis communication framework developed by (Lukaszewski, January/February 1999) would also be used to analyse Toyota’s crisis response.

CHAPTER 4 Review of the Recall Crisis

In this chapter, the author shall in line with the research objectives, test the effectiveness of Toyota’s reputational risk response to seven key risk areas identified in the Roads to Ruin report and in so doing trace the deeper cause of the crisis.

According to the report, these key risks areas include:

Board skill and Non-Executive Directors (NED) control risks -risks ar