

Toyota recall crisis



Corporate Risk Management Coursework – Toyota Recall Crisis Report to Senior Management Introduction Over the last few years Toyota has been under a lot of pressure as a result of the increasing number of complaints over defective accelerator pedals being reported. Various events and decisions led to the largest recall in the company's history. The way that Toyota managed the crisis affected not only the company's reputation but it also disrupted the car industry as a whole.

The aim of this report is to analyse how Toyota handled the crisis, identify the main issues in their crisis and risk management, and give recommendations/point out important aspects in their strategy that need to be improved. a) Why Toyota failed to identify the risk factors that led to the recall crisis? In this section we are going to discuss the main mistakes Toyota made that prevented the company from identifying important risk factors. By looking at the key types of risks to which the company is exposed, we are going to analyse how Toyota failed to coordinate its activities with regards to risk.

Being the most efficient car manufacturer in the world, Toyota is, nevertheless, exposed to a wide range of risks. Therefore, a main objective for the company should be to identify what lies in the heart of the business, and how the risks associated can be eliminated or mitigated effectively. The root cause of the company breakdown was ultimately due to their pursuit of growth. Since Toyota wished to supersede General Motors as the world's leading automotive manufacturer, this drove them to expand their business at such a rate which in turn led to the neglect of important risk factors.

Operational risk Product development – For a leading car manufacturer it is of paramount importance to ensure products are manufactured at the highest standard possible and then thoroughly tested before being released on to the market. However, Toyota apparently failed to conduct enough analysis and tests on new vehicles before introducing them on the market. As found by the NHTSA, floor mat entrapment has been the cause of a crash involving a 2007 Toyota Camry in September 2007.

Events of this type, happening in the course of a few years, raised questions on how such flaws have not been recognised originally and how they passed quality control. Reputational risk • Presence in the public eye – Being one of the leading car manufacturers in the world, Toyota has built an image of a company with values, such as accountability, performance and efficiency. However, they appeared to neglect those principles, when the complaints about their vehicles started arising.

Instead of taking responsibility for the situation at first in front of the public, they were too confident, encouraged by their increasing sales on the US market. They failed to address the issues, and thus started losing consumer trust. Moreover, the CEO, Akio Toyoda, did not appear much in the public eye, further undermining the company's reputation and his own. Media, consumers and regulators were left to make their own judgement for the events to come, which soon resulted in decreasing sales and market price for Toyota. Strategic risk Capital/Resource allocation – In 2000 Toyota launched the 'Construction of Cost Competitiveness for the 21st Century' program. The idea of reducing costs led to significant savings for the company but at the same time it exposed it to various risks. For instance, lower costs

sometimes are associated with reduced quality of the parts used in the cars.

Human capital • Internal Communication/Coordination - Often, when there is a lack of open communication between staff and management problems can be ignored until they transform into a major crisis.

In companies such as Toyota there is a hierarchical approach to management. Junior employees are usually most likely to spot early signs of a crisis but they are often unable to communicate effectively with senior management.

• Training – The employees at Toyota were apparently not well trained to handle a crisis. Had they received the right preparation, they could have reduced the negative effect the crisis had on the company. The question arises as to whether sufficient resources were allocated to investigating the problem.

Many customers were registering their complaints but they were continually ignored until the problem was allowed to expand on to a global scale. Later, when it was identified in different countries, Toyota failed to formulate a link connecting all these predicaments due to a lack of sharing safety information across their global network. Toyota extended their internal resources and their supply chain to aid their desire to dominate the automotive world.

Because majority of the parts used in automobiles are from third parties Toyota needed to ensure that supply chain monitoring was taking place effectively.

Evidently they failed to do this since the accelerator pedals that led to the recall of almost 2.3 million cars were made by a third party supplier, CTS Corp. One may further ask as to whether the problem, once it had become

apparent, was given its due priority. With Toyota constantly finding ways to expand its business, improving customer safety was lower in their priority list. Instead, they concentrated their efforts more on investment in other projects such as developing their latest hybrid engine.) In this section we are going to analyse how Toyota handled the crisis and discuss what they should have done in order to prevent it from having such a considerable effect on the company. How Toyota handled the crisis: The way Toyota handled the crisis was definitely mismanaged. On one hand, they tried to respond when problems were identified. However, the key problem with this response was that they dealt more with the aftermath of the crisis, rather than the crisis itself, because the most effective crisis management takes place before the problem gets out of control.

When the sticky accelerator pedals made by their suppliers were identified, Toyota notified owners. However, they informed that 'no defects exist'. Shortly after that, the NHTSA, the organisation who regulates the safety of cars, gave a press conference revealing that these letters sent to owners were 'misleading' and 'inaccurate'. This showed there was a clear lack of communication within the company's departments and a major incompetence whilst handling the situation.

Additional recalling led to shutting down assembly lines in order 'to assess and coordinate activities'. To compound with the existing issues they had, Toyota suffered from both direct and indirect losses, such as the impact on revenue, cash flows, human capital and reputation. On the other hand, they did realise there were problems and made efforts to deal with them but the speed at which they were working was a significant issue as there were

unanswered questions into how these flaws were not identified originally and how they passed quality control.

Furthermore, Toyota is well known for being the ‘voice of the customer’ and also their use of Lean Manufacturing. This is a technique that helps to eliminate waste and establish continuous improvement. However, the way they have handled the recall crisis would suggest they have gone against these principles. A good effort made by Toyota in handling the crisis was to give owners and customers detailed advice in what they could do to avoid any casualties arising since there were many models that were affected.

Their call centre was working hard to deal with customer enquiries. They also held a press conference where they admitted that they made mistakes and were at fault. The company addressed the public with an apology and reassurance although it was at the crisis’s peak. This was good for the firm’s image as it showed that, after all, they were serious about complying with corporate concepts of responsiveness, responsibility and accountability as well as performance. How the crisis should have been handled:

Toyota admitted they didn’t handle the crisis to the best of their ability. Two key management areas in which Toyota could have made more use of: • Enterprise Risk Management • Crisis Management Risk Assessment and Enterprise Risk Management As discussed in the previous section, the risks that Toyota failed to identify before the crisis were crucial. Therefore, the company needs to recognise what is in the heart of their business, and find ways to protect it. This protection includes more robust risk measurement and analysis.

A major step to successfully identify the risk factors a company is exposed to is adopting Enterprise Risk Management. This is the process used by firms to highlight methods and processes to manage risks and seize opportunities to achieve objectives. For Toyota, the recall crisis should have been the responsibility of the Board of Directors to individual employees. They should have been well aware that a risk or uncertainty to the company results in each and everyone being responsible and accountable.

Ways in which Toyota may have made more use of ERM during the recall crisis:

- Commitment from senior management – Firstly, this would have helped motivate employees in the organisation to be more productive in their roles. Furthermore, the role of the CEO must have been central in the business. It is vital that the CEO is present in the public eye, especially in times of crisis. That would have helped Toyota restore consumer trust and bring about assurance that the company was handling the situation well.
- Clearly defined responsibilities – Making sure everyone in the workforce is fully aware of their commitments to the company
- Adequate communication – Improving communication systems in order to make sure all departments are coordinating with each other and preventing any misinformation to circle around
- Leadership development – this would have ensured leaders at Toyota have the right skills and decision-making abilities. This may have been one of their disintegrations during the crisis as managers or senior staff failed to confront problems and make difficult decisions.

The above points would also prevent Toyota from having human capital risks affect them in the future, specifically in employee-retention and spending

huge amounts of money in training. Crisis Management The main objective of crisis management is to survive the foreseeable loss. For Toyota, being one of the largest car manufacturers, the recall crisis should not have a long-term bearing on the company's future. This is considering that the recalls have been dealt with and now the company is moving forward with its current business aims and objectives.

In order for Toyota to handle the situation more effectively they should have followed a good crisis management plan. That would have included the following main steps: 1. Identifying the problem – Once the complaints started increasing Toyota should have anticipated that there is a problem with their car parts, and consequently, conducted tests and analysis to find out what the actual issues are and how they could be dealt with. At this stage they should have communicated the problem throughout the whole company to make sure everyone is aware of the situation. 2. Taking precautions to avoid/reduce unnecessary loss – When the problem is identified, Toyota's main objective must have been to coordinate actions within the company and adopt emergency conditions as to prevent the occurrence of unnecessary loss. This could have given them an opportunity to investigate and select an alternative response to the recall. Also, the company might have avoided the close of the plant and assembly lines for any period of time. 3. Planning specific responses and communicating them to different stakeholders involved – By following this crisis management plan, Toyota may have been in a better position to give more accurate responses to the media.

Thus, they could have defined the problem before the public made their own judgement and confront any negative news. This, in turn, would have helped them look stronger and more confident in the public eye, keeping consumer trust and their own reputation less affected. 4. Recovery - This would include: establishing timetable to resume operations, taking care of the damaged caused, conducting changes internally. After a crisis, it is essential for a company to make the necessary changes as to insure that they do not make the same mistakes in the future.