

Recall crisis of toyota motor corporation



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Enclosed is a copy of “ Recall Crisis of Toyota Motor Corporation”. This report summarizes on the major causes of the “ Recall Crisis”, its aftermath on the company and recommendations to help the company recover from the crisis.

It describes the issues and problems which our company is facing while recalling automobiles with manufacturing defects. It also describes the customer concerns regarding their safety and future choice of Toyota for themselves. It also discusses how the crisis is posing threat on its reputation and market expansion strategies in future. This report implements some recommendations to overcome the crisis.

The report presents detailed analysis of the causes of the various manufacturing defects in automobiles. Analysis helps to look deeply and elaborately into the reasons rather than only understanding their overview. The recommendations in the report emphasizes on adapting strategies which will help us to resume our brand image as one of the best regarded automobile brand in the world for quality and safety . It also included measures we need to follow to overcome the financial losses incurred during the crisis.

EXECUTIVE SUMMARY

This report provides detailed analysis and evaluations of the automobile recall crisis at Toyota Motor Corp Ltd during the year 2010 – 2011. It brings to focus the manufacturing defects which caused financial loss of around US \$ 5. 5 billion and setback to its brand image.

Method of analysis used is secondary data research. Data was obtained from diverse sources to understand the affect of crisis in various sectors of market.

The report seeks attention to the year 2009 – 2010, when accidents were initially reported in North America but eventually it spread to other countries in the world. The manufacturing defects caused sudden unintended acceleration making driver of the car lose the control. Initially the company considered floor mats as the only cause of the accidents but as more accidents were reported from other parts of Europe, it was understood that scenario is not as simple as it seemed and it needed detailed analysis.

The major manufacturing defects identified were sticky gas pedals, floor mats and brake problems. The report has critical analysis of these key issues and problems and it explains the reasons of these defects. During the year 2009 – 2011 the company and its suppliers had suffered heavy monetary losses. Also Toyota is struggling to regain its brand value which has surpassed its 70 year old history.

The report suggests possible measures that can be taken from immediate effect to help the company recover from the crisis. The company should setup small team to quickly research, design the fix and retest them . It should opt for software upgradation which would ensure drivers safety by forcefully shutting down the engine in the events of unpredictable manufacturing defects similar to unintended acceleration. Company also needs to have effective crisis management team and processes defined . Being a global company it is always at risk of some crisis so it should have

defined process to follow during those times which would help minimise the after affects of the crisis . Also, future plans of rapid market expansion should be carefully designed in way that they secure its brand image alongside of market expansion. These recommendations if successfully implemented will be helpful to overcome the present crisis and also prepare the company to brave any future crisis.

INTRODUCTION

The purpose of this report is to familiarise the Toyota's management group about the various issues which company is facing due to ' Recall crisis'. The report is being presented to CEO of Toyota Group.

The facts and figures provided in the report for ' recall crisis' are part of secondary data information. This data is mostly the one which has been shared with public by social media since the crisis started.

This report emphasises on the manufacturing defects in the top world class brands of Toyota's cars. These defects were brought into light only after many fatal accidents were reported across Europe. These sequence of events badly affected company's image and customers trust in its products. Delayed response and public interaction of made the situation worse. As the pressure mounted, in addition to the recall of millions of cars the production was stopped in the plants across the affected countries.

The report also includes company background and its historical rise to be the largest company in the world. Management has been given recommendations and their corresponding implementations which will help company to get over the crisis and resume profitability.

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COMPANY BACKGROUND

Toyota Motor Corporation is globally recognised as “ Automaker Market leader”. In 2008 it overtook General Motors Corp to become world’s largest automaker with production of 4. 8 million of cars and trucks. This is remarkable achievement for the organisation which survived Second World War and it’s after affects of severe economic crisis and resource scarcity. Toyota’s uniquely designed management philosophy of ‘ Toyota Production System’ or TPS is the key contributor in its success. Toyota not only inspired the world with its innovative designs but also with its management philosophy . TPS has been adapted by many western companies.

The company history is 70 years old, it was founded by Sakichi Toyoda in Japan in 1937. Toyota City, Aichi is the company headquarter, while its manufacturing business is distributed throughout the world in about 27 countries.

Toyota’s primary business segment is automotive – design, manufacture and sales. It has also diversified in financial services and robotics segments. Initially ‘ small cars’ were the primary products with the first one launched in 1947 . During this time Toyota was battling with post war conditions while on the other side American companies were concentrating on manufacturing medium and large sized cars. In the following years Toyota focussed on innovation and technology and soon it started producing vehicles with conventional engine and hybrid engines. Its product line-up includes subcompact and compact cars, mini-vehicles, mid-size, luxury, sports and specialty cars, recreational and sport-utility vehicles, pickup trucks, minivans, trucks and buses. Toyota’s models like Toyota Prius, Camry, <https://assignbuster.com/recall-crisis-of-toyota-motor-corporation/>

Corolla, Land cruisers, Lexus have established themselves as global brand image.

Key Issues / Problems:

In August 2009 Toyota Motor Corp had to recall 3.8 million vehicles in US after fatal accident of Lexus ES 350 was reported in South California. Initially the company reported it as a problem with ill fitting floor mats but by 2010 many more accidents were reported across US, Europe, Canada and there were 13 separate recalls in all.

During the initial investigation the company reported the cause to be incorrect installation of floor mats and announced recalling of floor mats on 4.2 million Toyota and Lexus vehicles. The company appealed customers to remove floor mats and dislodge them in trunk while the dealers were instructed to reinstall the floor mats so that they no longer interfered with gas pedals.

But floor mats were not supposed to be the only manufacturing defects because in December 2009 Toyota Avalon crash was reported where floor mats were found in the trunk of car. Toyota announced the issue to be unrelated to floor mats and recalled another 2.3 million vehicles. In the next 5 days of recall announcement company had to shut down its five North American plants. This cost the company and its dealers loss in profit of \$ 1.5 million every week.

As the company looked into the possible causes of accidents in its products, it announced recall of many other models like Toyota Venza, Toyota Highlander and Pontiac Vibe.

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Vehicle Sales comparison graph 2006 -2010: Significant reduced sales from 2009-10 (Source: Toyota Annual Report , 2010, pg 36)

Revenues by Market 2010: Significant reduction in revenue from North America and Europe region during 2009-10(Source: Toyota Annual Report , 2010, pg 39)

The three key manufacturing defects which caused accidents due to ‘ sudden unintended acceleration’ in Toyota automobiles were:

Accelerator pedals trapped by floor mats.

Accelerator pedals with poor design problems causing them to stick.

Prius brake problems.

The accidents continued for next few months after the company’s claim of having fixed floor- mat issues. Toyota realised the gravity of issue and in addition to recalling the vehicles of few models it was forced to shut down production of top 8 selling brands in US, Canada and Europe.

The neglected responsibility by the Toyota group’s leadership during the massive recall of cars tarnished its brand image. Toyota did not act responsibly towards the accidents. They considered the failure cause as just the floor mats and failed to look into other possibilities of the accidents. The alert notices were sent to the customers informing them of upcoming recall of vehicles to fix the unintended acceleration issue , but they titled the letters as “ No defects exist”.

National Highway Traffic Safety Administration (NHTSA) in US , government's arm for road safety, was investigating the fatal accident of Toyota vehicle and did not accept Toyota's approach of handling the crisis . It conducted major press release and called the company's steps as irresponsible and the ' floor mat cause' as just a provisional step. Meanwhile media brought up some unknown facts for the public, they reported that there had been numerous complaints of unintended acceleration filed by the drivers in past decade. There were also reports of some lawsuits being settled for undisclosed amount of money. These investigations had been under NHTSA control with no reports or findings published for customers. For one of model of Toyota, Camry 2006, NHTSA had asked Toyota to look into issue which in turn Toyota delegated to its supplier.

With new reporting of accidents of Toyota from 2009, NHTSA was pulled up for its soft support to the company and keeping the complaints of last 8 years under cover. Thus NHTSA came up offensively against the company while investigating the accidents happened in 2009 - 2010 and revealed its findings through public media.

These sequence of events badly affected Toyota's reputation globally. Brand Finance – world's leading brand valuation consultancy downgraded Toyota's value from ' AAA'rating and a value of \$ 12billion to ' A' rating with value of \$ 24 billion. (Cited <http://blogs.motortrend.com/the-toyota-recalls-the-damage-control-finally-starts-2546.html>, 3 December 2011)

Future marketing and production of new innovative automobiles by Toyota Motor Corp is great concern. The company has to recover its lost trust before designing and launching new cars in market.

Though the crisis was only related to Toyota, it affected the global automotive industry because it made the customers over concerned about their safety and they would no longer relate their security to brand image.

The various issues and problems of Toyota Motor Corp are listed above in the report. I would like to address the key issues of the ' Toyota's recall crisis'. These would be the manufacturing and quality defects, damage to brand image and unaccountability of the management.

CRITICAL ANALYSIS

In 1995 under the leadership of new president, Hiorshi Okuda, Toyota started new market expansion strategy called ' 2005 vision'. The target was set to increase global market share from 7. 3% in 1995 to 10% in decade but this was achieved in 1998 when it reached 9. 7% . The target was extended to 15% in 2010. This is supported by Cole, E, R. (2011). What Really Happened to Toyota?. MIT Sloan Mnagement Review 52(4), 32.

This new strategy was quite different from Toyota's traditional strategy in past decades. It focussed on providing quality product to its customers than to increase its sales and customer count. The expansion required involvement of more suppliers to provide auto parts . These new suppliers were mostly not from Japan and did not belong to company's usual supplier network. But the company was falling short of engineers who could supervise the products of new suppliers to see Toyota standards were still maintained.

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Toyota had over decades build strong supplier network and these suppliers were involved in product development to ensure that they are aware of quality standards Toyota's customers expected. To develop new designs contract engineers were roped in and 30% of global development work was done by them. Also design cycles were accelerated and time between exterior design approval and start of sales was compressed to less than 20 months.

The new suppliers did not have opportunities to follow 'Toyota Way'. 'Toyota Way' is based on vision and values of Toyota like continuous improvement through innovation, respect for others and teamwork.

The 'Product Complexity' also causes quality issues and this is more common in automobile industry where demand for luxury products is growing. The automakers of luxury cars focus on continuous improvement of technology in every new product they launch. Other reasons for product complexity are stricter government regulations on emissions and fuel consumption, increased competition in the industry and high demand of comfortable luxury automobiles.

Crisis Management:

Organisations these days are well aware that crisis cannot be predicted and none of the companies can think of themselves to be resistant to crisis.

Enron, 9/11, tsunami these provide examples of the various forms in which crisis can strike.

Here comes the significance of “ Crisis Management Program “. Ineffective handling of crisis by company severely affects its brand , operation, finance performance and customer loyalty , in short it affects it reputation as whole.

Crisis Communication is crucial part of Crisis Management Program. Absence or neglect of adequate communication during crisis leads to:

Operational response breaks down

Stakeholders do not get clear picture of what is happening and have confused and negative perceptions.

Organisation can be perceived to be inept or criminally negligent.

The slow leakage of information to customers is confusing and annoying to them and this happens when companies do not organise disclosure to their customers during crisis.

Toyota Motor Corp during the recall crisis suffered huge setback on its reputation due to unorganised crisis management plan. During this time social media as part of their duty was updating the public regarding the recalls happening, models affected and risk to public safety. On the other hand Toyota was hesitant to address publicly the issues.

Toyota’s President , Akio Toyoda , took long time about six months to admit to its customers “ We are in Crisis” in public apology. This delay caused major harm to company’s reputation. During crisis consumers and other stakeholders like dealers , vendors look for evidences that company is committed to resolve the issues , safeguard consumers interests and be

interested to get back on track of growth . This elevates trust and confidence of stakeholders in the company .

An example of effective crisis communication was noticed few years back during recall crisis of automaker ‘ Ford’. 2000 cars were recalled of popular brand ‘ Explorer’ due to defective firestone tire which caused deadly crashes. Jacques Nasser , the then CEO of Ford communicated to his consumers directly through newspapers , TV advertisements etc. He briefed them about problem and also repeated the assurances that issue would be resolved soon . Accurate timing , response and sincerity are vital for successful crisis management.

In today’s world of digital media, crisis communication needs to be spread out on all digital fronts – social media, blogs and company websites. Toyota could have utilised popular social networks facebook and twitter. Thousands of its fans following on these channels could have been easily communicated by the organisation about the extent of crisis control and safety measures taken for consumers.

CONCLUSION

This report on ‘ Recall Crisis of Toyota Motor Corp’ can be summarised with key findings and their causes, followed by the recommendations and implementation plan. The findings show in the later period of year 2009 that various incidents were reported of fatal accidents in North America and Europe. These were caused basically due to either of three manufacturing errors -pedals trapped by floor mats , sticky pedals and brakes problems of Prius model.

According to critical analysis of key issues in this report, there were various factors over the years which lead to manufacturing defects and ineffective crisis management. These factors had been ignored by the organisation as it focussed primarily on the vision of being leading automaker of the world. As the organisation expanded into new markets to increase its sales it did not keep up with its traditional policies also known as “ Toyota Way”.

The organisation’s negligence towards efficient crisis management system hampered its ability to effectively follow up on the accidents at appropriate time.

The recommendations and implementation plan followed up in the report will help the organisation to recover its loses and also regain its brand image for future endeavours.

RECOMMENDATIONS AND IMPLEMENTATION PLAN

Below are mentioned some recommendations I would like to provide, to help Toyota overcome the recall crisis, restore its brand image and recover losses by resuming its profitable production.

Firstly, Toyota should find out the durable fix for sticky gas pedals for different models of its cars.

Secondly, the company should preferably provide a software upgradation in its different existing models of automobiles and also the new upcoming models.

Thirdly, Toyota should have functional risk management team or crisis management team.

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The company can also bond with other companies who provide support for crisis management.

Toyota can outsource this operation to well acclaimed company.

Lastly, Aggressive growth strategies should be well planned by the management.

The above recommendations can be implemented in following ways:

Toyota should setup small team to research and design the fixes for the issue. Team should include engineers, who have helped previously in designing various models at Toyota and the suppliers. Suppliers should work closely with the team so that they are aware of the processes to follow while designing autoparts. The company should ensure exhaustive test for the fixes before releasing it to consumer market.

The software is to empower the drivers so that they have alternatives in situations of any failures in future. Some of automobile manufacturers are already using similar kind of softwares in electronic throttle bodies. Their purpose is to interrupt the flow of gasoline to engine when driver steps on pedal brakes while gas pedal is stuck. This will prevent fatality in case of similar manufacturing defects happen in future. Company can look to similar softwares already begin used by other major automakers in the world and then design / customise for their automobiles.

The software upgradation is better than providing repairs for the sticky gas pedal because automobiles have thousands of components and usually the problems occurs due to interaction between different components . These

are quite difficult to identify during their testing . So in case repairs are done to fix the issue by adding or removing some component parts , car will also have the upgraded software system which will allow to cut fuel supply if self intended acceleration occurs again with new repairs.

It has been witnessed that most of the global historic crisis could not be predicted before its impact was actually realised.

Crisis management team should include experts from all working domains of the company that is engineering, marketing, finance etc . The team members should be well trained to act decisively and quickly. Effective and timely actions are very important to recover from crisis.

During the recall crisis Toyota interacted with public quite late while the social media was communicating daily with public on crisis follow up . This made the consumers doubt the company if it was really was concerned about their safety and also if company had any resolution for the crisis.

While the company focuses on extensive market expansion globally and increasing production multiple times , it should also give equal importance to policies and strategies it had been following since decades.' Quality and reliability' were the two key things which had helped build Toyota in these many years but while it aimed to become top automaker in the world , not much importance was given to them. During the growth of an organisation its supplier chain is very crucial as it's needed to join hands with new suppliers in new locations. Toyota should ensure the suppliers are familiar with its processes and standards as defined in ' Toyota Way'.