The Toyota Recalls Crisis

Adapted from a number of published sources

Corporate History
(Adapted from “History of Toyota’s technological Development”, Toyota-global.com)

Toyota represents one of the earliest Asian transnational companies which has achieved global rankings through decades of work diligence, process efficiency, cost and quality control. Over the years, it emerges to become a globally leading car manufacturer. In January 2009, Toyota officially surpassed GM to become the world’s number one auto company.

Toyota Motor Co. Ltd. was established in 1937. Its founder, Sakichi Toyoda, was born in 1867. He invented the Toyoda Model G Automatic Loom in 1924 and sold his automatic-loom patent to a British company in 1929. Kiichiro Toyoda, son of Sakichi, began research on small gasoline-powered engine in 1930 and completed the building of the AA Sedan in 1937. In the post-war era, the auto industry was a core sector to revive Japan’s economy and the self-esteem of its people. Military colonization of the U.S. also resulted in technical transfers of modern manufacturing processes and management tools such as total quality control, just-in-time delivery, and localized production. In 1955, the Toyopet Crown, Toyopet Master and Crown Deluxe were launched; and the first prototypes of the Crown were exported to the United States in 1957, when the Toyota Motor Sales U.S.A., Inc. was established. From the 60s on, Toyota began to form alliances and built joint ventures with many regional and global auto players that included Hino Motors, Daihatsu Motor, General Motors, Sichuan Motors, and France S.A.S., which helped to field its global presence in diverse markets. As Toyota grew, innovations continued to prevail and many popular brands such as Crowd, Corolla, Lexus, Prius (the world's first mass-produced hybrid car) were subsequently launched to draw visibility and market recognition.

"Made by TOYOTA" – Local Production and Global Quality Assurance

Since 1957, Toyota vehicles have found their way to over 170 countries and regions throughout the world. As their exports expand so has the localization of their production bases. This is in
line with a Toyota policy of "producing vehicles where the demand exists". As of 2008, the company operated in 51 bases in 26 different countries and regions. In addition, there were design and R&D bases in nine locations overseas, showing that "Toyota has achieved consistent globalization and localization, from development and design to production, as well as sales and service." Among the challenges Toyota faced in its global production, the most important concern is quality assurance, which requires that "no matter where Toyota vehicles are made, they must observe the same high level of quality." Toyota doesn't put a label on vehicles which says "Made in the USA" or "Made in Japan", but instead opts for one overall label: "Made by TOYOTA." This means that there is a need to spread Toyota's manufacturing philosophy — the "Toyota Way" — to all of their overseas bases. Due to diversity in market demand, it is equally important to minimize support that comes from Japan and let each of the overseas locations become self-reliant.

**Figure 1: Toyota’s Global Operation As Of 2007**

![Map of Toyota's Global Operation As Of 2007](image)

**The Toyota Way** (Source: “Corporate Vision and Philosophy” Toyota-global.com)

Toyota believes that the way to achieve quality assurance and to spread the "Toyota Way" is by educating people. So in 2003 the Global Production Center (GPC) was established within the
Motomachi Plant in Toyota City. Furthermore, since 2006, Toyota has established regional GPCs in the United States, the United Kingdom and Thailand to carry out corresponding activities in the North American, European, and Asia-Pacific regions.

**Figure 2: Sharing the Toyota Way Values**

The rapid growth, diversification and globalization of Toyota in the past decade, the values and business methods that had been passed on as implicit knowledge were identified and defined in 2001. Toyota was preparing to operate as a truly global company, guided by a common corporate culture—the Toyota Way. These Guiding Principles at Toyota reflect the kind of company that Toyota seeks to be. The Toyota Way 2001, as shown in Figure 2, clarifies the values and business methods that all employees should embrace in order to carry out the Guiding Principles at Toyota throughout the company's global activities.

In order to continue fulfilling its role as the backbone of all Toyota operations, the Toyota Way must evolve amid an everchanging business environment. Toyota will continue to update it in the future to reflect changes in the times. The Toyota Way is supported by two main pillars: "Continuous Improvement" and "Respect for People" which can be translated as “We shall never be satisfied with where we are and always work to improve our business by putting forward new ideas and working to the best of our abilities”, and that “We respect all Toyota stakeholders, and believe the success of our business is created by individual effort and good teamwork”.

To promote sharing of the Toyota Way, the Toyota Institute was established in January 2002 as an internal human resources development organization. Since 2003, overseas affiliates in North America (U.S.), Europe (Belgium), Asia (Thailand and China), Africa (South Africa) and
Oceania (Australia) have established their own human resources training organizations modeled after the Toyota Institute.

**Toyota’s Transnational Operations**

Transnational corporations search out locations for their plants outside their original country because they can overcome transport costs and time, and avoid import/export tariffs. Transnational corporations are the most important force causing changes in global economic activity. Companies often use transplants for routine assembly work which is known as 'backend work'. This allows the main company base to focus more on research and development aspect of the industry. This is the higher paid 'front end work.

A transnational company often sets up a transplant in an area where the raw materials required for the manufacture of their products can be found. The next main reason for companies setting up transplants is to gain a better understanding of the local markets. It is beneficial for a company to manufacture the products in the country where the produce are sold. This ensures that local needs can be accounted for, and the product can be adapted according to what people in the market want. Another reason for setting up transplants nearer to the market for the products is to 'compete and co-operate' with rival companies. Healthy competition is good for the company because it encourages them to improve their products and learn from the mistakes of rival companies.

This is true of many electronics companies who supply the emerging markets with basic electronics and the more sophisticated technology as their wealth increases. It therefore makes sense for the electronics companies to move the production of their products to regional areas where they are in great demand, freeing the other operations in mature cities to focus on research and development of more advanced technology.

Toyota is a typical transnational corporation who understands the benefits of manufacturing beyond its country of origin. One good example is Toyota's setting up of a European production base in 1992. The quotas and tariffs that had protected domestic car industries in Europe since
the 1970's would be removed in January 1993 to create a 'Single European Market'. By locating a transplant in Burnaston, UK, Toyota effectively became 'a European car manufacturer', and could therefore avoid paying the tariffs that still existed for countries outside the EU. Toyota's previous problem was that it could not supply enough cars to meet demand in Europe due to import quotas restricting the number of cars that could reach the local markets. In 1992, they were able to overcome this by moving the manufacture of the more popular models to the Burnaston plant, while the less popular models were still produced in Japan.

Toyota relies on other manufacturing industries to supply it with components. These industries become wealthier due to Toyota’s demands. These companies are all over the country, so the impact of Toyota can be seen many miles away from the actual factory. Take for instance, 'Johnson Controls' in Telford produces car seats for Toyota, and another company; 'Quick Tool' produces brackets and fixtures. These industries can take on more workers and may gain a good reputation for supplying to such a well known car manufacturer. This could earn them more deals in the future. Transplants employ relatively few direct workers and more jobs are created indirectly.

Toyota has an identical transplant in Georgetown, Kentucky. Georgetown has benefited because of additions in the payment of taxes and evidence of the multiplier effect is great. Toyota pays a total of $350 million in wages, giving a huge boost to the local economy. There are 3400 jobs in the plant, and 9000 jobs in related industries. Overall, 35,000 jobs were created. This reduces the unemployment levels greatly.

Management Across Border

'Greenfield site' refers to a piece of land that has never been used for industry. The land Toyota acquired in Burnaston was once an airfield, and provided 280 acres for the development and expansion of the transplant. Mature economies offer lots of incentives to TNC's which are looking to locate a factory in their country. Toyota’s market entry represents the introduction of a new industry to Burnaston which may make a big difference to the UK economy. Toyota was given $3 million to help build its plant in Kentucky. At the Burnaston plant, Derbyshire county council offered many financial and social incentives to attract the factory to its area.
Toyota adopts Just-in-time production, a management practice whereby components are not stockpiled months in advance, but ordered when required. This implied that quality control of the components must be excellent and ensures 'zero defects'. It also means that local suppliers would be at an advantage if they locate close to the assembly point, as some batches must be delivered several times a day. Just-in-time production removes storage costs and benefits local suppliers. When companies such as Toyota locate transplants in a foreign country, its impact on the local economy is huge. There are also social and environmental impacts. Transplants create direct and indirect employment, local people become wealthier and spend more, and therefore local services benefit too. This is known as the multiplier effect. Many countries or cities are keen to use the multiplier model to attract new industry and create wealth and job opportunities. This has knock-on effects that 'multiply' the wealth of people in an area, who then have more money to spend and generate the demands for shops and other services, thus creating more jobs and the money needed to advance infrastructural built up. These effects also improve the image of the area, therefore more industry players are attracted.

At Burnaston, Toyota was able to employ an educated work force. The large labour force had good engineering skills and high levels of productivity and training. Besides, labour costs were also relatively low, causing the UK to be known as the Taiwan of Europe. Toyota was attracted to the East Midlands because of its engineering tradition. They may have looked at the success of Rolls Royce in the area and hoped to follow in their footsteps.

Toyota also has a plant in Deeside, North Wales; this provides the engines, which are transported to Burnaston by a road linking the two plants. Infrastructure is very important for a TNC. By locating transplants in mature economies, Toyota benefits from the sophisticated infrastructure that is already likely to exist, whereas in less developed economies, the lack of infrastructure and talents may cause problems.

At the plant in Kentucky, there weren't many trained labourers, so Toyota had the advantage of 'green labour' where many of their employees had never worked in a factory before. With 'green labour', there are less likely to be disputes over pay or working conditions. Employees can also be trained from scratch the 'Toyota way'; they won't be stuck in the ways of their previous company. In Kentucky, Toyota pays double the average wage in the area, and its popularity is shown in the fact that 70,000 people applied for only 3000 jobs.
Toyota adheres closely to its corporate philosophies in the way its transplants operate. Toyota demands loyalty and commitment from its employees in return for regular pay rises, a generous pension plan, and a safe, well run environment in which to work. Toyota calls its employees 'team members'. This is unusual, and adds to the originality of the company. Becoming 'team members' makes each individual feel like an important part of an international company. Toyota has a teamwork ethos, and there is less of a hierarchical structure compared to other Japanese multinationals.

Toyota is such a popular company to work for that it can afford to choose its employees carefully to ensure they get the highest quality labour force. It is one of the few companies that interviews applicants for work at the 'shop floor' and they have one of the most comprehensive technical training programs for staff. Workshops are developed where prospective employees can demonstrate their technical and practical skills as well as their ability to work as a team. Toyota sets high performance targets and aims to produce 1 car per minute. There is no room for carelessness or mistakes. However, the factory line is not highly automated and they rely much on manual quality and rectification.

The car production processes in Toyota's transplants are very precise so maximum efficiency can be achieved. Employees should know exactly which and how many car parts they fit each day. Yet, repetition of simple tasks may lead to low job satisfaction and repetitive strain injury. To overcome these problems, Toyota operates on a rotation job basis. Workers use different muscles so risk of injury is lowered. It also leads to the development of a multi-skilled work force. A multi skilled work force is very important because it means that if people are ill or are on holiday, there will be no problem finding a replacement to carry out their tasks. It also prevents demarcation disputes; there are no dividing lines between one job function and another.

Toyota pushes its employees hard, but discourages trade unions. While Toyota appears to be the ideal company to work for, disputes are addressed through an anonymous complaints line which was put in place to deal with workers’ problems. Toyota offered a job for life, but later found that they could not fulfil this promise, especially at the outbreak of the 2008 global financial crisis that significantly dampened consumption demand in the developed world.
**Product Recall Crisis**
(Source: Christopher Lehane, Mark Fabiani, and Bill Guttentag, Masters of Disaster: The Ten Commandment of Damage Control, 2012)

In late August 2009—the same year Toyota became the world’s number one auto brand—an off-duty California policeman was driving a Toyota Lexus that accelerated in excess of one hundred miles per hour and crashed, killing the officer and his family. The incident received news coverage that featured a recorded cell phone call to 911 documenting that the acceleration was uncontrolled, and the driver had no part in the sudden acceleration. In part because of the novelty of the news, TV-friendliness of the 911 cell phone recording, this became a hot story in the electronic media and spiked existing concerns about whether Toyota vehicles suffered from an electronic defect that caused uncontrolled acceleration—in turn putting pressure on federal safety regulators responsible for protecting the public.

The subsequent events provide key lessons in damage control careening out of control.

At the time of the fatal accident, Toyota was well aware of quality and safety defects about unintended accelerations. The trail of evidence included data from the NHTSA (the National Highway Traffic Safety Administration—the government agency empowered to ensure automotive safety) from 2004 indicating that Toyota vehicles accounted for 20 percent of all uncontrolled acceleration accidents (compared to 4 percent in 2000); the company’s own 2009 analysis into these accidents, which suggested that the cause of the uncontrolled acceleration was due to floor mats obstructing gas pedals; and an early October 2009 recall of 3.8 million cars to address concerns that the floor mats could be obstructing the gas pedal.

However, the story ratcheted up even further when in October 2009, the Los Angeles Times launched an investigative series examining Toyota’s safety and quality practices.

Over the course of several months, the paper reported that:

- Toyota’s acceleration issues dated back to 2002, when the company began installing drive-by-wire systems in its vehicles.
• The company had received 1,200 complaints of unintended accelerations, and the uncontrolled accelerations continued even when the floor mats in question were removed.
• Toyota sought to prevent making available the data collected by onboard recorders of vehicles that had experienced uncontrolled acceleration.
• And more people had died from uncontrolled accelerations involving Toyota cars than from all the other car companies put together.

In the face of these articles and other media coverage, Toyota continued to insist that there was no defect and that the floor mats were the root cause of the uncontrolled accelerations. The company even sent a letter to its customers at the end of October 2009 explicitly stating, “no defect exists.”

A few days later, the NHTSA took the highly unusual action of issuing an especially harsh response to Toyota’s “no defect” letter, calling it “inaccurate” and “misleading,” and adding that the recall of the floor mats “does not correct the underlying defect.”

The rebuke by the feds turned what was a big story into an even bigger story.

The controversy continued to escalate and Toyota issued a press release denying media reports about the defects. However, by late November, Toyota dealers were being instructed to remove and replace gas pedals and update the onboard computers on some vehicle models.

But the accidents continued.

On the day after Christmas 2009, a Toyota Avalon carrying four passengers accelerated and crashed into a Texas lake, killing everybody on board.

By December 31, 2009, Toyota had accounted for 33 percent of all uncontrolled acceleration complaints that year.

On January 16, 2010, Toyota stated that a supplier was responsible for the gas pedals that may have had a dangerous “sticking” defect.

Then five days later Toyota announced a recall for 2.3 million cars to fix sticky pedals.
But the problems for Toyota grew even worse.

On January 26, 2010, the company suspended the sale of eight models and announced that beginning the following week it would temporarily shut down five North American assembly plants. The company did not make public that it took these steps at the direction of the federal government, but the next day, Department of Transportation secretary Ray LaHood effectively called Toyota on the carpet by publicly stating that his agency had directed Toyota to suspend its operations—a statement that Toyota had to confirm.

On February 5, Toyota president Akio Toyoda finally appeared at a press conference. Facing the media, he apologized and announced a task force involving outside experts. But by now—after multiple explanations—the damage had been done.

Toyota temporarily shut down its manufacturing plants at a cost of $54 million a day; monthly car sales dropped below 100,000 for the first time in more than a decade; Toyota’s U.S. market share fell to its lowest level since January 2006; the company’s stock dropped 16 percent; Consumer Reports removed its “buy recommendation” on eight Toyota models; the Department of Justice and the Securities and Exchange Commission initiated investigations; and Congress opened up its own inquiry, complete with public hearings.

By 2011, two years after ascending to the top, Toyota was passed by GM as the number one carmaker in the world.

And even though a subsequent NHTSA study came out generally supporting Toyota’s claim that there were no defects in the technical sense, and Toyota has since worked to claw its way back to its previous position in the public eye, Toyoda acknowledged that Toyota’s crisis response, like the warden and prisoners in Cool Hand Luke, suffered from a failure to communicate:

“We came to realize the problem was rather with communications.”

the Toyota vehicle massive recall began in 2007, but most recalls took place from 2009 to 11. An incorrect or out-of-place front driver's side floor mat that entrap the mat into the foot pedal well, a possible mechanical sticking of the accelerator pedal causing unintended acceleration (referred to
as sticking Accelerator Pedal by Toyota) were found to be the most likely causes of unintended acceleration. Following the floor mat and accelerator pedal recalls, Toyota also issued a separate recall for hybrid anti-lock brake software in February 2010.

A Summary of recall timeline is reported as follows:

- Sep 26, 2007 – US: 55,000 Camry and ES 350 cars in “all-weather” floor mat recall
- Nov 02, 2009 – US: 3.8 million Toyota and Lexus vehicles again recalled due to floor mat problem, this time for all driver's side mats.
- Nov 26, 2009 – US: floor mat recall amended to include brake override and increased to 4.2 million vehicles.
- Jan 27, 2010 – US: 1.1 million Toyotas added to amended floor mat recall.
- Feb 08, 2010 – Worldwide: 436,000 hybrid vehicles in brake recall following 200 reports of Prius brake glitches.
- Feb 12, 2010 – US: 8,000 MY 2010 4WD Tacoma pick-up trucks recalled over concerns about possible defective front drive shafts.
- Apr 19, 2010 – World: 21,000 MY 2010 Toyota Land Cruiser Prado and 13,000 Lexus GX 460 SUV’s recalled to reprogram the stability control system.
- Apr 28, 2010 – US: 50,000 MY 2003 Toyota Sequoia recalled to reprogram the stability control system.
- July 5, 2010 – World: 270,000 Crown and Lexus models for valve springs with potential production issue.¹
- July 29, 2010 – US: 412,000 Avalons and LX 470s for replacement of steering column components.
- August 28, 2010 – US & Canada: approximately 1.13 million Corolla and Corolla Matrix vehicles produced between 2005 and 2008 for Engine Control Modules (ECM) that may have been improperly manufactured.
- February 8, 2011 – US: NASA and NHTSA inquiry reveals that there were no electronic faults in Toyota cars that would have caused acceleration issues. However, accelerator pedal entrapments remains a problem.

As of January 28, 2010, Toyota had announced recalls of approximately 5.2 million vehicles for the pedal entrapment/floor mat problem, and an additional 2.3 million vehicles for the accelerator pedal problem. Approximately 1.7 million vehicles are subject to both. Certain related Lexus and Pontiac models were also affected. Toyota quickly widened the recall to include 1.8 million vehicles in Europe and 75,000 in China. By end of 2010, worldwide total number of cars recalled by Toyota stood beyond 10 million. Sales of multiple recalled models were suspended for several weeks as a result of the accelerator pedal recall, with the vehicles awaiting replacement parts.

As of January 2010, 21 deaths were alleged due to the pedal problem since 2000, but following the January 28 recall, additional NHTSA complaints brought the alleged total to 37. The number of alleged victims and reported problems sharply increased following the recall announcements, which were heavily covered by U.S. media. Following the widespread media publicity of the recalls, several media publications suggested that investigations of subsequent reports would have considered the possibility of "copycat complaints" and hoaxes, with potential complainants seeking to capitalize on possible settlement money, or affected by the psychological bandwagon effect of the mass publicity. Government officials, automotive experts, Toyota, and members of
the general public contested the scope of the sudden acceleration issue and the veracity of victim and problem reports. Various parties attributed sudden unintended acceleration reports to mechanical, electric, and driver error causes. Some US owners that had their recalled vehicles repaired still reported accelerator pedal issues, leading to investigations and the finding of improper repairs. The recalls further led to additional NHTSA and Toyota investigations, along with multiple lawsuits.

On February 8, 2011, the NHTSA, in collaboration with NASA, released its findings into the investigation on the Toyota drive-by-wire throttle system. After a 10-month search, NASA and NHTSA scientists found no electronic defect in Toyota vehicles. Driver error or pedal misapplication was found responsible for most of the incidents. The report ended stating, "Our conclusion is Toyota's problems were mechanical, not electrical." This included sticking accelerator pedals, and pedals caught under floor mats.

Rapid Growth Hurts Quality


Toyotas rapid growth placed pressure on the automaker’s resources, while its achievements led to complacency. The Toyota recalls carried significant implications to the management practices of other MNCs across the globe.

In 2002, Fujio Cho, then president of Toyota, announced the company’s Global Vision 2010 – that Toyota’s ambitious goal was to capture 15 percent of the global auto market and become the No. 1 carmaker in the world by 2010. Cost planning, mass production and standardization of parts were the core strategies of the company’s cost cutting plan. For example, Toyota began putting common components in multiple vehicle models. Component sharing is a common practice in the competitive, cost-conscious auto industry. As Toyota strives to economize by sharing architecture across the globe, when some parts go wrong, the impact can be huge.

Toyota did not capture 15 percent of global auto market share in 2010, but it did surpass General Motors in 2009 to become the world’s largest carmaker. On October 4, 2009, in a news
conference at the Japan National Press Club, Toyota Motor President Akio Toyoda announced that the company plans to begin mass production of electric vehicles in the US in 2012, followed by US production of fuel cell vehicles in 2015. Toyoda positioned EVs for short-distance travel and fuel cell cars for longer ranges. Toyota’s targeted major cost reductions in fuel cell vehicles. Toyota aimed to reduce the cost of fuel cell vehicles to 1/10 of the current level through design and materials improvement in commercialization by 2015. After that milestone, the company aimed for a further cost reduction of another 1/10 through economy of scale resulting from increasing mass production.

But, as Toyota’s product recalls and sales suspensions spread across the globe, some consumers are asking, growth at what cost? Did Toyota’s drive for rapid expansion cost the carmaker’s reputation for quality? “It’s obvious that they were looking at incredible expansion,” says Aaron Bragman, research analyst at IHS Global Insight. “They were pursuing growth at the expense of quality. And now Toyota is paying a price for it.”

Another former Toyota president Katsuaki Watanabe (who is now vice chairman), acknowledged these issues well before now. In a 2008 speech to Japan’s National Press Club, he said that Toyota was falling victim to “big company disease” – arrogance and complacency brought on by the car company’s rise to the top. Mr. Watanabe said, Toyota’s very success contributed to some of its failures. “They probably rested on their laurels,” says Michelle Krebs, senior analyst at Edmunds.com. Toyota’s global growth – its worldwide sales went from 6.17 million units in 2002 to around 8.27 million in 2010 – pressured the automaker’s resources, Ms. Krebs says. “We’ve always wondered if they’ve stretched their resources too thin,” she says. “Engineering, marketing, manufacturing – they’re doing a lot more with the same amount of people.” That drive for efficiency may have led Toyota to cut corners, she says. “They’re just like everybody else, finding ways to trim costs. Perhaps something gets overlooked, or they’re not testing completely. We don’t know yet.” Outsourcing may have also played a part in the carmaker’s problems. Toyota used to buy parts from a small group of Japanese suppliers that were longtime partners. But, like almost all automakers, Toyota more recently has outsourced much of its manufacturing and production to many more suppliers from multiple countries.
Findings of Official Investigations

1) NHTSA investigations

NHTSA data shows that there was an annual average of 26 abrupt acceleration reports in 1999–2001 Toyota Camry and Lexus ES models. This number increased by more than 400% to a total of 132 annually in 2002–2004 models, which were designed with new electronic throttles. Toyota responded by stating.

Six times in the past six years NHTSA has undertaken an exhaustive review of allegations of unintended acceleration on Toyota and Lexus vehicles and six times the agency closed the investigation without finding any electronic engine control system malfunction to be the cause of unintended acceleration. After several months of investigating, the NHTSA said it found no evidence of a defect and there was no data indicating any bad parts.

2) MLIT investigations

Hiroko Tabuchi writing in the *New York Times* claims that problematic vehicles may have been accurately reported in Japan due to police correctly blaming driver error, as no verified unintended acceleration case exists. The Japanese Ministry of Land, Infrastructure, Transport and Tourism (MLIT) released its findings of sudden acceleration complaints in February 2010, findings of the 134 cases logged by the ministry between 2007 and 2009, Toyota accounted for 38 cases (28.3% of all reported). Because Toyota’s market share was approximately 27.8% of all passenger cargo vehicles, the MLIT noted that no particularly unusual rate was found among these complaints.

3) US congressional hearings

The House Oversight and Government Reform Committee and the House Energy and Commerce Committee held hearings in February 2010.

In a February 2010 letter to Toyota, US congressional investigators said a review of consumer complaints produced by Toyota shows that company personnel identified sticking pedals or floor mats as the cause for only 16 percent of the unintended acceleration reports”. Several media
reports later claimed that Toyota had announced that the recalls will not completely solve the gas pedal problems. On February 24, 2010, Toyota responded that it "has rigorously tested its solutions" and are "confident" with the recall repairs, but that it would continue to monitor other possible contributing factors for unintended acceleration, including mechanical, electronics, and driver error. Akio Toyoda, the president and CEO of Toyota, issued the following statement in regards to the recalled vehicles:

"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 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."

In early 2010, the US government began considering requiring all vehicles sold in the US to have accelerator override built into their brake systems. Research groups have questioned whether Toyota would "get off easily" because of its large investment in lobbying in Washington, with close ties to the congressional representatives who will lead inquiries into the company's string of safety problems. Other publications noted that half the Democratic congressional members involved in the hearings had received campaign contributions from the United Auto Workers union, a major stockholder of Toyota's top U.S. rival, General Motors.

US governors' letter to congressional members
On February 10, 2010, four bipartisan US governors from the states of Kentucky, Indiana, Mississippi, and Alabama which Toyota operates plants wrote a letter to Congress commenting about "the federal government's obvious conflict of interest because of its huge financial stake in some of its competitors," referring to Toyota as a "victim" of the media's "aggressive and questionable news coverage". The letter also noted there were "16.4 million recalls in the auto industry for 2009", "many as serious or more serious" than Toyota's recall.

**Aftermath**

Toyota stopped producing vehicles on certain production lines for the week of February 1, 2010, to assess and coordinate activities. The North America vehicle production facilities affected were located in Cambridge and Woodstock, Ontario, Canada, (where Corolla, Matrix, and RAV4 models are produced), Princeton, Indiana (Sequoia and Highlander), Georgetown, Kentucky (Camry and Avalon), and San Antonio, Texas (Tundra).

In addition to recalled vehicles, Toyota announced that it would install brake override systems on all Toyota, Lexus, and Scion vehicles by the end of 2010. On February 3, 2010, United States Transportation Secretary Ray LaHood advised owners of vehicles affected by the recall to "stop driving" their vehicles until it can be fixed by a dealer. LaHood later retracted his statement stating it was "obviously, a misstatement." Secretary La Hood's statement was criticized by some media columnists for suspected conflict-of-interest due to the U.S. government's auto bailout partial ownership of Toyota's domestic rivals, General Motors and Chrysler.

**Economic impact**

The recall came at a difficult time for Toyota, as it was struggling to emerge from the recession and had already suffered from a resultant decrease in sales and the low exchange rate from yen to US dollar. On the day that the recall was announced in the US, it was announced that 750 jobs will be cut at Toyota's British plant at Burnaston, near Derby. It was estimated that each Toyota dealership in the US could lose between US$1.75 million to US$2 million a month in revenue, a total loss of US$2.47 billion across the country from the entire incident. Additionally, Toyota Motors as a whole announced that it could face losses totaling as much as US$2 Billion from lost
output and sales worldwide. Between 25 January and 29 January 2010 Toyota shares fell in value by 15%.

According to analysts, Toyota owners (including owners of cars not recalled) may also be economically affected by the recall, as the damage to Toyota's reputation could negatively affect the resale value of used cars.

**Manufacturer changes**

In addition to its recall efforts, a new global quality committee was set up to coordinate defect analysis and future recall announcements was announced by Toyota in early 2010, along with a Swift Market Analysis Response Team ("SMART") in the U.S. to conduct on-site vehicle inspections, expanded Event Data Recorder usage and readers, third-party quality consultation, and increased driver safety education initiatives. Industry analysts noted that the recall response was a challenge for The Toyota Way manufacturing philosophy, because the recalled parts were not due to factory errors or quality control problems, but rather because of design issues leading to consumer complaints. As a result, better communication of consumer issues with management was needed; the global quality committee aimed to be more responsive to consumer concerns.

**Media coverage and criticism**

According to news analysis by the [Project for Excellence in Journalism](https://projects.einj.org), which analyzed weekly output from newspapers (The New York Times, Washington Post, USA Today, and others) as well as network television (ABC, CBS, NBC, and others), the Toyota recalls were the #5 most reported story on U.S. news for the week of January 25–31, 2010, at 4% of all coverage. The following week of February 1–7, 2010, the story reached #2, at 11% of all news coverage. On February 10, Toyota dealers in the five-state Southeast region pulled all advertising from ABC stations in protest of "excessive" reporting on the Toyota recalls. During the height of the recall crisis, Toyota came in for extensive editorial criticism, with commentators including CounterPunch suggesting that emphasis on profits had resulted in manufacturing defects. Editorials of Automotive News, AutoWeek, BusinessWeek, Car and Driver, Motor Trend, Popular Mechanics, and the National Post were critical of Toyoto, but also accuse media outlets
for leaving out alternative explanations such as driver inattentiveness, driver skills, DUI, being on the cellphone, erroneous perceptions, reckless driving, or texting as causes of accidents.

**Future Business Prospect**

The largest Japanese automaker has announced plans to shift production of its Camry and Highlander hybrids from Japan to factories in Georgetown, Kentucky, and Princeton, Indiana respectively. Currently, about 70% of the vehicles Toyota sells in the U.S. are assembled in the U.S., Canada or Mexico. Earlier this year the company said it will begin making the Lexus ES 350 in Georgetown, Ky., in 2015.

Toyota said it will invest $28 million and hire about 60 workers at technical centers near Ann Arbor. The money will enhance the company’s ability to design and test engines and transmissions. Toyota already employs more than 1,200 in Michigan and has been in Ann Arbor for 36 years, investing $1.3 billion in the state. The automaker also is giving engineers in Ann Arbor responsibility for new cars, minivans and trucks. New versions of the Toyota Avalon, Sienna, Venza and Tundra were led by chief engineers based in Ann Arbor. Those new models are among nine new or substantially redesigned models that the automaker is introducing this year for its Toyota, Lexus and Scion brands.

Toyota’s U.S. market share jumped from 12.9% in 2011 to 14.4% in 2012. However, Toyota has spent more to keep sales of the nation’s best-selling passenger car, the Camry, ahead of such competitors as Honda Accord, Ford Fusion and Nissan Altima.

**Toyota aims to top 10 million units in 2015**

The Yomiuri Shimbun/Asia News Network  
March 7, 2011, Reported by the China Post

The Yomiuri Shimbun/Asia News Network -- Toyota Motor Corp. aims to reach a record global sales target of more than 10 million units in 2015, but much depends on how well it fares in emerging markets and whether it can produce small cars profitably, according to sources.

The automaker plans to expand sales in emerging countries by concentrating on small cars. In 2010, Toyota sales in emerging countries rose by nearly 20 percent from the previous year. By
introducing lower-priced small cars in emerging countries, where Toyota's market share remains low, it hopes to achieve its target. For example, it hopes to introduce cars priced at 1 million yen or less next year or in 2013 in China, Brazil and Southeast Asian nations.

Toyota is optimistic it will reach the 10 million-unit threshold because it believes sales will recover in the United States due to the country's economic upturn.

Although the automaker plans to go on the offensive, it has its work cut out in emerging countries as it lags behind rival companies. It remains to be seen whether Toyota's strategy will proceed as planned.

**Case Scenario**

At the beginning of 2014, [Akio Toyoda](#), the president and CEO of Toyota, called for a special strategy meeting involving all key business leaders from different divisions and regions. The meeting is to generate a new development roadmap for the Toyota Group so as to regain its global leadership in the auto sector, to strengthen its global reach in both developed and developing markets, and to build a new model of sustainable growth.

**Question 1**

What drove Toyota to succeed in its business expansion overseas since late 50s? Please comment on the merits and demerits of Toyota's strategy of global operation and its management practices across borders? Would you recommend Toyota's global management model to other less mature Asian Multinationals?

**Question 2**

Identify the major causes of problem in Toyota's global vehicles recall. What lessons Toyota should have learnt in this mishap, and how can such disasters be prevented or contained in the future?

**Question 3**

Develop a new roadmap for Toyota's in the coming decade. Which product types and market segments it should target at in the next 3 to 5 years, and why?