



THE IMPACT OF CULTURAL CONFLICTS ON ORGANIZATIONS – THE TOYOTA CASE

The industry that proclaims quality offers an implied contract between itself and the customer—a promise of superior performance, durability, satisfaction, and a good maintenance record. The company that advertises quality, however, had better deliver if it wants to keep those profits. A disappointed customer does not buy twice. Dr. W. Edwards Deming, the man who introduced Japanese manufacturers to statistical quality control as the centerpiece of an all-encompassing quality process, and who rightfully receives much of the credit for the astounding Japanese quality revolution, says, “Who can put a price on a satisfied customer, and who can figure the cost of a dissatisfied customer?” — Patrick L. Townsend ¹

Much has been written about the **Toyota** culture* which has continuously evolved since the early 1940s. Among other things, its culture includes a commitment to engaging its employees in continuous improvement and quality, developing competent and able employees, and inspiring dedication to the company, family and community. Many credit Toyota's success to aspects of the Toyota Production System and its quality control, established by Taiichi Ohno and Shigeo Shingo from the late 1950s through 1970 (when it gained the name). It includes aspects of 'Jidoka', just-in-time production, and 'kaizen', reducing both inventories and defects through continuous improvements. The system is used worldwide, but is only one of the reasons for Toyota's success. ² Indeed, the 'Toyota Way' is all about culture. Here was a company that in the first three months of 2010 had a net profit of \$1.2 Billion U.S., despite an on-going recession and various recalls involving hundreds of thousands of vehicles and several models. Moreover, organizations all over the world have attempted to incorporate the 'Toyota Way' into their operations and culture—most to no avail.

Yet, what happened to Toyota in 2010? Where did Toyota go wrong? Why does Toyota represent an interesting case study in terms of its culture? Why is it that Akio Toyoda, the company's President and grandson of its founder, had to take the helm and personally apologize to governments and customers alike about quality failures? Why is it that Mr. Toyoda had to name Steve St. Angelo, a longtime Toyota executive in the U.S., to head up a North American quality group established as a result of the recall of more than six million vehicles in the United States alone?

* Organization culture is the shared beliefs, values and assumptions between people working toward a common purpose.

What is the Toyota culture?

From the time Toyota first started its operation, the leaders believed that the key to success was investment in its people. The Toyota culture has evolved since the company's founding and is the core competence of the company. It is the reason why operations are lean, cars hit the market on time and on budget, chief engineers developing cars deeply understand the customer, company executives anticipate long-term trends and clear strategies, and every employee

¹ *Commit to Quality*. Patrick L. Townsend with Joan E. Gebhardt (Wiley Press, Toronto, 1986)

² *Why is Toyota successful? (The Toyota Production System)*: Toyoland – History of the car company, June 29, 2010 (See recommended Websites)

*(called team members) is vigorously working on achieving the annual plan of the company. The Toyota Way is first and foremost about culture—the way people think and behave is deeply rooted in the company philosophy and its principles. At the core it is about respect for people and continuous improvement, and this has not changed since the company's founding.*³

Although essentially created in Japan by Toyota, the 'Toyota Way' permeates its plants and subsidiaries around the globe, including those in North America. Moreover, while each plant and dealership has certain unique and local cultural elements based on their specific context, Toyota's core principles must be present in every Toyota location regardless of location. Leadership in North America has had to adapt into their operations the 'Toyota Way' culture, including its commitment to product and service quality. For this reason, there is a lengthy period of indoctrination for management and employees in plants outside of Japan, under close scrutiny by Japanese management. Toyota is an excellent example of a true 'learning organization', offering its employees every opportunity to learn, develop and enhance their careers. Toyota's Head Office closely oversees and monitors all of its major decisions, regardless of plant locations. It's Head Office also has had a tendency of exhaustively studying options before making major decisions, causing inevitable frictions with its global partners.

Where did Toyota go wrong?

... In the traditional enterprise, the top executives rarely see the actual situation up close except when it is a carefully orchestrated tour where managers show them what they want them to see. The result is a strong disconnect between understanding and decision making at the top, what technical staff are trying to accomplish, and what actually happens at the gemba.

*Toyota starts with a different underlying assumption, rooted in Eastern culture. They believe the world is dynamic and complex and people matter more than technology. To capture the learning from all different situations that occur, Toyota managers want people closer to the process to act as signal detectors identifying problems which they then help to solve. They realize that problem solving at all levels of the organization—from solving little problems to major projects to levelling up the system—will continually strengthen the human and technical systems. Investing in ways to involve people in problem solving is not an option to be decided upon by cost-benefit analysis. It is integral to the culture and the main competitive advantage of Toyota.*⁴

Somehow, Toyota senior management forgot the important role that problem identification and problem solving by employees plays in its organization at all levels and in all its plants and offices. Three days before the company met with U.S. authorities in January 2010 to discuss a recall, a senior official in Toyota's American operations had urged the company to "come clean" and admit that it had mechanical problems with sticking accelerator pedals. In a prior e-mail, Irving A. Miller, then the VP for environmental and public affairs at Toyota Motor Sales U.S.A., had warned his Japanese colleague, the Executive Coordinator of Corporate Communications, of "a tendency for mechanical failure" in some accelerator pedals. He had stressed that the corporation was not protecting its customers by continuing to keep potential safety concerns quiet.⁵ The resulting advice given by Head Office to Mr. Miller was not to mention his concerns about these apparent mechanical failures at his scheduled meeting with officials of the responsible American regulator, the **National Highway Traffic Safety Administration** (N.H.T.S.A.).

As a result, Toyota underestimated the oversight and responses of the N.H.T.S.A.— now considering additional fines against Toyota, on top of the previous \$16.4 million penalty, for taking too long to notify the agency of the defective accelerator pedals. This was the largest such penalty ever handed out to an

³ *Toyota Culture (The Heart and Soul of the Toyota Way)*: Jeffrey K. Liker & Michael Hoseus (McGraw-Hill, New York, N.Y., 2008) p. 4

⁴ *Toyota Culture (The Heart and Soul of the Toyota Way)*: Op. Cit., pp. 156-157

⁵ *Toyota E-Mail Noted Pedal Trouble*: Micheline Maynard, New York Times, April 7, 2010

automaker in the U.S. Based on some 70,000 pages of documents obtained by the N.H.T.S.A as part of its on-going investigation, the agency notified Toyota that it will very likely pursue a second even larger penalty. Furthermore, although Toyota has not admitted fault to date, the corporation had greatly underestimated the willingness of North American media and consumer protection groups to take on the corporation over quality and safety issues with its products.

Indeed, there was a very real lack of understanding of the differences in consumer cultures. Let's face it, national and local cultures play a major role in how clients view the performance of an organization. North American customers expect certain ethical attributes when it comes to ensuring the quality and safety of products and services. They tend to be much more vocal in their criticism of quality failure, personal inconvenience and safety matters. U.S. and Canadian consumers do not hesitate to turn to government regulators or litigation when they are not satisfied with an organization's responses to their complaints. There is little doubt that Japanese management underestimated these cultural differences in their initial responses to the safety concerns about its vehicles.

"I don't think, being in Japan, that he or many people had a sense of just how stirred up things were in the U.S., from a regulatory standpoint, from an administration standpoint, from a customer standpoint, from a dealership standpoint". — James E. Lentz, the president of Toyota Motor Sales U.S.A. ⁶

It is well known that the Japanese establishment values Japanese business over Japanese consumers—hence the general lack of consumer protections in Japan. Given that the state tends to side with automakers and not consumers, few Japanese are willing to take on that country's manufacturers at the risk of being penalized. Partly due to Japan's evident leniency, Toyota continued to deny potential safety problems and delayed addressing the issues within Japan and overseas.

What are the lessons to be learned from the Toyota study?

James E. Lentz, the president of Toyota Motor Sales U.S.A., reportedly said that he and the company had learned several valuable lessons. For example, the recall uproar had taught him that Toyota's practice of exhaustively studying options before making decisions was causing unnecessary delays.

Somewhere along the line, Toyota had also forgotten a fundamental principle of its own culture—to trust in its employees and their ability for team problem solving. North American management often complained of an inability to have direct input into major decisions at Toyota's Head Office and to communicate any "quality" concerns and issues to Japanese senior management. When Steve St. Angelo, a longtime executive at Toyota in the U.S., traveled to Japan, it was an eye-opening journey. Over the years, despite his senior position within the corporation, Mr. St. Angelo sometimes had to work his way up the chain of command to finally reach top corporate officials.

For all these reasons, there will have to be a cultural shift at Toyota. Consequently, Toyota's North American executives say they are starting to leverage their newfound access. Dino Triantafyllos, Toyota's V.P. for North American quality, reports having easier access to advisories sent to dealers all over the world, previously only found in some obscure database. Instead of Japanese engineers telling Toyota's American executives only the information they felt was necessary for them to know, the engineers are now seeking the Americans out for suggestions on how to improve. ⁷ In the wake of its safety crisis, Toyota faces "very, very serious credibility problems". Moreover, after Akio Toyoda's visit to the U.S. in February 2010, the company's attitude toward American regulators changed.

Amid the uproar over its recalls, Toyota appointed a chief quality officer and has vowed to improve communications within the company and with federal safety regulators. It has promised to speed up recalls by giving more authority to regional offices, although the final

⁶ *At Toyota, a Cultural Shift.* Micheline Maynard, New York Times, June 2, 2010

⁷ Ibid

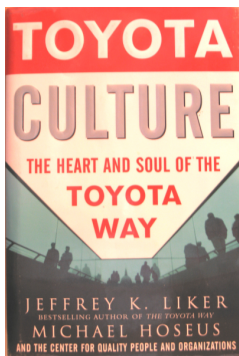
"Healthier organizations mean more productive employees."

decisions still rest in Japan. The company also set up a quality advisory panel for North America, headed by former Transportation Secretary Rodney Slater, to make sure complaints are relayed back to headquarters more quickly. "As I told Secretary LaHood, Toyota places utmost importance on customer safety," Mr. Toyoda said at the news conference. "I believe we are making strong progress delivering on our commitments. Our entire company has mobilized to ensure that Toyota vehicles remain safe and reliable." He said the new regional focus on safety would "act as a voice of the customers in North America and work to ensure that customer concerns are swiftly addressed." He pointed to the company's swift handling of a recall of the Lexus GS 460, a luxury S.U.V. It stopped selling the model briefly when Consumer Reports magazine issued a "do not buy" warning last month, related to problems with the cars' electronic stability control systems. Mr. LaHood praised Toyota for its response, Mr. Toyoda said.⁸

While in the U.S., Mr. Toyoda presented a slew of steps aimed at restoring trust in the embattled Japanese automaker, including installing new brake-override systems in all future models and a quicker disclosure of defects in its cars. He also announced that the company was overhauling its approach to quality and safety and that he wanted to focus fully on those efforts.⁹ Although Mr. Toyoda made a humble and full-on apology to American consumers, from the outset the corporation's handling of the safety issues and resulting recalls produced a terrible blemish on the firm's reputation and created a PR nightmare. Furthermore, an outraged Canadian Transport Committee member, Brian Masse, argued that the Japanese automaker had treated Canadians as second-class consumers. He noted that: "They didn't come here and officially apologize. I had to coax them into a kind of an apology."¹⁰

Given automotive history involving past recalls, some independent observers believe that Toyota's recalls have been blown way out of proportion, technically speaking. However, their voices were drowned out by media hype brought on largely by Toyota's failure to come clean early on with consumers and government regulators both in the U.S. and Canada. One outcome is that Toyota has learned an important lesson about seriously factoring in local/national cultural differences into its operations overseas. Only time will tell what costs Toyota will pay as a consequence of the resulting customer dissatisfaction, financial penalties and negative impacts on employee morale.

Recommended Reading:



"Toyota Culture"

(The Heart and Soul of the Toyota Way)

by Jeffrey K. Liker and Michael Hoseus
(McGraw-Hill, New York, NY, 2008)

Recommended Web Sites:

- ◆ Toyoland – History of the car company: <http://www.toyoland.com/index.html>
- ◆ The Center for Quality People and Organizations: <http://www.cqpo.org/>
- ◆ Toyota Canada Inc. – News & Events: <http://www.toyota.ca/>

⁸ *U.S. Sees a Change of Attitude at Toyota*: Hirokal Tabuchi/Micheline Maynard, New York Times, May 10, 2010

⁹ *Toyota Announces Steps to Restore Confidence*: Hiroko Tabuchi/Nick Bunkley, New York Times, February 18, 2010

¹⁰ *Truth about Toyota*: Laura Cameron/Thomas Watson, on line at maclean.ca, April 20, 2010

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