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The Crisis Management Lesson from Toyota and GM: “It’s Our Problem the Moment We Hear About It”

By: Ben W. Heineman, Jr.
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Delay in confronting crises is deadly. Corporate leaders must have processes for learning of important safety issues. Then they must seize control immediately and lead a systematic response. Crisis management is the ultimate stress test for the CEO and other top leaders of companies. The mantra for all leaders in crisis management must be: “It is our problem the moment we hear about it. We will be judged from that instant forward for everything we do—and don’t do.”

These are key lessons for leaders in all types of businesses from the front page stories about Toyota’s and GM’s separate, lengthy delays in responding promptly and fully to reports of deadly accidents possibly linked to product defects.

The news focus has been on regulatory investigations and enforcement relating to each company, but the ultimate question is why the company leaders didn’t forcefully address the possible defect issues when deaths started to occur.

On the recent regulatory front:

- Toyota just agreed to pay \$1.2 billion in a deferred prosecution agreement with DOJ and accept a safety monitor for failing to disclose to regulators—and indeed misleading them—about accelerators that became stuck on certain types of floor mats or because of certain elements in the accelerator itself. The problem of uncontrolled speeding and deadly crashes began to appear in 2007, but it took four years, and deceptive statements, before Toyota disclosed earlier understandings about the causes and recalled millions of vehicles. The company has also settled class actions and has individual suits still pending.
- GM delayed from 2005, when the issue first appeared, until recently to recall 1.6 million Chevy Cobalts with an ignition defects that, under certain conditions, would turn off the engine suddenly and disable airbags, leading to a number of crashes and at least 12 deaths. The company is now facing the prospect of multi-front investigations from Congress, the National Highway Safety Administration

and the Justice Department about why and how years passed before GM addressed the issue. New GM CEO Mary Barra has personally taken over the internal investigation, oversight of litigation and the response to government entities. She has said in a video to employees: "Something went very wrong in our processes in this instance, and terrible things happened." Although, in contrast to Toyota, GM is just at the beginning of extended regulatory and possibly enforcement actions, the delay in dealing with the ignition issue is, like Toyota's accelerator issue, likely to be a major problem for the company in years to come.

But, the deeper question is why these delays occurred in the first place. And it is on this question that business leaders should ponder whether they have robust systematic processes in place for personally leading or overseeing these threats to people and to the company.

The importance of thinking seriously about this set of issues is driven home by the failure of GM to address the ignition issue, even though the example of Toyota's delay and lack of candor on the accelerator issue was a huge international story three plus years ago.

In a nutshell, CEOs and other top business leaders (with oversight of systems and processes by the board) must have a well-thought out approach to managing this type of health and safety crisis.

- Preventive systems and testing should be in place to reduce the issues to an absolute minimum.
- As Toyota and GM have belatedly done, the CEO should appoint a head of safety and rapid response teams to receive reports of serious harms to persons or property that may be linked to product issues.
- Just as the general company ombuds system reports concerns to the top of the company about serious commercial, legal or ethical issues, the rapid response team should take any issue of potential consequence to the CEO or other high business leaders.
- Most importantly, the CEO or top business leaders should then form appropriate multi-functional teams relating to: design problems and solutions; internal personnel and processes; duties to regulators; management of litigation; a communications strategy with various constituencies; and any other relevant functions.
- The CEO or top business leaders must have prompt, periodic, direct reports until there is a good understanding of the interrelated issues. Then they must make decisions on an appropriate response. On these important safety issues, the CEO should also keep the board informed.

- Both during formulation of the strategy and after, the CEO or top business leadership must ensure that all communications to all constituencies must be strictly accurate. It is better to say nothing—and develop accurate facts—than to issue deceptive or incomplete statements.
- Once decisions are made about strategy, the CEO must oversee implementation to make sure, as appropriate, that it is meticulously carried out, changing systems both with respect to specific issues and more broadly as necessary, dealing humanely with people injured, and communicating fully and transparently with regulators, media, and other constituents.

To take these fundamental steps is to pass the stress test. And the striking examples of Toyota and GM are an occasion for companies to review whether processes are in place to ensure that they are taken in the event of such a crisis.

Many commentators are speculating about whether the Toyota settlement with the Justice Department will be the template for a future GM resolution. To me, the more critical question for *all* companies is how expeditiously to handle these crises at the outset in order to avoid the unconscionable delay—and the searching regulatory problems that follow, as the Toyota and GM cases show.

It is our problem, the moment we hear about it.

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