

# The Washington Post

## On Leadership



LEGAL SCHOLAR

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### THE QUESTION

#### **Toyota: The mighty falling?**

**Toyota, the company renowned for its quality control and continuous improvement, now finds itself having to recall millions of cars for defects. In your experience, what are the common mistakes leaders make that cause their organizations to lose their key competitive advantage?**

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#### **Flunking crisis management 101**

**Toyota's severe problems stem as much from poor crisis management as from poor product quality. In all industrial companies, problems may develop in products. The question is: How does the business respond? When products have serious potential safety issues like Toyota's sticking accelerator pedal, then crisis management becomes the company's stress test.**

**There are some very basic crisis-management rules Toyota appears to have violated so far:**

**1) For senior management, crises should become their problem the moment they hear about them. Any issue that threatens the integrity of the company or its flagship products requires immediate hands-on control of the issue by the CEO and senior executives. They must create the crisis management team, assign the tasks, meet frequently, and decide on internal and external actions. Unless they assume direct, continuous control, a dangerous problem can mushroom into a catastrophic one.**

**The problem with sticking accelerators began to surface in December of 2008, and it obviously had the potential to be an important safety issue, perhaps involving life and death. Yet there is little sign that the Toyota CEO scrambled the planes and treated this as a critical issue at the top of the company until late in the day.**

**2) Find the facts -- and the solution -- with all deliberate speed. Companies are flying blind if they don't gather all relevant facts as fast as possible, but also as accurately as possible. This seems obvious, but in every company there is always a strong sense of denial: "We did it right, the problem is small, the critics are wrong."**

**The senior leadership team has to punch through that denial and complacency and find the facts, and then devise a real solution, not a temporary patch, as fast as possible.**

**Again, Toyota appears to have been in denial for some time, not putting a dedicated quality and engineering team on the accelerator problem. It accepted a "patch" (remove floor mats) and only much later, when it lost control of the issue and had to stop production, did it come up with an engineering answer.**

**3) Communicate fully and accurately to all relevant constituencies to sustain trust. As the fact-finding and problem-solving moves forward, there will be difficult questions about what to communicate to whom. Certainly, it is important to be ahead of the curve with regulators so they believe the company is acting in good faith to address a serious issue with alacrity.**

**So too, when a company is built on consumer trust, it may be necessary to err on the side of protecting consumers and maintain that trust with a recall, rather than hope the problem goes away and costly recalls can be avoided. This issue can be acute when the "incidents" are very small in number (double digits) compared to the installed base or fleet (millions of units).**

**There is little question that Toyota's "communications strategy" in this case will be taught for years to come as too little, too late.**

**Many have been quick to write that Toyota's problems stem from Japanese culture: that the Toyota Way of manufacturing is great at fixing problems inside the process but isn't set up to deal with problems that occur in the market or that the Japanese have a particularly difficult time addressing mistakes. I don't know.**

**But I do know that American companies have flunked crisis management continually over decades, from Beech-Nut (adulterated apple juice) to Salomon Brothers (false bidding) to Ford/Bridgestone (tire failures) to Marsh & McClennan (bid rigging), with equally catastrophic effects.**

**On the other hand, Johnson & Johnson is still remembered, a generation later, for taking swift action and pulling Tylenol off the shelves across the nation in the mid-80s after just a handful of bottles had been the subject of dangerous tampering.**

**Even with an accelerator quality problem, the Toyota issues would have been important business news -- but not a front-page world-wide catastrophe -- if the company hadn't flunked crisis management.**

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