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Toyota: How One Failure Begets Another

The automaker's refusal to pay attention to consumers was a management failure that ultimately led to its massive vehicle recalls, says Peter Firestein

By Peter Firestein

Amid the slow recovery of the global economy, we have in recent weeks witnessed the unlikely descent of one of the world's most admired companies: Toyota. A pattern of deadly accidents has caused the the slow-motion crash of its reputation.

It has been a long time coming. Toyota (TM) did virtually everything it could over the past decade to deny an acceleration problem in many of its models. When it could no longer treat each crash as an isolated incident, it blamed its troubles on floor mats (or driver incompetence). Later it conceded that the gas pedals should be replaced. At the same time, it continued to reject suggestions that onboard computer electronics had anything to do with the accidents, claiming that multiple backup systems made computer involvement impossible.

The entire scenario indicates that there is a systemic problem at Toyota. But it's not with the engineers who design and make the cars. Granted, no engineering enterprise is perfect. And anything with a hundredth the complexity of a modern automobile requires constant adjustment, retooling, and rethinking. Engineers experience failure every day. But when something doesn't work, they fix it. They make new designs. They fabricate workarounds. And to do that, they have to be perfectly attuned to feedback from their systems.

Trying To Keep Stress Low

Toyota's corporate leaders managed the company in the public arena of consumers and regulators. But, unlike their engineers, the managers were blind to critical information that came their way. Evidence that showed dangerous malfunctions was inexplicably lost on them—time after time. The *Los Angeles Times* reported that Toyota has issued eight recalls for unintended acceleration going back to 2000, more than any other automaker. It seems Toyota's approach is to dispose of each problem with a minimum of stress to the company.

During a recall last fall, Toyota claimed there was no defect at all. In a 55,000-vehicle recall two years ago, for interference of a floor mat with the accelerator pedal, the fix was to enlarge a warning label on the underside of the mat and on its packaging. It's unclear what this was supposed to accomplish. In April 2003, Toyota engineers discovered that a panel could come loose and lock the gas pedal of a minivan. The company made the fix in future vehicles but never notified current owners.

Toyota is not the first company to undermine itself by seeking refuge in denial. Early this decade, BP (BP) set new corporate responsibility standards in its enormous pipeline development that now runs 1,000 miles from the Caspian to the Mediterranean. The company interviewed 10,000 land tenants along the route, determining the pipe's least disruptive path. It made tens of millions in social investment along the way. Yet two months before the first oil passed through the line in May 2005, a BP refinery in Texas City, Texas, exploded, killing 15 people and injuring more than 170. A federal investigation found that the company had ignored repeated safety warnings. A year later a quarter million gallons of oil spilled from a BP pipe in Alaska because of the company's failure to carry out routine maintenance. BP had made great investments in social responsibility, but apparently not enough in its basic business.

Toyota wrote the book on excellence in manufacturing and in the delivery of a sense of quality to the world. Its methods are taught in universities. "The Toyota Way," a series of books and seminars, is a small industry.

Corporate Deafness

Any corporation is a creator of value—which it can more or less control—as well as a player in a broad social context, over which it has virtually no control. Excellence in one area does not exempt the company from responsibility in the other. Toyota experienced a remarkable ascendance over its competitors in the auto market.

But what it knows about consumers appears to have been limited to how to sell them cars. Missing was the ability to listen to their concerns.

Failure has never been part of Toyota's vocabulary, so the company was unable to recognize or respond to the kinds of "normal" failures that are inevitable in any large, complex business. Toyota learned little or nothing between one recall and the next. It did not take early recalls as information, but only as problems to be disposed of in the most expeditious manner. In this way, it built its current mammoth challenge through small incidents of neglect.

U.S. Transportation Secretary Ray LaHood said that federal officials, to attract Toyota's attention to safety concerns, had to "wake them up." As recently as last November, Toyota, in trying to limit the focus of public conversation about acceleration problems to floor mats, said, "there is no evidence to support" any other cause. The comment displayed little of the curiosity that led Toyota's engineers to invent thousands of innovative ways to make a better car.

No one should doubt that Toyota will recover from this painful interlude. Management is surely in deep learning mode these days, having a great deal to catch up on. Here's what they teach in the classes Toyota skipped:

• Always Solicit Outside Voices.

The overwhelming majority of corporate reputation failures result from the Echo Effect—managers inside a company talking each other into ill-advised strategies that bring substantial, hidden downsides. The inclusion of diverse, independent points of view, including those of outside advisers, will go a long way toward assuring that financial interests do not overwhelm the company's judgment.

• Make Sure Corporate Decisions Align With Personal Values.

Much of the public's post-meltdown outrage at business focuses on what I call the Corporate Exception—the apparent belief that different standards of conduct prevail within the company than in the outside world. In the age of scrutiny, managers and all employees must bring their personal values to work. They have no other frame of reference than their own experience to understand how the world sees them. The standard quantitative measurements of business, while still crucial, are no longer enough to protect the company—as Toyota has learned.

• Be Skeptical of Your Own Story.

Every successful company has a narrative that explains its value and its right to exist, and that often refers to a public good. Toyota's has focused on building virtually every class of desirable auto for the world—and doing it with utmost quality. Toyota's story about itself, while utterly true, was incomplete. It addressed the product only, and it therefore blinded the company to the extreme vulnerabilities that have now appeared.

Toyota is hardly the only company that could benefit from these principles. It's merely the current occupant of the spotlight, and its experience should demonstrate to every manager that there are a thousand ways to go wrong. Even building the world's favorite car—by itself—is not enough to save you. That's what Toyota is learning.

Peter Firestein is author of *CRISIS OF CHARACTER —Building Corporate Reputation in the Age of Skepticism.* He advises corporations on how to create the structures and strategies needed to improve relationships with both external and internal constituencies. Peter is originator of The Open Perception Study™, a forward-looking methodology that identifies investor sentiment. He publishes *The Corporate Reputation Monthly* and a corporate reputation blog. For more information at www.peterfirestein.com .