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Toyota Recalls (B): Mr. Toyoda Goes to Washington

The media coverage of the Toyota crisis peaked with Toyota President Akio Toyoda's testimony on February 24, 2010, to the United States House of Representatives Committee on Oversight and Government Reform. The day before, Jim Lentz, President of Toyota USA Motor Sales, was grilled by the Energy and Commerce Committee. (**Appendix A** reproduces Lentz's prepared remarks.) Lentz admitted to chairmen Henry Waxman (D-California) that Toyota had "not totally" fixed the problem.^a He criticized Toyota's handling of the recall. John Dingell (D-Michigan) asked for specifics about consumer complaints and Toyota responses. Lentz answered "I don't know" to Dingell a number of times, reminding lawmakers that most final decisions on safety were made in Japan.^b

Like Lentz, Toyoda opened his testimony with a prepared statement, which he read in English. (**Appendix B** reproduces Toyoda's prepared remarks.) He said he wished to focus on three topics, "Toyota's basic philosophy regarding quality control, the cause of the recalls, and how we will manage quality control going forward." He immediately took full responsibility for the uncertainty around the safety of Toyotas and noted that, "I myself, as well as Toyota, am not perfect." He reinforced that at Toyota's core was a commitment to "never run away from our problems or pretend we don't notice them. By making continuous improvements, we aim to continue offering even better products from society."

Toyoda also stressed the firm's inability to keep up with its own pace of growth: "Quite frankly, I fear the pace at which we have grown may have been too quick," he said. "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."

Finally Toyoda pledged a new commitment to quality. He did not speak directly to the recall issues, or the fixes to those problems, but promised further investment in quality, management changes, and more hands-on testing by executives. He finished with a pledge, "My name is on every car. You have my personal commitment that Toyota will work vigorously and unceasingly to restore the trust of our customers." Toyoda then answered questions from lawmakers in Japanese through a translator. Lawmakers criticized Toyoda for not showing adequate remorse, and they remained hard to convince. A congressman asked, "Why should we believe that things are going to get better?"^c

^a Peter Whoriskey, Frank Ahrens, "Toyota unsure if recalls suffice; U.S. Chief Faces Lawmakers In first hearing, lengthy apology but few answers," *The Washington Post*, February 24, 2010, sec. A, p.1, via Factiva, accessed July 2010.

^b Micheline Maynard, "Toyota Official Says Recall May Not Fully Solve Safety Problem," *The New York Times*, <http://www.nytimes.com/2010/02/24/business/global/24toyota.html?scp=7&sq=Toyoda&st=nyt>, accessed July 2010.

^c Micheline Maynard, "An Apology From Toyota's Leader," *The New York Times*, http://www.nytimes.com/2010/02/25/business/global/25toyota.html?ref=akio_toyoda, accessed July 2010.

Professor John A. Quelch, Executive Director Carin-Isabel Knoop of the HBS Global Research Group, and Research Associate Ryan Johnson of the HBS Global Research Group prepared this case. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Appendix A Transcript of Prepared Remarks by Jim Lentz to the U.S. Congress in February 2010*Transcript of Jim Lentz's prepared remarks to House Energy and Commerce Committee, February 23, 2010*

Chairman Waxman, Subcommittee Chairman Stupak, Ranking Members Barton and Walden, members of the Committee, thank you for inviting me here today. My name is Jim Lentz, and I am the President and Chief Operating Officer of Toyota Motor Sales, USA.

In my testimony, I will address Toyota's recent recalls and the decisive steps we are taking to restore the trust of the tens of millions of Americans who purchase and drive our vehicles. For two generations, we have provided Americans with cars and trucks that are safe and reliable. And we fully intend to produce even safer, high quality vehicles in the future, even as we pave the way with the next generation hybrid and electric vehicles that our society needs.

In recent months, we have not lived up to the high standards our customers and the public have come to expect from Toyota. Put simply, it has taken us too long to come to grips with a rare but serious set of safety issues, despite all of our good faith efforts. The problem has also been compounded by poor communications both within our company and with regulators and consumers. While all auto companies have recalls and all major auto companies have experienced complaints about unintended acceleration, Toyota's recalls have caused concerns among our customers.

I would like to assure the Committee, and the American people, that nothing matters more to Toyota than the safety and reliability of the vehicles our customers drive. We are committed not only to fixing vehicles on the road and ensuring they are safe, but to making our new vehicles better and even more reliable through strict quality control, enhanced communication and a redoubled focus on putting our customers first.

Our 1,500 dealers are making extraordinary efforts to complete our recalls as quickly and conveniently as possible. Some dealers are staying open 24/7 and they are repairing vehicles at a rate of about 50,000 a day. To date, we have repaired close to a million vehicles.

We have rigorously tested our solutions and are confident that with these repairs, Toyota vehicles will be among the safest on the road today. Our engineers have identified two specific, mechanical causes of unintended acceleration covered by the recalls and we are currently addressing these through the open recalls. One involves floor mats that when loose or improperly fitted can entrap the accelerator pedal. The other concerns accelerator pedals that can, over time, grow "sticky" with wear. The solutions we have developed are both effective and durable.

We are confident that no problems exist with the electronic throttle control system in our vehicles. We have designed our electronic throttle control system with multiple fail-safe mechanisms to shut off or reduce engine power in the event of a system failure. We have done extensive testing of this system and have never found a malfunction that caused unintended acceleration.

Additionally, in December we asked Exponent, a world-class engineering and scientific consulting firm, to conduct a comprehensive, independent analysis of our electronic throttle control system with an unlimited budget. Their interim report confirms that it works as designed. Toyota will make the results of this comprehensive evaluation available to the public when it is completed.

Why did it take so long to get to this point? With respect to pedal entrapment, Toyota conducted investigations of customer complaints which focused too narrowly on technical issues without taking

full account of the way customers used our vehicles. And in the case of sticking accelerator pedals, we failed to promptly analyze and respond to information emerging from Europe and in the United States.

We acknowledge these mistakes, we apologize for them and we have learned from them. We now understand that we must think differently when investigating complaints and communicate faster, better and more effectively with our customers and our regulators. Our recent voluntary recalls of certain 2010 Prius and Lexus hybrids and of certain 2010 Tacoma trucks illustrate this new approach.

We are also going further. Our President Akio Toyoda has announced a top-to-bottom review of our operations that he will lead personally, with the support of new Chief Quality Officers for North America and our other principal regions. We will ask independent, outside experts to evaluate the findings to make sure we meet or exceed industry standards.

We are expanding our network of technical offices in the U.S. so we can gather information faster and respond more aggressively to incident reports.

And, we will install advanced brake override systems in all our new models – making us one of the first full-line manufacturers to offer this customer confidence feature as standard equipment. Additionally, we are announcing that we will install this system on an expanded range of vehicles – including the Tacoma, Venza and Sequoia models – that are capable of accepting the new software. We had previously announced that the system would be installed onto the Camry, Avalon and Lexus ES 350, IS 350 and IS 250 models. These actions underscore that Toyota is going above and beyond making the necessary vehicle modifications and repairs to ensure that our customers can be completely confident in the safety and reliability of the cars and trucks they drive.

Chairman Waxman, Subcommittee Chairman Stupak, Ranking Members Barton and Walden, members of the Committee, these are only some of the steps Toyota is taking to earn back the confidence of Congress and the American people. Our 200,000 team members, dealership employees and suppliers in the United States are the backbone of that effort – and I am confident we will succeed in restoring customer trust in the quality, safety and reliability of our vehicles.

Thank you. I look forward to your questions.

Appendix B Transcript of Prepared Remarks by Akio Toyoda to the U.S. Congress in February 2010

Transcript of Akio Toyoda's prepared remarks to House Oversight and Government Reform Committee, February 24, 2010

Thank you Chairman Towns.

I am Akio Toyoda of Toyota Motor Corporation. I would first like to state that I love cars as much as anyone, and I love Toyota as much as anyone. I take the utmost pleasure in offering vehicles that our customers love, and I know that Toyota's 200,000 team members, dealers, and suppliers across America feel the same way. However, in the past few months, our customers have started to feel uncertain about the safety of Toyota's vehicles, and I take full responsibility for that. Today, I would like to explain to the American people, as well as our customers in the U.S. and around the world, how seriously Toyota takes the quality and safety of its vehicles. I would like to express my appreciation to Chairman Towns and Ranking Member Issa, as well as the members of the House Oversight and Government Reform Committee, for giving me this opportunity to express my thoughts today.

I would like to focus my comments on three topics – Toyota's basic philosophy regarding quality control, the cause of the recalls, and how we will manage quality control going forward.

First, I want to discuss the philosophy of Toyota's quality control. I myself, as well as Toyota, am not perfect. At times, we do find defects. But in such situations, we always stop, strive to understand the problem, and make changes to improve further. In the name of the company, its long-standing tradition and pride, we never run away from our problems or pretend we don't notice them. By making continuous improvements, we aim to continue offering even better products for society. That is the core value we have kept closest to our hearts since the founding days of the company.

At Toyota, we believe the key to making quality products is to develop quality people. Each employee thinks about what he or she should do, continuously making improvements, and by doing so, makes even better cars. We have been actively engaged in developing people who share and can execute on this core value. It has been over 50 years since we began selling in this great country, and over 25 years since we started production here. And in the process, we have been able to share this core value with the 200,000 people at Toyota operations, dealers, and suppliers in this country. That is what I am most proud of.

Second, I would like to discuss what caused the recall issues we are facing now. 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 2 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.

Since last June, when I first took office, I have personally placed the highest priority on improving quality over quantity, and I have shared that direction with our stakeholders. As you well know, I am the grandson of the founder, and all the Toyota vehicles bear my name. For me, when the cars are damaged, it is as though I am as well. I, more than anyone, wish for Toyota's cars to be safe, and for our customers to feel safe when they use our vehicles. Under my leadership, I would like to reaffirm our values of placing safety and quality the highest on our list of priorities, which we have held to firmly from the time we were founded. I will also strive to devise a system in which we can surely execute what we value.

Third, I would like to discuss how we plan to manage quality control as we go forward. Up to now, any decisions on conducting recalls have been made by the Customer Quality Engineering Division at Toyota Motor Corporation in Japan. This division confirms whether there are technical problems and makes a decision on the necessity of a recall. However, reflecting on the issues today, what we lacked was the customers' perspective.

To make improvements on this, we will make the following changes to the recall decision making process. When recall decisions are made, a step will be added in the process to ensure that management will make a responsible decision from the perspective of "customer safety first." To do that, we will devise a system in which customers' voices around the world will reach our management in a timely manner, and also a system in which each region will be able to make decisions as necessary. Further, we will form a quality advisory group composed of respected outside experts from North America and around the world to ensure that we do not make a misguided decision. Finally, we will invest heavily in quality in the U.S., through the establishment of an Automotive Center of Quality Excellence, the introduction of a new position – Product Safety Executive, and the sharing of more information and responsibility within the company for product quality decisions, including defects and recalls.

Even more importantly, I will ensure that members of the management team actually drive the cars, and that they check for themselves where the problem lies as well as its severity. I myself am a trained test driver. As a professional, I am able to check on problems in a car, and can understand how severe the safety concern is in a car. I drove the vehicles in the accelerator pedal recall as well as the Prius, comparing the vehicles before and after the remedy in various environmental settings. I believe that only by examining the problems on-site, can one make decisions from the customer perspective. One cannot rely on reports or data in a meeting room.

Through the measures I have just discussed, and with whatever results we obtain from the investigations we are conducting in cooperation with NHTSA, I intend to further improve on the quality of Toyota vehicles and fulfill our principle of putting the customer first.

My name is on every car. You have my personal commitment that Toyota will work vigorously and unceasingly to restore the trust of our customers.

Thank you.