

Lessons learned from Toyota's turmoil

At first blush, the financial crisis that has dominated headlines over the past two years and Toyota's recent recall crisis bear little resemblance.

But these diverse crisis situations share a common origin: a disregard for corporate character — enduring values that are sustainable in good times and bad — in favor of growth at any cost and attaining quarterly financial targets.

The financial crisis story is well understood in this regard, as banks and other financial institutions pursued outsized, unsustainable profits from the housing bubble and easy credit conditions. The tone from the top encouraged, and in some cases demanded, a focus on short-term earnings and revenue growth. In effect, financial performance became the sole essence of these organizations.

Toyota's fall from grace can be plotted along a similar line. For many years, the company had been known for a formal and rigorous approach to corporate character through the "Toyota Way," a durable code based on 14 values that included:

- Basing management decisions on a long-term philosophy even at the expense of short-term financial goals.

- Building a culture of stopping to fix problems, to get quality right the first time.

- Growing leaders who thoroughly understand the work, live the philosophy, and teach it to others.

In 2002, however, different motivations and values took hold based almost solely on growth. Then-CEO Fujio Cho unveiled Global Vision 2010, which provided a road map for Toyota to capture 15% of the global auto market and become the world's No. 1 carmaker. To get there, Toyota greatly



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expanded its manufacturing footprint and outsourced production, ceding quality to third parties.

Mission accomplished. Toyota successfully added more than 3 million vehicles in annual sales over five years and in 2008 became the world's largest carmaker.

'Pursuit of more'

But for Toyota, something fundamental happened on the way to the mountaintop. Global Vision 2010 became a proxy for the Toyota Way itself. In his book, "How the Mighty Fall," management guru Jim Collins cautions against "the undisciplined pursuit of more," meaning that big gets confused with great and values are neglected. Collins concludes, "This strains people, the culture and systems to the breaking point."

Toyota CEO Akio Toyoda conceded as much in a news conference in the fall of 2009, when he cast a critical eye on former management's pursuit of growth. He later told *AutoWeek* that the company had become "too big and distant from its customers."

Just as Toyota let a singular objective take precedence over established, time-tested ideals, banks and financial institutions veered off-course in a rapacious pursuit of profit. The parallels between Toyota's predicament and the global

financial crisis are undeniable and, in my experience working with companies in turmoil, share many characteristics:

- Performance goals replace corporate character/values as the organization's animating force.

- An organization fails to recognize its role in society at large, as well as its responsibility to diverse stakeholders.

- The corporate culture discourages dissent and the expression of contrary opinions.

- Senior leadership lacks an appropriate measure of humility.

The way forward

Out of crisis, it is often said, comes opportunity. Toyota's dramatic fall from grace — coupled with the painful lessons from the ongoing financial crisis — creates fertile ground and political cover for business leaders to realign corporate priorities away from short-term performance targets and more toward doing right by a company's stakeholders over the long term.

Corporate leaders should bear in mind what my mentor in the public relations business once said: "Too often we lose sight of the fact that if you have reality and spin approaching each other on a collision course, reality will always win."

Developing corporate character is not a PR assignment. It must endure as an accurate reflection of an organization's priorities, goals, and ethics. Anything short of that will eventually succumb to the truth. Just ask Toyota.

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