Toyota slips up

What the world's biggest carmaker can learn from other corporate turnarounds.

Less than two years ago Toyota swept past an ailing General Motors (GM) to become the world's biggest carmaker. Now its newly installed boss, Akio Toyoda, the 53-year-old grandson of the founder, says that the firm could be locked in a spiral of decline. Toyota is still a hugely formidable company, and some within the industry (and inside Toyota itself) believe that Mr Toyoda may be overstating the case. Yet there is no shortage of signs that all is not well.

Toyota's story has implications beyond the motor industry, for it is not just a car company; it is the model for manufacturing excellence whose "lean" techniques have been copied by countless firms. How it slipped up—and how it may right itself—carries lessons for others.

Falling giants

Although some of its rivals, notably Volkswagen of Germany and Hyundai of South Korea, have come through the terrible past year relatively unscathed, Toyota's market-share has either fallen or been flat in every region in which it operates except Japan—a market that was shrinking well before the crisis struck. In America, its biggest and normally most profitable market, Toyota has been plagued by highly publicised recalls that have raised embarrassing questions about the safety of its vehicles. In China, India and Brazil, the big emerging markets that will provide nearly all the industry's future growth, Toyota has been slow off the mark. Its lead in hybrid technology is under threat as other big carmakers scramble to bring low- and zero-emission vehicles to market before low-carbon legislation bites. Astonishingly, in the first three months of 2009 it made an even bigger loss than GM, which was then on the verge of bankruptcy. Underlying all these problems is an uncomfortable truth: Toyota's rivals have now caught up. They now offer cars that are just as reliable but far more exciting than the rather dull vehicles Toyota has concentrated on producing in ever-larger numbers.

Mr Toyoda's alarm call last month appears partly to have been prompted by reading "How the Mighty Fall", a book by Jim Collins, an American management writer, which identifies five stages of corporate decline. Mr Toyoda reckons that Toyota may already be at the fourth stage. Companies at this point, says Mr Collins, frequently still have their destinies in their own hands, but often flit from one supposed "silver bullet" strategy to another, thus accelerating towards the fate they are trying to avoid.

Those mistakes include: seeking a big acquisition to transform the business at a single stroke; embarking on a programme of such radical change that underlying strengths are forgotten or abandoned; destroying momentum by constant restructuring; pinning hopes on unproven strategies, such as dramatic leaps into new technologies or businesses; and hiring a visionary leader from outside with little understanding of what made the company great in the first place. Instead, Mr Collins advocates old-fashioned management virtues such as determination, discipline, calmness under pressure and strategic decision-making based on careful sifting of the evidence. Often, the leader best able to halt a downward spiral will be an insider who knows how to build on proven strengths while simultaneously identifying and eradicating weaknesses.

There are plenty of examples. In the late 1990s both Hewlett-Packard and Motorola found themselves in deep trouble, and IBM, long the most admired firm in America, went through similar agonies earlier in the decade. All three faced the problem of having to adapt their businesses to the rise of the internet. HP and Motorola, in their efforts to remake themselves, hired bosses in from outside and reorganised themselves repeatedly. Luckily for HP, it pulled itself together in the nick of time under Mark Hurd, a very different kind of boss from his

predecessor, Carly Fiorina, who was fired in 2005 after a wild five-year ride. Eschewing her game-changing acquisitions and grand strategies, Mr Hurd concentrated on operating efficiency, execution, financial performance and customers. Motorola, by contrast, has never recovered from the aftermath of the telecoms bubble that burst in 2000-01: its share price today is one-sixth of what it was at its peak.

As for IBM, it found new and vibrant life after near-death thanks to Lou Gerstner's refusal to be panicked into breaking up the company—the game-changing solution advocated by Wall Street analysts, investment bankers scenting fees and a good few of IBM's own senior managers. Instead, Mr Gerstner opted for doggedly building on the strengths that had made IBM great in the first place (not least the exceptional quality of many of the people who worked for Big Blue) to make it a leader in the lucrative computer-services market.

A bit of vroom needed

Toyota can also learn from the woes of other carmakers. A decade ago Ford thought it had found a saviour in the dynamic Jac Nasser, who declared his intention to transform the firm from an old-economy carmaker into a nimble, internet-savvy, consumer powerhouse that managed brands and sold services. He also went on a wild acquisition spree, paying huge sums for Volvo and Land Rover. Unfortunately, amid Mr Nasser's cultural revolution, Ford lost sight of its main purpose: building decent vehicles as efficiently and profitably as possible. That is what Ford is reaping the reward for doing now, under the less exciting but steadier leadership of Alan Mulally.

Toyota, too, has a good chance of putting things right. It is no GM, which had far deeper structural problems before it used bankruptcy to offload some of them. It has a boss who understands what has gone wrong—namely, that it has jeopardised its formerly stellar reputation for quality by pursuing volume at all costs and by failing to put the needs of its customers first. It has started to sort out some of its problems. Quality and reliability are getting back up to the mark. Now it needs to make more exciting and innovative cars.

Mr Toyoda's approach is not visionary. It is simple, incremental and requires painstaking attention to what the customers want. That is its virtue.

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