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## **I can't believe I'm saying this ...**

As I sit and watch Toyota boss Akio Toyoda testify before the House oversight committee, I find myself thinking the American Congress was right to compel him to answer some questions (he actually agreed to testify). Yes, I still believe in the capitalist free market system. And yes, I still believe that governments have become too intrusive, too obstructive and too socialist in their economic and regulatory approaches.

But having said that, I also believe many of the large multi-national corporations have become socially irresponsible in the way they conduct business. As a result they become too big, too greedy and too arrogant - often making decisions that ultimately hurt their customers and others physically, emotionally and financially. Consequently, people distrust the company and, in turn, the business community and the free enterprise system in general. In the end, they then turn to government to fix the problem, and we all lose a little more of our freedom without holding anyone accountable.

Please understand that I have never liked the American's penchant for congressional committees. I've always viewed them as political grandstanding with little or no redeeming value. So, why the change in thinking?

Simply put, it seems to me that using political interrogation to hold corporate executives accountable could be very effective. It's no secret these luminaries have large egos and don't take kindly to being embarrassed by a bunch of politicians trying to score points. Can you think of a better way to punish these people for their bad behavior? I look at it as a market-driven response to the problem. Besides, it might give lawmakers something useful to do.

I do not mean to single out Toyota as an example. It's a good company that simply lost sight of its priorities and the principles that first made it great. As the following article from *The Economist* points out, they are not alone in the pursuit of growth. Although they don't say so, I think the story adds credence to my argument. It's worth reading.

*Allan J. Evans*

## **The woes of Toyota, the world's biggest carmaker, are a warning for rivals**

February 24, 2010 from *The Economist*

AS EXECUTIVES from Toyota squirmed before their tormentors in America's Congress this week, there was little public gloating from rival carmakers. Although it is Toyota that is currently in the dock after a crushing series of safety-related recalls across the world, competitors are only too aware that it could be their turn next. After all, there is not a single big car company that has not modeled its manufacturing processes and supply-chain management on Toyota's lean-production system.

That said, there is a widespread belief within the car industry that Toyota is the author of most of its own misfortunes and that its mistakes hold lessons for others. In testimony that he is set to deliver to the House oversight committee on Wednesday February 24th, Akio Toyoda, the carmaker's boss, will acknowledge that in its pursuit of growth Toyota stretched its lean philosophy close to breaking point and in so doing had become "confused" about some of the principles that first made it great: its focus on putting the customer's satisfaction above all else and its ability "to stop, think and make improvements".

James Womack, one of the authors of "The Machine that Changed the World", a book about Toyota's innovations in manufacturing, dates the origin of its present woes to 2002, when it set itself the goal of raising its global market share from 11% to 15%. Mr. Womack says that the 15% target was "totally irrelevant to any customer" and was "just driven by ego". According to Mr. Womack, the requirement to expand its supply chain rapidly "meant working with a lot of unfamiliar suppliers who didn't have a deep understanding of Toyota culture."

By the middle of the decade, recalls of Toyota vehicles were increasing at a sufficiently alarming rate for Mr. Toyoda's predecessor, Katsuaki Watanabe, to demand a renewed emphasis on quality control. But nothing was allowed to get in the way of another (albeit undeclared) goal: overtaking General Motors to become the biggest carmaker in the world. Even as Toyota swept past GM in 2008, the quality problems and recalls were mounting.

The majority of those problems almost certainly originated not in Toyota's own factories but in those of its suppliers. The automotive industry operates as a complex web. The carmakers (known as original equipment manufacturer or OEMs) sit at its centre. Next come the tier-one suppliers, such as Bosch, Delphi, Denso, Continental, Valeo and Tenneco, who deliver big integrated systems directly to the OEMs. Fanning out from these are the tier-two suppliers who provide individual parts or assembled components either directly to the OEM or to a tier-one supplier. CTS Corp, the maker of the throttle-pedal assemblies that Toyota has identified as one of the causes of "unintended acceleration" in some of its vehicles, is a tier-two supplier whose automotive business accounts for about a third of its sales.

On the outer ring of the web are the tier-three suppliers who often make just a single component for several tier-two suppliers. Although there are thousands of tier-two and tier-three suppliers around the world, their numbers have been culled over the past decade as the OEMs and the tier-ones have worked to consolidate their supply chains by concentrating business with a smaller number of stronger companies.

Toyota revolutionised automotive supply-chain management by anointing certain suppliers as the sole source of particular components, leading to intimate collaboration with long-term partners and a sense of mutual benefit. By contrast, Western carmakers tended either to source in-house or award short contracts to the lowest bidders. The quality Toyota and its suppliers achieved made possible the “just in time” approach to delivering components to the assembly plant.

Most big car firms now operate in a similar way. By and large, the relationships between the OEMs and the tier-one suppliers run smoothly. When problems crop up, it is usually with the other suppliers. One top purchasing executive says that consolidation, the need to trim capacity and the shock to demand that began in mid-2008 have put the weaker parts of the supply chain under great strain:

A consequence of Toyota’s breakneck expansion was that it became increasingly dependent on suppliers outside Japan with whom it did not have decades of working experience. Nor did Toyota have enough senior engineers to keep an eye on how new suppliers were shaping up. Yet Toyota not only continued to trust in its sole-sourcing approach, it went even further, gaining unprecedented economies of scale by using single suppliers for entire ranges of its cars across multiple markets.

One senior executive at a big tier-one supplier argues that although Toyota’s single-supplier philosophy served it well in the past it had taken it to potentially risky extremes, especially when combined with highly centralised decision-making in Japan. In the aftermath of Toyota’s crash, the question the industry is now asking itself is whether sole-sourcing has gone too far. Until very recently, Toyota was the peerless exemplar. For now, at least, it is seen as an awful warning.

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