Crisis Management and Change Implementation in Toyota

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Abstract. This case is developed in order to understand the changing process during the crisis in the Toyota Company. To understand the problem and analyze it the theory of Adaptive Cycle will be used.

Keywords. Toyota, change management, adaptive cycle

Introduction

This case devotes to the crisis Toyota company overcame in 2009-2010. During this time the company, known for its excellent quality, had to recall millions of its cars because of engineering mistakes, which would lead to accidents and even deaths. Why these mistakes occurred, what happened in the company, what was the solution to existing problems and the stages of implementation of changes will be discussed in this paper.

1. ABOUT TOYOTA

Toyota nowadays is the world’s leading car producer, originated in 1937 in Japan. After a lot of difficulties and problems during the whole history of the company, it finally became the leader of car production market. Net revenues of the company in fiscal year 2013 totaled 22,064,192 million yen (the growth comparing to the previous year was 18.7%), net income – 962,163 million yen (growth +239.3%) [4]. In 2009-2010, the company experienced a great crisis, during which it had to recall over 6 million cars worldwide, and this led to reputation damage, loss of clients and income (see Fig.1). However, the company successfully survived through the crisis, and nowadays it continues its growth and development.

Figure 1. Toyota's operating income from FY 2008 to FY 2014 (in million yen). Source: statista.com
2. ADAPTIVE CYCLE

The change management and implementation of new solutions to existing problems of Toyota in 2009-2010 can be described using the adaptive cycle – the theory that clearly describes the steps every organization takes in order to implement changes and continue to grow and to develop. This model defines four stages of process of change of the company: 1) equilibrium, 2) crisis, 3) new combinations and 4) entrepreneurship [1]. These stages can be defined within can/want context. In other words, depending on the level of uncertainty of the objectives of the company and the means of achieving them, the company “moves” among different stages (see Fig. 1). The goal of this paper is to show that with the help of this model it is possible to describe and analyze changes in any organization, because the theory of these changes is the same.

![Figure 2. The adaptive cycle](image)

2.1 Equilibrium

The first stage of the model is equilibrium. In this stage, the company clearly views its goals and the ways to achieve them. Thus, the “can” attitude and the “want” attitude are certain. This stage represents Toyota’s growth from 1980th until the year of 2009. The company experienced fast growth all over the world during these years; the customers were fully satisfied, and there was no reason to change anything or to make new choices. The main goal of the company was increasing sales, revenue and market share.

2.2 Crisis

However, fast growth badly affected the effectiveness of internal management. Expansion strained resources across the organization and slowed response time, and Japanese corporate culture did not work well in the USA. This resulted in a crisis in 2009-2010. From September 2009 to January 2010, the company had to recall more than 6 million vehicles because of the problems with seatbelts, exhaust systems and accelerator pedals that could be trapped in floor mats. This was a disaster for the company, its reputation and all the stakeholders. Toyota had to pay $1.2 billion to the Justice Department and three fines totaling nearly $50 million from the National Highway Traffic Safety Administration [3]. Moreover, the sales have shrunk, and this led to the income loss. During this stage, top management of the company realized the need of changes. However, nobody understood what path the company should take. Thinking in terms of Adaptive Cycle, this was the stage with uncertain “can” and uncertain “want”.
2.3 New combinations

In order to overcome crisis and to prevent such cases in the future, the company has to analyze its strengths and opportunities, which may help to implement certain changes (in other words, it has to make certain the means of overcoming the crisis – the “can” of Adaptive Cycle model). The revealed problems of the company, which led to the crisis, were connected with quality management (lack of quality monitoring committee), human resource management (particularly problems with corporate culture), and organizational structure of the company (centralized power structure, which leads to slow decision-making process and reaction on problems) [2]. After the company had revealed the reasons of the crisis, it moved to the third quadrant “New combinations”, where the “can” is certain, but “want” is uncertain (what are the solutions of these problems?).

2.4 Entrepreneurship

The next stage of the Adaptive Cycle model is the fourth quadrant named “Entrepreneurship”, where the organization is certain about the goals (“want”), but it is not ready yet for arranging to large-scale implementation (“can”). Moreover, the results of the changes are also uncertain.

The board of directors and top-management of Toyota came up with some ideas, which can prevent the future problems like the ones in 2009-2010. These solutions were as following:

- Set up a committee to monitor the quality issues at a later stage.
- Form a crisis management team and preparing crisis management plan.
- Split TMC's automotive business into four units so that each unit can apply the most appropriate business model.
- Consolidation of sales, marketing, manufacturing and engineering executive operations at one location in order to speed interdepartmental communication.
- Reorganization of region groups.
- Change human resource management.
- Modify partner relationships and communications among stakeholders
- Change organizational structure

After implementation of these changes, the possible path of the company development is clear, and Toyota moves to the stage of Equilibrium, where both “can” and “want” aspects of the strategy are certain. Thus, Toyota passed through all the stages of the cycle, closed it and began the new one.

3. CONCLUSION

With this paper, the process of change implementation and crisis management of Toyota Company was described. This process was analyzed with the help of Adaptive Cycle model, and it proved that this model could be used for description and analysis of any changes in any company, as the process of change implementation is clearly the same in any organization. Nowadays Toyota is still one of the leading car producers in the world, and recent changes helped her to overcome crisis. The company is now in the stage of equilibrium, which means that the new loop will definitely take place in the future.
References