



Lessons From Toyota

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The history of commerce is littered with organizations that have erred in big and varied ways. There were Wang's strategic errors, GM's stifling bureaucracy and short-sightedness, Digital's burdensome overhead, Enron's dishonesty, AIG's recklessness, and... where does one stop?

But Toyota's troubles are troubling in an entirely new way. It is not just the terrible tragedy of the lost lives, though that is most significant.

It seems especially tragic that Toyota, after all it has done for the world to increase quality and reliability, was directly responsible for the debacle.

It was Toyota, particularly the brilliant Taiichi Ohno, that led the dramatic transformation in quality and productivity in the auto industry.

When I first learned to drive, one's car was expected to break down periodically. Now I know from personal experience that one can drive a car for nearly 200,000 miles without having to do anything but change the oil, tires, wipers and brake pads at appropriate intervals.

And that was a Ford, no less! Because not only did Toyota implement new methods of achieving incredible quality and reliability, but their methods were also shared with and adopted by other companies both inside and out of the auto industry including many among our readership here. By following twentieth-century—Toyota's example, many businesses have achieved improvements in quality, reliability, and productivity that were unheard of thirty or forty years ago.

So what is most astonishing is that the most serious safety recall in a generation happened to Toyota a company where the employees, the culture, the management, the processes had for many years been all about quality improvement and reliability. If it could happen to them, then companies where Improvement is not a part of the culture... well, what chance do they have?

The same as anyone else, they must get up every day and work to make the principles of constant Improvement a part of the way everything is done. If you are not moving forward... you are falling behind. Not even Toyota can take quality for granted. These recent developments are a profound reminder of what can happen when one does not follow the example Toyota set in the 20th century which, in tragic irony, Toyota of the 21st century failed to do!

For example, the 20th century Toyota taught that quality must be managed at the source. They introduced the andon cord and instructed all associates to stop production at the first sign of a quality problem. This practice enables an organization to focus resources to find the source of the problem quickly, while the trail is still hot. The longer the elapsed time, the harder it is to find the root cause. This practice dramatically reduced rework and warranty costs for Toyota, and enhanced their reputation for quality and reliability.

The 21st century Toyota teaches us that if we fail to focus all the required resources on a problem as soon as it surfaces, we have to pay for a lot of rework down the road. The recent recalls add up to 8.5 million vehicles worldwide, at a cost estimated to reach \$2 Billion, and the costs of lost sales down the road remain to be tallied.

The 20th century Toyota insisted every problem be tracked to its root cause, because if you did not find and correct the root cause you could not prevent recurrent problems. By finding and eliminating the root cause one can steadily increase quality and reliability to previously unimagined levels. The 21st century Toyota recalls demonstrate that if you do not find the root cause, the problem will continue to eat away at the company reputation and profits until you do. Even now, we have no end in sight.

The 20th century Toyota focused all the efforts on the customer needs and desires, relentlessly raising the bar for other auto manufacturers in quality, reliability, mileage, and price points. Consequently, in 1999, they were rapidly taking market share from GM, a company that was thoroughly focused on their market share instead of their processes that produce quality and reliability. Then the 21st century Toyota refocused their efforts on outselling



GM, something that no customer anywhere ever cared about. As a result of shifting attention away from what the customer wanted, Toyota is now losing sales. In fact, last week Toyota advised its supply chain to expect a drop of 20% from the production volume expected just one month ago. Toyota and GM together demonstrate that market share is a lagging indicator. Quality processes are a driver.

Perhaps the most profound lesson from this tragedy is: "It's not the people; it's the process." Toyota had been doing so well for so long; perhaps they came to believe it was because of whom they were Toyota managers, Toyota engineers, Toyota factory workers, Toyota Supply Chain. It is a very human error, but it is not the people, it is the processes they follow that make the difference. We have seen a number of our readers take an underperforming organization and aligned those same people and assets around the right things, working in the right way to get big improvements in results. Toyota demonstrated that you can also take the same talented people and get them working on the wrong things in the wrong way, and produce disaster. It is not the people. It is the process. Bill would say it is all about "The Right Way To Manage©."