**Toyota’s Recall Problems**

In 2000, Toyota had a strong and growing reputation for quality. Its engineering excellence was peaking with the worldwide introduction of the first successful commercially available hybrid, the Prius, in 2001. But, by 2010, over 10 million individual recalls—including multiple recalls of some models—had left Toyota’s reputation in tatters, allowing other manufacturers to regain their momentum and even the leadership in sales. Ultimately, Akio Toyoda, the President of Toyota Motor Corporation, journeyed from Japan to testify before the U.S. House Oversight and Government Reform Committee on February 24, 2010. How this change of fortune transpired is a complex and interesting story.

Toyota’s own website reports 17 specific recalls beginning in 2000 and ending in 2010. These recalls were all related to floor mat interference with the accelerator pedal, or with accelerator malfunctions from other causes. Numerous accidents were reported where the installation of a winter floor mat over the regular summer floor mat caused the accelerator to jam at high speeds, so that the car would race uncontrollably and sometimes crash. To remedy this, Toyota contacted current owners and explained the problem. They told customers that two mats were not to be installed on top of one another. The company also shortened the accelerator pedal so that two mats could not jam the pedal. The second set of reported problems related to a suspected flaw in the accelerator linkage, or the acceleration control software, that also caused the car to accelerate suddenly and race uncontrollably. The remedy for this problem was to install a chicklet-sized metal chip in the pedal linkage to remove the possibility that the mechanism would stick. Toyota maintained that the braking system in the car would bring it to a stop in either case, but it installed a brake override system in some cars to further facilitate this.

Toyota’s recall problems were exacerbated by several sensational news stories about runaway cars where drivers reportedly could only hang on and hope for salvation. In California, a Prius driver had to stand on his brake pedal and, as directed by a highway patrol policeman who caught up and drove alongside, pull on the emergency brake to get the car to slow down. One 911 call from a driver of a Lexus whose accelerator was reportedly jammed was broadcast on some media outlets right up to the crash that killed all four of his family. Other interviews were aired on TV stations with individuals who claimed that jammed accelerator pedals led to similar incidents. Pressure mounted dramatically as Toyota seemed to be facing a wall of criticism.

To many observers, Toyota was slow to react empathetically to what seemed to be evident problems. In addition, there were charges that the company knew of the problems long before any recalls were initiated or information shared with car owners. There were also claims that Toyota was unconcerned about or ignored the problems in an effort to reduce expected legal costs. Toyota was later fined $16.4 million because the company did not report potential difficulties on a timely basis. The company knew about the sticking pedals on September 29, 2009 but did not report this until January 2010 even though the National Highway traffic Safety Association (NHTSA) required reporting this problem within 5 days.

The cost to Toyota was significant. “More than 20 percent of those who said they were considering a Toyota prior to the recall now say they no longer are considering the brand for their next vehicle purchase. In addition, Toyota’s overall brand consideration dropped to third-place and now trails its domestic rivals, first-place Ford and second-place Chevrolet. Toyota’s stock price declined approximately 16% from January 1, 2010 to October 22, 2010 on the New York Stock Exchange and as a result Zacks Equity Research ranked the stock as a “strong sell” for investors. Estimates of the cost of the recalls reached as high as $2 billion including warranty payments and lost sales. The number of class action suits was growing daily.

The pressure mounted on Toyota to be accountable, and the Japanese parent-company President, Akio Toyoda, was called to testify in Washington in public on February 24, 2010. During his testimony he stated:

…in the past few months, our customers have started to feel uncertain about the safety of Toyota’s vehicles, and I take full responsibility for that…

Toyota has, for the past few years, been expanding its business rapidly. Quite frankly, I fear the pace at which we have grown may have been too quick. I would like to point out here that Toyota’s priority has traditionally been the following: First; Safety, Second; Quality, and Third; Volume. These priorities became confused, and we were not able to stop, think, and make improvements as much as we were able to before, and our basic stance to listen to customers’ voices to make better products has weakened somewhat. We pursued growth over the speed at which we were able to develop our people and our organization, and we should sincerely be mindful of that. I regret that this has resulted in the safety issues described in the recalls we face today, and I am deeply sorry for any accidents that Toyota drivers have experienced.

Especially, I would like to extend my condolences to the members of the Saylor family, for the accident in San Diego. I would like to send my prayers again, and I will do everything in my power to ensure that such a tragedy never happens again.

Since last June, when I first took office, I have personally placed the highest priority on improving quality over quantity, and I have shared that direction with our stakeholders. As you well know, I am the grandson of the founder, and all the Toyota vehicles bear my name. For me, when the cars are damaged, it is as though I am as well. I, more than anyone, wish for Toyota’s cars to be safe, and for our customers to feel safe when they use our vehicles. Under my leadership, I would like to reaffirm our values of placing safety and quality the highest on our list of priorities, which we have held to firmly from the time we were founded. I will also strive to devise a system in which we can surely execute what we value.

…I would like to discuss how we plan to manage quality control as we go forward. Up to now, any decisions on conducting recalls have been made by the Customer Quality Engineering Division at Toyota Motor Corporation in Japan. This division confirms whether there are technical problems and makes a decision on the necessity of a recall. However, reflecting on the issues today, what we lacked was the customers’ perspective.

To make improvements on this, we will make the following changes to the recall decision making process. When recall decisions are made, a step will be added in the process to ensure that management will make a responsible decision from the perspective of “customer safety first.” To do that, we will devise a system in which customers’ voices around the world will reach our management in a timely manner, and also a system in which each region will be able to make decisions as necessary. Further, we will form a quality advisory group composed of respected outside experts from North America and around the world to ensure that we do not make a misguided decision. Finally, we will invest heavily in quality in the United States, through the establishment of an Automotive Center of Quality Excellence, the introduction of a new position—Product Safety Executive, and the sharing of more information and responsibility within the company for product quality decisions, including defects and recalls.

Even more importantly, I will ensure that members of the management team actually drive the cars, and that they check for themselves where the problem lies as well as its severity. I myself am a trained test driver. As a professional, I am able to check on problems in a car, and can understand how severe the safety concern is in a car. I drove the vehicles in the accelerator pedal recall as well as the Prius, comparing the vehicles before and after the remedy in various environmental settings. I believe that only by examining the problems on-site, can one make decisions from the customer perspective. One cannot rely on reports or data in a meeting room.

Through the measures I have just discussed, and with whatever results we obtain from the investigations we are conducting in cooperation with NHTSA, I intend to further improve on the quality of Toyota vehicles and fulfill our principle of putting the customer first.

My name is on every car. You have my personal commitment that Toyota will work vigorously and unceasingly to restore the trust of our customers.

Reaction to Mr. Toyoda’s testimony was generally favorable even though rumors about cost-cutting and misguided leadership continued to affect consumer assessment of Toyota quality. For example, two former company presidents, Katsuaki Watanabe and Hiroshi Okuda, took the view that the troubles were “less a quality crisis and more a management and public relations crisis of Mr. Toyoda’s making.” Others have speculated that the governance mechanism of Toyota was partly to blame since Toyota had taken advantage of a “home-country exemption” from U.S. Sarbanes-Oxley regulations. Furthermore, its directors may have lacked independence and have been less loyal to shareholders. This may have fostered “a culture of stonewalling and secrecy.”

Throughout the period the U.S. media continued to stir the pot with one sensational story after another. Some observers wondered if some stories were slanted to damage the reputation of Toyota cars relative to North American car manufacturers that had suffered through bankruptcy and bailout, and had lost sales to Toyota in major markets. To some degree Toyota’s delay in responding strongly to such stories may have allowed reputational damage that could have been avoided.

In fairness to Toyota, there may have been more smoke than fire in the news stories. Although it was not known publicly until mid-July 2010, when 75 fatal accidents attributed to sudden acceleration due to jammed or sticking gas pedals were investigated by the NHTSA using “black boxes” from the cars involved, it was found that “the throttles were wide open and the brakes were not being depressed.” This result suggested that driver error was the cause since “drivers were mistakenly standing on the gas pedal when they thought they were standing on the brakes.” None of the throttle linkages were at fault. In only one case was the gas pedal jammed, and that was due to an all-weather floor mat from another automobile being installed over the Toyota mat.