



The real test of a company is what they do when faced with a serious challenge.

Handling adversity

How a company confronts adversity is a critical indicator of its culture. Do failures bring a positive immediate reaction? Or do managers sweep problems under the carpet and continue business as usual?

Let's look at how one of the world's premier companies has handled a bump in their road. Toyota is the world's number two motor car producer. Their trademark was built on a long-standing reputation for best-in-industry quality. Well known as the father of lean manufacturing, the company built over 9 million vehicles in 2007 at a profit of \$13.7 billion. In the meantime GM and Ford lost a combined \$14.6 billion.

But as Winston Churchill said, "Success is never final." Even the greatest companies face a daily test of their reputations. In Toyota's case a multitude of such trials have emerged:

Declining quality. Consumer Reports' latest car survey ranked Toyota only third in overall reliability. Its Lexus GS luxury sedan received a below-average rating along with certain Camry and Tundra models. The recall of 2.38 million vehicles in the U.S. in 2005 tarnished its vaunted quality record.

Poor capacity utilization. Matching capacity to demand has always been a core competency of Toyota. But excess production capacity is resulting in higher overhead costs and inventories of finished cars. U.S. capacity for pick-up trucks now outstrips demand by 100,000 units annually. To stimulate demand the company is now offering incentives such as zero percent financing, a ploy introduced by its poorly managed U.S. rivals like GM.

Lack of flexibility. Most U.S. plants have a single assembly line that builds only one or two models. Such focus is usually a solid production strategy. But

for Toyota the resulting lack of flexibility has complicated matching swings in consumer demand.

Higher logistics costs. In Japan the company's plants are clustered in Toyota City. But its U.S. plants are sprinkled across the country. The result is a higher cost of inter-plant transport.

Higher labor costs. The labor costs in its U.S. plants now approach that of its unionized rivals like Ford.

Problems revealed

How has Toyota reacted? To set the stage for improvement, management's first response was surfacing these problems for the entire organization to see. According to company president Katsuaki Watanabe, hidden problems are the ones that become serious threats. Problems that are revealed to everyone will be solved.

This philosophy of involving the entire organization in problem solving has resulted in these responses:

Reiterating clear objectives. First and foremost senior management is emphasizing three high-level yet simple-to-understand goals: 1. improve product quality, 2. reduce costs, and 3. develop human resources. And they are communicating these goals clearly throughout the company.

Slowing product development. Then management recognized that fixing quality is stretching its current resources. To give time for developing the needed remedies, the company is lengthening its new product development process.

Balancing incremental improvements with radical reform. Next, management saw the need for revolutionary change. Toyota founded the concept of kaizen or continuous improvement. Top management now

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RAYMOND'S VIEW

believes that an organization cannot rely only on small changes. They are advocating drastic change or *kaikaku*. This concept underpins the development of the company's newest Japanese factory where the production system aims to be simple, slim, and fast. The goal is to make it easier for workers to recognize abnormalities. As a result, innovations have been implemented in all departments. The assembly line is shorter by half. The cycle time is 1.7 times faster. Three coats of paint will be applied simultaneously to reduce finishing time by 40 percent. Visual quality inspections will be complemented with precision instruments to provide real time data to factory managers and suppliers. Each assembly line will be able to produce eight different models.

Reducing the number of components. Rather than focus on the cost of parts, a new initiative is aimed at eliminating components. Starting with design and engineering the company is working with its suppliers and own

production departments to combine separate parts into integrated systems. Their goal is to shrink the number of components in a car by half.

Linking plants' capabilities. Toyota develops most of its innovative production technologies in Japan. To leverage these advances the new competencies are now installed at a Japanese plant and then duplicated at a foreign factory.

Revising pay policies. To rein in higher labor costs pay policies now reflect the wage levels in the area where a plant is located. Existing workers will not see their wages cut, but new hires will receive no more than 50 percent above the prevailing wage in the area.

Setting an ambitious goal. Importantly, management has set a big, overriding goal: building the dream car. Toyota wants to build a vehicle that does not harm the environment, prevents accidents, and at the same time excites drivers and passengers. That objective is truly audacious and sets the bar high for the entire organization. Challenging its people with a long-term vision is a cornerstone of the Toyota Way.

Whether Toyota's action plan will remedy the present litany of problems remains to be seen. But senior management is not about to let the status quo prevail. For great companies inaction in the face of adversity is not an alternative.

Bottom Line: No matter how well your company performed in the past, that success will not buy you much when the world begins changing around you. When adversity appears, get your organization fully involved, develop an action plan, and radically change your ways. ●

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