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Somewhere Over the Rainbow: Toyota and the consequences of the drive to be the world's No.1

David McNeill in Toyota City

An unexpected note of poignancy greets visitors to the museum of the world's largest car company. In the cavernous lobby, a lone trumpet plays the mournful opening bars to *Over the Rainbow*, a plea for escape from the dreary, difficult realities of the present. The song is performed by Partner Robot, Toyota's showcase humanoid robot, on a giant screen that hangs over a showroom full of the company's world-beating products, cars that have become household names: Prius, Lexus, Corolla.



Appearance

Toyota Museum

It's unlikely that the robot's human minders gave the tune much thought when they chose it in what were far better times. Just as Toyota should have been celebrating ending General Motor's 76-year reign as the planet's largest automaker, it has been battered by a series of scandals and escalating recalls totaling about 8.5 million cars that have wiped about \$23 billion from the company's share value.

Amid allegations of Japan-bashing, corporate cover-ups and with dozens of class-action lawsuits looming and the prospect of lasting damage to Toyota's once pristine reputation, the song's lyrics seem sadly, eerily appropriate: "When all the world is a hopeless jumble, there's a rainbow highway to be found to a place...just a step beyond the rain."

Fortunes in this city of 420,000 people rise and fall on the back of Toyota's balance sheet. About 8-in-10 of the local workforce are said to depend directly or indirectly on the company's seven local factories and thousands of subsidiaries and suppliers. Toyota is largely responsible for one of the lowest regional unemployment rates in Japan, and one of its busiest hubs: Nearby Nagoya Port has for years accounted for about half of the country's trade surplus. Locals opted in 1959 to permanently change the city's name from Koromo. Half a century later, many are fretting about what the future holds.



The main plant in Toyota City

"We rely on Tokyo for over half our business," says Tamura Yoshie, a manager in Aunties, a business hotel near the company's headquarters. Like many

locals, her life is directly tied to the town's namesake: her husband has worked in one of the factories for 10 years. "Our business was already 30 percent down because of the recession, then we all began hearing about the recalls, which were such a shock," she continues. "But a lot of us also wonder if there is not too much fuss being made."

That's not an isolated opinion. Japan's mass selling weekly magazines have waded into the bitter controversy over Toyota's mounting problems with accusations that the US press is exaggerating, and worse. "America is at war with Toyota," screams *Shukan Shincho*, which accuses US newspapers and TV of playing up the Japanese carmaker's problems for political effect. "Behind this story is the collapse of General Motors," it says, and behind GM is US Transport Secretary Ray LaHood, the United Auto Workers Union (UAW) and even President Barack Obama, who has taken "almost no action" to cool down the media feeding frenzy against Toyota – a company that employs 170,000 American workers, it points out.

America is capitalizing on Toyota's problems, which are a distraction from its own, says Hasegawa Yozo, author of *Clean Car Wars: How Toyota and Honda are Winning the Battle of the Eco-Friendly Motors*. "This is not just a problem caused by Toyota alone. Largely it is a political issue between Japan and the United States, an anti-Toyota campaign initially sparked by US broadcasters."

The left-leaning *Shukan Kinyoubi* magazine – no friend of Toyota – partly agrees, pointing out the closeness of the Democrats and the United Autoworkers Union, and the fact that Toyota built most of its factories in the Republican South. Like many Japanese commentators, it has been struck by the vitriol poured on Toyota, and wonders if the power play between Republicans and Democrats isn't a major factor.

Few at Toyota will openly back those claims, but off the record, sources close to the company agree. "I think there has been a fair dose of bewilderment at the way things have spun out of control," said one, speaking anonymously. "A lot of people here think we have done everything by the book. There is that sense that problems are being created where there are none." As evidence, he cites brake problems in the Prius. "One of our executives said very clearly that the braking in the Prius meets Japanese performance standards – period."

Independent analysts scoff, however, at Toyota's claims that it is the victim of a stateside witch-hunt. "Toyota has this massive arrogance and they cloak it with false humility and top it with this halo of quality," says John Harris, a Japan-based communications consultant to the car industry. "They just don't get what this is about. They dragged their feet and covered up their problems. They saw the chance to get the world's top spot and they took it, but there has been a price."

Harris believes Toyota grew too big too fast, and lost control over its key selling point: quality – an analysis basically conceded by Toyota President Toyoda Akio during his testimony to Congress on February 24. The museum trumpets the company's phenomenal two-decade expansion, pointing out that it now makes autos in "26 countries and regions around the world," including 688,000 a year in Europe. Cars are just part of a growing multinational portfolio that includes homes, boats, industrial robots, biotechnology and financial services. "Severe economic difficulties" forced the company to pull out of Formula One racing last November.



2009 Prius

"In manufacturing, you can have good, quick and cheap, but you can't have all three," continues Harris. "Toyota tried to have all three. They were cutting costs faster and harder than other car companies, while bringing in new plant and people. Expansion and cost cutting puts a strain on any organization. Something was bound to give."

Japanese unions accept that conclusion. "The current recall is the result of Toyota's 'profiteerism' and expansion," says union official Wakatsuki Tadao, quoted in the *Kinyoubi* article. Toyota then stalled when faced with inevitable complaints about its cars, including problems with the steering system in the Corolla, which came to light in May 2009. "After numerous recall incidents the union demanded that the company improve and rectify itself, but we never received a response."

Employees say Toyota's enthusiasm for cutting costs grew after the shock waves from the Lehman Brothers collapse hit over a year ago. Lines were shut down and contract workers, including many from abroad, were sacked leaving a pared-down workforce of full-time employees. "They've closed shop," said one company insider, who requested anonymity. "They got rid of all the little people and told everyone to tighten their belts. You can't even make a color copy in the offices now because it wastes paper."

Toyota itself boasts about its success in trimming costs, including a project called Construction of Cost Competitiveness for the 21st Century, launched in July 2000, which aims to slash the price of about 170 components that "account for 90% of our total component purchasing costs." According to *Kinyoubi*, unions demanded revisions to this plan but were ignored.

The pressures of globalization and the company's determination to overtake GM eroded the very qualities that helped make it successful: the efficiency and loyalty of its suppliers and the thousands of smaller companies that labor in its shadow. Stories of how Toyota relentlessly drove its suppliers to cut prices, and sometimes even out of business, are legion around the company's heartland. One supplier, Sankyo Seiko in the industrial town of Kariya, did the unthinkable in January when its owner Moewaki Teruo, went on TV to publicly say he would no longer take orders from the car giant. "Toyota said we were all one big family," he told *The New York Times*. "But now they are betraying us."

Like many large Japanese corporations, however, Toyota can still call on extraordinary levels of loyalty and sacrifice from its staff in times of crisis. Existing plant workers have been asked to return for second shifts to make up for staff shortages and managers work up to 120 hours unpaid overtime a month, while being forced to shoulder a 20-percent cut to their all-important yearly bonuses. "There's a lot of unhappiness," said the source. "They work so hard, then this

story breaks in America. They get up in the morning and see CNN killing them on TV.”



Toyota assembly line

Toyota has moved quickly to head off those damaging media claims, promising on-site US inspections within 24-hours of any reported car problems, appointing a hit squad of quality officers to each production region, and installing new technology to cut engine power when the brake and accelerator are simultaneously applied – a response to claims that sticking accelerator problems led to several deaths in the US. But almost as soon as they put out one fire, another breaks out; in February came new revelations that inspectors from the National Highway Traffic Safety Administration visited Toyota late last year to warn the company of stateside safety rules – and were ignored. Toyota bosses “were dragging things out, and we’d had it,” a senior American transportation official told *The New York Times*. Says Harris: “It was very unusual for NHTSA officials to come to Japan. The charitable view of that episode was that Toyota was not proactive, or that it was slow to react; the uncharitable view is that it was covering things up.”

Still suspicion lingers in Japan that the controversy is as much political as technological. With US by-elections looming, politicians there “are rushing to get in their two-cents worth about the recalls,” laments the liberal-left *Asahi* newspaper, which adds that the battle to save the company’s reputation has recruited some unusual allies. Governors of four states that host Toyota plants have sent letters to Congress defending the automaker.

Around Toyota City, there is resentment at the recent coverage of its namesake. Many are quick to point out that US rival Ford, which posted a 24-percent US sales increase in January, has a far worse safety record - over 20 million vehicle recalls, including 7.6 million in 1996 alone. Less than two years ago, the city marked Toyota’s passing of General Motors, an event mourned by *The New York Times*, which called it “another milestone in America’s long decline from unchallenged industrial preeminence.”

Now the fear is that the best may be gone. Perhaps Toyota’s quality issues are emblematic of the entire country’s declining fortunes, and the fraying of the social contract that sustained postwar Japanese capitalism. “We started with nothing after the war and fought hard to get to the top,” said the owner of a cake shop near the company’s factories. “People seem to be forgetting that struggle today and are letting things slip.”

Pride in the achievements of the company with which it has become synonymous is still strong. Crime is low, the streets are pristine and though the recession has hit many local businesses, few shops have visibly shuttered. Unlike the hucksterism of its Detroit rivals, the atmosphere is low key: Toyota Motors headquarters squats in the center of a sprawling complex of nondescript factories and office blocks, its tiny logo barely visible in the orderly urban landscape that has grown around it.

The only sign of corporate paranoia is the security guards outside the company’s plants who wave away photographers and even attempt to confiscate pictures. Inside the HQ, Toyota’s spokespeople have been instructed to batten down the hatches and ignore media requests for comment. “Executives are doing most of the talking now,” said one source. That leaves analysts to speculate if the company will ever bounce back from the worst crisis in its history.

“The worst case scenario is that Toyota is looking at a lost generation of foreign buyers,” warns Ashvin Chotai, director of the consultancy firm Intelligence Automotive Asia. “Already we’re seeing the resale values of their cars dropping. If these revelations keep coming and the Toyota PR machinery continues to be sluggish, almost amateurish, it risks becoming an ordinary company.” But he adds that Toyota is still a technological frontrunner, and the only carmaker with an AA credit rating. “They still have the ability to recover.”

Hasegawa says that recovery depends on “whether American opinion calms down - perhaps if the media finds another target. In the meantime, he believes the company will go back to basics – shifting from expansion back to maintaining quality. “It will wait for things to settle down, and then it will be back. Definitely.” But some visitors to the museum had their doubts. “Maybe if they stick to making cars instead of violin-playing robots,” said one.

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