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Inside Toyota, Executives Trade Blame Over Debacle

By NORIHIKO SHIROUZU

Bloomberg News

Akio Toyoda, president of Toyota Motor Corp., standing, speaks at headquarters last month. Mr. Toyoda, a member of the Toyota founding family, is at odds with nonfamily managers over the company's direction.

TOYOTA CITY, Japan—Toyota Motor Corp.'s quality crisis is exposing—and exacerbating—a long-simmering internal feud. The battle pits the founding Toyoda family against a group of professional managers, each blaming the other for the auto maker's woes.

Behind the scenes in recent weeks, the skirmishing has grown intense. President Akio Toyoda, the 53-year-old grandson of the founder, has tried to push out one of the nonfamily executives: his predecessor as president, Katsuaki Watanabe, now vice chairman.

Not long after the company made one of its massive safety recalls in mid-January, Mr. Toyoda suggested to Mr. Watanabe, through an intermediary, that the former president leave the auto giant and instead run a Toyota affiliate, according to an executive who says he was told about the move by Mr. Toyoda.

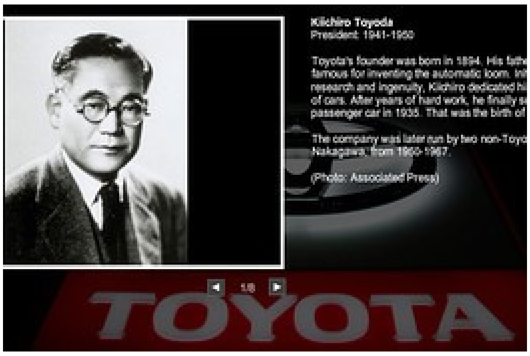
Mr. Watanabe refused.

The standoff, which hasn't been reported before, is a dramatic example of how the old split between the two camps is bubbling to the surface amid Toyota's crisis. The feud is a distraction for a divided leadership as officials struggle to regain their footing after three months of attacks unprecedented in the company's 75-year history.

Toyota's Internal Feud

Read more about Toyota's past presidents.

View Interactive



- **More photos and interactive graphics**

Mr. Toyoda and his allies have been saying openly that when he took the top job last year after a 15-year hiatus for the Toyoda clan, he inherited a company weakened by nonfamily predecessors who sacrificed quality for faster growth and fatter margins.

The problems arose when "some people just got too big-headed and focused too excessively on profit," Mr. Toyoda said at a Beijing news conference in March. He acknowledged the "ultimate responsibility for mistakes... lies in me."

A week earlier, Jim Press—once the top Toyota executive in the U.S. before he jumped to a rival auto maker—issued a statement declaring: "***The root cause of their problems is that the company was hijacked, some years ago, by anti-family, financially oriented pirates."***
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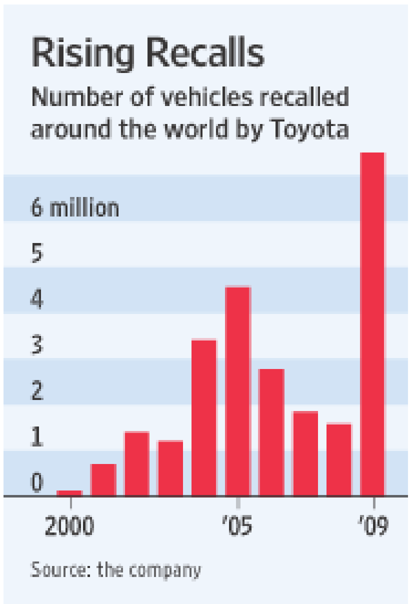
Those executives ***"didn't have the character to maintain a customer-first focus. Akio does,"*** said Mr. Press, who had a run-in with nonfamily Japanese bosses several years ago.



A Toyota spokeswoman declined to comment on the infighting, saying: "We do not discuss executive changes unless they are formally decided." She declined to comment on the statements by Messrs. Toyoda and Press, or to make Mr. Watanabe available for comment.

Privately, the nonfamily managers have been waging their own campaign within the Toyota group. They say Mr. Toyoda never publicly opposed their profit-growth strategy when the company was widely praised for making big money and surpassing

General Motors Corp. to become the world's No. 1 auto maker. They say Toyota's current troubles are less a quality crisis and more a management and public-relations crisis of Mr. Toyoda's making, reflecting their longstanding warnings that he wasn't ready to run a global corporation.

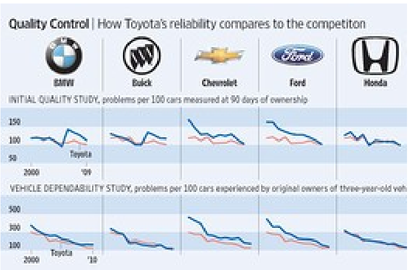
"Is Akio ducking criticism of being a beneficiary of nepotism by accusing us and trying to justify his ascendancy to the top job?" one of Mr. Watanabe's top aides said. "One of our biggest social responsibilities is to generate profits and pay taxes. To criticize the company's effort to maximize profits and thus taxes is just complete nonsense."

Hiroshi Okuda, a nonfamily president who ran the company from 1995 through 1999, has told at least two associates since the recalls of cars involved in sudden acceleration incidents earlier this year: "Akio needs to go." The 77-year-old remains a key company adviser even though he gave up his board seat last year.

Toyota declined to make Mr. Okuda available for comment. The Toyota spokeswoman declined to comment.

Quality Control

How Toyota's reliability compares to the competition. See full graphic at end.



Takahiro Fujimoto, a professor of economics at Tokyo University who has studied Toyota extensively, says airing problems openly is very much part of Toyota's corporate culture focused on kaizen, or continuous improvement. "But it's highly unusual for anybody inside Toyota to publicly criticize certain individuals by name," or to criticize in a way that it's easy for anybody to identify the targets.

The feud dates to the mid-1990s, when the family relinquished control of the chief executive's office for the first time since Eiji Toyoda, the cousin of the founder, became president in 1967. Non-Toyodas also ran the company from 1950-67.

By the time Akio's uncle, Tatsuro, stepped down as president in 1995, after a stroke, the company was losing market share and risked posting its first loss since 1950. It was vulnerable to a weak Japanese economy, trade friction with the U.S., and a strong Japanese currency that crimped exports.

A series of non-Toyodas took the helm, beginning with Mr. Okuda in 1995 and ending with Mr. Watanabe in 2009. During their terms, the company revived financially and emerged as one of the most admired and studied companies in the world.

The gist of the Okuda-Watanabe strategy was to take Toyota's globalization efforts, launched under the previous generation of family management, to new levels. Even though the company had begun to build factories in the U.S. and other markets in the 1980s, it still was seen as largely insular and Japan-focused.

In 1996, Mr. Okuda and aides unveiled a new strategy dubbed the "2005 Vision." They aimed to retool the auto maker over the coming decade, growing rapidly while relying less on exports and more on factories producing locally in target markets, from Argentina to Thailand to the U.S. Mr. Watanabe was one of the authors of the plan.

To realize this 10-year vision, the executives devised interim "global master plans" to assign resources efficiently to different divisions, along with "global profit management" plans that required sales executives around the world to attain certain profitability goals.

The 2005 Vision also pushed Toyota to implement ***kakushin,*** or revolutionary innovations, in vehicle design and manufacturing. That included efficiency drives to reduce costs, not only through conventional means, such as simplifying designs and using cheaper materials, but also by changing the way cars are engineered. For example, engineers were pushed to combine functions into fewer parts and systems. Their aim: cut the number of components in a car by half.

In 2002, the plan morphed into the "2010 Vision," aiming for 15% global market share by the early 2010s, an ambitious jump from the 10% mark Toyota had at the time. Toyota has yet to achieve this goal. Its consolidated group market share rose to as high as about 13% in 2008, according to CSM Worldwide, a consulting firm that tracks auto makers.

The effects of those measures were phenomenal. Starting around 2000, the company's global sales began growing by up to 600,000 vehicles a year, more than the annual overall volume achieved by Volvo.

During this 15-year non-family reign, Toyota achieved other milestones: operating profit margins zoomed to an industry-leading high of 8.6%. In 2008, Toyota displaced GM as the world's biggest auto maker by unit sales.

As part of his strategy, Mr. Okuda sought to diminish the family's role. According to executives close to him, Mr. Okuda said founding-family dominance was an outdated concept—especially when the family controlled less than 2% of the stock in the publicly traded company.

At the peak of his power, Mr. Okuda publicly was frank about that belief. "The Toyoda family will eventually become a 'shrine' to the company's foundation, to which we will pay respect once a year," he told The Wall Street Journal in a 2000 interview.

Asked then about future prospects for Mr. Toyoda, then a 43-year-old general manager, Mr. Okuda said: "Nepotism just doesn't belong in our future." He elaborated: "Akio-class talents are rolling around all over Toyota, like so many potatoes."

At the time, Mr. Toyoda seemed to have been sidelined. When he was assigned to lead Toyota's Chinese operations in 2001, China was still a backwater in Toyota's global strategy. Mr. Okuda, by then Toyota chairman, likened the job to "mopping the floors"—a safe place for grooming a scion with more ambition than experience, according to a separate Journal interview in 2003.

But Mr. Toyoda fixed the troubled Chinese subsidiary and put it on a path for growth. He was then promoted in 2005 to the position of executive vice president, where he had broad responsibilities, including quality, product management, purchasing and global sales.

Even as he climbed the ladder, Mr. Toyoda said little in top management meetings, according to some nonfamily executives. As Toyota made progress, the non-family executives began dismissing Mr. Toyoda and treated him as a not-so-bright spoiled rich kid, say several non-family managers.

Executives close to Mr. Toyoda dispute the notion that he was overpowered by top management. While the company's financial reports were improving, a number of vehicle recalls signalled that its famed quality was slipping, and Mr. Toyoda began to sound the warning bell. On Dec. 2, 2005, the end of the year when Mr. Okuda's 10-year vision was coming to fruition, Mr. Toyoda gave an unpublicized, internal speech questioning the new direction.

Talking to engineers and mid-level executives, Mr. Toyoda said the rapid expansion exceeded the company's ability to assure the quality and reliability of each model. He called on the engineers, seated inside an auditorium at Toyota's global headquarters, to shift their mindset and attain the "resolve to make a big turn from emphasizing volume to quality," according to a summary of the speech reviewed by the Journal.

Top executives at the time say Mr. Toyoda never took such complaints directly to them.

In 2008, the question of family vs. nonfamily management came to a head as Mr. Watanabe was preparing to retire as chief executive. Mr. Okuda, then a board member, angled for a close aide, another nonfamily executive, to take the job. Shoichiro Toyoda, a former president who remained an influential adviser, weighed in for Akio, his son, according to senior Toyota executives.

In January 2009, the company announced Akio Toyoda would replace Mr. Watanabe as president in June. Taking charge at 53 years old, Mr. Toyoda became Toyota's youngest chief executive since his grandfather became president in 1941 at age 47.

The younger Mr. Toyoda declared as one of his first priorities undoing many of his predecessor's policies. He began by signaling to underlings that he didn't share Mr. Watanabe's informal goal of hitting two trillion yen or more in annual operating income. He immediately killed the "global profit management" plan, associates say.

The reality of Toyota's quality problems—the main battleground inside the company today—is a bit ambiguous.

Two separate surveys conducted by J.D. Power & Associates show the Toyota brand quality has actually improved over the past decade, measured by a decline in the rate of owner complaints. This occurred even as the number of vehicles the company recalled around the world skyrocketed in that time.

The surveys also show that Toyota rivals improved faster. In 2000, Toyota's luxury brand Lexus placed first in quality rankings for used-car owners, while the Toyota brand ranked fourth. By 2009, Lexus fell from the top spot, ranking behind Buick and Jaguar, while the Toyota brand again placed fourth. In quality rankings for new-car owners, the Toyota brand in 2000 tied with BMW for fourth. In 2009, Toyota ranked sixth.

Mr. Toyoda's supporters blame the slippage in relative quality rankings—as well as the sharp rise in recalls—on the company's previous non-family managers. It takes two to three years to develop a new car, so the models experiencing problems were developed before Akio Toyoda took the helm last June.

The nonfamily executives acknowledge they made some mistakes. One says a large number of inexperienced contract engineers hired from outside agencies—an effort to save money as they tried to boost engineering capacity—led to at least some of the increase in quality glitches.

But the non-family managers blame Mr. Toyoda's management style—both external and internal—as much as anything for letting the defects turn from a fixable problem into a full crisis.

Mr. Toyoda's in-house detractors say the president has created an informal team of loyalists, making it tough for managers trying to communicate through the formal channels. One nonfamily manager says the current executive structure operates like a "shadow management team," doubling up information and management.

In terms of handling the American public, politicians and press, they say Mr. Toyoda was slow to address publicly the controversy. And when he did finally speak out, they say, his statements were widely criticized as vague and halting.

Mr. Toyoda's supporters say, on the contrary, he's been clear and direct about the direction he wants to follow. At a press conference last month, Mr. Toyoda said the previous expansion push may have caused it to scrimp on quality, compromising its just-in-time production system, for example. "I would like to make sure we re-embrace those basics and rebuild the foundation of Toyota and its production system," he said.

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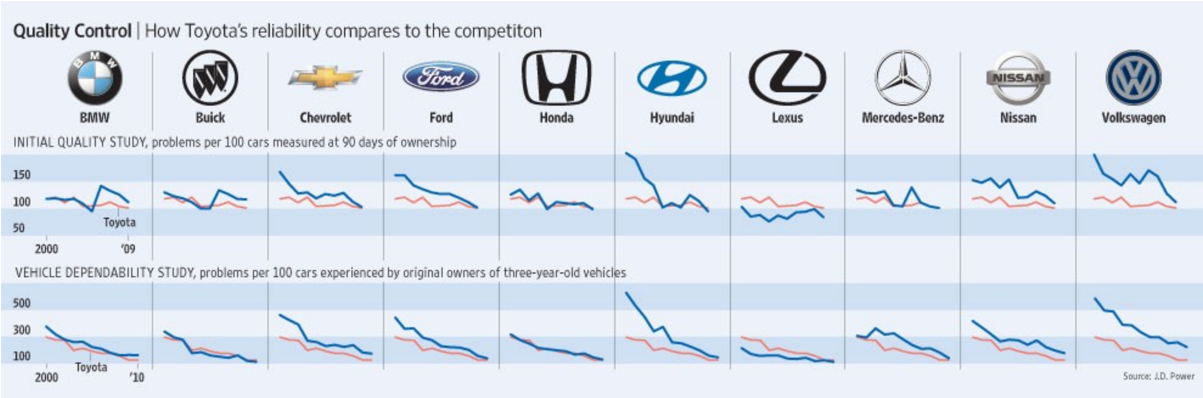

Quality Control | How Toyota's reliability compares to the competiton
BMW
Buick
Chevrolet
Ford
Honda
Hyundai
Lexus
Mercedes-Benz
Nissan
Volkswagen
INITIAL QUALITY STUDY, problems per 100 cars measured at 90 days of ownership
150
100
50
Toyota
2000
'09
VEHICLE DEPENDABILITY STUDY, problems per 100 cars experienced by original owners of three-year-old vehicles
500
300
100
Toyota
2000
'10
Source: J.D. Power

Taxpayer Owned
Some big companies in which the U.S. holds a major stake:
Company
Government injection, in billions*
Stake
General Motors
$57.6
60%
GMAC
12.5
35%
Citigroup
45.0
35%
Chrysler
16.9
10%
*Under the Troubled Asset Relief Program
Source: Treasury Department