

A Leadership Case Study – How HR Caused Toyota Crash

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Unless you have been living off the planet Earth, you have probably already read or heard about several mechanical failures in Toyota automobiles that led the automaker famous for quality to recall nearly nine million cars worldwide. In addition, **poor handling of the issue in the public eye has damaged** the automaker's brand reputation and caused sales to decline to their lowest point in more than a decade.

This think piece wasn't written to inform you further about the mechanical failures, but rather to reflect on the following premise:

Toyota's current predicament is a result of poorly designed practices and weak execution on the part of the human resource department!

To Find the Root Cause, You Must Look Beyond Gas Pedals

The mechanical issues plaguing eight Toyota models are not the result of human resource professionals assuming product design roles and producing faulty accelerator pedals and onboard computers, but anyone who has studied failure analysis knows that the breaking point of a product or service is seldom the underlying or root cause of the failure. Using the sinking of the Titanic as an example, the damage caused by the hull colliding with the iceberg ultimately sank the ship, but the collision was the result of a series of poor decisions to travel too fast given weather conditions. While hull design flaw contributed to catastrophe, the root cause of the problem **was human error**.

In any situation where employees fail to perform as expected, investigators must determine if the human error could have been caused by factors beyond the employee's control. Such external factors might include actions by senior management, lack of adequate information or job training, faulty inputs to the process, or rewards that incent actions not in line with documented goals.

If you believe in accountability, you have to accept that human errors that lead to corporate catastrophes could be the result of faulty HR processes, most notably those related to acquiring, developing, motivating, and managing labor. Returning to the Titanic example, **had the owners of the Titanic implemented rewards for safety as well as speed or hired a captain more detail-oriented,** there would have been no crash that dreaded night.

Weak HR Has Been a Major Contributor to Other Notable Failures

Weak people-management practices have been attributed as the primary causes of failure in a number of notable cases. At Enron and Bear Stearns for example, reward systems that incented dangerous behaviors easily overpowered the effect of control systems designed to prevent fraud and ethical breaches. The mass killings at FortHood would not have occurred if the Army had better linkage between performance management and critical incident reporting systems.

Employee Errors Were the Root Cause

BusinessWeek estimates that Toyota is losing \$155 million per week as a result of their recent recall and in the weeks leading up to this article Toyota had lost nearly \$30 billion in stock valuation. The long-term impacts of the root causes that led to Toyota's current situation could cost the company hundreds of billions of dollars.

The mechanical failures were known to Toyota leaders long before corrective action was taken, and many close to the issue are indicating that the company took decisive action to hide the facts and distort the scope of the problem. The

underlying problem of failing to act on this critical information in a manner consistent with Toyota's brand is again a rewards issue similar to that at Enron.

When the organization disproportionately rewarded managers for cost-containment versus sustaining product quality, it created the incentive for everyone involved to ignore the facts and to deny that a problem existed. Employees who are well-trained and subject to balanced rewards and performance monitoring systems would not have allowed the situation to grow as it did.

The Eight HR Processes That Contributed to Toyota's Downfall

If the root cause of the problems Toyota is facing are failure by employees to make good decisions, confront negative news, and make a convincing business case for immediate action, then the HR processes that may have influenced those decisions must be examined. The HR processes that must at least be considered as suspect include rewards processes, training processes, performance management processes, and the hiring process.

1. **Rewards and recognition** — The purpose of any corporate reward process is to encourage and incent the right behaviors and to discourage the negative ones. It's important for the reward process to incent the gathering of information about problems. It's equally important to reward employees who are successful in getting executives to take immediate action on negative information. **Key questions** — Were rapid growth (sales have nearly doubled recently) and "lean" cost-cutting recognized and rewarded so heavily that no one was willing to put the brakes on growth in order to focus on safety? Were the rewards for demonstrating error-free results so high that obvious errors were swept under the table?
2. **Training** — The purpose of training is to make sure that employees have the right skills and capabilities to identify and handle all situations they may encounter. Toyota is famous for its four-step cycle — plan/do/check/act — but clearly the training among managers now needs to focus more on the last two. In addition, in an environment where safety is paramount, everyone should have been trained on the symptoms of "groupthink" and how to avoid the excess discounting or ignoring of negative external safety information. **Key question** — If Toyota's training was more effective, would the managers involved have been more successful in convincing executives to act on the negative information received?
3. **Hiring** — The purpose of great hiring is to bring on board top-performing individuals with the high level of skills and capabilities that are required to handle the most complex problems. Poorly designed recruiting and [assessment](#) elements can result in the hiring of individuals who sweep

problems under the rug and who are not willing to stand up to management. **Key questions** — Did Toyota have a poorly designed hiring process that allowed it to hire individuals who were not experienced in the required constructive confrontation technique? Were their hires poor learners that did not change as a result of company training?

4. **The performance management process** — The purpose of a performance management process is to periodically monitor or appraise performance, in order to identify problem behaviors before they get out of hand. If the performance measurement system included performance factors to measure responsiveness to negative information, Toyota wouldn't be in turmoil today. **Key questions** — Was the performance appraisal and performance monitoring process so poorly designed that they did not identify and report groupthink type errors? Did Toyota's famous high level of trust of its employees go too far without reasonable metrics, checks, and balances? Did HR develop sophisticated metrics that produced alerts to warn senior managers before minor problems got out of control?
5. **The corporate culture** — The role of a corporate culture is to informally drive employee behaviors so that it closely adheres to the company's core values. Because these errors occurred under difficult driving conditions, it's hard to blame the production group, which has a well-known reputation for Six Sigma quality in its construction. The negative reports came to functions like government, risk analysis, corporate and customer satisfaction. As a result, it is the culture within the corporate offices that need to be more closely monitored rather than assuming that the culture was aligned. It appears that the corporate culture created leaders so concerned with "saving face" and so adverse to negative publicity, that they for years postponed making the announcement of a massive recall. **Key questions** — Did HR's failure to measure or monitor the corporate culture contribute to its misalignment? Was the corporate culture (the Toyota Way) so biased toward positive information that employees learned not to make waves, in spite of their professional responsibility to be heard on safety issues?
6. **Leadership development and succession** — The purpose of leadership development and succession planning processes are to ensure that a sufficient number of leaders with the right skills and decision-making ability are placed into key leadership positions. It is likely that the leadership development and the promotion process both failed to create and promote leaders who were capable of confronting problems and making difficult decisions. **Key question** — Was the leadership process at Toyota so outdated that it produced the wrong kind of leaders with outdated competencies, who could not successfully operate in the rapidly changing automotive industry?

7. **Retention** — The purpose of a **retention** program is to identify and keep top performers and individuals with mission-critical skills. **Key question** — Did the retention program ignore people that brought up problems and as a result, did these whistleblowers often leave out of frustration?
8. **Risk assessment** — Most HR departments don't even have a risk assessment team whose purpose is to both identify and calculate risks caused by weak employee processes. Clearly HR should have worked with corporate risk management at Toyota in order to ensure that employees were capable of calculating the long-term actual costs of ignoring product failure information. **Key question** — Should HR work with risk-assessment experts and build the capability of identifying and quantifying the revenue impacts of major HR errors, including a high hiring failure rate, a high turnover rate among top performers, and the cost of keeping a bad manager or employee?

Final Thoughts

Toyota's problems are not the result of a single individual making an isolated mistake, but rather due to a companywide series of mistakes that are all related to each other. So many corporate functions were involved, including customer service, government relations, vendor management and PR, that one cannot help but attribute the crash of Toyota to systemic management failure.

Unfortunately, in this case, the famous Japanese saying is true. "The nail that stands out" was not encouraged to be different, but instead it was "pounded down" to conform.

The key lesson that others should learn from Toyota's mistakes is that HR needs to periodically test or audit each of the processes that could allow this type of billion-dollar error to occur.

Answer in Spanish the next 2 Questions

1. What other human resource factors may have contributed to Toyota's downfall?
2. Explain 4 techniques or activities you could use about HR in this case and why you think it would have helped?