Steering a Carmaker out of a Crisis

By Morten Bennedsen , INSEAD Professor of Economics and Political Science

In times of corporate crisis well-cultivated family assets can be the definitive factor in a company's turnaround.

In January 2009, when Toyota's supervisory board named Akio Toyoda president of the Toyota Motor Company, the multinational car manufacturer was in crisis mode. After 14 years of strong sales and record profits, Toyota had found itself at the centre of a perfect storm.

Oil prices were spiking, sending the sales of large vehicles (including Toyota's best-selling SUVs and trucks) plummeting; meanwhile the global financial crisis had brought car loans to a halt. As the automotive industry grappled to cope with sales at multi-decade lows, Toyota was plunged into what would become one of the biggest automotive scandals in history after a series of fatal accidents and thousands of complaints related to unintended acceleration, prompted the recall of millions of Toyota vehicles. In 2009, the company posted a US$8.6 billion loss – its first loss in nearly six decades.

Akio, a modest, clean-cut, bespectacled man who spoke English with some difficulty, was known as a gutsy racing car driver when he took on the role of

CEO; but it was the years that followed which were to seal his reputation as an equally adept driver off the track.

With a cautious attitude and making strong use of his family assets – the reputation, values and professional network of the Toyoda family, and a company structure which ensured the family kept control of key positions – Akio was able to turn the company around, to the extent that by 2015 Toyota posted record sales and a profit of nearly US$18 billion.

Cultivating the family assets

During the 14 years prior to Akio's appointment, Toyota had been run by three salarymen; loyal long-term employees who had expanded the company's operations relentlessly to meet demand, and led it into the most prosperous period of its history.

But as salarymen their position was always temporary and, as noted in my recent **case study** with Brian Henry and Yupana Wiwattanakantang, it was early in their tenure, long before the recall crisis or the downturn in the global economy, that Toyota's board of directors began planning Akio's management transition.

The company's governance structure – its supervisory board entirely composed of lifetime Toyota executives – had been set up to ensure the company would always be managed by a Toyoda.

And, after identifying Akio as the next in line for leadership, the board, controlled by his father Shoichiro Toyoda, began grooming him for the role, making certain that Akio not only had the name but also the ability, experience and motivation to run the company.

Like most cross-shareholdings, the Toyoda family benefits from a cross-board structure in which family members sit on the boards and play a dominant role in the governance of the three leading companies which make up the Toyota group – Denso, Toyota Industries Corp. and Toyota Motor Corp. Compared to typical U.S. and European company boards which are heavily influenced by independent outside directors, the structure and governance of the Toyota board ensures the traditions and values of the Toyoda family are instilled throughout the culture of the organisation.

Managing the crisis

Backed by this powerful structure and the Toyoda reputation, Akio was able to exploit his name and send a powerful signal to the markets that, with the family back in charge, the company was returning to its roots and would restore the values and quality upon which the business was founded. His appointment was also proof that the company would not be affected by any discord over the family succession.

When, less than 12 months into his incumbency, Akio was called before U.S. Congressional hearings to answer tough question about the recall scandal, he did not flinch but used the firm’s family assets – their reputation, networks and known values – to provide an authentic and honest apology and a public commitment to fixing the problem.

In one of his most revealing remarks he said, “I am the grandson of the founder, and all the Toyota vehicles bear my name. For me when the cars are damaged, I am as well… 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.” With this pledge Akio took the family forward through the most difficult period of its history.

The value of cultivating family assets

While many companies in the automotive industry are dominated by families, the differences between families are often more apparent than the similarities. Certainly the Toyoda family assets were at odds with those of VW’s Porsche and Piëch families, who found themselves in a similar position half a decade on.

Unsullied by power plays or infighting, the Toyoda name was an important tool in helping it manage the looming scandal. In fact, just putting a Toyoda family member back in front of the company was a big step toward solving the crisis.

The Toyoda family owns less than eight percent of Toyota company stock but it remains very much in control of the company and the Toyoda family assets – the legacy, values and broad network of corporate and political connections it has cultivated over generations – continue to make a valuable contribution to the firm which cannot be delivered by outsiders.

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