

Toyota Motor: Test of Strategy

By Atsuyuki Suzuta

Japan's automobile industry used to be the champion of the nation's export machine. Yet as the appreciation of the yen has hastened the long-awaited globalization of Japanese industry, the nation's carmakers have been among the first to take the plunge into internationalization as they seek to evolve into global enterprises. Not surprising, then, that the overseas strategy of Toyota Motor Corp., the largest carmaker in Japan and the third-largest in the world, should be the talk not only of Japan's own domestic automobile industry but also of its competitors around the globe.

Despite the overwhelming presence of Toyota, the company was by no means an early starter in the United States. In fact, it approached the matter with such caution that it became one of the last, rather than one of the first, of Japan's top automakers to test the water.

On October 6, 1988, dignitaries gathered in Georgetown, Kentucky to celebrate the opening of Toyota Motor Manufacturing (TMM), Toyota's first wholly owned, completely independent passenger car production base in America. By then, Honda Motor Co., Nissan Motor Co. and Mazda Motor Corp. had already gotten started on their own independent production operations. Yet TMM President Kaneyoshi Kusunoki appeared unperturbed. "We were not deliberately cautious," he says. "It just happened that we became the latecomer." In other words, the Toyota executive was saying, the company made sure it took all the necessary steps and did so in the proper order before embarking on its U.S. odyssey.

What were these steps? Above all, they involved acquiring know-how about auto manufacturing in America, and the way Toyota chose to learn was through a joint venture with General Motors Corp.

In February 1983, after prolonged negotiations, Toyota signed an agreement with GM to jointly manufacture passen-

ger cars in America. The following February saw the creation of a joint venture called New United Motor Manufacturing Inc. (NUMMI), and by the year's end the new company was turning out "Nova" passenger cars at a sprawling plant at the foot of the grassy hills lining the southern reaches of San Francisco Bay.

Toyota had its share of difficulties in launching the joint venture with GM. The Fremont, California facility with a capacity of some 200,000 cars a year was notorious among the American auto giant's many plants for its frequent strikes and low worker morale. Yet the company's three principles stood Toyota in good stead as it tried to deal with these difficult challenges, and in the end, overcame them.

Many lessons

The many lessons Toyota learned from its joint venture with GM were put to good use when the company decided to set up a wholly owned plant in America. One of the most basic of those lessons was the critical importance of plant siting. California is a major market for Japanese cars, and to that degree the site selection smoothed Toyota's advance into unfamiliar territory. Yet U.S. auto parts makers are concentrated in Michigan, Ohio and Illinois in the north, and Louisiana in the south. To get the parts it needed to Fremont in California, Toyota had to build a shipment forwarding station in Chicago for routing components over the 4,000 kilometers of road and rail to the U.S. West Coast.

When TMM President Kusunoki made his decision to site Toyota's wholly owned production center in Kentucky, he says he was supported by three key factors. One of them was the clear understanding that the Fremont venture had given him of the U.S. auto parts industry. The other two factors, Kusunoki adds, were the experience he gained in working with American workers at Fremont, and

This is the first of five articles examining the powerful trend toward globalization among Japanese companies, a phenomenon that is occurring not only among large corporations such as Toyota Motor but is now spreading even to medium-sized firms.

the enthusiasm of Kentucky state authorities, including the governor, to have Toyota set up shop in their state.

The auto parts problem involves more than simple location. In order to build its finished products, an automaker needs to secure parts that satisfy all the three basic requirements of quality, cost and volume. For Toyota, quality was the most important of all, especially after the quality control problems it ran into at Fremont.

Sheet glass was a typical example. Toyota had laid down a requirement for the sheet glass used in its car windows that it be entirely free of flaws to within three millimeters of the edge of the glass. American glass companies were able to provide sheets that were flawless up to five millimeters from the edge, but the remaining two millimeters were another story. The manager of one sheet glass maker became so infuriated with Toyota's unyielding stance that he smashed a sheet of his company's glass on the floor, shouting "Make it yourself, if you can!"

Yet in fact, the Toyota standard had been met, by Japanese sheet glass makers, and Toyota was willing to provide what guidance it could to help its American parts suppliers do the same. Knowing that cost could be reduced by volume, the automaker concentrated on quality first, even when it meant importing technology from home. Today, the sheet glass maker whose manager was once so outraged over Toyota quality standards manufactures and delivers sheet glass to TMM exactly to specifications. In fact, it is supplying its quality sheet glass to other automakers as well.

Through such experiences, both good and bad, Toyota learned which parts makers in America would be able to supply products which met its stiff quality, cost

New United Motor Manufacturing Inc. (NUMMI), a Toyota-GM joint passenger car manufacturing company in San Francisco, celebrates its opening in 1984.



and volume requirements. The local content ratio of cars produced at TMM is already 60%, and is expected to climb to 75% by 1991.

Another side of Toyota's overseas strategy is revealed in TMM's slogan, "Toyota... moving forward with America." It would be an easy matter for Toyota to ship parts to TMM from Japan and assemble them with U.S. labor. It might even have been easier for Toyota to have relocated to the U.S. its entire community of affiliated Japanese parts makers. Yet that would have done nothing for the American parts industry. Toyota's ultimate aim as it set about moving into the American market was to build a new production framework, based on the Japanese system but incorporating the best features of American production systems and advanced technologies from around the world. In short, TMM was meant from the beginning to be an international enterprise, with its roots firmly planted in American soil.

Labor policy

Toyota's experience with the NUMMI joint venture has also proved invaluable in dealing with the difficult problem of labor-management relations. While it is easy to talk about establishing trusting relationships, putting such things into practice can be a far more difficult task. NUMMI, like Toyota factories back in Japan, adopted work groups, each made up of several teams of five to six workers, for a total membership of 20 workers. These groups became the forum for driving home to its American employees the ins and outs of the Toyota production method. At the same time, Toyota managers worked to win the trust of local workers by promoting Americans to positions of responsibility and holding frequent discussion meetings with employee representatives. As a result, the Fremont plant, once infamous for its unruly work force, now has some of the most amicable labor-management relations of any car plant in the United States.

Encouraged by this success, TMM has also adopted the team-based Toyota formula in Kentucky. It has set up a hot line

for employee problems and complaints, has instituted regular get-togethers with employee representatives, and has adopted large, open Japanese-style office spaces which do not put up walls between managerial staff and the rank and file.

At the same time, however, there are large regional disparities in the United States, and these are mirrored in Toyota's Kentucky and California plants. California is a melting pot of whites, blacks and Hispanics. When a white worker is made chairman of the union, the two deputy chairman posts must be given to a black and a Hispanic. These questions do not arise to the same extent in Kentucky, but on the other hand it is a conservative state with great pride in America. To be accepted, one must be the classic good American citizen.

One way Kusunoki did this was to open wide the doors of TMM when recruiting employees. The state of Kentucky itself solicited recruits and oversaw the entrance tests. No one was hired through his or her connections with a Toyota official. And while managerial posts were filled from across the United States, rank-and-file jobs were limited to residents of Kentucky. This even-handed approach was well received, as some 170,000 people applied for the company's 1,500 job openings.

TMM also took care not to discriminate against anyone for reasons of nationality, race, age, sex or creed as it sought to comply with the spirit as well as the letter of the Equal Employment Opportunities Law. As a result, blacks account for 13.3% of TMM's work force, far higher than the Kentucky state average. Workers clearly welcome Toyota's commitment. The absentee rate is presently running at only 1-2%, which is lower than at Toyota's head office plant in Japan.

Kentucky Governor Wallace G. Wilkinson, who attended the opening ceremonies, expressed his high hopes for the TMM plant in his congratulatory message. The governor praised Toyota as having provided a stimulant to his state. He said Kentucky is very proud Toyota is operating in the state and he is looking forward to Toyota's growth there. If the outstanding manufacturing technology



Celebrations to mark the opening of Toyota Motor Manufacturing (TMM) in Kentucky last October.

developed by the Japanese and the people of Kentucky are fused into one, the new plant will never stop developing, he added.

Toyota's advance into the U.S. market is off to a smooth start. Before long TMM will boost its output to its full capacity of 200,000 "Camry" cars a year. Once it is fully operational, it will start introducing different models for the American market. Toyota's ultimate objective is to localize the entire car production process, from research and development to production and sales. How will Toyota's overseas strategy pay off in the United States? The final judgment lies in the hands of American consumers.

Recently the sharp increase in Japanese direct investment in the U.S. market has itself become a major issue between the two countries, fanned by mounting American economic nationalism. Some Americans severely criticize what they term Japan's excessive presence, and it is often the top Japanese companies that bear the brunt of the criticism. Kentucky citizens may appreciate Toyota's localization efforts, but what about the rest of America?

Already, the Japanese auto giant has been discouraging some of its affiliated parts makers from following it to the U.S. So long as domestic demand for cars is brisk and rising, no serious problems should occur. But if demand begins to slow, what then? Could Toyota's production in the United States even lead to the "de-industrialization" of its operations in Japan? Until all these problems have been encountered and successfully overcome, there can be no conclusive answer as to whether Toyota's overseas strategy is successful.

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