### Management Team Decision

##### Purpose

Whether it’s something as complicated as cars or something as simple as toy blocks, the success of a product depends in large part on perceptions of its quality. If consumers feel that the company that makes a product is committed to delivering high-quality, valuable goods, then they are more likely to buy that product, and perhaps even pay a little extra for it. But if the product is seen as shabby, and the company less than diligent about product quality, then sales are likely to dip. So what happens when a company that used to be famed for its product quality faces a crisis? What happens when Toyota is forced to either admit that it knowingly produced defective cars or contest safety regulators’ findings? The purpose of this case study is to explore what is involved in making those kinds of decisions.

#### TO PAY OR NOT TO PAY?

Toyota used to sit on top of the world. It basked in the reputation of building high-quality cars efficiently. It enjoyed unprecedented growth, even surpassing General Motors as the largest car manufacturer in the world. But all of that came tumbling down with reports that cars were accelerating out of control, careening down highways, and putting everyone’s lives in danger. There was even a recording of a 911 call from an off-duty policeman who lost control of his car and died in the ensuing crash. Toyota responded with a recall of historic proportions—nearly 8 million cars in the United States and 1.8 million in Europe. It even suspended sales of brand new models, including the best-selling Camry and Corolla, until the vehicles could be repaired. But still, there was confusion about what was causing the problems—was it the floor mats, the braking system, the software controlling the engine, or something else? Conspiracy theorists argued that Toyota had no clue what was causing the sudden acceleration and that their recall was basically worthless.

By early 2009, your company was in a situation it had not faced for decades—its sales had dropped by 16 percent. Even General Motors, the bankrupt General Motors, which looked like it could do nothing right for many years, grew 8 percent during the same time. According to some journalists, the recall cost Toyota more than $2 billion. But by March 2010, things seemed to be on the rebound. Sales picked up dramatically, 35 percent from the previous year, and 88 percent from the previous month. Customers were once again buying Toyotas and putting their confidence in its ability to produce reliable cars.

But just as things seemed to be rosy again, Transportation Secretary Ray LaHood announced plans to levy a fine of $16.4 million against your company. The money itself isn’t necessarily a problem. Even with losses, Toyota still made $1.8 billion in the fourth quarter of 2009. The fine would be less than 1 percent of what you earned in just three months. So why not just “take the medicine” as it were, pay the fine, and move on from the whole mess? Because the fine comes attached with a statement that Toyota “knowingly hid” safety problems in order to avoid a costly recall. According to LaHood, “We now have proof that Toyota failed to live up to its legal obligations. Worse yet, they knowingly hid a dangerous defect for months from U.S. officials and did not take action to protect millions of drivers and their families.”

So what will you choose to do? You could just pay the fine and admit fault, but if you do, the company’s reputation for quality will take a perhaps fatal blow. You wouldn’t just be admitting that you made a mistake, but that you deliberately lied about it in order to keep making money. What’s more, an admission of covering up would give great support to the hundreds of lawsuits that claim Toyota committed consumer fraud. How much money would those settlements cost? You could, of course, just contest the fine and the admission. But, your company’s reputation is already fragile, and fighting the government (and potentially losing) may make things even worse.

Form a group with three or four other students and discuss what decision you would make as a Toyota management team by answering the following questions.

Sources:

Ashby Jones, “The Toyota Fine: The $16M Might Not Be Toyota’s Biggest Problem,” *The Wall Street Journal*, April 7, 2010, accessed June 20, 2010, from <http://blogs.wsj.com/law/2010/04/07/the-toyota-fine-the-16m-might-not-be-toyotas-biggest-problem/>; Micheline Maynard and Hiroko Tabuchi. “Toyota Sees Sales Rebounding,” *The New York Times*, March 30, 2010, accessed June 20, 2010, from [www.nytimes.com/2010/03/31/business/global/31toyota.html](http://www.nytimes.com/2010/03/31/business/global/31toyota.html); “Sizing up the Damage,” *Marketwatch*, January 29, 2010, accessed June 20, 2010, from [www.marketwatch.com/story/toyota-faces-grim-january-sales-2010-01-29](http://www.marketwatch.com/story/toyota-faces-grim-january-sales-2010-01-29); and “Toyota Car Recall May Cost $2bn,” *BBC*,accessed June 20, 2010, from <http://news.bbc.co.uk/2/hi/business/8493414.stm>.

##### Questions

1. What is your recommendation for how Toyota should approach this situation?

1. What are the decision criteria that should be used in this situation, and how should they be weighted?
2. Under what conditions do you think it is acceptable for Toyota to settle for a “good enough” decision?