

**A COMPARITIVE STUDY OF CRISIS MANAGEMENT- TOYOTA V/S  
GENERAL MOTORS**

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**ABSTRACT:**

*Crisis Management is the process which involves the way an organization deals with major problems that serve as a threat to it or its stakeholders. It is the way to alter the old and redundant systems that are no longer sustainable. It is required in all the organizations and separate divisions have been created in order to handle the crisis and provide solutions for all unseen problems making the*

*knowledge of crisis management highly vital. This paper will explore on crisis management, and about how crises are handled in automobile industry. It focuses on the comparative study and analysis of major automobile giants of the greatest economies: Japan and United States that is Toyota & General Motors regarding their period of crisis, how they deal with it to enhance the image of the company.*

## **KEY WORDS:**

Crisis Management, Crisis Management, Organizational Culture, Sustainability

## **INTRODUCTION:**

### **CRISIS:-**

When the system functions feebly an instant judgment and remedy is required. However when the reason for this malfunctioning is unknown, the complex condition is termed as crisis. During the crisis period an instant assessment is required to discontinue the further breakdown of the system. The causes are unknown making it impossible to take acknowledgeable and balanced decisions to undo the situation.

It has three main features:

1. Creates uncertainty
2. Is seen as a threat to important goals
3. Unexpected (i.e., a surprise)

### **Corporate Crisis:-**

Corporate crisis are the hazards that involve people and economies that root wide damage to human life and to the social environments. It include three basic rudiments:

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- 1.) Risk to the organization
  - 2.) An component of blow
  - 3.) A squat time for result

## **Crisis Management:-**

Crisis management is very vital for any organization whether miniature or massive. It also helps in foreseeing the problem and regards an overall coordination of an organization in responding to the crisis. This helps to shun any harm to the organization.

## **Introduction to Toyota:-**

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Toyota Motor Corporation is a Japanese automobile manufacturer founded by Kiichiro Toyoda in 1937 as a spinoff from his father's company Toyota Industries to create automobiles. In the month of March 2014 the multinational corporation consisted of 338,875 employees worldwide and now in November 2014, it has become 12<sup>th</sup> largest Company in the world by revenue. By production Toyota was the largest automobile manufacturer in 2012 ahead of the Volkswagen Group and General Motors. In July 2012, the company reported production of its 200-millionth vehicle. It is the world's first automobile manufacturer to produce more than 10 million vehicles annually. It did so in 2012 according to a report and in 2013 according to company data. In July 2014, Toyota was the largest listed company in Japan by market capitalization and by revenue.

## **Reasons of Crisis of Toyota:-**

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2008 witnessed huge financial crisis for Toyota that nearly resulted in a collapse of the global economy. The quick action by the Federal Reserve and the U.S. Treasury prevented another depression. The financial crisis is explained by the profitability of derivatives that drove banks to get more mortgages in any way possible. When interest rates rose in 2004, many subprime borrowers couldn't make higher monthly payments, and demand for housing fell off. When housing prices fell and homeowners defaulted, banks tried to unload these derivatives on each other because no one knew how to price them. This led to a global credit freeze that was only stopped by massive government spending, bailouts and Federal Reserve guaranteeing credit availability.

The main reason of the crisis was primarily caused by the deregulation in the financial industry that permitted banks to engage in hedge fund trading with derivatives. Second is the 2000 Commodity Futures Modernization Act that was allowed the unregulated trading of credit default swaps and other derivatives. The growing numbers of wires, sensors and computer chips embedded in auto electronics have profoundly changed the automobile in the last decade and as more and more hi-ecosystems are fitted to latest cars; it has become more puzzling in quality-control testing along with troublesome interferences and uncertainties. Any small electronic faults casually happened in the complicated machine, as well as the effect of

environmental factors, can simply lead to a miscarriage of a car. In the Toyota crisis, we would spectacle if the huge recalls were simply as a result of technical problems that could happen in any automaker possibly, or were caused by other faults of the company that can be escaped in term of their technology and management.

### **OBJECTIVES:**

- To know about the difference in crisis management of American and Japanese automobile industry
- To examine their positions in India

### **PURPOSE OF THE STUDY:**

The main motive of the paper is to provide the comparative study of the companies i.e. Toyota and General Motors that are the part of the same industry. It will also explain about the main reasons of crisis management in both the companies, what steps were taken by these companies and were those steps were right or wrong. In the end we will get to know about the difference in culture of the two automobile industries i.e. one is American automobile and the other one is Japanese automobile. Establishment of both the automobile industry in India will also be explained. The paper has been mainly divided into 4 parts.

In the first part of the paper it will explain you about what is crisis, how to manage it and what is its importance in today's world where rivalry is cut-throat. Moving forward it will cover all about Toyota and General Motors. Then in the

end the current position of both the companies in the world will be examined. The third and fourth part will cover the comparative analysis of both the companies and the difference in culture of both the automobile industry as one is American based automobile industry while the other one is Japanese based automobile industry. It will also focus on both these companies in India. How they are able to manage their working in India and what is their future prospective about growth.

#### **LITERATURE REVIEW:**

Sturgeon (2010) explained about the effects of the recent economic crisis, global value chain analysis and recent trends in the global automobile industry are being mainly dedicated. The important catalyst of industry is the close relationship of the lead firms and suppliers but the impetus can be the more rapid growth of car ownership. With the rise of new models especially for markets in emerging countries it has made the chances to go up in the value chain for suppliers in developing economies have multiplied but it is likely to become tougher. There was impact of sales during the period of crisis on every nation and the production system which was largely limited in nation and regional production houses. Due to the industries advance size and self-determination various expansion strategies start meeting slowly of some developing countries.

Saripalle (2012) elaborated about the effect of government plan rule on the culture and ability acquisition of firms has been studied in this paper. Three theories have been developed with

the help of case studies of some Indian automobile industries relating policy commands with strategies of firm. A model of culture using a section data for the Indian automobile business is made for the study if these theories. The result of it was that quickness of knowledge integration is much more important in the opened policy instruction or vis-à-vis.

Rajasekera (2013) discussed main subjects in the paper that were Toyota's management in the spotlight due to its largest market in Europe, North America, Japan and China kept it in the Media attention. The power of social media was also exposed. They are in a condition where they have to respond effectively and efficiently when crisis starts growing or they have to pay for the outcome of the crisis. If social media is managed systematically, it can be able to save the reputation they had made over years of being the largest automobile tycoon and overcome the recall debacle.

Ogunleye (2010) addresses the aspects of crisis management in a corporate society. Different crisis management techniques of two big business houses of Japan, BP and Toyota have been inspected using a content analysis method. An enriched framework of crisis management that has been given by Jacques for measuring the success of both the companies and it also helped to examine the lessons that they had learned from past experiences and issues. The paper ends with the best recommended crisis management tactics that can help in achieving the best results.

Chance Cooley (2011) stated that the main role is played by public relation in crisis management. It state event, places crisis in context. The goal of this research paper is to test combs situational crisis communication theory (SCCT) model in a framework of financial works, it identify the situation of crisis, cluster and crisis response strategies for this situation. A flunking economy coupled with a dated business model and then increased global competition, finally declined the long bloodied auto giant. The thing followed was an aggressive campaign by both the general motors and the United States government to rebel the company competitively, saving as many jobs along the way it is possible to justify using huge sums of taxpayers dollars to salvage the company, and to ensure the public that the US Government is not federalizing the auto company.

Canis (2013) focused on the ebbing world credit markets and a slowing global economy combined to create the worst market in ages for production and sale of motor vehicles in US and other industrial countries in the year 2008 and 2009. The production and sales is a major auto making industry where automakers, large and interconnected motor vehicle industry supply chain, touching suppliers, auto dealers, and the communities face serious business challenges. Loss of financial liquidity was the major direct crisis that brought old GM and old Chrysler to bankruptcy and they did not have enough internal assets to stable their economic conditions. This economic crisis resulted them to ask help from U.S. government in November 2008. U.S. government received \$5.5 billion

from this sale and reduced its ownership stake to 22.0%. In April 2013, it announced the results of first tranche of these open market sales which reported a total sale of 58.4 million shares for a total of \$1.6 billion. By early 2014 the coffers announced it to plan to sell the rest of its stock. This report sums up the crisis leading to GM's bankruptcy, the progress of GM motors, role of U.S. government's and their assistance.

Feng (2010) enlightened that Toyota is a company with a good brand & good reputation. It is based on good quality good manufacturing excellence designs reliability. Toyota have agreed to pay around 1.2 billion in a deferred prosecution with DOJ, problem of the uncontrolled speedily and deadly crashes that appeared in the year 2007 and accepts a safety monitor for falling to disclosure to monitors. As Toyota CEO should appoint a head safety and rapid response teams to receive reports of serious harm to persons or property that may linked to property. The top business leaders should then form an appropriate a multifunctional teams relating to design, internal, duties to regulators etc. Preventive systems and testing should be done in order to reduce the absolute minimum.

Biesebroeck (2011) explored the Toyota auto makers as one of the largest automakers in the world. According to our study, problem in Toyota quality began in the mid 2000 Toyota's when the automaker began to use the same components across its different models, reduced assembly quality, and ignored customer

complaints in order to increase its production volumes. Toyota as a part of crisis management strategy launched a major PR a type of campaign to promote the safety and the reliability of its vehicles. It used print and television media for public apologies, explanations, and press releases. Toyota sent apology letters to its customers informing them about the recall.

Peter Wad (2010) illuminated technological innovations allowing work practices such as distributed processing or concurrent engineering that render value creation more synchronous, less sequential and more interactive. Value co-produced by two or more actors invites us to rethink organizational structures and managerial arrangements for value creation inherited from the industrial era. Webel (2012) described that lean production not only successfully challenged the accepted mass production practices in the automotive industry, significantly shifting the trade-off between productivity and quality, but it also led to a rethinking of a wide range of manufacturing and service operations beyond the high-volume repetitive manufacturing environment.

### **Crisis management of Toyota:-**

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It states the problem which the company faced while recollecting automobiles with developed flaws. It also portrays the customer concerns about their protection and future alternatives for Toyota. It also talks about how the crisis is a pretense threat on its reputation and the expansion of marketing strategies in future. Organizations these days are well aware that

crisis cannot be predicted and none of the companies can think of itself to be against crisis. Crisis communication is also vital part of crisis management list. Lack of ample communication during crisis leads to:

- 1.) Operational reply breaks down
- 2.) The partners do not get lucid picture of what is occurring.

The president of Toyota, Akio Toyoda took a long time to confess to its customers that they were in crisis. This delay caused major harm to company's reputation.

The steps which were to be taken during crisis by Toyota:

- 1.) To establish a crisis management team
- 2.) Defining the crisis to your own team
- 3.) Ease the cause of the crisis
- 4.) Addressing own failures

### **Toyota's current position in the world:-**

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There is no doubt that Toyota motors is the next wield of expansion coming from upward markets in Southeast Asia. Toyota icon has low maintenance, no trimmings and value for good product company echo well with the load of the customers in the hopeful markets. Earlier this month, the Toyota opened its fourth auto plant in Indonesia at an investment of \$340 million. Toyota is also passing appreciably in India, Brazil and Thailand. In February this year, Toyota has opened a new plant in India which motto the automaker's capacity in the country

rising 50% to 310,000 units. The plant, which cost Toyota \$100 million, will be used mainly to manufacture the *Etios* and *Innova* models.

## **General Motors**

### **Introduction to General Motors:-**

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General Motors Company is an American Multinational Corporation. Its headquarters are in Detroit which designs, manufactures, distributes vehicles and vehicle parts and sells financial services. General Motors is divided into 5 business segments: GM North America (GMNA), Opel Group, GM International Operations (GMIO), GM South America (GMSA), and GM financial. General Motors employs 212,000 people and does business in more than 120 countries. General Motors produces vehicles in 37 countries under thirteen brands.

### **Reasons for Crisis of General Motors:-**

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The main causes behind the crisis of GM were Barra's Apology, Defective Parts, and Unanswered Questions about the company; regulators did not step in and the liabilities on General Motors. These reasons have been explained below:

1. Barr, CEO apologized for scandal broke in Mid-March. Barra also met family members of individuals who died because of defects. The accurate step was taken by Barra before she was testified to assembly; she met the members of 15 families who died in GM

cars due to accidents. Due to the pending litigation it made GM's lawyers bothered due to high-risk of meetings, but it was the correct decision from an individual outlook. Many a times these situations included high prospective for proceedings demand that administrative shows such expression of gloom and regret, if they fail in it the company and their stakeholders can be harmed. By creating a valued outside examiner it held an inside survey because of which GM has dogged to understand. Dismay and irritation was shown on company management by her, which may emerge the decision to agree on the rumors on low graded ignition switches that can be corrected much earlier.

2. During the meeting of General Motors they decided against the replacement of a faulty ignition component that would have cost 57% per vehicle.
3. Barra constantly avoided a line of inquiries about how the problem could have gone on unnoticed for so long.
4. The liability of GM is limited and the company has legal and ethical obligations towards the victims where it shielded from having to pay accident victims for any crash that happened.
5. The employees of the National Highway Traffic Safety Administration (NHTSA) raised red flags twice in GM vehicles but investigated further.

## General Motor's current position in the world:-

From an extended period of time TGM was a disappointment. In December 2008 a commercial was printed by Auto News supplied by the firm, the deprived choices were revealed by the firm over the time period: generating impracticable compensation policy, neglecting excellence, disregarding shifting consumer preferences and concentrating its product appearance on SUVs and trucks. The current ad of GM states about manufacturing a

vigorous arrangement of cars, hybrid & crossovers, but the feedback was too late and low. Absence of innovation from many years had distorted GM for almost 50 years. GM many a times fails to decide on consumer trends but it also fails in adapting these changing demands. Wrong decisions of GM has led it where it exists today i.e. hope for existence and repair the whole company.

	2015	2014
Revenue	\$35.7	\$37.4
Net income attributable to common stockholders	\$0.9	\$0.1
Earnings per share (EPS) diluted	\$0.56	\$0.06
Impact of special items on EPS diluted	\$(0.30)	\$(0.23)
EBIT-adjusted	\$2.1	\$0.5
Automotive net cash flow from operating activities	\$0.0	\$2.0
Adjusted automotive free cash flow	\$(1.7)	\$0.2
% Return on Invested Capital (ROIC)	19.5	16.9

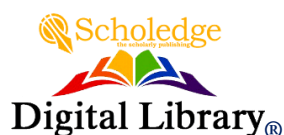
Table 1- GM Results Overview (in billions except for per share amounts and ROIC)

Difference between the culture and working of American and Japanese automobile industry

## Culture of Toyota and General Motors (America v/s Japan):-

The Automobile Industry in the United States quickly grew the leading in the world because of the size of local market and the usage of mass-production which was began in the late 1890's. But its position of being the largest automobile producer was overhauled by Japan in 1980's and later by China in 2008. At present U.S is the second largest producer by size with 9-

10 million produced every year approximately. It's one of the exceptional production was in the year 1970s and 2000s which was around 13-15 million units and lowest production was in the year 2009 due to crisis which was only 5.7 million. The industry that was started with n number of manufacturers now only left with three most dominated companies i.e. Ford,



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General Motors & Chrysler. Japanese automobile industry is considered to be one of the noticeable and huge industries in the world. It is superior to Germany in manufacturing cars and since 1960 Japan has been among the top three countries with the most cars produced. From 1970s to 1990s was the golden period for Japanese automobile industry as it shows a fast growth and during the same period it also overhauled U.S. in terms of production and exports. Currently Japan is the second largest

automobile manufacturer in the world after U.S. Toyota, Nissan, Honda, Suzuki, Daihatsu, Mitsubishi, Mazda, Isuzu, Subaru, Kawasaki, Mitsuoka, and Yamaha are some of the Japanese automobile manufacturers.

Then there comes the difference between their manufacturing process and performance. Both the automobile industries follow a different way of manufacturing process and shows up a different level of performance.

<i>American</i>	<i>Japanese</i>
Standard operating procedures unchanged and often ignored	Standard operating procedures, constantly revised
Many trade unions	Company unions including supervisors
Engineers improve, workers follow	Continuous improvements, involving all workers
Specialist inspection	On the spot inspection
Large lot production	Small lot production
Single-skilled & craft workers	Multi-skilled workers in teams
Market relations with many suppliers	Stable & close supplier relations
Piece-rate (until recently)	Skill-based wage
Expensive, sophisticated automation	Low cost, simple automation
Emphasis on machine utilization	Quick machine set-up & changes
High inventory level	Low inventory level

Table 2- Difference between Japanese and American automobile industry

## **Establishment of both automobile industries in India:-**

India is considered to be one the largest automobile industry. It had always welcomed variety of products. Behind Japan, Thailand and South Korea it becomes Asia's fourth major exporter in passenger cars, and it overtakes Thailand on 2010 and become the third in number. Recently it had become the sixth major manufacturing country in case of cars in the world. In such a vast market General Motors and Toyota are being successful in making goodwill in Indian automobile industry. General Motors has completed its 18 years in India which was established here in 1996. SAIC and General Motors made a partnership under General Motors India Private Limited in which 93% stake is of General Motors and 7% is of SAIC. Now it has become 5<sup>th</sup> largest automobile

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producing company in India after Maruti, Hyundai and Tata Motors.

Toyota's well known reliability and quality durability has help it fast growth in ever growing Indian market. They provide market with such type of products that can be loved and cherished by Indian consumers. Over 1 million Indians had been added to the developing Toyota family.

### **CONCLUSION:-**

Every business organization needs an effective crisis management as it is very important for the growth of every business. There is a huge difference between American and Japanese automobile industries likewise their cultures differ to a great extent. Both companies are business giants and occupy a major share all across the world. However they are widely and almost equally welcomed in India.

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## ***Ushus - Journal of Business Management***

(Issue 26, Vol 13, No 1 (2014), January to March 2014 ISSN 0975-3311|doi: 10.12725) pg 3- 10

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