Multinational Corporation Crisis Management: Analysis of 10-R Principles in Toyota

Jiawei Feng and Yi Li

Abstract: This paper studies multinational corporations crisis management based on the case of Toyota recalls. The objective of this study is to explore the ways of managing crisis in multinational corporations. The paper begins with studies of both foreign and domestic research status in this field, and main theories are also followed and discussed. Next, taking Toyota recalls as an example, this paper analyzes the process and impacts, and comments on Toyota’s responses. In the highlights, based on the life-cycle theory of corporations crisis management, we put forward analyzing ways of managing crisis in each life period from 10 perspectives. These are recognition, rehearsal, rapidness, responsibility, reach, representative, relation, resource, recovery and reflection. The paper concludes that multinational corporations should emphasize and reinforce crisis management so as to remain competitive reached. And limitations of this research are indicated and suggestions for future studies are made.

Keywords: Multinational corporations, crisis management, 10-R principles, Toyota

1. Introduction

The 21st century is an era marked by economic globalization, knowledge economy and internet economy. The overall features of this century are immense changes and increasing uncertainty, which have brought all kinds of crisis to corporations. In recent years, product crises in multinational corporations have exploded more frequently than ever. And many Fortune Globe 500 ones are struggling in the track of crisis and hard to extricate themselves out. GE, Kohler, P&G, HP, Canon and Toyota have all experienced such crises without exception. Toyota recalls serve as a good example. Because of quality problems, Toyota has recalled millions of cars in the recent decade. These crises, on the one hand, cause customers physical damage and property losses to an extent, which indirectly decrease their satisfaction and loyalty towards products and brand; on the other hand, minimize the profits and market share and bring negative impact on the competitiveness of multinational corporations.

Based on the above situation, crisis management has no longer been a margin word for corporations, and it has aroused great attention from academic circles. While foreign scholars began their studies early, Chinese scholars comparatively lack experience in this field. This thesis put forward that the crisis management is an indispensable part of general management. As long as crisis management is valued and reinforced, the corporations can thrive and prosper.

The primary goal of this thesis is to explore the ways of managing crisis in corporations. This thesis is firstly going to study the existing literature and theories on multinational corporation crisis management. Then by analyzing the case of Toyota recalls which are noticeable in recent years, reasons and consequences of the crisis are concluded. After the case study, life cycle theory of crisis management is analyzed, and 10-R principles of crisis management including
recognition, rapidness, responsibility, etc. are presented. Besides, the suggestion of building up core competitiveness is also recommended. As long as corporations strengthen crisis management, they are able to remain competitive and prosperous.

2. Literature review

International literature

The concept of crisis management originated from western countries. It initially emerged in the area of politics, aiming to explore the root of political crisis and find the optimal solution. A climax arose during 1960s and 1980s with the spectrum expanding from politics to economics, from natural disasters to public crisis. Especially in 1980s, as the competition uncertainty increased, some scholars started to apply crisis theories to economic and corporation management. In 1986, American scholar Steven Fink published *Crisis Management: Planning for the Invisible* (1986), which was regarded as the first study of crisis management, thus it established a general framework for later studies. He defined corporation crisis management as “the actions taken by organizations towards crisis prediction, analysis, prevention and resolution including all factors in terms of politics, economics, laws, technology, culture, and environment. It is an art for a corporation to remove risks and uncertainty and control its own future” (Wang, et al. 2011). Studies continued and the content of crisis management was enriched. Mitroff and Christine gave their definition in 1993 which in a true sense drew the curtain of the systematical research. That is “a theory that helps managers get over psychological obstacles on unpredictable things and make full preparation in front of bad situation. In the first hours or days after crisis happens, they should result to a series of actions like recognizing the crisis, analyzing the depth, controlling the losses and improving the communication” (Wang, et al. 2011).

Since the end of 1990s, new trend appeared. Along with the introduce of information economics and game theory, research method changed from qualitative one to a combination of qualitative and quantitative methods. Meanwhile, it incorporated knowledge from psychology, organizational behavior, social and political science, etc. It moved towards maturity gradually. In 2001, crisis management theory was refined by Robert Heath as “a theory that tells managers how to reduce crisis, how to make prevention work, and how to train staff to cope with crisis and quickly recover from it” (Wang, et al. 2011).

Domestic literature research

The study on crisis management in China started from late 1980s along with the introduction of public relations theories. When people focused their attention on public relations, public relations crisis management naturally came into their view. However, public relations crisis management only could not meet corporation’s needs to deal with crisis. Since then an independent and systematic study began. The earliest article that can be retrieved was published by Sun Minggui in 1990—“A Brief Review of Crisis Management in the West” in *Foreign Economics & Management*.

The book, *Corporation Early-warning Management Practices*, published in 1999 by Yu Lian was an important achievement of crisis management studies. In June 2001, some scholars and entrepreneurs made a discussion on the topic “how corporations deal with crisis” in Beijing. And in August, another symposium on the theme “improving the ability of crisis management and attaining sustainable development” was held in Shenzhen. In 2003, Chinese scholars Bao Yongjian and Chen Baizhu put forward that crisis management is “to research why crisis
happens, what methods can be used to avoid it and once it happens how to impede its development and eliminate negative impacts” (Wang, et al. 2011).

Later on, the scholars like Duoyong Sun, Jinghua Zhao and Qian Sun have realized the significance of research in this field and concluded its research development in China, but it is still less systematic. It still remains in the theories studies level which is superficial and statical. Studies that combine the real conditions of corporations and adjust to environment changes are even rare. Many domestic corporations lack the sense of crisis management and fail to overcome crisis effectively when it happens.

Main theories

System theory: In this theory, a corporation’s organizational environment is viewed as internal environment while the other factors it depends on as external environment. Crisis management is to research how a corporation optimizes its internal environment therefore enhances its ability of crisis handling and how it interacts with external environment effectively to attain a stable situation (Wei and Chen, 2005) The utilizing of system theory is beneficial for managers to prevent and handle crisis from double perspectives (parties-involved and spectators). Because external environment includes so many factors that managers can hardly take every single into account, this theory still needs further supporting research.

Structure theory: Scholar Yanzhi Zhu from Taiwan establishes structure theory based on Potter mode. “This theory emphasizes what reactions a corporation should have to tackle external changes and fulfill the goal of risks avoidance. He explains external risks based on the deviation from suppliers, competition from same industry, threat from substitutes and challenges from potential competitors in detail” (Wei and Chen, 2005). Main contribution of this theory is that it takes an overall account of external changes, which makes it possible for corporations to enact policies from a strategic point of view and for the value of crisis management to be greatly improved. But the drawback lies in that it puts too much effort on external risks management while ignoring internal structure optimization.

Life cycle theory: Simon A. Booth initially came up with the life cycle theory of corporation crisis management. “On the basis of crisis evolution process, he marked out five periods that are incubation period, eruption period, expansion period, settlement period and recovery period. He also elaborated different features and strategies from each period” (Wei and Chen, 2005). The progress includes 5 periods according to distinct features which enables managers to have a clear idea of crisis from its birth to death. For this reason they manage to settle the crisis in a prompt and effective way. One of its defects is sometimes a crisis bursts out suddenly instead of having a long incubation period. This situation and corresponding solutions are apparently not considered and embraced into this theory.

Optimal mode-structure theory: The optimal mode of crisis management-structure theory of crisis changes is put forward by American scholar Ian I. Mitrof. This theory points out “features and risk degree, crisis management mechanism, crisis management system and stakeholders are main factors. Planned management must be carried out before, in and after the crisis” (Wei and Chen, 2005). He also established “Onion Model which is marked by technology, organizational structure, human factor, culture and mentality of senior managers” (Wei and Chen, 2005). This theory has taken all relative elements into consideration and highlighted the core function of senior managers in particular. However, it does not involve utility theory and fails to be convincing enough in empirical studies.
3. Case study of Toyota recalls

A review of Toyota crisis: From 1980s Toyota corporation started its global expansion of civil automobiles. It built manufacturing factories and established marketing networks all over the world. And it was in a leading position in the area of R&D, manufacturing and after-service. “In 2004, the total sales volume in America reached 2 million and took up 12% market shares. In 2006, the number amounted to 2.5 million and market share to 15%. Soon in 2008, Toyota defeated GE and attained the No.1 auto maker in the world” (Wu, 2009).

Toyota has this massive arrogance and they cloak it with false humility and top it with this halo of quality. They dragged their feet and covered up their problems. They saw the chance to get the world's top spot and they took it, but there has been a price. Toyota itself boasts about its success in trimming costs, including a project called Construction of Cost Competitiveness for the 21st Century, launched in July 2000, which aims to slash the price of about 170 components that account for 90% of our total component purchasing costs. (Mcneill, 2010)

As Toyota’s costs declined and profits increased, its quality started to slip from the high standard and recall accidents appeared on account of quality problems. From 2008, massive recalls began when 200 thousand cars were totally called back. In 2010, “Toyota eventually recalled more than 6 million vehicles to make changes to its floor mats and sticky accelerator pedals” (Rechtin, 2014). Last year in 2014, “a passenger airbag that could burst into flames forced Toyota to announce another recall yesterday--its second this year. The safety fault means nearly 2.3 million cars worldwide, including 19,000 in Ireland alone, will have to go back to Toyota dealers for check-ups and possible repairs” (McCashin, 2014).

Impacts of Toyota recalls: Toyota suffered a huge loss in this series of recalls. First of all, they cost great financial damage. On the one hand, the cars with security problem led to thousands of casualties so the company has to spend a large amount of money in recalling and repairing the problem cars and compensating for their families. On the other, the company has to be confronted with judicial investigation and civil liability verdict which may result in huge settlement fees as well as fines from the National Highway Traffic Safety Administration. Apart from that, customers show great anger and dissatisfaction towards issue. These recalls convert customers belief that Toyota auto is of excellent quality that is worth trusting into nothing. Many of them demonstrate they will reconsider when they decide to buy any automobiles in the future. The brand image is severely hurt and competitiveness impaired. Statistics show that the company’s market share shrinks severely and its stock price hits its lowest level in 2012.

The crisis also brings negative impact on Japan’s automobile industry as well as manufacturing industry. “Influenced by the accidents, people increasingly show their question and concern towards the whole Japanese automobile industry and manufacturing ability, which is woe of the nation” (Wu, 2012). During 2010-2012, the sales volume of three automobile giants in Japan, Toyota, Honda and Nissan, have a trend of decline. And some related industries such as steel, rubber and plastics are also dramatically impacted. The national economy is in a gloomy state, as showed in GDP. In the next few years, it is thought that the stagnation will remain and the manufacturing industry needs some time to make adjustments and get out of the dilemma.

4. Analysis and suggestions

4.1. Introduction of 10-R principles
“American expert Robert Heath put forward 4R principles of crisis management in his book, *Crisis Management*, for the first time which consists of reduction, readiness, response, and recovery” (Wu, 2012). Then resilience was added and it became 5R principles. All principles have their unique features and are fundamental in overcoming the crisis. After deep studies of 5R principles and reference from other materials, a dynamic crisis management system of 10R principles combining the life cycle theory of corporation crisis management is worked out.

Incubation period

Before the crisis erupts, there is a long period of incubation. In this period, several features may indicate the eruption of a crisis which could be sensed and recognized beforehand, so the very first thing that the corporation should do is to recognize them calmly and rationally. “Generally speaking, crisis can be distributed into two categories: major crisis and general crisis” (Wu, 2009). Toyota’s recalling deficient cars is definitely belongs to major crisis. When several car accidents happened, Toyota paid less attention. The slowness of crisis recognition only leads to crisis up-gradation which becomes more difficult to control. The most sensible way is to pay enough attention to the crisis from the whole corporation especially the senior leaders. Then prompt and effective measures should be followed before the crisis expands.

The aim of a rehearsal is to make full preparation beforehand to avoid crisis. In this regard, a complete pre-warning system is supposed to be established, which means once the crisis is recognized, the corporation could react as it is planned and the situation of disorder and confusion would be refrained as much as possible. A good rehearsal could resolve the problems before they expand into crisis and cause greater loss. Indulged in quick expansion and huge profits, Toyota overlooked the necessity to have a complete rehearsal. When the crisis happened, Toyota appeared to be less prepared, thus lagged in reaction. From this lesson, Toyota should
learn from it and start building its pre-warning system. Besides, this system should be constantly practiced and timely supplemented, through which passive situation can be avoided.

**Eruption, expansion and settlement period**

The rapidness goes through from eruption period to settlement period which refers to acting in a prompt way. It could not only minimize loss for a corporation but also win understanding and retain loyalty from customers. In August 2009, the sudden speedup accident of Lexus in America led to 4 deaths. But until 2 months later, Toyota started to make the assessment and finally decided to repair altogether 4.46 million cars in late November. After the accidents happened and were reported by the media, Toyota should react as soon as possible, but it failed to do so. “There is a famous 24-hour principle which means 24 hours after the crisis erupts is the ideal time to respond and settle” (Wu, 2009). Once the corporation misses the golden time to take actions, the damages will be immeasurable.

Corporations cannot live without the society. They make profits from the society while at the same time, they should assume their responsibilities. There are many relative parts that corporations must be responsible for. “Corporations must deal with six parts properly. They are customers, business partners, shareholders, employees, environment and society” (Wu, 2009). To acknowledge the mistakes and take responsibilities are a demonstration of the corporation’s positive attitude. At this time the courage will be welcomed and the mistakes also be understood. On the contrary, if the corporation tries to remove the responsibility, the situation would become even worse.

It is important to expose the information to the outside and let the public especially customers be aware of the whole process. Besides, it is more essential to make the information accessible to the inside staff, for which reason the sense of identity will be aroused and morale be stimulated. Due to inadequate and complete information, the crisis development could not be fully reachable to the decision-making level. For example, the rear-end collision happened in Chiba-ken of Japan in July 2009. Its vice president Mr. Sasaki did not notice it until he was called in by the Ministry of Transportation that he started to be informed, which once caused a national uproar.

Representative system requires an official spokesman speaking on behalf of the whole corporation and the statement must be refined and consistent. Qualified representatives can be calm and efficient, trying to build an image of responsibility and reliance. However, under-qualified ones are more likely to confuse the audience and leave large loopholes for competitors to make a fuss. In Feb. 2010, Akio Toyoda was required to attend the public hearing by the United States Congress. It could be seemed as a good opportunity to explain. The hearing was live televised, so he could make the best of this platform to make explanation or apology. But apparently, he did not get ready and let the opportunity slip away.

A crisis involves many parts and the corporation must deal with each of them according to the urgency. The key problems are such like compensation to the victims, communication with media, support and understanding from the related organizations. One reason for Toyota recalls crisis is that it lacks public relations strategies. Toyota did not deal with its relation with the customers and mass media in a proper way. It did not stand out the very first time when accidents happened, neither it explained the errors to the media so as to stop them from reporting groundlessly. If only it maintains a good relation with the media and a smooth communication with the public, its situation would be greatly improved.
To deal with a crisis properly and effectively, some resources need to be provided. The resources in crisis management contain adequate material resources, human resources, public relations resources and information resources. Material resources mainly refer to financial budget and material reserves. In responding crisis, money and material are fundamental. Then is the human resources, especially the committee of human resources mentioned before. Thirdly, the corporation should establish good public relations with media, government and other parts so as to receive assistance and support. Last, information resources are the backup for crisis settlement, including internal information like corporation background information, previous cases studies, staff information, etc. and external information like stakeholders information outside the corporation and public information.

Recovery period
A good recovery firstly comes from appropriate settlement, the victims being compensated and disqualified products being dealt with. Besides, a corporation may try some charities or sponsorship to win some positive public remarks. This is also the reason why more and more corporations value corporate culture and social responsibility. Toyota’s brand recovery is relatively successful. In order to save the largest market, Toyoda visited China and held talks with government officials and the media. It established Committee of Quality Control and cautiously took a series of measures, involving price reduction, after-sales service improvement, cash compensation, etc.. And these years it has spent a lot of money on charity, especially in traffic safety, environmental protection and education. These activities get positive feedback and to some degree reverse the image. But these are not of the most importance. What customers want are its sincere attitude and commitment to high quality.

After dealing with the crisis, it is better for the corporation to reflect the whole process of crisis, analyze the management measures and draw lessons to avert the same one from happening again. This is not the work only for one department, but all relevant ones. To write a report is the most favorable form. Toyota should reflect a lot from this huge crisis. Firstly, as it develops, it departs from its core spirit, that is, customers come first. They build their name on the basis of high quality and best service. But this crisis ruins them all at once. Toyota should still stick to its spirit and make no mistakes any more. In addition, Japanese corporations are highly committed and honest. The overlook of customers’ complaint and delays of settlement are without any doubt unacceptable. Toyota needs to listen from its customers and be honest towards them. Last but not least, the corporation should strengthen its crisis management system, and enhance its ability of recognizing and responding crisis.

Buildup core competence
Apart from 10R principles, to build core competence is highly suggested. In general conditions, a crisis is caused by internal reasons rather than external ones. So to build core competence is the key to strengthening crisis management. For a long time, managers and researchers in strategic management have admitted that brands, patents, and more generally, product innovations are key variables to distinguish a firm from its competitors. But the last two decades have been marked by significant conceptual changes in their way of thinking. They wish to open the “black box” of the firm to investigate what distinguishes firms internally from each other. Leading firms own rare, specific, inimitable assets, “tacit” knowledge or capability or core competences, which enable them to build and sustain their advantage when their competitors cannot do so. (Bonjour and Micaëll, 2010)

Identification: There are identifications to define the core competence. The concept of core
competence of corporation was first put forward by Prahalad and Hamel in *Harvard Business Review* in 1990 as the accumulation of knowledge in an organization, especially the knowledge emphasizing different technologies and combining many sciences. Leonard and Bartton thought it is a combination of knowledge and an ability of action that distinguish a corporation from one another and provide competitive advantages. Mckinsey also defined it as a corporation’s accumulation of knowledge and skills from previous investigation and studies. It has specific features and can make corporations one or several businesses attain world-class level. From the definitions above, it can be concluded that core competence is the ability to make use of knowledge and resources. It brings unique values to customers and enables corporations remain competitive.

**Measures the core competence:** The first and foremost measure is to facilitate prediction ability. It costs least while profits most. Prediction concerns fields like future economy, political environment, market trend, customer orientation, etc.. Once prediction ability is enhanced, preparation can be made and rate of crisis be reduced. To improve prediction, the organization must rely on collective wisdom. The organization should cultivate a democratic environment where all staff and stakeholders are encouraged to make suggestions and share opinions. Moreover, prediction ability is built on the ground of correct and adequate information. This requires corporations establishing information management system, which could make information communication and exchanges accessible. It is the precondition and foundation of correct prediction, which in a large scale helps to reduce blindness in decision-making process.

Then comes to the second measure: Sometimes, a crisis happens because the external environment changes suddenly and dramatically. Once changes come, the corporation has to be equipped with the adaptability, or the consequences will be devastating. To quickly adjust to changes, the awareness of innovation should be instilled and reiterated. Then staff will be vigilant all the time and adjust their mind and attitude to any changes. Besides, organizational and operational mechanism should be founded, with everyone involved and responsible for a part. Once a crisis erupts, the emergency plan can get started and all members are ready to perform certain actions. Thus the losses can be greatly minimized.

Thirdly, corporate culture cultivation is important. Corporate culture refers to the cultural concept, historical convention, common values, ethical codes and behavioral rules within the corporation. They are labeled with the corporate features and widely accepted by all members in the organization. Corporate culture can help staff foster a sense of crisis, help cultivate an open passage of communication and also help staff improve their ability of adapting to the changing environment. To cultivate corporate culture, first of all, leaders need to learn different cultures that are both traditional and contemporary, both domestic and overseas. Then relate those experiences to corporate situation and corporate culture can be built and fixed. The next step is to put it into effect. Through leaders’ practices and training programs, it can be understood and penetrated among staff until it becomes part of their familiar practice.

Lastly learning ability needs facilitating: Learning ability of corporation mainly refers to staff’s ability to absorb knowledge and make innovation. Excellent ability to learn puts corporations to a more favorable position and makes them stand out. Corporation learning ability facilitation relies on every individual. Only personal growth is welcomed, individual talent and wit can be fully explored and developed. Then they can offer advice, innovation and new technology to the corporation. For this reason, corporation should try to create an atmosphere where all staff are passionately active to learn. Staff needs to be trained in a regular basis to renovate existing
knowledge system. Exchange platform is also needed where they can communicate their ideas and experience with one another.

5. Conclusion

This thesis firstly studies the existing theories, then analyzes the case of Toyota recalls, and finally puts forward principle and suggestions. Through the introduction and comparison of different theories in different time, it can be concluded that all theories have advantages while maintain drawbacks. They reflect that corporation crisis management study is progressing step by step, whereas more in-depth and complete ones that cover as much situation are wanted. In the case study of Toyota recalls, the thesis reviews its expansion and recall crisis, and analyzes the impacts from both the respects of Toyota and the whole manufacturing industry. Comments are also stated on its crisis responses.

After the case analysis, based on the life cycle theory of corporation crisis management, 10R principles are put forward. They are recognition, rehearsal, rapidness, responsibility, reach, representative, relation, resource, recovery and reflection. All principles have their unique features and each one is analyzed in detail combined with the case of Toyota crisis. Then the buildup of core competence is highly suggested, in which part three definitions are given and four measures are recommended. Toyota should draw a big lesson from this crisis. Quality and customers are always the first priority and need to be highly valued. Other corporations should also learn to highlight crisis management in their future management.

The main limitations of this thesis are as follows: First of all, corporations crisis management is a science which combines many fields including enterprise operations, enterprise strategic management, organizational behavior, psychology, etc.. Restricted by personal knowledge and ability, this research is still very superficial and more in-depth studies are required. Meanwhile, some point views and suggestions still need to be refined and improved. Then, corporation crisis management involves many parts. Both internal factors and external factors are important in deciding whether a corporation can get over a crisis. Since external factors are always changing and hard to predict, this thesis only introduces some general situations and advice. Other special situations need special treatments in accordance with them.

Corporations crisis management is a cross field concerning many sciences and theories, for which it has a broad research prospect with many perspectives available. At the same time, crisis management is a dynamic system. Other theories and research methods that can supplement current ones may appear and further studies are encouraged.

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References


About the Authors

Jiawei Feng was born in Yangquan Shanxi China in 1992. She received her B.A. Degree in English (International Finance) from Dalian University of Foreign Languages. Now she is an MTI postgraduate in School of International Studies, University of International Business and Economics. Her current main research interests include management and translation. She is now working on a university research project *Study on Business Publicity Translation - A Case Study of Davos Keynote Speeches from 2011 to 2015*. Besides, she wrote four volumes of *English Short Stories* published by Dalian Press, and engaged in the edition and proofreading of *Business English Reading - International Finance volume* published by Economy and Management Publishing House.

Yi Li was born in Guangshui Hubei China in 1976. Now he is professor in Qinghai Nationalities University, Master supervisor of Business Management and MBA majors, and he also presides over a research project concerning corporation management and regional economic development in ethnic minority regions. His research interest includes multinational corporation management, industrial cluster, regional economy and new urbanization. He has published over 50 articles in Science Research Management and Nationalities Research in Qinghai, etc., and over 10 books including *Research on Industrial Cluster Development from the Perspective of Embedability*.

Contact Information

Jiawei Feng, MTI in School of International Studies, University of International Business and Economics. Tel: 188 1176 7292. Email: fjwsvylvia@gmail.com, Yi Li, Professor, PhD in Economics, Qinghai Nationalities University. Tel: 135 1977 2361. Email: hubli@163.com.