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Three family business takeaways: lessons from Toyota

Chief executive Akio Toyoda is revered by the company's rank-and-file employees as a gutsy race-car driver

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Toyota Motor chief executive Akio Toyoda addresses a news conference in Tokyo. Photo: Reuters

When a Toyoda family member sneezes, a Toyota senior executive catches a cold. This may seem like an exaggeration to some Toyota watchers outside Japan, but for people deep inside or familiar with the famed carmaker, it is no laughing matter.

Looking at recent events from Toyota's history, three key takeaways contributing to the success of the Toyota family business have become strikingly obvious: the importance of family names, professional innovation of the firm and its ownership structure.

Toyota chief executive Akio Toyoda is revered by the company's rank-and-file employees as a gutsy race-car driver whose last name confers upon the firm a magical key that binds the entire Toyota family of stakeholders together. Some long-term Toyota shareholders still get shivers down their spines whenever they think about what could have happened to their investments if Akio had not been available in January 2009, when he got the nod from his father Shoichiro to step into the driver's seat. Little did they both know that this would be no easy ride, especially since the 14 years before his nomination were some of the most profitable years in the company's history.

Between 1995 and 2009, Toyota was run by three professional managers, Hiroshi Okuda, Fujio Cho and Katsuaki Watanabe. While not exactly the sexy, savvy stereotype of the modern Japanese salaryman, they were loyal executives who ensured that the up-and-coming Akio was getting sufficient experience in a variety of different roles throughout the company during their 14-year tenure.

By 2009, Toyota had become a major player in every product line in North America, the company's most profitable market, selling the Tundra pickup truck and a range of SUVs, including the Sequoia, Highlander and RAV4. The mid-sized Camry was named the best-selling car in the United States in 2008, and Lexus the best-selling luxury brand. Toyota was at the top of its game largely because Watanabe, the salaryman who ran Toyota from 2005 to 2009, relentlessly expanded its manufacturing capacity, perhaps at the expense of quality.

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When Akio took the reins of power in 2009, a perfect storm was swirling around the automotive industry, catching him and many other carmakers by surprise. At the beginning of 2008, it looked like it was going to be another record year for Toyota and the rest of the industry. But oil prices, which had been steadily rising over the previous 12 months, suddenly spiralled out of control. Petrol prices at American petrol stations nearly doubled in the spring and summer of 2008. Hit by sticker shock at the pump, sales of large vehicle and trucks, including Toyota's popular lines of SUVs and pickup trucks, took a serious beating.

As if the spike in petrol prices was not enough, the entire banking system was brought to its knees in 2008 by the global financial crisis. An unprecedented challenge faced the automotive industry, as most car buyers could not finance their new purchases through bank loans. The immediate impact was a complete collapse of all car sales including both small and mid-sized vehicles, such as Toyota's Corolla and Camry, two of the company's best-selling cars.

But if the former Lexus sports car driver thought he was rounding some pretty tough bends, it would be the next turning point in the road that would set Akio apart from the salarymen before him. The modest Japanese chief executive, who spoke English with some difficulty, was dragged through the mud by tough American legislators in one of the largest recall scandals in corporate history less than a year after he took over the corner office. But not only did he emerge unscathed from the incident, it cemented his image as one of the most influential leaders of our times.

Eiji Toyoda, Toyota's longest-serving president, stands in front of one of the Japanese carmaker's first vehicles at the opening of the company's museum in Nagakute, Aichi prefecture, in 1989. Photo: AFPWhile millions of Toyota vehicles were being recalled for defective parts in the US, the situation got very ugly in August 2009 when an entire family of four from California lost their lives in a Lexus that exploded in flames. Six months later, Akio was called to Washington to sit before a US congressional committee and made to answer for that tragic event. His response then has become a textbook case of successful crisis management.

And the rest is history. Akio took the company forward on a difficult journey without losing the trust of his primary stakeholders: the company employees and long-term Toyota shareholders. There are a number of key takeaways from the epic story.

Don't take the name of the founder family in vain: upholding the name of the family firm when its core competencies are called into question requires an innovative approach to problem-solving. When Akio appeared before the US congressional committee, the entire responsibility for the Lexus recalls and the tragic deaths of the Saylor family fell on his shoulders. He did not flinch. 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, it is as though I am [damaged] as well."

Professionalise the firm: finding an innovative solution to cover a family firm in the event of loss of the founder or a family heir requires a long-term plan. In the Toyota corporate culture, top leaders in their own right are groomed to fulfil this role. When no Toyoda family member was available to run the company, one of the trusted non-family professionals was appointed as president. This was exactly what happened in the glory years before Akio Toyoda took on the top job. Two salarymen also ran the company between 1950 and 1967, when the legendary Eiji Toyoda was nominated as president.

Keep family control over the firm: Preventing shareholder capitalism from pre-empting stakeholder capitalism also demands an innovative financial approach so that family firms can continue to grow in size from one generation to the next. To keep long-term shareholders loyal to Toyota even in times of crisis such as the one just discussed, the Toyoda family has maintained control of a group of core firms such as Toyota Motor, Toyota Industries and Denso, which own major shareholdings in each other's stock.

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