

# How Toyota Is Organized for Innovation

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## *Abstract*

*Toyota, led by bureaucratic management has not stifled innovation. In fact, rigidity of leadership functions has led to the management by objectives (MBO) style of leadership decision-making. MBO, while criticized for rigidly, works. Look at Chrysler under the leadership of Lee Iacocca, who led the way in the automotive industry during challenging times. Toyota has relied on the expertise-based structure that has led them to achieve amazing success. Leaders must learn to adapt to the local awareness and authentic leadership necessary to meet the needs of customers worldwide. Our practice of training executives has led to applying management theories that work and abandoning those that do not. Management fads come and go but we feel that authentic leadership remains the heart of the Toyota way and this must manifest itself worldwide to help the organization, as a whole, reap the success. In this opinion article, we will look at Toyota's organizational design and leadership model and examine its advantages and disadvantages.*

## **Introduction**

Toyota is known for its innovations in the design of efficient cars with lasting durability.<sup>1,2</sup> Japan is a leading contender in the automobile industry.<sup>3,4,5,6</sup> Toyota's organizational design and leadership model plays an important role in the company's success.<sup>7,8</sup> The design of their structure maintained the MBO leadership model. Although this company has grown more than 400 times larger and more complex since its inception, its organizational structure and leadership model are still influenced by a board of directors and no other general managers.

Toyota's organizational design is based on expertise and full delegation of authority to the units responsible for each function.

### Expertise-based Structure

We see the Management-By-Objectives once proposed by Lee Iacocca at Chrysler shifted to more of an expertise-based organizational design. Toyota's goal is to provide products to the market that make people's lives better, safer, and easier. This goal can only be achieved through continuous innovation such as the handcrafted Model Urban Cruiser Hy Ryder. These innovations at Toyota are the result of joint discussions, deep design expertise, and great attention to detail, which can only be achieved because of organizational design based on the best expertise in the world. Unlike MBO, expertise-based organizational design relies on the principle of delegating decision-making authority to the most specialized people, after this initial decision-making expertise, the torch is passed on to the next expert and the next one. Like a torch in a champion race to the finish line. Since Toyota competes in a market where the rate of change and disruption is very high, intuitive decisions based on the experiences of the most expert employees play a vital role. Hence, relying on specialized technical experts instead of general managers has greatly increased productivity in Toyota. The experts make the decision, and the general managers carry out these decisions without adding any change.

On the other hand, the same problem with MBO exists in expert-knowledge-based decision making in that the structures where the general managers of each department are the final decision-makers of that department, the commitment to short-term profit and reduction of operational costs is usually the main priority. Thus, carrying out the expert decision from senior management may lead to losses at the department level which the managers are then questioned but cannot answer. This rigidly sheds its ugly claws that spread from department to department with barely meeting cost deferment and revenue generation. Why? Because the awards for best managers are usually based on financial numbers. Thus, the manager that can follow the expert knowledge and still cut costs or maintain efficiency in budget is rewarded and those that cannot are punished or rethreaded in management training. This constant pressure on the general managers of each department is a big obstacle to the development of innovation. Therefore, in Toyota's expertise-based structure, general managers have been removed from the structure, and teams consisting of the most specialized technical experts under the supervision of the most experienced specialist are responsible for final decision-making. The tadpoles that turn into frogs succeed and leave the rest of the fish behind. This does not mean that cost and income parameters are not considered. Toyota goes to great lengths to

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teach this knowledge to managers, but the corollary is that they still must meet and exceed the expert opinion of their leaders.

### **What is the Toyota Leadership Model?**

Well, it is constantly changing as new ideas flow in their expert system. After working at the Industrial Bank of Japan for many years, I can say that Japanese Leaders are tantamount to the world stage. They set up libraries in offices, think globally and act locally, and follow the AI Deming Total Quality Management (TQM) model.

Toyota managers at every level are expected to include three important qualities in their leadership.<sup>9,10</sup> As mentioned earlier, deep expertise, meaning that Toyota managers go to all lengths to study, learn, and develop their craft. Authentic leadership is their second trait as they are aware of details in everything they touch.<sup>11,12,13,14</sup> Through collaborative discussions, they pry into decision making before accepting the optimum choice. When working at Industrial Bank of Japan, the Japanese executives drilled down to a penny when reporting profit and loss. One time at an executive meeting, one of my colleagues threw a twenty-dollar bill on the table of a bar with a Japanese executive and said “Here is a twenty-dollar bill to eliminate your search for pennies when we close a business transaction. The Japanese executive did not like that comment and my friend did not make Vice President. Thus, deep expertise refers to the assumption that training specialists as managers is much better than hiring a general manager from the competition. Toyota technical experts oversee the staff of each department.<sup>15,16</sup> Only experienced technical professionals should manage. This leadership characteristic provides an expertise-based structure delivering innovative products to customers.<sup>17-21</sup>

With detail-awareness of the leadership, the technical expert managers can be fully aware of the unit under their management to make faster and more effective decisions. We found, after twenty-five years of management consulting, that failure to pay attention to details causes slowness and ineffectiveness of decisions.

These three leadership tenets of Toyota have led to them achieving one of the best ratings in terms of customer satisfaction with its products and the lowest number of complaints. For example, attention to the interior design of the model Urban Cruiser Hy Ryder itself shows careful attention to all the details that a driver needs. Thus, careful attention to details has had an amazing impact on Toyota's leadership. The third characteristic, collaborative discussions, complements the prior two characteristics, leading to leadership perfection.

When it comes to organizational charts, Toyota has hundreds of departments and specialist teams. Cooperation among them is necessary to innovate even in a single car part. This requires the development of a systematic approach, and this is achieved through collaborative discussions among teams and specialists. CEOs or their senior assistants get involved only when necessary. Extensive horizontal collaboration requires close collaboration. And the weakening of this cooperation, which is strengthened through collaborative discussions, weakens the overall performance of the company. Professionals can express their views, but they must have strong arguments backing up their position and be ready to change their views in collaborative discussions with other teams and departments.

Collaborative discussions in Toyota are very challenging but they play an important role in developing and creating new innovations at Toyota.<sup>22,23,24</sup> The basic principle of leadership in Toyota is the principle of "good mess." A good mess means that collaborative discussions cause teams and specialized departments to work better to achieve a common goal. The ideas of each section can be changed and modified by the arguments of other sections. This principle is the opposite of "bad mess," where common goals are undermined because of competition between departments and teams, and the overall performance of the company declines.

### **The Challenges Facing the Leadership Giant**

Toyota has not been without challenges. The increasing complexity and expansion of this company's branches around the world has led to a flourishing dismay of a lack of wheels on the ground. Selling cars at manufacturer's suggested retail price (MSRP) has led to a sense of unworthiness of the buyer to negotiate. The words themselves lead to a sense of reversed negotiation. Buyers feel that thousands of dollars can be added to this sticker price and without consent from the customer. Recent decisions by Toyota's top management to add machine learning and artificial intelligence to specialized areas with the aim of creating more effective structures is a confirmation of Toyota's efforts to better respond to future threats. Have they responded to future threats? No. The Tesla technology is surpassing its rivals and Toyota must step up to meet these challenges or find themselves in a smaller segment of the market share.

Lack of Japanese leaders overseas. Japan has always prided itself with ingrown leaders at the top and throughout its regions. However, being widespread, lessons the availability to lead with this model. At Industrial Bank of Japan, Japanese leaders trained for a few years and then left Japan. This was tantamount to success but when they left, American leaders lacked the authority to lead the same way as senior Japanese leaders. Thus, the

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pressure placed on leaders (or technical managers) to understand the details of their subordinate departments is lacking. Toyota should have reduced the expansion and scope of activities of specialized departments or greatly increased the number of leaders. Without doing one or the other, the company is lacking in market share. To offset this challenge, Toyota stepped up by using the method of succession and hiring new staff, it quadrupled the number of technical experts in different fields in a period of 9 years from 2011 to 2020. Efforts to align these newly hired technical specialists with Toyota's culture and values have led to the inclusion of a new training program for them. This is yet to pan out and skeptics feel that the company may be further challenged in the electric car market if they do not step up further as leaders in the field of electric automobile technology.

Another challenge that Toyota is dealing with post COVID-19, they are increasingly in need of time management skills. They are beginning to focus less on paying attention to all the details in the unit under their management and focusing on issues that are more important such as electric vehicle technology. They are in the process of strengthening their supervisory roles to better meet the needs of the local customers. Again, attempting to expand globally and yet, think locally. This challenge is another that is yet to pan out and skeptics feel that it will take time in the post pandemic recovery.

### In Conclusion

If Toyota's leadership remains to be more bureaucratic and falling victim to less innovation in the electric car market coupled with the lack of alignment of decision-making with expertise, they will continue to lose market share. While the corporate life cycle is still vibrant in the growth stage, the leaders at the top must relinquish the carrot on the stick MBO approach for a more authentic leadership approach. By knowing what works and what does not work and where to place emphasis, the problem of inertia will be dismissed for a more vibrant future for Toyota. We feel that Toyota has a few kernels in the works, and we await to see how they will manifest in 2023 and beyond.

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### Endnotes

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