

Chapter I

Leading in the Toyota Way: A Lifelong Journey

Genchi genbutsu [go and see the actual situation] means imagining what you are observing is your own job, rather than somebody else's problem, and making efforts to improve it. Job titles are unimportant. In the end, the people who know the gemba [where the actual work is done] are the most respected.

—Akio Toyoda, president, Toyota Motor Corporation, 2009

Perhaps the most difficult task in any book on leadership is defining *leadership*. To use the famous adage, we may not be able to describe leadership, but we know it when we see it. With that in mind, rather than attempting a semantic definition of *leadership* to kick off this book, let us tell you two stories of leadership to demonstrate what it is and what it is not at Toyota.

What Is Toyota Way Leadership?

In 1970, at the direction of the legendary Toyota research and development executive Masayuki Kato, a young section manager in the overseas sales division named Akira Yokoi was assigned to take over the fledgling Toyota operation in Indonesia. The prior manager for Indonesia had become ill, and Yokoi was unexpectedly pushed into action to assume his duties. Indonesia had just emerged from a civil war, and its economy was profoundly damaged. Toyota had made a

commitment to the country to help it rebuild and industrialize. Yokoi's orders from Kato did not include specific targets for sales or profitability, but rather were to "always do what is best for Indonesia."

Yokoi began his time in Indonesia with a tour of the country to "grasp the actual situation," as he later wrote in his memoirs.¹ He was deeply discouraged when he saw the barely functional roads and destroyed bridges: ferries were used to cross most of the rivers that he encountered. Yokoi's 150-mile trip took 14 hours. There were no shops open or places to eat; passersby wore rags. In this environment, he was somehow supposed to sell cars.

Yokoi's challenge was all the greater because of Indonesia's industrial policy. The government wanted complete production done in Indonesia, not just final assembly of kits sent from Japan. Yokoi and his team managed to build a plant and introduced four models: large trucks and Land Cruisers for use in construction, the Hi-Ace van for rural areas, and the Corolla for (relatively) wealthy urbanites.

Things seemed to be going well until January 15, 1974, when there was an outbreak of riots in Jakarta, mostly among the poor. The rioters treated Toyota just like every other international company in Indonesia: as an object of wrath. In fact, Toyota's Jakarta headquarters was set on fire. Yokoi thought deeply about this and concluded that the problem didn't lie with the nature of the Indonesian people or the failure of the government to contain the riots; it was that Toyota wasn't connected to the vast majority of the Indonesian population. "Toyota needs to promote understanding about our activities among the poor," he wrote. More than understanding, the poor who were the majority of the country needed to see tangible benefits from Toyota if the perception was going to change. Yokoi became convinced that Toyota needed to build a product for the poor. Of course, there were huge challenges to such a plan, not least of which was how to design a car that Toyota could sell at a profit, but at a price low enough to appeal to, as we would say now, the base of the pyramid.²

Selling to the poor meant producing extremely low-cost cars, which was impossible given Indonesia's industrial policy. Indonesia, like most developing countries at the time, charged very high tariffs on imported industrial goods in the mistaken belief that this would help

develop local industry. Corolla parts were taxed at 125 percent. Toyota could build the cars internally, but the tariffs made it impossible for Yokoi to get the parts and supplies from Japan that he would need at an affordable price. Yokoi realized he badly needed a lawmaker in Jakarta to act as Toyota's champion. Fortunately, from assignments in Thailand and Malaysia, he had learned the importance of developing direct ties with lawmakers, and early on he had worked hard to develop a relationship with the minister of industry, who was responsible for automobile policy. The minister wanted to help and said he could win approval to waive the import tariffs if Toyota built a car with 70 percent local content that cost one-third the price of the Corolla.

With this daunting vision, Yokoi returned to Japan to sell the idea and encountered great resistance, largely because of the small projected sales volumes. One sympathetic Toyota leader suggested that Yokoi pursue a multiplatform model, so that a car, a van, and a pickup truck could all be built on it, thus increasing the volume at a reasonable cost. This would make it far more likely that production could eventually be profitable. With this starting point, Yokoi looked for other cost-reduction ideas. For example, he studied die making and learned that costs for boxy cars are lower than those for cars with curves. So Yokoi insisted on a boxy design. Even that was not enough, and he finally arrived at the radical idea of removing the glass from the rear doors and substituting clear vinyl covers instead. Based on all this, his final calculations showed that the project could be viable.

He then had to sell his ideas within Toyota in Japan. Many executives objected to making what they perceived as a substandard vehicle. Afraid that it could "damage the brand," Toyota Engineering refused to supply engines or transmissions. Yokoi turned for support to his executive sponsor, Kato, and got it. Kato, who had been closely following everything that Yokoi had been doing in Indonesia through regular calls and meetings in Tokyo, built consensus in Japan to supply the needed components. The Kijang went on the market in 1977. Starting out at low volumes that were not profitable, over the years it became the bestselling vehicle in Indonesia and paved the way for Toyota to become the dominant foreign player in that market. It was dubbed "the people's car," and one million were sold over 25 years.

Around the same time as Yokoi's project in Indonesia, a young manufacturing manager at Ford Motor Company named Gary Convis was confronting the quality problems that were endemic in the U.S. automotive industry in the 1970s. Quickly rising through the ranks of Quality Control, Convis had been assigned to iron out quality problems with a two-door Lincoln that was about to be launched.

As one example, a large interior panel between the trunk and the backseats was connected to the car's steel exterior with a Velcro fastener that was not always in the right spot. The result of the mismatch was that the interior panel often came loose. To repair the problem after the cars had come off the line, the rear seats had to be removed, the panel trim cover removed, and the Velcro reinstalled in the proper location (which was quite difficult to get right after the car was built). In total, fixing the problem with the interior panel took about one half-hour per side. With hundreds of cars rolling off the line each day, many of them with interior panel problems, that wasn't a trivial amount of time or effort.

Today it can be hard to remember what the U.S. automotive industry was like in the 1960s and 1970s. Quality was abysmal. Labor-management relationships were characterized by mutual distrust. Well into the 1980s, the attitude of management toward workers at GM and Ford was that they were lazy and would cut corners every chance they got. Managers watched the line workers like hawks, always assumed the worst, and placed constant pressure on production lines to simply turn out parts. The workers, in turn, had no incentive to do their best for their bosses or their company; the punitive atmosphere killed any desire they might have had to put in a discretionary best effort based on personal motivation and commitment to high-quality work. Even the threat of punishment was baseless, since union rules built out of distrust made disciplining workers a daunting task. In any case, management wouldn't turn off a production line no matter how many mistakes were made or how poor the quality was, because the only metric that mattered was the number of vehicles produced.

Convis traced the source of the problem with the Lincoln's interior panel to the trim shop. He reviewed the details of the Velcro installation and made sure that the workers were properly trained and that

the right tools were available. He then announced that any more defects that came out of that area would lead to the line stopping—a threat that few people, if any, took seriously.

About a week later, Convis made good on his threat, stopping the line because of more mistakes with the Velcro fasteners. When the head of production heard about it, he came to Convis's office, yelling, "Why'd you shut the line down?" Convis explained the situation and asserted that the line would stay down until the problem was fixed. The production head responded by kicking Convis's wastebasket through a plate glass window and storming out. It took 45 minutes to get the problem solved and the line running again. Ultimately, Convis won the battle with the production head, and almost all the repair work from this source was eliminated. As a result, the quality control department gained more power in the plant.

Both of these stories would seem to demonstrate leadership. Yokoi stepped up to a daunting challenge; through innovation, building relationships, persuasion, and resolve, he overcame it. In the second example, Convis stood up for what was "right" and faced down tremendous institutional pressure. In fact, in lean terms, he "pulled the *andon* cord" and stopped the line. Many readers who are involved in driving lean and quality concepts at their firms may immediately identify with Convis, recalling very similar situations that they have lived through. So it may come as a surprise that within Toyota, these two stories would be viewed quite differently. While Yokoi's story would be perceived as exemplifying Toyota leadership, Convis's would be seen as a disaster—a failure of leadership, in fact.

Comparing Traditional to Toyota Leadership

Now, a Toyota leader wouldn't blame Convis for the disaster in this story. In fact, stories like this from Convis's experience at Ford, and earlier at GM, are what got Convis hired at NUMMI (New United Motor Manufacturing Inc., a joint venture of Toyota and General Motors in California). But Convis's "leadership" in this instance illustrates the chasm between what has been traditionally considered leadership in many Western companies and what is considered leadership at Toyota.

We've summarized these differences in Table 1-1, based on the four stages of developing Toyota leaders explained later in this chapter. Leaders at Toyota must develop themselves to a certain level before they can take responsibility for developing others in the Toyota Way and leading the organization to achieve challenging goals. In short, the traditional approach uses the sink-or-swim model to select or hire proven senior leaders who make the right decisions and who either get results through heroic actions or get out. Toyota's approach is to create a challenging, yet nurturing environment that grows leaders from within who follow Toyota values to drive continuous improvement at all levels.

Americans tend to think of leadership as a solo endeavor. We use the word *leader* to refer to people who stand out from the crowd because of their personality, charisma, and sometimes megalomania. The examples of leaders in popular and business literature tend to be of a heroic man or woman who stands against the tide, the solo visionary or the inspirational speechmaker, with thousands of people following him or her.

Reflecting on our years of working at or studying Toyota, we have recognized that this bias toward the individual leader is in no small part responsible for the struggles and even outright failures that most companies encounter when they try to adopt Toyota practices or similar approaches to instituting a lean or high-quality approach to their work. In these companies, a senior executive typically decrees the adoption of a lean system, brings in a consulting team to help the company redesign a few processes and train some internal lean or Six Sigma black belts, and expects this to do the job. Many of the employees are probably left wondering, "Who was that masked Lean Six Sigma man?" as the consultants ride out of town.

At Toyota, the perception of leadership is very different. Leadership is personal, but it also happens within a system. The failure of leadership that a Toyota leader would see in Convis's story at Ford is a failure both below and above Convis in the corporate structure. Toyota would expect leadership in fixing the problem to have come from the local leaders and workers in the trim shop below him. Toyota would assume that leadership from above would not only make quality the priority, but, more important, expect all work groups to find and deal with the root causes of any quality issue without an individual manager needing to be a hero.

Table 1.1. Conventional Models of Leadership versus Toyota Way Leadership

Leadership Element	Leadership Deployment	Conventional Leadership	Toyota Way Leadership
Stage 1: Self-Development (Learning True North values through repeated immersion cycles)			
Capability	Leadership ability and potential	Magnetic quality (charisma) that makes people follow	Natural leaders “see” possibilities for improvement in self and others and instinctively harmonize with Toyota values
Process	Learning and growing	Learn from a mentor and/or copy a successful style within the “old boys club”	Go to the <i>gemba</i> (where the work is) to deeply understand the actual situation and take on increasingly challenging goals under a mentor’s guidance
Stage 2: Coach and Develop Others (Helping others self-develop)			
Capability	Develop next-generation leaders	Results-oriented: a laser focus on specific results and driving subordinates with rewards and punishments to help them achieve those results	Process-oriented: learning to see strengths and weaknesses in others, how to create situations for growing, and how to minimally intervene at teaching moments for maximum impact. Develop people in the right way and the results will follow
Process	Coach and develop others	Sponsors select similar successors, develop “favorites,” or hire proven “heroes” from outside	Take responsibility for helping people advance through the self-development learning cycle
Stage 3: Support Daily Kaizen (Standards, targets, visual management, daily <i>kaizen</i>)			
Capability	Achievement of goals	Drive to quantify business (unit or process) performance and hold key individuals accountable	Learn how to promote leadership learning several levels down through standards, targets, and visual management
Process	Enable process improvements and achieve targets	Hold people accountable for metrics via a system of rewards and punishments	Leader presence in <i>gemba</i> to identify gaps with True North and on visual management indicators. Coach others to assume responsibility for closing gaps

(continued on next page)

Table 1.1. Conventional Models of Leadership versus Toyota Way Leadership (continued)

Leadership Element	Leadership Deployment	Conventional Leadership	Toyota Way Leadership
Stage 4: Create Vision and Align Goals (Vertical and horizontal alignment toward True North)			
Capability	Develop vision and plan	Create and sell a dramatic vision and measurable plan	Participate in a collaborative process to get agreement and align goals and the means to achieve the goals (<i>hoshin kanri</i>)
Process	Set and align goals and plans for achievement	Drive goals with metrics; aggressive bottom-up accountability to metrics. Identify high and low performers and reward appropriately	Initiate and sustain continuous improvement through visual management of goals; focus on problem solving and developing people

It took Convis several years at Toyota to begin to move past the Lone Ranger model of leadership. At Toyota, the system requires every manager from the shop floor to the boardroom to take responsibility for driving the company toward perfection. Not only will leaders who thrive on individual action and accomplishment not succeed at Toyota, but they can actually damage the whole system by disrupting the deepening of the leadership bench. This is not to say that individuals must subsume themselves to communal action; remember that the existence of the Kijang car in Indonesia was largely the result of the individual leadership of Yokoi. No one at Toyota would suggest that leaders are interchangeable cogs. Leadership at Toyota is personal, but it is also institutional, and it extends from the group leader on the shop floor all the way to the president of the company: both are expected to develop themselves and improve their personal skills while also leading in a way that builds consensus and develops those around them. Put another way, institutional leadership works only where there is strong individual leadership, with a shared driving philosophy up and down the ranks of the company.

Toyota Leadership Is Continually Developing

During the process of researching and writing this book, the Great Recession began, and the global automotive industry has been through perhaps the most difficult and harrowing business cycle in its entire history. With the recession still in progress, Toyota faced the greatest challenge to its hard-earned reputation with the North American recall crisis. And as it was becoming clear that the accusations of runaway cars with computer systems taking control were a myth, the greatest earthquake in the country's history hit Japan, causing severe parts shortages. The challenges facing Toyota certainly attracted a great deal of media attention during these turbulent times. On the one hand, you have lots of companies looking for ways to cut costs, improve productivity, and raise quality—all tasks at which Toyota is an acknowledged master. On the other hand, in the worst year of the recession (2008 to 2009), Toyota announced its first yearly loss in more than 50 years, and in the next year it had to apologize profusely for causing its

customers concern during the recall crisis. Many people wondered whether the Toyota Way would continue to excel in this new era.

From what we've seen and experienced over the years, as well as what we've seen at Toyota since this series of crises began, we believe that the answer to this question is a resounding yes: Toyota will continue to excel and will outperform its peers in adjusting to the new realities. The reason we are so confident of this is Toyota leadership—not specifically the leadership of President Akio Toyoda (although we both respect him greatly based on our personal experiences with him), but the *system* of leadership that the company has at every level of management. This depth of leadership has been painstakingly built up, at what might seem to others to be exorbitant cost, over many decades in Japan and in the United States. In the difficult economic environment of the present and the foreseeable future, the cost of developing such a deep level of leadership capability has become an indispensable investment that many companies are wishing in retrospect that they had also made.

The point here is twofold. First, Toyota's perspective on leadership and how to develop leaders doesn't offer any quick fixes. Toyota develops leaders slowly and painstakingly over many years because it believes that slow and steady is the only way to win the leadership race (and, of course, it has lots of experience to back up that belief). Second, while there are no quick fixes to be gleaned from Toyota, there are important lessons to be learned that can begin paying off in the short term and that, if followed, will pay off dramatically over the longer term. For example, Toyota's development of leaders enabled it to react to the economic crisis both speedily and with long-term investments in training employees that would be inconceivable for most companies, and then to recover from the recall crisis, and then the earthquake crisis, in an astonishingly short time.³

Toyota Leadership and Leadership Development

So what is the Toyota approach to leadership and leadership development? The first thing to understand about Toyota's approach is that the company is absolutely committed to its core values. Therefore, leadership

starts with understanding and living out those core values. It is not a stretch to say that it is impossible for individuals who fail to live up to the core values to advance as Toyota leaders. The promotion process spends as much time looking at *how* results are achieved (that is, in ways that are in compliance with the core values) as at *what* results are achieved.

What may not be clear from the story of Yokoi in Indonesia is that the assignment was as much about his self-development as it was about solving the problem in Indonesia. Yokoi went on to become the top executive in overseas sales and was pivotal in Toyota's global expansion. Each time he met a challenge like the one he faced in Indonesia, he was given more responsibility to take on an even greater challenge. Through this series of planned, yet completely open-ended, leadership challenges, he grew to help transform Toyota into a global company. Unlike Convis, who was struggling against a broken system at Ford, Yokoi was growing within a supportive system, with mentorship that allowed him to achieve seemingly impossible goals. In each step, he not only succeeded in the task at hand but grew to more deeply understand the values of the Toyota way that guided his every action.

Core Values

The five core values were first documented and published internally in 2001 in a document entitled *The Toyota Way 2001*. It may seem strange to claim these values as foundational when they weren't even written down until so recently. The truth is that Toyota in Japan had never needed to write them down. In many ways, these values are derived from Japanese culture and religion. Throughout Toyota's history in Japan, its values were simply understood and inculcated through careful mentoring of each leader as he moved through the company. It wasn't until Toyota expanded around the world and had to operate in other cultures that its management began to consider what made it unique. It was only by working with American leaders to build a modern global enterprise that Toyota was able to identify and codify the defining aspects of Toyota leadership.

It would be inaccurate as well to infer that Toyota has rigidly imposed these Japanese values on its employees in the United States or

in any other country. The values are consistent everywhere that Toyota operates, but the way those values are lived out is adapted to the local context. Teamwork, for instance, is consistent, but the way a team operates depends on the local culture and mores. For example, there are more individual incentives in Toyota in America than you would find in Japan, and there is far more emphasis in America on positive recognition for achieving goals for both individuals and groups. Just as important, Toyota learns from and integrates the best lessons from around the world and moves them throughout the company, even back into Japan. One particular example is how Toyota has worked to groom more women for management in Japan based on what it learned about respect for people and gender equality in the American context.

The five values that define the Toyota Way are the spirit of challenge, *kaizen*, *genchi genbutsu*, teamwork, and respect.⁴

Spirit of Challenge

Sakichi Toyoda, the founder of Toyota, had the spirit of challenge when he invented his first labor-saving loom to help women in the community who were working their fingers to the bone. His son Kiichiro took a challenge from his father to do something that would benefit society and launched Toyota Motor Corporation. Like the two founding Toyoda family members, every Toyota leader is expected not just to excel in his current role but to take on the challenges to achieve a bold vision with energy and enthusiasm. As *The Toyota Way 2001* puts it, “We accept challenges with a creative spirit and the courage to realize our own dreams without losing drive or energy.” One could argue that the spirit of challenge is the core value that energizes leaders and associates in Toyota to strive for perfection. As we will see, it is through taking on successively greater challenges and reflecting at each step that Toyota leaders develop themselves.

Kaizen Mind

Now famous, the concept of *kaizen* is a mandate to constantly improve performance. At the root of *kaizen* is the idea that nothing is perfect and everything can be improved. This is critical to the company, as

every leader is taught to remember that the process is never perfect and that the company has never achieved the perfect “lean solution.” No matter how many times it has been improved, every step in the production line is full of waste; even if it could be perfect today, conditions will change tomorrow, and more waste will creep in. Similarly, every aspect of the company can be improved, from the way products are designed, to the way they are sold, to the way service parts are stored and shipped, to the performance of every team associate in the company. The recall crisis did not reveal any serious objective quality or safety issues, but upon reflection, it did reveal weaknesses in responding to customer concerns in a timely and effective way.

This value and this way of thinking often lead to a misunderstanding of Toyota in the popular media. You can frequently see statements from Toyota leaders in the press about the need to “get back to basics” or the dire need to improve quality. These statements are usually interpreted, as they would be if they came from a traditional company, as admissions of failure and being on the wrong path. Having a *kaizen* mind, though, means that these statements are as true immediately after a successful quality campaign that reduces errors by 50 percent as they are after a major quality problem is uncovered. In fact, throughout this book, you’ll see stories about successful initiatives followed immediately by the launch of a deep reflection to identify weaknesses that lead to a program to further improve.

Genchi Genbutsu, or Go and See to Deeply Understand

It would seem that going to see something firsthand is simply a practical matter—although infrequently practiced in most firms—rather than a value. The value of *genchi genbutsu* is less in the act of going and seeing, and more in the philosophy of how leaders make decisions. Toyota expects all leaders to have a firsthand, personal knowledge of any issue that is in their charge. Otherwise, finding the root cause of the problem and identifying a solution based on facts is impossible. By first gathering facts, decision makers can understand the real situation faster and avoid unproductive debates with peers over proposed solutions that

do not target the real problem. As you can see from Akio Toyoda's opening quote, the meaning runs even deeper: *genchi genbutsu* reflects a philosophy of deep respect for the core value-added work of the enterprise. Those who understand the value-added work and contribute to it are the ones who are respected and who advance.

Teamwork

Most great leaders would say that teamwork is critical to success, but saying this is much easier than living it. Dig a bit below the surface in most areas of human endeavor, whether it's a company or a sports team, and you'll find that people talk a lot about teamwork but are interested first in their individual accomplishments. At Toyota, the view that individual success can happen only within the team and that teams benefit from the personal growth of individuals is constantly reinforced and lived up and down the chain of command. This deep belief is built into the promotion process (which focuses heavily on team behavior) and into incentives for performance (where individual incentives are one small component, while team-based incentives based on the performance of the unit or company predominate).

Respect

In many ways, this is the most fundamental of the core values and the root purpose of the company. Respect for people starts with a sincere desire to contribute to society through providing the best possible products and services. This extends to respect for the community, customers, employees, and all business partners. Respect for people was perhaps the most fundamental guiding value for Yokoi in Indonesia. His orders from Kato did not include specific targets for sales or profitability, but rather were to do "what is best for Indonesia." Respect is evident in the way team members were treated during the recession. No regular (as opposed to temporary) team members were laid off, and enormous investments were made in their development, and this continued while production was slowed during the recall crisis, then shut down when Toyota could not get key parts as a result of the Japan earthquake. When senior executives from Japan came to factories in

the United States that were operating well below capacity, their first question was not about profitability, but rather: “How is the morale of the team members?” It is respect for people that drives Toyota to build vehicles locally in the place where they are sold and to make large commitments to the social and economic well-being of the communities and countries where it does business. And it is that same respect that has led to massive investments in environmentally friendly technology, exemplified in the Prius.

The Toyota Way Leadership Development Model

These values are the bedrock of Toyota leadership, but adherence to the values, in and of itself, does not a leader make. Toyota does have a systematic way of identifying and developing leaders over their careers, although this process has never been formally codified (unlike the core values). Based on what we’ve seen and experienced at Toyota, we have created a multistage leadership model that we think accurately captures the Toyota approach to leadership—both what it means to be a leader at Toyota and how to go about developing leaders (see Figure 1-1).

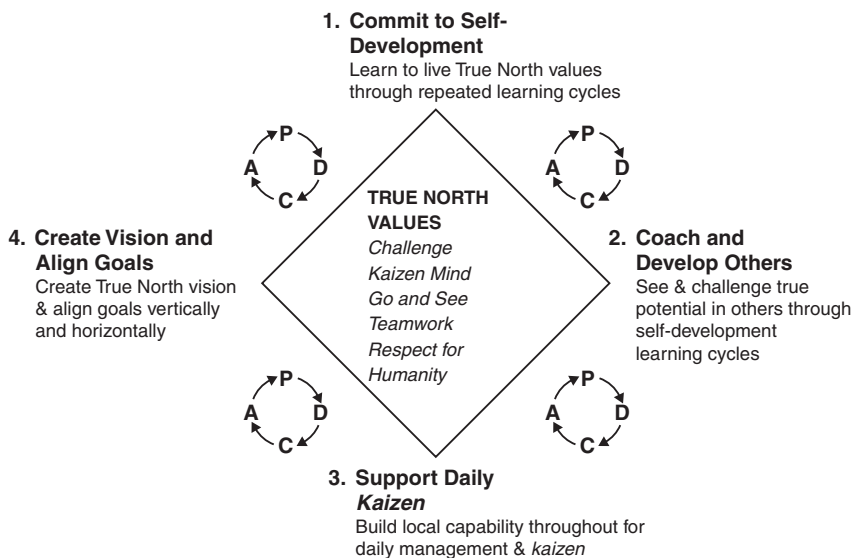


Figure 1.1. Diamond Model of Lean Leadership Development

The reality is not as linear as the model suggests and is most definitely cyclical, repeating over and over throughout a person's career, but there does seem to be a logical sequence from developing oneself to ultimately integrating the whole organization to align on goals. It applies to both individual leaders and, by and large, to whole organizations (for example, Toyota North America). So, for instance, the first two stages of the model, self-development and developing others, are focused more at the individual and group levels. Toyota leaders are expected to do both simultaneously (improving their own skills while coaching those whom they manage), although of course a measure of self-development is necessary before one can begin developing others. The cyclical nature of this process means that a leader who led a team toward aligned stretch targets earlier in her career would still be focused on self-development today as she takes on a more senior role in the company. Each leader will go through the stages many times during his career. Only when leaders at every level of the organization have been through the stages several times can we say that the organization has achieved a particular stage. A degree of development of both self and others at the individual level is necessary before one can expect the organization to function as a cohesive whole with a common culture, and there is also a maturation process at the organizational level. For instance, a particular plant may have the leadership in place to be excellent at supporting daily *kaizen* without yet having the leadership in place to fully self-integrate into the alignment of goals and means.

Here we'll briefly describe each stage of the model. The subsequent chapters will fill in the details for each of these stages.

Self-Development

The first stage of leadership development at Toyota is self-development. Toyota believes that the key trait that distinguishes potential leaders from everyone else is self-development—leaders actively seek to improve themselves and their skills. For a leader or potential leader to self-develop, however, she must be given an opportunity to do so, and she must get support from others. Leaders do not self-develop on their own. This means finding the right challenges for self-development,

allowing space for self-development, and coaching at the right times in the process.

Developing Others

The second stage of leadership development is taking on the task of developing others. It's often been said that the best way to learn something is to teach it. Toyota takes this view to heart and expects that all leaders will be actively engaged in coaching and developing not just star performers or favorites, but everyone on their staff. In fact, it's often said at Toyota that the best measure of a leader's success is what is accomplished by those they trained.

Supporting Daily Kaizen

While the first two stages are primarily about individual leadership, the third stage begins to focus more on institutional leadership—keeping groups of people pointed toward and focused on what Toyota calls *True North*. True North is based on the values of the Toyota Way, which provide a stable vision of where the company should be headed, and it is not negotiable. It does not change with specific goals from year to year. Within this stage, then, leaders are ensuring that their teams are capable of both maintenance *kaizen* (dealing with the daily changes, blips, and bumps of the real world to keep each process performing to its current standard) and improvement *kaizen* (moving each process from its current standard to a higher level of performance).⁵ The key at this stage is not that the leader is forcing *kaizen* from the top down, but rather that he is enabling, encouraging, and coaching *kaizen* from the bottom up. To recall Convis's experience with the Lincoln launch, this is the difference between Convis's stopping the line at Ford to force people to do something that they didn't really want to do and Toyota's creating an environment in which each work group takes on the goal of improvement itself.

Creating Vision and Aligning Goals

The fourth stage involves aligning all the *kaizen* efforts—what you might think of as the small picture—to ensure that the right big-picture goals are accomplished. In other words, the fourth stage is where

bottom-up meets top-down. For many who attempt to follow Toyota's lead, it is still difficult to grasp the dynamism of *kaizen* at Toyota. Every hour of every day, processes throughout the company are being tweaked and adjusted to get closer to True North, or perfection. While this is at the heart of Toyota's ability to outclass its competition in quality and productivity, without guidance and channeling of efforts, *kaizen* could lead to chaos: two interlocking processes could be pursuing *kaizen* that takes them in opposite directions. Worse, the resources of the company could be overly focused on the wrong goals. At this stage of development, the leader and the organization are actively involved in what in Japanese is called *hoshin kanri*—the process of setting consensus goals for long-term improvement and deciding on the best allocation of effort and resources to reach those goals.

As we'll see, this is far more than the "cascading goals" process that is common in many companies using "management by objectives." All companies have plans, goals, and targets, but it is rare for leaders to be able to break these down and align their daily efforts in such a way that each work group understands and owns its portion of the big-picture goals and has a clearly defined plan for how it will accomplish them. In fact, in many companies, management does not necessarily know or care how these goals are accomplished as long as it gets the results. For example, simply slashing heads is acceptable, even if in the long term that reduces the capability of the organization. It is the difference between having preset goals and targets that people struggle to achieve and actively participating in translating those goals into concrete targets for improvement and the skills to ensure success. The latter is incredibly difficult and requires leaders and organizations that have mastered the first three stages. As we'll see in Chapter 5, Toyota had had aspects of *hoshin kanri* in place since launching its first plants in North America, but it did not have the maturity to extend this down to every work group on the shop floor throughout North America for 20 years.

Result: Adapting to Changes in Environment

Only after leaders have developed to a high level are they capable of adapting to the frequent and major changes that the environment will

throw at them. In fact, for decades, Toyota's American leaders were buffered from the dramatic changes in the automotive environment in North America by the company's Japanese leaders. They could always fall back on the leadership of executive coordinators from Japan and decisions made at headquarters in Japan. They were even buffered operationally by duplicate capacity in Japan. Up through 2008, most major cars built in the United States were also built in Japan, and dramatic shifts in demand were buffered by the Japanese plants, which could make multiple models (up to six) on the same production line and rapidly shift the mix of car models and the speed of the line. This allowed American plants to operate at a relatively leveled production mix and speed.

The Great Recession was in some ways a blessing in disguise, as it pushed the American Toyota employees into this important stage of being able to flexibly adapt to big changes in the environment and thus to the highest level of self-reliance.⁶ Having been through, and matured in, the earlier stages over a 20-year period allowed Toyota in North America to take responsibility for guiding itself through the turmoil of the Great Recession and set itself up for dealing with the rapid ups and downs in the market that will surely characterize the twenty-first century. Individuals and organizations that are capable of leading through major environmental change need less time and attention, thus freeing up the most capable leaders to be more hands-on with the people and groups who need more coaching.

After Convis retired from Toyota, he went on to help lead a traditional American auto supplier, Dana, through a gut-wrenching transformation to help it survive after emerging from bankruptcy. Leaders throughout the company had to lead a radical transformation before they had the depth of training as lean leaders that Toyota provides. Yet even in these circumstances, Convis and the associates whom he brought in from the outside were able to draw on their lean leadership experiences to simultaneously lead the turnaround and begin to lay the foundation for operational excellence at Dana. Chapter 6 tells this story and in many ways reflects a more typical situation faced by Western companies in crisis.

Can Others Learn from Toyota Leadership?

Compare Toyota's leadership expectations to the leadership models promoted by other companies, and there is a clear pattern. Most companies expect their best leaders to make big changes that show big results quickly, even before they have matured through the four stages of our model (see Figure 1-1). Those who get the results succeed, and those who do not are replaced—often by new blood from outside the company. In fact, there is almost an expectation in American companies that only outsiders can lead turnarounds when the company is struggling through a major crisis. Toyota's success is built on adapting to every major challenge from the business environment—always led by someone with decades of experience at the company. Keep in mind that in its nearly 100-year history, Toyota has never had a president who hasn't spent his whole career at the company.

During most of its history in Japan, Toyota had developed leaders through a process of nurturing employees over the course of their entire career, from novice to leader. Like almost all corporate cultures, Toyota's culture evolved naturally, starting with the influence of its early leaders and their immediate successors. The second generation of Toyota leaders was intimately familiar with the founders' principles, since they learned them directly from the founders. And because all engineering and manufacturing were focused in Japan, the company had not needed to formalize its leadership-development approach or adjust it to account for cultural differences.

Those who are familiar with Asian religions such as Taoism, Buddhism, and Confucianism will recognize close parallels to the Toyota Way. Concepts of a mission of serving society, fostering respect for people, continually striving for perfection, deeply reflecting on where you have just been and what you can improve, always searching for weaknesses leading to problem solving to improve, and taking responsibility for your own development and the development of others are all central to these Asian philosophies. However, Toyota was also heavily influenced by the West. If Japan is a nation of borrowers, Toyota has been borrowing on steroids. Throughout the evolution of the company, the leaders were constantly on the lookout for new ideas, but they

would never simply copy general tools or programs. Problems drove solutions, and any new idea was carefully piloted, improved, and fit into the evolving system of TPS and the Toyota Way. The writings of Henry Ford, the teachings of Dr. W. Edwards Deming, and the U.S. military program of Training Within Industry are examples of influences central to Toyota's development. But Toyota selected pieces from each to integrate into its way, such as PDCA from Deming, job instruction training from Training Within Industry, and Henry Ford's concepts of flow and eliminating waste. These were all integrated into a common system and culture, which did not even have to be written down because it was so deeply engrained in the leadership.

That being said, with globalization, Toyota has also had the experience of needing to hire leaders from the outside and develop them quickly, while simultaneously running a highly efficient and successful operation. That is essentially the story of Toyota in North America. The pivotal event that helped launch this globalization took place in 1984, when, in a 50-50 partnership with General Motors, Toyota launched the NUMMI (New United Motors Manufacturing Incorporated) joint venture in California.

The launch of the NUMMI plant was momentous for Toyota. NUMMI was Toyota's first attempt to implement the Toyota Production System (TPS)⁷ in America on the scale of a full assembly plant. It was the company's first attempt to transfer its corporate culture, its leadership style and approach, to American managers. Convis was the first general manager of NUMMI, and he had to relearn much that he thought he had learned from GM and Ford about being a leader. The process of learning, adjusting, and developing American Toyota leaders was lived by Convis and studied extensively by Jeff Liker—it's the insights from these efforts by Toyota over the past 25 years that have allowed us to construct a model of Toyota leadership.

The experiences of Toyota in successfully developing leaders in America and in other countries and cultures throughout the world give hope that other companies can also do this. We do not expect every company to teach its leaders to act according to the precepts of Japanese culture. Even Gary Convis admits that the patient process of developing Toyota leaders through questioning and indirect guidance

is not his personal style. His style blends a more directive American approach with the Japanese approach. However, Convis has thoroughly internalized the core values of the Toyota Way, especially a deep respect for people and belief in the incredible power of *kaizen*. Investing for the long term in highly capable leaders who grow to live the philosophy is something that any company can do if its senior executives are committed to excellence.

The next four chapters walk through each of the stages of the Toyota leadership model, primarily using stories of how Toyota developed leadership capability in the United States from NUMMI's launch in 1984 through the present. We then step away from Toyota and consider how Convis and others used Toyota-style leadership to set a struggling American company, Dana, on a positive course toward operational excellence. This sets the stage for considering what other companies that have far different histories and cultures can learn from how Toyota develops its leaders.

The most fundamental lessons are not to attempt to copy Toyota's culture or exact approach to leadership development, as that would be contrary to the Toyota Way. Toyota evolved its own culture without copying any other. Nor is it even possible to "implement" a new culture like we might a piece of software. The much broader and more important lessons are to understand the value of a strong and coherent leadership philosophy, investing deeply and deliberately in nurturing a culture and developing leaders, and to have ways in which leaders are intensely focused on self-development and developing others to continuously improve all processes. We see too many organizations with weaknesses in all these areas, so we hope to inspire a new way of thinking about leadership development.