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Toyota is a Challenge for Japan as a Whole



The success of the Japanese car industry is an exceptional achievement. Every Japanese is proud of it and rightfully so. It has however, allowed Japan to believe that it was invincible and could live without the constraints of economic discipline. Of all the major countries in the world, Japan's Debt to GDP ratio of 198% beating even Greece.

There is much more at stake here than the reputation of a company or even an industry - it is the fundamental revision of Japan as a nation.

When Toyota ignored the repeated warnings of the Highway Transportation Safety Administration's warnings and did not act after a delegation from the U.S. Department of Transportation, a shadow was cast on their real commitment to safety.

What will Akio Toyoda tell Congress when he testifies at their request? The great-grandson of the company's founder is not unfamiliar with the United States --he graduated from Babson College and was an Executive Vice President of Toyota's joint venture with General Motors. He was also the head of Toyota's Chinese operations as well and has been in charge of IT, quality and overseas operations before becoming President. Although a dynasty scion, Toyoda-san is a true man of the world and should not have been taken by surprise. What emerges is a much more somber story of delusion and denial. The pride of Japan knowingly sacrificed quality standards and now must deal with the consequences.

When the acceleration issues emerged in 2002, Toyota blamed everybody but themselves. It is this denial that needs to stop immediately. The only way to rebuild trust is to admit openly the mistakes and weaknesses and work earnestly on their resolution. After all, the United States is the country that best accepts failures provided that the recovery is credible.

While the disappointment in Nagoya and Toyota City is huge, the embarrassment reaches the whole country. Japan has avoided for decades a hard look at itself. Its complacent and inbred political system has shut out differing opinions and critics have been sidelined. Its financial management based on the piling of debt both at public and corporate levels is symptomatic of these broader issues and will inevitably be further scrutinized.

Crisis management has never been one of the strengths of Japanese Governments and Companies: this is no exception. The time it took Toyoda-san to meet the media and apologize is a measure of his personal and corporate embarrassment. Face saving is defined as hiding in most cases, while in this case openness and candor would have earned Toyota a respect it badly needs.

As it generally does, Japan will revisit time and time again how this has happened. It will not be done in public, nor should it be. It is important, however, that this crisis be perceived as an opportunity to adjust to better governance for the country and its corporate world. Japan is currently in a state of shock. It is not the moment to blame, let alone to start anti-Japanese rhetoric. And the United States certainly has no reason to rejoice while its own auto industry has just recently been saved from the brink .

But this crisis presents a unique opportunity for a constructive dialogue between the United States and Japan should not be missed. The Japanese desire it, but are also afraid of it. This is a huge embarrassment for them. Let's treat them firmly, but politely. It will be the best way to produce the expected results.

Transparency, even for the Empire of the Rising Sun, is a sign of strength.