

Mixing the Best of Toyota & GM

NUMMI to Greet 25th Anniversary

Interviewers: Yuji MURANAGA & Takeo NAKAJIMA

Nearly a quarter of a century has passed since the top Japanese and US automakers – Toyota Motor Corp. and General Motors Corp. – made headlines by setting up a joint venture, New United Motor Manufacturing, Inc. (NUMMI). Overcoming hurdles such as differences in corporate culture and labor practices, NUMMI was the first to incorporate Toyota's system of efficient production in the United States, and has firmly established itself as a strong presence based in Fremont, California. In an interview, NUMMI President Yukio Azuma talks about reasons behind the company's success and about its present and future.



Photo: JETORO San Francisco

Incorporating the Toyota Way in America

Tell us about NUMMI's history.

Azuma: NUMMI started as a joint venture in 1984. Next year marks our 25th anniversary. NUMMI began by making 100,000 to 150,000 units of the *Chevrolet Nova* (a car whose exterior and interior were slightly different from those of the *Corolla*), 100% for supply to GM. After that, we began producing Toyota's *Corolla* and increased output to 200,000-250,000 cars. We then started making Toyota's *Tacoma* (a pickup truck). In the beginning, the percentage of cars made for GM was large, but after we launched the *Corolla*, Toyota models have come to account for about 50% or more. Production now comes to 400,000 strong and as of November last year, the accumulated total exceeded seven million vehicles. Of the 400,000 units, 80% are Toyota cars, while 20% are GM's *Pontiac Vibe*. Currently, the total workforce is about 5,200.

How about the Japanese way of management such as the seniority-based pay system, lifelong employment and *keiretsu* at NUMMI?

Azuma: We don't have a seniority system. Competent people climb up the corporate ladder and their salaries are raised accordingly. Discrimination



Yukio Azuma, President, NUMMI

based on age is prohibited in the United States. As for lifelong employment, there is no system in the United States that requires employees to retire when they reach a certain age, so as long as workers want to continue working, we employ them. If you are referring to *keiretsu* to the procurement of auto parts from suppliers, the circumstances here are not the same as in Japan. Toyota is responsible for the basic operation of factories, in particular for anything related to production. Whether suppliers are in Japan or the United States, we select them by looking at matters from various angles. The thinking at Toyota is that suppliers

should polish their skills, enhance their competitiveness and raise their standards to ensure good business. Once we have decided to buy from a certain parts maker, it doesn't mean that we will always be procuring from that maker. Whenever we make something new, we openly accept bidding from any supplier and then make our choice.

Aiming at the Best Mix of Toyota & GM

What do you think is the reason for the success of NUMMI?

Azuma: If you mean success by the fact that the joint venture has been continuing for 25 years, then I would say the reason is that American workers have accepted the Toyota way of management and the Toyota style of manufacturing as represented by the "go and see for yourself, *kaizen* (improvement), human resource development and teamwork."

Do you mean the Japanese model has been smoothly transmitted to GM?

Azuma: I think GM thoroughly studied Toyota's methods and wisely adopted what they could use, building the GM Global Production System. That's why you find GM's new factories in Europe and Brazil very similar to Toyota factories. The Toyota side of management is mainly responsible for

the operation of NUMMI, but to do business in the United States, it's necessary to make modifications in certain areas in line with the American culture and American ways. So we are doing this by learning from GM. For example, GM is teaching us in areas such as finance and how to deal with the various pension funds, or how to handle cost accounting and accounting rules.

Since this is a joint venture, it would be great if we could take in what's good from each other to achieve the best mix of us. On the other hand, though, we are still competitors, and factors such as rules and laws prevent us from disclosing everything to each other. That's why we are taking this method of getting advice from GM at the same time as we actually do business. It is Toyota's way to hire young people and then train them. In America, companies aggressively hire mid-career specialists. But at NUMMI, we try in principle to employ young people as much as possible, training them and letting them experience a wide range of work. We want them to grow in many ways, stay for a long time and boost loyalty to the company.

Personal Dream: Creating Ecologically Advanced Car

Since becoming president, what trouble have you faced?

Azuma: When I first came to NUMMI, I found that the level of operation was not as high as in other North American factories. The level needed to be raised, but there were problems related to culture and customs. To adopt the Toyota way in the United States, we needed to incorporate Toyota's methods, while paying respect to American culture. But the people who were already here were resistant to doing new things, saying they couldn't conform to the Toyota way because this is an American culture. It was hard work changing the mindset of such



A NUMMI factory, the only passenger car plant in California

people. There were quite a few things that happened to be done in certain ways just by habit, and the line between habit and culture was blurry. However, once we broke down the barrier, changed to new ways and worked successfully, people began to feel optimistic, becoming willing to try new challenges. I think it's very important for people to have such a success experience.

How do you assess the present NUMMI?

Azuma: As a manufacturing factory, I think NUMMI has come to stand on its own feet. California is a place that welcomes new things, and it is an extremely good place for newcomers. By entering the US market from California, Toyota was able to grab a very high share in the Californian market and expand into the rest of the United States. Toyota's share in the entire US market is about 15%-16%, but in California, the share is higher at 23%-24%. On the other hand, costs related to business are high in California, and because of its ethnic diversity and the need to prevent discrimination, the laws protecting employees are

stronger than in other states. Because of such a strict business environment, running a manufacturing business in California is tough in some ways. But we want both GM and Toyota to feel happy to have this joint venture and for that, I think we do need to achieve a certain level of output. For example, since California is a state that is enthusiastic about tackling environmental problems, I think it would be great if Toyota and GM could use this factory to make an environmentally friendly or innovative car, even though this is my personal dream.

Aiming for Employee-focused, Bottom-up Management

How is the labor-management relationship?

Azuma: The labor union at our company is the famous United Auto Workers (UAW). The relationship between the UAW and the company is

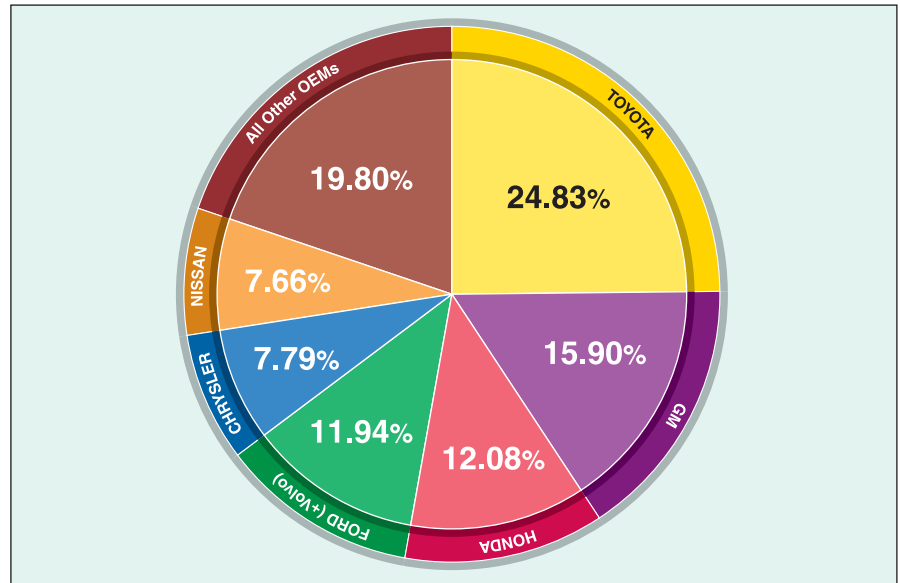
changing. We manage the company not only by taking a short-term viewpoint, but by always thinking about how to enhance competitiveness and at the same time secure employment in the medium to long term. The labor union tends to take a short-term perspective on matters such as benefits and wages, and there are times when we think that if the union had their way, the company just wouldn't last. We need to change the relationship with the union so that the company and employees can prioritize matters that need to be dealt with from a medium- to long-term viewpoint. Currently, the company and the union frequently hold negotiations and informal gatherings, sharing information on what sort of circumstances both sides are in and what they are interested in. We see to it that the content of such arguments is made known to and understood by all union members.

What do you think of the US model of management?

Azuma: I think the American style of management places importance on shareholders, takes a top-down approach, and gives priority to the ROA (return on assets), ROE (return on equity), cash flow and other benchmarks of management. But it seems to me that after the collapse of Enron and other problems, the American management model is undergoing change. I think all companies are now wondering what exactly an ideal form of management is and searching for it.

When we take that into account, I think it is good if we can mix the best of the Japanese way, or the Toyota way, with the best of the American way. At NUMMI the management is not top-down, but a mixture of top-down and bottom-up approaches, and we would like bottom-up decisions to be made as much as possible. People responsible for shop-floor work know their work best and it's important that the people in charge there make proposals which they can really have confidence in. I think if the people in charge made their own proposals, they would be serious about putting them to action. When you take the top-down method and a difficult situation comes along, it is questionable

Chart 2007 California market share



Source : R.L. Polk & Co.

whether people will move to break through the situation. At times it's necessary to take a top-down approach, but I would like to always promote the bottom-up style.

I think that placing importance on shareholders inevitably leads a company to rush to gain short-term profits. When you put emphasis on short-term profits, what happens in America is that you put resources into developing big cars that are expensive and profitable, and you put aside small cars that are low in cost and price, and less profitable. That becomes logical action to take because developing a small car requires the same amount of development resources and production technology as big cars. But what we have noticed by watching customer behavior and considering from a longer-term perspective is that unless we make economical cars in addition to big cars, customers as a whole are left unsatisfied. That kind of feedback encourages us to decide to put development resources not only into big cars but into small cars.

Priority: Customer Needs & Good Working Environment

With your experience at NUMMI, do you have any advice to managers of Japanese companies?

Azuma: The fundamental thinking at Toyota is that first and foremost, we need to understand what kind of car the customer wants, and then to put resources into developing that car. The most important thing is to endeavor to provide a product that satisfies the customer and allows the customer to enjoy life. I think you have to keep in mind that when a company starts making products based on all kinds of decisions that were just convenient for the company, then a large divergence from the market develops and, as a consequence, you get a product that the customer is not satisfied with.

Lastly, I think that second to the customer, the worker is important. A company depends on how its employees do their work. To raise the quality of workers, I think it is very important to look into how to nurture human resources and create an environment in which people find it easy and happy to work.

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Yuji Muranaga is Chief Executive Director, JETRO San Francisco, and Takeo Nakajima is Research Director at the same JETRO office.