

# Interview with Cho Fujio President of Toyota Motor Corporation

*Interviewer – Wakamatsu Kenji, JJTI Managing Editor*

**Wakamatsu:** Mr. Cho, in January of this year you received the Automotive Hall of Fame's Industrial Leader for 2001 award, an award created by the U.S. automobile industry. How does it feel to be the first non-American business person to receive this award?

**Cho:** It is truly an honor to receive this award, and I have accepted it on behalf of all the people who have contributed to making Toyota the successful company it is today.

I am aware that this is the first time the award recipient has been a person from a company that has its origins outside of the United States. This fact gives even greater meaning to my belief that the award has been bestowed upon all of Toyota's employees, dealers and suppliers around the world. I feel this is especially true for all the people who have expended tremendous effort to elevate Toyota to the high position it holds in North America.

Toyota has its roots in Japan, however, our predecessors learned much about automotive and manufacturing technology from the United States. This is especially true of Toyoda Eiji, who was installed as chairman later on, who together with Saito Shoichi visited Ford's famous River Rouge complex in 1950 to learn about Ford's production management and factory operation methods. The lessons learned then formed the starting point for Toyota's renewed development efforts after the war.

Furthermore, as we continued to set up manufacturing plants in the United States in the 1980s, we not only learned about corporate management methodology, but we also acquired a tremendous wealth of knowledge about corporate



*Photo : Toyota Motor Corporation*

*Cho argues that the essential force that drives economic growth exists in manufacturing*

management from a global perspective.

I believe that Toyota has its birthplace in both the United States and Japan, and as such I will never forget what an honor it is to have been chosen as the recipient of such an outstanding award.

**Wakamatsu:** Looking back on the economic reconstruction and development that Japan achieved after the war, it seems that the Japanese automobile industry also had a tough trial beginning at the turning point in the 1960s, when Japan joined the Organization for Economic Cooperation and Development (OECD), and on through the 1970s. I would like to ask you what efforts Toyota made in management at that time.

**Cho:** In a word, I think that we maintained untiring efforts to strengthen our

ability to compete overseas as liberalization of markets progressed.

After the war, the Japanese government placed restrictions on the import of automobiles in order to protect and nurture its domestic industry. But it changed its policy and relaxed regulations on the import of foreign automobiles in 1965 to strengthen the ability of the automobile industry to compete at a global level by making it face international competition.

And after that, the time was ripe for capital liberalization. Capital was completely liberalized in 1973, encouraging an influx of foreign capital.

Ishida Taizo, then chairman of Toyota Motor, indicated his resolve against the foreign capital using the words "Protect your own castle on your own." Toyota continued its management efforts to make the most of its limited resources, including people, materials and money, to improve its ability to compete overseas in price and quality.

Particularly, Toyota engaged in strengthening the development of the compact car market, which had shown continued expansion, further developing its manufacturing methods and strengthening its management characteristics at the group level, even including suppliers, at that time.

Thanks to these efforts, Japanese cars became regarded as small cars with high quality and low fuel costs in the 1980s after the two oil crises, and I think that as a result the Japanese automobile industry thus increased its ability to compete.

**Wakamatsu:** The Japanese economy has been stagnant for more than 10 years since the bubble burst. Nevertheless, Toyota has maintained

constant growth even under such circumstances, and now it is one of the strongest companies in Japan with an ordinary profit of more than ¥1 trillion. I would like to ask you how you view the present condition of the Japanese economy, and what kind of ideas you have to perpetuate your management efforts as an executive of a leading company.

**Cho:** Despite some positive signs, such as the adjustment of the stock market and the fact that both exports and production have stopped falling, my feeling about the Japanese economy is that we still don't have a clear vision of its future.

On the other hand, China has become more competitive on the shoulders of its cheap, abundant manpower. Many people are worried that Japanese domestic industry might hollow out as the production base of domestic industry transfers to China.

In order to resolve that situation, I think the manufacturing industry, needs to put forth more effort. As an industrial worker who has been engaged in the manufacture of products such as automobiles for a long time, I think the essential force that drives economic growth exists in manufacturing.

For the time being, we are going to manage in a way that is suitable for our current slouching economic environment. We will not only take a defensive stance, but will also proceed with measures to defeat our global competitors.

To put it concretely, we will put full effort into strengthening technological development, especially in areas like the environment, safety and information technology (IT), and we will also make efforts to obtain further drastic cost reductions.

**Wakamatsu:** The Japanese government and the local community are facing an important turning point in response to globalization and the IT revolution. I would like to know what controversial points you see as an economic leader, if there are any.

**Cho:** If Japan has no intention to shut its door to the world, we need to respond to globalization and make reforms in our country.

First of all, in conformity with market principles, an environment for free competition needs to be constructed. Achieving this requires more relaxation and abolition of regulations than ever before, under this movement of "from the government to the people."

And we also need to create systems such as the formation of laws based on self-responsibility. In Japan it seems that only the responsibility of management and the supervisors are questioned when a problem arises. Issues such as why the problem arose and who is responsible for causing it remain clouded, and the true nature of the problem is hidden behind the people responsible for management and supervision. I feel this system is defective.

On the other hand, there is still a negative image about the term "individualism" in our country. However, I think we should establish a foundation for accepting the idea of "individualism," in terms of respecting individuals. Once such a foundation is established, freedom of thought and action for young people will be encouraged, leading to the revitalization of society.

Moreover, we lack systems to accept both foreign individuals and foreign enterprises. At our Toyota Technological Institute, we attempted to invite excellent scholars to promote research related to IT, but it didn't work out, so we ended up establishing a new graduate school on the campus of the University of Chicago. We personally experienced difficulty in bringing talented people from overseas to Japan. If we seriously want to invite talented people like scholars from other countries, we have to take measures immediately, from preparing suitable living arrangements and educational arrangements for them and their children, to increasing the number of English signs around us.

**Wakamatsu:** In recent years, Japanese corporations have been adopting corporate governance. Do you feel that it will

be necessary for Japanese corporations to further adopt the U.S. management model of pursuing absolute productivity and efficiency? Do you think that Japan is being seduced excessively by the West's global standard?

**Cho:** There is no difference in how corporations in both Japan and the United States are carrying out shareholder-centered management. If I dare to make a distinction, I would say that we feel that it is important to reward shareholders on a "long-term basis."

In this respect it is important to hold the belief that the customer comes first. This of course includes consumers who purchase our cars, as well as all stakeholders related to our company.

Internally, we always strive to place importance on maintaining excellent employer-employee relations, as well as a management style that considers the needs of employees.

Further, we maintain good relations with our suppliers and dealers and stay in constant communication with them. Dealers and suppliers support automotive companies as partner organizations, and without their sound management, the entire automotive industry would not be able to advance. If it's necessary, we will support them in strengthening their management foundation and training practices.

I feel that these fundamental beliefs are universal ideals and will not change in the future, and it is in our best interest to construct a model for Japanese-style corporate governance that is based on these beliefs.

We are determined to make "long-term rewards for shareholders," a priority. I think it is best to proceed without too much concern for American-style corporate governance, and becoming obsessed with "superficial structures" such as short-term figures.

**Wakamatsu:** You worked at Toyota Motor Manufacturing Kentucky, Inc. for nine years. Through your experiences during that time, did you notice any cultural differences or differences in ways of thinking about things?

**Cho:** There are too many to list. I just couldn't name them all.

I would summarize it by saying, "individual-centered thought, methods, systems and laws in private life as well as the workplace – these make up an existing framework. Within this framework people strive and freely compete for more meaningful things, higher status and better pay."

I would like to mention two or three differences from Japan I noticed while working with people within the framework I just described.

First of all, words are extremely important. Words that have been clearly expressed represent a person's will, and the opinions of others as well as your own should be respected. Discussion should be held with an exchange of logical opinions. You shouldn't allude to things without stating them clearly, as is often the case in Japanese. You should not make a distinction between "*honne*" and "*tatemae*" (or true intention and stated principle). In the United States "*tatemae*" will be treated as a "lie." Also, it is very dangerous to write off the opinion of another person by saying, "He is brash for a youngster," or "Shut up if you don't know what you are talking about."

Also, the way an American studies as a professional and then enters a company is completely different from Japan, where one enters a company and is then educated as an on-the-job training professional. For example, people enter companies as accountants, lawyers, or traders. These people begin working from their first day on the job. And they decide how they will complete their tasks. Many managers find that it can be very difficult to lead their subordinates. Also, job rotation, something that is taken for granted in Japan, is also difficult for Americans.

The relationship between authority and responsibility is completely different in Japan and the United States. In the United States, responsibility and authority are two sides of the same coin. The concept of authority being delegated while responsibility remains with the manager, something common

in Japan, does not hold water in the United States. I certainly felt that this was unreasonable. In the United States the person taking responsibility is also the one doing the work. This makes things very clear-cut and decisions are made quickly. In Japan, responsibility is not delegated and remains with the manager in the form of management responsibility or supervisory responsibility. As a result, even though the authority is supposed to have been delegated, everyone has something to say and the question of who exactly has responsibility and authority becomes muddled. Further, in Japan, responsibility for scandals and failures goes straight to the top, causing the entire organization to become involved in trying to cover-up the misconduct to protect their superiors.

Finally, methods that obstruct fair competition are criticized by others as being "unfair." However, I realized that the concern was for the equality of opportunity. When making decisions about hiring or choosing suppliers in the United States, I went to great lengths to make certain things were not "unfair."

**Wakamatsu:** This year China joined the World Trade Organization (WTO) and will likely play a much larger role in the world economy. From the perspective of a Japanese corporate executive, please explain the expected benefits and problems of increased interaction with China in the future.

**Cho:** The automobile market in China has grown to 2 million cars in an astonishingly short period of time. This number will continue to grow, and within a few years it is certain to become one of the leading markets in the world.

Against this backdrop, China has joined the WTO and is moving towards further liberalization of trade and investment.

Toyota is acting in concert with this expansion of liberalization by securing a position as a top player in China and actively developing our business there.

Currently, Toyota is jointly produc-

ing a mid-size bus in China's Sichuan Province, a project that began operation in December 2000. In Tianjin, we are proceeding with preparations for the commencement of production of passenger vehicles, set to begin in autumn of this year. For Toyota these are currently our most significant businesses in China.

The biggest problem we are currently facing regarding the expansion of business in China is the problem of imitation. I have heard that there are many industries such as home appliances and motorcycles that have been impacted by this problem. Rapid measures are required to address this issue.

I am hoping that, for the sake of future economic development, China will construct proper industrial and market structures in accordance with the WTO and other international rules.

Further, China's industrial development will have a powerful impact, not only on China itself, but also on the whole of the Asian region. The concept of a China-Association of Southeast Asian Nations (ASEAN) Free Trade Agreement, which is proposed by China to be complete in 10 years time, should be considered. How countries like Japan and South Korea and the rest of Asia will join hands and achieve co-existence and co-prosperity will likely be an important issue for Japan in the future.

**Wakamatsu:** In the automotive industry, competition has been heating up on a global scale for technological innovation, such as responses to the advancements in IT and environmental conservation concerns. Will this become the driving force that shapes society and culture in the 21st Century? Along with the severity of the industry's management environment, please tell me about your vision for the future I mentioned.

**Cho:** Global scale competition in the automotive industry focused on competition for technological innovation related to the environment and IT will be even more unrelenting in the future. In order to achieve victory in this sort of competition, the most important

thing is “technological innovation across all fields.”

Toyota’s advances achieved to date, through severe competition, can be attributed to the spirit of “Be at the vanguard of the times through endless creativity, inquisitiveness and pursuit of improvement,” which is recited in The Toyota Precepts. In other words, since Toyota was founded we have inherited the faith and passion for “creating an affluent society through manufacturing,” and we have done nothing less than to continue the tireless innovation of technology.

Returning to our roots in manufacturing to take on issues such as strengthening technological development with a view to next generation and innovative cost reduction measures, without losing sight of ourselves, is crucial to Toyota.

In definite terms, it is very important to establish elemental technologies (such as bio and nanotech materials, and energy) and the basic technology for producing next-generation technologies for vehicles (including environmental technologies, transportation systems, electronics, information and telecommunications).

In an effort to support such technological innovations, Toyota, as well as our group companies, will, of course, strengthen research and development (R&D) activities. Also, we will continue to actively engage in technology tie-ups with other companies, without concern for capital relationships, that include collaborative development of an environmental advanced technology vehicle with General Motors, cooperation with Volkswagen in the field of recycling, a long-term technology tie-up with Exxon, and collaborative development of a compact passenger vehicle with PSA Peugeot/Citroen.

These efforts will give Toyota the ability to provide customers with a product that not only embodies Toyota’s beliefs and vision, but also gets the owners’ hearts pumping.

**Wakamatsu:** I have heard that Toyota has established an organization called “Toyota Institute,” within the company to train and nurture employees suitable for

this era of globalization. Would you please elaborate on the Institute?

**Cho:** With the international expansion of Toyota’s business, and the enlargement of its business realm, we determined that there was an immediate need for our employees around the world to share Toyota’s management philosophy and corporate values, which until now have been passed down implicitly. In response we produced a booklet called *Toyota Way*, which explains our philosophy and values.

In January of this year, we established “Toyota Institute,” an organization that will hold a key role in the training of Global Toyota’s human resources. The Institute was established in response to the need for an organization dedicated to playing a pivotal role in reorganizing the existing training and education of management personnel, as well as thoroughly and systematically promoting such efforts. The Institute will also work to achieve complete dissemination of the *Toyota Way*.

As we promote globalization, I would like to train the employees of all our business units around the world to be employees who embody the *Toyota Way*, that is to say, employees who manage based on the *Toyota Way* and can be entrusted with the duty of passing on the *Toyota Way* in the management of their business units and to local employees.

**Wakamatsu:** Lastly, I would like you to give us some key words to describe Toyota’s management strategy for the future.

**Cho:** On April 1 of this year, I announced the establishment of the basic concept for “2010 Global Vision,” a company-wide management outlook that sets the direction for long-term management.

Centered on the basic theme “Innovation into the Future,” the core objective of “2010 Global Vision,” is to set a course for a more prosperous society based on making things and techno-

logical innovation. It proposes the corporate image for which all of Toyota should strive, and the paradigm change Toyota should undergo with consideration toward what society is expected to be like in the 2010s. Now, let me elucidate four statements of aspects of innovation.

Number one is “Toward a recycling and reuse-based society – we will endeavor to become a leader of global regeneration through outstanding environmentally friendly technologies.”

Number two is “Toward an Intelligent Transport System (ITS) and ubiquitous network society – we will endeavor to become a leader in creating an automobile-based society in which people can live in safety, peace and comfort.”

Number three is “Toward development of motorization on a global scale – Toyota will expand the appeal of automobiles throughout the world and greatly increase the number of Toyota fans, resulting in Toyota being able to include in its view a global share of about 15% early on in the 2010s.”

The fourth and final key concept is “Toward a mature society – Toyota seeks to become a truly global enterprise that is respected by all peoples around the world.”

To become the corporation of our future vision, Toyota will boldly undertake a worldwide review of existing corporate structures, frameworks and methods, and implement a paradigm change in order to address issues such as 1) the development of a wide range of cutting-edge technologies, 2) construction of corporate structures that can be successful in global cost competition, 3) global expansion of business, 4) product development that responds sensitively to the immediate market, 5) establishment of efficient local management, and 6) construction of sales structures suitable for individual markets.

**JTI**

*(This interview was conducted in Japanese and translated into English.)*