


**Lesson from the Top:
Start your impossible**



This Eric Salmon & Partners, 'Lessons from the top' is a thought leadership article based on an interview by Simone Maggioni with Didier Leroy, former Executive Vice President Global, member of the Toyota Motor Corporation Board in Japan and now Chairman Europe of Toyota Motor Corporation. Mr. Leroy was, until recently, the “de facto” number 2 of Toyota worldwide and the highest “non-Japanese” ranking ever reached.

SM: When we look at the next 10 years of the mobility industry, some automotive companies are probably more threatened than others.

DL: It's a complex question, I can answer it only based on my personal opinion and on what I know about the other companies. When I observe how other companies are reacting to the major events that have recently caused trouble within organizations,, it's clear there is significant stress about the future—whether it's due to regulations, developments in China, or various other factors.". It is the reality for all the automotive companies, but in Toyota we often have a completely different strategy from anyone else. A strong strategy to me means also a strong and consistent vision about where we want to go. And what is important to us is to keep stability and consistency to follow this strategy, even if many external events can create challenges. It doesn't mean that we don't have to change, of course we must fine tune our strategy step by step and adjust it based on the circumstances. But the direction is very clear. This is a strong point for Toyota, this is where Toyota is probably much stronger than many other companies. I would underline a couple of aspects:



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First, we are a truly worldwide company. Our global sales are distributed across North America (23%), China (18%), Japan (15%), Europe (11%) and the rest of the world, we are in all continents. That means we are much more protected in case of regional crisis. Our brand, Toyota, is one global brand. It was part of my role as Executive Vice President, when I started in 2015 to rebalance our global market position. If a crisis occurs in one region, the company can still survive because at least 80% of its business operates in other regions.

Second, our strategy does not swing in front of some things completely different, some events completely new. For example, in Europe some years ago everybody started promoting EV batteries as the only one solution for mobility. But in Toyota from the beginning, we believed that you must pursue multiple technologies, such as Hybrid, Plug in hybrid, Fuel Cells, EV batteries. We rejected the so called “casino strategy”, where you bet everything on one technology, and you just expect to have selected the right one.

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We avoid this kind of logic for two main reasons. First, as a global company, you know that the speed of development of the different technologies and the interest from the customers are not moving at the same speed in the different regions in the world. And second, Toyota is large enough and have the resources to develop multiple options, allowing customers to choose what works best for them. But make no mistake, pursuing multiple technological developments is not just a matter of power and resources, it is primarily a question of global logic and strategy. Obviously, we have built such a strong global position step by step. It doesn't happen as a miracle, we didn't wake up in the morning and then said, oh, we are worldwide company, fantastic...!!

SM: By having basically one brand, the Toyota brand, you could concentrate all investments on it, compared to the groups with large brand portfolios.

DL: It's true, it's much easier when we have three brands (Toyota, Lexus and Daihatsu), and not a kind of patchwork with many different brands. Toyota could have acquired other brands, but we preferred not to. When you buy a new brand, another car company, you have to integrate it. You have to ensure that the people will share the same culture and values, and people tend to be conservative, linked to their past. Take what happened many years ago for Citroen and Peugeot, as an example, the internal conflicts lasted for so many years, not to mention the brand positioning with their different specifications (sporty brand? entry price brand? Etc.). For the companies with large brand portfolios, it is much more complicated. But then, the question is, why did they do that? Why did they decide to keep all this patchwork and not just try to merge some of them in one single brand, one single product. It is a question of strategy.

SM: And obviously you see the results of those decisions many years later, that's probably why it's so important to be strategic, to build one really global brand. So, what is so special about Toyota after all?

DL: In the past, Toyota had many opportunities to buy other brands; we had the money and the power to do so. But we chose not to. We had some discussions internally when I was at the Board of Toyota Motor Corporation, but in the end, we said no, let's do it by ourselves.

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You see, I think what is special about Toyota is our approach, we never try to do it the easiest way. We never wanted to grow faster by buying market share. Along the same line, we built competences in house instead of outsourcing many of our activities. Some companies did it in the name of “lean”, as if by outsourcing activities they become leaner. Lean is a different concept, and at Toyota, we embrace lean principles while focusing on developing internal competencies as much as possible. Sometimes suppliers complained that at Toyota we want to do everything by ourselves. In reality what we want is to master the processes and the technologies. Let's take a very practical example about the fuel cells. We started to develop the fuel cells in 1999, just two years after we introduced the hybrid technology on the market. Today, we still produce 100% of our fuel cells internally, all the components, even the chemicals. We have learned and developed this technology. We are doing a lot of things like

this one by ourselves. When, in a few years, fuel cells technology will be used at a much greater scale than today, maybe we will not continue producing some



“We take the time and all the effort to build internal capabilities”

components, like the tank or other parts. But even if we decided to outsource it, we have the full competency to control the process. For many people our way is not the right way, because it is expensive. Some argue that you can be much more efficient if you are using the competency of some external suppliers. That may be true, but that is the way we build such strong foundations. Let me tell you a story to understand how Toyota works. Before joining Toyota, I was working for Renault, where I was in charge of the production of the Renault Le Mans plant. We made various mechanical parts for cars, such as drive shafts, brake discs, gearboxes, etc. At that time, Toyota was preparing to introduce the production of the Yaris in France and asked Renault to provide a quotation for the brake discs, as they were looking for a good local supplier. We took the request very seriously. Top management at Renault wanted me to do the best possible to win this business, so we made a very competitive offer to Toyota. However, we did not win job. A few years later, when I joined Toyota, I had the opportunity to discuss this issue with several people at Toyota Japan. I was impressed by what I learned: they explained that Renault offer was too cheap- the price was simply too low. So I replied in astonishment that any purchasing department would be happy to pay less. But they further explained that when Toyota evaluates a plant like that one, we have two clear rules: the first one is to evaluate the capabilities of the local management, which in that case was satisfactory (fortunately for me, otherwise I would have not ended up at Toyota 😊). The second rule aims at assessing the long-term viability of the plant: because we have a lot of experience about this kind of products we know exactly what could be the cost, and if the quotation is too low, we question how can that plant survive. And if that plant cannot survive, after enjoying the

initial savings, we would potentially suffer big problems. I even share this story with the purchasing director of Renault at some point, but he wouldn't believe it.

SM: Short-term versus long-term profitability, it seems that Toyota goes for the latter: how does a company mediate that with the shareholders, with the financial market?

DL: For years nobody really focused on Toyota. There was little interest in investigating, as you are doing now, why Toyota was less profitable. If today we enjoy a high level of profitability [***Editor's note: not only has Toyota consolidated the number 1 position in terms of cars sold worldwide, but its market capitalization is between four to five times that of its next largest traditional competitor, Volkswagen***] it is the result of so many accumulated improvement activities. We probably buy many parts at a more expensive price than many of our competitors, because we are not sourcing from the cheapest countries in the world; instead, we want to produce locally as much as possible. For example, the Yaris produced in Valenciennes qualified as the car with the highest content made in France, more than 60%, much more than direct French competitors. There are other ways to increase profitability. Thanks to the fact that we have fundamentally one big brand, we have better economies of scale, we can use the same parts on more models. Here is another good story. One of my friends was working some years ago for Peugeot, in their purchasing department. One day during a dinner he told me he visited a supplier for an audit, and the plant manager seemed very relaxed, too relaxed for someone receiving an inspection, according to my friend. So, he asked the plant manager what made him so relaxed, and the manager replied:

“you guys came here at 9:00 today, we had a one hour and half lunch together, at 3:00 pm you leave and you will make your report; what can you find out? the same production line is used to produce Toyota parts and last week I received the audit from Toyota, they arrived on Monday morning, five members, not two like you, they stayed the whole week from 8 in the morning until evening, they always refused to have any lunch with us and at the end of the week they spent one full day with us to improve and secure the processes and the quality of our products; do you believe that your team of two, in half a day, can find more problems than what they could find?”

That is how we work with our suppliers. It is a deep, close collaboration. One day, when one of my Italian suppliers had a big production problem and threatened to stop our assembly line in Valenciennes, I sent a team of expert engineers over the weekend to help fix the issue, entirely at our own expense, because if the supplier has a problem, then we together have that problem; the Italian supplier could not believe it, he had never experienced this kind of support from his customers. That's what makes Toyota so special.

SM: *Didier you have reached the highest level in Toyota for a non-Japanese and as far as I know you were a strong candidate for the very top job. What has made you so successful in Toyota?*

DL: Many people tried to discourage me from joining Toyota, saying a non-Japanese would always find a ceiling on his head and limited career perspectives and there would always be a Japanese looking over my shoulders, and that I could never take real responsibility.

When I joined Toyota, I accepted a position which was, at least in terms of grade, much lower than my role at Renault. For me that was not a problem because my concern was not on seeking a promotion. At Renault for over ten years, we had plenty of consultants who tried to

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teach us the Toyota way, so Toyota represented a learning opportunity. Then, when the expected results were not met, people would often argue that it wasn't possible to do it the Toyota

way because you were not Japanese, that it was the Japanese culture that made Toyota successful. But I was sure there was more to it, there had to be a different explanation. People had read the Toyota Production System, the Kaizen philosophy, many had visited Japan and probably toured factories. But how did they learn? So, what motivated me was the possibility to really learn from within, to understand, even if my career was limited as a result, I did not care, I just wanted to have the opportunity to really understand and learn.

SM: *It was a lot about learning and understanding.*

DL: Absolutely. The sole target for me was understanding and learning. Even the top management of TMC seemed surprised by my attitude, that I could spend five or more years without complaining about salary or grade promotion. I have never done that in my career. Learning deeply and making sure that it become part of my DNA. I still remember approximately 6 months after I joined Toyota, the top guy from manufacturing at worldwide level asked me how I felt in the company and when I said that I was still learning, he then explained to me that he had only two requests: according to the first one I should take my time to deeply learn the Toyota way of thinking, the management style, the logic, and so on; then he said, when I have learned everything...I should forget everything!!!!....I was puzzled, I thought there was a translation problem, so he further explained to me that the reason why it doesn't work in many regions of the world it's because


“The secret is to merge the Toyota values with the local culture”

people, when they learn how we are doing, they just want to copy paste what we did in Japan. And this is the biggest mistake they can do. The secret is to merge the Toyota values with the local culture. I built my credibility with Japan because they were surprised that I was ready to spend years to learn; don't forget that I joined in 1998 and I was promoted to President of the French plants only in 2005, even if this position was still lower than my former one in Renault.

SM: *It was a really slow process at first, right? Except that you were getting ready for an acceleration at some point.*

DL: That slow process was really flat, but I never complained about it because I was learning a lot during that time.

SM: *You must have faith in the system.*



"I never complained about my slow career progression, because I was learning a lot during the process"

DL: Yes, and the system paid back. As of

2005 I enjoyed a big acceleration in my career: I was promoted to President of the French plants in 2005, then Akio Toyoda (the group CEO) asked me to join the executive committee in Japan as Managing Officer, still in charge of the French plants plus the coordination of manufacturing in Europe, in 2007. Then he asked me to become executive vice president in charge of sales and marketing in 2009. One year later, he promoted me to President and CEO of Toyota Motor Europe, and at the end of 2014, he told me I would be the first non-Japanese executive vice president, basically his number two in the company, a member of the board of Toyota Motor Corporation Japan.

SM: *It seems that the strength of the company and one of their most important values is to build the conditions for someone young to trust the organization.*

DL: Absolutely. But this is just the first step and it is not enough to succeed in Toyota. One of the mistakes most non-Japanese people make within Toyota, everywhere in the world, is that they always try to do what they believe will please the Japanese in order to avoid conflict. They assume that Japanese culture is all about consensus. Therefore, you cannot imagine how many times people told me how they cannot do something because the Japanese will not agree. But that is a non-sense. In fact, when we became Olympic and Paralympic partner, Akio Toyoda and I decided to develop the slogan "Start your impossible" to encourage our employees, especially the non-Japanese, to bring something different and not try to be more Japanese than the Japanese themselves: bring something different, but be yourself; bring a challenging spirit and be courageous. As a non-Japanese, the first step is to earn credibility. Once that's established, you should focus on bringing innovation rather than simply copying what the Japanese do. Ultimately, it's not about trying to be 'more Japanese than the Japanese,' but about having the courage to express your own unique perspective. But even

Toyota is not perfect. Otherwise we would have at least two, three or four non-Japanese people in similar positions at a global level , which is not yet the case. Toyota, like any company, should do more to structure its workforce and better prepare people for the future.

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