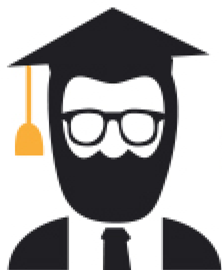

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Strategic roads that diverge or converge: GM and Toyota in the battle for the top

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Abstract General Motors (GM) and Toyota competed in the global automobile industry for many decades. While GM hung on to the Number 1 position longer than any other automaker, it lost this position to Toyota in 2008. It took Toyota 71 years to beat GM but only 2 years for GM to regain the top spot in 2011. Through a brief analysis of the history of these two rivals, I explain why GM and Toyota demonstrated different ways of falling from the Number 1 spot. I argue that the reason for the reversal of leadership positions for these two automakers can be understood by examining executive hubris and the way it either facilitated path dependence or promoted a departure from an established path for the perpetuation of market leadership. I then demonstrate how GM and Toyota acted contrastingly with respect to path dependence and how their CEOs injected hubris almost the same way in their decisions to hold on to the top position. Contrary to the longstanding myth, I also demonstrate that it was hubris—as opposed to humility—that characterized executive leadership in Toyota in its last 15 years. Recommendations for practicing or budding executives of large corporations are given.
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1. Sticking to the old path versus forging a new path

Consider this paradox: General Motors (GM) lost its position as the Number 1 automobile manufacturer because its leaders stuck to the path forged by earlier generations of leaders. Leadership had become ossified and resistant to change. Toyota Motor Corporation (Toyota) lost its Number 1 position because its leaders left the traditional path and tried a new one. Leadership was flexible and changed in response to market changes in a drastic way. If you are a leader of a great company, what does this say to you? Are you endangering the firm by sticking to the historical path that led to the company's greatness, or are you threatening the company's future by developing a new and risky path?

This article examines the role of *organizational path dependence*, which posits that the dynamics of self-reinforcing mechanisms are likely to lead an

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organization into a lock-in (Sydow, Schreyogg, & Koch, 2009). Simply put, path dependence is the degree to which a company is locked into past decisions. It may result from organizational contexts, strategies, managerial cognitions, beliefs, resources, or a combination thereof. Given that large organizations are inherently complex, this broad conceptualization of path dependence makes perfect sense. However, contrary to the assertion that "lock-in in path dependence is a lock-in to something bad" (Liebowitz & Margolis, 1995, p. 206), I employ a neutral connotation: lock-in can be good or bad depending on how it interacts with other factors. One such factor is commonly referred to as executive hubris, a behavioral trait that profoundly affects strategic choices. I believe that executive hubris (used interchangeably with CEO hubris throughout) may perpetuate path dependence or, alternatively, help a path's departure or reversion. Accordingly, the question arises of whether path dependence is destiny. The answer is that it is both likely and unlikely depending on how it interacts with executive hubris. In this article, I will illustrate this answer through a comparison of GM and Toyota.

The purpose of this article is to explain why GM lost market leadership to Toyota after 77 years and why Toyota encountered so many quality problems that it dropped to Number 2 (and then to Number 3) by the end of 2010. GM and Toyota demonstrated different ways of falling from the Number 1 spot, largely because of the differences in their institutional history and executive orientation. I argue that the reason for the reversal of leadership positions of these two industry juggernauts can be understood by examining executive hubris and the way it either facilitates path dependence or promotes a departure from it for the perpetuation of market leadership. More precisely, I argue that GM and Toyota acted contrastingly with respect to path dependence and that their top executives injected hubris almost the same way in their attempts to hold onto the top position.

With respect to my first argument, I draw on Collins and Porras (2002), who empirically supported that a company should fulfill two contradictory requirements to stay successful. It should *not* change its core ideology or values over time, and it should *not* cling to non-core practices, such as culture, strategy, practices, and operations, in order to be able to adjust to changes in the environment. Preserving the core is analogous to conscious path dependence or locking in, whereas stimulating progress in non-core practices is analogous to breaking with an established path or locking out. As my analysis will unfold, contrary to moving out of non-core practices, GM remained locked into them and thus lost touch with reality. Instead of remaining locked into its core ideology, Toyota, on the other hand, locked out of it and plunged itself in a crisis of immense proportions. In both cases, however, executive hubris played a decisive role. With respect to my second argument, I clearly digress from the longstanding myth and posit that hubris—as opposed to humility—has tended to characterize executive leadership in Japan in general (e.g., Chowdhury & Geringer, 2001) and at Toyota in particular (e.g., Magee, 2007).

Extant research posits that the experiences, personalities, schemas, and values of top executives infiltrate their interpretations of competitive contexts and the strategic choices they make to steer their firms. With its origins in Greek mythology, hubris combines pride with arrogance. Extended to the arena of business, as Gandz (2008) summarized, "Perennial winners cloak themselves in a mantle of righteous armor that is impervious to criticism, self-doubt, or pleas to exercise caution." In the context of large business, it "infects extremely confident managers who highly estimate their ability" (Hayward & Hambrick, 1997, p. 106) to extract benefit from the uninterrupted growth of their company. In both GM and Toyota, repeated episodes of various degrees of success culminated in a belief that global market leadership is an entitlement, and as such, growth had to be perpetuated regardless of its attendant outcomes. Although past performance is no guarantee of the future and market leadership is not a permanent condition, both firms pursued growth with opposite strategic postures: GM remained path dependent, whereas Toyota locked out of its long-established path.

Although CEO hubris has been studied in different contexts, examination of this topic remains relatively sparse in the literature of organizational decline and death. An analysis of the fall of GM and Toyota from the top provides an interesting opportunity for understanding the interaction between executive hubris and organizational contexts, exemplified either by lock-in or by lock-out. The novelty of my article lies in its substantiation of how the interaction of one particular type of executive trait with organizational path dependence—or departure from it—can bring about the same organizational outcome. The fall of GM and Toyota from their Number 1 position confirms my initial position that the interaction of hubris—regardless of whether it is prompted by executive self-interests or collective organizational interests—can make both lock-in and lock-out equally undesirable. In examining the cases of GM and Toyota, my goal is to provide guidance for executives who must decide whether to stay on the path or deviate from it.

The remainder of the article is organized as follows. First, I provide a snapshot of how market leadership switched between GM and Toyota. Second, I recap the history of the two companies and demonstrate how executive hubris dominated their strategies and operations during the last eras of their respective history. Third, I discuss the path dependence or path departure of the two rivals and the way executive hubris propagated such dependence or departure. The article concludes with lessons to be learned from the two cases and offers recommendations for incumbent and emerging business leaders.

2. GM and Toyota: Market leaders fall from grace

GM had been the market leader in the global automobile industry for 77 consecutive years from 1931 through 2007. In 2008, Toyota, with more than 300,000 employees and 53 production facilities in 26 countries, achieved its goal of becoming the Number 1 carmaker on Earth. That same year, the financial crisis severely hit the auto industry. In the United States, for example, automobile sales declined 18%, from 16.1 million units in 2007 to 13.2 million units in 2008 (Jones, 2009). The credit crisis, coupled with an already declining market share, customer perceptions about poor quality, redundant product offerings, and huge legacy costs pushed GM into bankruptcy-court protection. In comparison, Toyota reported a $4.8 billion loss during the first quarter of 2009, the largest quarterly loss in the company's 72-year history. Although Toyota's setback was quite in line with its global competitors, what was to follow in the months to come was *not* in line with the company's exceptional record. Revelations of Toyota's quality-control problems over the years were so disturbing that many found it difficult to reconcile them with the firm's historic stellar reputation for quality production methods. Such callous disregard of persistent quality problems by the world's largest automaker was neatly summed up by the *New York Times* ("Toyota Motor Corporation," 2012):

> As Toyota returned to the black in late 2009, its reputation for safety and quality were battered by a series of recalls. The issue of unintended acceleration would lead the company through a bruising gantlet of government investigators, lawsuits from crash victims and one of the heaviest fines ever imposed on a car manufacturer in the United States.

As a result, the Number 1 position that Toyota achieved with a struggle stretching more than 71 years was lost within 2 years to GM. Moreover, Toyota faced the risk of a significant loss of brand equity and market share. This fall in Toyota's fortunes may be attributed to its obsession with growth and its departure from its age-old traditions and core values, the nuclei of its famous Toyota Way. In slightly more than 70 years, the $100 billion corporation had doubled its size—the most staggering growth for a carmaker the world had ever seen.

Since Alfred P. Sloan's formal retirement from GM in 1956, his successors followed his legacy and locked into the strategic and organizational choices that made GM successful. Even after the 1970s, when fundamental structural changes were reshaping the U.S. automobile industry, the mindset and orientation of GM's executives remained tied to its heyday. The result: decisions involving vertical integrations, brand proliferations, acquisitions, and diversifications that would—through existing or perceived technological commonalities or massive advertising—offer GM a seemingly secure market leadership position over its key rivals. Toyota did the opposite to realize the same purpose. From 1995 onward, it departed from the consistency and robustness of its fabled production basics and management principles (i.e., the Toyota Way) (Camuffo & Weber, 2012) that had brought it an enviable global reputation for quality.

To highlight executive hubris, I also focus on executive humility. These traits are contradictory in nature and often manifest under agency and stewardship relationships, respectively. However, I do not claim that such manifestations are universal; I just stress that the attributes of hubris and humility seem naturally grounded in the prescriptions of the agency and stewardship models of executive behavior, respectively. In the context of large organizational decline, Collins (2009) identified five distinct manifestations of hubris: (1) undisciplined leaps into areas where a company cannot be the best, (2) pursuit of growth beyond what a company can deliver with excellence, (3) risky and ambitious decisions that clearly indicate conflicting and negative evidence, (4) denial of the possibility of being imperiled by external threats or internal erosion, and (5) arrogant neglect.

In the case of GM, managerial greed, self-interest, and hubris occurred during its protracted legacy of being the largest. Toyota's CEOs, on the other hand, seemed to have blended strong dedication to Toyota's collective well-being with their personal humility (see Magee, 2007, especially Chapter 3). However, reports of such an assessment must have been based on "piecemeal information written by outsiders" (Yoshimori, 2005, p. 452), and as a result, executive humility was equated with manifestations of Toyota's organizational values and culture—hidden to most

Western experts like me who misunderstand Japanese culture. As Toyota's market share kept steadily growing and became markedly noticeable after the 1990s, the public took notice of the veiled hubris and arrogance of its CEOs. Therefore, with respect to the pursuit of maintaining or achieving global leadership, the CEOs of both GM and Toyota displayed the same executive penchant for self-aggrandizement and imperiousness.

3. CEO hubris

3.1. CEO hubris in GM

The history of GM can be divided into three eras: 1908—1929, 1930—1980, and 1981—2010. The first two periods represent GM's founding followed by rapid growth and market leadership. The last period represents just the opposite—a declining market share and a resulting financial loss so colossal that GM ultimately went into bankruptcy protection in 2008. Given the objective of this article, I focus on the third stage, which spanned roughly 30 years.

I argue that more than anything else, it is hubris that contributed to GM's decline. A personality dimension, CEO hubris seems to sit perfectly with managerial capitalism and manifests as a managerial appetite for firm growth despite its lack of relationship to profitability. This is one reason why CEOs continue to invest in growth strategies, which take forms as diverse as product line expansions, acquisitions, diversifications, and vertical integrations, with the often-unrealistic belief that they can retain or even grow their market leadership in perpetuity. To support this argument, I mainly focus on the behavior of two of GM's CEOs from 1980 to 1992. Although problems in GM were brewing since the late 1960s and early 1970s, by most accounts, the actions of two CEOs—Roger Smith and Robert Stempel—demonstrated extreme hubris, debilitating GM's standing and competitiveness for many decades.

Alfred P. Sloan became the president of GM in 1923 and is widely credited with reinventing the motor car as a work of style and design. A brilliant visionary, Sloan organized GM's range of activities into five car divisions—Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac—for five broad market segments. This reorganization plan gave operational autonomy to these independent divisions while centralizing overall planning and financial operations at the corporate level. Each brand was priced so that the top of the line of one brand cost just a little bit less than the lowest priced model of the next most expensive line. This strategy of *broad differentiation*, coupled with a self-contained multi-divisional structure, made GM the undisputed market leader in 1931 and set it on the road for dominating the U.S. automobile industry for decades to come. GM maintained its leadership position by emphasizing its brands, separate price points among the brands, and modest technological innovation.

Although GM somehow remained the industry leader until it sought bankruptcy protection in 2008, its real struggle to keep up with Japanese competitors started in the 1970s. The energy crisis of that decade, the emergence of low-cost Japanese vehicles with ever-improving quality and design, and U.S. federal regulations demanding better fuel efficiency and safety standards combined to deal a harsh blow to U.S. automakers, especially GM. A shift in consumer demand and the capability of the Japanese to dominate the small-car market precipitated a real crisis for GM. Demands for its large sedans plummeted, and a growing consumer awareness of quality problems in many GM models helped contribute to its eroding market share. From 1980 to 1992, by far the most crucial period in determining the destiny of GM, Roger Smith and Robert Stempel demonstrated hubris in its utmost form. In 1972, for example, GM was the 4th largest corporation in the world, with a market valuation of more than $23 billion. By 1992, it had slipped to 40th, with a market valuation of $22 billion, $1 billion less than it had 20 years earlier (Monks & Minow, 2008).

From 1970 onward, when GM should have paid attention to belt tightening, efficiency, and compact cars, it focused on massive investments involving alliances, acquisitions, and diversifications, ostensibly with the purpose of maintaining market leadership by thwarting Japanese competitors. The result: in 1980, GM lost $700 million—its first loss since 1921. Roger Smith, who became GM's CEO and Chairman in 1981, went on massive and questionable acquisition binges, diversified, and pursued joint ventures. Consider the following examples. GM's partnership with Fujitsu-Fanuc in 1981 made GMF Robotics the world's largest robot manufacturer. The acquisition of Electronic Data Systems (EDS) for $2.5 billion in 1984 made GM the largest data-processing company in the world. Given that GM could have simply hired EDS's skills on a contractual basis, this $2.5 billion could have been better spent developing GM's core capabilities in automobiles. Because of Roger Smith's obsession with microelectronics, to market analysts' surprise, GM acquired the aerospace manufacturer Hughes Aircraft in 1985 for an estimated $5.2 billion to access its radar and satellite technology. Moreover, product cannibalism and brand dilution, which started in the 1970s and reached a new height in the 1980s, also demonstrated chronic CEO hubris. In 1983, GM

introduced four new cars—Chevy Celebrity, Pontiac 6000, Oldsmobile Cutlass Ciera, and Buick Century—and placed colorful, fancy ads on the back cover of *Fortune* magazine, claiming these cars to be "the embodiment of innovation and sophistication" (Magee, 2007, pp. 118—119). Although their prices differed, all four cars looked alike and had a corresponding disappointment in the market.

Smith's successor in 1990, Robert Stempel, followed the former's footsteps and decided against paring the number of manufacturing plants and the size of the workforce even though GM's market share was steadily declining. During 1980—1992, in order to reform itself, GM wasted nearly $100 billion, an amount that could easily have bought both Toyota and Honda (Jones, 2009). Its market share fell from 50% in 1978 to 35% in 1992, and GM remained a high-cost, inefficient dinosaur. From 1992 to 2009, two other CEOs—Jack Smith and Robert Wagoner—led GM. Although they initiated and implemented minor changes to maintain GM's market leadership and had limited success in some areas, nothing seemed to reverse—or even slow—its downward spiral. GM had not made a profit since 2004 and nearly ran out of money at the end of 2008 before the U.S. Treasury Department provided emergency loans, but Wagoner took home more than $14 million in 2007, a 41% raise over 2006 (Bissonnette, 2008). To sum up, this recap of GM's last 30 years clearly illustrates Collins' (2009) five forms of CEO hubris mentioned earlier.

3.2. CEO hubris in Toyota

The history of Toyota can conveniently be divided into four uneven sagas: 1937—1956, 1957—1984, 1985—1995, and 1995—2010. The first three periods represent Toyota's founding followed—with the exception of a few hiccups—by ever-increasing growth based on a fastidiously tended reputation for quality and reliability. In contrast to the first three periods, the last is plagued by a series of systemic and widespread scandals. A series of recalls involving faulty floor mats and balky gas pedals sullied Toyota's reputation for quality and customer loyalty, the long-term impact of which is still not fully known. I focus on the fourth stage, which spanned approximately 15 years. To bring the last stage into proper context, a brief history of Toyota follows.

The origins of Toyota can be traced back to 1902, when Sakichi Toyoda invented a loom that stopped automatically if a thread snapped. This reduced defects and raised yields of usable fabric. His son, Kiichiro Toyoda, founded Toyota Motors in 1937. Kiichiro applied his father's system of designing processes to stop automatically and call attention to problems. Kiichiro also designed a system that provided different processes with only the kinds and quantities of items needed when they were needed, which came to be known later as the famous 'just-in-time' (JIT) inventory. Toyota also benefitted from the Second Sino-Japanese war in 1937, when the Japanese government authorized Toyota, along with Nissan and Isuzu, to produce automobiles in order to break the dominance of large U.S. automakers. Toyota's operations also grew significantly following the outbreak of World War II. However, because of the recession following the war, Toyota nearly went bankrupt in 1950. It survived the recession and made a comeback largely due to an increased demand for cars during the Korean War in 1950. Since this recovery, Toyota did not lose money until the recession of 2008.

Toyota set up its first foreign headquarters in Hollywood in 1957 to sell imported cars produced in Japan. However, its cars were selling dismally in the United States due to design and manufacturing problems. During this time, Toyota began to design and produce cars specifically for the U.S. market. From 1965 onward, Toyota's sales kept growing steadily, and after years of experimentation, it perfected its production system by the 1970s. Toyota's signature manufacturing system, Toyota Production System (TPS), refers to a standardized process that encourages unique and creative employee contributions to its unified goals and objectives (Magee, 2007). TPS resulted in the reduction of waste and the maximization of efficiency. TPS also contributed to 'lean production,' a system in the assembly plants based on innovations that reduced set-up times for machinery and made shorter production runs economical. TPS can be considered a corollary of Toyota's longstanding commitment to *kaizen*—the ongoing process of continuous improvement—through the elimination of waste, or *muda*, in the workplace. As a set of enduring principles, TPS guided and supported Toyota's steady rise since its founding in 1937. The resultant tradition came to be known as the Toyota Way, which mandates planning for the long term as opposed to the short term, highlighting problems instead of hiding them, encouraging teamwork with colleagues and suppliers, and—perhaps most important—instilling a self-critical culture that fosters continuous and unrelenting improvement. The Toyota Way lowered costs, improved brand quality, and gave Toyota an enduring competitive advantage, allowing it to grow faster than its rivals.

Toyota made major inroads into the U.S. market when oil prices spiked in 1973 and again in 1979. The demand for better fuel efficiency and increased safety standards, as mandated by U.S. federal regulation,

led to an unprecedented demand for smaller, lighter, and more fuel-efficient cars. Small car makers like Toyota were particularly well positioned to meet this new demand. Because of massive U.S. trade deficits with Japan in the mid-1980s, Japan's voluntary restraint agreement limited exports to the United States to 23 million cars annually, encouraging Japanese automakers to establish manufacturing and assembly plants in North America (Rehder, 1988). In 1984, the first Toyota Corolla was built in the United States at the New United Motor Manufacturing (NUMMI) facility in Fremont, California—a joint venture with GM. All senior managers at the NUMMI plant were from Toyota. Toyota achieved a revolution with NUMMI: it earned recognition as a world-class automobile manufacturing facility, and its labor-management relations were some of the most harmonious in the world (Rehder, 1988). NUMMI also proved that lean production could be successfully replicated in manufacturing facilities in the United States. In 1986, Toyota established its first wholly owned subsidiary in Georgetown, Kentucky, and then established another subsidiary in Canada.

Like GM, Toyota is a publicly traded company, but unlike GM, it started as a family venture with humble roots. Because the Toyoda family controls about 40% of the company's voting stock (Magee, 2007), the founding family's values and orientations influenced its direction and posture—at least until the mid-1990s. Since 1995 onward, following the change of leadership from the Toyoda family to outsiders, Toyota's orientation took a different turn. Hiroshi Okuda, appointed in 1995 as Toyota's first non-family president, pushed for excessive growth, which he continued until he was removed from presidency in 1999. His two successors—Fujio Cho (1999—2005) and Katsuaki Watanabe (2005—2009)—followed in his footsteps. Overly obsessed with the lucrative U.S. market, these three CEOs changed Toyota profoundly in terms of size and geographical dispersion of operations. In 2002, Toyota set a goal to own 15% of the global auto industry by 2010, which implied a 50% growth ("Toyota Motor Corporation," 2012). Between 2000 and 2007, Toyota opened a new plant every 2 years in the United States, its most lucrative market (Camuffo & Weber, 2012). This growth was intended to increase its North American market share and mortally affect the supremacy of the 'Big Three' (Camuffo & Weber, 2012). Besides overestimating their own capabilities to lead Toyota into a new era, the three CEOs also underestimated the resource requirements that such explosive growth would entail. They 'sacrificed' quality for faster growth and fatter margins in the short run and are blamed for managing Toyota like self-perpetuating executives to increase their fame and power. Following the unveiling of the Lexus LS600hL at the New York Auto Show in April 2006, an influential blogger, Peter DeLorenzo, was quoted as saying, "The tone, the language, and everything about the presentation confirmed to me that the 'creeping' arrogance that has been brewing at Toyota for years has finally blossomed into full bloom for everyone to see" (Stewart & Raman, 2007, p. 76). Again, except for undisciplined diversification into other businesses, Toyota CEOs also manifested all other forms of hubris during the last 15 years of the company's history. However, what is distinctly different is that hubris in Toyota remained veiled by corporate secrecy and denial until recalls turned into a disaster of immense proportions.

4. Path dependence and path departure

4.1. GM and locking in

The history of GM, especially its last 30 years, serves as an instructive case of how path-dependence can lock firms into decline and even failure in extreme cases. For the last 3 decades, GM rested on its laurels of being the largest automaker, and its CEOs did everything that seemed consistent with its institutional legacy. Consider this: GM was historically setting the labor terms for the U.S. automobile industry, signing very generous contracts with the United Auto Workers (UAW), and thus making labor expensive for Ford and Chrysler (Magee, 2007). The fact that GM was the market leader in a well-protected market meant it was able to meet organized labor's demands for medical, pension, and other benefits, which locked GM into expenses that had been avoidable earlier. GM later found itself a victim of its own folly when, in many cases, it was unable to downsize or close plants because of its contractual obligations to members of the UAW (Jones, 2009).

The actions initiated by the four GM CEOs—especially Roger Smith—over the last 3 decades were path dependent. Roger Smith repeated what his predecessors pursued a few decades ago to hedge against potential declines in automobile sales and guard against competition from peripheral industries, such as small airplane (see Sloan, 1972 [1963], especially Chapter 19). Over 4 decades (1913—1953), GM diversified into businesses like diesel electric locomotives, household appliances, aviation engines, earth-moving equipment, and a variety of other durable products. In order to realize different types of flexibility, GM also undertook massive vertical integration to connect with its own suppliers. Since Delco Brake's founding in 1936 as a new division

of GM, it was turning out 19,000 car brakes daily for inclusion in every GM car produced in the United States (Monks & Minow, 2008). GM was dependent on the brake factory for more than 90% of its vehicles. When union workers at the Delco plant went on strike in 1998, 62 years after its founding, GM's 24 U.S. assembly plants were quickly brought to a halt.

As mentioned earlier, organizational lock-ins may occur due to a combination of strategy, structure, managerial cognitions, and normative beliefs, which appeared to be the case with Roger Smith and the other CEOs. All these actions were what Collins and Porras (2002) classified as non-core activities of a company. Smith was determined to keep GM the largest car manufacturer on Earth, and all his actions were predicated on his belief that GM would recover its 50% market share, which it held in the late 1970s. This is how he and his protégé, Robert Stempel, locked GM into highly questionable expansionary moves. The other two CEOs—Jack Smith and Rick Wagoner—both groomed inside the GM hierarchy, by and large stuck to what Smith and Stempel pursued. The leadership succession at GM was quite straightforward since 1958 as each outgoing CEO would choose his successor long before retiring (Monks & Minow, 2008). This policy of selecting CEOs from inside led to inbreeding and social influence, which in turn locked its CEOs into repeating past strategies, rituals, and traditions.

When many American customers began switching to smaller, more fuel-efficient cars, GM was not capable of providing such vehicles. Even after the automotive landscape changed drastically in the 1980s and 1990s, it was the mindset of GM CEOs to remain the biggest and to do everything to preserve this posture. GM was focusing mainly on the differentiated appeal of its cars. "A car for every purse and every purpose" helped Sloan elevate GM to its leadership role in the industry. To reinforce that its vehicles were different every year, GM's designs created the look of the modern automobile, which it promoted with the world's largest advertising budget. The way GM marketed was a model for the industry. GM's marriage to market segmentation and the triumph of marketing over production locked it into a dedication to styling and marketing, thus allowing a proliferation of similar offerings across divisions. Consider this: in 2008, Chevrolet, GMC, and Saturn debuted crossover vehicles based on the same platform, but the three crossovers looked exactly the same (Jones, 2009). Note that a similar 'look-alike' blunder took place in 1983 when Roger Smith was CEO.

Even in the early 2000s, under Wagoner's leadership, instead of buying state-of-the-art technology to build high-quality, reliable, and low-cost vehicles, GM continued buying premium car brand names with enormously inflated prices (Jones, 2009). These acquisitions proved to be disastrous. In 2005, GM had to pay $2 billion to terminate its ill-fated, Wagoner-led alliance with Fiat, and its acquisition of Saab was losing it millions of dollars (Jones, 2009). Being the Number 1 carmaker was of paramount importance to Rick Wagoner, who is quoted as saying, "I think our people take pride in that, so it's not something that we're going to sit back and let somebody else pass us by" (Magee, 2007, p. 28). Wagoner's long tenure in GM, coupled with the influence of his three predecessors, locked him into this determination.

4.2. Toyota and locking out

Despite Toyota's ascension to the top spot in 2008, problems with electronic and other systems in its cars escalated in early 2010 and caused a hailstorm of recalls and bad publicity. At least 34 deaths were attributed to problems related to unintended acceleration and brake failure in Toyota and Lexus vehicles (Bunkley, 2010), and the toll might reach 100 or more (Bensinger & Vartabedian, 2010). Although the estimate varies from report to report, in three separate events, a total of more than 11 million Toyota and Lexus vehicles were recalled ("Toyota Motor Corporation," 2012). This is by far the most extensive recall in the history of the automobile. Toyota was also slapped with an unprecedented penalty of three fines totalling $48.8 million ("Toyota Motor Corporation," 2012). Consequently, it attracted intense scrutiny, rebuke, and public outcry. Its failure to notify the U.S. Department of Transportation (DOT) of the problems made its closely guarded core values very questionable. The obvious outcomes were a sense of betrayal among loyal customers and fear and mistrust among potential buyers about the safety of Toyota vehicles. It is difficult to say exactly how the future will unfold for Toyota. However, the company lost $21 billion of its market capitalization in a single week in January 2010 (Saporito, 2010). For the first half of 2011, Toyota had fallen to third place, with GM and Volkswagen first and second, respectively (Kreindler, 2011).

I argue that the problems leading to Toyota's fall from the top spot can be attributed to a lock-out of its organizational traditions and values to move into overseas markets as quickly as it could. The combined leadership of three non-family presidents from 1995 to 2010 resulted in growth no other automaker has ever witnessed. Toyota replaced GM as the world's largest auto manufacturer in 2008. Against the backdrop of this accomplishment, Toyota also developed a pattern of reacting slowly to safety concerns and even failed to notify customers or the DOT of known

defects in its previously sold vehicles. This failure demonstrates a stunning dissonance with the mythology of Toyota's commitment to uncompromising quality and nearly perfect reliability of its vehicles (Camuffo & Weber, 2012).

Over decades, Toyota built its reputation and market share in tiny increments, which is best captured by the Japanese word *jojo*, meaning "slowly, gradually, and steadily" (Stewart & Raman, 2007, p. 76). This balanced incremental orientation resulted in a conservative planning approach that led to the introduction of only high-quality and reliable cars that would steadily sell (Shimokawa, 1994). It took Toyota a long time to debut Lexus, its luxury line. In 1983, Eiji Toyoda, Toyota's chairman, thought the opportunity was ripe for creating a luxury vehicle to compete with the Americans and Germans in a very lucrative segment of the automobile market. From its launch in 1989, it took Lexus about a dozen years to become America's best-selling line of luxury motor vehicles.

Beginning in the 1990s, partly in response to Japan's emphasis on the revitalization of its sluggish economy through foreign direct investment (Jackson & Miyajima, 2007), Toyota became increasingly internationalized, with emphasis on markets in Europe and emerging countries, such as Brazil, China, and India. In order to accomplish such explosive growth, cost cutting took on a new dimension, taking TPS to extreme levels. Toyota suppliers were also pressured into cutting corners in the design of parts. In combination, those changes dulled Toyota's commitment to quality, which used to be embedded in its unrelenting pursuit for excellence.

"The parable of Toyota is that the tortoise became the hare" (Saporito, 2010), which is aptly descriptive of Toyota's departure from its long-established path. In the words of an MIT operations expert, Steven Spear, who was trained in Toyota factories, "The Toyota way—in which knowledge accumulated by elite cadres of engineers and assembly workers over many years is shared across the company—got diluted by the demands of production" (Saporito, 2010).

Toyota's last 15 years clearly illustrate how it locked out of an established path built around the Toyota Way, or *kaizen*, and embraced a totally different path—radical and fast growing, or *kakushin*. Overzealous pursuit of growth had led Toyota executives to jettison the basics of the Toyota Way (Camuffo & Weber, 2012, p. 74):

> Being "the greatest," thus gaining a global supremacy over competitors, proved to yield bad returns on investment, as it built up a sense of overconfidence that was a long way from the humble approach that had historically been part of the *Toyota Way*.

It is in this sense that this period can be considered to have divided Toyota's history into two distinct eras.

5. Conclusion and recommendations

GM and Toyota competed in the global automobile industry for many decades. While GM hung on to the Number 1 spot longer than any other automaker, it lost its position to Toyota in 2008. It took Toyota 71 years to beat GM, but GM bounced back to Number 1 in 2011. Through a comparison of GM and Toyota, I try to explain why this toppling and un-toppling happened and what lessons executives can learn from the underlying explanations. One caveat is in order, however. The relative standing of GM and Toyota may or will change in the years to come depending on how decisively and smartly these rivals act to stay ahead in the race for market leadership. Therefore, my purpose here is *not* to predict who will lead and who will follow.

I argue and demonstrate that GM and Toyota displayed different ways of slipping from the top. I further substantiate that the reasons for the reversal of these automakers' leadership positions can be understood by examining executive hubris and the way it either facilitated path dependence or promoted the companies' path departure to perpetuate market leadership. Although GM and Toyota acted contrastingly with respect to path dependence, their top executives injected hubris almost the same way in the process of locking in and locking out. My argument and supporting analysis run counter to the longstanding myth and posit that hubris—as opposed to humility—tended to characterize executive leadership in Toyota, which in turn made its locking out easier. I offer three lessons for incumbent and budding top executives of large corporations.

5.1. Lesson #1: Growth and profit should be treated as mutually inclusive firm objectives

Executives must realize that undisciplined growth—ostensibly to maintain industry leadership—does not make strategic sense and could be disastrous. Growth is desirable as long as it is associated with corresponding increases in productivity, excellence, and profitability. In GM, a combination of CEO hubris and organizational lock-in propelled its initiatives for growth to the exclusion of profitability, thus destroying stockholder value. Toyota's obsession to lead the global auto industry, combined with a

lock-out from its vaunted Toyota Way, resulted in its plunge into serious financial and reputational loss. As a result, Toyota also destroyed stockholder value. Although governed with opposing assumptions underlying two models of executive behavior (i.e., agency and stewardship or stakeholder), the same incongruity between growth and profitability ultimately caused these rivals' fall from their leadership position.

5.2. Lesson #2: Executives should carefully guard against the pitfalls associated with lock-ins and lock-outs

GM and Toyota demonstrated how organizational lock-in and lock-out can be equally disastrous. After the 1970s, GM executives should have agreed on a drastic course of action that would have pulled it out of its lock-in to its history, conventions, executive succession, and strategy. While reversing the grip of lock-in is a big challenge in itself, a confluence of different forms of executive hubris with the determinants of lock-in may make the challenge even more difficult. In such a case, the first step should be to decouple lock-in from hubris with full force.

Toyota's lock-out stemmed from the combination of an ambitious goal to lead the global auto industry and deal a mortal blow to GM. In order to facilitate this, Toyota's three non-family CEOs departed from the course that Toyota honed and perfected over 7 decades. This lock-out proved to be disastrous, however. If CEO hubris had been guarded against carefully, it is quite likely that Toyota would have remained path dependent for some years to come, and this would not likely have hurt the company. Although it is true that no path is forever, Toyota's leap into massive, overly ambitious growth was premature and unnecessary. Here, the lesson is to challenge and guard against the denial of consequences of risky and ambitious strategies that hubristic CEOs initiate to fulfill their own agenda.

5.3. Lesson #3: Hubris might work differently in different contexts but may lead to the same outcome

In GM, the deleterious effects of the combination of lock-in and hubris could have been reversed by a very proactive board. During the last 30 years, all four GM CEOs climbed the ladder on the coattails and with the blessings of their predecessors. Such inbreeding preserved GM's old ambitions and strategy and helped promote initiatives that were consistent with such an orientation. Given that board oversight is particularly critical when organizational contexts like lock-in and lock-out are perpetuated by hubristic CEOs, GM boards could have played a decisive role in recruiting CEOs from outside who would have been able to break with the past. The recruitment of Lee Iacocca (hired in 1978 to turn around Chrysler) and Carlos Ghosn (hired in 2005 to salvage Renault-Nissan) exemplifies such decisions. In contrast, as job-hopping is regarded as disloyalty in Japan, again, only a proactive board with outside members could offset the perils associated with the penchant for corporate secrecy and denial in Toyota. However, this was not to happen.

Note

During my sabbatical in the winter of 2010 at the ESSEC Business School in Paris, Toyota's accelerator pedal recall became a focus of mainstream media in France. Business journals made Toyota the lead topic. My interest was piqued, and the result is this article. An earlier version was presented at the annual conference of the Atlantic Schools of Business on September 27, 2012, in Halifax, Nova Scotia, Canada.

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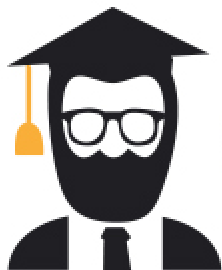

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