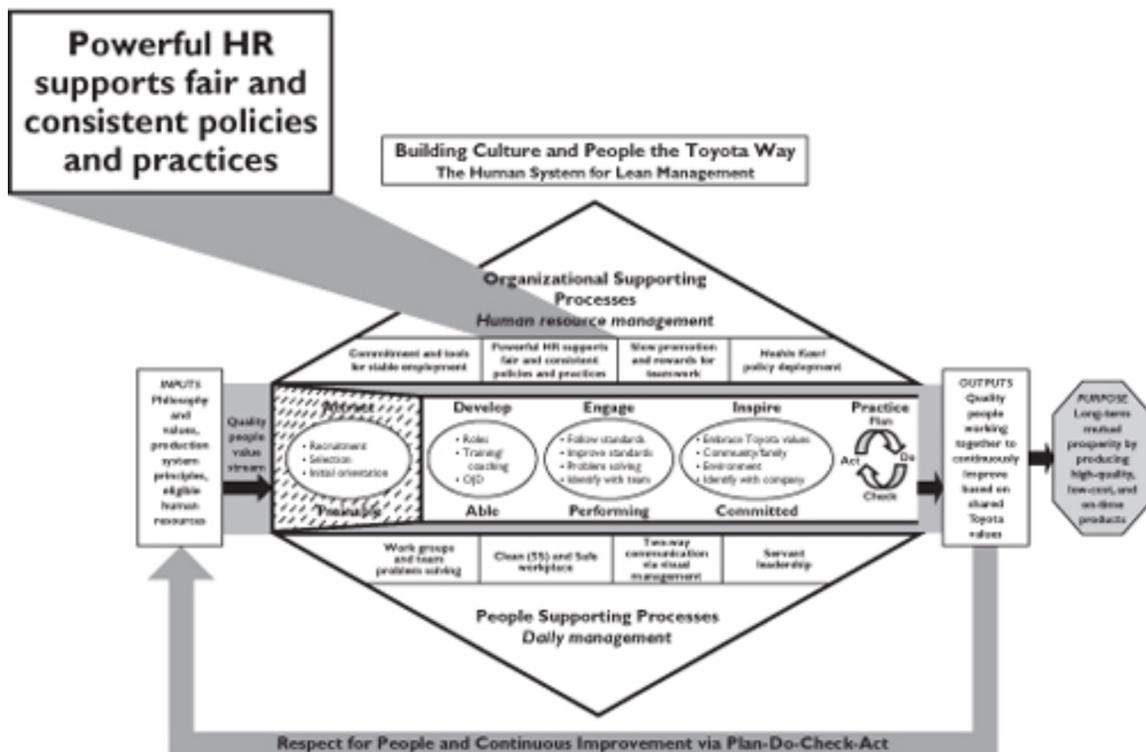


Chapter 13

Fair and Consistent HR Policies and Practices

The precepts of the law are these: to live honestly, to injure no one, and to give every man his due.

—Justinian I, Byzantine emperor (483–565 C.E.)



WHAT IS FAIRNESS?

Fairness seems like a pretty straightforward concept. We want the treatment we deserve in a way that is equitable compared to other people. Ask the next person you run across if it is important to them that they be treated fairly and guess what they will say. Who wants to be treated unfairly? Whether we are in a family, in a community organization, or on a sports team, everyone wants to be treated fairly and desires consistency in how they and others are treated.

Academic researchers even have a theory of motivation about this. John S. Adams called it "equity theory." It is sometimes put in equation form to make it look scientific, and it says that your outputs (rewards) divided by your inputs (performance) should be

the same as the ratio of rewards to performance for others in a similar position in your local environment (see Figure 13.1).

$$\frac{\text{Rewards}_A}{\text{Performance}_A} = \frac{\text{Rewards}_B}{\text{Performance}_B}$$

Key: Theory says if person A receives the same ratio of rewards to performance as person B to whom they are being compared they will see the system as fair.

Figure 13.1 Equity Theory View of Fairness

In other words, if you perceive that you have done more for the company than your peer and you get rewarded less or the same, you will see the process as unfair and your motivation will go down. Life is, of course, more complicated than this simplistic notion. For example, it is not clear to whom we are comparing ourselves. Adams says it is “comparable references in the marketplace.” If other workers are all being paid a poverty wage and we are also paid the same low wage for similar work, we should see this as fair, yet what will they think if the CEO at the top is pulling in millions of dollars in bonuses? Will a huge gap between the bottom and the top be perceived as fair? It seems from the Adams theory that workers will not be comparing themselves to a CEO, so that will not come into play in perceptions of fairness. Yet we know of cases where workers whose wages are being cut in a struggling company cry foul when senior executives are getting multi-million dollar bonuses.

To make matters more complex, we believe conceptions of “fairness” are culturally specific. Recall in Chapter 1, when we talked about how the deeper levels of culture are what we take for granted. Americans take for granted that people want to be paid proportionally to their own performance. In reality, the desire for pay for performance is extremely strong in a highly individualistic culture—as in America—and much weaker in a collectivist culture such as Japan.

We also talked in Chapter 1 about the difference between a high context culture and a low context culture. In a low context culture like America, we expect things to be highly explicit. For example, we want all the terms and conditions of our employment spelled out in detail both in verbal and written contracts. In the low context culture of Japan,

there is much more that is implicit and thus not stated clearly and not written clearly. Even contracts tend to be much vaguer in Japan.

Hino Motors Manufacturing is majority owned by Toyota Motor Company and recently has been expanding into America, making trucks and parts for Toyota factories. A Hino manager, on an expatriate assignment from Japan, found the assignment to bring the Toyota Production System to the United States particularly challenging because of the cultural differences. He explained:

“America is a contract-oriented society. There are clear job descriptions for everyone. Each person asks: What exactly is my job? What are my responsibilities? In one U.S. plant we have a number of manufacturing cells. If a person is assigned to Cell A, they will only concentrate on the performance of Cell A. In Japan our job descriptions are vague. We are trying to create an atmosphere where teammates will work together to make improvements. Japan is a small mountainous country with a population of over 100 million. It may be said that we are like a family living in an Indian’s tent. An Indian’s tent is small, and seven to ten people may be living in it. People get to know each other so well that there is no need to express everything loudly and explicitly. There is a strong value placed on mutual trust, and we will support each other without expressing everything very clearly.”

Toyota is growing the truck business very quickly and Hino provides truck components for Toyota in America. It seems quite natural to this Hino manager that everyone would pull together and do whatever is necessary to achieve the challenging targets set by Toyota:

“As a Toyota group supplier, we believe if we work hard and follow the Toyota Way, in the long term, Toyota will return the benefit. When we have a problem, Toyota is really there to send help—production managers, human resource specialists, cost reduction specialists. They are always friendly, but often very strict. They set challenging targets and want us to be independent and solve our own problems. That is the only way we will learn. But in the end, if we are really struggling, they will be there to help us. They will not give up on us.

This way of thinking also characterizes the workforce inside of Toyota and Hino. The feeling is that each individual must do their best for the team and the company. At

times, they will have to make personal sacrifices, but in the long term they will benefit and the company will be there for them. They are not calculating ratios of rewards to performance in their heads every day as equity theory suggests. They are contributing all they can and working to improve every day with the trust that the relationship is fair and equitable *over the long term*.

Hino's manager went on to ask an important question that greatly concerned him: "How can TPS be introduced in other countries with different cultural backgrounds? In the TPS culture, roles are not clear and everyone has to sacrifice for the team, but in individualistic cultures, each individual wants to get their individual rewards based on individual performance."

This is a challenge for Toyota as they are globalizing and addressing different cultural concepts of fairness. Toyota managers who came from Japan to make TPS successful in America were forced to confront Americans' concept of fairness. In this chapter we describe mostly what was done in Toyota in America to create a system that team members believe is fair, but that also meets the TPS requirements of teamwork and support beyond the boundaries of a narrowly defined job.

TRUST ECONOMY VERSUS COMMODITY ECONOMY

With a foundation of trust, the Toyota culture can flourish. While Toyota culture and the results it has produced stand on their own, it is reassuring when other research validates the principles. In the book *A Great Place to Work*, Robert Levering researched a number of companies where the employees reported that they worked at great places. He found the common denominator among these companies was that they all emphasized relationships built on trust. He also found that these relationships ebb and flow, based on the amount of trust in the "trust bank." The policies, programs, and processes, and how they were communicated and carried out by the leaders in the organization, determined how much trust was in the bank account. Wil James, president of Toyota's TABC plant in California uses a similar metaphor when talking about Toyota Way leadership: "If you do not give them your best, there is no reason for them to give their best to you. You have to make deposits before you can make withdrawals."

Companies like Toyota build their trust accounts through daily interactions between members. They build a culture of interaction that enables the members to feel as though they are part of a family or partnership, rather than just of a business or a job.

Robert Levering describes two types of interactions in companies. First, the typical ones where there is a “this for that” mentality; that is, of clocking so many hours and earning a paycheck. The second is a type of “gift” economy where things are exchanged without direct compensation based on trust and partnership. He uses as an example the relationship between neighbors: One neighbor goes on vacation while the other willingly collects newspapers and mail and waters the flower garden. There is no exchange of money, just an exchange of assistance and social support. The next time the other neighbor starts a project, say, building a shed, the first comes over and spends the day helping her out.

The Quality Circle program described in Chapter 6 is an example of a trust interaction. Toyota has had active Quality Circles for over 50 years. They are part of the Toyota culture. When the Quality Circle “fad” hit America in the 1980s, American managers were looking at the circles in terms of the “commodity” economy: “If we pay workers overtime or stop our line for these activities, then we’d better see the return on investment.” This results-driven mentality, based on “I give you this in return for that,” was one of the main reasons that the Quality Circle program failed in so many American companies. The reason Quality Circles are still going strong in Toyota is that they are based on the long-term “trust economy” perspective. Managers at Toyota are not seeking a one-for-one return on investment. Rather, they are looking at the long-term development of the members’ problem-solving and teamwork skills, and trusting that these skills will be applied in many future situations, resulting in “long-term mutual prosperity for both the company and the members.

We want to emphasize the importance of the trust economy in the Toyota culture before getting to specific “terms and conditions” of employment in Chapter 14. Of course we do not want to pretend that the Toyota employment relationship is like a big commune—Toyota is a company where people come to earn a living and both commodity and trust types of transactions are present and have to be considered.

Table 13.1 compares and contrasts these two types of interactions. Like many things about the Toyota Way, trust interaction is much more challenging to sustain and make work for you compared to commodity interaction. Commodity interaction is pretty simple: I offer you a clear cut compensation package; each year I clearly point out how you will be measured and what you will get if you achieve the measures, and we let the year play itself out. It is even better if you can get a reward for every instance of good behavior, like a sales person who gets a commission for every sale. Then the system is

pretty well self sustaining: You are on your own, I measure you, and, if you do well, we all win.

Table 13.1 Two Views of the Company–Employee Relationship

Commodity Interaction	Trust Interaction
One-for-one exchanges	Fair exchange works itself out over time
Low risk	High risk
Easy to rectify bad exchange	Betrayals hard to repair
Relationship must be renewed after each exchange	Open-ended relationship
Terms available to all	Terms highly personalized
Each side maximizes its advantage at the expense of the other side	Both sides give up something for the common goal
Goal is individual advantage	Goal is mutual growth
Currency is money	Currency is trust

The problem is that we cannot measure everything we really want. In manufacturing we want quality, safety, low cost, on-time delivery of the right products at the right time, and low inventory. We have seen companies with piece-rate systems pay employees by the number of pieces they produce and they get a lot of pieces but not necessarily the right pieces or high quality pieces and they definitely do not get employees stopping to work together and solve problems. In another company that wants to use a kanban system to produce only what is needed when it is needed the supervisors are measured based on daily production and equipment utilization and the supervisors refuse to stop producing even when there is no kanban and enough of a particular part has been produced. We can try to patch up the holes in the measurement system by adding or deleting metrics, but it is a bit like putting your finger in one hole in the dike when you know the water will find fifty other places to break through.

Trust interaction requires trust by both parties that the other will, in the long term, hold up their end of the bargain (see Table 13.1). If trust breaks down it can erase years of fair play in the mind of the person who feels wronged. The two-way daily communication we discussed in Chapter 10 becomes critical to maintaining a trust economy. At Toyota there is a formal body set up to maintain the trust economy and that is the human resources department.

FAIRNESS AND CONSISTENCY IS HUMAN RESOURCES' MANDATE

Fairness and consistency are easy concepts to talk about, but much harder to effectively achieve. It is easy to say “set the standard and be consistent for everyone,” treating everyone the same way every time and that there will never be a case where anyone could feel like they are being treated unfairly. This is practically impossible but is the ideal vision for the employee-relations process in Toyota.

The philosophy for Toyota is to manage by values and to work toward having all the members of the organization living those values. This is a different approach from most organizations that have a stack of manuals with detailed procedures that people rarely even look at. Toyota's team member handbook is very small in comparison and contains only descriptions of key policies like vacation and medical leave.

The expected behavior of TMMK team members is summed up in simple and clear language:

Every team member is important and each person has a significant role to play in the TMMK organization. TMMK believes that team members care about their work and will act responsibly when given responsibility, sufficient information, and training. All team members are expected to take part in developing and designing new ways of doing their work that continue to improve the job and productivity as well as the quality of our product. In the process, team members also learn to work effectively as a team and to help their fellow team members, when necessary, to perform their job duties.

Team members are expected to come to work on time, produce an established quantity of quality product, maintain good housekeeping in their work area, avoid disruption of the work flow and exercise good safety habits.

We want our team members to:

- *Be a good “TMMK Citizen”—refrain from any actions which have a disruptive or negative effect on other team members or on the efficient operation of the plant.*
- *Maintain a good attendance and punctuality record.*

- *Follow all safety rules—always work in a safe manner.*
- *Perform good work—maintain acceptable standards of quality and production.*
- *Support and abide by TMMK policies.*

In Toyota, the human resources department is the official guardian of fairness and consistency. HR is structured to work with management and the team members in order to balance the needs of the company with the needs of the team members. The organizational structure is not unlike other large companies, including:

- Payroll and Benefits (Compensation)
- Training and Development (HRD)
- Safety
- Strategic Planning
- Employee Relations

What is unique about Toyota is what happens within each of the units. The role of the employee relations unit is to bridge the management of the organization to the team members. Within this group there are full-time jobs assigned to specialists known as HR Reps (Representatives). The role of this group of people is to be the team member advocate. They are to be on the floor, accessible to the members, and there to hear their issues and then facilitate the rectification of the issues.

The role of the HR Rep is defined by Toyota as a “designated human resources representative who monitors the workplace and supports human resources and management in each workplace.” Their primary roles include:

- providing information to, and advising, managers and supervisors,
- proposing methods for communication between managers/ supervisors and team members, and arranging venues for the same,

- supporting the implementation of and complete adherence to HR measures, and
- collecting and passing on employee opinions and concerns, along with handling grievances through cooperation with managers/supervisors.

Requirements for implementing their roles include close communication with managers/supervisors, employees and union representatives (when applicable), creating an easily-accessible and cooperative atmosphere; knowing members of the workplace for which the HR representative has responsibility; clear knowledge of HR and company rules and procedures; and accurate comprehension of company conditions and production, quality, and working attitudes.

The position and role of the HR rep is critical to Toyota culture. They are the genchi genbutsu of human systems: they are present right on the floor with the team members and have the ability to quickly identify and solve employee-relations issues.

Kiyoshi (Nate) Furuta played a critical role in launching the HR system for Georgetown, which ultimately became the blueprint for Toyota in North America. Perhaps most critically, he insisted that HR play a neutral role in the plant and have the final decision on any change in employee status, whether it is to hire, fire, promote, or demote:

In the very beginning our concern was how we can make the worker not be afraid of management and freely tell us the problem. TPS requires that we make things visible, so we have to convince people that their job is secure—that if they admit to a mistake it will never be the cause of being fired. I explained to Cho-san (then president of TMMK) that we need a strong HR department. We must have the final decision to change employee status. Supervisors can recommend but cannot make final decisions. Even then people in HR did not believe in this kind of concept because they were so used to being the processor after department managers make decisions about hiring, firing and promotions. Our system says HR can say no.

As a plant manager, Mike Hoseus saw his HR Rep as an important member of his management team and a mirror or pulse check for how well his team was managing the people side of the business. At first Mike had the American inclination and defensiveness of hiding problems and initially seeing issues as a team-member problem and not a management one. Mike learned over time not to get defensive when a rep brought him a problem and to look at it first as a management problem and not a team member one. Mike recalls one incident that brought this to light:

There was a time our HR Rep brought to our attention the way we were allocating our overtime for non-production items such as updating our performance charts and calibrating tools for the next shift. We had always done it on a voluntary basis, and the first few years most everyone was willing and able to pitch in and support what needed to be done. After a time, the group of volunteers got to be smaller and smaller, and eventually they were telling the HR reps that not everyone was part of helping out with the needs of the group and a few members were accepting an unfair burden. Apparently the extra money for the overtime was not important enough to the team members who preferred personal time to the extra cash. My first reaction was to feel defensive. After all, I was responsible for overtime allocation and thought I was doing it right by giving everyone an opportunity. Those who volunteered more often were not doing so under any pressure from me. Then I started to think about how this would be viewed from a Toyota perspective: It became clear that I should seek out the system causes and not assume it is the fault of individuals.

We put together a team of supervisors, an HR Rep, and some team members and were able to develop a system in which all the responsibilities of the group were listed out in the form of daily, weekly, and monthly activities. Then we put together a system of tracking to make sure that everyone got trained on how to do each activity. Finally, a big visual board was put together with every duty having a responsible person assigned and a visual control system to confirm that the task had been completed. These tasks were

known and rotated at the beginning of each month so everyone got a turn doing every task. Also, by knowing the expectations up front, everyone was able to work on the tasks throughout the day, whenever there was some production downtime, so that the amount of overtime could be reduced.

The result was a system that accomplished what the company needed to have done and at the same time was fair and consistent for the team members. The reduction of overtime was a win-win for both the company and team members as well. In retrospect, I learned an important lesson: it is not enough to give individual employees a choice, and if it seems unfair, blame the team members for their bad choices. We must put in place a system that makes the problem visible to all and then find ways to eliminate the problem at its root cause.

RESTRUCTURING HR AS A RESULT OF A CRITICAL PROBLEM

Understanding the Problem

With Georgetown being the first wholly-owned Toyota plant in the United States, it was looked at as an important source of learning for future overseas plants. In 1997, the plant had its first real human resources problem that showed major improvements had to be made.

The problem that finally came to the attention of management was a sexual harassment situation that was taking place in the paint department involving supervisors and members of management. As soon as the HR Reps and management team found out about the problem, it was attacked in the standard Toyota fashion. The HR Reps started to interview team members to get the facts, but were quickly told that they were not trusted, and that is why nobody had come to them earlier. The HR Reps were seen as members of management, and therefore part of the problem and not the solution. HR management decided to hire an outside investigation team to do interviews with paint team members and management.

Through this process the facts came out, and they were not pretty. There were a number of supervisors and members of management that were not behaving

according to the values and standards of the Toyota Way. Disciplinary action all the way up to termination for some was initiated. It was ten years into the plant's history, and all the news had been positive up to that point. Many thought the company was going to downplay the problem, try to minimize it and justify their actions. It was testimony to the Toyota Way that this large HR issue was handled just like Toyota handles the smallest of production issues: be honest, get it out in the open, and tackle it head on. The message to the press and the team members was the same: We messed up; the systems we have in place to highlight and deal with these issues failed us; and we are going to investigate, find the root cause, and correct the problem.

That is exactly what took place. The company hired outside consultants to help because part of the problem was that team members had lost trust in HR and the reps in their area. There were special team member meetings and focus groups held to talk with the team members and get their perspective on the cause and possible countermeasures.

Two main themes emerged. The first was that the plant had to get back to following Toyota Way values, and the management team had to be held more accountable for doing so. The second was that the plant needed to address the HR organization and the fact that the reps did not have the trust needed to be told about the problems early on.

Notice that the problems defined were much broader than the specific incidents of sexual harassment. In Toyota problem solving, the five-why process leads to continuing to dig into root causes until you arrive at the underlying system causes. Simply fixing the proximate cause—like sexual harassment and the individuals involved—would not prevent the problem from occurring again. Beyond this, there are other problems that occur when management is not living Toyota Way values and HR is not trusted, and those problems would still exist if only the sexual harassment issue was addressed.

Back to the Basics—Values

For the improvement activity of following the values, more management and member focus groups were held, the values of the company were specifically defined, and then ideas were generated on how to better hold everyone accountable for following them. The team members and managers mutually

agreed to a vision and a specific set of values that would define the Georgetown plant. They are (with key points included):

Our Vision

Be a company respected worldwide for producing the highest quality vehicles at the lowest cost in a safe environment. We will achieve this by following the principles of TPS, promoting mutual respect, living our values, and by maintaining an environment of continuous learning.

Our Values

- *Safety: To make safety and health the priority. We accept individual responsibility for our own safety as well as others'.*
- *Customer Satisfaction: To gain and hold our internal and external customers' respect and loyalty. We live by our philosophy that the "next process is our customer."*
- *Respect: To achieve an environment where all team members treat others with dignity, trust each other, and care about the work we do. We foster initiative and creativity.*
- *Integrity: To demonstrate the highest ethical standards in all interactions. We deliver on our commitments, admit our short comings, and act as an environmentally, socially, and economically responsible corporate citizen.*
- *Teamwork: To ensure the success of our company, each team member has the responsibility to work together. We communicate honestly, share ideas, and ensure team member understanding.*
- *Continuous Improvement: To contribute to our competitiveness and longterm success, we take responsibility for improving ourselves, our processes, and our products through innovative thinking. We continually challenge ourselves to improve, take pride in our work, and play an active role in making TMMK a better company.*

Then everyone agreed to follow the systems already in place to "pull the andon" in case these values were not up to standard. The systems already in place

included the regular communication channels such as team member meetings and the Hotline Call system. Because of the mistrust of the HR department, a new hotline was also set up which was known as the “Corporate Compliance Hotline,” and it went directly to the office of the president. In effect it became a check and balance on the HR division.

The team members also came up with the idea to institute a values “card system” in order to give immediate feedback to anyone in the company, including managers, if they were not following the values. The cards worked like those that are used for a soccer referee. Each team member had a pocket-sized booklet that included a set of the values, the expected behaviors, and three cards in the colors green, yellow, and red. Whenever anyone observed anyone else demonstrating the values of the company, like stopping what they were doing to help a teammate, they were greeted with a green card. A yellow card was used to “warn” another person or the whole group if they were getting close to the “line,” while the red was used to let the others know that the “line” had been crossed. It was not uncommon to be in a meeting and see yellow or red cards come out if there was some gossip starting, or some derogatory comments or even jokes that were at the expense of others. It sounds a bit corny, but the system was a great tool that was serious, but also fun. This is not a permanent tool and has a clear lifespan after which people get tired of it, but that is the reason why continuous improvement is needed.

The HR Reorganization

At the same time the values activities were going on, HR was also looking at itself in the mirror to determine what needed to be done. In proper Toyota fashion, there was an honest look at the situation as compared to the standard. The standard for HR is to uphold the company’s values and to partner with manufacturing in order to reach the business goals. The reality of the situation was that neither of these two was being accomplished. There was much data from the company indicators to substantiate this, including data from the Hotline Call system, the opinion survey, and the team member meetings. With this gap identified, it was time to get to work on problem solving.

As we have discussed, in Toyota Culture the problems identified are solved by getting a team together and allowing them to use the problem-solving process and empowering them to make the decisions necessary to take care of the

problems. In this case senior management developed the goals of the activity and guidelines acting as a “steering committee” to a working team. The goals or outcomes of the activity were identified as:

- improved teamwork within HR and with Manufacturing,
- development of individual skills in HR,
- integration of HR principles into each section,
- greater flexibility in the workforce,
- improved communication and access to HR for team members, and
- “improved consistency of policy applications across manufacturing areas.

The working team was made up of the assistant manager and specialist levels within the HR department. They were given the following directions:

- gather input from customers (the team members and manufacturing management),
- benchmark other organizations,
- map out all current processes and flow,
- list all current member roles,
- identify the key roles of HR, and then align the organization accordingly, based on a formal A-3 report, and
- operate within budget constraints.

The working team spent a couple of months getting input from the customers, benchmarking, doing research, and then a couple more months of analysis. They looked at the current structure of the HR organization as shown in Figure 13.2. The team found that the biggest problem with the current layout was that HR was literally and figuratively apart from the manufacturing sections and not doing a good job in partnering with them or being available to the team members and building the relationship of trust.

The team also found a problem with the structure and the role of the HR rep. TMMK had the rep being the team member advocate one day, but if the team

member went into a corrective action situation, the same rep may be sitting on the other side of the table from the team member as part of the investigation and disciplinary process. It was a logical consequence for the team members to see the HR rep as more of a management advocate than a team-member advocate, and, as a result, they were not confided in when there was a problem.

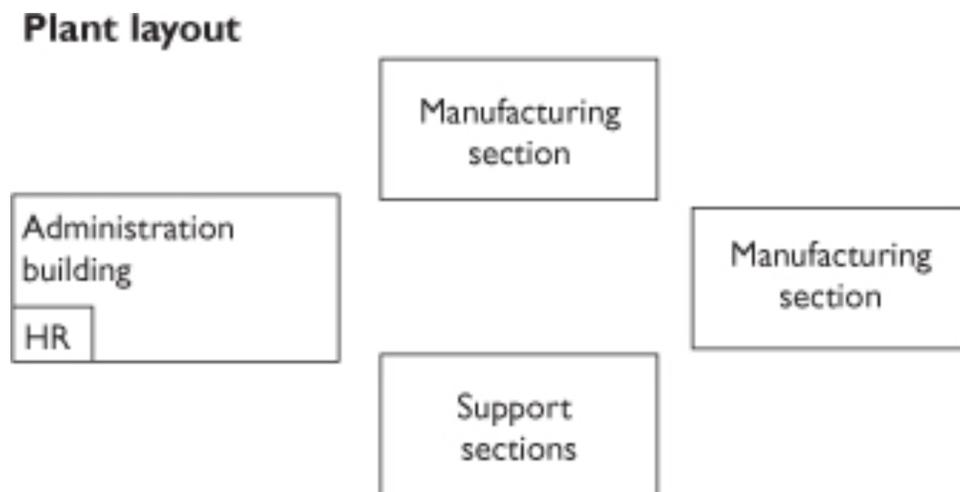


Figure 13.2 Past Layout of HR at TMMK

The last thing the team discovered was that the reps were spending the majority of their time with administrative issues from the team members. They were answering questions about picnic dates and funeral leave benefits for a sister-in-law, but not solving issues and problems that the team members were having. Responding to administrative questions is a common role of HR in traditional companies, but not what Toyota was looking for.

As a result, the team then proposed that the “new HR” organization be structured around four key roles with the corresponding functions:5

1. Strategic Partners

- Act as an integral part of the business team.
- Engage the business team in systematic organizational audits resulting in clear priorities.
- Provide HR resources to the business.

- Possess clear understanding of current business conditions (internal and external).

2. Administrative Experts

- Develop and manage guidelines, plans, and policies for effectively managing human resources.
- Act as consultants in fields of expertise, supporting other HR professionals and other HR clients.
- Take responsibility for continuous improvement in programs and operations.

3. Employee Champions

- Speak for employee needs and management concerns about employee relations.
- “Know the employees and anticipate their concerns and issues.
- Be available and approachable by employees.
- Be experts in assisting employees with concerns.
- Provide employees with the resources they need to commit themselves to meeting company objectives.

4. Change Agents

- Influence and drive organizational change strategies in support of business objectives.
- Manage the process to ensure successful change management.
- Continuously take the organization’s pulse regarding both internal and external matters.
- Remain current about tools and practices of change in order to effectively and efficiently manage change and respond to the organization’s requirements.

The team proposed that the new HR structure be set up in order to facilitate these four roles. The new structure is illustrated in Figure. 13.3.

Plant layout

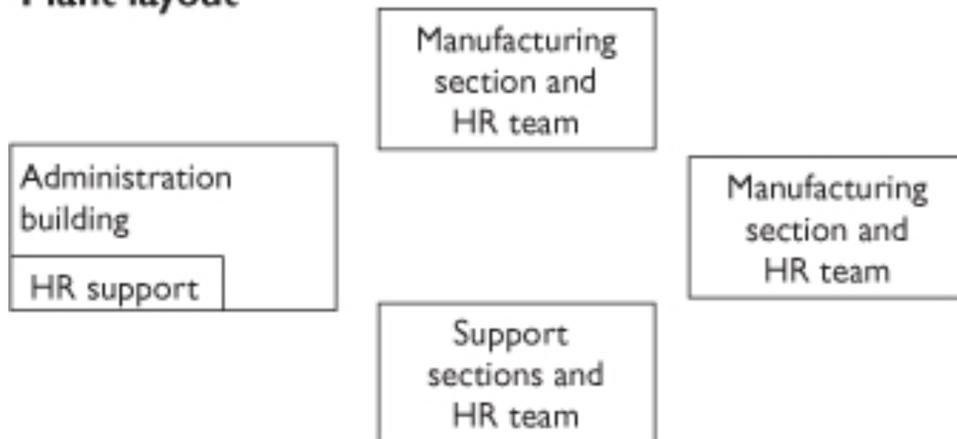


Figure 13.3 Revised Layout of HR at TMMK

This new structure had a “mini-HR team” set up in each of the manufacturing areas (at the gemba) in order to do a better job of both partnering with manufacturing management and performing the role of team member advocate. This team performed the HR roles of both employee champions and strategic partners. The roles of the teams included:

- Development—OJT, process improvement, section-specific training, coaching, and strategic planning
- Employee Relations—employee advocate, concern resolutions, peer reviews, safety & health—accident follow-up, early symptom investigation, ergonomics
- Salaried HR Systems—salaried promotions up to assistant manager, salaried relations, training for salaried members

The change resulted in a mutually beneficial partnership between manufacturing and HR. HR and manufacturing now work on the hoshin plans together (see Chapter 15), resulting in better collaboration and integration of the two departments, while at the same time preventing some of the team member concerns from coming up like they used to.

The move also addressed the problem of having silos in the organization and at the same time, the design was meant to prevent just taking the HR and

manufacturing silos and turning them horizontally and creating “sewer pipes.” In other words, if HR and manufacturing are two silos and Toyota splits HR into mini-teams to work closer with management, it will help the collaboration of each but make it harder to ensure fairness and consistency across all of the departments. For this reason, the team recommended that there still be a central HR administration group that would be split into certain functions in order to address the issues that were highlighted.

This central HR group was formed in order to connect the rest of the teams for consistency and fairness and to be the window to Toyota North American headquarters. The group consisted of the following functions:

- Personnel—comp/benefits, payroll, staffing and recruiting, transfer system
- Safety/HIS—MLOA, FMLA, ADA, data reporting, new hire program, health assessment, workers compensation
- Employee Relations—policy development and training, communications, recognition
- Training—Promotion process, Quality Circles and suggestions, plant-wide training

This central group now had the ability to focus on planning and policy setting and become the experts of their respective areas. For example, in order to address the issue of the HR Reps spending most of their time with administrative issues, the group recommended setting up a central call center which all team members could call or stop by to ask their general questions. All concerns were tracked by computer for two reasons. One was to make sure that the question or concern was brought to closure within a standard time. This rebuilt the trust team members had in HR and did not leave them waiting for an answer. The second reason was for continuous improvement.

The computer tracking enabled the group to track the most frequently asked questions and then apply the problem-solving methods to countermeasure the system breakdown that necessitated the team member having to make the call. Every call was treated like a defect, with the assumption being that there must be a problem with some system, training, or communication that is causing the team member to have to ask the question. One of the most frequently asked questions was about the transfer system and where a team member was “in

line” to transfer to another department. Another major question concerned benefits, which things were paid for and which weren’t.

The team solved the bulk of both of the problems by implementing computer kiosks in all of the cafeterias. These were designed to be simple to understand and use so that the transfer system became a paperless “self-service” process. As a result, the team members could sign themselves up and then check their own status anytime without needing help from the rep or the help desk. By taking the calls on a priority basis and solving the issues one by one, the HR group was able to greatly reduce the number of issues the team members needed help with, thereby resulting in fewer HR specialists needed to answer these concerns. These specialists were then freed up to perform more “value-added tasks” as described in this section. The number of calls reduced from a monthly average of 7864 in 2001 down to 3052 in 2003. The time needed to answer and “close” the call also went down reducing the demand on the service center which went from being open 13 hours a day with six HR members to being open 3½ hours a day with two HR members (4½ hours on Friday). A summary of the results is shown in Table 13.2.

	Before Kaizen	After Kaizen
Average number of calls per month	7864	3052
Number of hours per week needed to handle all the calls	65	18.5
Employees needed to cover	6	2

Table 13.2 Improvements Resulting from Implementing the Team Member “One Stop”

Two other teams were put together as part of the central administration group to address the needs highlighted. In order to prevent the need for the HR Rep on the manufacturing teams to be a part of the investigation or discipline of a team member, a separate “I” (Investigation) team was formed. By having a team of four to five specialists perform this role for the entire plant, it not only helped build back the trust with the HR Rep in each section, it also improved the fairness and consistency of the investigation process because there was only a handful of people doing it instead of 20–30.

The final team in the central administration group was set up to be a projects and planning group. Their role was designed to be the “change agents” of the company, partnering with the manufacturing sections in order to work on improvements in areas such as:

- management and organizational development,
- internal TPS development,
- supplier development, and
- safety benchmarking and interfacing with affiliates as part of a global network.

Pete Gritton, vice president of HR for TMMK and TEMA, summarizes how this restructuring helped the Georgetown plant with developing and sustaining the Toyota culture:

Who is the customer of HR? It is everybody. Our mission is to make sure that we get the maximum utilization out of all of our people whether it is a team member on the floor, or a VP, or whomever. Everybody is the customer and we are trying to achieve a successful business, which requires everybody operating at the maximum level. It is company success that we are after. With HR there is a potential danger of bureaucracy, but if HR is set up correctly, it does not have to be that way. The restructuring has taken us out of the role of “HR police” and has put HR on the floor where we need to be. Instead of managing from the “administrative ivory tower,” we sent HR people to the floor to work directly with management. We had gotten to the point in our maturity that it was time to work more closely with manufacturing, and it was time to share with manufacturing that authority—to partner with manufacturing. It gave the manufacturing people one-stop shopping.

Before, we were set up here within silos. If a performance problem occurred, a person may start out talking with employee relations people and might be told the problem was with training and then they would go to the training person and be told it may be a skills issue and be told they need to go to the development people, and the manager is going from group to group, and this is where the bureaucracy comes in. Now, all the manager has to do is talk to a team that is sitting right near him and the

team covers all the functions, and they have the connection back to central HR, and the manager does not have to worry about that.

At the same time, our role is that we are the employee advocates, making sure the team members get a fair shake. There are systems to make sure values are being followed correctly. In many companies, that is the extent of that, but we also want to make sure systems are set up to make high quality cars—staffing, training, motivating, and so on.

At Toyota, HR plays a key leadership role in the improvement process toward the never-ending goal of producing the highest quality car at the lowest possible cost, in the shortest amount of time, while respecting those who do the work. As we have discussed, there are many internal systems that are designed to deal with these issues. One big external check on how well the management team is implementing Toyota culture is whether the work force feels a need for a union to represent them as an outside, independent agent.

UNION INFLUENCES: IS A THIRD PARTY NEEDED TO REPRESENT THE INTERESTS OF LABOR IN THE TOYOTA CULTURE?

When we think of unions, the first thing that comes to mind is conflict with management—strikes, grievances, bargaining. In the traditional view, the union is on one side of the conflict, representing the interests of the workers, and management is on the other side representing the company interests. Workers want a safe environment, good working conditions that include not being overworked, pay that they view as fair for the work done, competitive benefits that take care of their families, and job security. Management wants to maximize profit. Management cares about the image of the company, but profitability is the primary goal. Within this context, it is difficult to talk about a single company culture. At the very least, there is a worker culture and a management culture, and maybe even more subgroups represented in the company.

Toyota in Japan is a unionized company. The Toyota union is a company union connected to a broader industry union. The union does care about annual pay increases and watches how Toyota pay and benefits compare to the industry standard. They see their job as to protect the interests of the workers. But they also see that in many respects worker interests coincide with management

interests. If the company is strong, all will prosper; if the company is weak, all will suffer, so the union contributes to productivity improvement. In many respects, the Toyota union is like an internal human resources department that cares for workers' interests and benefits and also works collaboratively with management on productivity improvement. To a traditional union advocate, this relationship between the union and management is all too cozy. There is an old union expression: "When the union and management get into bed together, nobody gets any sleep."

Toyota experienced American-style unions for the first time when they entered into the joint venture with General Motors (NUMMI) in Fremont, California. While Toyota accepted the role of the UAW, it was clear they were not sure exactly what they were in for. GM recommended three closed-down plants as alternatives for the new joint venture, all with strained union-management relations, and it turned out Fremont was the worst. In a typical year when it had been a GM truck plant, they had 4,000 grievances, 20 percent absenteeism, and wildcat strikes. Some basic assumptions of the Toyota system in Japan were challenged by the UAW—team member involvement in setting production standards, multiskilled workers, and even mutual trust between management and the worker. Kiyoshi (Nate) Furuta drew the job of negotiating for Toyota, and on the other side of the table was UAW President Dick Shumaker.

Before starting negotiations, the Toyota team thoroughly studied the background of the UAW, going back to its formation. Nate described the challenges Toyota faced.

Once they (UAW) agree to a production standard they cannot change it. If management wants to change it, there is a struggle. That is a very rigid system. When we develop the original standard work, we want the team member involved. We then want the team member involved in improving the standard. We need multiskilled and not single-skilled workers. We say we do not need so many job classifications—too many—we collapsed them into one production classification and then a minimum nine skilled trades and the goal is two.

Eventually Nate and NUMMI management won over the UAW leadership. They did it by demonstrating through action that their commitment to team members meant something. NUMMI started out only making Chevy Novas, and in its

second year sales were about 30 percent below plan. Instead of laying off workers as General Motors had done in the past, Toyota kept the entire workforce together. They developed a major training program and did kaizen as well as providing extra vacation days. Toyota then quickly rushed a Corolla into production at NUMMI and sales volume increased to the planned amount. At that point Toyota had earned high levels of trust with the work force and the UAW leadership. Years later, when the UAW had a disagreement with NUMMI management, the UAW president proposed that they ask Nate Furuta (who had moved to TMMK) for his judgment and agreed to abide by whatever he recommended. You cannot buy this trust and all the benefits it brought to NUMMI. The result was among the most liberal UAW contracts including broad job classifications, the right to move workers around based on capability rather than strictly seniority, and even latitude to use temporary employees.

The Georgetown plant has never been unionized. Toyota learned a great deal from NUMMI and put in place many of the same human resources systems at TMMK. Without a union, the human resources department has to play some of the roles of the union in looking out for worker interests.

We saw earlier that gaining the trust to do this has not always been easy for HR.

The UAW has been at the door of the Georgetown plant for more than a decade attempting to unionize the workforce. Some Toyota team members have signed a union card calling for a vote on the union, but there have never been enough cards to hold the election. To say that Toyota's hourly employees have a single culture in total harmony with management would be a gross overstatement. As in any relationship it has been up and down.

The plant got used to success in the early 1990s, capturing five straight J.D. Power Plant Awards (1990, Gold; 1991, Silver; 1992, Bronze; 1993, Gold; and 1994, Gold). The next five years were not as fruitful, producing only one Bronze award in 1997. This period was one of rapid growth of volume at the Georgetown plant, combined with extensive use of temporary employees, combined with major cost reductions, and significant turnover of management which created a great deal of pressure on salaried and hourly team members. This is not to say that Toyota management gave up on the principles of the Toyota Way, but the reality was that the Toyota Way was strained with subcultures forming based on disenchantment with directions away from the early years of building a Toyota culture. A great deal of effort has helped to

rebuild that culture starting with leaders like Steve St. Angelo and Cheryl Jones. The plant added two more plant awards in the 2000s with a Gold in 2000 and a Silver in 2001. The large majority of the plant is focused on recapturing the Toyota culture of the early 1990s and the “winning ways.”

According to the national press, they have their work cut out for them. On May 26, 2007, an article appeared in the Washington Post:⁷

Dissident workers at the Toyota plant here gather at the Best Western Georgetown on Wednesdays between shifts to shape a battle plan. The workers are angry at conditions at this flagship Toyota site, where the best-selling Camry is built.

The United Auto Workers has launched a big new push to organize the plant, trying to capitalize on fears of lower pay, outsourcing of jobs, and on Toyota’s treatment of injured workers... The UAW and the workers have seized on leaked business documents from Toyota that detail a plan to put a lid on manufacturing wages in the United States. At a new factory being built in Mississippi, Toyota plans to pay workers about \$20 an hour in a region where many people earn \$12 to \$13 an hour. The average Toyota worker at Georgetown makes about \$25 an hour.

Toyota is perhaps experiencing its own predictions about dealing with being the newly crowned “number one automaker in the world,” and it is natural for the press to go after the giant and look for weaknesses. It seems the union and some of the team members see this as an opportunity to cash in. Meanwhile, the management of the plant works hard to keep the treatment of the employees fair and consistent and maintain the essence of the Toyota Way in the plant’s culture.

Toyota Motor Corporation in Japan (TMC), which is responsible for worldwide operations and new-plant start ups, has a stance on unions based on these main points.

- Managing the Toyota Way and establishing a Toyota culture is not negotiable.
- The local management should establish a stance toward labor unions, taking into consideration local culture, laws, labor movements, and so on.

- If the company does have a labor union, both should recognize that the prosperity of the company is the common objective and both must use thorough communication in order to resolve any differences of opinions and build a relationship of mutual trust.
- This relationship of mutual trust can ensure the long term prosperity of the company and thereby stabilize employee lives by maintaining and improving working conditions.

In summary, the key to keeping things in balance is that as long as the union operates within the Toyota Way, with mutual trust and respect and facilitates continuous improvement for the company's long-term prosperity, then it will be a positive situation for all the stakeholders. Problems will arise if the union interferes with the relationship of mutual trust between team members and management or if they put restrictions on flexible policies and practices that help the company adapt to business needs. If they are out of balance, and simply request changes in working conditions without regard to the company and business needs, then the long-term prosperity of the company (and therefore all the stakeholders) will be in jeopardy.

In one of our discussions with Pete Gritton, he shared insightful observations about Toyota in America and the way they view unions:

The main argument of a union organizer is that without a union the company can make decisions and announce them, and you do not have a voice. Our greatest strength is thinking long term and problem solving, that means flexibility and change and doing things differently. When I was interviewed by Toyota, I was a nonunion company with 1,000 people. Our philosophy was that we were a nonunion company. There were many things under that to manage to keep a union out. I came out of interviews with Toyota executives, and they never mentioned unions. They asked me if I had any questions and I said, "You never mentioned your union philosophy, and what is your position?" They said, "We do not know—what is yours?" I said that if we manage the company in the right way the issue of unionization is a nonissue. Unionization is a byproduct. They said, "We are not sure what our position is on unions in this country, but there are certain things we believe and we will manage that way whether there is a union or not."

After I was hired, we spent months studying the labor climate in the United States and visiting the Hondas and Nissans and talked about what our strategy should be. Should we have a visible statement that we do not want a union at Toyota? We decided not to do that. We have a certain way we want to manage this plant and then everything else will take care of itself. Our goal is to manage this plant according to Toyota philosophy and then the team members will decide.

You want to treat people right because you get a huge payback from that. Toyota does that and probably better than anybody else. Heaven forbid that I ever did something because I want to avoid a union. We are going to manage the way we think is the right way to manage.

Being perfect is not one of the tenets of the Toyota Way, only the continued pursuit of it. For over 10 years, David Meier, coauthor of The Toyota Way Field Book and Toyota Talent had worked for TMMK, and he has spent the next 10 years working with other manufacturers. In a personal communication with Meier, he commented on the Washington Post article cited earlier:

One of the issues is that many people at Toyota NEVER worked in an industrial environment outside Toyota and have no point of comparison. They have no idea how good they have it. The jobs are hard, but most people don't know it is just as hard or harder at other places. I do not see any impending implosion, but I expect that there will be a trend to discuss the bad news about Toyota because of their new status as number one. We all love to knock down the top dog. There are also the CAVE people (Citizens Against Virtually Everything) and in any company there will be dissenters, but management needs to spend time working with the people who are there to do well and succeed.

A union will NOT reduce any of these problems except maybe allowing people to lay out of work with pay. The union will not reduce the outsourcing of jobs, nor layoffs, or plant closings. Look at how many jobs have been "lost" in the Detroit Three. The union will not prevent anyone from getting hurt. Detroit has the same issues with cumulative injuries as do most manufacturers. I know as

an organization, Toyota spends more time on the preventive side, trying to design the work to prevent such injuries, than most other auto makers.

SUMMARY

It is clear that what motivates Toyota's philosophy is to do the right thing in a quest for a culture of respect and trust. The long-term benefit is mutual prosperity. Do the right thing (process) and you will get the right results. It is their philosophy in both the product value stream and the people value stream.

Fairness and consistency in this partnership does not mean giving the team members everything they want, whenever they want it. The result of this would be short-term satisfaction, but longer term would create a culture of entitlement which would eventually lead to a culture of unemployment. Nor is the goal to give management complete authority to decide on the future of team members. Managers are not perfect and have their own idiosyncrasies.

In a sense, Toyota agrees with the argument of union advocates that fair and consistent management is essential and managers of work groups cannot be counted on to always act in a fair and consistent way. There needs to be a mechanism for all employees to be heard. Being heard is the foundation of the Toyota culture of continuous improvement. So, Toyota sets up mechanisms through the HR department to allow team members to be heard. We saw that even the HR department can be viewed as biased. The countermeasure was to set up a separate "I" team representing a cross-section of the plant to investigate employee issues. Do we believe that the management of most companies is mature enough to police themselves and protect the interests of the business and the workforce? Unfortunately, the answer is no. Yet a lean enterprise depends on surfacing problems. That depends on employees' trust that the system is fair and consistent. Companies striving for a lean enterprise will have to change to be adequately seen as fair and impartial to workers or work cooperatively with a union representing both the workers and the long-run success of the company.

With Toyota's partnership relationship the focus is always on the team members and the business at the same time, which sometimes means doing what is hard in the short term, in order to be around for the long term.

KEY POINTS TO CONSIDER FOR YOUR COMPANY

1. Toyota strives for fair and consistent treatment of people.
2. Toyota does not believe that supervisors left on their own will all have the same criteria for promotions, rewards, and discipline so it puts this responsibility in the hands of human resources.
3. HR plays a much stronger role at Toyota than we typically see in other companies, including final approval of all promotions, even at the executive level.
4. HR is very hands on at Toyota with representatives distributed throughout the organization getting to know people individually and actively listening for concerns.
5. Toyota views fairness in relational terms looking beyond formal contracts to more personalized terms and long-term exchanges.
6. Toyota's culture is based on "trust interaction," which assumes fair exchange works itself out over time, versus "commodity interaction," in which I do this for you only if you do that for me in return.
7. In commodity interaction, each side seeks to maximize its advantage at the expense of the other side, whereas in Toyota's trust interaction, the goal is mutual growth and prosperity.
8. Toyota works to create an environment of mutual trust and sees HR as the "police" of fairness, reducing the need for another third party to represent the interests of labor.