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Raju Ketkale (A): Leading Toyota's Manufacturing Turnaround in India

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Introduction

In early 2013, only two years after building its second plant for the production of the Etios model (see **Exhibits 1** and **2**), Toyota Kirloskar Motor (TKM), the Indian subsidiary of Toyota Motor Corporation, Japan (TMC) was struggling to make profits. Within the first year of the plant setup, TKM undertook an ₹8 billion (Indian rupee) expansion project to double its production capacity to 210,000 cars/year. Soon after this expansion, the demand for Etios drastically declined due to an unexpected slow-down in the Indian automotive industry. This resulted in huge financial losses for the company in the year ending in March 2013.[1] The losses translated directly into budget cuts across all divisions, which affected management dynamics in every division.

Despite achieving all annual targets in 2012, production employees couldn't receive their well-deserved bonuses unless there were significant improvements in sales of the Etios. Meanwhile, the production workers blamed the sales on poor performance. Although the Etios was a good performance vehicle, it had failed to appeal to customers. The truth was that, unfortunately for Toyota, there were more advanced cars for nearly the same price – if not lower – on the market, and it would take Toyota at least three years before it could incorporate significant market feedback into the product. It was then that Raju Ketkale, who was project leader for the new plant, was promoted to vice president and put in charge of Plant #2 for Etios production.

With little experience in production, being the new boss of division managers who had spent over a decade in production was going to be challenging, especially given that his presence would limit growth opportunities for his immediate subordinates. Having mostly managed teams with an engineering mindset, Ketkale was contemplating how he could sustain the motivation of his production workforce given that the incentive of bonuses was no longer an option.

[1] The Indian financial year is April to March.

This case was prepared by Priyanka Bharadwaj, MBA Student, under the supervision of Professor Anneloes Raes, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. October 2015.

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Toyota Kirloskar Motor

Toyota Motor Corporation, Japan (TMC) entered into a joint venture with the Kirloskar Group in 1997 to establish its Indian operations, with TMC holding an 89% stake in the Indian subsidiary Toyota Kirloskar Motor (TKM). Since its inception, TKM had been the top runner in the multi-purpose vehicle segment in the Indian automotive industry, with models such as Qualis, Innova and Fortuner. This success was driven by a combination of factors: India's growing economy, support from the government and TMC's ability to instill the "Toyota culture" among its affiliates.

TKM was established on Toyota's fundamental principles of "respect for people" and commitment to "continuous improvement, or *kaizen*." Toyota is highly committed to its employees and invests heavily in developing them. If an employee's performance is found to be deteriorating, Toyota believes in working with the employee to understand the root cause of the poor performance. Then it is systematically countered in order to restore, sustain and improve performance. Toyota's philosophy of "mutual trust,"[2] which defines the relationship between the employees and management, who support each other in times of need, is reinforced through its policy of not firing its employees in times of crisis or due to poor performance.

After a decade of success in the Indian automotive market, TKM was gearing up to launch the Etios, Toyota's first small car in India. With the launch of the Etios, TKM aspired to double its market share in the industry to 6%, as the Indian passenger car market was expected to reach 5 million sales by 2015. Manufacturing the Etios called for the setup of a new plant (Plant #2) beside the existing plant (Plant #1) in Bangalore. Since 2008, the Plant Engineering Division and the Production Engineering & Services (PES) Division had been extensively involved in planning the construction of the plant and its facility setup.

Raju Ketkale

The general manager of the PES Division, Raju Ketkale, who was spearheading the engineering work for the Etios project, hailed from an agricultural family in a small town in Kolhapur district, Maharashtra, in rural India. Raju Ketkale had joined Kirloskar Oil Engines, Ltd. in Pune, Maharashtra, as a design engineer after completing a Master's degree in Machine Design. After working with Kirloskar for six years, he was selected to be a part of the feasibility team to set up Toyota's operations in India. Joining TKM as an assistant manager of the PES Division in 1998, Raju Ketkale rose up in the ranks of the PES Division. In 2007, he was assigned to Toyota Motor Asia Pacific (TMAP) – Toyota's Asia-Pacific regional headquarters in Thailand – for a year to lead the Global Corolla Project, where he worked as a country manager with engineering teams from six different countries. Having acquired international project management experience, Ketkale was nominated to head the plant setup for the Etios in India as the general manager of the PE & PES divisions.

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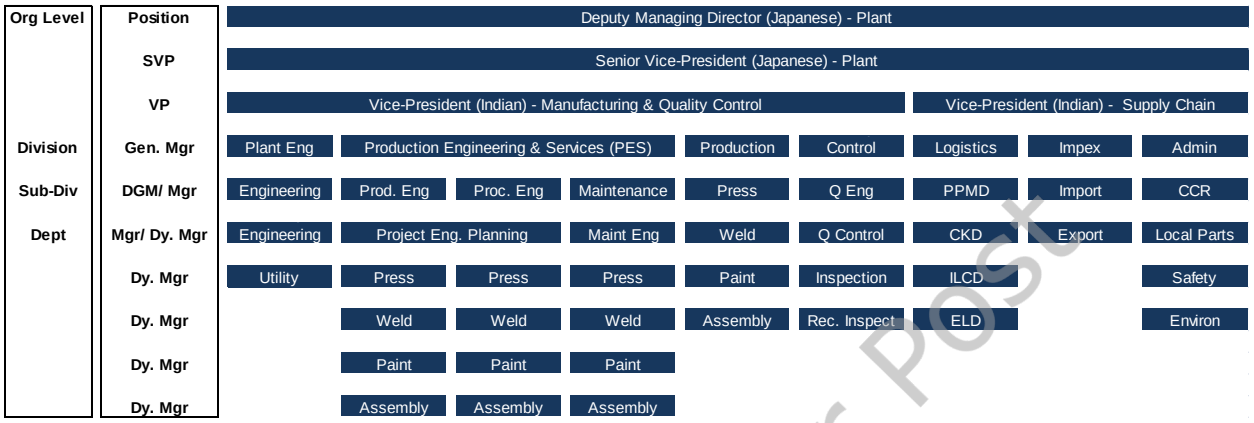
[2] Mutual Trust – An agreement signed between Toyota Management and the Labor Union.

Figure 1
TKM manufacturing organization



Source: Prepared by the authors.

Figure 2
Organizational hierarchy within TKM

Source: Prepared by the authors.

Etios, the first greenfield project independently managed by TKM with minimum support from TMC, was a massive project with a built area of 300,000 m2 including press, weld, paint, ED, resin/bumper and assembly shops. Utilities, canteens and a centralized kitchen (to serve nearly 10,000 employees) were also built. Throughout 2009, the PE & PES divisions worked 24/7, from building construction through production facility installation until the plant was handed over to the Production Division. The EFC project site was a congregation of construction laborers from all over the country (speaking six or seven different languages), working in perfect harmony with equipment experts from other Asian countries (speaking three or four different languages). Best practices for safety management were established during construction of the plant.

Ketkale's team established a common platform – the "Toyota Way" – for all stakeholders in order to overcome the high cultural barriers and ensure the successful completion of the project. His commendable leadership skills in building a world-class plant earned him apromotion to the position of vice president of PES and quality in 2012. Given the positive outlook for the Indian economy, TMC and TMAP had very high expectations for the Etios. Assuch, TKM decided to expand Plant #2's production capacity from 100,000 to 200,000 units/year. Yet again, Ketkale and his team successfully completed a massive expansion project, which not only helped him gain confidence in his engineering project management abilities; he also earned immense credibility in the eyes of the management. He was assigned the additional responsibility of managing the Production Division for Plant #2 (with 3,000+ employees) and he was also nominated to participate in the Global Leadership Development Program.

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