A New and Improved Keiretsu

I recently had a member of our local National Capital Region Community of Practice pass along to me a Harvard Business Review book review (September 2013). The book is *The New, Improved Keiretsu*, by Japanese professors Katsuki Aoki and Thomas Taro. The review makes the case that Toyota has further perfected the Keiretsu model in the wake of big downturns in the Japanese economy (1991 and 2008) based in part on the need to find new ways to stay competitive vs. overseas car makers. It talks about the advent of vendor relationships that are, “more open, more global, and more cost-conscious” than the traditional model. The new model includes enhanced emphasis on knowing and trusting suppliers, and involving them directly in new product development. This is intended to turn these relationships into a tool for both faster innovation and cost cutting, and is based on deeper collaboration, trust and even educational support. Toyota also is expecting its suppliers to provide “integrated systems of components” to drive down cost as never before. The review offers a number of insights into Toyota’s New Keiretsu approach that appear to fit Lean Construction to a “T”. [READ MORE]

The New Keiretsu contracts have evolved as well: they are more ambiguous in outlining the relationship, and more likely to have non-binding targets. This is to encourage suppliers to view the relationship as an opportunity to be innovative, not just meet the minimum requirements spelled out in contracts. They seek to encourage suppliers to “go the extra mile,” by learning all they can about the customer’s needs, identifying and fixing errors proactively, and taking all necessary steps to meet deadlines. There is also a commitment to keep up a relationship with suppliers even when they are dropped from a particular model due to price; the opportunity is often offered to produce on a different car model. Educational programs for suppliers emphasize hands-on training that is “as much cultural as technical,” and focuses on working together to solve problems as they arise.

Although still not perfect, the New Keiretsu approach has stood the business test in large part because it avoids some “hidden costs” of arms-length, western business models, especially the obfuscation of supply chain problems as all players maneuver to escape the blame for performance problems. By building expertise, dedication and innovativeness, everyone’s competitiveness is enhanced. Check out how much the direct excerpts below of New Keiretsu guidelines are as applicable to Lean Construction as they are to manufacturing:

“Build personal relationships between your company and your suppliers...Meet your suppliers. Create joint study groups. Have your managers work with suppliers’ engineers on the shop floor. These steps will lead to faster problem solving and an atmosphere in which vendors are comfortable making suggestions....Increasingly the locus of competition is between supply chains rather than between individual companies...Manufacturers that want to move toward improved supplier relationships must remember the keys to keiretsu-like partnerships: support, cooperation, trust, and goodwill.”

It’s interesting to reflect on the extent to which the “New Keiretsu” approach is emphasizing or re-emphasizing so many tenets that have been hallmarks of Lean Construction since its
inception. It’s often recognized that Lean design and construction is more a social than a “hard” science, and this new set of emphases at Toyota helps reinforce the notion that, at its most basic, Lean deals with enhancing collaboration and the ability of people to work together for mutual success. Some things never change: human nature is a powerful force to be reckoned with, and Lean tools and techniques help ensure it is a positive, not a negative force, on project delivery.