

Supplier Development at Honda, Nissan and Toyota

Comparative Case Studies of Organizational Capability Enhancement

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Key Questions and Contributions

- What factors facilitate and constrain the sustained development/replication of organizational capabilities at suppliers?
- Contribution to organizational learning literature: Transfer of organizational capability depends on organizational and governance structures
- Why do firms in the same industry differ (Nelson 1991)?

Typology of Supplier Development Activities

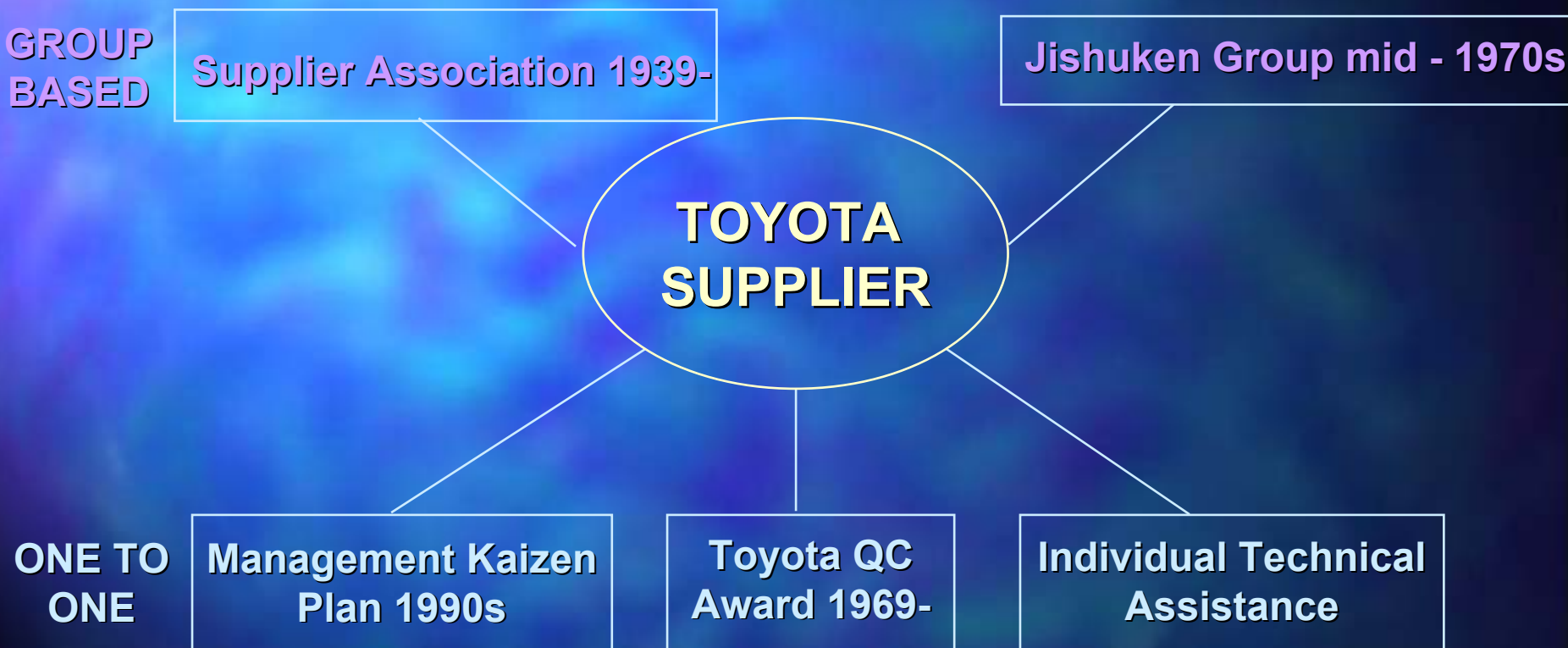
- **Type of capability:**
 - ✓ Maintenance capability
 - ✓ Improvement capability
 - ✓ Evolutionary capability

- **Scope of activity:**
 - ✓ Production line for a specific component
 - ✓ Whole workshop or factory
 - ✓ Whole company

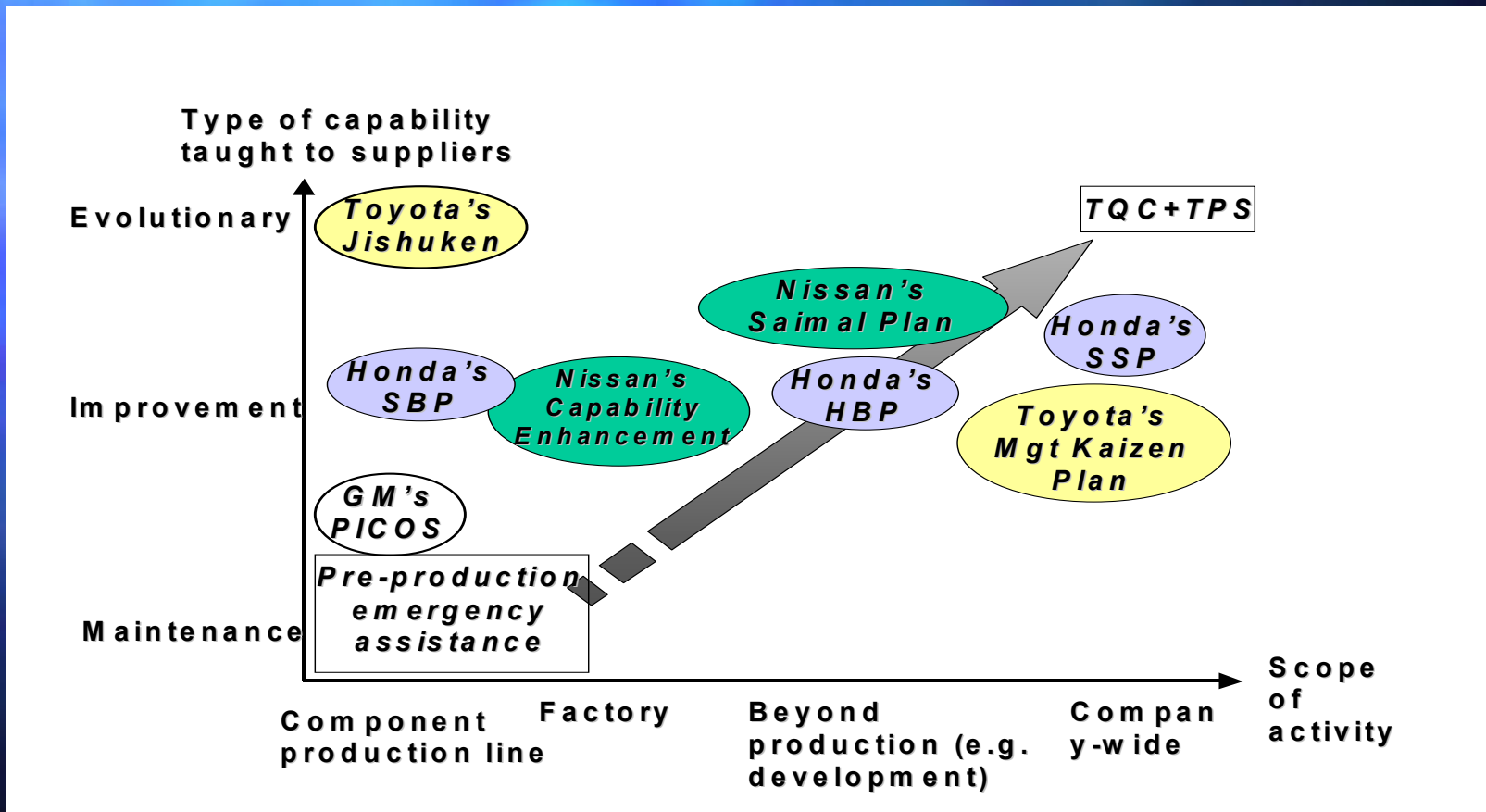
Common Principles of Supplier Development in Japan

- Multiple channels of supplier development, in order to transfer both explicit and tacit knowledge
- Scope of supplier development activity has become broader and deeper over time
- Corporate governance at supplier companies has enabled sustaining the voice of customer company as a legitimate semi-insider in making investment decisions

Multiple Channels of Supplier Development



Types of Supplier Development at Honda, Nissan and Toyota



How Firms Differ

- Toyota has a distinct internal organizational structure for delivering supplier development
 - ✓ Decoupling the teaching of TPS (by OMCD) and TQC (by purchasing department)

- Toyota has the most systematic institution for *inter-supplier* learning of tacit knowledge
 - ✓ Jishuken Groups

Bifurcated Structure for Supplier Development

TOYOTA

Purchasing Planning Division

Diffuse Total Quality Control through:

- Toyota QC Award (cf Deming)
- Management Kaizen Plan
- Supplier association

Operations Management Consulting Department

Diffuse Toyota Production System through:

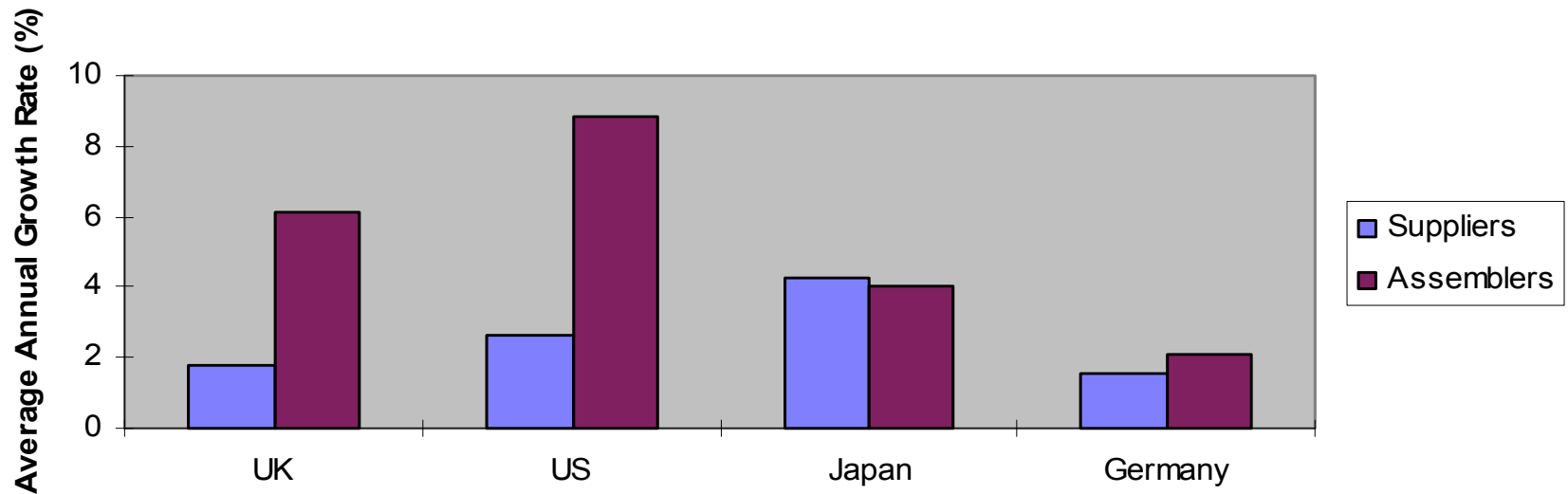
- Individual assistance
- Jishuken Groups

Replication outside Japan?

- **Convergent trends**
 - ✓ **Move away from ‘exit’ to ‘voice’ supplier relationships (Helper and Sako 1995)**
 - ✓ **Creating, rather than buying in, lean suppliers (MacDuffie and Helper 1997)**
- **But within ‘voice’ relationships, still a difference between the automaker as an informant of ‘best practice’ and as a hands-on teacher of know-how**
- **Less ambitious supplier development activity due to:**
 - ✓ **Differences in corporate governance**
 - ✓ **Faith in leveraging ‘exit’ rather than ‘voice’**

Slower Labour Productivity Growth at Suppliers in the UK and US

Average Annual Growth of Value Added per Worker 1979/80 - 1992/3



Sources: National Production Census Data

Conclusions

- Supplier development (= development of organizational capability at suppliers) involves resource commitment as well as creating incentives for collective learning

- Supplier development is influenced by:
 - ✓ Internal organization structure of OEMs (and suppliers)
 - ✓ Corporate governance (who makes decisions about what types of investments are made, and how returns from investments are distributed)