

TEACHING NOTE 2: HONDA MOTORS

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Case Synopsis

Honda is a popular company to use as a strategy case study in a pedagogic setting. The company first rose to prominence as a strategy example when Boston Consulting Group (1975) published its analysis of the declining British motorcycle industry, in which the competitive threat posed by Honda's advance along the so-called experience curve was highlighted. A well-known essay by Richard Pascale (1984) took issue with one particular aspect of the BCG version of events. This essay is frequently invoked to argue that there may be more than 'one best way' to create strategy, and more specifically that learning from experience, together with luck, may be more important than analytical thinking. Another well-known case study of Honda is by James Brian Quinn (1991, 1996), in his strategy text edited with Henry Mintzberg, in which he describes Honda as an idiosyncratic entrepreneurial firm, much in line with Pascale's portrayal. The summer 1996 issue of *California Management Review* published a lengthy debate on the so-called 'Honda effect' between the BCG camp, for which Honda remains a company best understood as an analytical planner, and the Pascale/Mintzberg camp, which stresses the incrementalist approach.

Besides this strategy process debate, Honda is also at the center of discussion in strategy content issues. Hamel and Prahalad (Reading 6.2) lay claim to Honda to argue the importance of technical core competencies, while others propose instead that Honda's success is best explained by broader core capabilities. Honda, in other words, has - unwittingly - become embroiled in some of the major controversies of the strategy field.

This case attempts to explain how Honda can appear to support opposing theoretical perspectives at the same time. The case describes that while many companies, when faced with strategic and other managerial choices, select one option, or trade off one against another, Honda has acquired a strategic capability to reconcile management dichotomies - and hence achieve solutions to management challenges that are denied to other companies.

Teaching Objectives

If used in conjunction with Chapter 1, this case can be employed to meet the following teaching objectives:

- *Understanding the concept of strategy tensions.* This case explains how organizations are confronted by tensions between opposite demands that need to be dealt with. In the case these tensions are referred to as managerial dichotomies (link to Introduction).
- *Understanding the concept of strategy paradoxes.* In the case it becomes clear that while Honda managers accept the existence of the tensions/dichotomies, they constantly seek to find innovative ways of reconciling them. In other words, they do not see the tensions/dichotomies as false opposites (a puzzle) or as mutually exclusive demands (a dilemma). Nor do they accept that meeting one demand is always at the expense of meeting the other (a trade-off). Honda managers believe that opposites can be bridged (a paradox), but that this transcending of the tension requires creative thinking (link to Introduction).
- *Discussion on the reconciliation of opposites.* The case gives many examples of tensions/dichotomies that Honda managers have successfully bridged. Less attention is paid to the cognitive and organizational processes required to achieve successful reconciliation. This allows for a discussion on the use of dialectics and argumentation as creativity enhancing methodologies. This discussion is important as the entire set-up of the book rests on dialectical inquiry and

argumentation to stimulate students' critical thinking abilities (link to Introduction and 1.2 Mason & Mitroff).

- *Discussion on the nature of strategic thinking.* The case continuously makes clear that Honda's success rests on its ability to break through existing trade-offs and to creatively find new ways for dealing with enduring strategy tensions/dichotomies. This makes the step to the discussion in the following chapter on the nature of strategic thinking quite easy (link to Chapter 2).
- *Discussion on cross-cultural management differences.* The case also clearly brings forward the traditional differences between stereotypical Western and Japanese management. The question that can be asked is whether these historical differences still exist and whether they will continue to influence how managers from each nation will develop strategies (link to Introduction and 1.4 Hofstede).

Teaching Guideline

The Honda case is not a traditional strategy case study in the Harvard Business School sense. While most case studies attempt to be theory-neutral, so as to provide empirical materials upon which course participants can practice the application of the theoretical strategy perspectives and models they are learning, this case study definitely has a point of view to get across. This case illustrates how managerial dichotomies can be reconciled in a way that the 'best of both worlds' is achieved.

Where the opening case particularly focused on the different issues of context, content and process, this second case encapsulates the pedagogical philosophy underlying the book, as in the Honda case, students are encouraged to understand the tensions posed by opposite pressures placed on organizations. And according to this students must find the most effective way of dealing with these opposites. In Chapter 1, four alternative ways of viewing dichotomies are given – as puzzles, dilemmas, trade-offs or paradoxes. The case illustrates that at Honda the dichotomies are viewed as paradoxes – two opposites seem contradictory but can be reconciled through creative thinking. And this is exactly what the book challenges readers to do in all further chapters.

The case is designed to work as follows. After providing a broad background to the company, it presents its fundamental story - that of 'Mr. Kawamoto's Reforms'. This story nicely illustrates two issues. First, the issue of reconciling the individualism-groupism dichotomy at senior management level is examined, which gives valuable insights into managing the strategy process. More subtly, the story also illustrates how easy it can be to misinterpret this reconciliation process as an attempt at a revolutionary swing from one extreme to the other (as is visualized in Figure 1). The bulk of the case then reviews a series of easy-to-understand management dichotomies and presents Honda's 'solutions'. There is no attempt to explain how the solutions were arrived at. The principle behind this pedagogic structure is that of Thomas Kuhn: a young child shown a duck and a goose may not be able to explain the difference between them theoretically, but will certainly recognize the next goose encountered. The Honda goose is shown against a series of different backgrounds in the hope that its silhouette too will be recognizable in front of new, unanticipated backgrounds.

While the dichotomies and constant reconciliation described in the case make the fundamental philosophy of the book clear, they do not pre-empt the debates that follow in the next chapters. This is because the focus in the Honda case is primarily on the functional level of strategy – in particular, production operations and product development - and organizational issues. Only at the end does the case raise some strategy dichotomies as discussed in the book, but whereas previously Honda's reconciliatory management practices were fully described, for strategy they are only hinted at.

A good way to start off the case discussion is to draw attention to Figure 2, which incorporates a trade-off line, upon which all types of dichotomies can be mapped. The top right hand corner is the neo-classical economists' unattainable area - which suggests that innovation will have been achieved if it can indeed be reached. The next step is to ask students to create lists of dichotomies through a classroom discussion, carefully managing it to bring out relevant dichotomies and set aside ideas that don't work. It can be very difficult for some course participants to understand this concept if they are not adept at thinking abstractly, so it is worth spending some time on this. One approach could be the following:

- First, create a list from the Honda case (e.g. humane vs. efficient work).
- Second, develop a list of other dichotomies drawn from their own work experience (e.g. what appear to be contradictory pressures on their behavior, such as teamwork combined with individualized reward systems).
- Third, review and get course participants to explain the broad strategy dichotomies.
- Fourth, if a counterpoint might prove useful, Reading 5.1 by Michael Porter can be used. Cost and differentiation can be presented as polar points on Figure 2 of the Honda case study. Porter is interesting because his points are not at the extremes (firms following the cost strategy must bear differentiation in mind too). He is also interesting because he does not permit a sliding trade-off; any attempt to do so leads to ‘stuck in the middle’, the bottom left hand corner of Figure 2. For Porter, the top right hand corner is unattainable (despite his typical caveats; see Porter, 1996, for his admirable defense of this – we believe fundamentally flawed – approach).
- Fifth, only at this point would we attempt to get course participants to isolate the strategic dichotomies their (former) firm faces - indeed this may best be left until later in the course in the context of the in-depth chapters of the text. The Honda case should nevertheless have made this task less daunting.

Of course, the Honda case can also be used in shorter courses and one-off seminars as a tool to quickly introduce the concept of ‘reconciling managerial dichotomies’ without participants having read the book. This leaves participants the freedom to focus on the dichotomies that they find most interesting and/or relevant to their practical situation.

Case Questions

1. What are the major strategy tensions/dichotomies that Honda has attempted to reconcile over the past 50 years?
2. Do Honda managers view these tensions/dichotomies as puzzles, dilemmas, trade-offs or paradoxes? Explain.
3. What type of organization and mind-set do you think are needed to reconcile strategy tensions/dichotomies in the way Honda has?

Case Analysis

1. *What are the major strategy tensions/dichotomies that Honda has attempted to reconcile over the past 50 years?*

The case describes many tensions/dichotomies that Honda has attempted to reconcile, but mostly they have been framed as general management issues or dichotomies at the functional strategy level (e.g. production and product strategy). Yet, with a little discussion, many of these dichotomies can be reframed as the fundamental strategy conflicting demands discussed in this book:

- *Deliberateness vs. emergentness.* In the case this tension is identified as the dichotomy of planning vs. learning.
- *Revolution vs. evolution.* While describing Kawamoto’s reforms, it is argued that Honda did not radically switch to a new mode of doing business, nor where the changes gradual and gentle. Honda’s approach to change combined revolutionary and evolutionary characteristics.
- *Markets vs. resources.* In the case this tension is only mentioned in passing as the dichotomy of market positioning vs. developing internal resources.
- *Responsiveness vs. synergy.* At the beginning of the case the dichotomy between individualism and groupism is discussed in depth. At the corporate level this issue is translated into the tension between individual business units responding to the demands of their own businesses, while recognizing the group’s potential for achieving synergies through the leveraging of competencies/capabilities.

- *Competition vs. cooperation.* In discussing the relationship with its component suppliers, this dichotomy is brought forward.
- *Globalization vs. localization.* This tension is raised in a slightly different way, as the general dichotomy of Japanese vs. Western management. Looked at differently, the question for Honda is to become a nationless company versus one with a strong Japanese identity.

At this moment the professor might want to complete the full list of 10 tensions, to give students an overview of what is to come, and ask whether students think these additional tensions are also relevant for Honda.

2. *Do Honda managers view these dichotomies as puzzles, dilemmas, trade-offs or paradoxes? Explain.*

In the case it becomes clear that while Honda managers accept the existence of the tensions/dichotomies, they constantly seek to find innovative ways of reconciling them. In other words, they do not see the tensions/dichotomies as:

- *A puzzle.* If Honda managers would view the tensions/dichotomies as a puzzle, this would mean that they would strive for the one optimal solution for bringing together the two sides. In other words, seeing a tension/dichotomy as a puzzle means viewing the two sides as false opposites, which logically can be brought together into one best approach.
- *A dilemma.* If Honda managers would view the tensions/dichotomies as a dilemma, this would mean that the two opposites would be mutually exclusive demands. Honda managers would have to choose for an 'either-or' solution.
- *A trade-off.* If Honda managers would view the tensions/dichotomies as a trade-off, this would mean that meeting one demand would always be at the expense of meeting the other demand. In other words, Honda managers would accept a static zero-sum game between the two opposites.

Rather, Honda managers believe that the tensions/dichotomies should be viewed as *paradoxes*, that is, as seeming contradictions. They believe that the two opposites can be bridged, in other words the paradox can be transcended. However, every new reconciliation is not the final resolution of the tension, but merely a better solution than previous ones. This leads to a constant drive to find even better ways of getting the best of both worlds.

A follow-up question to gain more depth would be: *Is it likely that Honda managers and employees think precisely in the way the case suggests, or is this in fact just another Western interpretative imposition?*

This is an open question to which we can give no definitive answer. There is some clear evidence that Honda managers and engineers think more or less explicitly in terms of reconciling dichotomies. The case study presents two examples. Figure 3 is Honda's own figure, showing the relation between fuel consumption and the power of the VTEC engine, and Exhibit 4 ('we aren't interested in trade-offs') with its overt dichotomy-resolving language. Mito¹ (1990), while less analytical, suggest other examples. Moreover, Honda's 'revealed strategy' can be coherently interpreted in this way. On the other hand, some Western managers from Honda, as well as senior Japanese executives at the company, have seemed somewhat bemused when asked about this way of thinking. Wherever the 'truth' lies, simply posing the above question to course participants - particularly in tandem with a short discussion on explicit and implicit forms of knowledge (link to Chapter 2) - can generate useful discussion in class. Of course, it might be that the 'revealed strategy' at Honda described in the case study reflects what is in fact an implicit mode of thinking, possibly tied to Japanese culture, which the case study has misrepresented. Yet, it might still be valid to make this mode of thinking explicit, as the case study does, in order to communicate the underlying conceptual framework to a Western audience (link to Reading 1.4 on cultural diversity).

¹ Mito, S. (1990) *The Honda Book of Management*, Kogan Page, London.

3. *What type of organization and mind-set do you think are needed to reconcile strategy tensions/dichotomies in the way Honda has?*

This question is intended to lead the discussion towards the issues in the following chapters, strategic thinking and strategy formation. The issue of mind-set refers to the discussion that will take place in Chapter 2: how much logic and creativity does the strategic thinker need to be able to reconcile tensions? It can already become clear in this discussion that it is necessary for strategists to understand the nature of the strategy tensions, but that analytical reasoning is probably not enough to break through dilemma or trade-off thinking. A certain measure of innovative ability is needed, which suggests that creative thinking probably is an important ingredient of a strategist's art.

The discussion on the organizational characteristics needed to encourage dichotomy reconciliation will anticipate the debates that will take place in Chapters 3 and 4, where questions of experimentation and learning are on the agenda.

A follow-up question to gain more depth would be: *Is it really practicable to resolve strategic challenges by first formulating them as dichotomies and then attempting to reconcile them?*

In the answer to this question a distinction needs to be made between using this method as a classroom teaching approach or as an in-company strategy problem-solving approach. This issue is already discussed at more length in the introduction to the teaching guide, of which this teaching note is a part. However, we would like to add the following reflections on the first version of the case (published in Baden-Fuller and Pitt, 1996) in which Martyn Pitt and Peter McNamara report on how the reactions were to the first classroom usage:

Overall, students tend to polarize around three positions over the [...] issue. One group, the less experienced, tend to miss the point completely and will need help from the instructor to help them through the issues. A second group argues that it is 'academic tosh', while a third group argue that Andrew Mair is 'really onto something here'. An example of a debate in one executive MBA group illustrates how polarized this debate can become. Individual A, who believed the [dichotomy reconciliation] idea to be valuable, lambasted individual B, who believed the idea to be academic tosh, saying that he believed the relative decline of B's firm over many years was largely the result of the inflexible, collective black-or-white but never grey mind-set so well exemplified by B's reaction in class!"

This diversity of reactions indicates that the case study is a potentially challenging one, for two groups of students. Even so, the value of the case in the context of *Strategy: Process, Content, Context* as a whole is that it permits some of the book's key issues to be brought out, debated, and rehearsed through a single, encapsulating, case, towards the beginning of a course. As such, the case can generate enthusiasm and/or be rewarding for some participants - those who were already implicitly converted (the third group above), and those (the first group above) who can thus be more gently shepherded into the daunting intellectual world presented in the book. As ever, the existence of a few skeptics (the second group above) willing to voice their views permits the enthusiasts to deepen their own understanding and sharpen their thinking by defending the case study's analysis of Honda. Meanwhile, the first group can be encouraged to follow the debate in hopes of an intellectual breakthrough. As for the skeptics - sometimes 'hard' managers used to making 'tough' decisions' - they can only be converted to at least accepting such different and 'non-natural' ways of thinking at their own pace. Although this can perhaps be accelerated, if you are working in a traditional academic setting, by a requirement to answer an examination question on the subject.

What Happened After the Case?

The reconciling strategy of Honda, as clarified in the case, seemed to be very successful at the time this case was written. But did they manage to continue this strategy in the years after and if so were they successful?

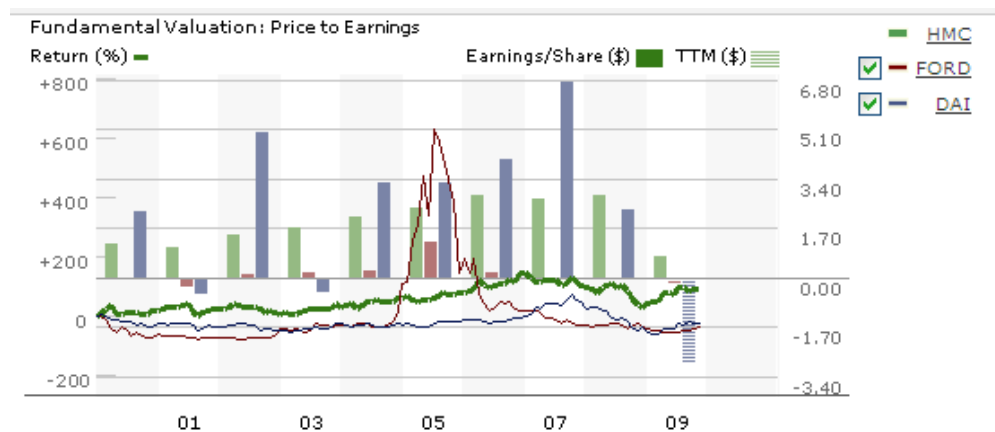
The Company has grown to become the world's largest motorcycle manufacturer and one of the leading automakers. Honda incorporates a global network of 396 subsidiaries and 105 affiliates by March 2009. Honda develops, manufactures and markets a wide variety of products, ranging from small general purpose engines and scooters to specialty sports cars, to earn the Company an outstanding reputation from customers worldwide.

Honda and the automotive industry

In the past decade the automotive industry faced a strong force towards consolidation. The DaimlerChrysler merger created a new giant and the acquisition of Volvo by Ford and the alliance of Nissan Motor and Renault were signs of this trend. The reason for this radical move to consolidation is the strong belief that in the future there is only space for tiny boutiques and giant sellers. *'There will be room for niche players with strong brands. Otherwise you've got to have volume'*. This is a quote of the president of GM North America in 1999.

But Honda was and is not willing to choose between these two strategies and tries to survive in the middle between the 'goliaths' and the 'dwarfs' (niche players) in the market. In order to outperform their competitors, Honda introduced flexible manufacturing systems. In this way they can produce up to 8 models on 1 production system and by doing so Honda strives to manufacture as cost-efficiently as possible. The positive side effect is that Honda is able to respond quicker on market changes than their competitors. Not a trade-off is made between these two elements, but Honda combines both of them.

Did this way of dealing with this dichotomy pay off for Honda or were they wrong and was scale the most important aspect in the automotive industry? To show this, the stock prices of Honda will be compared with Ford and Daimler Chrysler, two giants in the automotive business.



Source: tools Morningstar.com

The figure before shows that Honda outperformed two of the biggest competitors in the market in the past ten years. The figure also shows an intensive increase in return for Ford in the years 2004-2005. As a reason for this success, Ford states it reduced overheads, cut product expenditures, and slashed warranty costs. At the same time, it boosted revenues by targeting incentives and increasing the product mix. Apparently they were not able to continue this track since the returns decreased to the old level after 2005.

International context

Honda states they are following a 'glocalization' strategy, because they have a global focus but still use local knowledge, combined with effective operations. In practice this means for Honda that they

put cost-effective plants in areas that need their own specific adaptations to the various products they are offering.

A practical example of this is the five-region strategy of Honda. All five regions were given their own decision-making responsibility and so each particular region is given the opportunity to decide which product will serve their markets best. For example, with the launch of the Accord in the end of the nineties, Honda knew a single version of the car would not meet the needs of every market in the world. With the glocalization strategy, Honda is able to increase manufacture activities in countries where sales increase. This practice has led to over one hundred manufacturing plants in over thirty countries.

Contributing to this glocalization strategy is the expansion of Honda's production facilities to the Chinese market in 1999.

Concluding

Honda performed really well in the nineties and the first years of the new millennium. The Honda Accord was the best-selling car in the US in 2000, the Honda Odyssey earned in 2001 for a third year in row a double Five-Star Safety Rating and the Accord was also the best selling car in Japan in 2002. Furthermore, Honda has a reputation for producing high quality products from cars to motorcycles to lawn mowers. In fact they are the largest manufacturer of motorcycles in the world. Honda has won many awards for initial quality and customer satisfaction. Their automobiles are reliable and generally fuel efficient and their research has afforded them competitiveness in innovative products.

Regarding these strengths, it can be stated that Honda is a successful company. However, the company has its weaknesses too. One of their biggest concerns is the European market where they are still losing money. One of the biggest mistakes they made while entering the European market was to start making cars in Britain. When the British Pound started to rise, the cars were more expensive than competing models, made on 'the continent'. This is also the reason why Honda only uses 50% of its capacity of its British factories. Some analysts call Europe the Achilles' heel for Honda.

Another disadvantage Honda is dealing with is a direct consequence of their choice not to merge with another manufacturer. In this way the budget that Honda can spend on R&D is much smaller than the giant competitors. This could be a huge problem on the long term. Other weaknesses in Honda's strategy are the fact that Hondas products are fairly bland and inoffensive in terms of styling, their prices are relatively high for non-luxury vehicles in comparison with other manufactures, they do not have a strong offering in a truck line and their vehicles also have a reputation for being underpowered.

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