

Strategic analysis of honda motors

Business, Company



EXECUTIVE SUMMARY:

Being founded in 1948 in Japan by Soichiro Honda, the organization has come a long way from motorcycle manufacturer at the early stages to manufacturing high power electronic items and technologically sound automobiles, trucks etc. in a short duration after its foundation, Honda motors became the leading automobile industry, standing not only in the top market players in its native market but leaving behind the regional competitors and competing at the global level with automobile giants like GM, Ford, Mercedes Benz and Chrysler etc. Being the first amongst the Japanese manufacturing companies to expand its operations globally, Honda faced numerous challenges in making its products acceptable by the European and American customers who were used to big, fuel consuming expensive cars. Honda played it beautifully by presenting low cost, high quality less fuel consumption vehicles, and now with majority of its sales volume generating outside the native region and approximately half of the manufacturing facilities outside Japan, the basic principle remains the same i. e. technologically advanced low cost vehicles. With more than 400 subsidiaries and sister concern around the world, Honda has managed the famous Japanese management theory of JIT (just in time), also the management systems and decision making processes applied by the organization has brought quite a stir in the management theorists of the west, who found it imperative to study these and make comparison with those applied in their region. Though, Honda has also shifted from time to time to some of the western management concepts but with some modification, the organization still adheres to the basic Japanese

management systems of giving human relationships most importance and doing collective decision making and sharing responsibilities down the line. In this case study, it was studied how Honda motors handles various managerial dichotomies in organizational hierarchy, new product development, JIT system & supply chain, product strategies like designing and positioning, and planning & intra-organizational and inter-organizational relationships. It has emerged by this study that Honda has managed and reconciled these dichotomies successfully though some failures were also faced but the overall performance of the organization can be termed successful.

INTRODUCTION

The today's highly advanced and technologically sound global automobile industry has evolved successfully from a humble origin of wooden craft in 1890s to engine based vehicles' mass production in 1910s and the highly popularized lean production methods of 1970s (Gopal, 2006). The industry has made speedy advancement to stand amongst the world's top industries in terms of value and the leading industry in terms of its R&D expenditures (Gopal, 2006). Due to such rapid growth of this business sector Peter Drucker (1946) termed the world automobile industry the 'industry of industries'. Today, the global automobile industry has growth plans keeping view the low cost, high quality, less fuel consumption engines, innovation and modern techniques. Though the current recession has marred the growth rate of the industry like other sectors, the global automobile industry is fighting hard to retain its profitability and higher shareholder value.

The global industry was initially dominated by the US and European manufacturers, but the post world war II Japan started to challenge the big giants of the sector in the world market and penetrated the purely European and American automobile market successfully during 1970s and 1980s (Mair, 1999). The Japanese manufacturers like Toyota, Nissan and Honda shocked their western competitors in producing low cost vehicles to enter their segments. Honda was most innovative, challenging and strategically sound amongst all its Japanese counterparts and not only successfully captured the western markets but also succeeded in opening its manufacturing sites both in the Europe and USA and achieved economies of scale. Today, a large portion of its sales volume (approximately 77%) is generated from these foreign markets with 46% of its manufacturing facilities present off-shore (Mair 1997). The analysis that is going to be presented in this report is how Honda succeeded to achieve its present market positioning and how it tackled various obstacles in terms of management or strategic policies & procedures.

Table 1: World's top car manufacturers (2008)

Group

Unit

Production

General Motors 9000

8926

Toyota9000

8083

Ford7000

6268

Volkswagen Group6000

5685

Honda4000

3670

PSA4000

3357

Nissan4000

3223

Chrysler3000

2545

Source: <http://auto.indiamart.com/cars/car-statistics/international-statistics.html>

Renault3000

2492

Honda has built its procedure of strategic management on a very special thinking i. e. to reconcile the dichotomies or to resolve the issues successfully, which means that Honda chooses to take advantage of all the dichotomies or in other words, the contradictions of strategic concepts such as individualism-collectivism, vertical-horizontal structure, vertical integration-market relationship, sequential-simultaneous development, cost-differentiation strategy and load more. Reconciliation refers to an approach in which the two poles are somehow made in harmony with each other. Honda's approach to reconciling dichotomies is an exemplary innovation in management. Honda has contributed significantly in teaching today's managers the best ways to resolve some of the hardest management dilemmas. It is also a great reference for management students all around the world (Mair, 1997).

Keywords:

a) Global corporate Strategy: Andrews K (1971) has defined the corporate strategy as the pattern of minor objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business is company in or is to be in and the kind of company it is or is it to be. In today's global village, organizations develop strategies to cater internal as well as off-shore customers to achieve the competitive advantage.

b) Managerial dichotomies: When one thing is divided in two or more different parts or opposite opinions, we said that a dichotomy occurs¹. When we talk about managerial dichotomies, it means clash of different strategic concepts that are contradictory to each other in a business run.

c) Japanese vs. Western style of management: in view of Wickham (2009), the comparison of these two thinking of management could well be defined as “ To do the Right Things or do Things RightThe ‘ What’ and the ‘ How’. At one hand, if Japanese management style focuses more on human relations and team working, the western style is more inclined towards hierarchy i. e. it is more top-down style which gives CEOs more importance and rewards whereas, Japanese emphasize more on advanced manufacturing technologies, just in time theory and TQM (total quality management), their western counterparts believe on trade-offs between cost & quality and individualism & group etc (Wickham, 2009).

d) Corporate Governance: It defines the relationship between all the stakeholders in a company. This includes the shareholders, directors, and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law (Investopedia). It is also defined as “ the set of processes, customs, policies, laws, and institutions affecting

¹[http://www. answers. com/topic/dichotomy#ixzz1MVzwuMt](http://www.answers.com/topic/dichotomy#ixzz1MVzwuMt)

the way a corporation (or company) is directed, administered or controlled”. (Barron’s Accounting dictionary).

e) Corporate Ethics: It is the study and evaluation of the decision making by the businesses according to moral concepts and judgments. Ethical questions range from practical, narrowly defined issues, such as a company's obligation to be honest with its customers, to broader social and philosophical questions, such as a company's responsibility to preserve the environment and protect employee rights (Paluszek, 2005).

f) Corporate Social Responsibility: When an organization recognizes what are its corporate social responsibilities, it imposes a self regulation upon itself and its management system and the business model. This regulation enables the organization to monitor business practices to ensure that these practices and activities are in alignment with the law, ethical standards and international laws (Wood, 1991).

Question 1:

a) ' Planning' vs. ' Learning'

For the success of any business, it is imperative that the organizations resolve some of the dichotomies that run in the business. Honda used to introduce their products by considering the geographical differences and cultural variations and it yielded them good results in their business as well. The dichotomy of whether an organization is a planning organization or learning one is very difficult to resolve (De Wit, B. and Meyer, R., 2004). Honda has handled and reconciled this dichotomy successfully; in view of Mintzberg (1987) Honda is a company which epitomized in a very exemplary way that it's a ' crafted' organization rather than a ' planned' one. Pascal

(1984) is also of the opinion that the managers at Honda got the firsthand reaction on their automobiles by driving their own products and learnt after making simplest of the mistakes till they struck the right formula while entering the US motorcycle market. During the whole course of this entrance, they learned and made it a part of their system. Mintzberg (1989) has hailed Honda by declaring it as a company with some common sense, not overly-rational, but which learns from different markets and do not try to impose distant corporate views. It can be extracted from the case that the under discussion organization is learning one but with strategies planned with such detail and accuracy that the organizational system first learn then adjust itself to the changes in business environment easily. Honda case reveals the necessity of ' emergent learning alongside deliberate planning' Mair (1999), also Mintzberg (1991) is of the opinion that though both planning and learning are necessary , the leaning should come first, he has also argued that the rationale thinking on part of Honda would not have helped the organization sell its motorcycle in USA. Honda is strategically active organization with a well thought of and planned strategic system that is why it has been able to resolve this dichotomy successfully exchanging both planning and learning with each other.

b) ' Positioning' vs. ' Developing internal resources'

It is very difficult for an organization to choose between deciding the positioning strategies of its product or to develop its internal resources in such a way that would automatically position its products better in minds of customers, Honda also faced this difficult scenario and got through it

successfully again, though failures are inevitable part of this paradox, but the organization got through them as well. Many reasons could be cited to determine the rationale behind this success, Hamel and Prahalad (1994) are of the opinion that this was not to any significant part of its management of the dealers' network, rather on the difference of driving the Honda experiences over its competitors. They have also stated that ' Honda's ability to produce some of the world's best engines and power trains does provide customers with high valued benefits'. A large portion of company's global sales comes from the conservative and simple brand like Civic and Accord, which is in contrast to the general opinion about Honda being the producer of mainly the sporty and technically innovative cars, these sales figures show how customers perceive its products, i. e. as a combination of high quality vehicles with low prices and this concept is based on Honda's core capability of product and process designs. Also, the R&D of Honda is stronger than its competitors mostly the Americans, as it introduces innovative products more frequently in the market (Hamel and Prahalad, 1994), it presented Honda NSX was presented as a replacement of the Ferrari but at a fraction of the cost. It conducts research and is able to identify customers' and presented products which they wanted to have but didn't know it themselves (Hamel and Prahalad, 1994). Yet today, it is making huge investments in strengthening its core capability of technological advancements, low – pollution power sources e. g. electric or solar power and less fuel consuming engines, so that a potential breakthrough in the market position could be achieved. Thus, Honda is integrating both these functioning successfully in attaining the competitive advantage in the global automobile industry.

c) ' Product-related core competencies' vs. ' Process-related core capabilities'

The technological edge that Honda enjoys over its competitors enables the organization to produce its well known internal combustion engines which in a way reduces pollution and the latest technology they introduced in their product is CVCC. Though the new models introduced by Honda are less in comparison to its competitor GM & Ford, the quality of these new products helps it to gain the competitive advantage. This innovative technology is then also used in other product lines as well (motorcycles, automobiles and other power products). The technology developed for the power trains and engines is also transferred to other products such as cars, tractors, generators and marine engines (Mair, 1999).

The manufacturing concerns depend heavily on their process related core competencies, which represent the quantity in contrast to the product related core competency which represents quality. Honda has acquired both competencies and is successfully utilizing them simultaneously by producing at a large scale and specializing in low polluted and less fuel consumption auto and power engines. As the organization believes on the right-first time principle, the outcome is the right one without with errors (Mair, 1999), enabling the organization to save time which would otherwise spend in resolving the errors if there are any in its products. Errors increase the operational cost and lead time for product availability, which would force shift in customers' preference from their brand to other. Honda has developed another competency, i. e. built-in-quality, gained through various

sub transformational tasks in operations and determines its effectiveness via observing customer satisfaction. Thus, it proves that Honda has created an amalgam of both dichotomies by incorporating its core competencies both the products and process successfully. Whereas, Western manufacturers view their businesses and operations only with the perspective of the manufacturer, Honda views them both from manufacturers' and customers' point of view.

Question 2: ' Japanese management model' vs. ' Western management model'

Western organizations are more inclined to the managerial class in their enterprises, Japanese on the other hand, prefer the worker. As Hofstede (1993) has stated that, ' the Japanese are controlled by their peers rather than by their managers'. Western organizations believe in " large lot mass production' in manufacturing helping in reducing the cost and time, with few options in the hand of the customers, Japanese enterprises contrarily are based on the flexibility of production in which more importance is given to innovation (Mair, 1999).

The recruitment in the Japanese firms are mainly made from the school levels on the basis of the general characteristics of the incumbent, they also believe in long-term relations with their employees rather than a short-term relation as are usually seen in the western organizations which break-off in the downslide periods. Also the western firms view the technical skills of the new entrant most important (Hofstede, 1993). Practices for the progress in the career of the employees also differ in both styles, Japanese give seniority

most importance while western organizations view merit as the sole criteria. Same is the case with remunerations paid in both systems, where Japanese prefer seniority while considering wages the western organizations give efficiency most importance. Human resources are the most important fixed assets in the Japanese organizations which in their counterparts is considered to be a semi variable asset. Japanese prefer working in teams and have open offices while in the western organizations offices are filled with cubicles and employees work individually.

Group decision making is the charter of the Japanese organizations while western ones believe in the individualism with employees stick to the tasks given to them in western organization in contrast to the more independence given to workers in Japan. In Honda factories, they are performing free flow of assembly line system where employees are taking decision to send the product to the next level (Mair, 1997).

Trade-offs between product quality, cost and delivery, with high quality costing more and vice versa are common thinking in the western style, Japanese model, on the other hand, follows “ Right-First-Time” in which all the errors are removed during production. Priority is given to built-in-quality which in turn reduces production costs and also reduces product delivery time. Western enterprises practice centralized management where all decisions taken by the top management and implemented by the other staff in lower hierarchy, Japanese on the other hand, practice decentralized management which is characterized by the round table discussions. Thus

western organizational structure is vertical and Japanese is horizontal (Mair, 1997).

There are no doubts in the effectiveness of both the management styles, both are successful in their own capacity and also have their own shortcomings as well. An edge is obtained by the Japanese style due to better maintenance of and participation of employees in the decision making processes, customers could choose from various choices so quality is given the priority. Due to specific hierarchical system of management in Japanese organizations, the responsibilities are shared which brings out the best from all the employees.

Question 3: ‘ Corporate governance’ vs. ‘ Corporate social responsibility’

Nowadays, CSR (corporate social responsibility) has consumed all focus of the managers in the world, an old thinking given new dimensions in the management function each organization is expected to exhibit some “ ethical behavior and moral management”. Recently, the organizations have made it imperative to practice “ corporate social responsibility” (Carroll, 2000). Automobile industry is the largest industry of the world after construction and grocery industries on capital and investment ratios with topping the list on technological perspective. Though Flores (2001) agrees that the main objective of this industry is to produce more cars with profitability, he is of the opinion that the profit should be made but not on the expense of ignoring responsibilities towards the community. Every organization makes CSR an imperative part of its corporate strategy as they

have certain obligations towards the society from which they are generating their profit and of which they themselves are the part.

Demands of organizational stakeholders are also met via CSR, through which the customers make notice of such organizations as a good one. CSR has a large horizon with social, economical and environmental aspects as its integral part. However most of the organizations try to avoid social and environmental aspects and cope up with economical aspects only (Aguilera, 2008). Honda strictly shows its commitment towards society by taking initiatives regarding environmental issues. Honda Civic, a new model of Honda was introduced with clear air test using Muskie Law and it was to follow the American environment regulations².

Crane, Matten and Laura (2007) stated that “ CSR should not be considered as an ethical add on to the existing business, but it should be considered as a part and parcel of corporate strategy itself. Adoption of CSR activities eventually leads to prosperous company and society”. It helps organization building good name for them in the minds of customers, good relationship with employees, clients and other stakeholders which ultimately improves the organizational performance and profitability. If CSR is not being followed, the organizational business is affected as the firm’s good name & will are destroyed in the customers’ minds. Thus,

²[http://www. topgear. com/uk/honda/civic](http://www.topgear.com/uk/honda/civic),

organizations need to practice CSR, as it is vital in building a good rapport with the customers and increase business. By the introduction of

environmental friendly engines with low pollution helped Honda to increase their revenue. It created a good name among its consumers as well.

Apart from the financial aspects, non-financial aspects of an organization are also get affected by CSR, like selection and recruitment process of organization, employee motivation and employee retention and the innovation. Also, the environmental factors and ethical factors force the organization to come up with innovative products and these innovative products increase company's overall profits as well and assist them to sustain in market for a long term by making better quality cars for their customers, it ultimately increases the reputation of the company. CSR enables the organization to get rid of risks and errors from their production and operations by realizing the upcoming issues. CSR are thus result in giving more competitive advantage and profit by marketing positions. As automobile companies are going greener and environmental free, cost of production may reduce and it will improve their performance in the market (Hill and Knowlton, 2006) Toyota Prius is a new model which is a hybrid car which runs using electricity and gas. Even though it is not fuel effective, it is sold in great numbers as they are eco friendly. Honda too introduced Hybrid cars and it attracted more customers as well. Thus it shows that companies who are following CSR can generate great profit. Toyota showed their CSR when one of their hybrid car models faced brake failure in the market and the same thing happens to Ferrari in the year 2010 as one of their model exploded. Honda was chosen as the top CSR Company in UK during the year 2006.

CONCLUSION:

It is evident from the study of this case that the managerial dichotomies in the organizations are well handled by our focused organization i. e. Honda. Despite some failures in the course of these applications, the overall performance of Honda is satisfactory and can be called successful, creating an example to follow for other organizations on how to perform specially in the period of downslides. Honda handles these dichotomies with precision, applying a web-like organizational structure i. e. the combination of both vertical and horizontal systems of hierarchy levels in the management, implying teamwork and individualism simultaneously and developing both formal and informal relationships within the organization and also outside with other business organizations or the stakeholders. As the managerial dichotomies that exist at the business and corporate levels and are more complex and multilayered as compared to those present at the operational levels, they should be handled with great care and planning and Honda has been very successful in achieving this target. This handling of these dichotomies has attracted global management and strategic theorists to shift their focus from studying the strategies adopted by the western organizations to those adopted by their Japanese counterparts mainly Honda. Western management thinking of “ trade-offs” between various vital functions

3[http://www. marketresearchworld. net/index. php? option=](http://www.marketresearchworld.net/index.php?option=com_content&task=view&id=672)
[com_content&task= view&id= 672](http://www.marketresearchworld.net/index.php?option=com_content&task=view&id=672)

Like product quality & cost, cost & product delivery etc are challenged by Honda by developing “ build in quality process”. The firm is also focusing in manufacturing high quality technological cars to attract customers who go for the quality with low cost rather than other aspects. Honda has also left behind its competitors in the field of product development, with continuously bringing in new products with less fuel consumption engines, a core competency of the organization, power engines not only for heavy vehicles but for product lines of motorcycles and cars as well. The introduction of new products in the market are also made at sufficient intervals and with great care, planning and R&D, when the consumers are desperately start looking for more advanced and sophisticated products / models. The organization avoids re-launching its existing brand with only some face-lifts done to the previous models.

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