The honda corporate strategy case study

Business, Company

With reference to the Hondacase studyand also drawing on other examples from the Critical Issues course, what are the key theoretical and methodological issues in drawing general lessons from case studies of success?

History is subject to interpretation; so are business successes and failures. However ex-post justifications of the latter have proved more profitable. This essay explores the theoretical and methodological issues in drawing general lessons from case studies of success, with particular reference to Honda's successful penetration of the US market in the 1960s.

This essay offers a critical theory and post - modernist approach. Critical theory questions the central features of such recipes for success, the historical and social contexts from which they emerged and the purposes and functions that it may serve. Post - modernism can be seen as an extension of critical theory but has added the dimension of power to knowledge and argues that the two are no separable [Foucault].

In 1946, the Honda Technical Research Institute was established by Sochiro Honda and his partner, Takeo Fujisawa. Having succesfully established itself in the Japanese market, Honda entered the US market in 1959. By 1960, its Supercub model was highly successful. They then created a highly effective as campaign based on " You Meet the Nicest People on a Honda". By 1964, it has dominated almost half of the US market. Later in that year, it required cash on delivery of shipments. As Pascale (1996) says, " In one fell swoop, Honda shifted the power relationship from the dealer to the manufacturer."

Honda's success has been analysed and three distinct explanations for its success emerged:

· The most prominent is the Boston Consulting Group (BCG) Report. The report states that Honda maximised experience curve economies - low costs at high production volumes. As a result, American and British motorcycle manufacturers withdrew from certain market segments.

· Aninterviewwith six Honda executives by Pascale, led to his conclusion that Honda was successful in Japan because superior design skills led to a better product. Honda was also seen has a 'learning organisation' that adapted and responded quickly.

· Prahalad and Hamel introduced the concepts of strategic 'intent', 'stretch' and 'core competence'. These they feel were the necessary factors for success.

There are two competing views in strategy formulation: (1) the 'planning' school, and (2) the learning school. For the 'planners', strategy formulation is a deliberate, rational and linear process where ends are first specified. In this case, structure follows strategy. The 'learning' school takes an adaptive and incremental approach. Strategy is a non-linear and complex process. Structure and strategy formulation are intertwined.

Formulating recipes for success based on past success presumes that the future perfectly emulates the past. Common sense will tell us that this may not necessarily be true. Rhetoric will also infer the same. In a dynamic and competitive businessenvironment, factors that affect an organisation will not be static. Consumers tastes change. In the Post-Industrial era, consumers were more affluent. Hence, they demanded more than a standardised product produced by mass-production. Firms had to change from a product oriented approach, of the 'mass production era' to one that is market oriented [Ansoff, 1988]. Thus as Ansoff says,

"... whenever the future environment is expected to be discontinuous, emulation of historical successes becomes dangerous..." [pp. 135]

A theory is formed ideas or concepts used to describe the world to better understand it. Ideas and concepts cannot be free from bias as they are conceived by people and people possess different ideologies, values, interests and preferences. What purpose does it serve? A theory is devised to serve certain purposes and functions. Theories on strategy are formulated, to a certain extent, to keep management consultants employed. There is a need to question the validity of such theories and the methodology employed to apply them.

BCG's business portfolio analysis makes what is widely known as the 'experience curve' assumption. This states that the costs of production should go down with cumulative physical output. Thus, the report reasons that because Honda has already achieved high production volumes in Japan, it had a cost advantage. But were Honda's production costs low because of high volume or because of it employed production methods that were more sophisticated?

It also assumes that a business is a cash system, that is its cash flows depend on relative market share and industry growth rate. This allows the classification of businesses or products into four categories a 'star', a 'cash cow', a 'dog' and a '?'. It assumes that the classification is relevant and applies to all business. Under these two assumptions, its strategic analysis and recommendations will be valid.

However, as all models, it self-selects the kind of data that is compatible with it - in this case return on investment (ROI) and cash flows. The main problem with this approach lies with its narrow classification scheme, which may not capture the entire picture, such as the uniqueness and problems of a business [Mitroff]. ROI and cash flows represent only the financial dimension of a company. Other factors such astechnology, reputation and life of the organisation have to be taken into account.