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innovation and  
efficiency



**ASSIGN  
BUSTER**

## **INTRODUCTION**

Honda Motors was found in 1948 by Soichiro Honda. It's renowned as one of the Japanese leading manufacturer of motorcycles, car and power products.

Honda's primary goals are originality, innovation and efficiency, resulting in high quality products at affordable price, and environment friendly.

It has wide network of production and manufacturing facility internationally.

With this, Honda has position itself above the industry and recognized as Japanese Big Three automakers (De Wit & Meyer, 2004).

## **STRATEGIC PLANNERS AT HONDA MOTORS**

Strategic planners are professionals from within the organization, and are responsible for strategic planning for issues that impact the organization.

They usually belong to the top management team, and traditionally exist in all organizations, as similarly in Honda Motors. While steering the organization to develop a competitive edge over its rivals, they also act as advisers and suggest improvements and solutions to the existing business plans, policies and procedures towards enhancing growth and profitability for the organization.

It is significant for Honda planners to first understand the organization's internal and external environment to develop a strategic plan that entails competitive advantage for Honda Motors for a long run. It's a challenging task to perform especially in the dynamic automobile industry. The use of business strategy tools such as Porter's Five Forces and Porter's Value Chain

may help Honda planners to deal with this challenges, whilst improve the strategic planning process.

The Porter's Five Forces is a viable tool to assess the external environment of an organization. The model identifies the intensity of rivalry and attractiveness of the automobile industry; and the insights profitability based on five competitive forces (refer to Appendix 1) identified by Michael Porter's. Using this as a yardstick will enable Honda planners to first make decisions as to whether the business should enter or exit from the industry in certain geographic location; then identify the sources of competition and determine ways to set barriers for these rivals. With this realization, planners will be able to develop strategies accordingly, to improve their performance and influence a competitive position in the industry. (Refer to Appendix 2 for analysis made on the automobile industry)

The Value Chain analysis is an effective cost management tool. It identifies an organization's core competencies and distinguishes the activities that steers competitive advantage. It suggests that the business activities are to be subdivided into two; (i) primary; and (ii) secondary activities. These will enable Honda planners to understand the behaviors of costs for each of these activities and determine as to whether these chains of activities contribute to low cost advantages and cost disadvantages. On the whole, the model serves as a more constructive solution to analyze costs advantage for Honda, compared to the conventional cost accounting practices. (Refer to Appendix 3 for analysis made on Honda)

To conclude, in order to sustain competitive advantage and to gain continuous growth and profitability, as well as a position in the industry in the long run, Honda planners should employ these frameworks as it improves their existing strategies, thus aids in executing more well-structured strategy for the future of Honda Motors.

## **RECONCILING DICHOTOMIES – ‘ POSITIONING’ VS. ‘ DEVELOPING INTERNAL RESOURCES’**

A dichotomy is defined as a division of two parts that may either contradictory or commonly agreed. Dichotomies generally permeate all functions in the organization and may pervade a wide range of dichotomous categories, like the buyer-supplier relations, business strategy, work organization and product development processes. This is similarly in Honda. Honda’s innovative strategic management reveals an underlying process of reconciling dichotomies; which encompasses the “ positioning vs. developing internal resources” dichotomy. This reconciliation of dichotomies will ascertain as to whether Honda is a market positioner, or a resource builder.

Kotler (1997) defines market positioning as ‘ The act of designing the company’s offering and image so that they occupy a meaningful and distinct competitive position in the target customers’ minds.’ In brief, market positioning is basically about offering a differentiated product or services to the customer, and providing them with a reason to buy it. (Ries & Trout, 1972)

Honda had a strong positional advantage which helped them to establish a world-class image, attain competitive advantage as a leading automobile

manufacturer through their product strength, cutting-edge technology and market access. Their focus on innovation and flexibility was evidently proven when Honda propelled from a world's largest producers of motorcycle (1955) to world's top ten automobile producers (1980), which opened-up doors of opportunities in many emerging markets. A classical example would be Honda being the first Japanese company to open their motorcycle manufacturing facility in Europe (1963). (De Wit & Meyer, 2004)

Besides their product strength, Honda's achievements was from its core competence in their 'breakthrough product', the advanced internal combustion engine or better known CVCC (compound Vortex Controlled Combustion) engines technologies, which was widely accepted by the world's automobile industry. However, Honda's innovativeness remained indistinct when it came to reconciling core competencies in engine designs and the engineer's quest for technological mastery. (De Wit & Meyer, 2004)

Notwithstanding the tribulations encountered throughout their road to success, Honda's strategy of being a positioner has successfully allow the company to obtain consistent growth in sales and production over the years, which transformed them from a mid-sized to one of the 'Big Three' to further exploit the domestic and global market. (De Wit & Meyer, 2004)

Besides positioning, Honda had significant focus in developing its internal resources and capabilities, especially in Research and Development (R&D) and its employees. As R&D plays a distinctive role in production efficiency, Honda has allocated a substantial amount of budget to constantly improve

their R&D. This was clearly demonstrated in their recent financial performance report (refer to Appendix 4). (De Wit & Meyer, 2004)

On the other hand, the career paths of employees' are being embedded in Honda's organizational culture. The company developed an expert system that allows employees' to be promoted in a cross-functional (vertical and horizontal) fashion. This literally encourages creativity and flexibility, and promotes more rational thinking and decision making as senior management is more exposed to various segment of the business. This denotes that Honda is also a resource builder. (De Wit & Meyer, 2004)

## **PRESSURES FOR GLOBAL INTEGRATION AND LOCAL RESPONSIVENESS IN THE AUTOMOBILE INDUSTRY**

One of the most critical tasks of an international manager is formulating the most appropriate strategies to compete in the global marketplace. The key issues that needs to be addressed by the managers for companies to operate internationally is the balance between building a constructive relationship with other societies and cultures, and preserving the countries own cultural identity and, the organizations coherence.

In most circumstances, organizations prefer to have one global strategy, rather than a custom made strategy for individual markets. The reason is due to the presence of universal needs, pressures to minimize costs and presence of rivalries with global strategies. In the automobile industry, pressures for universal may exist when consumer from different countries have strong preference and choice in relation to a similar product or

services. A classic example would be in the case of the rising concern for environmental sustainability where consumers in most countries are either switching to hybrid vehicles or alternative fuels. This means, automobile industry has to produce to meet the universal needs of the consumers.

Increasing cost pressures also emerge, forcing managers to seek ways to minimize cost. This is especially in the case when there is increase in price for raw materials and auto components. Auto makers either pressurize the suppliers to bring down prices, or alternatively outsource for raw materials from countries supplying cheaper resources, like China. (Brown, 2009)

Pressures for local responsiveness exist when there is a radical change in consumer's taste and preference among countries, most likely due to historical or cultural reasons. This required auto makers to differentiate their product offerings and marketing strategies to be made adaptive to the local environment - local taste. This was evidently proven in the case of American consumers who have strong inclination to own pickup trucks as their second or third family vehicle. Whereas, this differs in most European countries as pickup truck serves as utility vehicles. As such, auto makers must customize the marketing messages accordingly to meet the heterogeneous consumer demands. Pressures for local responsiveness also exist due to different traditional practices between the countries. Like for instance, in the Asian countries, drives are right-hand drivers, whereas in Great Britain, people are more left-hand drivers. This are the obviously facts that auto manufacturers should address and customize to accommodate the differences. (Brown, 2009)

Looking at the various pressures that exist from global integration, it is essential for international managers to choose the most appropriate global strategy to compete effectively in the international arena. The Integration-Responsiveness Grid (refer to Appendix 5) will be a helpful tool to the international managers to examine the international strategic management of an organization in a particular industry. Besides that, it also provides an understanding of the global integration pressures against the pressures for pressures of local responsiveness, to suggest whether a product or services should go “ global” or remains in the “ local” market.

## **STRATEGY DEVELOPMENT AT HONDA MOTORS**

Strategy development (formulation) is a crucial criterion of Honda’s strategic management as it ascertains the organizations’ goals, missions, short and long term objectives and crafting appropriate strategies to pursue. However, notwithstanding the general definition of strategy formulation, Richard Whittington dictates that there are two competing approaches for strategy formulation, which is viewed as the classical, and the processual.

The classical approach reveals that strategies are a rational and deliberate process that maximizes long term benefit (Skaik, 2009). The key objective of this approach is profit maximization, which is attainable through strategic positioning and a deliberate assessment of the organization’s internal and external environment. The use of analytical techniques likes the SWOT analysis, BCG Matrix, Porter’s Generic Competitive Strategies (refer to Appendix 6) and PEST analysis (Refer to Appendix 7 & 8) would aid in Honda’s strategy development process.



Business-level strategies are formulated to compete within a specific industry. This requires an organization to encapsulate the external influences on the company, present in the form of opportunities and threats; and then comparing it with its strength and weaknesses. The most widely used tool to serve this purpose is the SWOT analysis, as employed by Honda. The SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. The insights of the analysis reveals three issue: (i) Honda's weaknesses are being outperformed by its strengths; (ii) the various opportunities present for Honda to strengthen its position to gain advantage over their rivals, and finally (iii) the appropriate strategies that needs to be formulated to overcome the threats that are present in the industry. The analysis has also enabled Honda to determine its current and future situation in the automobile industry. (Refer to Appendix 9 for Honda's SWOT Analysis)

Competing in a multiple-industry level requires a proper portfolio planning and analysis, which can perform through a BCG Matrix (refer to Appendix 10). The matrix was developed by Boston Consulting Group, and it allows categorization of business units and products according to their market share and market growth in the industry where it operates (Dyck & Neubert, 2009). The market share is measured in comparative to competitors, whereas the market growth rate implies the strength and future opportunities of the organization. The BCG matrix has been very influential to Honda as it helped provide an understanding about the competitive positions of the company's business units, especially in areas where Honda lacks performance such as the questions marks (weaknesses) and dogs (threats). (Refer to Appendix 11)

As for the processual approach, Whittington defines the approach as a “pluralistic and emergent” process (Rowe, 2008). It is emergent because a worthwhile strategy can only exist from a bargaining process, which is through in-depth involvement in the day-to-day activities and responsibilities in the organization (Gilligan & Wilson, 2009). Whereas, pluralistic depicts that individuals in an organization are not united to optimize a single goal called profit; instead it is a coalition of individuals and their diverse interests and personal objectives, bargain to attain a set of mutually agreed goal. The objective of the approach is to make seamless complex, and less detrimental strategies (Cuizon, 2009).

However, the pluralism has not been the apparent case in strategy formulation as individuals are bounded with rationality or cognitive limitations. In such circumstances, the choice and action has to be supported by logical evidence, and in relation to the organization’s goal, norm and value, as fostered by Honda. Apart from this, the existence of overt politics is advantageous as individuals challenge differences and agree to disagree for the mutual benefit of an organization. But in certain circumstances, it not always a win-win in an organization situation the case of covert politics, individuals who fear challenges and changes, form a coalition and take actions to safeguard their positions. One solution to avoid such a situation is through clear leadership by individuals and groups who are able to meet challenges and explore possibilities. These are the people who want to experiment and learn how to manage a new or tedious situation.

## **CLASSICAL APPROACH AND PROCESSUAL APPROACH ON HONDA MOTORS**

One of the oldest approaches to strategy formulation is the classical approach. It is often described as a rational and deliberate process of strategy formulation. The most crucial exercise of this approach is profit maximization, which involves strategic positioning of an organization in a market where most profit can be generated (Fifield, 1998). Adoption to this approach would be a 'strategic' choice of action for Honda if the company's goal is to earn return on investment. Conversely, the approach also helps Honda's strategist (managers) to develop the capability to formulate profit-maximizing and competitive strategies through rational long-term planning, to allocate the company's resources effectively to attain the desired long-term goal. Apart from this, the approach allows Honda to choose to either rectify a deficiency that affects the business' profitability, or eliminate the necessary activities in case the return on capital investment is unsatisfactory in the long run (Watson & Peter, n. d.).

Processual approach somewhat differs from classical approach as it is formed by an 'emerging' process, driven by the internal stakeholders, like the employees, through a bargaining, conciliation and adjustment process. The approach tends to be more pluralistic and sees other possibilities to strategize in, besides profit. It does agree to rational long term planning, but disregards the fact the markets can ensure efficient profit-maximizing. This approach seems more practical for a complex organizational setting, like Honda. The reason is because the approach is not just about choosing the appropriate market and then monitoring performance. Compromised

solutions and constant learning in a processual environment develops internal processes, as well as cultivates core competencies and strategic capabilities (Sotarauta, 1996).

In my opinion, it would be a wise choice for Honda to embrace the processual approach, instead of the classical approach, as it emphasizes on distinctive internal competencies, and utilizing it in the most appropriate manner to outperform the competitors. On the other hand, the knowledge obtained from learning and adaptation during the bargaining processes appears to be one of the most valuable resources to the organizations, making it tedious for competitors to imitate.

## **BUILDING PRODUCTIVE RELATIONSHIPS WITH THE OUTSIDE WORLD**

The systemic approach is an emergent and pluralistic approach that focuses on the social and cultural environment where the organization operates in. The approach asserts that the multifaceted and dynamic nature of a modern organization requires a systemic approach for an effective strategic management. Conversely, strategy formulation is influenced strongly by social systems, which encompasses national business systems and culture, and demographic composition of a society and industry where the organization operates. The pressures existing from this factors in most circumstances deliberately deviates the strategist from rational planning and profit maximization. (Gregory, n. d.).

From a systemic perspective, international strategic management involves building close business connections across national boundaries, which means

international strategic managers must have a proper understanding of cross-border culture. International strategic managers of Honda are professionals who belong to the organization, and play an integral role in determining and formulating the most appropriate strategy to operate in an international business environment (Sharp, n. d.). They have five basic management function that have to be carried out (refer to Appendix 12), similarly as the domestic managers; but their jobs specification varies as they operate in the facet of foreign market (Anonymous A, n. d.). These managers normally have the necessary knowledge and exposure on issues of other countries', in terms of foreign trade dynamics, legal-political climate, business practices and economic conditions.

As suggested by Geert Hofstede (1993) cultural differences vary most profoundly in five dimensions. The framework is used by most managers to understand the various cultures that exist in an organization, their relevance and its application to management functions. He also asserts that no intrinsic cultural differences within a national context are valid in a global perspective (Dininni, n. d.). The fact underpinning this is the theory emphasizes on similarity employees viewpoints about the five dimensions when they operate in a national context (home country), whereas differences exist between different national contexts (Fleming & Henrik Søbørg, 2009). However, he proves that through a good understanding of the management theory would help international strategic manager construct a more productive cross border relationship. This is evidently proven from the analysis on the five culture dimensions as cited by Hofstede's theory, in relation to Honda Motors operations in Japan and other host countries.

Power distance in the U. S. is low compared to Japan. The society has less focus on social status differences or group affiliations. Social status is not justified by material gains, especially in the aspect of owning cars. Therefore, in order for Honda managers to build a productive business relationship with the Americans, it is important for the company to develop products that de-emphasize on social and brand images, and focus more on providing experiential benefits through the vehicles to the end-users (Onkvisit & Shaw, 2004). Conversely, in high power distance like the Asian countries, it is more appropriate to market vehicles based on status perceptions or social status sensitivity. For instance, to facilitate societies with status perceptions, Honda Accord can be introduced to cater consumers in the top management level, Honda Civic for the middle management and Honda City for the lower category employees. This will also require the managers to price competitively in order not to be involved in price wars with the competitors.

Whereas, in European countries with individualistic culture, there is great desire for personal rights and freedom; and individuals are characterized with self confidence and competitiveness (Johnson & Turner, 2003).

Reaching this consumer scope requires Honda managers to address unique and varied product offerings, which has good functional benefits and experiential needs, to engender a great sense of belonging to them (Lowe & Buller, 2010). Alternatively in countries with collectivist culture like the Latin America, teamwork and cultivation of relationship is encouraged towards accomplishment of tasks (Johnson & Turner, 2003). As such, it is important for Honda to focus considerably in devising vehicles that allows group activities. The SUV's (sport utility vehicles) and MPV's (multipurpose van)

would be a perfect product variance to target group or team oriented customers.

To conclude, although Hofstede's theory asserts that not all individual in a country will have the similar characteristics towards the five dimensions; undertaking strategic administrative arrangements within a country will alienate the cultural differences and aid Honda's international strategic managers' build productive relationships in an international business arena.

## **CONCLUSION**

Honda Motors is able to achieve success in developing the most suitable strategy to be competitive in the industry by selecting and applying appropriate theories, techniques and models. Porter's Five Forces and Value Chain are the most effective tools that Honda Motors engaged in building and implementing long-term strategy to stay ahead. Competitors in the global arena faces pressures and Honda Motors is required to adapt and fulfill the different needs from these pressures to gain a reputable name and meet consumers satisfaction. Whittington's Classical and Processual Schools of Thought is most suitable for this organization in maximizing its profit.