



慶應義塾大学ビジネス・スクール

HONDA OF AMERICA

In 1986, Honda Motor Company, Ltd. surpassed Toyota as the top Japanese automobile seller in the United States with a total of 694,000 cars—458,000 from Japan and 235,000 made in the U.S. The following year, further solidifying its position in the U.S. market, Honda announced several ambitious plans including the building of a second factory in Ohio.

Honda of America Manufacturing Inc. (HAM) was established in 1979, began producing motorcycles in September 1979, announced plans to build an automobile factory in January 1980, and began auto production in November 1982. It was the first Japanese car maker to build passenger cars in the U.S. Since that time, other Japanese automobile companies announced plans one after another to make cars in the U.S., and it was expected that seven Japanese companies would be producing cars in U.S. plants by 1990. Trends of the U.S. car market and production plans of Japanese companies in the U.S. are shown in Tables 1 and 2.

As of 1987, Honda had more than 60 manufacturing bases (10 producing passenger cars) in 35 countries, with 31,000 non-Japanese employees, and 45,000 Japanese employees in Japan. In 1986, its sales of passenger cars totaled 1,370,000 with domestic sales accounting for 470,000 (35%), and overseas sales accounting for 900,000 (65%). Exports to North America amounted to 620,000 (45%), far larger than Japanese domestic sales.

In August 1987, HAM had 4,700 employees, 180 of which were Japanese expatriates. As the factory in Ohio expanded, executives of Honda were increasingly aware of the necessity of firmly implanting "the Honda Way"—its management philosophy and practices—as one important task facing them.

The management philosophy of Honda was based on a "Corporate Philosophy" and a set of "Management Principles" which were adopted in 1956, nine years after Honda's establishment (See Exhibit 1). On the basis of these documents, and through discussions between American employees (called "associates") of HAM, President of HAM Shoichiro Irimajiri, and other executives, the basic ideas of management and practices of HAM were brought together as "The Honda Way" (See Exhibit 2).

This case was prepared by professor Hideo Ishida of the Keio Business School in July 1988 as a basis for class discussion rather than to illustrate either the effective or ineffective handling of an administrative situation. Copyright © 1988 Keio Business School (Revised September 1988)

VIEWS OF PRESIDENT OF HAM IRIMAJIRI

In July 1987, the case writer interviewed Mr. Shoichiro Irimajiri, President of HAM, to have his views on management policies and current problems of HAM.

Mr. Irimajiri:

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When I was transferred here three years ago, I had several things I wanted to do during my stay in the United States. One of them was to speak out concerning our philosophy and way of thinking in Honda. Our products are well-known and understood in America, but the "face" of Honda is not well understood. The products of a company must be associated with its "face". Until I came, nothing had been done to show people Honda's "face", and deciding that this was no good, I determined to do something about it. I spoke about the Honda way of thinking at Harvard, MIT, Michigan, and so on. This year, I am going to have a chance to speak at Stanford on such topics as competitive strength, different perceptions of fair and unfair, Japan Inc., etc., but my emphasis will be on technology. Headquarters in Tokyo is rather hesitant to condone this sort of approach. They say "Don't be too conspicuous." It will take time and energy to convince them that what is thought to be best in local plants is also best for Honda as a whole.

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What we are practicing here in Ohio is Honda-style management—the Honda Way, and nothing more. I try to convince myself that it will produce good results in the long run, but in my heart I'm worried all the time. As seen from the outside, HAM may give an impression of great success, and I suppose you could say that to all appearances our strategy dealt perfectly with such international environment changes as the voluntary export restraints to the U.S. and the yen's steep appreciation against the dollar. However, there are plenty of instances where events as seen from the outside and actualities viewed from within are 180 degrees opposite.

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Case writer:

As the president of HAM, what have you been mainly concerned with?

Mr. Irimajiri:

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I have been concerned with how to make both Japanese and American employees work together towards common goals. For this, neither a Japanese way nor an American way will do. I am still looking for a good policy which will combine good points of both ways, but that's not as easy as it sounds. Seemingly good ways may turn out to be bad, and you may have only the weaknesses of both sides. We are playing tug of war every day to find a

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narmonious balance between the two ways. Perhaps this is the only way to run a production facility in a foreign country if you want to get it well settled in. Honda has a lot of experience with overseas production, and I myself have witnessed the ups-and-downs of many factories abroad. A factory in a foreign country is basically vulnerable. To cope with local competition, you must tackle many difficult problems, and I have a feeling that some of the problems will always remain unsettled, no matter how hard you try to solve them. An overseas subsidiary is set up when the parent company can well afford it and when environments seem to be favorable, but both its potential and environment change every year. In addition, the ability of foreign subsidiaries to adjust themselves to these changes is limited. Many of them may prosper for a while, but only some of them will remain robust for many years.

Honda has put a huge sum of money into HAM—far more than in any of its other foreign subsidiaries—so our responsibility is overwhelming. Five or ten years' success will not be enough. We must remain prosperous for twenty or thirty years. The U.S. competition is formidable. They are superpower companies. A blunder on our side may leave irreparable damages, so HAM must be self-reliant enough to adjust itself to changing conditions. We must raise our level of U.S. content, upgrade engineering, and hopefully, have our own research and development capability to some extent. 180 Japanese workers—out of a workforce of 4700—don't make a difference no matter how hard they work. If HAM is to survive in rapidly changing conditions, all 4700 associates must be creative and self-reliant. It is crucial whether or not there is a consciousness among the people who work here that "HAM is our own company. The success of the company depends on us," or "The future of this company is in our own hands." Lacking this consciousness, in the end there have been places where even Honda failed.

A few years before HAM, Volkswagen began production in Pennsylvania, and the first year was great. Then quality slipped the second year, and since then they have not been able to restore the reputation of U.S.-made Volkswagens. I'm happy to say that our cars have earned an excellent reputation: the Honda Accura had the honor of being No. 1 in the Consumer Satisfaction Index two years in a row. But once the reputation of a product has lapsed, it takes a great deal of time to restore it. We are now in the process of expanding our production capacity, but we cannot afford to stop production. At the same time, we must train new employees for the new factory, and in the middle of all this, it becomes extremely difficult to keep quality from sliding. In the past, we were forced into a real quality pinch several times. Each time, we were forced to rush out to recall shipped cars and work feverishly to repair them. The Pennsylvania plant of Volkswagen is no

longer a German plant. It is now just like the other factories in Detroit. It seems that due to serious conflicts between American and German managers, the president of the parent company personally came over to solve them and withdrew the German personnel except for some engineers. As a result, the cars made in the Pennsylvania factory lost the "special touch" of Volkswagen—data clearly shows that they are different in quality from those made in West Germany. (See note 1). 5

Japanese should not control HAM. Likewise, it should not be fully run using American practices. A tug of war involving both sides is good: I believe we have little choice but to find an appropriate way of management somewhere between the two ways. The problem is how to get the two groups closer—have a common language and common goals. In solving this problem, I used the way of thinking in Honda as a base. When I was in Japan, I was not particularly aware of its value, but since I came to Ohio I have become keenly aware of its importance. I discussed the Honda way of thinking with my Japanese colleagues, put it into our own words, and relayed it to key American managers. After many rounds of discussions, they then set down their own interpretations—"it must mean this..."—in English. There were further discussions: "No, that's not quite right...." The result of such repetitious discussions was "The Honda Way," and it took us more than a year. Then, each week, we explained the documents to a group of different American managers so as to share the basic principles with them. But even today, almost every day, views of Japanese managers and American managers differ on some point or another, and I tell them both to pull hard on the rope. 10 15 20

Fortunately, as shown in the bestseller "The American Spirits," the Honda Way is very close to American values. Today there are many Americans who say they are tired of hearing about Japanese management, but if you look carefully, you will find that there is an American way which fits well with the Honda Way. The Honda Way was conceived by Messrs. Honda, Fujisawa and Kawashima, and they always told us to learn from the rational way of thinking of the Americans. Mr. Honda says that the U.S.A. in the 1950s was wonderful: it was only since the 1970s that Detroit began to be different from what it used to be. 25

Case writer:

So you believe then that Honda's way of thinking can be accepted by Americans without

(Note 1) After ten years of operations, the Pennsylvania factory of Volkswagen was closed down in July 1988 and 2500 workers discharged. In the peak production year of 1980, 5700 employees produced 197,000 cars.

much trouble.

Mr. Irimajiri:

Yes, I believe so. As compared to other leading Japanese companies, I think that one of Honda's most crucial assets is its set of principles which can be easily accepted in this age of globalization. But HAM's base is still fragile, and we have a long way to go to become a self-reliant company. Development, the engine plant, purchasing, parts suppliers—we are still less than adequate in all these areas. We are no more than about half-way toward our annual production goal of fifty to sixty thousand units. It seems that in an American organization, you must always be motivating your employees from the top. Because Japanese plants generally have a solid, bureaucracy-style organization, even if top management shifts its attention to other matters than day-to-day operations, you can be sure that all will go well with very little deviation. But in this country, you cannot be assured that things will go well without your total involvement. Unless you keep giving impetus incessantly, you can't avoid a feeling that things could come to a standstill. Because the American market is the "Grand Prix" battle field, you cannot play unless you put into it the best of your manufacturing, technological and human resources. I think that it can be well said that we are putting together here the best of everything we have.

VIEWS OF HAM MANAGERS

The five-tiered management of HAM was composed of the president, vice president, department heads, managers and coordinators. The coordinators were the supervisors, and they were not union members. A coordinator was supported by several team-leaders on the shop floor. Both the president and vice president were Japanese, and of the 11 department heads three were Americans: the general managers of the Four-Wheel Factory, for Administration, and for Public Relations (a woman). The top American at HAM was Mr. Scott Whitlock—the general manager for the Four-Wheel Factory. He had been a legal advisor to HAM and had been assigned to his present post suddenly when his predecessor unexpectedly passed away. He was also vice president and a board member.

Mr. Al Kinzer, vice president for Administration, shared his duties with Mr. Iwamoto, a Japanese expatriate with the same title. He was the first American manager of HAM, and 45 years old at the time. Before he joined HAM, he had some knowledge of Japanese management but was not particularly familiar with Honda. He had visited Japan twice on business trips. He replied as follows to questions posed by the case writer:

Mr. Kinzer:

At first I was troubled with lots of questions and experienced a lot of dissatisfaction at Honda because its management philosophy and systems are quite different from those of American companies I know. At that time, there were a lot of misconceptions concerning American laws and systems on the part of the Japanese managers as well. Today we have a unique organization not found in any other Japanese or American company. Rather than in technology or production facilities, there are special characteristics in people handling, the ways people participate in organizations, and management of human resources. I think that by using motivation, this company is succeeding in going beyond previous limits of human ability. I think we are beating Toyota and GM on this point. While managers and workers are wide apart in American companies, in this company we have the objective of working together—and a sense of trust. That is the biggest difference between us and other American companies.

Case writer:

Please comment on major similarities and differences between HAM in Ohio and Honda factories in Japan.

Mr. Kinzer:

As for what we have in common, I can think of uniforms, small group activities, a strong spirit of teamwork, a preference toward promotion from within, our philosophy (the Honda Way), and making products of the same quality. As for differences, I could mention communication systems and motivation and wage systems. The Americans like their communications more direct than the Japanese. Also, because they are more individualistic, even in small-group activities the individual reward system is stronger than in Japan.

Case writer:

What do you think of communications between Americans and Japanese?

Mr. Kinzer:

They can be made better. There is always room for improvement. The major problem is not language but misunderstanding arising from cultural differences.

Case writer:

Do you think the number of Japanese is excessive?

Mr. Kinzer:

Well, their number can be reduced as our production system is well established. I myself am given ample responsibility, but American managers in some other departments can assume wider responsibility than they have now. 5

The case writer conducted interviews with four Japanese managers: Mr. Yoshida, General Manager for Quality Control of the Automobile Plant; Mr. Nakayama, General Manager for Planning, who was mainly responsible for supervising the bringing over and support of affiliated suppliers; Mr. Onda, Assistant Manager for Purchasing; and Mr. Iwamoto, the General Manager for Administration who shared his position with Mr. Kinzer. Mr. Iwamoto mainly dealt with mid-and long-term problems and special issues. A summary of the interviews with them is given below. 10 15

Mr. Yoshida:

I was assigned here six years ago, in September of 1981. At the time, there was only the motorcycle plant and its scale was small, we could hardly speak any English, and most of our American associates were inexperienced in automobiles. It took time—we talked, guided, and instructed on a one-to-one basis. Good communication requires logical conversation ability and a sensitivity to human feelings—without both, mutual understanding won't develop well. As we are now a group of about 5,000, what the Japanese can do is minimal no matter how hard we work. I think you could say that technological quality control is the most difficult thing to transfer. You cannot do complex analyses unless you have accumulated technical experience. As for suppliers, we are satisfied with sixty or seventy percent of them. In the end we had to give up on a few of them despite giving them considerable guidance. In American plants, the tendency is very strong for people on the line to give their undivided attention to what they are making and leave inspection to others, but you cannot make truly high quality products unless every individual pays attention to quality at every step along the line. This is what we are teaching so emphatically. At the beginning, the Japanese expatriates assumed 100% leadership, but now we are devoting most of our time to making plans for the future and developing new products. To solve problems that arise, if Japanese and Americans don't tackle them together, the entire organization can't run smoothly. And the expression that 20 25 30 35

"The Japanese are building cars here which are equal in quality to cars made in Japan" is unjust. 99% of the cars produced here are made at the hands of Americans. It was just that Japanese demonstrated what to do, and accordingly the Americans put out a superior effort.

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Case writer:

For the sake of argument, do you think that product quality could be maintained even if the Japanese withdraw?

Mr. Yoshida:

There would be no problem in keeping quality at the present level, but when it comes to aiming for even higher standards, it may be different. Model changes require new technology. Up to now, the "mother factory" in Japan has always taken the initiative in this field, but now we are aiming to gradually build up our own independent technological capability. It may be ten or twenty years before we can develop technology here and then export it to Japan. To do that it is necessary to take the steps of Americanizing not just our production line but also production technology and R & D. Just to achieve this will take four or five years.

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Purchasing Manager Onda:

Auto makers here produce 65-75% of their parts in their own plants; about reverse the ratio in Japan. Also, there are no orderly relationships or long-term contracts with suppliers as is the case in Japan. Americans can do precisely what they are set out to do, but they are not accustomed to organizing their jobs among themselves or to pay attention to what their neighboring co-workers are doing. If paired with a Japanese one-on-one and if the exchange of guidance and information is satisfactory, they come around. In other words, it depends on how well the instructor does his job. This is the first job for workers fresh from school, so they easily pick up the Honda Way. There are some workers who came from Ford, however, and they adapt to our style for the most part only with difficulty. We recruited a great number of new workers about six months ago. Formerly, HAM was a small family, and the Japanese could pay attention to every nook and cranny, but that's impossible today. It became necessary for our senior workers to instruct new workers, but they were rather reluctant to do so, probably because they saw new workers as their possible rivals. Now we remind them that how well they teach new workers is a point which affects their performance evaluations to rise to a higher rank. In order to transplant

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the Honda Way, it is essential to personally show how to do things in detail. For example, to mention our motto of "the three actuals"—emphasizing instruction in the actual place with the actual process handling the actual item—if we have a problem with defective parts from a supplier, it is important that the purchasing supervisor will actually go the assembly line to find out what is wrong, and then rush out to the supplier's plant. Not only words, but demonstrating action is required. If someone sees you do this, he will come to do it himself, and we believe that in the end this is the most efficient way. 5

Planning Manager Nakayama:

It has been seven years since I came here in the fall of 1980. We have been directed to raise the level of local content: our current local content rate is slightly higher 50% and we are aiming to raise it to 66% by 1990, and after that, 75% as soon as possible. To do this, there is a pressing need to increase our training. There are a lot of diligent, hard-working people in this area, but our workers are largely inexperienced in auto manufacturing. It can be said that the quality U.S. workers lack most is that of doing extra work beyond that which they have been told to do. They are quick to learn their jobs and to reach the "fighting ability" that is expected, but they seem to lack the will to move a step further. But I suppose it is too early to estimate their ability because most of them have been with us for only two or three years. They are gradually getting to understand the Honda Way, and American managers are already cropping up who appear prepared to shoulder the future of HAM. The American associates are beginning to be more self-confident. From a Japanese standpoint, there are still unsatisfied points, but we have a policy of giving Americans increasing control while phasing ourselves out. Most of our workshop managers are high school graduates, and they understood that the Honda Way means producing quality cars and taking care of their subordinates. 10 15 20 25

To raise local content level, it is necessary to produce engine parts in our own plant, but this means that we can't reduce the number of Japanese who are experts in that area. When our American associates can build these engines by themselves, the number of Japanese working there can be reduced. If we leave everything to them right now, what they can make will be at best only comparable to what the Big Three are making. In this respect, one can say that Honda's policy is different from that of Nissan. (2) 30

(Note 2) Nissan Automobile Manufacturing Co. in Tennessee is a wholly-owned subsidiary of Nissan Motor Co. Its president was an American—a former Ford executive—and there were only 11 Japanese among its 3200 employees: the vice president for finance was the only Japanese in a line position. NUMMI in California (New United Motor Manufacturing Inc.—a joint venture established by Toyota and General Motors) was headed by a Japanese president and had 2500 employees of whom 38 were Japanese sent from Toyota and 16 Americans from GM.

As President Irimajiri says, there is always a tug of war between the Americans and Japanese. While both sides are going at it so hard, a lot of good Japanese—American points are being discovered in the process. Neither side can or should “win.” If the Japanese have the upper hand and all we have on the other side are yes men, highly motivated Americans will quit. At the present stage Japanese control is a good thing, but it may prove to be harmful in the long run. On the other hand, if Americans have control, I think that HAM will just wind up on the same road as the Big Three auto makers. It is good to have some conflict and some frustrations. Since the ways Japanese and Americans are raised and educated are different, it would be strange if these things didn’t exist. I myself am almost always frustrated, but I don’t give up or look down on anyone. I think I should be very thankful for being able to do business here. What Honda, Fujisawa and Kawashima always told us in Japan can live and grow here in Ohio. Once that our American associates have begun to truly understand the Honda Way, it will remain here even after all the Japanese are gone.

Administration Manager Iwamoto:

I came here to Ohio in 1977 as a member of the first team from Honda and stayed for three years. After returning to Japan, I was a section chief in the Labor Management Department for seven years and I was just recently sent back here for the second time. At the time of my first assignment, we were a small family—like group of only 170 employees. Now we have 4700. I realize how true it is that numbers affect quality. There are 180 Japanese here (250 if you include those working in affiliated companies) but until now as HAM has grown the number of Japanese working here has also increased. We need them until the local workers are sufficiently trained. Although we don’t have any clear-cut guidelines for allocation of workers, we have been trying to Americanize our workforce as much as local conditions permit. We are trying to make HAM a truly American company. Honda is now the only Japanese company that is a member of the American Automobile Manufacturing Association.

More than 90% of our associates are people of Ohio who were recruited from within the commuting area. So long as they are suitable for Honda, we hire the young and old, people with and without auto factory experience, black and white...we don’t make any distinctions. By “appropriate” people I mean people who are willing to understand and accept Honda’s way of thinking. We always tell them this during recruiting interviews. Nowadays fewer prospective employees are saying “no way!” but in the early days quite a few of them did, because, for example, they didn’t want to join a company in which one

had to wear a white uniform. Today we are able to hire good people in sufficient numbers: because Honda cars have a good reputation and are popular in the U.S., we have a great number of applicants and can choose from a larger base. Also, both Japanese and Americans join their efforts in selecting appropriate workers, and the managerial environment promotes training. It is important that you have an environment in which people clearly understand what the management expects of them. When you teach technical know-how, junior people learn quickly—the problem is how to transfer the “soft” aspects of a company. In America, if you want to persuade most people of something, you have to use logical reasoning. 5

In Ohio as well as in Japan, all associates wear the white uniform of Honda, but we had to use the reasoning that it was to prevent scratching their products, a sort of sensor of cleanliness, and that they are safer in the uniform than in their personal clothing. In Japan we have a plastic nametag pinned on the uniform, but in response to one of our associates pointing out that such a tag could cause scratches, we decided to give up nametags here in favor of sewing the name directly on the uniform. To live up to our principles of “quality first” and “customer satisfaction first,” all of us must be convinced that active participation of every member is essential and that exact work at each production step is crucial for quality products. Whether everyone does his job with this conviction or not is influenced by the atmosphere of the workplace. The behavior of workers depends totally on the organizational environment. We were aware of this from the start, and since the days of the first president, Japanese at HAM as well as visiting staff from Japan have been asked to remain rather low-key. 10 15 20

We inform our employees of Honda’s company policies and guiding principles of management at an early stage. There are some of the opinion that the philosophy was not applicable in the U.S. because situations here were different from those in Japan. We are convinced the philosophy is right and can be applied in the U.S., U.K., or in any other country. Because the basic ideas are by nature abstract, we had to put the guideline policies of HAM into a more concrete form. Mr. Irimajiri became a lecturer; explaining, debating, organizing—it took nearly two years to compile “The Honda Way”—as seen from America—into book form. For example, to a Japanese the golden rule of “the four S’s” of “seiri, seiton, seiso, and seiketsu” [arrangement, order, cleaning, and neatness] is taken for granted, but over here you must show workers in a logical way how neatness and cleanliness is related to the quality of their products. This is much more difficult than we had anticipated. The basic principle of personnel administration at Honda is to treat everyone equally, and treat everyone fairly. In Japan, everyone including the president 25 30 35

wears the same white uniform—no difference be it an office or factory floor. The president works in a large room with other senior executives and everyone shares the same parking lots and cafeterias. We operate our Ohio plant the same way. In the spirit of fairness, someone asked "Why can't you smoke in the factory when people can smoke in an office?" We modified our rules: now you can smoke in the factory in certain areas during certain times. In a reverse example, people say things like "I understand that you have to put on a uniform in the factory, but I just can't see why you have to wear it in the office," or "The U.S. is a country of individualistic people. For Americans, being individual is very important. Why do we have to wear a uniform?" Fortunately, the basic philosophy of the Honda Way is clearly acceptable to most Americans. Very few say "No" to it outright. I'm convinced that because the ideas set down by founders Honda and Fujisawa have global validity, they will withstand the test of time and should not be changed from country to country.

FUTURE PLANS OF HAM

On September 17, 1987, the same day that President of Honda of America (HAM) Shoichiro Irimajiri notified all employees (associates) of the contents of an announcement in Columbus, Ohio by President of Honda Motor Company Tadashi Kume and President of Honda North America (HNA) Tetsuo Chino concerning construction plans for a second Ohio plant, he appealed to them as follows:

"Our ability to announce this strategy and to undertake further major expansion is a direct result of the efforts of our HAM team. I have stated often that our future is in our hands. Your continued commitment and dedication to quality in all aspects of your job will be needed to meet the challenges which lie ahead. I am confident that we can meet those challenges."

HONDA'S FIVE-PART US STRATEGY

- Export of 70,000 cars per year—built in Ohio—to Japan and other countries by 1991. Honda will begin exporting automobiles to Japan in 1988.
- Increase U.S. research and development activities, including further commitments to play an important role in designing, engineering, and testing cars in the U.S. for sale in America, as well as expanding U.S. parts sourcing efforts. Increase R&D personnel from the current 180 to 500 by 1991.
- Increase domestic content to 75% by 1991. The local content for 1988 models produced at the Honda of America Mfg., Inc. auto plant in Marysville is 60 percent.

- Expansion of Honda's production engineering in the United States to enhance Honda's manufacturing capability, including new model development. Increase the number of personnel at the Marysville Honda Engineering Office from the present 50 to 200 by 1991.
- Construction of a second U.S. auto plant with a production capacity of 150,000 automobiles per year and employing 1800 associates. Construction of the \$380 million facility, which will be located at the current site of the Transportation Research Center (recently purchased for \$31 million) in East Liberty, Ohio, will begin in February 1988 with production slated to begin in August 1989. Allocate \$150 million in investment for the Anna, Ohio engine plant and increase engine production to an annual 500,000 units, and increase personnel to 500.

A speech by Honda President Kume on Honda's North American strategy—

"We are here today to announce a five-point strategy for Honda's operations in the United States. It includes the construction of new production facilities, but that is only one part of our strategy. Ten years ago, here in Columbus, we announced our decision to begin manufacturing our products in the United States. That decision was based on our corporate philosophy that Honda should manufacture its products in the markets in which they are sold. Since then, our commitment to America has gone far beyond that original announcement. With the support of our customers, our associates, and our suppliers, we have become America's fourth largest auto maker. The quality produced at our Marysville plant has helped create a strong sales demand for Hondas sold in the United States.

Our actions to date have resulted from our philosophy. The major new steps in our strategy, which we announce today, also grew out of our basic philosophy.

We are establishing here in the United States a self-reliant motor vehicle company, which will be an important part of Honda's international operations, with the resources to compete in the world market. It is not enough that our U.S. operations are competitive only in the United States. Our goal is that our United States operations attain capabilities that compare to our operations in Japan. That is why we are announcing expansions of our research and development, our production engineering, our sourcing of U.S. parts, our automobile and engine manufacturing, and our export sales.

With all of these efforts, we will develop our U.S. operations to the point that we will have a self-reliant, integrated motor vehicle company capable of competing in the world marketplace. As you know, the motorcycles built at our Marysville plant are already exported to 15 countries. Automobiles are exported from Ohio to Taiwan. In December, we begin production here in Ohio of an additional new model of the Accord which will be produced only in the United States. In

January, we will begin export of that model to Japan. In addition, using Honda's worldwide sales network, we intend in 1991 to export 70,000 automobiles a year from the United States to nations all over the world, including Japan.

For Honda, today's commitment to expansion in America strengthens us throughout the world. We expect that each part of our American operation will contribute to our international effort as well as the American market. Internationally, we are creating a fraternal system of complementary support.

For the United States, this strategy means that our American associates, our American vendors, and the products they build can compete anywhere in the world.

UNIONIZATION PROBLEMS

Of HAM's 4700 employees, only one group—of boiler workers—was recognized as a bargaining unit, and three boilermen joined the United Auto Workers Union (UAW). This unit was formed in April 1982, several months before HAM's new plants started producing automobiles, and a Japanese newspaper mentioned it as follows (Note 3):

Honda Motor's American subsidiary, located in a suburb of Columbus, Ohio and scheduled to begin production of cars early next year in its new plant currently under construction, affirmed that a bargaining unit formed by the United Auto Workers (UAW) will be recognized as a negotiating body. Honda wanted to avoid recognition of the UAW as a negotiating unit because of expected demands for higher wages, but appears to have changed its strategy in view of a possible UAW boycott of Honda autos and motorcycles. According to a source within HAM, the company has recognized as a bargaining unit a team of four boilermen in the Ohio factory. The four had requested recognition as a special occupational body under the wing of the UAW. Due to the technical job classification of boilermen in the Ohio plant the request was approved, but the company stressed that this approval did not mean that all the workers at the Ohio plant—estimated to reach 2000 in the future—would be represented by the UAW. According to a spokesman, although discussions are under way at the Ohio plant with employees on how to improve product quality, the workers themselves will decide by vote on whether they have unions or not. As of today, no other unions have been formed.

Three years later, in October 1985, the UAW demanded of HAM President Irimajiri that he "Approve the UAW as the representative bargaining unit of HAM employees" because a certain

(Note 3) Nihon Keizai Shimbun, April 24, 1982

number of its workers wanted to have a union. In response, the company openly disclosed the UAW's request to all employees and moreover carried out an opinion poll on whether or not it would be appropriate to give automatic approval to the UAW. 98% percent of the employees responded, and of those 75% replied that "We are opposed to automatic approval and a company-wide vote should be held." (Note 4). As a result of the company's refusal for automatic union recognition, it was decided that a vote would be held on December 19 in accordance with the rules of the National Labor Relations Board (NLRB) (Note 5). The date was postponed when the UAW filed a lawsuit with the NLRB claiming that HAM had resorted to such unfair labor practices as conducting a survey of employees' opinions and allowing a faction of employees to conduct anti-union campaigns.

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A UAW leaflet calling for organized action in the Ohio plant appealed as follows (Note 6):

"Wage levels at Honda are high for the region. But you can't keep up this pace indefinitely...at times Honda pushes you till your backs are against the wall. There are doubts in all of your minds even now: "Can I keep up with this pace when I'm 40?" The answer is: almost certainly not. When you come home even now you are too exhausted to relax with friends or family. ...The role of the UAW is to make negotiations possible for a line speed which is just right: good for both Honda and for us. We can call for UAW time—study experts who will evaluate our jobs fairly. We will work so that people can say what they want to say and strive to make Honda an even better place to work.

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The situation at the time was reported by a Japanese paper as follows (Note 7):

A family-style management system called "The Honda Way" is being challenged by the UAW which criticizes it as a "paternalistic monarchism" and which is directing its efforts toward organizing its employees. ...

25

Members of "the Family" wear four kinds of caps. ...in the middle of a large number of

(Note 4) Nobuyoshi Yoshida, "Soshite Honda wa tonda (Then, Honda soared)," *Jitsugyo no Nihon-sha*, 1986, p.137

(Note 5) The following procedures for a company-wide vote must take place if a company refuses to automatically approve a union. A vote is administered by the NLRB when it recognizes that over 30% of the employees desires a union (determined by "union recognition cards"). Both management and workers can campaign so long as they violate no labor laws. If more than half of the employees are in favor of a union, then the union is granted the right to negotiate with management on behalf of all the employees. If the union fails to get a majority (or if the vote is split exactly 50-50), then it wins no negotiating rights and its formation is not allowed.

(Note 6) Nobuyoshi Yoshida, op. cit., pp.140-142

(Note 7) "Japanese Management vs. U.S. Unions at Honda America," *Asahi Shimbun*, Jan. 20 1986

employees wearing a green baseball cap with "HONDA" written on it, one wears a blue one; we are told: "That's a UAW ballcap." There are people wearing the same blue cap with the UAW emblem superimposed by a red circle and diagonal slash: they are members of the "Alliance of Company Employees," a militant group which rose up in opposition to the labor union leadership. The caps of numerous professional baseball teams are in evidence—a sign of non-alliance. 5

The organization drive of the UAW started last September when the management changed working systems due to a major model change of the Accord. ...The workforce is relatively young with an average age of about 30, but a UAW charge "Can you keep up with the pace when you get older?"—has considerable appeal to many workers. ...Mr. Fotzfel, a 31 year-old worker at the motorcycle factory, says "Honda has an operational tactic of routinely keeping workers in a state of over-work. If you refuse to work on a Saturday, it will be recorded and taken into account in your evaluation." But Mr. Pope, 19, who works on an automobile assembly line, says, "The line speed? Yes, it's fast. But once you get used to it, it has its own rhythm. A union in this plant? No way, I hate strikes. Almost all of my friends are against the union." ...Mr. Pascal, 36, says "We have the best pay and allowances in this region. No fear of losing your jobs. Everyone is treated equally. Even if we get a union here, I doubt that it can get better conditions for us than we have now." Mr. Howard, 27, is a self-avowed "100% anti-unionist," but was critical of several points of the Accord model change: "It was too fast, and mutual understanding between the management staff and workers was less than perfect." 10 15 20

These recent events have led president of HAM Shoichiro Irimajiri (46) to "the experience of thinking very hard about just what 'fair' means." Japanese firms, the UAW claims that "...unionization will occur. It is just a matter of time," and it is pressing to put the issue to a vote for a second time. Against the challenge of the UAW, Irimajiri declares that, "Fairness in the UAW and fairness in "The Honda Way" are different." He says he is totally prepared to meet the UAW challenge by Americanizing HAM in terms of both people and products and by enriching company ideals in the process. "Can they [the UAW] sense the happiness of the people who live and work here?" Irimajiri asks. "Do they have a sense of what is right? We think we do already, and we will fight for those goals—doing what is right and what will make our workers happy." 25 30

On January 31, 1986, the NLRB rejected the UAW's suit against HAM for unfair labor practices. The UAW then withdrew its demand for a vote, effectively postponing it indefinitely, so the problem of organizing a union at HAM was settled for the moment.

EQUAL EMPLOYMENT PROBLEMS

On June 2, 1987, the newspaper Asahi Shimbun carried an article entitled: "Honda America Pays \$450,000 in Compensation for 'Age Discrimination Against People over 40'" and announced a "Shock for Japanese Firms in the US:"

"Honda of America, located in Ohio with 4700 workers, accepted a recommendation of the U.S. Equal Employment Opportunity Commission (EEOC) and paid approximately \$457,000 (about ¥66 million) to 85 people who applied for employment in 1984 and 1985 as compensation for what the commission said was age discrimination. A spokesman for Honda said that the company accepted the recommendation to avoid prolonging the case. Job discrimination against age as well as against sex or race is strictly prohibited in the U.S. This compensation payment against Honda comes as a shock to Japanese companies, where mandatory retirement systems and age limitation systems for applicants are a matter of course. According to the EEOC, applicants for assembly-line work and welding over age 40 were treated discriminately by Honda in 1984 and 1985 due to their ages. A company can refuse applicants over 40 on the basis of individual ability, but the commission concluded that as there was a disproportionately small number of workers over 40 among those newly employed in 1984 and 1985, there was discriminatory treatment for those applicants over 40 and recommended that Honda take remedial actions.

Accepting the EEOC's recommendations, Honda not only agreed to pay the 85 applicants compensation totaling \$457,111 for what they would have earned during the period in question, but promised to promote the employment of people over 40 and to reform its recruiting procedures. The spokesman for Honda said "There was no age discrimination, but we decided that it would be best not to prolong the case before the courts."

Since the enactment of Equal Employment Opportunity laws in the 1960s, discriminatory treatments—such as dismissal, retirement or rejection for employment due to beliefs, creed, race, sex, and age—are not tolerated. Employers are not to request applicants to write their sex or age in curriculum vitae, and there is a trend to even exclude addresses and educational background except in certain cases. One executive in a Japanese firm says "We can do nothing but evaluate their work history and their eagerness to work with us." In recent years, a major trading company was prosecuted for sex discrimination, and although in that case a reconciliation was reached, because of Honda's reputation of being well-assimilated in the American business community, news of its payment of compensation for age discrimination sent a strong ripple through Japanese subsidiaries in the U.S."

On March 24, 1988, an article entitled "Honda of America Pays \$6 Million in Compensation for Racial and Sex Discrimination in Hiring" appeared in the evening edition of The Asahi Shimbun:

"The U.S. Equal Employment Opportunity Commission (EEOC) announced that it had reached a reconciliation with Honda of America Mfg. (HAM) in Ohio, a subsidiary of Honda Motor Co., and that HAM had agreed to pay \$6 million (about ¥760 million) to some 370 blacks and women as compensation for racial and sex discrimination. No Japanese firm in America has ever paid compensation on this scale, and warning bells are ringing throughout all Japanese companies moving into the U.S. Based on information collected since about 1984, the EEOC concluded that Honda's employment of blacks and women was small compared to other companies in the same area, and began an investigation to determine if employment procedures or organizational discrimination were taking place. The commission came to the conclusion that there had been violations of civil rights laws in not hiring 370 blacks and women during 1983-1986. Honda was directed to pay \$6 million to these individuals for what they might have earned if they had been accepted when they applied, and a spokesman for Honda says that the company now has all 370 persons on the payroll."

Masao Miyamoto, Manager of International Human Resource Management of Honda Motor Co., had this to say of HAM's employment discrimination problems:

"One of the things we have learned from doing business in the U.S. is that society as a whole is well aware of the concept of fairness. As for equal opportunity, we knew that the composition of our workforce had to be similar to that of the population in the area. We never anticipated that problems with discrimination by race, sex, or least of all age would ever be encountered. With our "age discrimination" issue, we paid full compensation to all those applicants who had not been hired because they were middle-age, and I think that the spirit of "looking out for the underdog" in American society is wonderful. As an American company, if we are a miniature of American society in terms of our workforce, then we must become a company that will succeed. Honda is a "principle-oriented" company. I suppose you could say we are a "straight and narrow" company from beginning to end. If we have to miss a chance at making a profit in order to live up to our principles, so be it. In other words, we try to follow a "correct way." You could say it's an easy way because we have no reason to play any cheap little games with anyone. The compensation for job discrimination we paid was no small amount, but no one at the home Board of Directors or anyone else blamed HAM's decisions in the slightest."

The reaction of almost everyone was to regard the compensation as a sort of tuition for doing business in the U.S.; a valuable lesson learned."

CURRENT ISSUES

In March 1987, Honda established Honda North America (HNA) in Torans, California, with North American Headquarters chief Chino as president, and long-serving vice-president of HAM Yoshida as vice president. HNA was established to be headquarters of Honda's 11 subsidiaries in the U.S., Canada and Mexico, and to augment overall decision making and coordination of Honda's production and sales activities in North America. Top management of Honda said of these aims: "Executives of the eleven companies used to get together in a North American conference to plan, implement, and make decisions on strategic propositions, but they generally had to hear from headquarters in Japan and there was no way to get a speedy reaction. Because sales in the U.S. and Canada today account for 50% of Honda's sales on a consolidated accounting basis, we had to have a way for operations in North America to be carried out quickly." Considering the importance of the American market, rather than a parent-subsidary relationship and largely one-way communications, it was thought that instead a new organizational structure providing for more respective independence and mutual communications was in order. 5 10 15

Top management of Honda debated what true form a global enterprise would have, and what they should do to make Honda such a company. They basically reached a consensus that a true world enterprise would be one that "Carries out operations on a global scale, whose existence was a source of happiness for all people, and whose employees are glad to work and proud of what they are doing." Honda had more than 60 production bases all over the world and flows of people, things (parts and products), money and information with all of them, but that flow was almost all one way: from Honda in Japan outwards. 20 25

It was thought that this system needed to be reformed into a multi-directional network among all points including those in Japan. As a symbol of this new flow, 540 Honda Accords built in the Ohio plant (with their steering wheels on the left-hand side) were exported to Japan for the first in March 1988. In the areas of technological development and product development as well, it was anticipated overseas facilities would make contributions that could only be done at that location and no where else, developments which would positively influence Honda facilities in Japan and perfect developments in U.S. and European subsidiaries. On the people side, Honda was planning to hire more foreigners and start a program of "reverse transfers," that is, bringing local employees of Honda operations abroad to Japan. There were also plans to send many more junior managers as well as engineers from HAM to Japan. 30 35

Honda's management tenets were based on a corporate philosophy and management principles established more than thirty years previously. These tenets, applied to management of foreign subsidiaries, produced local "Honda Ways" in each of them. Honda, looking to become a truly global company, wondered if these principles were enough. These tenets were born and nurtured in Japan, and people wondered if the concepts could really be universal. 5
What parts of "The Honda Way" might be universal? Honda executives debated what might be the contents of "The Honda Way of Honda the World Enterprise." Honda's overseas production, sales, and R&D would almost certainly increase in the future, and with a viable global networking system, there were those who foresaw that Honda in Japan would become just another local company, and the management tenets and practices in Japan today just another sub-culture. 10

Table 1 Trends of the U.S. Car Markets
(1982–1986)

(units %)

		1982	1983	1984	1985	1986	
U S m a n e	GM	3,515,660 (44.1)	4,053,561 (44.1)	4,587,508 (44.2)	4,607,458 (41.7)	4,532,798 (39.6)	
	Ford	1,345,698 (16.9)	1,571,321 (17.1)	1,979,317 (19.0)	2,070,392 (18.7)	2,066,507 (18.0)	
	Chrysler	691,703 (8.7)	841,622 (9.2)	986,998 (9.5)	1,139,936 (10.3)	1,173,463 (10.2)	
	American Motors	112,433 (1.4)	193,351 (2.1)	190,255 (1.8)	123,449 (1.1)	72,849 (0.6)	
	Nissan				39,794 (0.4)	52,602 (0.5)	
	Honda		50,402 (0.5)	133,601 (1.3)	145,976 (1.3)	235,247 (2.1)	
	Toyota ⁽¹⁾					7,281 (0.1)	
	Volkswagen	91,164 (1.1)	85,042 (0.9)	73,844 (0.7)	77,699 (0.7)	74,141 (0.6)	
Total		5,756,658 (72.1)	6,795,299 (74.0)	7,951,523 (76.5)	8,204,704 (74.3)	8,214,888 (71.7)	
I m p o r t e d	Nissan	470,246 (5.9)	521,902 (5.7)	485,298 (4.7)	535,372 (4.8)	501,247 (4.4)	
	Toyota	530,246 (6.6)	555,766 (6.1)	557,981 (5.4)	620,043 (5.6)	632,904 (5.5)	
	Honda	365,865 (4.6)	350,670 (3.8)	374,819 (3.6)	406,413 (3.7)	458,268 (4.0)	
	Mazda	163,638 (2.1)	173,388 (1.9)	169,666 (1.6)	211,093 (1.9)	222,716 (1.9)	
	Fuji Heavy Ind.	150,335 (1.9)	156,840 (1.7)	157,383 (1.5)	178,175 (1.6)	183,242 (1.6)	
	Mitsubishi	106,177 (1.3)	136,324 (1.5)	130,822 (1.3)	154,947 (1.4)	184,964 (1.6)	
	Others	15,462 (0.2)	20,731 (0.2)	30,237 (0.3)	111,794 (1.0)	199,273 (1.7)	
	Total (Japanese)		1,801,969 (22.6)	1,915,621 (20.9)	1,906,206 (18.3)	2,217,837 (20.1)	2,385,614 (20.8)
	Volkswagen		114,319 (1.4)	125,002 (1.4)	174,685 (1.7)	214,945 (1.9)	202,862 (1.7)
	Others		307,269 (3.9)	346,169 (3.8)	357,951 (3.4)	404,791 (3.7)	656,045 (5.7)
Total (imported)		2,223,557 (27.9)	2,386,772 (26.1)	2,438,842 (23.5)	2,837,573 (25.7)	3,244,621 (28.3)	
Total		7,980,215 (100.0)	9,182,071 (100.0)	10,390,365 (100.0)	11,042,277 (100.0)	11,459,509 (100.0)	

Source: World Automotive Yearbook

⁽¹⁾ Toyota brand cars made by NUMMI, a joint venture by Toyota and GM.

Table 2 Production Plans of Japanese Car Makers in North America

Country of production	U.S.A.						
Parent Co.	(1) Honda Motor Co. (4-wheel vehicles)		(2) Nissan Motor	(3) Mazda Motor Corp.	(4) Mitsubishi Motor	(5) Toyota Motor Corp.	
Type of investment	Fully-owned		Fully-owned	Fully-owned	Joint venture with Chrysler	Joint venture with GM	
Company	Honda of America Mfg. Inc.		Nissan Motor Mfg. Corp. U.S.A.	Mazda Motor Mfg. (U.S.A.) Corp.	Diamond-Star Motors Corp.	New United Motor Mfg. Inc. (NUMMI)	
Established	February 1978		July 1980	Jan. 1985	October 1985	February 1984	
Capital	\$478 million		\$375 mil.	\$200 mil.	\$15 mil. (to be expanded to \$150 mil.)	\$200 mil.	
Ownership share	Honda America 97% Honda Motor 3%		Nissan U.S.A. 80% Nissan Motor 20%	Mazda 100%	50/50	50/50	
Size of site	3,520,000m ²		3,170,000m ²	2,000,000m ²	275m ²	850,000m ²	
Kinds of vehicles	1st Plant	2nd Plant	Engine Plant	Datsun truck (1 ton) Sunny	MX-6 Probe (Ford)	2-door hatch back sport speciality (1.8 lit. & 2.0 lit.) 4-door sedan	Nova (based on Sprinter) Corolla FX (Sep. 1986)
	Accord/Civic	To be decided	Engines & drive train	Engine and component planned to be produced in summer 1989			
Production start	Nov. 1982-1st line Apr. 1986 2nd line	Sep. 1989	Sep. 1986	Datsun truck -Jun. 1983 Sunny-Mar. 1985 (off-line)	Sep. 1987	2nd half in 1988	Dec. 1984
Capacity/year	36,000 (in full-scale operation)	200,000	app. 500,000 engines	240,000	300,000	240,000	Nova 200,000 Corolla FX 50,000
Employees	app. 4,600	app. 1,800 (planned)	app. 1,500 (in '91)	3,170 (Dec. 1987)	3,500	app. 2,900	app. 2,500
Amount invested	\$250 million-1st line \$280 million-2nd line	app. \$380 mil.	app. \$600 mil.	\$745 mil.	\$550 mil.	app. \$600 mil.	app. \$500 mil.
Local content ratio	app. 60% (75% by '91)	—	—	60% (70% by '90, over 75% by '91)	Over 50%	Nearly 60%	app. 50%

Country of production	U.S.A.			Canada			
Parent Co.	(6) Toyota		(7) Fuji Heavy Industries/Isuzu Motors	(8) Honda	(9) Toyota	(10) Toyota	(11) Suzuki Motor
Type of investment	Fully-owned		Joint venture	Fully-owned	Fully-owned	Fully-owned	Joint venture with GM Canada
Company	Toyota Motor Mfg. U.S.A. Inc.		Subaru-Isuzu Automotive Inc.	Honda of Canada Mfg. Inc.	Toyota Motor Mfg. Canada Inc.	Canadian Autoparts Toyota Inc.	CAMI Automotive Inc.
Established	January 1986		March 1987	June 1984	January 1986	March 1983	December 1986
Capital	\$500 mil.		\$250 mil.	C\$230 mil.	C\$250 mil.	C\$7 mil.	C\$202.5 mil.
Ownership share	Toyota 20% Toyota Auto Sales U.S.A. 80%	Fuji 51% Isuzu 49%	Honda of Canada 100%	Toyota 100%	Toyota 100%	50/50	
Size of site	520m ²		3,520,000m ²	1,820,000m ²	1,500,000m ²	57,000m ²	1,600,000m ²
Kinds of vehicles	2000cc Camry 4-door sedan	Engine Axle Steering	Passenger cars of Leone class-Fuji Light truck-Isuzu	Accord Civic (from Apr. '88)	Corolla-Sedan 1600cc	Aluminum wheel	Cultus Jimny
Production start	May 1988	Axle-'88 Fall Engine-'89 Fall Steering '90	End of 1989	Nov. 1986	Nov. 1988	Jan. 1985	Apr. 1989
Capacity/year	200,000	—	60,000 each in 1st stage (to be expanded to 120,000 each in future)	110,000 (in full-scale operation)	50,000	240,000 (40,000/month, in '89)	200,000
Employees	app. 3,000	app. 500	app. 1,700	800 (in full-scale operation)	app. 1,000	70 (135 in '89)	2,500-2,800
Amount invested	app. \$800 mil.	app. \$300 mil.	app. \$500 mil.	app. C\$280 mil.	app. C\$400 mil.	C\$20 mil. (C\$46 mil. in '89)	C\$615 mil.
Local content ratio	app. 60% (app. 75% by '91)		Over 50%	Over 50%	To be decided	100%	app. 50%

Exhibit 1
Management Philosophy of Honda Motor

Corporate Philosophy

Maintaining an international viewpoint, we are dedicated to supplying products of the highest efficiency yet at a reasonable price for worldwide customer satisfaction.

Guiding Principles

1. To foster dreams and preserve a youthful spirit.
2. To respect theories, ideas and time.
3. To love one's job and brighten one's workplace.
4. To join together so that work flows harmoniously.
5. To not put aside unceasing learning and effort.

THE HONDA WAY:

An Innovative Approach To Management and Production

The Honda Way. These three words represent not only a successful approach to management but also a new way of doing business. The Honda Way is well understood by many within the Honda organization, but is not always easy to explain to others. Some understanding of the Honda Way can be achieved by returning to the beginnings of Honda Motor Co., Ltd. in 1948 and the founder of the company, Soichiro Honda.

Toughest Challenges

From the beginning, Honda's successes can be attributed to a philosophy of seeking out the toughest challenges and applying creativity, innovation and imagination to solve them.

It was a tough market that Soichiro Honda, the founder of Honda Motor Co. Ltd., entered in 1948. Japan was starving for transportation, and no less than 248 competitors sought to meet the need.

Like most of his competitors, Honda purchased 500 small, single-cylinder engines and adapted them as auxiliary power for bicycles. But unlike most of his competitors, Honda believed

technology held the key to Japan's future and sought a way to improve his products.

In the fall of 1949, Honda introduced a lightweight 50cc motorcycle. At 3 horsepower, it was more reliable than the competition and had a superior stamped metal frame.

In 1951, Mr. Honda turned to technology for a breakthrough four-stroke engine design that doubled the horsepower of his previous engine while being quieter and more reliable as well.

The success of this four-stroke model propelled Honda to first place among Japanese motorcycle manufacturers, allowing Mr. Honda to pursue his life's passion—building and racing high performance motorcycles. Through perseverance and continued application of ideas and technology, Honda met with success, not only in winning races but in the development of vastly more efficient engines.

Honda's experience on the track led to the development of one of the world's most efficient engines for street motorcycles—the 50cc Super Cub model. The Super Cub was a dramatic success, both in Japan and worldwide. Production reached 3,000

per month in only six months, proving the value of innovative design and quality production.

An International Viewpoint

Honda was not then, and is not now, a typical company. In 1954, when Honda was only six years old, the company adopted an international viewpoint. Honda dedicated itself to supplying products of the highest efficiency at a reasonable price for worldwide customer satisfaction. This international viewpoint remains the cornerstone of Honda today.

Honda sells its products all over the world. Our competition is in Germany, Italy, Japan and Korea as well as other countries. Our products are made to compete in world markets. Thus it is events in the world which shape our market and our products, not just events in our city, state or country.

World markets demand products of the highest efficiency and quality. It is typical in the development of a new product that goals will be set. When these goals are met, most companies would consider the project to be successful. But Honda engineers, managers and

other associates will continue to push the development of the product so as to achieve not just a satisfactory efficiency but the highest efficiency.

Honda is different from other companies in yet another way. Our corporate philosophy—the Honda Way is an integral part of our approach to business. Part of this philosophy has always been that our manufacturing facilities should be located in the markets we serve.

When the decision was made to begin construction of a production facility in Ohio, it was the Honda philosophy which was responsible. A financial analysis suggested that Honda could not make a profit manufacturing in the United States. But Honda's president at the time, Mr. Kawashima, said, "Go ahead, anyway," Why? Because the decision was consistent with the Honda corporate philosophy of manufacturing in the markets we serve. This also gives an opportunity to those who buy Honda products to build Honda products.

Manufacturing In America

Honda of America Mfg., Inc. began operations in Ohio on September 10, 1979 with 64 associates in a 258,000 square foot motorcycle plant. That plant represented an initial investment of \$35 million by Honda. It

was followed by construction of a one million square foot automobile facility at a cost of \$250 million. This investment represented Honda's largest international investment.

In November, 1982, Honda of America began production of the 1983 model 4-door Accord. Production of that automobile increased to 600 per day by May of 1984. At the same time, Honda of America commenced a 700,000 square foot expansion of the automobile plant, representing an additional investment of more than \$240 million. The expansion is in fact a second production line including new stamping, plastics, welding, paint and assembly areas which will produce the 3-door Honda Accord and the 4-door Honda Civic beginning July, 1986. By the end of 1986, production capacity will have double to 300,000 cars per year.

In yet another fulfillment of the commitment by Honda to manufacture in the markets it serves, Honda of America began production of engines at a new 235,000 square foot plant in July, 1985, in Shelby County near the Village of Anna. Originally designed for production of motorcycle engines for Honda's most popular large displacement models in America, the \$70 million facility has already been

expanded to produce automobile engines, initially the 1.5 liter Civic auto engine in the Fall of 1986. In addition, casting and machining of aluminum wheels will begin at the Engine Plant in 1986.

Today, Honda of America employs more than 3,300 associates, and employment is anticipated to grow to more than 4,000 by the end of 1986. Honda's capital investment in Ohio exceeds \$640 million, including the Auto Plant, Motorcycle Plant and Engine Plant as well as a new Plastics Plant which will begin operations in mid-1986.

Production of motorcycles at the Marysville plant makes Honda of America the largest U.S. motorcycle manufacturer. The present production of Accords makes Honda of America the fourth largest U.S. auto manufacturer, in little more than 3 years of production.

In fact, in just the few years since beginning operations in 1979, Honda of America has gone from "zero" to a company with a billion dollars in sales, and a projected two billion dollars in sales for 1987.

The Honda Way

By establishing manufacturing facilities in the markets where the demand for Honda products exists, we can become part of the communities in which our

customers live. We can give back to these communities, states and nations something in return for the support Honda products have enjoyed.

It is this sense of responsibility for our products and for our customers that has led Honda to develop its own way of doing things.

We believe we should establish our own goals, and concentrate our efforts on reaching these goals, without imitating others.

Although it may sometimes seem that it would be easier to follow the ideas of others, in the long run we are better served by going our own way and making independent decisions.

For example, in 1970 the U.S. government passed the Clean Air Act which mandated pollution control standards. Automakers in the U.S. and around the world initially protested the standards, fearing that they would seriously damage their marketing and sales efforts.

Honda took a different approach. We began to develop a unique engine designed from the start to comply with the Clean Air Act—without a catalytic converter. In just one year, Honda delivered the CVCC engine which met with worldwide success as the first engine based on a totally new approach to pollution control.

Because Honda was ready with the CVCC engine on time to meet the standards of the Clean Air Act without a catalytic converter, we gained a technological advantage and lead in the marketplace which has never been lost.

By developing our own technology and methods of design, production and marketing, we can better control our own success and the quality of our products for our customers.

On The Factory Floor

But what about manufacturing? How does the Honda Way work in the factory?

There is a saying at Honda that there is more knowledge on the factory floor than in the office. This means that the most knowledge can be gained from actual experience in the plant operations. The answers to problems and the improvements in quality often come from the associates who are most directly involved.

It is very difficult to recommend effective countermeasures if one spends time only in the administrative offices rather than on the factory floor. Associates at Honda with management responsibility spend most of their day on the plant floor. Likewise, engineers at Honda of America work almost exclusively on the plant floor. Our philosophy stresses

that you must go to the spot in the plant and see the problem touch the part and gain experience in the actual job process, in order to effectively solve the problem.

Honda has another very effective way of improving quality in our products and communication among our associates. This method has been called "quality circles" by some. We call it the NH Circle.

The NH Circle is a small group of associates—typically five to ten members—who voluntarily work together on an area of common concern to suggest improvements in a variety of areas, such as quality, safety, communications, working environment efficiency and so forth.

The important part of NH Circle activity is that it is voluntary and that all members work together to achieve their results.

Ultimately, the goal of all NH Circles is to create a better understanding of what is happening now in Honda's operations and what the future goals and tasks will be. We presently have several hundred associates involved in many different NH Circle activities in all of our plants.

Quality For The World

But why is Honda succeeding in Ohio? How do we produce quality which impresses even our internal quality auditors when they

visit from Japan?

It is because the Honda approach is to start with the individual associate, with respect for that individual's intelligence, hard work and commitment.

Visitors to our plants see many outward signs of our approach. We all wear the same white uniform. We all park in the same parking lot without reserved spaces. We all eat in the same cafeterias. And we have no private offices. All of our desks are in one large room with no walls.

But the respect goes far deeper than the tangible signs. There are many elements of the Honda approach which are very important. The first is respect between our American and our Japanese associates for what we can achieve together. Our success in Ohio is not a Japanese success or the success of a Japanese company. It is an American success, the success of the American operation of an international company.

The Honda approach to quality is based upon respect for what the individual associate can achieve. We do not mandate quality by having quality inspectors at each step of the manufacturing process. Instead, we teach quality as a satisfying way of life and ask each associate to take individual responsibility for the quality of

Honda products.

Quality must be built in; it cannot be inspected in later. In order to maintain and ensure this quality, we have written operation standards for each job which are reviewed regularly by associates and posted at each job process. Production associates help prepare the operation standards covering each job process, because no one knows better than the associate how to do his or her job. These operation standards are a key element in achieving our quality goal for each associate: accept no bad parts, make no bad parts, and pass no bad parts.

In order to make this reliance on our associates succeed, our associates have to understand our commitment to continuous improvement. We have to eliminate the fear of making and reporting mistakes. False pride that seeks to hide problems is one of the greatest barriers to quality. We encourage our associates to talk about problems in their areas and then to apply their creativity to solving them.

The Honda Philosophy— A Feeling

There is at Honda a certain spirit with which we approach everything we do. That spirit is difficult to define, but it is probably best conveyed by the word "togetherness." It is the

togetherness we have as members of a team. It is the togetherness we have with our philosophy. It is the togetherness created by shared goals.

We believe that if we can create togetherness with our basic principle throughout our organization, we will succeed. For more than thirty years that basic principle has been stated as follows:

"Maintaining an international viewpoint, we are dedicated to supplying products of the highest efficiency yet at a reasonable price for worldwide customer satisfaction."

It is adherence to this principle and to its underlying philosophy that has led us to where we are today.

In the final analysis, Honda cannot be explained by mere words or numbers. The essence of Honda is a feeling—it is a philosophy which can be understood by standing on the factory floor and by talking with Honda associates.

What we have found here in Ohio is that the Honda philosophy can exist, and indeed flourish, halfway around the world from where it was conceived.

By continuing to apply that philosophy, the achievements of the last eight years will prove to have been just a beginning.

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