

---

CMR FORUM:

## **The “Honda Effect” Revisited**

**Henry Mintzberg  
Richard T. Pascale  
Michael Goold  
Richard P. Rumelt**

***California Management Review* Reprint Series**

©1996 by The Regents of the University of California

*CMR*, Volume 38, Number 4, Summer 1996

---

CMR FORUM:

# The “Honda Effect” Revisited

Henry Mintzberg  
Richard T. Pascale  
Michael Goold  
Richard P. Rumelt

## Introduction

Henry Mintzberg

Perhaps no other article published in the management literature has had quite the impact of Richard Pascale’s *California Management Review* piece on the “Honda Effect.” It is, in a sense, a perfect juxtaposition of two versions of the same story—how a Boston Consulting Group report explained the Honda Motor Company’s dramatic success in the American motorcycle industry compared with how the Honda executives who managed that process explained it themselves.

The article has stimulated lively discussion, some of which we reproduce here. We begin with the original article, shortened to focus on the two stories. Then we reprint some correspondence from the *Strategic Management Journal*, first a comment of mine that uses the Honda story. (It was a reply to a comment by Igor Ansoff, who was responding in turn to my own critique of the “design,” or systematic formulation-implementation, approach to strategy.)<sup>1</sup> This is followed by a response from Michael Goold, who identifies himself as one of the authors of the original BCG report, also published in the *Strategic Management Journal*, and my response to Goold (an earlier version of which the *Journal* editor chose not to publish). In reviewing all this material, Michael Goold wished to add a new comment, which comes next. Two articles commissioned for this issue follow, one by Richard Rumelt, who is favorable to the more systematic

approach, and the other by Richard Pascale, who revisits his own original article as well as this whole debate.

**Note**

1. H.I. Ansoff, "Critique of Henry Mintzberg's 'The Design School: Reconsidering the Basic Premises of Strategic Management,'" *Strategic Management Journal*, 12/6 (1991): 449-451; H. Mintzberg, "The Design School: Reconsidering the Basic Premises of Strategic Management," *Strategic Management Journal*, 11/6 (1990): 171-195.

# The Honda Effect

**Richard T. Pascale**

This is a shortened version of "Perspectives on Strategy: The Real Story Behind Honda's Success," from *California Management Review*, 26/3 (Spring 1984): 47-72.

**A**t face value, "strategy" is an innocent noun. Webster defines it as the large-scale planning and direction of operations. In the business context, it pertains to a process by which a firm searches and analyzes its environment and resources in order to

- select opportunities defined in terms of markets to be served and products to serve them, and
- make discrete decisions to invest resources in order to achieve identified objectives.<sup>1</sup>

But for a vast and influential population of executives, planners, academics, and consultants, strategy is more than a conventional English noun. It embodies an implicit model of how organizations should be guided and consequently, preconfigures our way of thinking. Strategy formulation

- is generally assumed to be driven by senior management whom we expect to set strategic direction,
- has been extensively influenced by empirical models and concepts, and
- is often associated with a laborious strategic planning process that, in some companies, has produced more paper than insight.

A \$500-million-a-year "strategic" industry has emerged in the United States and Europe composed of management consultants, strategic planning staffs, and business school academics. It caters to the unique emphasis that American and European companies place upon this particular aspect of managing and directing corporations.

Words often derive meaning from their cultural context. *Strategy* is one such word and nowhere is the contrast of meanings more pronounced than between Japan and the United States. The Japanese view the emphasis we place on "strategy" as we might regard their enthusiasm for Kabuki or sumo wrestling. They note our interest not with an intent of acquiring similar ones but for insight into our peculiarities. The Japanese are somewhat distrustful of a single "strategy," for in their view any idea that focuses attention does so at the expense of peripheral vision. They strongly believe that *peripheral vision* is essential to discerning changes in the customer, the technology or competition, and is the key to corporate survival over the long haul. They regard any propensity to be driven by a single-minded strategy as a weakness.

The Japanese have particular discomfort with strategic concepts. While they do not reject ideas such as the experience curve or portfolio theory

outright, they regard them as a stimulus to perception. They have often ferreted out the "formula" of their concept-driven American competitors and exploited their inflexibility. In musical instruments, for example (a mature industry facing stagnation as birthrates in the United States and Japan declined), Yamaha might have classified its products as "cash cows" and gone on to better things (as its chief U.S. competitor, Baldwin United, had done). Instead, beginning with a negligible share of the U.S. market, Yamaha plowed ahead and destroyed Baldwin's seemingly unchallengeable dominance. YKK's success in zippers against Talon (a Textron division) and Honda's outflanking of Harley-Davidson (a former AMF subsidiary) in the motorcycle field provide parallel illustrations. All three cases involved American conglomerates, wedded to the portfolio concept, that had classified pianos, zippers, and motorcycles as mature businesses to be harvested rather than nourished and defended. Of course, those who developed portfolio theory and other strategic concepts protest that they were never intended to be mindlessly applied in setting strategic direction. But most would also agree that there is a widespread tendency in American corporations to misapply concepts and to otherwise become strategically myopic—ignoring the marketplace, the customer, and the problems of execution. This tendency toward misapplication, being both pervasive and persistent over several decades, is a phenomenon that the literature has largely ignored.<sup>2</sup> There is a need to identify explicitly the factors that influence how we conceptualize strategy—and that foster its misuse.

### **Honda: The Strategy Model**

In 1975, Boston Consulting Group (BCG) presented the British government its final report: *Strategy Alternatives for the British Motorcycle Industry*. This 120-page document identified two key factors leading to the British demise in the world's motorcycle industry:

- Market share loss and profitability declines
- Scale economy disadvantages in technology, distribution, and manufacturing

During the period 1959 to 1973, the British share of the U.S. motorcycle industry had dropped from 49% to 9%. Introducing BCG's recommended strategy (of targeting market segments where sufficient production volumes could be attained to be price competitive), the report states:

The success of the Japanese manufacturers originated with the growth of their domestic market during the 1950s. As recently as 1960, only 4 percent of Japanese motorcycle production was exported. By this time, however, the Japanese had developed huge production volumes in small motorcycles in their domestic market, and volume-related cost reductions had followed. This resulted in a highly competitive cost position which the Japanese used as a springboard for penetration of world markets with small motorcycles in the early 1960s.<sup>3</sup>

The BCG study was made public by the British government and rapidly disseminated in the United States. It exemplifies the necessary (and, I argue, insufficient) strategist's perspective of

- examining competition primarily from an intercompany perspective,
- at a high level of abstraction,
- with heavy reliance on microeconomic concepts (such as the experience curve).

Case writers at Harvard Business School, UCLA, and the University of Virginia quickly condensed the BCG report for classroom use in case discussions. It currently enjoys extensive use in first-term courses in business policy.

Of particular note in the BCG study, and in the subsequent Harvard Business School rendition, is the historical treatment of Honda.

The mix of competitors in the U.S. motorcycle market underwent a major shift in the 1960s. Motorcycle registrations increased from 575,000 in 1960 to 1,382,000 in 1965. Prior to 1960 the U.S. market was served mainly by Harley-Davidson of U.S.A., BSA, Triumph and Norton of U.K. and Moto-Guzzi of Italy. Harley was the market leader with total 1959 sales of \$16.6 million. After the second world war, motorcycles in the U.S.A. attracted a very limited group of people other than police and army personnel who used motorcycles on the job. While most motorcyclists were no doubt decent people, groups of rowdies who went around on motorcycles and called themselves by such names as "Hell's Angels," "Satan's Slaves" gave motorcycling a bad image. Even leather jackets which were worn by motorcyclists as a protective device acquired an unsavory image. A 1953 movie called "The Wild Ones" starring a 650cc Triumph, a black leather jacket and Marlon Brando gave the rowdy motorcyclists wide media coverage. The stereotype of the motorcyclist was a leather-jacketed, teenage troublemaker.

Honda established an American subsidiary in 1959—American Honda Motor Company. This was in sharp contrast to other foreign producers who relied on distributors. Honda's marketing strategy was described in the 1963 annual report as "With its policy of selling, not primarily to confirmed motorcyclists but rather to members of the general public who had never before given a second thought to a motorcycle. . . ." Honda started its push in the U.S. market with the smallest, lightweight motorcycles. It had a three-speed transmission, an automatic clutch, five horsepower (the American cycle only had two and a half), an electric starter and step through frame for female riders. And it was easier to handle. The Honda machines sold for under \$250 in retail compared with \$1,000-\$1,500 for the biggest American or British machines. Even at that early date Honda was probably superior to other competitors in productivity.

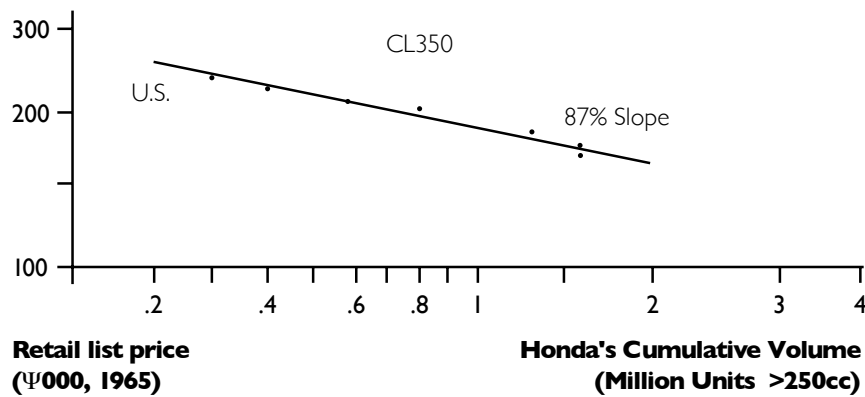
By June 1960 Honda's Research and Development effort was staffed with 700 designers/engineers. This might be contrasted with 100 engineers/draftsmen employed by . . . (European and American competitors). In 1962 production per man-year was running at 159 units, (a figure not reached by Harley-Davidson until 1974). Honda's net fixed asset investment was \$8170 per employee . . . (more than twice its European and American competitors). With 1959 sales of \$55 million Honda was already the largest motorcycle producer in the world.

Honda followed a policy of developing the market region by region. They started on the West Coast and moved eastward over a period of four-five years. Honda sold 2,500 machines in the U.S. in 1960. In 1961 they lined up 125 distributors and spent \$150,000 on regional advertising. Their advertising was directed to the young families, their advertising theme was "You Meet the Nicest People on a Honda." This was a deliberate attempt to dissociate motorcycles from rowdy, Hell's Angels type people.

Honda's success in creating demand for lightweight motorcycles was phenomenal. American Honda's sales went from \$500,000 in 1960 to \$77 million in 1965. By 1966 the market share data showed the ascendancy of Japanese producers and their success in selling lightweight motorcycles. [Honda had 63% of the market.] . . . Starting from virtually nothing in 1960, the lightweight motorcycles had clearly established their lead.<sup>4</sup>

Quoting from the BCG report:

The Japanese motorcycle industry, and in particular Honda, the market leader, present a [consistent] picture. The basic philosophy of the Japanese manufacturers is that high volumes per model provide the potential for high productivity as a result of using capital intensive and highly automated techniques. Their marketing strategies are therefore directed towards developing these high model volumes, hence the careful attention that we have observed them giving to growth and market share.



Source: BCG "Strategy Alternatives for the British Motorcycle Industry."

The overall result of this philosophy over time has been that the Japanese have now developed an entrenched and leading position in terms of technology and production methods . . . The major factors which appear to account for the Japanese superiority in both these areas are . . . (specialized production systems, balancing engineering and market requirements, and the cost efficiency and reliability of suppliers).<sup>5</sup>

As evidence of Honda's strategy of taking position as low cost producer and exploiting economies of scale, other sources cite Honda's construction in 1959 of a plant to manufacture 30,000 motorcycles per month well ahead of

existing demand at the time. (Up until then Honda's most popular models sold 2,000-3,000 units per month.)<sup>6</sup>

The overall picture as depicted by the quotes exemplifies the "strategy model." Honda is portrayed as a firm dedicated to being the low price producer, utilizing its dominant market position in Japan to force entry into the U.S. market, expanding that market by redefining a leisure class ("Nicest People") segment, and exploiting its comparative advantage via aggressive pricing and advertising. Richard Rumelt, writing the teaching note for the UCLA adaptation of the case states: "The fundamental contribution of BCG is not the experience curve per se but the ever-present assumption that differences in cost (or efficiency) are the fundamental components of strategy."<sup>7</sup>

## **The Organizational Process Perspective**

On September 10, 1982, the six Japanese executives responsible for Honda's entry into the U.S. motorcycle market in 1959 assembled in Honda's Tokyo headquarters. They had gathered at my request to describe in fine-grain detail the sequence of events that had led to Honda's ultimate position of dominance in the U.S. market. All were in their sixties; three were retired. The story that unfolded, greatly abbreviated below, highlights miscalculation, serendipity, and organizational learning—counterpoints to the streamlined "strategy" version related earlier.

Any account of Honda's successes must grasp at the outset the unusual character of its founder, Sochiro Honda, and his partner, Takeo Fujisawa. Honda was an inventive genius with a large ego and mercurial temperament, given to bouts of "philandering" (to use his expression).<sup>8</sup> Postwar Japan was in desperate need of transportation. Motorcycle manufacturers proliferated, producing clip-on engines that converted bicycles into make-shift "mopeds." Honda was among these, but it was not until he teamed up with Fujisawa in 1949 that the elements of a successful enterprise began to take shape. Fujisawa provided money as well as financial and marketing strengths. In 1950, their first D-type motorcycle was introduced. They were, at that juncture, participating in a fragmented industry along with 247 other manufacturers. Other than its sturdy frame, this introductory product was unnoteworthy and did not enjoy great commercial success.<sup>9</sup>

Honda embodied a rare combination of inventive ability and ultimate self-confidence. His motivation was not primarily commercial. Rather, the company served as a vehicle to give expression to his inventive abilities. A successful company would provide a resource base to pursue, in Fujisawa's words, his "grandiose dream." Fujisawa continues, "There was no end to his pursuit of technology."<sup>10</sup>

Fujisawa, in an effort to save the faltering company, pressed Honda to abandon their noisy two-stroke engine and pursue a four-stroke design. The



quieter four-stroke engines were appearing on competitive motorcycles, therefore threatening Honda with extinction. Mr. Honda balked. But a year later, Honda stunned Fujisawa with a breakthrough design that doubled the horsepower of competitive four-stroke engines. With this innovation, the firm was off and putting, and by 1951 demand was brisk. There was no organization, however, and the plant was chaotic.<sup>11</sup> Strong demand, however, required early investment in a simplified mass-production process. As a result, *primarily* due to design advantages and secondarily due to production methods, Honda became one of the four or five industry leaders by 1954 with 15 percent market share.<sup>12</sup>

For Fujisawa, the engine innovation meant increased sales and easier access to financing. For Mr. Honda, the higher horsepower engine opened the possibility of pursuing one of his central ambitions in life—to race his motorcycle and win.

Fujisawa, throughout the fifties, sought to turn Honda's attention from his enthusiasm with racing to the more mundane requirements of running an enterprise. By 1956, as the innovations gained from racing had begun to pay off in vastly more efficient engines, Fujisawa pressed Honda to adapt this technology for a commercial motorcycle.<sup>13</sup> Fujisawa had a particular segment in mind. Most motorcyclists in Japan were male and the machines were used primarily as an alternative form of transportation to trains and buses. There were, however, a vast number of small commercial establishments in Japan that still delivered goods and ran errands on bicycles. Trains and buses were inconvenient for these activities. The purse-strings of these small enterprises were controlled by the Japanese wife—who resisted buying conventional motorcycles because they were expensive, dangerous, and hard to handle. Fujisawa challenged Honda: Can you use what you've learned from racing to come up with an inexpensive, safe-looking motorcycle that can be driven with one hand (to facilitate carrying packages).

In 1958, the Honda 50cc Supercub was introduced—with an automatic clutch, three-speed transmission, automatic starter, and the safe, friendly look of a bicycle (without the stigma of the outmoded mopeds). Owing almost entirely to its high horsepower but *lightweight 50cc engine* (not to production efficiencies), it was affordable. Overnight, the firm was overwhelmed with orders. Engulfed by demand, they sought financing to build a new plant with a 30,000 unit per month capacity. "It wasn't a speculative investment," recalls one executive. "We had the proprietary technology, we had the market, and the demand was enormous." (The plant was completed in mid-1960.) Prior to its opening, demand was met through makeshift, high-cost, company-owned assembly and farmed-out assembly through subcontractors. By the end of 1959, Honda had skyrocketed into first place among Japanese motorcycle manufacturers. Of its total sales that year of 285,000 units, 168,000 were Supercubs.

Fujisawa utilized the Supercub to restructure Honda's channels of distribution. For many years, Honda had ranked under the two-tier distribution system that prevailed in the industry. These problems had been exacerbated by the fact

that Honda was a late entry and had been carried as secondary line by distributors whose loyalties lay with their older manufacturers. Further weakening Honda's leverage, all manufacturer sales were on a consignment basis.

Deftly, Fujisawa had characterized the Supercub to Honda's distributors as "something much more like a bicycle than a motorcycle." The traditional channels, to their later regret, agreed. Under amicable terms Fujisawa began selling the Supercub directly to retailers—and primarily through bicycle shops. Since these shops were small and numerous (approximately 12,000 in Japan), sales on consignment were unthinkable. A cash-on-delivery system was installed, giving Honda significantly more leverage over its dealerships than the other motorcycle manufacturers enjoyed.

The stage was now set for exploration of the U.S. market. Mr. Honda's racing conquests in the late 1950s had given substance to his convictions about his abilities.

Two Honda executives—the soon-to-be-named president of American Honda, Kihachiro Kawashima, and his assistant—arrived in the United States in late 1959. Their itinerary: San Francisco, Los Angeles, Dallas, New York, and Columbus. Mr. Kawashima recounts his impressions:

My first reaction after traveling across the United States was: How could we have been so stupid as to start a war with such a vast and wealthy country! My second reaction was discomfort. I spoke poor English. We dropped in on motorcycle dealers who treated us discourteously and in addition, gave the general impression of being motorcycle enthusiasts who, secondarily, were in business. There were only 3,000 motorcycle dealers in the United States at the time and only 1,000 of them were open five days a week. The remainder were open on nights and weekends. Inventory was poor, manufacturers sold motorcycles to dealers on consignment, the retailers provided consumer financing; after-sales service was poor. It was discouraging.

My other impression was that everyone in the United States drove an automobile—making it doubtful that motorcycles could ever do very well in the market. However, with 450,000 motorcycle registrations in the U.S., and 60,000 motorcycles imported from Europe each year it didn't seem unreasonable to shoot for 10 percent of the import market. I returned to Japan with that report.

In truth, we had no strategy other than the idea of seeing if we could sell something in the United States. It was a nice frontier, a new challenge, and it fit the "success against all odds" culture that Mr. Honda had cultivated. I reported my impressions to Fujisawa—including the seat-of-the-pants target of trying, over several years, to attain a 10 percent share of U.S. imports. He didn't probe that target quantitatively. We did not discuss profits or deadlines for breakeven. Fujisawa told me if anyone could succeed, I could and authorized \$1 million for the venture.

The next hurdle was to obtain a currency allocation from the Ministry of Finance. They were extraordinarily skeptical. Toyota had launched the Toyopet in the U.S. in 1958 and had failed miserably. "How could Honda succeed?" they asked. Months went by. We put the project on hold. Suddenly, five months after our application, we were given the go-ahead—but at only a fraction of our

expected level of commitment. "You can invest \$250,000 in the U.S. market," they said, "but only \$11,000 in cash." The remainder of our assets had to be in parts and motorcycle inventory.

We moved into frantic activity as the government, hoping we would give up on the idea, continued to hold us to the July 1959 start-up timetable. Our focus, as mentioned earlier, was to compete with the European exports. We knew our products at the time were good but not far superior. Mr. Honda was especially confident of the 250cc and 305cc machines. The shape of the handlebar on these larger machines looked like the eyebrow of Buddha, which he felt was a strong point. Thus, after some discussion and with no compelling criteria for selection, we configured our start-up inventory with 25 percent of each of our four products—the 50cc Supercub and the 125cc, 250cc, and 305cc machines. In dollar value terms, of course, the inventory was heavily weighted toward the larger bikes.

The stringent monetary controls of the Japanese government together with the unfriendly reception we had received during our 1958 visit caused us to start small. We chose Los Angeles where there was a large second and third generation Japanese community, a climate suitable for motorcycle use, and a growing population. We were so strapped for cash that the three of us shared a furnished apartment that rented for \$80 per month. Two of us slept on the floor. We obtained a warehouse in a run-down section of the city and waited for the ship to arrive. Not daring to spare our funds for equipment, the three of us stacked the motorcycle crates three high—by hand, swept the floors, and built and maintained the parts bin.

We were entirely in the dark the first year. We were not aware the motorcycle business in the United States occurs during a seasonable April-to-August window—and our timing coincided with the closing of the 1959 season. Our hard-learned experiences with distributorships in Japan convinced us to try to go to the retailers direct. We ran ads in the motorcycle trade magazine for dealers. A few responded. By spring of 1960, we had forty dealers and some of our inventory in their stores—mostly larger bikes. A few of the 250cc and 305cc bikes began to sell. Then disaster struck.

By the first week of April 1960, reports were coming in that our machines were leaking oil and encountering clutch failure. This was our lowest moment. Honda's fragile reputation was being destroyed before it could be established. As it turned out, motorcycles in the United States are driven much farther and much faster than in Japan. We dug deeply into our precious cash reserves to air freight our motorcycles to the Honda testing lab in Japan. Through the dark month of April, Pan Am was the only enterprise in the U.S. that was nice to us. Our testing lab worked twenty-four hour days bench testing the bikes to try to replicate the failure. Within a month, a redesigned head gasket and clutch spring solved the problem. But in the meantime, events had taken a surprising turn.

Throughout our first eight months, following Mr. Honda's and our own instincts, we had not attempted to move the 50cc Supercubs. While they were a smash success in Japan (and manufacturing couldn't keep up with demand there), they seemed wholly unsuitable for the U.S. market where everything was bigger and more luxurious. As a clincher, we had our sights on the import

market—and the Europeans, like the American manufacturers, emphasized the larger machines.

We used the Honda 50s ourselves to ride around Los Angeles on errands. They attracted a lot of attention. One day we had a call from a Sears buyer. While persisting in our refusal to sell through an intermediary, we took note of Sears' interest. But we still hesitated to push the 50cc bikes out of fear they might harm our image in a heavily macho market. But when the larger bikes started breaking, we had no choice. We let the 50cc bikes move. And surprisingly, the retailers who wanted to sell them weren't motorcycle dealers, they were sporting goods stores.

The excitement created by the Honda Supercub began to gain momentum. Under restrictions from the Japanese government, we were still on a cash basis. Working with our initial cash and inventory, we sold machines, reinvested in inventory, and sunk the profits into additional inventory and advertising. Our advertising tried to straddle the market. While retailers continued to inform us that our Supercub customers were normal everyday Americans, we hesitated to target toward this segment out of fear of alienating the high margin end of our business—sold through the traditional motorcycle dealers to a more traditional "black leather jacket" customer.<sup>14</sup>

Honda's phenomenal sales and share gains over the ensuing years have been previously reported. History has it that Honda "*redefined*" the U.S. motorcycle industry. In the view of American Honda's start-up team, this was an innovation they backed into—and reluctantly. It was certainly not the strategy they embarked on in 1959. As late as 1963, Honda was still working with its original Los Angeles advertising agency, its ad campaigns straddling all customers so as not to antagonize one market in pursuit of another.

In the spring of 1963, an undergraduate advertising major at UCLA submitted, in fulfillment of a routine course assignment, an ad campaign for Honda. Its theme: You Meet the Nicest People on a Honda. Encouraged by his instructor, the student passed his work on to a friend at Grey Advertising. Grey had been soliciting the Honda account—which with a \$5 million a year budget was becoming an attractive potential client. Grey purchased the student's idea—on a tightly kept nondisclosure basis. Grey attempted to sell the idea to Honda.

Interestingly, the Honda management team, which by 1963 had grown to five Japanese executives, was badly split on this advertising decision. The president and treasurer favored another proposal from another agency. The director of sales, however, felt strongly that the Nicest People campaign was the right one—and his commitment eventually held sway. Thus, in 1963, through an inadvertent sequence of events, Honda came to adopt a strategy that directly identified and targeted that large untapped segment of the marketplace that has since become inseparable from the Honda legend.

The Nicest People campaign drove Honda's sales at an even greater rate. By 1964, nearly one out of every two motorcycles sold was a Honda. As a result of the influx of medium-income leisure-class consumers, banks and other consumer credit companies began to finance motorcycles—shifting away from dealer credit, which had been the traditional purchasing mechanism available.

Honda, seizing the opportunity of soaring demand for its products, took a courageous and seemingly risky position. Late in 1964, they announced that thereafter, they would cease to ship on a consignment basis but would require cash on delivery. Honda braced itself for revolt. While nearly every dealer questioned, appealed, or complained, none relinquished his franchise. In one fell swoop, Honda shifted the power relationship from the dealer to the manufacturer. Within three years, this would become the pattern for the industry.

### **The "Honda Effect"**

The preceding account of Honda's inroads in the U.S. motorcycle industry provides more than a second perspective on reality. It focuses our attention on different issues and raises different questions. What factors permitted two men as unlike one another as Honda and Fujisawa to function effectively as a team? What incentives and understandings permitted the Japanese executives at American Honda to respond to the market as it emerged rather than doggedly pursue the 250cc and 305cc strategy that Mr. Honda favored? What decision process permitted the relatively junior sales director to overturn the bosses' preferences and choose the Nicest People campaign? What values or commitment drove Honda to take the enormous risk of alienating its dealers in 1964 in shifting from a consignment to cash? In hindsight, these pivotal events all seem ho-hum common sense. But each day, as organizations live out their lives without the benefit of hindsight, few choose so well and so consistently.

The juxtaposed perspectives reveal what I shall call the "Honda Effect." Western consultants, academics, and executives express a preference for oversimplifications of reality and cognitively linear explanations of events. To be sure, they have always acknowledged that the "human factor" must be taken into account. But extensive reading of strategy cases at business schools, consultants' reports, strategic planning documents, as well as the coverage of the popular press reveals a widespread tendency to overlook the process through which organizations experiment, adapt, and learn. We tend to impute coherence and purposive rationality to events when the opposite may be closer to the truth. How an organization deals with miscalculation, mistakes, and serendipitous events *outside its field of vision is often crucial to success over time*. It is this realm that requires better understanding and further research if we are to enhance our ability to guide an organization's destiny.

An earlier section has addressed the shortcomings of the narrowly defined microeconomic strategy model. The Japanese avoid this pitfall by adopting a broader notion of "strategy". In our recent awe of things Japanese, most Americans forget that the original products of the Japanese automotive manufacturers badly missed the mark. Toyota's Toyopet was square, sexless, and mechanically defective. It failed miserably, as did Datsun's first several entries into the U.S. market. More recently, Mazda miscalculated badly with its first rotary engine and nearly went bankrupt. Contrary to myth, the Japanese did not from the

onset embark on a strategy to seize the high-quality small-car market. They manufactured what they were accustomed to building in Japan and tried to sell it abroad. Their success, as any Japanese automotive executive will readily agree, did not result from a bold insight by a few big brains at the top. On the contrary, success was achieved by senior managers humble enough not to take their initial strategic positions too seriously. What saved Japan's near-failures was the cumulative impact of "little brains" in the form of salesmen and dealers and production workers, all contributing incrementally to the quality and market position these companies enjoy today. Middle and upper management saw their primary task as guiding and orchestrating this input from below rather than steering the organization from above along a predetermined strategic course.

The Japanese don't use the term "strategy" to describe a crisp business definition or competitive master plan. They think more in terms of "strategic accommodation," or "adaptive persistence," underscoring their belief that corporate direction evolves from an incremental adjustment to unfolding events. Rarely, in their view, does one leader (or a strategic planning group) produce a bold strategy that guides a firm unerringly. Far more frequently, the input is from below. It is this ability of an organization to move information and ideas from the bottom to the top and back again in continuous dialogue that the Japanese value above all things. As this dialogue is pursued, what in hindsight may be "strategy" evolves. In sum, "strategy" is defined as "all the things necessary for the successful functioning of organization as an adaptive mechanism."

## Notes

1. Joseph L. Bower, *Managing the Resource Allocation Process*, Division of Research, Graduate School of Business Administration, Harvard University, Cambridge, MA, 1970, pp. 7-8.
2. For exceptions, see R.H. Hayes and W.J. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review* (July/August 1980): 67; R.H. Hayes and J.G. Garvin, "Managing As If Tomorrow Mattered," *Harvard Business Review* (May/June 1982): 71.
3. Boston Consulting Group, *Strategy Alternatives for the British Motorcycle Industry*, Her Majesty's Stationery Office, London, July 30, 1975, p. xvi.
4. D. Purkayastha, "Note on the Motorcycle Industry—1975," #9-578-210, Harvard Business School, Cambridge, MA, 1981, pp. 5, 10, 11, 12.
5. Boston Consulting Group, op. cit., pp. 59, also p. 40.
6. Tetsuo Sakiya, *Honda Motor: The Men, The Management, The Machines* (Tokyo: Kadonsha International, 1982), p. 119.
7. Richard P. Rumelt, "A Teaching Plan for *Strategy Alternatives for the British Motorcycle Industry*," *Japanese Business: Business Policy*, The Japan Society, New York, NY, 1980, p. 2.
8. Tetsuo Sakiya, "The Story of Honda's Founders," *Asahi Evening News*, June 1-August 29, 1979, Series #19, Series #12; also Series #10, Series #2, and Series #3.
9. Sakiya (1979), op. cit., Series #6; Sakiya (1982), op. cit., pp. 65-69.
10. Sakiya (1982), op. cit.
11. Ibid.

12. Data provided by Honda Motor Company, Tokyo, Japan, September 10-12, 1982.
13. Sakiya, (1979), op. cit., Series #13; Sakiya (1982), op. cit., p. 117.
14. Pascale interviews.

## Learning I, Planning 0

Henry Mintzberg

Excerpted from the section "Research Notes and Communications" in the *Strategic Management Journal*, 12 (1991): 464-466. Copyright ©1991. Reprinted by permission of John Wiley & Sons, Ltd.

I would like to introduce just one fact here. In one sense, it is the only real fact I know in all of the literature of strategic management.

While debates abound about rationality vs. incrementalism, or planning vs. learning, and great gobs of wonderfully scientific statistics have been collected on the subject (not the best of which is that whole "does planning pay?" literature, which never proved anything), we do have one rather tangible data point. It is Richard Pascale's account by several Honda executives about how they developed on site the strategy that captured two-thirds of the American motorcycle market.<sup>1</sup> What is especially fascinating about this messy account is that it stands in sharp contrast to the brilliantly rational strategy imputed to these executives by BCG consultants who apparently never bothered to ask.<sup>2</sup>

Honda's success, if we are to believe those who did it and not those who figured it, was built precisely on what they initially believed to be [what Igor Ansoff calls a] "probable 'non-starter'"<sup>3</sup>—namely, the small motorcycle. Their own priors were that a market without small motorcycles would not buy small motorcycles. Had they a proper planning process in place . . . this non-starter would have been eliminated at the outset—plan "rationally" and be done with it. But Honda was badly managed in this regard, and so a few Japanese managers, riding around on those little things in Los Angeles, were pleasantly surprised. They learned. (General Motors was apparently well managed in this regard, because a product development manager there once told me that they had a mini-van on the drawing boards long before Chrysler ever did but that this "probable 'non-starter'" was scuttled in the planning process.)

We think we are so awfully smart. We can work it all out in advance, so cleverly, we "rational" human beings. . . . We can predict the future, identify the non-starters, impose our minds on all that matter. And why not. After all, aren't we the ones who live in turbulent times? That makes us important, doesn't it? . . .

Of course, we need to think. Of course we want to be rational. But it's a complicated world out there. We [all] know that we shall get nowhere without emergent learning alongside deliberate planning. If we have discovered anything at all these many years, it is, first, that the conception of a novel strategy is a creative process (of synthesis), for which there are no formal techniques (analysis), and second, that to program these strategies throughout complex organizations, and out to assenting environments, we often require a good deal of formal analysis. So the two processes can interwine. . . .



Winston Churchill is reported to have defined planning as "deciding to put one foot in front of the other." I like to say that strategy and structure proceed like two feet walking: strategy always precedes structure, and always follows it too. And so it is with planning and learning. BCG's mistake was not in what it did describe so much as in what it left out; the critical period of emergent learning that had to inform the deliberate planning process. In other words, strategy had to be conceived informally before it could be programmed formally.

Our problem, in practice and academia, has always been one of imbalance, the assumption that planning (or learning) could do it all. As I see things, long ago we may have been weak on rational analysis, but today we have an excess of it. . . . The "widespread use of explicit *a priori* strategy formulation" in our organizations [may be] exactly the problem. . . . For example, I have come to suspect that Harvard's great success may be business's great failure. In other words, the real danger of the design school may be in providing a seductive model whose superficial "rationality" in the classroom can so easily get promoted into the executive suite.

[Ansoff claims] that rationality saves time. Maybe that is all too true: in formulating detached, easy strategies in case study discussions, later in executive meetings, which are not meant to be implemented, and later cannot be, and in giving all those "whiz kids" a head start down the "fast track." They can certainly tell a "probable 'non-starter'" from a "winner," at least *a priori*.

And let's not let ourselves be seduced by the "facts," or by "science". A score of 1-0 for informal learning over formal planning reflects not the wealth of management practice at all, but the poverty of the performance of all of us at the game of research.

## Notes

1. Richard T. Pascale, "Perspectives on Strategy: The Real Story Behind Honda's Success," *California Management Review*, 26/3 (Spring 1984): 47-72.
2. Boston Consulting Group, *Strategy Alternatives for the British Motorcycle Industry*, Her Majesty's Stationery Office, London, July 30, 1975, p. xvi.
3. H.I. Ansoff, *Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion* (New York, NY: McGraw-Hill, 1965).

# Design, Learning and Planning: A Further Observation on the Design School Debate

Michael Goold

Excerpted from the section "Research Notes and Communications" in the *Strategic Management Journal*, 13 (1992): 169-170. Copyright ©1992. Reprinted by permission of John Wiley & Sons, Ltd.

I have enjoyed the debate between Henry Mintzberg and Igor Ansoff about the merits of the design school of strategic management.<sup>1</sup> These articles articulate two different approaches to strategic management well, and, in Mintzberg, move towards a synthesis or at least a reconciliation between them.

Alas, however, the polemics and the prejudices get in the way of moving forward towards a real synthesis. Mintzberg gives a good account of why *both* incremental learning *and* deliberate planning are needed, of why both processes should "intertwine." But this reconciliation is sandwiched between colorful passages that condemn planning and extol learning. These were summed up in Mintzberg's eventual score sheet: Learning 1, Planning 0. This hardly represents a balance between or an intertwining of the two approaches.

Mintzberg may claim that his prejudices are necessary to counter the prejudice of others in favor of the planning school. And it is true that his work has brought out aspects of strategic management that may previously have been neglected. But there is equal danger in going too far in the other direction.

We can focus these issues around the motorcycle industry report by BCG that Mintzberg refers to, and of which I was a co-author.<sup>2</sup> Mintzberg is severe on the BCG report ("never bothered to ask" about how Honda developed their strategy, "mistake" was in "what it left out"), and from the perspective of the historian he is probably correct. The report does not dwell on how the Honda strategy was evolved and on the learning that took place. However, the report was commissioned for an industry in crisis, with the brief of identifying commercially viable alternatives. The perspective required was managerial ("what should we do now?"), not historical ("how did this situation arise?"). And for most executives concerned with strategic management the primary interest will always be "what should we do now?"

Given such an interest, what would a Mintzbergian learning approach recommend? This is not clear from Mintzberg's article, but presumably it would be "try something, see if it works and learn from your experience." Indeed there is some suggestion that one should specifically try "probable non-starters." For the manager, such advice would be unhelpful, even irritating. "Of course, we should learn from experience," he will say "but we have neither the time nor the money to experiment with endless, fruitless nonstarters." Where

the manager needs help is with what he should try to make work. This, surely, is exactly where strategic management thinking should endeavor to be useful.

In this context, the BCG analysis of Honda's success is much more valid. Its purpose was to discern what lay behind and accounted for Honda's success, in a way that would help others to think through what strategies would be likely to work. In this sense, one might even locate it as much in the learning (i.e., learning from the success of others) as in the planning school. Paradoxically, the approach is close to one adopted by Mintzberg elsewhere,<sup>3</sup> in that it tries to discern patterns in Honda's strategic decisions and actions, and to use these patterns in identifying what works well and badly. How Honda arrived at their patterns is not the focus of attention, nor should it be, given the purpose of the work.

None of this is to deny that, in following through whatever strategy is chosen, a willingness to learn for experience and refine the chosen strategy is vital. Here Mintzberg's crusade is valuable and important, particularly for managers who might otherwise suffer from tunnel vision. But we can do better than starting with random experiments and we can use both planning and learning from others in selecting the strategies to try. I see no contest between planning and learning, rather a collaboration. But, if a score sheet must be drawn up, something like Planning 1, Learning 1 is surely a fairer reflection of the contribution of both sides.

## Notes

1. H. Mintzberg, "The Design School: Reconsidering the Basic Premises of Strategic Management," *Strategic Management Journal*, 11/6 (1990): 171-195; H. Mintzberg, "Learning 1, Planning 0: Reply to Igor Ansoff," *Strategic Management Journal*, 12/6 (1991): 463-466; H.I. Ansoff, "Critique of Henry Mintzberg's 'The Design School: Reconsidering the Basic Premises of Strategic Management,'" *Strategic Management Journal*, 12/6 (1991): 449-461.
2. Boston Consulting Group, *Strategy Alternatives for the British Motorcycle Industry*, Her Majesty's Stationery Office, London, July 30, 1975, p. xvi.
3. H. Mintzberg, "Patterns in Strategy Formation," *Management Science* (May 1978), pp. 934-948.

## Reply to Michael Goold

Henry Mintzberg

**T**he debate between formal planning and informal learning—between cerebral control and insightful adaptation—seems to smoke out all kinds of interesting things. Now Michael Goold has identified himself as a co-author of the BCG Honda report, and argued that because “the report was commissioned for an industry in crisis,” it had to take a “managerial” rather than a “historical” perspective.

Might I suggest that Goold has inadvertently hit the proverbial nail right on the head. To argue that being managerial means the need to ignore the history is exactly the problem. The BCG report erred in its inferences about how Honda developed its strategy, and so misled any manager who read it.<sup>1</sup> Read that report and the implication is that you should lock yourself in your office and do clever competitive analysis. Honda never would have produced its strategy that way. Read, instead, Pascale’s account of the Honda executives’ own story and you get the impression you should sell your Rolls Royce, buy a pair of jeans, and start riding motorcycles around Des Moines, Iowa. There is a critical difference between doing “random experiments” and simply exposing oneself to the chance to be surprised by the marketplace and so to learn.

Reading Pascale’s account, one has to ask: What makes the Japanese so smart? This is a story of success, not failure, yet they seemed to do everything wrong. True they were persistent, their managers were devoted to their company, and they were allowed the responsibility to make the important decisions on site. But when it came to strategic thinking, they hardly appear to be geniuses. Indeed, the story violates everything we believe about effective strategic management (and much that BCG imputed to those clever Japanese). Just consider the passive tone of the Japanese managers’ comments (“events took a surprising turn,” “we had no choice,” and so on) compared with the proactive vocabulary of the BCG report.

If this story is any indication, then the Japanese advantage lies not in their cleverness at all, but in our own stupidity. While we run around being “rational,” they use their common sense. The Honda people avoided being too rational. Rather than believing they could work it all out in Tokyo, they came to America prepared to *learn*. Sure they used their experience and their cost position based on production volumes in Japan. But only *after* they learned what they had to do. The BCG people’s crucial mistake was in skipping that critically necessary period of learning.

How, then, did BCG’s clients actually learn from this report? And what lessons did BCG itself take from this particular bit of history? Did it take a good look at its own performance—do some analysis about the impact of its own analysis?

According to the Commodity Trade Statistics, as shown in Figure 1, British motorcycle and parts exports to the United States, which had been staggering along in the 1970s in the thirty million dollar range, actually collapsed in 1976, the year after the BCG report was published—\$10,170,000 compared with \$25,518,000 in 1975—and by 1980 barely exceeded one million dollars. That was the year the Japanese exports passed the one *billion* dollar mark! By 1990, British exports had dropped to \$495,000.

So much for the result of this practical managerial perspective. I believe that managers who "have neither the time nor the money to experiment" are destined to go the route of the British motorcycle industry. How in the world can anyone identify those "endless, fruitless nonstarters" in advance? To assume such an ability is simple arrogance, and would, in fact, have eliminated many, if not most, of the really innovative products we have come to know. (Proctor and Gamble apparently never dreamed that people would use Pampers other than for traveling; Thomas Watson Sr. apparently claimed in 1948: "I think there is a world market for about five computers.") Analysis doesn't see ahead at all; mostly it looks behind (but not far behind). And then, all too often, it extrapolates the identifiable trends of the past into the future. That is how great innovations end up as "nonstarters" for a time.

The role of management consultants in the fate of the British motorcycle industry becomes especially intriguing when one considers the assessment of Bert Hopwood, a long-time executive with BSA who wrote a book called *Whatever Happened to the British Motorcycle Industry*.

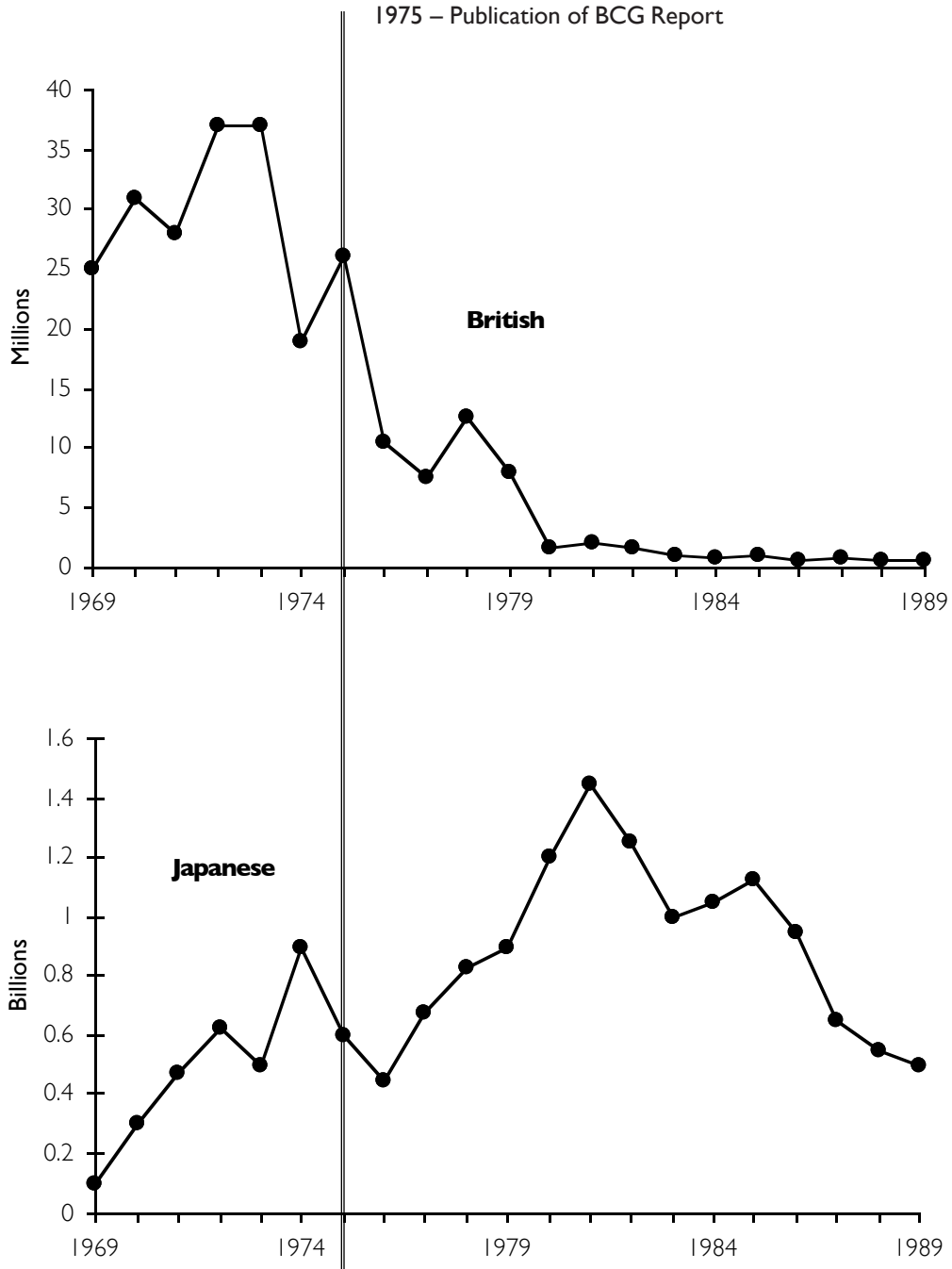
At this stage in the history BSA, the early 1960s, this huge slice of the total British motorcycle industry was busy embarking on a madness of management consultancy, rather than getting on with the real job of work. It was this disaster of academic business thinking that finally crucified a British industry which was respected throughout the world. I would think that the great and highly successful Japanese motorcycle industry looked on and studied our capers with unbelieving eyes.<sup>2</sup>

Hopwood discusses one of those nonstarters, a scooter that was ruined because "during this period we had been invaded by hordes of management consultants. When these experts had doctored the industry, the large volume scooter market had disappeared."<sup>3</sup> Hopwood also mentions the executive who said "there could be no profit for us in very small motorcycles and there was no point in our entering that section of the market." This executive, in fact, publicly thanked the Japanese for introducing people to the product so that they could trade up to the large British machines!<sup>4</sup>

Hopwood pointed out that "not a soul on the Parent Board [the executive committee of the group that controlled BSA] . . . knew the first thing about single track vehicles." This led him to make his most stunning statement of all:

In the early 1960s the Chief Executive of a world famous group of management consultants tried hard to convince me that it is ideal that top level management

**FIGURE I.** United States Imports of Motorcycles and Parts



Source: Commodity Trade Statistics

executives should have as little knowledge as possible relative to the product. This great man really believed that this qualification enabled them to deal efficiently with all business matters in a detached and uninhibited way.<sup>5</sup>

So much for the power of clever analysis, at least disassociated from riding motorcycles and meeting customers—as well as respecting history. I should conclude, however, that I agree with Goold’s claim that “there is an equal danger of going too far in the other direction”—too much learning at the expense of planning. But in his comments as well as in many other publications about strategy, I believe that danger continues to remain remote.

### Notes

1. The claim that the BCG study did something equivalent to what we did in our tracking strategy studies—“discern patterns in . . . decisions and actions”—is also not correct. BCG inferred explanations from these patterns. We found patterns but inferred explanations from a detailed study of historical processes.
2. Bert Hopwood, *Whatever Happened to the British Motorcycle Industry* (San Leandro, CA: Haynes Publishing, 1981), p. 173.
3. *Ibid.*, p. 181.
4. *Ibid.*, p. 183.
5. *Ibid.*, p. 171

## Learning, Planning, and Strategy: Extra Time

Michael Goold

**T**he different perspectives on Honda's success in the U.S. motorcycle market put forward by the BCG report and the different accounts published here give a fascinating illustration of the range of views that strategy "experts" can espouse. As a means of contrasting these views, I would like to focus on the advice each of the experts might have offered in 1975 to the British motorcycle industry, the subject of the original BCG report. How much help and insight does each view provide?

The situation in 1975, it should be remembered, was that the British motorcycle industry was in dire difficulties. In 1973, the Tory government had promoted a merger of the main companies involved, which were all making losses, under the ownership of Norton Villiers Triumph (NVT). NVT subsequently announced a cost reduction program involving the closure of the Triumph Meriden factory. The unions at the factory then mounted a long protest sit-in, and were rewarded by funding from the new, incoming Labour government to establish a workers' cooperative at Meriden. In 1975, the cooperative was about to recommence production at Meriden in competition with NVT, which was continuing to lose money. It was in this strategically difficult and politically sensitive situation that BCG were called in to identify "commercially viable" alternatives for the future of the industry.

In Exhibit 1, I have attempted to summarize the advice that was given by BCG, and that I think is implied in the pieces by Pascale, Mintzberg and Rumelt.

The BCG report's merit, it was widely agreed at the time, was in providing a much fuller and clearer view of the predicament of the British industry than had previously been available. The force of the economic analysis of costs, volumes and market shares was undeniable and showed that a continuation of anything like the previous strategies was not tenable. However, none of BCG's proposed strategy alternatives were particularly attractive in terms of the likely risk-reward balance. In the event the stand-off between NVT and Meriden continued, no serious attempts to pursue any of the BCG options were made, and, as Mintzberg points out, the decline of the industry continued. Despite its analytical power, the BCG report was not able to come up with a strategy for saving the industry.

Pascale and Mintzberg would presumably have based any advice to the UK industry on the apparently somewhat serendipitous success achieved by Honda in penetrating the U.S. market in the early 1960s. Their advice might therefore have been to try some new models or new marketing approaches, to learn from the experience gained, and to build on any successes that emerged.<sup>1</sup>



## **EXHIBIT I.** Advice to British Motorcycle Industry

---

<b>1.</b>	<b>BCG:</b>	Recognize the importance of relative cost/experience/market share, and aim to build sufficient share in targeted segments of the market to achieve viability.
<b>2.</b>	<b>Pascale/Mintzberg:</b>	Test some new models and/or approaches to the market, and aim to learn from the experience gained.
<b>3.</b>	<b>Rumelt:</b>	Recognize the importance of relative cost/experience/market share, and concentrate on trying to design a better motorcycle (engine) that will offset the disadvantages faced in these areas.

---

But such advice would have ignored the fundamental strategic weaknesses that were already threatening to bankrupt the industry. With a large and successful domestic business, Honda could perhaps afford to experiment its way to success in the United States. Advice to the British industry to follow a similar course in 1975 would, in the circumstances, have been inappropriate, even frivolous. Any useful strategy recommendations would have had to recognise that the industry could not afford a trial and error approach.

Rumelt [as the reader shall see] accepts that BCG's analysis of the relative positions of the different competitors in the industry provides an essential backdrop to any strategy. He also recognizes the difficulty of finding an acceptable way forward. However, he suggests that real success comes mainly from superior and innovative products, which seems to imply that his advice would have been to try to come up with a better motorcycle or engine. If the British industry had had some design ideas that looked like real winners, this advice would have had much to recommend it. And it was, indeed, among BCG's options to develop new models that incorporated the best design features then available in the industry. Unfortunately, however, it was not clear that these features were truly superior, so that there were real risks that the new models would be unsuccessful and that resources poured into a major new product push would be wasted. A strategy based on superior products is fine if you have the products needed; but if you don't, such a strategy is not going to turn around a crisis situation.

I am not persuaded, therefore, that any of our experts would have been more successful in trying to save the British motorcycle industry than BCG was. But I do not, as a result, believe that we should conclude that debates between strategy experts should be confined only to academic journals, and have no relevance or usefulness for corporate practice. In part, this is because the UK motorcycle industry in 1975 had reached a position of such weakness that the chances of anyone finding a successful strategy for going forward were low. But, more importantly, it is because the approaches favored by the experts each have something to offer to practitioners, even though they can never provide the complete "answer."

The analytical, BCG-style approach to strategy is useful in exposing relative competitive positions and in helping to assess the likelihood of success of

proposed strategies. But it is much more valuable for *testing* strategies than for *generating* new strategies. The emergent approach, favored by Pascale and Mintzberg, is helpful in emphasizing the need to learn and adapt. But it is silent about how to choose between different possible strategies—except via trial and error, which is often too time consuming and costly for companies faced with a here-and-now struggle for survival. The Rumelt approach brings out the importance of innovators who can come up with superior products or services. But it is less helpful in showing how to find genuine innovators or how to assess the value of their ideas.

I remain, therefore, an unrepentant synthesiser. No strategic approaches or theories are likely to contain all the truth and all the answers. At best, they will offer partial insights and partial assistance. This may lead the academics to fight fierce rhetorical battles with the emphasis on undermining the weak points in their opponents' theories and approaches. Wise practitioners, however, in need of all the help they can get, will continue to make use of what is valuable in each approach, even though they recognize its limitations. So, even after extra time, the contest between the planning and learning approaches to strategy remains undecided. Rather than moving to a penalty shootout to resolve the debate, perhaps we should instead all agree to plan to learn—or else to learn to plan.

## Notes

1. In the last article in this series, Pascale offers a more sophisticated version of this approach which stresses the creation of "aspirational organizational disciplines" that make possible the sort of market-responsive behavior that Honda demonstrated. But organizational and cultural change of this sort is difficult and takes time to pay off. A focus on aspirational disciplines may make sense for a moderately healthy and successful company; it is not likely to help a company in crisis to survive.

# The Many Faces of Honda

Richard P. Rumelt

There is something special about the Honda Motor Company. Like General Motors, IBM, and General Electric, this company has joined the elite club of firms that are used, or have been used, as exemplars of successful business strategy. General Motors' system of decentralized implementation of a centrally directed coherent product policy (1921-1980) was carefully studied by several generations of business school students. IBM's commitment to a common operating system for all its computing platforms and its apparent ability to control the evolving hardware/software standards for the industry was source material for thousands of lectures on effective competitive strategy (1960-1984). And General Electric (1965-1980) was the central source for the "strategic management" concepts central to the planning style of the early 1980s—the PIMS-based relationship between market share and return, the use of a two-dimensional grid for allotting cash flow and growth goals to business units, and the full delegation of strategy making to relatively low-level "strategic business units."

But what is special about Honda is that it has served and continues to serve as the exemplar for *three* very different views of strategy:

- The first is the BCG Report story of Honda's cost advantage, developed (the story goes) by the successful exploitation of scale and learning, and of the "segment retreat" response of British and American competitors.<sup>1</sup> Anyone who received an MBA between 1979 and 1985 was almost certainly exposed to this version of history.
- The second, explicated by Pascale, offers a revisionist account of Honda's motorcycle success.<sup>2</sup> According to Pascale's interview with six Honda executives, the company's early scale in Japan came from its having a better product, flowing from design skills. Furthermore, Honda did not "target" specific market segments in the U.S., but rather showed an ability to experiment, to learn quickly from mistakes, to rapidly revise design problems, and thereby to discover opportunities.
- The third, described by Prahalad and Hamel, couples Honda's success in motorcycles with its successful entry into the U.S. automobile market.<sup>3</sup> Here the center of the story is Honda's remarkable ability to go from "nowhere" to prominence despite the earlier entry of very efficient competitors like Toyota and Nissan. Prahalad and Hamel have given the names "intent" and "stretch" to the processes which underlay this success and the name "core competence" to the central skills and abilities that Honda built upon.

Before addressing the debate between the "design school" and the "process school" views of strategy, it might be useful to review the source materials. Here I will give a brief summary of the facts and issues presented by BCG, Pascale, and by Prahalad and Hamel.

## The BCG Report

The BCG view is the most fully documented—it was published by the British government because the contract was with the Secretary of State for Industry. Indeed, this two-volume 368 page report still provides the most complete *published* view of a strategy boutique at work doing industry and competitive analysis. The purpose of the Report was to explain the decline of the British motorcycle industry and to suggest strategic alternatives for the future. What was the reason, according to BCG, for the decline of the British motorcycle industry? The Report provided a clear unambiguous answer to this question: "The loss of market share by the British industry over the last fifteen years resulted from a concern for short term profitability."<sup>4</sup> That is, it identifies British myopia rather than Japanese strategic genius as the primary force at work. It is worth reviewing their reasoning at some length:

The success of the Japanese manufacturers originated with the growth of their domestic market during the 1950s. As recently as 1960, only 4 percent of Japanese motorcycle production was exported. By this time, however, the Japanese had developed huge production volumes in small motorcycles in their domestic market and volume-related cost reductions had followed. This resulted in a highly competitive cost position which the Japanese used as a springboard for penetration of world markets with small motorcycles in the early 1960s.

Meanwhile, the primary focus of the British industry was on maintaining short-term profitability. The British found it impossible to match low Japanese price levels on small bikes profitably in the short term. They therefore responded to the Japanese challenge by withdrawing from the smaller bike segments which were being contested.

This was the fundamental strategic error. Long-term commercial success in fact depended on achieving sales volumes at least equal to those of the Japanese and employing equally sophisticated low cost production methods . . . Short-term profitability would obviously have suffered, but this approach would have secured a sound long-term future . . . The long-term result of the Japanese industry's historic focus on market share and volume, often at the expense of short-term profitability, has been the precise opposite: high and secure profitability.<sup>5</sup>

The Report goes into great detail about the British strategy of "segment retreat." It shows that during the 1960s the British

response was essentially to withdraw from the smaller bikes in which the Japanese were competing so effectively. This led to a situation in which by the late 1960s the British industry was predominantly active only in large bikes where the Japanese were not yet represented.

The reason for the decline in commercial performance of the British industry in the 1970s is that during this time the Japanese have finally entered this large bike segment. As in every other segment where the British had previously faced serious Japanese competition, this caused profitability to decline . . . now, response in the superbike segment took the form of a failure to introduce new models . . . While British volume remained at roughly 30,000 units, the Japanese volume in the large bikes (>450cc) in the USA increased from 27,000 to 218,000 between 1969 and 1973. This cemented the poor market and commercial position of the British.<sup>6</sup>

The cost data provided by BCG must have stunned the British: Motorcycle factories in the UK produced (on average) 14 motorcycles per worker per year, whereas Honda produced the equivalent of about 200 motorcycles per worker per year. The data showed Honda's labor cost per bike to be approximately one-tenth that of UK manufacturers, despite the fact that Honda paid 45 percent *higher* wages. At the same time, Honda's capital costs per bike were approximately one-fourth that of a UK manufacturer, despite investing almost four times as much capital per worker.

How could such enormous cost differences have appeared? The Report instructs that relative cost is determined by two key variables: technology and scale. It goes on to say that "the rate of technological learning tends to be related over time to accumulated production experience as the company develops and applies lower cost methods in the course of conducting its business. The competitor with the highest annual model volumes can benefit from methods which embody up-to-date technology and which rely on scale effects for their cost superiority."<sup>7</sup> Note the careful phrasing of this conclusion—it relates learning to scale and does not treat scale as a pure decision variable, but recognizes that scale itself may be the result of history and other factors (including product quality). BCG's argument is that differences in growth, or in demand, can be converted into sustained cost differences by aggressively exploiting the dynamics of technological advance, learning, and scale. Thus, a competitor who is strategically asleep will simply take a product design advantage as increased profit, whereas a strategically alert firm will use such a situation to build scale, drive technology, and accumulate learning, thus generating a sustainable cost advantage.

The BCG report laid out the fundamental economics of the industry and placed the blame for failure at the feet of those who ignored these fundamentals. Fifteen years later, Chandler drew similar conclusions about the general pattern of capitalism in Britain:

Why, then, did British entrepreneurs, the heirs of the First Industrial Revolution, exploit to such a limited extent the opportunities of the new technologies of the Second Revolution? . . . entrepreneurial failure . . . was the failure to make the three-pronged investment in production, distribution, and management essential to exploit economies of scale and scope.<sup>8</sup>

The BCG report dealt chiefly with the Japanese and the British as groups. Its specific treatment of Honda noted that

it is often said that Honda created the market—in the United States and elsewhere—for what we have called secondary uses of motorcycles, through their extensive advertising and promotion activities, and it is true that Honda presented the attractions of motorcycling as a “fun” activity in a new way, and with a level of media support not previously attempted by motorcycle manufacturers. However, the success of this campaign depended in the last resort on the fact that the lightweight machines that were then the company’s primary product *were* fun and easy to ride, did not give the mechanical problems that had traditionally been associated with motorcycles, and were cheap to purchase. In the same way, Honda’s successful move into super bikes in 1969 received advertising support, but was made possible by a product, the CB750, which was technically ahead of its competitors, and offered features which were at that time unique . . .

In the infrequent instances where Honda have found themselves selling a model at a price disadvantage which threatened to impact on their sales volumes, they have been prepared to introduce special price cuts . . . An example of this behavior was a \$200 special discount maintained throughout a season on a 250cc off-road bike in order to match—and in fact undercut—Yamaha’s model in this range . . .

And in new markets where Honda are developing an s and [“selling and distribution”] system the company is prepared to sustain losses in the marketing channel for as long as is necessary to establish the kind of system they require. In the UK, for instance, their market development programme from 1963-1970 led to a lack of profitability through these years, but also saw them through a position of market leadership, backed by a thoroughly competent and efficient s and system.<sup>9</sup>

Thus, the Honda described by the BCG report is especially skilled at product design and innovation, is willing to forego profitability in order to build volume and market position, puts great store in building model volumes, and has been thus able to achieve extremely low unit cost.

### **Pascale’s “Honda Effect”**

According to Pascale, the BCG portrait of Honda

exemplifies the “strategy model.” Honda is portrayed as a firm dedicated to being the low price producer, utilizing its dominant market position in Japan to force entry into the U.S. market, expanding that market by redefining a leisure class (“Nicest People”) segment, and exploiting its comparative advantage via aggressive pricing and advertising.<sup>10</sup>

Pascale’s “revisionist” story was drawn from a meeting with Japanese executives who had been responsible for Honda’s 1959 entry into the US. In his words, “The story that unfolded . . . highlights miscalculation, serendipity, and organizational learning—counterpoints to the streamlined “strategy” version related earlier.”<sup>11</sup>

One of the key elements of the story are the personalities and skills of the company's leaders, Sochiro Honda and Takeo Fujisawa. Honda was an eccentric inventor with a strong ego and deep technical skills. He was capable of rapidly developing a new type of four-stroke engine with twice the power-per-pound of competing models and also capable of tossing a geisha out of a second story window and stripping naked before his engineers to assemble a motorcycle engine.<sup>12</sup> Honda's technical genius enabled the company to produce powerful yet light-weight engines, and his passions led the company to pour resources into building machines that would win races. The 50cc Supercub, introduced in 1958, was affordable, according to this account, because of its small light engine. The booming demand and subsequent large-scale production facilities were the result of a better product.

The second key element of the story is the entry into the United States. According to Mr. Kawashima, who became the first president of American Honda, the small Japanese team arrived in the U.S. with only weak English language skills and a vague plan to compete with European exports in the 250cc to 300cc size range. Under very tight budget constraints, the team struggled to get dealerships and found that U.S. driving speeds and distances were breaking clutches on the mid-sized bikes. While engineers at home worked to solve this problem, the entry team discovered interest in the 50cc Supercubs they were using for personal transportation. As demands grew, the entry team reinvested profits back into the U.S. business (the Japanese government placed restrictions on movement of funds from yen to dollars).

Pascale's message, called the "Honda Effect," was that

Western consultants, academics, and executives express a preference for oversimplifications of reality and cognitively linear explanations of events . . . [there is] a tendency to overlook the process through which organizations experiment, adapt, and learn . . . How an organization deals with miscalculation, mistakes, and serendipitous events *outside its field of vision is often crucial to success over time.*<sup>13</sup>

## Competence, Intent, and Stretch

In the last five years Prahalad and Hamel have had a strong impact on how strategy is defined and taught.<sup>14</sup> They have introduced the concepts "core competence," "strategic intent," and "stretch" to the language of strategy. In doing this, they have broken with the old strategy dictum "build on your strengths," and instead used as exemplars firms which have created new resources and new strengths in the pursuit of some long-term "intent." One of their exemplars is Honda. They say:

Companies that have risen to global leadership over the past 20 years invariably began with ambitions that were out of all proportion to their resources and capabilities . . . We call this obsession "strategic intent." . . . Honda strove to become a second Ford—an automotive pioneer . . . Did Komatsu, Canon, and Honda have, *detailed 20-year "strategies" for attacking Western markets?* [emphasis added] Are

Japanese and Korean managers better planners than their Western counterparts? No. . . . As tests of strategic fit become more stringent, goals that cannot be planned for fall by the wayside. Yet companies that are afraid to commit to goals that lie outside the range of planning are unlikely to become global leaders.<sup>15</sup>

Prahalad and Hamel claim that firms reaching for global leadership must use one of four basic approaches to innovating: building layers of advantage, searching for loose bricks, changing the terms of engagement, and working with collaborators. Honda, they explain, used the “loose bricks” approach to innovating around existing entry barriers:

When Honda took on leaders in the motorcycle industry, for example, it began with products that were just outside the conventional definition of the leaders’ product-market domains. As a result, it could build a base of operations in under-defended territory and then use that base to launch an expanded attack. What many competitors failed to see was Honda’s strategic intent and its growing competence in engines and power trains. Yet even as Honda was selling 50cc motorcycles in the United States, it was already racing larger bikes in Europe—assembling the design skills and technology it would need for a systematic expansion across the entire spectrum of motor-related businesses.

Honda’s progress in creating a core competence in engines should have warned competitors that it might enter a series of seemingly unrelated industries—automobiles, lawn mowers, marine engines, generators. But with each company fixated on its own market, the threat of Honda’s horizontal diversification went unnoticed.<sup>16</sup>

Thus, Prahalad and Hamel provide us with a third vision of Honda. In their view, the company’s direction is deliberate and managed, but they reject BCG’s approach of placing market share, volume, learning, and cost at the center of the story. In addition, they reject the efficacy of a detailed strategy for competition. Instead, they see Honda as pursuing a long-term vision of global leadership in internal combustion engines, constantly building competencies in design and manufacturing, and competing through innovating around competitors’ product offerings. And their story rests on an extension of myopia from British Motorcycle manufacturers, to Western automobile companies, marine engine companies, and others.

## Discussion

The debate, involving BCG, Pascale, Mintzberg, Ansoff, and Goold, among others, is about which version of the Honda story is true, about which corresponding definition of strategy is most descriptive, and about which definition of strategy should be recommended to managers. Note that the answers to these three issues may be independent (one version of the Honda story may be true, yet another view of strategy may be more descriptive of *most* companies.)

It is useful to note that all involved parties use arguments that assume that someone (else) is myopic: the British, Western managers, Design School



theorists, Emergent School theorists, or Honda itself. For example, whereas BCG's story was primarily about British myopia, Pascale's shows a certain myopia in Honda—the entry team imported a fixed mix of motorcycles before finding out anything about U.S. driving conditions, the system of distribution, and so on. It may be that this assumption is what is really central about the traditional strategy field, whether it wears the clothing of design or process. Because, absent myopia, we are firmly in the territory of game theory where strategy should be the computation of one's best response to others' best responses, and so on. It is the presumption of myopia (or inertia, or boundedness) that enables the presentation of strategy as either deliberate or emergent rather than simply as the equilibrium in a multi-player game.

All three descriptions of history agree on a number of key points:

- Honda possessed a superior competence at engine design that was continually translated into products that outclassed those of competitors;
- Honda had experienced success with the Supercub in Japan before it entered the U.S. market; and
- Honda was successful in its entry into the U.S. market and, over time, extended that success from smaller bikes to larger bikes.

The key element of controversy is intentionality: Did Honda knowingly and purposefully translate its early product success in Japan into high-volume, low-cost facilities? Did Honda "plan" its entry into the U.S. market? In particular, did Honda enter knowing that 50cc bikes were a "loose brick?" Did Honda anticipate the segment retreat strategies of British firms? Did Honda deliberately lose money to build share in order to generate the scale to ultimately deliver the best quality at the lowest cost? Did Honda "understand" that its competence was engine design and both expand and diversify in ways that enhanced and built upon this "core competence?"

Pascale's evidence clearly shows that Honda did not enter the U.S. market with a strategy of selling Supercubs and gradually moving up market. His data show that Honda knew little about the U.S. market, that the initial intention was to push mid-sized bikes, and that the success of the Supercub in the affluent U.S. took the entry team by surprise. Furthermore, Pascale argues that the Supercub was inexpensive because its unique lightweight high-power engine design permitted the simplification of the whole vehicle, not because of its rate of production (as BCG claimed).

On the other hand, the Pascale story only covers the initial entry of Honda into the United States. In the two decades that followed, Honda, and other Japanese motorcycle manufacturers, did come to dominate the market, and did establish low-cost, high-quality positions in almost every product segment. Does that mean that there must have been a deliberate strategy to do these things? Not necessarily. A "strategy" explanation of events is not always about intentionality, but is sometimes simply about the forces at work that permit sustained asymmetric positions to be maintained.<sup>17</sup> In this case, the question

is about the momentum of history: according to the BCG cost-experience model, or the Prahalad and Hamel core competence model, once a firm has a good head-start at doing something, and as long as it exploits the benefits of that head-start, it is very hard to catch up with that competitor. Both BCG and Prahalad and Hamel invoke the myopia of U.S. and British firms to explain why their initial head-starts were not fully exploited, whereas the Japanese home-market head-start was extensively built upon.

Again, on the intentionality issue, it is clear that neither BCG nor Chandler suggests that British companies consciously and deliberately adopted the strategic plans of "segment retreat" or "fail to invest." It is understood that these consistent patterns of behavior were the product of myopia or the constraints imposed by the socio-political environment. However, the BCG report does claim (as do later cases on Honda) that Honda followed a coherent strategy. Nevertheless, it is possible to use the same data to argue that just like "segment retreat," Honda's strategy of "innovate, build market share, use specialized tooling to exploit the benefits of high volume production" is merely the product of simple business heuristics and does not flow from a coherent vision of how to march towards global leadership. The unfortunate fact is that the data provided by BCG and by Prahalad and Hamel are not sufficient to prove intentionality (it appears to be implicit in the writers' assumptions), and the data provided by Pascale are not sufficient to disprove the existence of a coherent logic covering the expansion of the motorcycle business from 1960 through 1980.

So where does that leave the debate? My own view is that the "process/emergent" school is right about good process being non-linear. A great deal of business success depends on generating new knowledge and on having the capabilities to react quickly and intelligently to this new knowledge. Thus, peripheral vision and swift adaptation are critical. At the same time, I believe that the "design" school is right about the reality of forces like scale economies, accumulated experience, and the cumulative development of core competencies over time. These are strong forces and are not simply countered. But my own experience is that coherent strategy based upon analyses and understandings of these forces is much more often imputed than actually observed. Finally, I believe that strategic thinking is a necessary but greatly overrated element of business success. If you know how to design great motorcycle engines, I can teach you all you need to know about strategy in a few days. If you have a Ph.D. in strategy, years of labor are unlikely to give you ability to design great new motorcycle engines.

## Notes

1. Boston Consulting Group, *Strategy Alternatives for the British Motorcycle Industry*, London: Her Majesty's Stationery Office, 1975.
2. Richard T. Pascale, "Perspectives on Strategy: The Real Story Behind Honda's Success," *California Management Review*, 26/3 (Spring 1984): 47-72.

3. C.K. Prahalad and Gary Hamel, "The Core Competence of the Corporation," *Harvard Business Review* (May/June 1990), pp. 79-91.
4. Boston Consulting Group, op. cit., p. x.
5. Ibid., p. xiv.
6. Ibid., p. x.
7. Ibid., p. xi.
8. Alfred D. Chandler, Jr., *Scale and Scope : The Dynamics of Industrial Capitalism* (Cambridge, MA: Belknap Press, 1990), pp. 284-286.
9. Boston Consulting Group, op. cit., pp. 18-19.
10. Pascale, op. cit., p. 51.
11. Ibid., p. 51.
12. Ibid.
13. Ibid., p. 57.
14. In Gary Hamel and C.K. Prahalad, "Strategic Intent," *Harvard Business Review* (May/June 1989), pp. 63-76, and in C.K. Prahalad and Gary Hamel, "The Core Competence of the Corporation," *Harvard Business Review* (May/June 1990), pp. 79-91.
15. Hamel and Prahalad, op. cit., p. 66.
16. Ibid., p. 70.
17. Quite a few years ago I wrote [1978: 197] "As a descriptive tool, strategy is the analog of the biologist's method of 'explaining' the structure and behavior of organisms by pointing out the functionality of each attribute in a total system (or strategy) designed to cope with or inhabit a particular niche." Richard P. Rumelt, "Evaluation of Strategy: Theory and Models," in Dan E. Schendel and Charles W. Hofer, eds., *Strategic Management: A New View of Business Policy and Planning*, (Boston, MA: Little Brown, 1979), pp. 196-211.

## Reflections on Honda

Richard T. Pascale

A quest for amusement (rather than scholarly ambition) led me to interview the people that spearheaded Honda’s successful penetration of the United States motorcycle market in the sixties. Little did I realize that this small foundation of anecdote would find itself at the epicenter of tectonic debates between the “design” and “emergent” schools of strategy.

### Strategic Thinking vs. Strategic Learning

Reflecting on “Perspectives on Strategy: The Real Story Behind Honda’s Success” today, I am drawn to dig deeper into the nature of strategic learning than I did in the original article. While I remain partial to the “emergent” interpretation of events, there is a necessary and useful tension between it and the “design” school of thought. Emergent strategies benefit from the discipline of post hoc analysis to pinpoint the strategic nugget that has been stumbled upon. Serendipity is nice but sustainability is even better. Analytically “designed” strategies, likewise, benefit from the emergent perspective to stay in touch with “how it (often) really happens.” In this respect, I am in agreement with Richard Rumelt’s conclusions.

There is no ignoring that Honda’s leading position in high-power/low-weight four-stroke engines (a dividend of Sochiro Honda’s personal passion for motorcycle racing) gave them the capacity to build the 50cc Supercub—with the Japanese market exclusively in mind. Happily, this low-end model among their full line of motorbikes rescued the stalled foray into the United States. In the ensuing years, Honda came to regard its dominance in small engines as a distinctive competence (Hamel and Prahalad would later rename this a “core competence”), and this dominance was exploited both in motorcycles and automobiles in a *purposive* fashion.<sup>1</sup> The latter is entirely consistent with what proponents of the “design” school would recommend.

But what is not explained by the above is *why* the fledgling Honda Company somewhat recklessly embarked on a U.S. strategy in the first place; why they chose to enter the market in the large 350cc motorcycle segment (where their competitive advantage of high-horsepower/low-weight was unimportant, if not a liability, among the “Big Bike” testosterone set); and, *in particular*, how the organization succeeded in learning from the numerous setbacks it encountered.

Quantum physicists have learned to celebrate the irony of particles and waves. The more zealously one pursues the particle, the more compelling becomes the wave—and vice versa. Likewise, Complexity theorists have acquainted us with the nature of dissipative structures. Too much stability

breeds rigidity. Excessive instability yields disintegration. Only the right blend generates a new and coherent pattern. There is much to be learned from these parallels from other fields.

Strategy and organization, like particles and waves, are inseparable. But which comes first? The concept of “strategy” embodies the presumption of *intentionality* and *forethought*. It is about allocating scarce resources over time to get from A to B. The problem today is that one is only sure about where we start from (i.e., A). Much less certain is the desirability of B (it could as easily turn out to be C, D, or E), and we must often make this determination on the court rather than in the sober reflection of planning cycles. Indeed, executives often find it hard to plan nine months ahead (and three- to five-year plans seem the artifacts of an earlier age).

We are limited, I believe, by the assumption that strategy should or can tell us what to *do* in the market place. The real lesson of Honda is that strategic intentionality and forethought are better invested in building organizational capabilities—which in turn can then lead to an appropriate competitive response. This of course, is music to the ears of emergent theorists. But Honda draws us to peel the onion a bit further.

## **Organizational Agility**

A straightforward term for Honda’s capability is Organizational Agility—defined as speed and adaptiveness. Working with Mark Millemann and Linda Gioja of CSC Index, and drawing on a considerable body of longitudinal case material, we are inquiring into the nature of Organizational Agility.<sup>2</sup>

Why agility? We live in a world of *value webs*, not value chains. And the first rule of the web is that the consumer routes around greed.<sup>3</sup> Today (far more so than during Honda’s entry into the U.S. in the 1960s), non-industry players with differing strategic platforms converging on the same market opportunities, rapid shifts in technology, and the impact of inexpensive and near real-time information all allow customers to disintermediate traditional channels and goods and services to meet their needs. Therefore, Agility (i.e., the capacity to respond to changing conditions faster than one’s competition) becomes critical to success.

In brief, our research into the nature and sources of Agility produced the following five hypotheses:

### ***Hypothesis 1***

Agility is a core competence—and it is increasingly important as a source of sustainable competitive advantage.

### ***Hypothesis 2***

Agility resides primarily in what an organization is *being* over time, rather than in what it might be *doing* at a particular moment in time. Honda's creativity and zeal, its passion to be a pioneer in the industry, and the resilience of its employees represent enduring qualities of its essential *Being*. It is from this *Being* that particular adaptations to market conditions are derived.

### ***Hypothesis 3***

There are four key dimensions that define the way an organization is *Being* (i.e., its "Operating State") and that have an impact on the presence or absence of Agility:

- *Power*—Can employees have an impact on market place success? The prevalent condition among employees in most organizations is resignation. At Honda, we find employees infused with possibility and empowered to take action consistent with "being a pioneer."
- *Identity*—How do employees define themselves? The prevalent organizational condition defines organizational identity rather narrowly with we/they boundaries drawn around profession or work unit or functional silo. Honda, by contrast, exhibits cross-functional teamwork, alignment, and an enterprise-wide identity.
- *Contention*—How does an organization handle differences and difficulties? Most smooth over conflict or recycle old stalemates without meaningful resolution. At Honda, there are specific protocols aimed at getting differences on the table, ensuring adequate debate and generating share commitment to action.
- *Learning*—How does an organization deal with new ideas? The prevalent organizational condition is to remain within the comfort zone, rely on the safe authority of industry patterns, and exhibit not-invented-here resistance to ideas from "outside." Honda is characterized by inquisitiveness, openness to experimentation, and an attitude of "inquiry in action."

### ***Hypothesis 4***

The enduring nature (or staying power) of an organization's *Being* derives from qualities that are *socialized* into the organization. This is an important assertion. "Strategic behavior" or "strategic intent" are *dependent* variables in an Agile organization. The independent variables (i.e., the causal factors) are norms, values, and behaviors that are inculcated into the social system. Prior to the 1960s, Honda had focused its managerial energies not on product/market "strategy," but on the social engineering that would give the organization resilience and staying power. The earlier cited research identified a considerable number of inventive mechanisms and protocols (again, all introduced before 1960) that reflect management's efforts to institutionalize responsiveness, external focus,

speed, and adaptability as mainstays of Honda's sustainable capability. Examples include:

- *Office Design*—design of executive offices with no private offices and fewer desks than executives, forcing senior managers to get out and literally share desks with lower-ranking employees.
- *Waigaya*—a contention management protocol used to raise the intensity levels of low-energy meetings and sharpen debate. Rules of engagement allow any attendee to invoke a *waigaya*—a pattern of interaction that legitimizes straight talk regardless of rank.
- *Three Tribes*—dividing Honda into three distinct stand-alone companies (R&D, Process Engineering, and Manufacturing/Marketing) to ensure that R&D and Process Engineering will not be overwhelmed by the sheer size and deadlines imposed by Manufacturing/Marketing. The aim is to nurture a strong enough identity within each of these smaller units such that they could hold their own and not sacrifice their Best in Breed standing in the industry.
- *The CEO*—a legacy of always selecting Honda's CEO from the R&D community to ensure that the company's commitment to technological leadership will not be lost.

### ***Hypothesis 5***

These mechanisms of "social engineering" represent concrete organizational *disciplines*. There is a difference between habits and disciplines. Habits are mindless, disciplines are mindful. Honda cultivates a number of disciplines (and our research suggests that these are found in other high-performing companies). A partial list of these disciplines includes:

- *Relentless Discomfort with the Status Quo*—A small example is Honda's practice of running manufacturing equipment far above rated capacity until the unit failed, then redesigning identified failure points to increase rated capacity. There are many such illustrations.
- *Managing from the Future*—Sochiro Honda's near obsession with "being a pioneer in the industry" infused the organization with extraordinary levels of creativity and zeal. The current terms "vision," "stretch," or "strategic intent" are pale clichés in characterizing the driving force that mobilized Honda. Strong convictions about what *might* be possible in the future exerted a force (akin to gravity) forever drawing Honda out of any temptation to consolidate its gains or become comfortable with the status quo. In a very authentic sense, Honda was "managing in the present from this future." The locus of day-to-day decisions and actions was impelled by an ever more ambitious notion of what it meant to be a "pioneer in the industry." Belief in carrying out Honda's manifest destiny perhaps best explains its premature and (by any rational standard) ill-advised foray into the U.S. market with limited currency reserves, into indifferent to

hostile channels of distribution (that associated things Japanese with cheap toys and Pearl Harbor), and ahead of better-known, diversified Japanese rivals like Yamaha and Kawasaki (who were in a better position to sustain years of losses before a beachhead could be secured).

- *Uncompromising Straight Talk*—Honda “invented” devices such as the earlier noted *waigaya*, actively encouraging employees to surface differences in a timely way and generate commitment and resolution. Honda’s choice of the “Nicest People” campaign illustrates this trait. Considerable debate surrounded this choice with the most senior ranking executives favoring a less risky, more conventional advertising campaign. A *waigaya* session was evoked, rank was set aside, and the trade-offs were aired. The convictions of a lower-ranking champion carried the day.
- *Harnessing Adversity*—Honda’s managers faced rather significant setbacks (such as head gasket and clutch failures on their larger motorcycles when driven at high speeds for long distances on American highways). Instead of being defeated by these “problems” (which took cash reserves to precarious levels) or blaming engineering and manufacturing (and waiting for them to fix the big bikes), Honda demonstrated its knack for *recontextualizing* this situation to evoke a creative response. Repeatedly over its history, Honda generated breakthroughs from breakdowns, such as when its leading engineer holed up in a Zen retreat until company founder Sochiro Honda recanted on his steadfast commitment to water-cooled engines. The engineer returned and spearheaded development of the CVCC clean air engine, which gave Honda significant competitive advantage over all automotive competitors for the better part of a decade. The point here isn’t just another amusing anecdote of Honda’s success. Rather, it illustrates a conscious, well-cultivated *discipline* within the ranks that frequently led to the recontextualization of setback as a call to arms for creativity and possibility.

## Partial Revolutions?

Revolutions begin with an assault on language. When we change our words, we change the way we think. Hamel and Prahalad contributed to this “revolution” with the concepts “stretch” and “strategic intent.” They recognized the aspirational dimensions of strategy which, while imprecise, can be quite powerful in mobilizing organizational commitment and focus.

The revolution is not finished. As more corporations find themselves in volatile competitive conditions, the greatest strategic payoff may lie in redirecting forethought and intentionality from outward moves on the chessboard of competition to the internal capacity for Agility. The most important lesson from Honda’s success story lies in its sophistication in cultivating the underlying organizational capabilities that promoted and sustained responsive marketplace behavior.



## Notes

1. This assertion is based on my further research on Honda over the period 1980-89 as reported in Richard T. Pascale, *Managing on the Edge* (New York, NY: Simon & Schuster, 1990), pp. 245-259.
2. Sections of this paper are drawn from Pascale, Milleman and Gioja, "The 21st Century CEO," published by CSC Index, Summer 1996.
3. I am indebted to Larry Keeley of The Doblin Group for this observation. See "Ten Rules of the Web," Larry Keeley, February 1996, in draft.