

# Corporate Culture and Global Competition. The Honda Philosophy.

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## 1. Honda Values and Global Competition

A driving force behind Honda's growth came from the leadership of the founders of Honda: Mr. Soichiro Honda and Mr. Takeo Fujisawa. One of the most valuable things, which our founders gave to our company, was a philosophy. It is a philosophy, which serves as the basis of our business endeavors now and in the future.

Honda is now engaged in business activities on a global scale. It is necessary for Honda associates<sup>1</sup> worldwide to understand, respect, share and implement a unifying philosophy<sup>2</sup>. This philosophy should be the base of action and judgment for all companies and associates within the Honda Group. Various companies within the Honda Group may also adopt local statements of purpose and philosophy, which are consistent with Honda's global philosophy<sup>3</sup>.

This philosophy would be meaningless if it were to remain no more than words. Words alone are not important; what is important is for the intended meaning of the words to be fully understood and translated into action so that this philosophy takes root as the corporate culture in each company. It is Honda's belief that accomplishing this will lead to growth in the future.

The Honda 'family' has characteristics that externally, to other eyes, could appear somehow strange, extravagant and unique. We are young at heart, challenging with a racing spirit that can make us run faster toward a brighter future. Our decisions could appear contradictory sometimes, but in reality they only reflect our flexibility.

Honda's car and motorbike businesses could appear very far apart and different environments, but that's not at all the case. Valentino Rossi's testimonial support of the Honda Civic is an excellent of the closeness of our business.

We must be aware that we can grow more quickly and utilize those core values that are not already realized, by constantly creating occasions for a meeting of minds globally, understanding, supporting in a patient and constructive manner.

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Using this approach, we can anticipate and satisfy customer expectations, remembering that our first customer is our nearby colleague.

The same transparent behaviour and honest approach should be used with external partners, such as suppliers, journalists and dealers, because only a constructive trusting relationship can help overcome difficulties. When we achieve this, society will recognise and appreciate the uniqueness of our organisation and team spirit.

A spirit, which embodies our common feeling of 'Hondaness'.

## **2. The Profile of Honda Motor Co. Ltd.**

Honda Motor Co. Ltd. Was founded in 1948. Our company began by making engines, which were clipped onto bicycles. Since those modest beginnings, Honda has grown to take a leadership position in the fields of motorcycles, automobiles and power products.

In the global market, Honda is the world's largest engine manufacturer and market leader in motorcycles. Honda operates 120 manufacturing facilities in 29 countries and employs 120,600 people worldwide.

In the CY 2002, Honda sold more than 15.3 million products worldwide, an increase of 26 per cent on the previous year. This calendar year, Honda is targeting to sell a record 17.35 million units – an increase of 14 per cent. This comprises 9.25 million motorcycles, 3.1 million cars and 5.0 million power products.

Net sales and revenue for the last fiscal year increased by 13.9 per cent thanks to strong sales of cars in Japan and North America.

Honda's global forecast for this fiscal year is a rise in net sales and revenue of 7.3 per cent to ¥7,900 billion with net income increasing by 13 per cent.

In 2002 in Europe Honda sold nearly 1.5 million products in Europe, an increase of 4.4%. This comprised 196,000 cars (up 15.2%), 235,000 motorcycles (down 6.5%) and 1,495,000 power products (up 3%). Honda has 10 principal subsidiaries in Europe, covering sales, distribution and manufacturing.

The European headquarters is located in Slough, UK. Honda's manufacturing operations in Europe are based at: Swindon, UK- cars and engines; Atessa, Italy - motorcycles, general purpose engines; Montesa, Spain - motorcycles; Orleans, France - power products and Aalst, Belgium - components.

## **3. Honda Philosophy**

### **3.1 Fundamental Beliefs**

The center of Honda's philosophy is the Company Principle, which was written in 1956. Underlying the Company Principle are two fundamental beliefs:

- Respect for the Individual<sup>4</sup>; and
- the Three Joys.

**Respect for the Individual.** Respect for the Individual comes from a fundamental belief in the uniqueness of the Human Being. The Human Being is born with the capacity to think, reason and create. We should strive to nurture and promote these unique characteristics in our company.

Honda is comprised of individuals working together for a common purpose. It is the contributions of each associate in our company that create whatever success we have. Every associate is important; every associate should be respected; every associate should be given the opportunity to develop his or her full potential; every associate should be expected to contribute to the company's success; every associate should be honored for his or her efforts and contribution.

Honda's philosophy of Respect for the Individual includes the following three points:

*Initiative:* Associates at Honda should not be bound by preconceived ideas, but should think creatively and act on their own initiative and judgment, while understanding that they must take responsibility for the results of those actions.

*Equality.* Equality means to recognize and respect individual differences in one another and to treat each other fairly. Our company is committed to this principle and to creating equal opportunities for each individual. An individual's race, sex, age, religion, national origin, educational background, social or economic status have no bearing on the individual's opportunities.

*Trust.* The relationship among associates at Honda should be based on mutual trust. Trust is created by recognizing each other as individuals, helping out where others are deficient, accepting help where we are deficient, sharing our knowledge, and making a sincere effort to fulfill our responsibilities.

Respect for the Individual also defines our relationship with those for whom and with whom we do business:

- Our customer – everything we do must exceed their expectations; satisfying the customer is our top priority.
- Our business associates, including shareholders, dealers, suppliers – those who conduct business with our company should get something positive from that experience. The comments on the previous page regarding Initiative, Equality and Trust, apply to our relationships with our dealers and suppliers as well as to our associates.
- The members of society – we must be sensitive to the needs of communities in which we do business.

**The Three Joys.** Because of our belief in the value of each individual, we at Honda believe that each person working in, or coming in touch with our company, directly or through our products, should share a sense of joy through that experience. This feeling is expressed in what we call 'The Three Joys'.

Our goal is to provide Joy: for those who buy our products and produce our products. In that regard, our main concern is for people.

First, there is 'The Joy of Buying' for every customer who buys a Honda product<sup>5</sup>. This Joy is a step beyond customer satisfaction. As we define it, there are four steps to successfully creating The Joy of Buying. The customer must first understand the product and its fundamental concept. Second, the customer should accept the product and make the decision to buy the product. Third, the customer

must be completely satisfied with the product. Finally, the customer will experience The Joy of Buying if we can provide products and services that exceed our customers' expectations.

Second, there is 'The Joy of Selling'. To achieve The Joy of Selling, what is important is not just the relationship between the customer and our products. Our products provide the opportunity for a human relationship with the customer. Those who sell and service our products seek to respond sincerely to customers' needs and desires. When the quality and performance of our products are excellent, those who are engaged in selling and servicing our products are proud to represent Honda to the customer. When our sales and service network, especially our dealers and distributors, experience that pride and a positive relationship with our customers, they feel The Joy of Selling.

Third, there is 'The Joy of Producing'. At Honda, The Joy of Producing includes manufacturing, production engineering and research and development, as well as Honda suppliers. By producing quality products that exceed the expectations of our dealers and our customers, we can experience pride in a job well done.

When we realize The Three Joys, we should also be creating joy for society as a whole. Because of the industry we are in, we affect society in many ways. Some are positive – such as personal mobility, the pride of owning a spirited and valued product and the provision of employment opportunities. Some are negative – such as the environmental impact of our product. Social issues, especially safety and environmental concerns, are among the most pressing needs of our society.

In order to create joy for society and gain society's trust, we want to manufacture products and provide services, which are needed, while at the same time minimizing any unwanted or negative effects our products, services or other activities may have on society.

In all of our business activities, we must seek to understand the meaning and importance of The Three Joys, which includes the gaining of society's trust. With this in mind and in seeking to respond to society's needs, it is believed that Honda's existence within society will be recognized and valued.

### **3.2 The Honda Co. Principle**

Building from the fundamental beliefs of Respect for the Individual and The Three Joys, the Honda Company Principle was stated in 1956. In 1962, the principle was expressed in English as '*Maintaining an international view-point, we are dedicated to supplying products of the highest efficiency yet at a reasonable price for worldwide customer satisfaction.*'

The Honda Company Principle is indispensable to all Honda associates when it comes to understanding the reason for the existence of the company. It represents the purpose of the entire Honda Group, and should be mutually shared by all the Honda companies, even through it may not clearly represent the exact purpose of any one specific company within the Group. It stands as the ultimate purpose.

This principle may be better understood by reviewing its elements:

#### *Maintaining an International Viewpoint*

Honda sells its products all over the world. Our market is throughout North America, Europe, Japan, Asia – any part of the world. In a global market, the level of customers' expectations for products and services differs from region to region. We should seek the No. 1 position in customer satisfaction in every market we serve by supplying products and services that exceed customers' expectations. We should not become complacent simply because we attain high rankings in one region of the world. Rather, we should seek to understand accurately the position we occupy on a global scale and how we evaluated in markets throughout the world.

In addition, this phrase reminds each of us to re-examine the quality and standard of our work not from a narrow perspective in relation to our own department, field of activity or geographical location, but broadly – on a global comparison.

*We are dedicated*

It is the associates joining together in a common purpose who create Honda's success. The use of a term 'we' recognizes the importance of each associate who makes up the company. At Honda, each associate has something to contribute to company activities.

The use of the word 'dedication' recognizes that true joy comes from doing something that is considered worthwhile – something to which a person can be dedicated.

*The supplying products of the highest efficiency yet at a reasonable price*

Honda products generally have demonstrated technological leadership in the areas of performance, fuel efficiency, body structure, environmental controls and ergonomics. We have tried to make the most efficient use of raw materials. The design of our production system, including equipment, reflects the same approach to technology as our products. Our commitment to striving for technological leadership in everything we do is reflected in the phrase 'products of the highest efficiency'. This phrase also applies equally to the marketing, distribution, sales and servicing of our products.

We also must offer our products at a reasonable price. No matter how good the product is, if the customer believes the product does not give good value for the money, he or she will not buy it. To achieve a reasonable price, we must pursue the highest efficiencies in designing, manufacturing, marketing, distributing and serving our products, and in all other aspects of our business operations as well. By doing so, we will be able to offer our products at a reasonable price.

The two goals – product of the highest efficiency and reasonable price – are generally in tension. Despite this, it is necessary that both of these goals be achieved, real improvement comes from finding new ways to meet both goals simultaneously.

*For worldwide customer satisfaction*

Our livelihood is only guaranteed by the existence of customers who buy our products. Therefore, everyone of us in every position must do our best to satisfy – and ever exceed – each and every customer's expectations all over the world.

‘Customer satisfaction’ goes beyond just meeting our customers’ specific desires or needs. We must meet the needs of our customers, and anticipate social and cultural changes, as well as customers’ changing lifestyles. We must always be ahead of the times. We must have a highly sensitive antenna to grasp customers’ desires and needs, which have not yet taken concrete shape.

### 3.3 Honda Management Policies

Honda established five management policies to guide associates in the performance of their daily responsibilities. These management policies will help all associates put the mutually shared company philosophy and company principle into practice.

Also, those in management positions have the responsibility to not only pursue these policies on a personal level, but to also create a working environmental where their subordinates can also pursue and manifest these policies.

These five policies<sup>6</sup> are:

- proceed always with ambition and youthfulness;
- respect sound theory, develop fresh ideas and make the most effective use of time;
- enjoy your work and always brighten your working atmosphere;
- strive constantly for a harmonious flow of work;
- be ever mindful of the value of research and endeavor.

**Proceed always with ambition and youthfulness.** Honda is recognized as a company, which offers products that satisfy the buying public’s dreams. We want to remain a company with a dream and with a sense of youthfulness.

Dreams – or ambitions – are the positive driving force that motivate us. They can motivate us over our lifetime. They cause us to seek out challenges and to be unafraid of failure. To make dreams come true, we push to overcome obstacles. In our pursuit of dreams, we challenge ourselves and those around us. When we achieve our dreams, we feel a true sense of accomplishment.

Youthfulness has no direct relation to chronological age. Youthfulness is a spirit that can best be described by the wholehearted commitment to ideas. It is the fresh, open-minded passion for learning. It is untempered by experience. It is neither mired in habit nor bogged down by conservatism. It is the quest to be first, to be best. It is challenging the obvious and taking risks. It is a challenging spirit.

Honda wants to remain a company on the leading edge, which sets the trends of the times. In order to be on the leading edge, we must act before our competitors and take on difficult challenges, which sometimes involve risks. Each associate must approach work with ambition and youthfulness, or a challenging spirit.

**Respect sound theory, develop fresh ideas and make the most effective use of time.** For Honda to be Honda, we strive to stay on the leading edge. In order to do this, we should create new ideas, which are backed by sound theory and consider the most efficient and effective ways to carry out our actions.

Sound theory should underlie everything we do. Sometimes, we may forget that the way we have always done something is base on theory. We should not confuse

accepted ways of doing things with theory. Look behind the habit to understand the theory on which it has been based. Then, do not be afraid to challenge or change the habit with a fresh idea, being sure that the fresh idea is based on sound theory. Also, we must have the flexibility to accept the fresh idea. Fresh ideas, flexibility, creativity and innovation keep our company on the leading edge.

Time is a limited resource. To make the most effective use of our time is a sound concept for approaching our tasks efficiently and productively. Our approach is based on three key elements: simplicity, concentration and speed.

- *Simplicity*. Grasping the essence of what we must do; a focus on critical issues.
- *Concentration*. Focus our resources and our thinking where they are most needed to reach the essential goals.
- *Speed*. Rapid implementation.

There is another element to the concept of effective use of time. It is to be ready on time. Everything has a certain timing. For example, in racing competition if the machine and driver are late for the start of the race, by even one minute, the team is disqualified and everyone's efforts have been wasted. In every part of our business activities, there are time schedules. In order to make the most effective use of our own time and the time of others, we should be well prepared and meet our time commitment and schedules.

**Enjoy your work and always brighten your working atmosphere.** A person's job is a very precious thing. It is to be valued. It should also give a sense of joy and pride. We should have a company environment in which each associate can take pride in his or her work and feel a sense of accomplishment. Each associate gains a sense of joy and pride in his or her work when he or she possesses a challenging spirit and utilizes his or her own creativity and intellect to the fullest extent.

At Honda, it is the associates on the spot who are the most knowledgeable about day-to-day operations and best understand the reality of the workplace. These associates are in the best position to know what improvements need to be made in the working environment and to make these improvements themselves. Associates who are in supervisory positions need to support such efforts for improvement by encouraging NH-Circles, suggestions and similar initiatives. The cumulative effect will result in a better working environment, associate satisfaction and a more competitive company.

The basic approach to work at Honda is through the team. Each associate is a team member and needs to understand the team goals, as well as what his or her role is. Work is pursued as a member of the team. Every member of the team has the opportunity and the obligation to make a contribution.

Sometimes when work is done as a team, problems arise in situations when no specific associate is in charge – a 'gray area'. If team members think that situation has nothing to do with his or her own area of responsibility, the situation may go unresolved and a problem may develop. In time, that problem can grow in scale so that it becomes recognized not only inside our company, but also outside – by our customers and others with whom we do business. When we become involved in a 'gray area', it is important for team members to take the initiative and work

together to resolve the situation. If everyone at Honda keeps this concept of teamwork in mind on a daily basis, it should also make each associate's work more enjoyable.

For the team to work effectively and harmoniously, good communication is also required among the team members. Discussion, feedback and information are to be encouraged within, between and among individual teams, departments, divisions and companies. Two-way communication among all levels of associates is essential.

In our business activities, management has the obligation to create the atmosphere in which associates can enjoy work. This comes through:

- establishment of a safe and orderly work environment;
- work being well organized and fairly allocated;
- the assurance of opportunities for each individual to contribute;
- a willingness to communicate with and listen to others;
- a respect for the ideas of others (open-mindedness);
- an attitude of togetherness or teamwork;
- a shared sense of purpose; and
- a common pride in accomplishments.

**Strive constantly for a harmonious flow of work.** We emphasize a harmonious flow of work to promote an efficient and effective operation. The organization of the flow should be natural, consistent and easily understood. Excesses or irregularities should be adjusted or eliminated.

Each associate's work can often be easily understood as part of the work of his or her team. But, the associate should also consider the work as part of the larger team – a department or a division.

Metaphorically, the flow of work can be described as the flow of a river. Like a river, there is a 'downstream', represented by a division or individual, which receives the result of the work done by an 'upstream' division or individual. The result of your work or your division's work greatly affects the outcome of the work being carried out 'downstream'. In order to create a harmonious flow of work, it is important to consider the 'downstream' division or individual as a 'customer'. Stay attuned to the 'customer's' needs or opinions and strive to incorporate them as improvements in your work. In doing this, a mutual trust develops which enables a harmonious flow of work to be realized.

When we experience a harmonious flow of work, we perceive a kind of rhythm and togetherness.

**Be ever mindful of the value of research and endeavor.** We should always seek improvement and never be satisfied with what is. We know what is now – we look to what can be, and we challenge ourselves to find what will be. If we remain satisfied with our present situation, we stop growing and begin to decline.

What is important is to set a goal, not to fear failures, and take on the task in earnest. This becomes a source of energy and spirit for our company.

Our endeavor and our research always have value. Sometimes, however, research will yield no obvious advancement and we may wonder if the effort is worthwhile. In every case in which we have made strong efforts, we can derive

satisfaction from the effort itself, and the knowledge and experience we gain will prepare us for the future.

An important concept in research and problem solving is the 'Three Reality Principle'. This principle instructs us to:

- go to the actual place – for example, go to the shop floor of the production facilities, and to frontline sales activities.
- Know the actual situation – gaining information from touching, seeing and being in contact with the actual elements, both technical and human.
- Be realistic – using the information gained from being at the actual place and knowing the actual situation, one must be realistic in his or her assessment and judgment. This direct experience will provide us with knowledge to solve the problem.

Honda has always been a company, which seeks challenges and takes risks. By pursuing these challenges, we have achieved success. Although we have also experienced some failures, we have learned from our experiences and built on our success through constant research and endeavor.

#### **4. Honda, Global Markets and 'Freedom of Dreaming'**

'Hondità' (Hondanism - Hondaness = uniqueness), it is a unique job style that finds its major richness and inspiration force in the uniqueness of people and in the respect towards every single contribution.

Honda Motor Co., founded about more than 50 years ago (in 1948), has become the major engine constructor all over the world; since its beginning, it has brilliantly created its own internal culture, based on a philosophy that has been adopted by all the associates all over the world. This philosophy is created to understand, respect, share with and implement through an ownership feeling every single change and improvement of the daily activity.

It doesn't matter which level, which classification, which job role: open space, free of thinking, freedom of dreaming. It is a matter of working together to get through the cultural limits and the different experiences, trying to lighten the job environment with smiles and courage, being able to catch the best from everyone, first of all listening at them and trying to understand their ideas...

##### *Fundamental belief*

Respect for the individual: the uniqueness of everyone is to be respected through an equality feeling, giving everyone the same trust and bringing out everyone's enterprise spirit.

Only then we will be able to catch the best job contribution and personal dedication.

##### *Customer care*

It is important to create in the customer a joy feeling; but a lot of people often forget that the first customer they meet is their desk neighbour, and it is just to him that we should dedicate, with a particular care... only then we could speak outside the company.

### *Job style*

Simple, concentrated, fast... After an evaluation of the reality (through data analysis and a precise and constant physical analysis) you can gather the useful information using your sensations to understand the facts, so to define an action plan that can be really realized and that is involving for the team working on it.

### *Partnership spirit*

It means sharing the objectives and their achievements, through a challenging spirit not only towards the colleagues, but also towards suppliers and dealers.

### *Joy producers*

It is nice working in a constant research spirit to maintain a high customer satisfaction index, through a high professional purchase/selling process and a producing capacity completely dedicated to the technology, both performing and environmental.

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## **Notes**

<sup>1</sup> Various Honda companies use different terms to refer to the people who are employed by the company and are members of its team. The term 'associate', which is used by a number of Honda companies in the English-speaking part of the world, emphasizes the special relationship of the individuals who make up the Honda companies.

<sup>2</sup> 'Action without philosophy is a lethal weapon; philosophy without action is worthless', Soichiro Honda.

<sup>3</sup> 'The explanation of this Honda philosophy is the result of international effort, input and involvement of a number of Honda associates, particularly in Honda's largest markets. Such involvement reflects Honda's international viewpoint', Nobuhiko Kawamoto, President and Chief Executive Officer, Honda Motor CO., Ltd., July 1992.

<sup>4</sup> In Japanese, this phrase appears as Ninger Soncho. This phrase is literally translated as Soncho equals respect, and Ninger equals a Human Being. The relationship of Mr. Honda to many individual Honda associates suggests that the most accurate English translation of Ninger Soncho is Respect for the Individual, but this phrase must also be understood in the context of Mr. Honda's concern and respect for Human Beings and Society.

<sup>5</sup> The term 'product' is used in its broadest sense. It refers not only to motorcycles, automobiles and power equipment, but also to an intangible product, such as a day spent at Suzuka Circuit, a ticket sold by a travel agent, or money loaned by a finance company.

<sup>6</sup> Management policies can also be referred to as operating policies applicable to all Honda associates.