

The power of dreams for an Innovative Automaker

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*We only have one future, which will be made out of our dreams
if we are determined enough to challenge the conventional*
Soichiro Honda

Honda Motor Company, Ltd, a Japanese corporation, has its headquarters in Tokyo, Japan, and is one of the leading car producers worldwide. However, it manufactures many other vehicles, implements, among others, the following stands out: bicycles, motorcycles, boat engines, mini-tractors, autonomous power stations, plow machines, and other mechanisms equipped with gasoline engines (*Austrum People*, 2020). In 1959 Honda became the world's leading motorcycle manufacturer (Encyclopædia Britannica, s.f.).

Image 1. Honda Motorcycle



Source. Pexels, 2020.

In the first month of 2020, the list of the best SUVs (*Sport Utility Vehicles*) was published, and both in 2018 and 2019, Honda CR-V won the first place (Santillan, 2020).

This problem situation was written by Marcia Lorena Rodríguez Aldana (marlore@tec.mx), and translated by Paola Leticia Argote Valencia from Garnett translations company. The problem situation was created with the objective to serve as discussion material in the classroom, it does not intend to illustrate good or bad administrative practices. This document was elaborated from secondary sources.

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In mid-January 2020, Fernando Maqueo Honda, Mexico's Communication Manager (in Gonzalez, 2020), pointed out that despite the economic crisis in the automotive industry, which added 32 months of decreasing sales, given the acceptance of Mexican customers, the company was betting on being a reference in the segment by maintaining consistency in these units [CR-V]. Likewise, even though Maqueo thinks that the industry's economic outlook for 2020 to be challenging, he maintained the expectation that Honda would continue to be the leader.

However, the COVID-19 pandemic and the low demand caused the Japanese automaker to declare a downward adjustment in its production on March 18, starting on the 23rd and ending on the 31st, to reach 40,000 units in six days. Such a measure would entail closing production for six days in its North American plants (Mexico, United States, and Canada) (Gonzalez, 2020).

Days later, the company extended the work stoppage in Mexico until April 13 (Reuters, 2020). It should be noted that the industry is of great relevance to the Mexican economy: it contributes 3.8% to the GDP and generates 23% of the manufacturing jobs (Aguilar, 2020). In the face of the pandemic, the horizon for this and other sectors is one of great uncertainty, not only because the duration is unknown but also because of the economies' pause.

Without a doubt, Honda has a successful business model for multinationals operating in globalized business environments, it generates high-profit margins, it innovates and behaves with social responsibility, and also, it is strategically creative wherever it is established (Rothfeder, 2014). The above results from Honda's vision to manufacture or sell its products abroad, earlier than its competitors, when considering the limit of growth possibilities in Japan: it was the first non-domestic car manufacturer to succeed in U.S. territory.

The founder of this company, Soichiro Honda, is frequently pointed out as a man with an inspiring story, who managed to overcome obstacles of all kinds, whose persistence was vital to success. Despite failing, making a fool of himself, and facing financial difficulties, Soichiro did not stop believing in himself until he reached his goals ("Success is 99..." 2017).

The history: Honda Motor Company, Ltd

Soichiro Honda (November 17, 1906, to August 5, 1991) went from poverty to being one of the most recognized men in the automotive sector, having built one of the world's largest companies (Araujo, n.d.). As a child, his nickname was *Mr. Thunder* because of his ability to generate chaos around him; he studied elementary school when he painted the fish pond at his school with green enamel (Frank, 2003). At the age of 15, he worked as a mechanic in Tokyo in the Art Shokai Workshop ("Historia," n.d.). In 1936 he quit this job and opened his repair shop, the Tokai Seiki ("Historia", n.d.).

He was convinced that he could develop a piston ring that he could sell to Toyota: he spent days and nights in the workshop, improving his design. He even slept occasionally in the workshop. At that time, he was facing financial problems; to capitalize, he sold his wife's jewelry ("Success is 99..." 2017).

When he managed to develop the piece, he turned to Toyota, but they told him that his work did not meet their standards. Soichiro returned to school to the Mechanical Engineering Department of Hamamatsu Technical College and was tempted to stop trying to sell to Toyota. Despite taunts from other engineers, Honda continued. In school, he only paid attention to the subjects relevant to his job. One day a teacher berated him; Honda answered: "A ticket can get you a seat at the movies, but a diploma will not get you a job." Finally, he got a contract with Toyota. Simultaneously he started building and driving race cars (Encyclopædia Britannica, 2020).

Before the outbreak of World War II, Soichiro, an engineer by profession, managed to perfect one of his more than 100 patents: the technique for manufacturing piston rings. During the war, he produced engines for his country's air and naval forces (Encyclopædia Britannica, 2020).

Honda intended to set up its factory. However, times were tough. Japan was preparing to face war, so it was complicated to get the necessary materials. Against all the odds, he got them, and it didn't last long: his factory was bombed, and there was no steel. Soichiro did not give up and collected the gasoline cans discarded by the U.S. military. When he talked about it, he referred to the "gifts from President Truman." Honda rebuilt his factory but again, it was destroyed, now by an earthquake. ("Success is 99..." 2017).

Despite winning the contract [with Toyota], Japan was preparing for war, and it was not easy to obtain the materials Honda needed to set up his factory and work, but he got them. Unexpectedly, his factory was bombed. Not steel was available. However, to rebuild his factory, Soichiro collected gasoline cans discarded by the U.S. military, which he called the "gifts from President Truman." As he was rebuilding the factory, and the earthquake destroyed it.

In 1945, the year World War II ended, Soichiro sold his factory to Toyota Motor Corporation. In 1946 he founded the Honda Technical Research Institute to develop efficient small internal combustion engines even though the shortage of materials persisted.

Then Honda wrote an inspiring letter to more than 18 thousand bicycle owners to ask for their help and revitalize Japan with innovation. A large number sent him envelopes with small amounts of money to help him. Earlier that year, Honda adapted and installed small engines and fitted them into bicycles, thus providing economical and efficient transportation ("Historia," n.d.). Soichiro continued to work on several designs until he created the "Super Cub" motorcycle, which was immediately accepted ("Success in 99..." 2017). The launch occurred in October 1946 ("Historia", n.d.).

In 1948 the institute became the Honda Motor Company. A year later, it started producing light motorcycles with small but efficient engines (Encyclopædia Britannica, 2020). In 1953 the Honda C-100 motorcycle was introduced, which in 1959 became one of the best-selling motorcycles in the world. That same year, Honda opened the American Honda Motor Company subsidiary in the United States.

It is worth mentioning that, in that country, inspired by *Blue Skies for Our Children*¹, A corporate environmental motto to reduce carbon dioxide emissions in all its processes and products, Honda's engineers created in 1974 the CCVV engine of the Civic Honda, the first vehicle to meet the strict emission requirements established by the U.S. Clean Air Act, without needing a catalytic converter (Autonation Honda 104, n.d.). In 1979 this subsidiary also began to manufacture motorcycles and, in 1982, cars (Encyclopædia Britannica, 2019).

Although Honda is a world leader in the production of motorcycles, the thickness of its annual income comes from the sales of its cars, whose manufacture began in 1963. Some of its most popular models are the Accord and Civic (lightweight, fuel-efficient passenger cars). Other essential products it handles are farm machinery and small engines. Honda is a significant exporter to the United States and other countries worldwide; it has several assembly plants in various parts of the world; it has made strategic alliances and technology licensing agreements with foreign companies (Encyclopædia Britannica, 2019).

In 1995, Honda's worldwide automobile production exceeded 30 million units sold ("Historia", n.d.). In Mexico, the one-millionth unit was sold in 2019 ("Historia", n.d.).

Video 1. The History of Honda 1900-1960 (A rare documentary from the start)

<https://www.youtube.com/watch?v=Y97L6SuRGkQ>

Source. Uploaded by Amila C Kumarasinghe, September 10, 2018.

Video 2. The power to turn a dream into reality

<https://www.honda.mx/historia/>

Source. Website Honda, 2020.

Philosophy and structure of the company

The company is committed to developing and manufacturing products of the highest quality at an acceptable price (Honda.mx, n.d.).

A distinctive aspect of Honda is slogans: in 1978, they used *Let's Gamble* to develop new concepts for the Civic and Accord cars because they were becoming outdated. The team that led this project, a group of young people whose average age was 27, created another slogan, *Theory of Automobile Evolution*, to examine the transformation of cars as organisms. This same working group coined other guiding words: *Man-maximum, machine-minimum* ("Man to the maximum, machine to the minimum") to project or convey that they wanted to transcend conventional perceptions of automobiles. The team transformed this phrase into a sphere whose center was to give the customer maximum comfort in the least amount of space possible when driving on the road. This figurative language, combined with reasoning, gave birth to the Honda City, an innovative urban car. Globally, Honda labeled its products under the slogan *Power of Dreams* (Jashapara, 2011).

¹ In 1970, Honda engineers accepted the challenge of meeting the strictest emissions standards required by the U.S. Government. Therefore, to demonstrate a commitment, they created the phrase Blue Skies for Our Children, the company's global environmental slogan, a manifesto to focus their efforts on achieving this goal ("Historia," n.d.).

In February 2020, Honda had a collaborative organizational structure, but on February 18 of that year, the company announced that as of April, it would change to a [unified structure](#) that would integrate the Sales, Engineering (production), Development and Purchasing areas, in one concept: SEDB (*Sales, Engineering, Development, and Buying*) (Honda News Room, 2020).

The company's culture: *The Honda way*

With a different vision, Soichiro moved away from traditional Japanese ways as he promoted the "Honda way of working" to focus on maintaining a close management relationship with its workers. Although it was "normal" for few companies to dominate the automotive industry,

Soichiro broke trends by producing cars in 1963, reaching the third position as the largest Japanese car manufacturer in the 1980s. Obsessed with details, he tested new models of cars and motorcycles himself, even up until 1973, shortly before retiring from the presidency of his company (Encyclopædia Britannica, 2020).

Some Japanese automotive companies that Honda challenged were: Toyota, Nissan, and Mazda. Toyota was the first car producer in Japan and became an automotive company in the late 1930s. Nissan, founded in 1934, was the second car manufacturer in that country. Mazda, the third-largest Japanese automaker, was founded in Japan in 1920 (Blanco, Guerra, Villalpando & Castillo, 2010). Before 1984, the company was called Toyo Cork Kogyo Co. (Garcia, 2020).

In 2019, the ten most sold vehicles in Mexico, according to autocosmos.com (2020), were those shown in **Table 1**.

Table 1. Top 10 SUVs sold in 2018 and 2019

Lugar	SUV	Acumulado 2019	Acumulado 2018
1	Honda CR-V	19,069	24,332
2	Nissan Kicks	17,837	23,970
3	Honda HR-V	17,175	13,052
4	KIA Sportage	15,876	18,864
5	Chevrolet Trax	15,250	16,178
6	Volkswagen Tiguan	14,548	14,760
7	Toyota Rav4	13,913	6,304
8	Mazda CX-5	13,742	12,927
9	Nissan X-trail	13,415	19,161
10	Mazda CX-3	9,257	12,466

Source. Autocosmos.com, 2020.

Arrival of COVID-19

In February 2020, COVID-19 arrived at the Mexican Republic to confirm the first case on February 28. In March, when Mexico was going through the first phase of the pandemic, Honda issued a press release with the suggested protocol to take care of the integrity of the people who boarded vehicles and, thus, minimize the chain of contagion:

- (1) Sanitize the hands with antibacterial gel when entering each person's vehicle who will board it.
- (2) Sanitize critical surfaces such as the steering wheel, gear lever, radio, buttons, air conditioning
- (3) Follow general recommendations such as not touching your face with your hands, especially eyes, mouth, and nose, and sneezing at the angle of your elbow (etiquette sneeze).
- (4) Thoroughly clean the interior of the vehicle.
- (5) Frequent ventilation of the cabin (open doors, windows, a few minutes after using the vehicle).
- (6) Extreme hygiene measures when using public transport (maintaining distance, using mouth guards, antibacterial gel before and after boarding).

On April 9, 2020, FCA, Toyota, Tesla, and Honda indicated that their factories' closure would extend until the first week of May, while Ford and General Motors stated that the strike would be for an indefinite period. As a result of the drop in production and sales of automobiles, Honda indicated that it would only guarantee the payment of salaries to its employees until April 12 (Ordaz, 2020).

On May 13, 2020, the car manufacturing plants' possibility would return to operations on May 18 was announced. However, on May 14, a resolution was published on the Official Gazette of the Federation (in Spanish DOF) until June 1, the Mexican automotive industry would resume operations. In the days before their return, relevant measures would be taken to avoid the virus' spread in the plants.

The day after the publication in the DOF, the Mexican government reconsidered and returned to its previous position: the plants would reopen on May 18, to be in line with the return of the industry to operations in the United States, provided that Mexican companies complied with the specific health and safety guidelines against COVID-19 (Juarez, 2020).

Undoubtedly, Honda's expectation of maintaining its leadership in the SUV segment with CR-V in industry crisis times is further challenged by the unexpected COVID-19 pandemic. Honda will need to review whether it can turn around and come out on top with *the power of its dreams*.

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