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Executive Summary

Honda has been in business for almost half a century; like most automotive companies Honda has experienced prosperity as well as unfavorable periods in its tenure. Unlike many automotive companies however, Honda has been able to weather periods of unrest and prevail. This paper reflects on Honda's history and then analyzes how environmental factors, both internal and external, have shaped their strategies.

While key milestones in Honda's history are identified, it is beyond the scope of this paper to identify every event that has shaped Honda today; instead this paper focuses on events occurring after 1980 which was a turning point in Honda's past having dramatic impact on their current market position. From these most recent changes comes Honda's flexible car/truck platform, which prompted Business Week to ask, "Can Honda Build a World Class Car?", which subsequently generated this paper.

Included in the analysis is a summary of threats and opportunities in the external environment as well as a synopsis of strengths and weaknesses of Honda's internal environment. Finally, Honda's business strategies are discussed as a reaction to both issues in the external environment in conjunction with Honda's perception of their own strengths and weaknesses.

Historical Overview

Honda Motor Corporation was founded in 1948. Honda's product portfolio focused around motorcycles until 1962 when they introduced their first automobile. The leap to the automobile industry, an entirely new market for Honda, was spurred on by the threat of new government policies which would limit the number of Japanese automobile manufacturers [24]. Honda did not want to be excluded from expanding their markets and thus, decided to enter the automobile market before government policies made the barriers to entry insurmountable.

Following, in is a road map of key milestones in Honda's history [24]:

- '46 Established R&D Institute in Hamamatsu.
- '47 Honda's first product, the A-type bicycle engine, produced.
- '52 Head office moved to Tokyo.
- '59 American Honda Motor Co., Inc. established.
- '63 Honda's first sports car and light truck released.
- '64 Automobile production began at Saitama Factory, Sayama.
- '67 Automobile production began at Suzuka Factory.
- '69 Honda Australia (Melbourne) and Canadian Honda Motor Ltd. established.
- '72 Civic compact introduced.
- '73 Honda Federal Inc. established in Jakarta, Indonesia.
- '74 Honda Suisse S.A. (Geneva, Switzerland.), Honda del Peru S.A. (Lima, Peru.) established
- '78 Honda Europe N.V. established in Gent, Belgium.
- '79 Honda signed technical collaboration agreement with British Leyland Ltd.
- '80 Cumulative Accord production reached 1 million units.
- '81 City compact introduced.
- '82 Technical collaboration agreement signed with China.
- '84 Honda Research of America (now Honda R&D North America, Inc.) established.
- '86 Accord production began at Honda Canada Inc.
- '88 Cumulative car production reached 15 million units.
- '89 Accord became best-selling car model in the USA.
- '90 Honda commenced sales of the Chrysler Jeep in Japan.
- '92 Honda signed technical collaboration agreement with Daewoo Motor of South Korea.
- '93 Cumulative US Honda production totals 3 million units.
- '93 Honda Motor (China) Co., Ltd. established in Hong Kong.
- '93 Honda signed a business agreement with Isuzu Motors Ltd. for product complementation.
- '95 Cumulative North American Honda automobile production reached 5 million units.

Reviewing Honda's history provides insight to where they are today and why. The key dates noted which pertain to Honda's strategic plans include: the first global expansion in 1964, Honda's first automobile in 1962 and their first joint venture in 1979. These milestones and their impact on Honda are discussed later in extensive detail.

External Environment: Threats and Opportunities

To identify why Honda is where they are today it is necessary to analyze issues in the external environment which created crucial turning points in Honda's history.

The key milestones which have impacted Honda's recent evolution are:

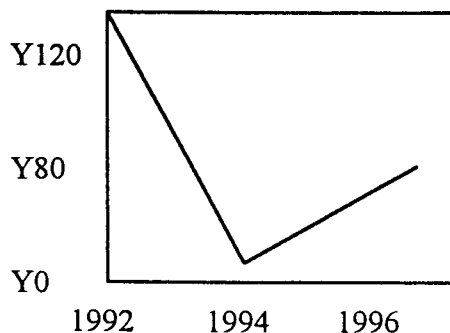
- ⇒ 1980s - American Auto Industry Decline
- ⇒ 1990s - Japanese Auto Industry Decline
- ⇒ Current - Reaction of Japanese Auto Industry to 1990 Decline

1980s - American Auto Industry Decline:

In the 1980's North American automobile makers faced a stalled and then declining market for their products as Japanese automobile sales gained [14]. North American woes were generated primarily by overconfidence; they felt they could sell all the cars they could build, and the American market would always be loyal to them. By the time Japanese auto makers had surged into America, and it was too late for "The Big Three" automotive manufacturers to build competitive products.¹ Compounding the situation was a North American recession that yielded a favorable exchange rate for the Yen, making Japanese products all the more affordable to Americans [14], [23]. pp ?

1990s - Japanese Auto Industry Decline:

In the early 1990's the market shifted one hundred and eighty degrees; Japanese cars had become so prevalent in America, they felt they were invincible and this time, it was the Japanese' turn for complacency. Over confidence coupled with the Yen's now unfavorable exchange value, put Japanese car sales in North America into a nose dive [25]. Rising competition within Japan from imports caused domestic sales to fall from 7.8 million units in 1990, to 6.5 million in 1994 [25]. Japanese executives predict import vehicles could take 10% of their market by the end of the decade, compared with 6.6% during 1993 [25]. Domestic production fell from 13.5 million in 1990 to 10.6 million in 1994, and dropped another 0.2% during 1995 as work continued to move offshore, resulting in millions of excess units [25].



Honda's Automotive Profits
(in billions of yen)

(Ref ?)

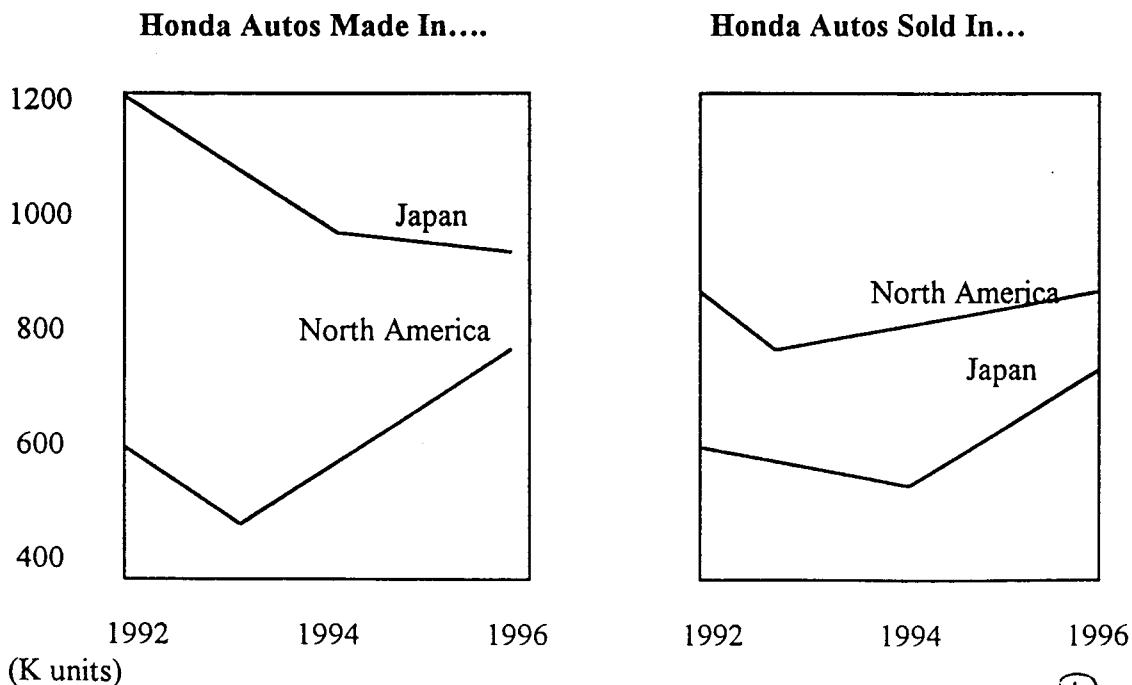
¹ "The Big Three" refers to the largest automotive manufacturers in the United States: Chrysler, Ford and General Motors.

Current - Reaction of Japanese Auto Industry to 1990 Decline:

In order to respond to declining sales and increased inventories the entire Japanese auto industry went into major cost-cutting measures to boost earnings. Toyota launched a plan to reduce costs by 10% by the year 2000, and in 1994 saved \$1.5 billion alone[11]. Nissan launched a five-year program to cut \$3.6 billion by April 1998, but finished ahead of schedule[22]. According to prominent literature by the year 2000 Japan will build as many cars overseas as it does domestically[27]. A targeted location for such production will be in the Far East since smaller Japanese vehicles, the predominant cars manufactured, are already popular there [7].

One method in which to reduce costs was the development of a strategy along the lines of parts and material process improvement [25]. Equipment and systems were reviewed and upgraded, a greater degree of teamwork was emphasized, and shorter lead times were implemented in the interest of productivity improvement. Finally, ergonomics were addressed and, wherever possible, assembly line space was decreased for optimization [19].

Today, Japanese auto maker's strategies are not only driven not only out of concern for North American automobile makers, but also with a growing recognition that the Korean auto makers are strengthening, and left unapprised, could also become a significant threat. These trends are depicted in the graphs shown below [27].



Ref ?

Honda's Internal Environment: Strengths and Weaknesses

Analysis of Honda's internal environment indicates why Honda has chosen certain strategies in the past. In addition, reviewing Honda's strengths and weaknesses leads to a better understanding of why past strategies have been successful or, unsuccessful.

Key areas analyzed in Honda's internal environment are:

- ⇒ Organization & Management
- ⇒ Manufacturing
- ⇒ Supplier Management
- ⇒ R&D
- ⇒ Business Relations & Strategy

How do you come up with these? Refs?
Based on what?

Organization & Management:

Unlike most other Japanese companies, society's traditional centralized structure is not reflected in Honda's management. Honda, being the most "un-japanese" of Japanese auto manufacturers, seems to be highly affected from western management styles. A highly de-centralized organization supports individualism and tries to tear down status barriers by pushing the decision-making authority to the lower levels and younger people [18]. The questioning of decisions and management is encouraged, even demanded of each employee [16]. They put a great emphasis on the ability to create innovation and efficiency, and try to keep a small dynamic company spirit to avoid being a "slow acting giant." In addition, the young workforce is encouraged to be more participative and work more efficiently rather than working longer hours as in some other Japanese companies [18]. An individualistic spirit, and the culture of "constructive confrontation" may well be one of the key factors in Honda's success in responding to the environmental changes. Honda's co-founder, Takeo Fujisawa summarized this when he said "There are discordant sounds within a company. As president, you must orchestrate the discordant sounds into a kind of harmony. But you never want too much harmony. One must cultivate a taste for finding harmony within discord, or you will drift away from the forces that keep the company alive. [16]"

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It is very difficult to assess whether it is a strength or a weakness but Honda's unusual and constantly changing organization style is an important part in the company culture. The balance between the weights of vertical and horizontal organizations has been altered on many occasions [16]. Rather than sticking to a certain organizational structure, they seem to choose to remain fluid in order to be able to adapt the changes in the needs. This seemingly disorganized, unstable structure might have caused many problems, but apparently the horizontal and diagonal communication links among the management levels helped to establish better communication throughout the company.

Manufacturing:

Although Honda's manufacturing system has been significantly influenced by other Japanese automotive manufacturers, it has many aspects unique to Honda. In Honda every stage of production is planned precisely, while in other Japanese automotive manufacturers concentrate primarily on just improving manufacturing efficiency. While Honda is concerned with the efficiency of manufacturing they also believe the quality of incoming parts should be very high to reduce the possibility of latent problems and divergence from the manufacturing plan due to materials shortages.

Like other Japanese manufacturers, different vehicles are assembled in the same line to increase the flexibility of production planning. However within Honda, vehicles are built in batches rather than completely mixed; a certain quantity from a model is produced before the line is shifted to another [19]. The ability to build particular models in batches makes for a simpler assembly system and thus, decreases costs. In some plants, Honda uses a special assembly line model where the line speed is not fixed; workstations are placed on the assembly line and workers pass the car to the next station when the work is completed. This system, besides being a more humane system, increases flexibility and accuracy since the process is no longer dependent upon a fixed line speed.

Supplier Management:

Honda unlike other Japanese manufactures, does not operate within a keiretsu; its supplier base includes Japanese, American and European companies which have local production where manufacturing takes place.² Overseas plants in the US and Europe are not just assembly plants. Although some parts are sourced from Japan and some Japanese suppliers are transplanted near to Honda production facilities, they try to have a large local supplier base. Rather than importing sub-assemblies from Japan, they try to out source the part manufacturing and sub-assembly operations to local suppliers while keeping the production of only some critical parts, systems, or low volume parts in Japan. Companies supplying parts to Honda are not interdependent and are free to supply to other companies. In North America, most of the American and Japanese local suppliers of Honda supply parts to other companies including the Big Three[16].

When Honda began using U.S. suppliers in 1986, the defect level was 6,000 ppm (defective parts per million). Now, 200 of Honda's 322 suppliers ship defect free parts each month, and the average defect rate of the remaining is only 100 ppm. There are two main factors in this success: Honda puts a great emphasis in designing manufacturable parts and purchasing works very closely to the supplier's quality department. Additionally, suppliers are co-operative with Honda's quality demands since they know Honda wants to be a long-term customer[8]. The benefits to Honda of not being a member of a keiretsu are being able to choose suppliers who meet their performance, price and delivery parameters.

² A keiretsu is a description of the primary method for Japanese business. A Japanese company will try to use only other members of its keiretsu or "family" as suppliers or subcontractors.

R&D:

Honda has always been a product oriented company where R&D has played a key role in Honda's success [24]. Even in the times when the Japanese Automobile industry was viewed as imitators, Honda was trying to change this image by emphasizing the design of new, innovative products. Besides being the leader in the development of light, fuel-efficient gasoline engines, they developed and improved many other vehicle technologies like front wheel drive and four wheel steering. This strategy of developing innovative new products has helped Honda expand their niche markets and increase profitability through differentiation.

Honda has a four year design cycle which is much better than foreign automotive companies and even other Japanese companies [26]. The four-year development cycle allows Honda to react to changing tastes more quickly and to implement the new technologies. To reduce costs, Honda tries to keep changes in the production equipment and processes to a minimum during the model change. Sometimes, in order to save money, they carry over part or all of the mechanical system from the previous model, but the body along with all visible parts are changed during a model change for a new product image.

Business Relations & Strategy:

When first entering the North American and European markets Honda established joint ventures with powerful local companies to lower the risks during the learning curve; joint ventures with both GM and Rover served the purpose of providing market knowledge and building infrastructure prior to Honda making their own investments [16]. In addition, joint ventures with suppliers were established whenever appropriate to decrease investment costs and overhead burdens [16].

While the recession years were continuing in North America, sales in Japan started to decline in early 90's. Although Honda's profits were considerably down they did not lose money. This success can be attributed to Honda's flexibility and continuously evolving business strategy; In the 1990's Honda reacted very quickly to declining markets by shifting resources to new product development efforts [1]. A Flexible strategy in conjunction with an awareness of market vulnerabilities enabled Honda to recover quickly after the recession was over.

Honda's Strategy Formulation: Reaction to Internal and External Environments

The strategies Honda has implemented in the past were a reaction to threats and opportunities in the external environment as well as perceived internal strengths and weaknesses.

The external event which had the greatest impact on Honda's strategy was the decline of the American Auto Industry in 1980. This decline gave Japanese automotive manufacturers a window of opportunity to enter the American market. In order to reduce risks, Honda's business strategy was to aggressively pursue the American market, first through affiliations with joint ventures and finally by sole proprietorships. Their organizational and management style encouraged flexibility and innovation which enabled them to introduce creative products tailored to the American market in a short time period. Honda's reaction to an opportunity in the external environment coupled with their organizational, management and business strengths catapulted their success into America.

In the 1990's Honda, like the other manufacturers, found themselves in a severe over-capacity mode and losing their competitive edge. Feeling invulnerable, they had not foreseen the potential external environmental threat of a devaluated Yen and thus, had not adjusted their business strategy accordingly. Although maintaining sales in North America, Honda became the fifth place vehicle manufacturer in their primary market, Japan, behind Toyota, Nissan, Mitsubishi, and Suzuki (1st, 2nd, 3rd and 4th respectively) [24]. Honda immediately implemented strategies to regain strength. First, drastic reductions in Japanese production plants were ordered, bringing domestic capacity from 1.3 million units in 1996 to 1.0 million in 1998 [24]. Layoffs did not take place although work was retracted from suppliers so less labor was required. Next, Honda improved their internal flexibility to meet changing business climates and improve their position in the Japanese market.³ Similar to other Japanese producers, Honda increased overseas production and expansion into Asian markets which offered the benefits of close proximity and similar market expectations.

Today, global output via increased overseas production is a continuing strategy to leverage foreign currency exchange values. Honda has the sufficient capital and expertise to expand into those markets if they utilize one frame platform for car assembly in the 21st century [3]. In order to react to the varying demands globally Honda's strategy is to diversify product lines. This strategy incorporates the threats and opportunities in the external market and leverages Honda's manufacturing flexibility, matrix organizational structure and innovative strengths.

³ Honda's President, Nobuhiko Kawamoto, stated in 1995.

Honda's Plans for the Future

According to prominent literature Honda's strategies and tactics for the future fall into two major categories:

- ⇒ Current market expansion
- ⇒ Development of new markets

Current Market Expansion:

Honda's primary five year strategy is expansion of automotive sales globally. Global Engineering is a good fit for Honda because their primary strengths internally are creativity and flexibility. Honda recognizes that policies, regulations and market demands vary worldwide and thus, they believe one car cannot be successful globally. Consequently, they have established research and development centers in the U.S. and Europe as well as Japan [21]. Market savvy, innovation in conjunction with business savvy and flexibility should enable Honda to successfully adapt models to specific markets.

Honda realized years ago that their long-term success was threatened if they couldn't make the company's most important car, the Accord, more successful outside of Japan [21]. In response to this threat four years ago Honda launched the sporty, restyled Accord. Honda found the new Accord was too cramped for U.S. drivers and the new changes made it not stylish enough for the Japanese. Further market research determined that market expectations world wide were vastly different. The American Accord needed to be big, staid family car, matching the Ford Taurus in interior roominess. The Japanese required a jazzier car which was a smaller, sportier compact, aimed at young professionals. The European version needed to be short and narrow and feature a stiff, sporty ride. The obvious solution, to design a different model for each market, was out of the question due to expense. In order to be able to respond to the varying demands of different markets with minimal expense, Honda ingeniously developed a flexible frame that could vary as much as four inches, thus providing a common platform for different suspensions and body styles [3]. This design commonality allowed for changing automobile models, without the necessity of ground-up engineering. Honda's innovative platform has saved them hundreds of million dollars in development costs and has dramatically reduced time to market.

Honda's 1998, sixth generation Accord continues the strategy of providing a sedan for its existing customer base while making incremental improvements in power, ergonomics, comfort, convenience, and refinement. However, research showed that past owners of the Accord Coupe wanted greater differentiation, so Honda's R&D department in Los Angeles defined a new look for the coupe [21]. Its external features include a dramatically sloping back windshield, light catching sculpting along body lines, and a sporty tailgate cluster. The engine generates 18% more horsepower and torque, while handling is improved with a wider track, firmer shocks, and sixteen inch tires [17]. Built on the flexible platform, the coupe is 3.0 inches shorter than the sedan to contribute to a sporty look. Both cars are 90% manufactured in the U.S.A. making them the most American Accords to date[17]. Assembly takes place at Marysville, Ohio, and the engine is produced in Anna, Ohio[24]. Concurrently, Honda completed design of the first gasoline-power Ultra Low Emissions Vehicle (ULEV) engine, and makes it available on the Accord Sedan EX model with an automatic transmission and 2.3 liter 4 cylinder engine [12]. And after years of

successful cost improvement initiatives, Honda will sell the 1998 Accord at a lower price than previous models [17]. These product enhancements support Honda's key strategies of: product differentiation, improving the price/value relationships, targeting younger buyers and leveraging Honda loyalty.

Honda's strategy is continue to use the same foundation for vastly different vehicles. Analysts predict that a year from now, the Accord platform will underlie a new minivan and in two years the platform will be utilized for a jumbo sport-utility vehicle equal in size to the imposing Chevrolet Tahoe[4]. The same Accord platform also will serve as the basis for two Acura luxury cars to be launched in 1998 and 1999 [15].

In addition to the trend of developing a global car Honda is leading the wave of new investments by Japanese and European manufacturers in transplanting assembly operations in the U.S and Canada. Manufacturing in the country sales are targeted for gives Honda importing priveledges, and a better understanding of market expectations.

Development of New Markets;

Not only is Honda planning to grow market share in their predominant market, automotive, but they are also planning expansion into other vertical markets.

Incorporated into Honda's technology plan is heavy R&D investment to become a mass producer of jet aircrafts. Honda's innovation lie with the Supercub , a simple entry-level motorcycle of which 30 millions copies have been sold, and with the Civic, a subcompact of which 11 million have been built. Now Honda has the same strategy with an entry-level, jet-powered, plane that carries four to five passengers. Auto makers have been working on jet engine R&D for more than 10 years, and believe it is the leading edge turbine technology.

One primary environmental threat is a severe oil shortage. In preparation, Honda wants the auto industry to begin large-scale production of hybrid vehicles in the 12 years. Virtually all of the world's auto makers are developing hybrids, which can achieve a 50% improvement in fuel economy using a combination of batteries and a small piston engine[16]. Honda's strategy is to develop a hybrid engine for the automotive market and then transfer the technology to other markets which currently rely on gasoline engines [2].

In December 1984, Honda laid out a program to develop human-shaped robots. Honda recognized that the vision and sensor technology needed for robots had automotive applications and thus, they incorporated robotics into their long-term strategy; Honda now has 40 U.S. patents in Robot technology. In February 1997, Honda showed a video of it's creation, a battery-powered robot with two arm and two legs, that can open and close doors, walk around obstacles and climb stairs. It can even keep it's balance if shoved. It weighs 462 pounds and is 6 feet tall, but the ultimate goal is to cut that to 220 pounds and about 5 feet [10]. Honda foresees the human-shaped robots fulfilling the needs of society, especially for needs of the elderly..

Summary

Since the Honda Motor Corporation was launched in 1962, it has become a global force and a household name. This success has been driven not by chance, but by methodical, careful and well thought out planning. Honda's business savvy, R&D skills, manufacturing flexibility and innovative management style, coupled with a keen awareness of environmental issues, helped them maintain a strategy to address threats and opportunities, report several years of impressive growth, and recover at times of market downturns.

When American automotive sales declined during the 1980's recession, Honda recognized an opportunity to rapidly grow into that market by utilizing their R&D and business strengths. As the "Big Three" regained strength in the 1990's, Honda utilized manufacturing flexibility to quickly address excess inventory and capacity issues. Today, Honda is creating innovative products, as part of their strategy to enhance their global position while differentiating.

The subject article of this paper asks, "Can Honda Build a World Class Car?". Having studied Honda's past capabilities and current strategies, the answer is firmly "yes." Honda's organizational and management structure demonstrate that they foster innovation. Their manufacturing flexibility, attention to detail, and cost-effective designs indicate ability to handle a full range of automobile models. In conjunction, Honda's R&D organization is responsive to customer's comments, and turnaround time for such comments to be incorporated into a model is fast. While these internal strengths support Honda's ability to develop and market a World Class Car, the key to past success has been Honda's ability to scan the environment and modify strategies that accommodate varying threats and opportunities. It is possible that Honda will not only maintain its current ranking in global automotive production, but indeed become even stronger.

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the focus of this paper.
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presenting
but not really discussing them.

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