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CMR FORUM:

# The “Honda Effect” Revisited

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## 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.

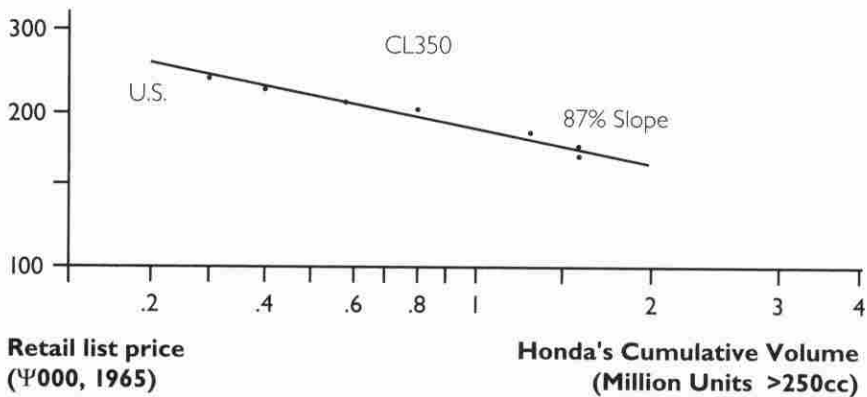
By June 1960 Honda's Research and Development effort was staffed with 700 designers/engineers. This might be contrasted with 100 engineers/draftsmen employed by . . . (European and American competitors). In 1962 production per man-year was running at 159 units, (a figure not reached by Harley-Davidson 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 hohum 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.