

CO-EVOLUTION: THE LOCAL PATH TO GLOBAL CITIZENSHIP

By Nobuhiko Kawamoto
The Canadian Club
October 8, 1996

Thank you, Mr. Hartt. And good afternoon ladies and gentlemen. It is a special treat to be with you in a year in which both The Canadian Club and the North American automobile industry celebrate their 100th anniversaries.

I am sure your founders had exciting plans for this club 100 years ago as they arrived for lunch -- by horse-drawn carriage. But they probably did not envision the CEO of an automobile company -- especially one founded more than 50 years later by a Japanese auto mechanic, Mr. Soichiro Honda. The fact that we are here together is a powerful statement about this age of global business.

100 years ago, local businesses still dominated the marketplace. Today, a common perception is that to become a global citizen, one must look beyond the local community. For Honda, the path to global citizenship travels through the local community.

Global citizenship is not a goodwill gesture or a political act -- it concerns the way we conduct our business on a daily basis. This is an increasingly important concept, as companies from industrialized nations expand business in developing regions such as Asia and Latin America.

Some may view these emerging markets as virgin territories -- as resources to tap and markets to exploit. But such a strategy amounts to colonialism. And, as the world has learned many times, colonialism doesn't work.

Honda, too, has ambitions to grow in developing countries. Today, Honda automobiles, motorcycles and power products are sold in more than 160 countries around the world. We manufacture these products in more than 85 plants in 33 different nations. And of the 100 thousand people employed by Honda worldwide -- more than 55 percent are non-Japanese.

As you can see, our pathway to global citizenship has been a local one.

Based on this experience, we believe that the new developing markets require a different view of global citizenship -- and a higher level of commitment to local communities.

- We need to be open-minded to change.
- We must treat all local operations and communities equally and fairly -- regardless of the difference in their social or historical background and economic conditions.
- We must create opportunities for the open exchange of ideas among all levels of the company.

- We need to supply quality products -- locally-produced whenever feasible -- that meet the unique needs of local customers.
- And, as industry expands, we must take leadership to protect the environment for future generations to come.

We call this approach to global citizenship "co-evolution." By evolution we mean the advancement of knowledge and capabilities from one generation to the next. By "co"-evolution we mean the positive growth and advancement of both Honda and the local community. Co-evolution is the creation of a new, higher value based on the merger of Honda's culture and way of doing business -- with the culture, needs and capabilities of individual local markets.

The process of co-evolution is very exciting for me. It is like witnessing the genesis of our company over and over again, because it is based on our core principle -- "respect for the individual." This philosophy is based on a belief in the fundamental equality and uniqueness of all human beings.

It teaches us that Honda is comprised of individuals working together for a common purpose -- and that all associates should be respected and given an opportunity to develop to their fullest potential. I also believe this philosophy is what helped Honda look beyond Japan when the rest of the country was looking inward.

The process of co-evolution requires such an open mind. Creating this new higher value has three fundamental requirements. First, we must work closely with our new associates in the local market. It is imperative for both top management and all of the associates to cooperate beyond their position, so that they share the same basic objective. For Honda, this means our vision of producing highly efficient quality products, that are affordable, and satisfy local customers and the local community.

A second requirement is the appreciation of differences in cultures, social background, way of thinking and business expertise. If the company is based only on one kind of people, it is limited to one general viewpoint. We have learned that different cultures and experiences often provide a fresh new approach to meeting challenges.

Finally, co-evolution requires creating an atmosphere of equality for all associates, operations and communities. We must view each local market on the same eye level, regardless of social or historical differences and economic conditions. We cannot look down on one new Honda company because we are transferring lots of technology and expertise. We look at each company on the same eye level, no matter the size of its production volume.

Our operations here in Canada have made an important contribution to this approach. We sought to create a Canadian-based business, an independent organization connected with other Honda companies around the world.

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Canadian associates, our Alliston Plant has achieved tremendous success. Within Honda we conduct an internal competition to determine which plants produce the best quality. We have never discussed this competition publicly. However, I am honored to tell you that the Alliston Plant was judged to produce the best quality among the ten plants around the world that produce the Civic.

And this success has been rewarded. Yesterday, we launched production of a brand new entry level Acura model to be made only in Alliston. And, late last year, we announced plans to produce a new larger minivan exclusively in Alliston. This growth has truly been the result of the merger of Honda's culture with Canada.

One way we have achieved this is through a program we call the North American Task Group, or NATG. Since 1990, more than 100 Canadian and American associates and their families have moved to Japan for up to two years to perform advance work on new model development. NATG creates the opportunity for Japanese and North American associates to work out problems together related to new model launches. A higher value results from this cross-cultural experience. The design of new products like the Accord and Civic has changed based on their input. So have the processes used to build them.

Our Canadian and American associates are an even greater resource within the company, reducing the need for Japanese engineers here. Most importantly, we have achieved much higher initial quality for our customers.

Many of these experiences can now be applied to operations in other nations. From recent visits to Thailand and Brazil, I can tell you these new operations are more than a source of revenue to our company -- they are a source of energy. It is exciting for me to see our local associates embrace the Honda philosophy and build upon it based on their own needs and challenges.

This past July, I was in Brazil during the 20th anniversary year of Honda motorcycle production there. We opened our plant in 1976 in an area targeted for development by the Brazilian government in the heart of the Amazon jungle. This enabled us to build the plant quickly and at low cost.

But transferring our culture and know-how proved a different challenge and required us to change our approach to meet local needs. Our workforce there is comprised largely of native Indians who live in the nearby region of Manaus. In taking job applications, we discovered that many did not know how to read. In more developed nations, this may eliminate someone from consideration for a job. But in the Brazilian rainforest, we changed our method of training.

Within Honda, we have a philosophy known as "be at the spot." If you want to learn the true reality, you must go to the spot, touch the real part and see the real situation. We adapted this Honda culture to the native culture in Brazil. Rather than teaching with written materials, we worked together with the Indians on the plant floor. There, at the spot, they learned about manufacturing, commitment to quality and customer satisfaction.

This was a big challenge for the local community, but -- working together -- we succeeded. The plant produced some 100 thousand units three years ago. Reflecting the economic growth of the country, the production volume increased dramatically. Today, the plant is producing at a rate of more than 250 thousand units per year -- against our original 1996 plan of 200 thousand units. It is going to be one of the largest motorcycle plants in the world. Because of this success, and the continued growth of Latin America, this year we announced plans to begin production of automobiles in Brazil in 1998.

The process of co-evolution has been realized with the reinvestment of the profit from our motorcycle business into the next step of our industrial progress.

When you look at new developing regions around the world, none is accelerating faster than Asia. The region's growing affluence has created a new marketplace -- and companies from around the world, in virtually every industry, are rushing in.

There has been much discussion about how best to appeal to the region. Motorization is beginning to develop and is expected to eventually grow to the level of North America and Japan. However, purchasing power is still relatively weak. We found that the needs of the local market were for a high quality car, but at a lower price.

Our strategy followed another aspect of the path we have chosen to global citizenship -- a commitment to "build products in the markets in which they are sold." In April of this year, we began production at a new Honda plant in Thailand of a new car called the City -- developed exclusively for Asian markets. We also produce it in a way that benefits the local community. Again, co-evolution is the key.

We are producing this car at a lower volume than what we started with in developed countries. Most mass-produced products are profitable only when the plant is operating at a rate of 100 thousand units per year. Our initial plan for the City was 30 thousand units per year -- 10 thousand units less than when we started production here at the Alliston Plant. In addition, based on our understanding of the local community, Thailand needed jobs, not simply technology.

We considered these local factors and adopted a different strategy than the one we followed in North America. First, we reduced the level of automation. Our plant in Thailand is mass-producing a hand-crafted quality automobile. But it incorporates far less automation than modern factories such as the Alliston Plant. As a result, we were able to cut our investment in equipment by half.

The City also has a higher percent of local content than most cars introduced into a new plant. We made changes to adapt the design of the car and the production process to the local market. Many parts were redesigned to make them easier to purchase locally. As a result, the City has local parts content approximately 30 percent greater -- from the beginning -- than a Honda Civic produced in Asia.

All of these changes have benefited both Honda and the local community.

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For Thailand, it means stable employment that will have a positive impact on the overall economy. And our Thai associates are learning more about building cars. It reminds me of the early 1960s when Honda started auto production from scratch, building cars by hand. If we began with a high level of automation, the Thais would learn only how to push buttons. Now, they are learning how to make a car. Purchasing more parts locally also contributes to the local Thai economy -- and in other Asian nations where we produce parts for the City.

Honda also benefits from this co-evolution. We altered not only the design of the car, but also our production methods based on our original concept of meeting local needs and requirements. Consequently, we were able to achieve a production start-up in an important new market with a minimal investment. So, even though we are producing the City at a low production volume, we are able to offer a quality car at a low price. In fact, it costs about 20 percent less than the Civic we produce in Asia.

Honda learned a great deal about producing cars in a developing region. We plan to positively apply methods used in the launch of the City as we work with other emerging nations around the world. However, the growth of motorization in these developing regions raises other issues that will change the very definition of global citizenship -- and how it is attained. The automobile has had an impact on mankind like few other inventions.

But, while automobiles have many social and economic benefits, they have social and environmental costs as well. Coupled with the continued transportation needs of advanced nations, the growth of emerging regions will place even greater demand on the world's energy supply. And it will increase pollution -- often in areas little touched by the present industrial process.

In short, a strong vision for the environment is another critical element on the pathway to global citizenship. Maybe no one in the world has yet declared that we must stop doing business in our current manner.

But for the future of our company, our industry -- and the world -- we must change. Resisting this challenge now will only make it more painful later. I believe so strongly about this that we are now in the process of modifying our company principle to make concern for the environment a clear element.

Of course, Honda's products are the purest expression of our commitment to our environment. Our approach is to create products that balance our customers' desire for fun and performance with society's need for less pollution and lower fuel consumption. I believe it is our responsibility to lead our customers in this direction.

This quest for balance has led to the development of a number of new technologies that lessen the impact of mass transportation on our world -- while assuring that our products remain desirable to our customers. Over time, the technologies that achieve this balance will change -- but our commitment never will.

At Honda, we believe it is our responsibility to advance our technology toward cleaner mobility for the future of the human race.

Meeting this expanded challenge of global citizenship requires a lot of energy and enthusiasm. But we have found that co-evolution provides a youthful spirit. Keeping an open mind and a willingness to learn what is new is the meaning of youthfulness -- not age. When you shut your mind, you are no longer young.

Honda has learned a great deal from all of the cultures we have encountered while on the local path to global citizenship. It has changed our company and the way we do business. It has made us -- even as we approach our 50th anniversary in two years -- a young company.

We like to think that it has also had a positive impact on the local communities where we do business. It is not enough that Honda and its products be tolerated or accepted. It is our goal that every local community in which we do business should want Honda to exist. I am convinced that co-evolution, working together for mutual benefit, is the only way to achieve it.

I would like to thank you for welcoming me during your 100th anniversary year. And, in the spirit of forward thinking vision, I am hoping to obtain an advance invitation for a future CEO of Honda -- in the year 2096 -- to speak at the 200th anniversary of The Canadian Club. My only hope is that, 100 years from now, the concept of global citizenship will still be valued -- and the world will still beat a local path to your door. Thank you.

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