

How Honda lost its mojo - and the mission to get it back

REUTERS, Tokyo
The driver punched the air as his red and white Honda McLaren roared over the finish line. It was Suzuka, Japan, 1988, and Ayrton Senna had just become Formula One world champion for the first time. The McLaren racing team and its engine maker, Honda Motor, were unstoppable that year, their drivers winning all but one of the 16 grand prix races.

Off the track Honda had been tasting success, too. In the 1970s, its engineers had raised the bar for fuel efficiency and cleaner emissions with the CVCC engine. In the 1980s, as its engines were propelling Senna to multiple victories, the Civic and Accord cars were redefining the American family sedan. In 1997, Honda became one of the first carmakers to unveil an all-electric battery car, the EV Plus, capable of meeting California's zero emission requirement.

Jump forward almost 30 years from that Senna moment and Honda is flailing. On the racetrack, the Honda McLaren partnership is in trouble: The team is without a single win this season, and McLaren is losing patience with its engine supplier and speaking of a parting of the ways.

On the road, the Honda fleet has been dogged by recalls. More than 11 million vehicles have been recalled in the United States since 2008 due to faulty airbags. In 2013 and 2014 there were five back-to-back recalls for the Fit and Vezel hybrid vehicles due to transmission defects. Honda has lost ground in electric cars to Tesla and others.

"There's no doubt we lost our mojo - our way as an engineering company that made Honda Honda," Chief Executive Takahiro Hachigo told Reuters.

Hachigo joined Honda as an engineer in 1982 and became CEO in June 2015. Now he wants to revive a culture that encouraged engineers to take risks and return to a corporate structure that protected innovators from bureaucrats focused on cost-cutting. To help him achieve this, he says he has tapped into the ideas of a small group of Honda engineers, managers and planners. This group is modelled on the freewheeling "skunkworks" teams that drove aircraft development at Lockheed Martin,

computer design at Apple and self-drive technology at Google.

In interviews, more than 20 current and former Honda executives and engineers at the company's facilities in Japan, China and the United States recounted the missteps that they say contributed to Honda's decline as an innovator. They also revealed new details of the firm's efforts to rediscover its creative spark.

They said Honda had become trapped by Japan's "monozukuri" (literally, "making things") approach to manufacturing. This culture of incremental improvement and production line efficiency, called "kaizen", served the company well in the decades after World War Two, they said, but today's challenges - electrification, computerization, self-driving cars - demand a more nimble and flexible approach.

Most importantly, they said, over the past two decades company executives in Tokyo were given too much control over research and development. In their view, this led to shareholder value being prioritized over innovation. There was a reluctance to draw on talent from outside Japan. In its quest to deliver for shareholders, Honda sought to maximize volume and profit and match the product range of its main Japanese rival, Toyota.

"The upshot was, as we obsessed about Toyota and beating it in the marketplace, we started to look like Toyota. We started to forget why we existed as a company to begin with," Honda R&D President and CEO Yoshiyuki Matsumoto told Reuters.

Honda's revenues have grown strongly since 2000 and its operating margin stood at 6.0 percent in the financial year ended March 31, 2017, compared with 7.2 percent at Toyota. But Honda's cars have slipped down quality rankings, from seventh in market research firm J.D. Power's initial quality study in 2000 to 20th in 2017.

Striving to satisfy shareholders meant controlling costs. Honda's chief executive from 2003 to 2009, Takeo Fukui, broke with the firm's tradition of giving tech managers discretion over how to spend the roughly five percent of revenue allocated to the tech arm, according to the current and former Honda executives and

engineers.

When Takanobu Ito replaced Fukui as CEO in 2009, he further tightened control over the design phase. He did this, the sources added, by moving several senior posts in the tech division to corporate headquarters in Tokyo from the research and development unit, whose main automotive centre is near Utsunomiya, an hour north of the capital city by bullet train.

Ito and Fukui did not respond to written questions from Reuters.

Honda's popular Civic car was one of the casualties of these changes, according to the engineer in charge of the model's redesign beginning in 2007. With a reputation for outstanding engineering, reliability and affordability, the Civic was one of Honda's top selling cars.

"Right from the get-go, the program was about making cost savings in real terms," the chief engineer for the redesign, Mitsuru Horikoshi, told Reuters.

To that end the global automotive business unit, headed at the time by future CEO Ito, and the tech division decided that the redesigned Civic would use many of the same components and systems as the previous model, including the front and rear suspension systems and the front section of the car.

Civic engineer Horikoshi had finished a first design setting down the basic engineering points by February 2008 and a more detailed design by April. When rising gasoline, steel and other prices pushed up manufacturing costs by between \$1,200 and \$1,400 per vehicle, Horikoshi's team refined their design to improve the car's fuel economy. In early July 2008 they sought management approval for their plan at a meeting in Torrance, California, Honda's U.S. sales headquarters.

Global automotive head Ito said he would review the design overnight, Horikoshi recalled. The next morning, Ito came back and told the team to make the car smaller and cheaper to produce, and complete the redesign by the end of that month.

"With one blow of a cost chopping knife, Ito basically told us to take our design back" to the first plan. "It's just unheard of. It was unprecedented," Horikoshi said.

To meet Ito's specifications, Horikoshi used cheaper materials and made the car smaller, cutting its length by 45 millimetres and its width by 25 millimetres. He also reduced the wheelbase, the distance between the front and rear axle, by 30 millimetres.

A former leader of Honda's R&D unit said the firm "lapsed deeper into a bunker mentality, and that translated into our products. It was cut, cut, cut, and it cheapened our cars."

By the end of 2008, Horikoshi's team was wrapping up the Civic design. Half a year behind schedule, they were still \$200 short of the cost target per car.

"I already had my pants down to my ankles - nothing more to shed," Horikoshi said.

When the 2012 model year Civic went on sale in 2011, it was met with a barrage of criticism. Influential U.S. magazine Consumer Reports dropped the car from its recommended list for the first time since it began rating vehicles in 1993. It criticised the new Civic for a poor quality interior and uneven ride.

R&D chief Matsumoto said the episode is a lesson that creativity should not be sacrificed on the altar of shareholder value. During previous assignments for Honda in Thailand and India, Matsumoto said he had looked at headquarters from afar and recognized a lack of creativity there.

"We have to be allowed to go wild at times. If you operated a technology centre only from an efficiency perspective, you'd kill the place. Which is exactly what happened at Honda. We don't want headquarters people telling engineers what to do," he said.

Honda went back to the drawing board. The redesigned model that replaced the 2012 Civic was named the 2016 North American Car of the Year by car journalists.

Ito and Fukui did not respond to questions from Reuters about the Civic. A former senior executive said the decision to reduce costs was taken in the context of a global economic slowdown. Honda's chief spokesperson, Natsumo Asanuma, said the focus on shareholder value under previous management was "for the sake of the company's future."

James Chao, Asia-Pacific chief of consultancy at IHS Markit Automotive, said Honda

failed to keep up with developments in suspension and transmission during Fukui and Ito's tenure, but the firm was doing well enough financially, which masked the problem.

"One could argue that Honda nonetheless performed nearly as well with the lower investment, but it was hard not to see that they were no longer leading in some technology areas," said Chao, who is based in Shanghai. Honda's rivals, such as Ford, were not reining in costs to the same degree, Chao said.

At the same time as Honda bosses were tightening the budget for the 2012 Civic, they were also looking for savings in research and development.

Other car firms were investing heavily in green technology, an area where Honda had already established itself as a leader with the unveiling of its EV Plus battery car in 1997, one of the first electric vehicles from a major carmaker. But just as its competitors were investing more, Honda began holding back.

Fukui, who became CEO in 2003, felt Honda was engaged in too many areas of research, four current and former executives and engineers said. As a result, Honda scaled back work on plug-in battery electric vehicles and put its faith in the hydrogen-fuelled car. By the time Honda turned back to plug-in cars in the late 2000s it had already lost several years to its competitors. Honda finally came up with a competitive plug-in car in 2013, 16 years after its original EV Plus. It is still playing catch up with the likes of Tesla.

Fukui did not respond to questions from Reuters. Two former engineers said Fukui was calculating that advanced battery technology would become commoditized and so Honda would be able to buy it in if necessary. This assumption was correct, the former engineers said.

For too long Honda has overlooked the potential of its workforce outside Japan, and that has harmed the firm, said Erik Berkman, a former head of Honda's technology unit in the United States, the carmaker's biggest market.

Honda's management team, board of directors and operating officers were until recently all male and Japanese. The company named its first foreign (Japanese-Brazilian) and first female board members only three years ago.



Shihab Ahmad, chief digital services officer of Robi, and Syed Rafiqul Haq, deputy managing director of Mutual Trust Bank, exchange the signed documents of a deal at a programme at the latter's corporate office in Dhaka. The card users of the bank will enjoy up to 40 percent discount while using Robi Tracker, a vehicle tracking solution based on the Internet of Things.

Rangpur chamber urges Nepal to establish road, rail connectivity

OUR CORRESPONDENT, Dinajpur

The Rangpur Chamber of Commerce and Industry on Wednesday urged the Nepalese government to upgrade the Banglabandha-Phulbari-Kakarvita route from two lanes to four lanes to boost trade between the two countries.

Mostoba Hossain Ripon, vice president of the chamber, made the call when a delegation of the Nepalese embassy led by Chop Lal Bhusal, Nepal's ambassador to Bangladesh, sat with the businessmen of Rangpur at the auditorium of the trade body.

"The route is the only way to improve trade between Bangladesh and Nepal. But, poor condition of the ports and lack of transshipment yards hinder smooth export and import," said Ripon. The traders in Rangpur also urged the Nepalese government to build rail connectivity between the two countries and setup a visa processing office in the district.

They also demanded for establishment of air connectivity from Saidpur airport to Nepal. Dhan Bahadur Oli, deputy chief of mission of the embassy, and Mostafa Azad Chowdhury Babu, former president of the chamber, also spoke at the meeting.

CPA starts constructing new container terminal

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Port officials say berthing would be faster since vessels would no longer need to cross a time-consuming bend on the Karnaphuli channel and reach the port.

Other facilities will include yards and road and rail links. Several establishments located at the proposed area would be shifted.

The CPA will bear the project cost of Tk 1,868 crore from its funds, supervise the civil works and purchase necessary equipment. The project has been taken under the Delegated Procurement of Public Procurement Rules 2008 for completion by 2019.

CPA Member (admin and planning) Md Zafar Alam said Bangladesh Army has been chosen specifically for fast completion of the project. Welcoming the initiative, port users urged for timely completion of the project since they are currently bearing the brunt of delays for vessel and container congestion from jetty and yard shortages.

Port Users Forum President Mahbubul Alam said the CPA should put emphasis on fast construction of the terminal for the sake of the economy. The construction of the New Mooring Container Terminal was completed in 2007 but it was not fully operational till 2015 due to delays in decisions for the appointment of an operator and purchase of equipment.

No jetty has been built since then although the volume of containers at the port has doubled. The CPA also has three mega projects -- Bay Terminal, Laldia Multi-Purpose Terminal and Karnaphuli Container Terminal (KCT).

KCT will come about through the reconstruction of six existing jetties and starting the project without alternatives will put tremendous pressure on container handling facilities, said Zafar. The construction of the other two terminals will be partially complete by 2021, he added.

BGMEA seeks one more year to knock down office building

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The building's foundation was laid in 1998 by the then Prime Minister Sheikh Hasina and it was opened in 2006 by the then premier Khaleda Zia. The High Court verdict had ordered the government to bulldoze the building within three months, saying it was built on land acquired through forgery and filled with earth illegally.

Later, the Appellate Division stayed the

HC verdict following a BGMEA petition.

A four-member Appellate Division bench headed by Chief Justice Surendra Kumar Sinha passed a short verdict on June 2 last year dismissing the BGMEA appeal and upholding the HC order.

The Supreme Court released the full text of the verdict on November 8 ordering the BGMEA to immediately demolish the building at its own cost.

Commercial spaces too expensive

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At present, the prices of commercial spaces in Gulshan Avenue are the highest. The rates are also high in Banani, Motijheel, Karwan Bazar and Dhanmondi, according to realtors. Besides, as commercial buildings are usually high rises, developers have to spend more for equipment and other materials, they added.

"The prices of commercial spaces are at least double that of residential spaces in Dhaka," said Alamgir Shamsul Alamin, president of the Real Estate & Housing Association of Bangladesh.

In some cases, it is thrice that of residential spaces, he said. At this price, it is tough for many existing business people to buy commercial space and do business, said Alamin, also the managing director of Shamsul Alamin Real Estate.

"Only established businesses are able to purchase commercial spaces by paying such high prices. Rentals are also high, which is not feasible for new entrepreneurs."

The prices of commercial spaces also go up because of auction held by RAJUK to sell plots, according to Alamin. "RAJUK should act like a services provider and not do business."

He said the government should frame policy to ensure that a certain percentage of the plots or spaces are kept for commercial purposes and their prices should not be 10-15 percent higher than of residential spaces.

Owing to the high land prices, the sales of commercial spaces have been slow, said Tanvirul Haque Probal, managing director of Building For Future.

This forces many developers to rent out commercial spaces as they have an obligation to repay bank loans, he said.

DCCI President Abul Kasem Khan said decentralisation of Dhaka would be helpful.

"If Purbachal develops, the pressure on main Dhaka will reduce. Decentralisation is the only way through which prices will be adjusted," he added.

BTRC revenue hits 6-year low

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The BTRC also collects annual charges from different service providers such as that for spectrum of mobile operators and downlink of television channels along with licence and late fees and fines.

Licence fee collections declined by about Tk 120 crore to Tk 156.51 crore in 2016-17, according to the regulator.

However, spectrum charges got a boost, increasing to Tk 901.20 crore from Tk 412 crore in the previous fiscal year.

The BTRC spent Tk 62.64 crore from the collections for administrative purposes and gave the rest to the exchequer.

Apart from the collections, the telecom regulator has a huge amount of outstanding dues which it is finding hard to collect as the debtors are either government-run or politically-backed, said an official at BTRC's finance division.

About Tk 1,100 crore is outstanding with different international gateway operators.

Though state-run mobile operator Teletalk is providing 3G services, it is yet to obtain a licence for having paid only Tk 60 crore of the Tk 1,627 crore licence and spec-

trum fee. Besides, it has a huge amount of 3G spectrum charges due.

Another state-owned telecom company, Bangladesh Telecommunications Company Limited, owes BTRC Tk 1,600 crore, added the official. Around Tk 100 crore is due from private landphone operators, most of which went out of service in the last couple of years.

In fiscal 2015-16, the BTRC's revenue slumped to Tk 4,207.94 crore although it had targeted to collect Tk 6,700 crore.

In 2014-15, the government had given it a target of Tk 13,660 crore keeping a spectrum auction target in mind. The BTRC managed to collect Tk 4,219.19 crore being unable to arrange the auction.

The highest amount of revenue the regulator ever collected was Tk 10,085.35 crore in 2013-14, thanks to a 3G spectrum auction and 2G licence renewal fees. Senior officials expect collections in 2017-18 to set another record as the government is going to award 4G licences and will arrange a spectrum auction within a few months.

More is to come from licences for mobile number portability and tower sharing, something the BTRC is currently working on.

Another 2 lakh tonnes of wheat from Russia on way

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SHIFTING OF POWER PLANT

The cabinet committee on purchase also approved a proposal to shift 95 megawatt gas-based power plant of Aggreko International Projects in Ashuganj to Bhola. Alongside, the tenure of the company has been extended by another four years.

In 2010 the company was given permission to set up the power plant on a build-own-operate basis for four years. Later, the

tenure was extended several times. Yesterday, the tenure was extended by another four years at a price of Tk 3.0628 per kWh against its previous rate of Tk 3.0628 kWh.

RETROACTIVE APPROVAL

Meanwhile, due to landslides in Rangamati in recent months, the roads and highways division spent Tk 14.45 crore for quick resumption of road communication. The division took the retroactive approval yesterday about the spending.

Interest rate on deposits rises for the first time in 2.5yrs

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Chowdhury said the lending rate might also go up. Excess liquidity in the banking sector fell 11 percent to Tk 111,910 crore in March from Tk 125,950 crore in

December last year.

Deposit growth slowed to 11 percent in June from 13.13 percent in December as banks were reluctant to take money from retail depositors.