

Decision-Making by Precedent and the Founding of American Honda (1948-1974) *

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Abstract

We review archival documents and conduct a novel oral history to document that Kihachiro Kawashima, President of American Honda from 1959 to 1965, made decisions according to precedent set by his boss and mentor, chief strategist of Honda, Takeo Fujisawa. We argue that decision-making by precedent represents neither ‘deliberate’ nor ‘emergent’ strategy because it is characterized by intentions of upper-management that are neither present nor absent but fictive. We propose and define an alternative, ‘subjunctive’ strategy.

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1 Introduction

American Honda was founded in 1959 as a wholly owned subsidiary of the Honda Motor Company to facilitate sales and distribution in the United States. The details of American Honda's early history have long served as evidence in debates among scholars and practitioners about the managerial determinants of the subsidiary's success. In particular, it is debated whether American Honda operated according to a deliberate or emergent strategy, i.e. whether or not strategic decisions made in the States conformed to the intentions of upper management.

This paper presents evidence that Kihachiro Kawashima, President of American Honda from 1959 to 1965, made important decisions according to precedent set by his boss and mentor, Honda's chief strategist, Takeo Fujisawa. It presents further evidence that these decisions may have contributed to the recovery of American Honda from its sales crisis during the late 1960s and its subsequent sales growth. Addressing ourselves to concepts in the strategy process literature, we argue that strategy realized by the appeal of subordinates to the historical precedent of their superiors defies categorization as either deliberate or emergent. We propose and define an alternative category, 'subjunctive strategy'.

In describing strategy process, early historians and management scholars evoked a top-down process in which choices are made according to the intentions of upper management (Andrews, 1987; Ansoff, 1979; Chandler, 1975; Hambrick and Mason, 1984). Such work followed an economic tradition in which firms are conceived as authority structures allowing managers to issue commands subsequently implemented by their subordinates (Coase, 1937; Williamson, 1967). Later work observed that, the authority of upper management notwithstanding, strategic decisions could be realized absent or even contrary to their intentions. These scholars argued that strategic choices were made according to the express intentions of subordinates, notions passed up the hierarchy in pursuit of approval or funding (Bower, 1970; Burgelman, 1983; Mintzberg, 1978; Mintzberg and Waters, 1985).

Mintzberg and Waters (1985) articulated this division in the literature by defining deliberate and emergent strategy. In their rendering, a deliberate strategy consists of choices that are 'realized as intended'; an emergent strategy consists of choices 'realized...in the absence of intention' (257). At times, Mintzberg and Waters characterize a strategy as deliberate relative to one party in the firm and emergent relative to another (265); in what follows, we fix upper management as the party whose intentions determine categorization. Fixing a focal agent ensures that at most one of the labels 'deliberate' and 'emergent' apply to any strategic choice, which makes the categories more powerful. Fixing upper management as this focal agent makes sense both because this tends to be Mintzberg and Waters' emphasis and because it captures the division in the strategy process literature already discussed.

This paper studies the early history of American Honda, a subsidiary of the Honda Motor Company established in 1959 to facilitate sales and distribution in the United States. Kihachiro Kawashima led the team that founded American Honda and made several important strategic decisions in its early years. Takeo Fujisawa was the co-founder and chief strategist of Honda Motors, as well as Kawashima's boss and former mentor. Because Fujisawa held a higher position in the firm hierarchy and because Kawashima reported to him, this paper considers Fujisawa an upper manager and Kawashima a middle manager.

Our tact is to consider various decision-making protocols that might have guided Kawashima when confronted with choices during his tenure as the head of American Honda. He may have followed instructions of Fujisawa, exploited short-run sales opportunities, or followed historical precedent set by Fujisawa in the face of similar choices in Japanese markets. This paper uses historical circumstance to audit his decision-making and presents evidence to suggest that the protocol employed was appeal to historical precedent.

This conclusion breaks from much of the previous literature as to the origins of the intentions that guide strategy. At whatever wrung of the corporate hierarchy intentions are conceived, whether these intentions are passed up or down the hierarchy for approval and implementation, scholarship emphasizes that these intentions originate in an agent's will or powers of reasoning. But we show that Kawashima made decisions by channeling his former mentor, Fujisawa. In his appeal to historical precedent and hypothesized intentions, he appears to abandon will and reasoning for his powers of empathy, his ability to see the world from Fujisawa's shoes. A thorough analysis of the origins of intentions guiding strategy requires distinction not only between agents within an organization but also the psychological capacities of that agent.

The literature on 'strategy as practice' provides a closer antecedent for our interpretation that Fujisawa honed management techniques in Japan and Kawashima repurposed and deployed them in America. These scholars emphasize that agents' apparent decision-making bespeaks a social and historical context in which they are inescapably embedded (Jarzabkowski, 2008; Whittington, 2006). That literature cites existing studies of early decision-making at American Honda as examples of such embeddedness (Chia and Holt, 2006; Tsoukas, 2010), of "how agents spontaneously...draw on the particular socio-cultural norms and material resources available to respond to...practical situations" (Tsoukas, 2010, 54). Although, given our analysis, we agree with this interpretation of Honda's history, we disagree that existing studies champion such an interpretation. In particular, they stress the opportunism of American Honda officials rather than an inheritance of management techniques. Our analysis better aligns the Honda case with the 'strategy as practice' agenda.

Finally, our analysis also poses a problem for Mintzberg and Waters' dichotomous characterization of strategy as either deliberate or emergent. It may seem straightforward to assume, as they

do, that managerial intentions are either present or absent. But in the case of Honda, Fujisawa did not know about various choices encountered in America and could form no intention regarding the choice itself. Kawashima made his decision, however, by observing precedent set by Fujisawa and posing a plausible and hypothetical intention on his behalf. That is to say, the management intentions at play in the case of Honda were neither present nor absent but fictive, a creative construction of both historical reality and imagination. Mintzberg and Waters' distinction between deliberate and emergent does not accommodate such a case.

To remedy the shortcomings of Mintzberg's helpful but incomplete scheme for categorizing strategy process, we return to a scheme introduced by Rivkin (2000) for defining strategy. Rivkin's scheme is comprised of a set of choices, $C = \{c_i\}_{i=1}^n$, each of which is a set of two alternatives $a_i \in c_i = \{0_i, 1_i\} \forall i$. For each choice, a unique alternative is selected. In this scheme, a strategy is the set of selections made by a firm over this set of choices, $S = \{s_i\}_{i=1}^n$.¹

Rivkin's scheme for defining and describing strategy may be elaborated to define and describe strategy process. To alternatives, choices, and selections we add labor, tasks and agents. Labor, which may be divided into components we call tasks, $L = \{t_j\}_{j=1}^m$, must be applied to a particular alternative for it to become a selection, $s_i = \{a_i, L\}$. An agent is any entity, though very often an employee, capable of completing some task for some alternative for some choice within the set defining its strategy, $A = \{g_k\}_{k=1}^\ell$. A firm's strategy process is then the de facto allocation of the labor required to realize a strategy to its various agents, $P: C \times L \rightarrow A$.²

A specification of this strategy process scheme may be used to redefine Mintzberg's terms 'deliberate strategy' and 'emergent strategy' and capture the division in the strategy process literature. Consider two types of agents, upper and middle managers, distinguished by their relative position in the corporate hierarchy, $A = \{u, m\}$. Also consider that for each choice, one agent may designate an alternative for selection and another execute the choice according to that designation, $L = \{d, e\}$. When designation of a choice falls to upper managers in the de facto allocation of labor, $P(c_i, d) = u$, the strategy process is deliberate on that choice. A deliberate strategy process is deliberate on every choice in the set that defines strategy, $P(c_i, d) = u \forall c_i \in C$. When designation of a particular choice falls to middle managers, $P(c_i, d) = m$, the strategy process is emergent on that choice. When designation always falls to middle managers, $P(c_i, d) = m \forall c_i \in C$, the strategy process is emergent.

Finally, an elaboration of this specification may be used to accommodate the early history of

¹Rivkin remains silent on what content qualifies a particular choice to be included in the set that defines a firm's strategy, and a rigorous exploration of the matter goes beyond the scope of this paper. We nevertheless believe that the choices of Kawashima considered in the paper are of sufficient importance to qualify under most reasonable definitions.

²To the extent that this allocation is a matter of choice, whether strategy process is a part of strategy or distinct from it is a matter of definition of terms; what sort of choices qualify for the set that defines strategy?

American Honda. Consider that any agent may have a mental model of another agent, an internal, incomplete, flawed, and malleable method of predicting the behavior of the other. Let the types of agents in our specification include not only the upper manager and middle managers but also their mental models of each other, $A = \{u, m, \hat{u}_m, \hat{m}_u\}$.³ In the case of Honda Motor, the task of designating alternatives for selection was sometimes allocated to Kawashima’s mental model of Fujisawa, $\exists c_i \in C \text{ s.t. } P(c_i, d) = \hat{u}_m$. In general, we might refer to a strategy process in which this is true for all choices as subjunctive to emphasize the guidance afforded by counterfactual conjecture. As we shall see, by his own admission, Kawashima made headway in the States by invoking the subjunctive mood, asking himself, “what would Fujisawa do?”.

The remainder of the paper proceeds as follows. In Section (2), we sketch the commentary and literature on the case of American Honda. The firm has long been at the heart of a debate over how strategic decisions are made. Some contend Honda’s strategy was deliberate, others that it was emergent, and still others, in recent years, that it was a hybrid. We contrast our position to those already articulated; decisions made by appeal to historical precedent defy classification as deliberate or emergent.

In Section (3), we overview the basic facts of American Honda’s history. We describe Honda Motor’s rise in Japanese markets (1948-1958), Kawashima’s tenure as the head of American Honda (1959-1965), and American Honda’s sales crisis and subsequent segment advance (1966-1974). In Section (4), we describe the important managerial choices that Kawashima made while founding American Honda. The primary purpose of this paper is to audit the decision-making protocols guiding the decisions described in this section.

Sections (5), (6), and (7) substantiate the claim that decisions at Honda were by appeal to historical precedent. Section (5) discusses historical evidence establishing that certain decision-making protocols, like the ‘following directives’ or ‘exploitation of short-run sales opportunity’, do not explain decision outcomes. Section (6) describes evidence that a different protocol, ‘appeal to historical precedent’, could explain these very decisions. Section (7) presents further evidence, some the product of original investigation, that ‘appeal to historical precedent’ does explain decision-making at American Honda.

Section (8) concludes by considering the consequences of Kawashima’s choices. Honda Motors began developing larger models of motorcycle after a sales crisis in 1966 and these larger motorcycles helped maintain their sales growth. To the extent that the sales crisis was prompted by tapering demand for smaller models, Kawashima’s choices hastened the crisis, more quickly informing management about changing preferences, and enabling a quicker response. In the case of Honda, decision-making by historical precedent appears to have furthered the firm’s success.

³The mental model is considered an agent because it is capable of designating an alternative for selection among the set comprising a choice.

2 Literature

The Honda Motor Company is an appropriate case study for a discussion of strategy process. The company has provided the historical evidence for considerable debate over whether strategy in real-world organizations conforms to the intentions of upper managers or emerges according to the intuition of subordinates. The case was originally of interest to industry actors, but later received attention in management journals and business school case studies. It has been cited in discussions of Japanese management ([Kato et al., 2013](#)), managerial improvisation ([Baker et al., 2003](#); [Miner and Robinson, 1994](#); [Moorman and Miner, 1998](#); [Vera and Crossan, 2005](#)), and the management of strategic opportunities ([Denrell et al., 2003](#); [Papadakis et al., 1998](#)). Pascale and Evelyn Christiansen created a case study of the Honda Motor Company for the Harvard Business School in the 1980s ([Christiansen and Pascale, 1983a,b, 2011](#)), which was revived with considerable conceptual clarity by ([Rivkin, 2006](#)).

The literature features roughly three positions on how best to categorize American Honda's decision-making process. The BCG report suggests, as do Prahalad and Hamel, that American Honda's strategy was deliberate – subordinate personnel made decisions according to the express intentions of upper management. In contrast, Pascale, Mintzberg, and Richardson argue that American Honda's strategy was emergent – decision outcomes were determined by happenstance and local circumstance rather than (or at times, as opposed to) the intentions of upper management. Subsequently, Rumelt, Mair, and Otahara have tempered these conclusions; their work suggests that Honda's strategy in America might be better described as both deliberate and emergent. Not all decisions are made in the same way and, indeed, different decisions may or may not be determined by managerial intentions.

In 1975, the British crown commissioned the Boston Consulting Group to explain the downfall of the British motorcycle industry. BCG reported evidence of a Japanese cost-advantage due to greater accumulated production during the 1960s but also suggested an explanation for how the organization had achieved this advantage. The consultants claimed to identify a Japanese 'marketing philosophy', or emphasis on sales volume originating in a 'set of objectives' ([Boston Consulting Group, 1975, 23](#)) and extending through the operations of the firm. As evidence, the report presents the testimony of a personnel director who mentions that prospective dealers are asked about their share of the local market before being signed. The personnel director's confusion at the extent of emphasis on sales volume suggests that he is merely obeying orders delivered by superiors ([Boston Consulting Group, 1975, 23](#)). Because upper management intentions translate so clearly into subordinate behaviors, BCG's characterization of Honda's decision-making is best considered deliberate.

Prahalad and Hamel revisited the case of American Honda during the late 1980s while writing

about business strategy in the Harvard Business Review. According to these authors, the success of contemporary Japanese firms, including Honda⁴, could be attributed to their ‘strategic intent’. These firms, “sustained an obsession...for global leadership” and maintained “an active management process...motivating people by communicating the value of the target...[and] providing new operational definitions as circumstances change” (Prahalad and Hamel, 1989). Note that managers must observe the choices and circumstances facing employees and – to a first degree – develop intentions regarding those choices in order to nominate guiding criteria for decision-making. For this reason, it is fair to say that ‘strategic intent’ has instructional and not just motivational content. The decision-making process they claim to observe in Honda, therefore, is deliberate.

Pascale was the first to suggest that American Honda’s strategy might be better described as emergent. Having studied patterns of Japanese management (Pascale and Athos, 1981), Pascale was surprised by the suggestion in the BCG report that Honda exhibited a steadfast and premeditated commitment to sales volume. He convened the founders of American Honda in 1984 to interview them about their experiences. These officials were quick to admit that they had few instructions from Fujisawa about how to operate in America when they arrived in Los Angeles (Pascale, 1984, 54). They noted that consumer interest prompted them to promote the Super Cub rather than upper management, who had expected larger models to sell well in America (Pascale, 1984, 54-5). Finally, the successful ‘Nicest People’ advertising campaign in 1963 was supported by American Honda’s then head of sales against the objections of more senior members of the organization (Pascale, 1984, 56). This evidence suggested that upper management contributed to Honda’s success in the States by permitting subordinates to take advantage of perceived opportunities, rather than enforcing intentions.

Pascale’s reinterpretation of Honda’s history proved influential in an academic debate over how decision-making should be governed in a business organization. In this debate, Mintzberg was a vocal critic of what he called the ‘planning school’ and a proponent of the ‘learning school’. The former approach prescribed the use of conceptual tools by upper management to make decisions and the subsequent use of organizational authority to ensure implementation by subordi-

⁴It should be noted that the authors provide no empirical historical evidence defending their claims that strategy process in Honda was guided by ‘strategic intent’. They write:

When Honda took on leaders in the motorcycle industry, for example, it began with products that were just outside the conventional definition of the leaders’ product-market domains. As a result, it could be a base of operations in underdefended territory and then use that base to launch an expanded attack. What many competitors failed to see was Honda’s strategic intent... ...[E]ven as Honda was selling 50cc motorcycles in the United States, it was already racing larger bikes in Europe – assembling the design skills and technology it would need for a systematic expansion across the entire spectrum of motor-related businesses. (Prahalad and Hamel, 1989)

Of course, observing that Honda eventually expanded into other classes of motorcycle is not sufficient to conclude that management had, a priori, an intention to do so. In fact, evidence presented by Pascale suggests no such assuredness of eventual success.

nates ([Mintzberg, 1990](#)). The ‘learning school’, by contrast, suggested that upper management allow subordinates to act on intuition, provide resources to implement their decisions, and facilitate organization-wide adoption of best practices. Mintzberg was fully persuaded that American Honda’s strategy was emergent:

Honda’s success, if we are to believe those who did it and not those who figured it, was built precisely on what they initially believed to be [a] ‘probable non-starter’ – namely, the small motorcycle. Had they a proper planning process in place...this non-starter would have been eliminated at the outset. [Mintzberg, 1991](#), 465

He uses Pascale’s evidence of upper management’s preference for larger motorcycles to suppose counterfactually that planning would have been harmful to the Honda organization. This permits him to ground criticism of the ‘planning school’ in an historical example.

Pascale’s emphasis on the limited importance of upper management intentions has endured. As recently as 2011, Adam Richardson wrote a short article for the Harvard Business Review detailing ‘Lessons from Honda’s Early Adaptive Strategy’. He begins with the premise that Honda’s success was the result of “staying flexible to an emerging understanding of...opportunities” ([Richardson, 2011](#)). He then revisits the most compelling examples offered by Pascale to demonstrate the opportunities that middle management observed and exploited and extracts colloquial messages from each for contemporary managers.

Despite the influence of Pascale’s analysis, recent work strives to reconcile his conclusions with the intentionality implied by the BCG report. When Richard Rumelt contributed to a 1996 retrospective on the Honda case, he observed limits to the evidence presented by both BCG and Pascale:

The unfortunate fact is that the data provided by BCG and by Prahalad and Hamel are not sufficient to prove intentionality (it appears to be implicit in the writers’ assumptions), and the data provided by Pascale are not sufficient to disprove the existence of a coherent logic covering the expansion of the motorcycle business from 1960 through 1980. ([Rumelt, 1996](#), 110)

The strategy of American Honda was comprised of many decisions. According to Rumelt, even though Pascale demonstrated that strategic choices were initially emergent, this could have changed over time.

Reviewing the literature on Honda in 1999, Mair also attempted to reconcile opposing views on how the Honda organization made strategic decisions. He concluded that it was unsatisfactory to suppose that Honda’s management made decisions based purely on design or on learning. He observes consensus in the literature, “...that in the Honda case it may not be appropriate to select

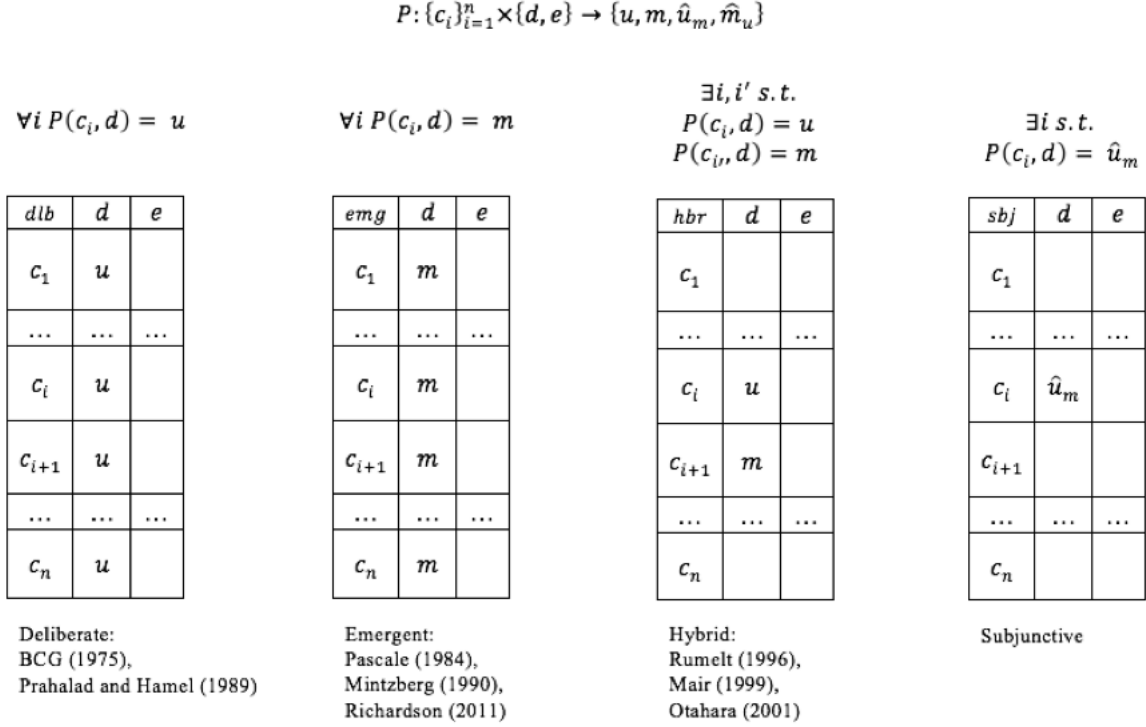
among contending opposites [i.e. characterizations of strategy formulation]” (Mair, 1999, 40). And for this reason, he opines that “[i]t may therefore be high time to investigate whether managers at Honda have already been working within and refining [an alternative decision-making] paradigm for many years” (Mair, 1999, 40). This is presented as a concluding remark, however, and he does not clarify how Honda breaks from the deliberate-emergent mold.

More recently, Otahara has described an instance in which upper management did premeditate a choice and enforce their intentions in a way that contributed to the success of American Honda. Honda opened a new factory facility with technology allowing for low-cost mass-production of the Super Cub in 1960 (Christiansen and Pascale, 1983b, 3). This decision had been made by Fujisawa and Otahara evidences his aspirations to use the factory to be competitive on an international scene: “‘Being in a situation like this is an opportunity that does not come knocking often. By adding the Suzuka plant at this point we are in the process of forming opportunities for growing into an international Honda.’” (as quoted in Otahara, 2001, 128). Even if American Honda officials made decisions without heed of upper management intentions, contemporaneous decisions affecting American Honda’s fortunes may well have been made deliberately, as this one was.

In this paper, following Pascale, we acknowledge that middle management did not receive input from upper management on how to go about making decisions – upper management intentions did not determine choice outcomes. We supplement the early history of American Honda’s distribution channels with an investigation of Honda’s distribution channels in Japan. This allows us to break from Pascale by asserting that precedent set by Fujisawa in Japan determined choice outcomes rather than happenstance or local circumstance. Though Fujisawa provided no instruction, his previous decisions provided a road-map that Kawashima turned to when making his own.

Our argument is thus similar in spirit to the more recent attempts at reconciling the emergent process suggested by Pascale’s work with the deliberate one suggested by BCG’s. Rumelt assigns emergent and deliberate strategy to different periods of history. Otahara’s work establishes that different contemporaneous decisions affecting American Honda might be alternately emergent and deliberate. In this history, by contrast, it is individual choices that transcend the dichotomy, resonate as simultaneously deliberate and emergent. Even when Fujisawa was uninformed about choices facing Kawashima and offered no input, Kawashima made decisions by following precedent. Therefore, though Honda’s strategy in America emerged as Kawashima made decisions without Fujisawa so much as formulating an intention, these choices were nonetheless determined by hypothetical intentions that could be plausibly attributed to Fujisawa.

Figure 1: Categorizing histories of American Honda



Our simple specification of the strategy process scheme roughly categorizes contributions to the management literature on the history of American Honda. Recall that a strategy process, P , is an allocation of designation, d , and execution, e , of each choice, c_i , to either an upper manager, u , middle manager, m , or their mental models of each other, \hat{u}_m and \hat{m}_u .

3 The founding of American Honda in context (1948-1974)

Between industry reports (Boston Consulting Group, 1975), management trade papers (Pascale, 1984), business school case studies (Christiansen and Pascale, 1983a,b, 2011; Rivkin, 2006), popular (Brown, 1998; Mito, 2013; Sakiya, 1987; Sanders, 1977; Sato, 2006; Shook, 1988) and academic histories (Alexander, 2009; Ota'hara, 2001), many basic facts of Honda's entrance into American markets are well-established. Below, we introduce the Honda Motor Company and present a stylized narrative of American Honda's early years. Much of the historical detail recounted is unoriginal because it is undisputed; the primary purpose of this paper is instead to challenge prevailing interpretations of how decision-making in the Honda organization took place.

Some of the historical detail departs from traditional narratives because of empirical work we conducted to clarify, corroborate, and supplement evidence in other sources. We identified

and interviewed⁵ Takayuki Kobayashi, the sole surviving member of the original team sent by Fujisawa to the United States in 1959 to found American Honda. We corresponded with the Honda Motor Company, who supplied us with recorded interviews of Kihachiro Kawashima from a 1998 company retrospective and oral history. We interviewed Musselman Honda and Dreyer Honda, two of the earliest Honda dealerships in the United States, to learn more about the company's cash-on-delivery policy. We consulted newspaper and magazine clippings, Honda's corporate reports from the 1960s, and data available through Harvard Business School case studies originally supplied by the Japanese Automobile Manufacturers Association (JAMA).

Soichiro Honda entered a young motorcycle industry in the mid-1940s after making technical advances in piston ring design and tinkering unsuccessfully with weaving machines (Alexander, 2009, 115). He produced motorized bicycles for two years before founding the Honda Motor Company in 1948. In its early days, Honda Motors not only assembled and sold motorcycles but sold engines to other manufacturers as components. Motorcycles, which presented an attractive, affordable means of transportation to Japanese consumers in the aftermath of the First World War, proved an attractive business. The five years following the founding of Honda Motors saw a 10-fold increase in the number of motorcycle manufacturers operating in Japan (Alexander, 2009, 101).

For all of Soichiro's inventiveness, he could be hot-headed and financially careless; he lacked business savvy in a market rapidly becoming more competitive. In Takeo Fujisawa, he found a level-headed business partner capable of reigning in his eccentricities and guiding his inventive muse (Sato, 2006, 68). When Honda threatened to refuse an award from the Emperor in recognition of his contributions to the manufacturing industry because of the requirement that he wear a suit to the ceremony, Fujisawa dug one up and convinced him to attend appropriately dressed (Sanders, 1977, 66). Likewise, it was Fujisawa who encouraged Honda to repurpose engine advances achieved in pursuit of excellence on the racing circuit to a more marketable motorcycle for the every-day user (Sakiya, 1987, 117). But beyond tempering Honda's erratic behavior, Fujisawa made independent, substantive, managerial contributions to the Honda Motor Company that are explored in this paper.

The Honda Motor Company was successful during the 1950s in Japanese domestic commercial markets. During that decade, it became one of four industry leaders and saw its market share rise: 9.9% in 1951, 15% in 1954, and 18.9% by 1957 (Otahara, 2001, 120, Pascale, 1984, 52). For Honda and Fujisawa, ambition and success were inseparable; by the late 1950s, they had their sights set on foreign markets. Fujisawa appointed sales representative Kihachiro Kawashima to

⁵Interviews and translations were conducted with the help of Harvard Business School Japan Research Center Executive Director Nobuo Sato and his assistant, Akiko Kanno. Transcripts of the interview with Kobayashi are available upon request. Notes of interviews with early Honda dealers are available. Transcripts of the Honda Motor Company's interviews with Kawashima are available pending consent from the Honda Motor Company.

head an exploratory committee on how best to expand internationally (Shook, 1988, 28). Together with his assistant Takayuki Kobayashi, Kawashima made a reconnaissance trip in 1958 to San Francisco, Los Angeles, Dallas, New York, and Columbus (Pascale, 1984, 54). After they reported to Japan, Fujisawa decided that Honda would expand first into the States and he appointed Kawashima to establish and run a wholly-owned subsidiary there, American Honda. Kawashima returned to Los Angeles in June of 1959, accompanied Kobayashi, yet again, as well as another assistant (Shook, 1988, 30).

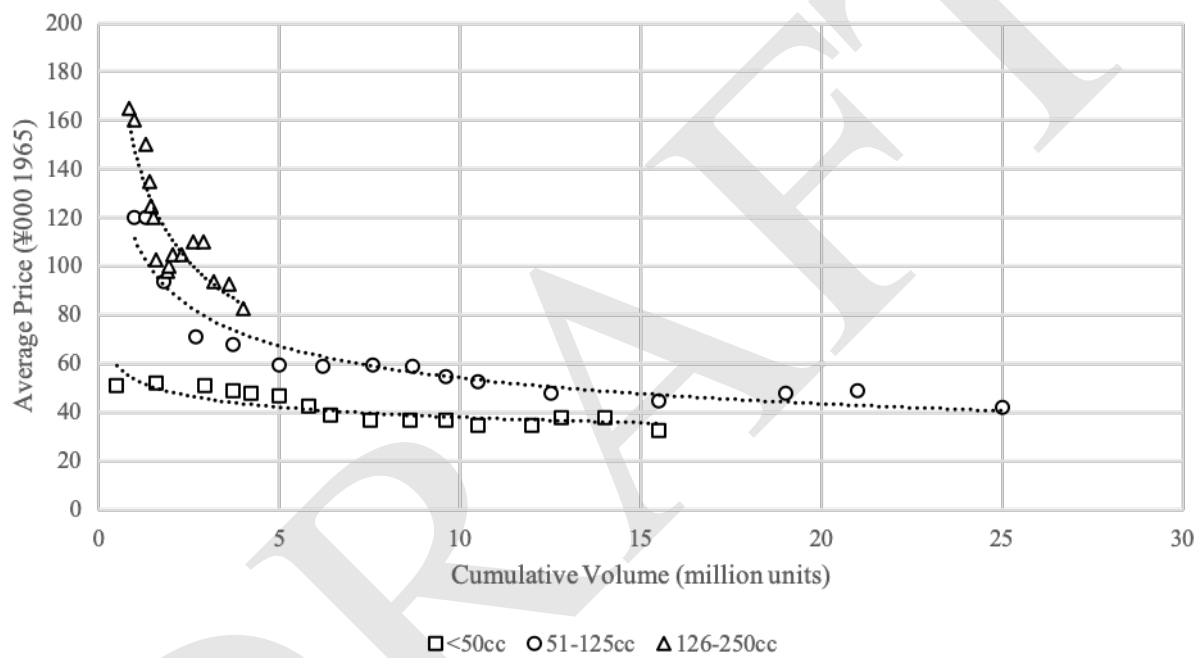
Business in America was initially slow and uncertain. The founders of American Honda arrived in Los Angeles with three hundred units divided between four classes of motorcycle – the 50cc⁶ Super Cub, the 125cc Benley, a 250cc Dream, and a 350cc Dream. By September, three months into their stay, Kawashima and his team had sold only eight units of the Dream. By the end of December, they had sold two hundred units and were doing business with fifteen dealers (Shook, 1988, 30). They had recruited some forty dealers by the spring of 1960, who were selling a total of one hundred units a month for them, primarily the larger models (Kobayashi, 2015, 3, Pascale, 1984, 55). But these larger bikes were not designed to withstand the wear and tear imposed by American drivers. Customers began reporting clutch failure and leaking oil and Kawashima was forced to recall the faulty models to have them tested and fixed. This left him with only the Super Cub, a model which home office superiors did not expect to sell well (Kawashima, 1998d, 1, Pascale, 1984, 55) and which traditional motorcycle dealers had expressed relatively little interest in to date (Kobayashi, 2015, 3).

In the face of uncertainty and setbacks, Honda established itself as a leading motorcycle manufacturer in the States by the mid-1960s and maintained this position well into the 1970s. Sales climbed: American Honda sold only 1,315 motorcycles in 1960, but sold 227,308 bikes in 1965 and 441,200 in 1970 (Christiansen and Pascale, 1983b, 9). Similarly, revenue from sales in America rose from about \$0.5 million in 1960 to \$77 million by 1965 (Buzzeil and Purkayastha, 1978, 7). In the following year, having spent only eight years in the United States, American Honda supplied 63% of the American market, predominantly in lightweight motorcycles (Pascale, 1984, 50). By 1974, another eight years later, it maintained control of 43% of the entire market (Boston Consulting Group, 1975, 17), and had increased its share of large bike segments – from 23% to 53% of 450cc-749cc bikes and from 0% to 67% of 750cc bikes (Boston Consulting Group, 1975, 24).

According to the Boston Consulting Group, Honda captured the American market by achieving experience economies in a process of segment advance. High production volumes allowed Honda to achieve low production costs and eventually sell their goods for less than their rivals – explaining their growing market share within segments. Segment advance refers to the repeated application of

⁶‘cc’ stands for cubic centimeters, and refers to the size of a motorcycles engine – the larger, the more powerful.

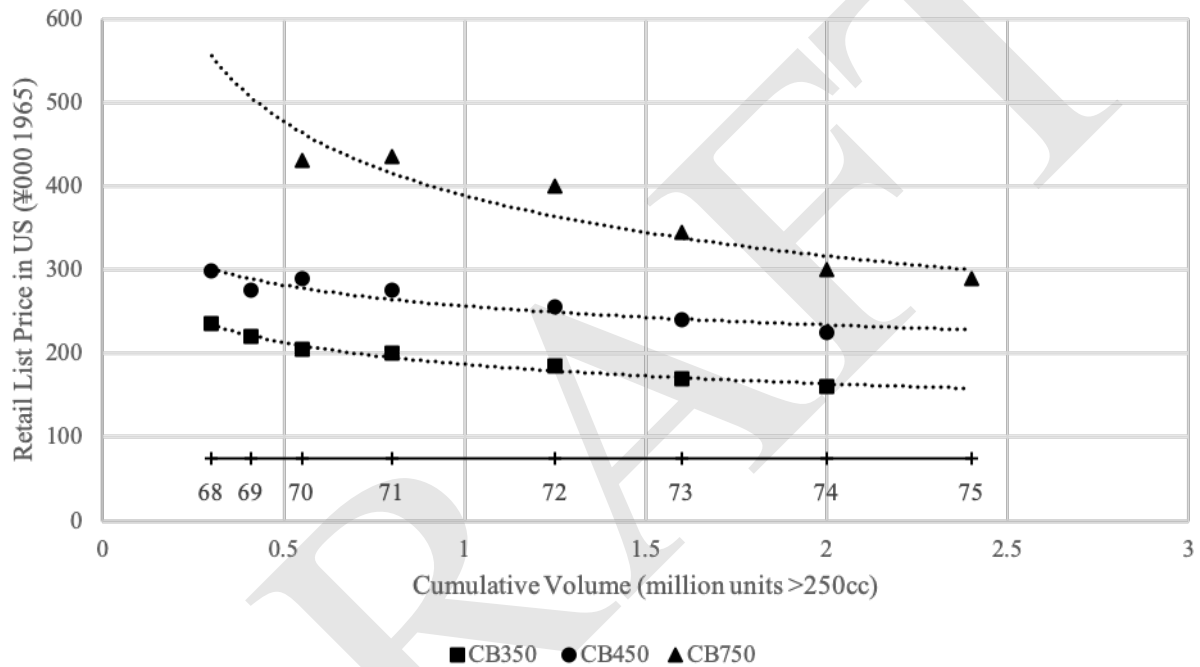
Figure 2: Japanese motorcycle industry: price experience curves (1959-1974)



As the volume of Japanese motorcycles sold in the United States accumulates year-to-year, the price at which each class of motorcycle is sold decays exponentially. Substantial volumes of smaller models are observable as early as 1959.

Source: Boston Consulting Group, Strategy Alternatives for the British Motorcycle Industry, 40.

Figure 3: Honda large bikes: price experience curves (1968-1975)



The price of Honda's larger models of motorcycles follows a trend of exponential decay when cumulative volume is interpreted as Honda's total output of motorcycles with an engine larger than 250cc. Notice – in contrast to figure 2 – that Honda begins to accumulate significant volume in large bicycles only by the late 60s and early 70s. Indeed, the CB450 was developed in 1965, but the CB350 was developed in 1968 and the CB750 first came to market in the States in 1970 (Brown, 1998: 29-33).

Source: Boston Consulting Group, Strategy Alternatives for the British Motorcycle Industry, 41.

this approach to larger classes of motorcycle, sequentially – explaining their growing market share between segments. BCG presents evidence that the average price of smaller Japanese models began to fall beginning in 1959 (see figure 2). (They interpret this as indicative of underlying drops in cost.) They then describe a similar phenomenon occurring in Honda’s larger models, which Honda introduced in the late 1960s (see figure 3).

4 Kawashima’s choices (1959-1965)

It is natural to wonder what exactly management was doing amidst the rise of American Honda from obscurity to renown. Kawashima personally made and oversaw several important decisions during his early tenure as the President of American Honda. Here, we review choices crucial to understanding American Honda’s history in the United States and integral to the remainder of the paper. He refused a department store who offered to sell the Super Cub, began selling the Super Cub through unconventional outlets like sporting goods stores and hunting stores, oversaw rebranding with the ‘Nicest People’ campaign, and stopped advancing goods to dealers prior to payment.

Around the time that Honda’s larger bikes began to fail, in the spring of 1960, a department store by the name of Montgomery Ward approached Honda’s sales team with an offer to sell 650 units of the Super Cub per year (Kawashima, 1998e, 22, Kobayashi, 2015, 4, Pascale, 1984, 56).⁷ Given that Honda was a young company, struggling to sell motorcycles, and possibly amidst a widespread recall of faulty models,⁸ the offer presented a significant sales opportunity. Kobayashi, by this point the head of sales, learned of the offer and brought it to the attention of Kawashima. In a decision made without consulting Fujisawa, Kawashima turned down the offer (Kobayashi, 2015, 4).

Kawashima began to push sales of the Super Cub despite having declined the offer of Montgomery Ward. Rather than work only through the standard motorcycle outlets, he encouraged members of his sales team to reach out to non-standard outlets. Honda motorcycles could be

⁷It is likely that American Honda declined not only Montgomery Ward but also an offer from Sears Roebuck. In his interview with Pascale, Kawashima claims that Sears approached them with an offer to sell their motorcycles. Kobayashi, in his interview with us, did not recall Sears approaching the subsidiary in its early years. In his interview with Honda Motor representatives on the occasion of American Honda’s 50th anniversary, Kawashima mentioned that both Sears and Montgomery Ward approached American Honda. In our assessment, Kobayashi’s doubts notwithstanding, this latter recollection convincingly demonstrates that American Honda was approached not once but twice by department stores. That is, Kawashima had not mistakenly referred to an offer from Montgomery Ward as an offer from Sears.

⁸Interviews with Kawashima and Kobayashi make it clear that the events were close in time but do not clarify whether recall of the larger models took place before or after Honda was approached by this prospective distributor. If after, Kawashima’s restraint in taking advantage of available opportunities is accentuated. Even if before, though, considering that traditional distribution outlets had turned down the Super Cub and assuming that the offer was to sell this very model, it is clear that Kawashima exercised a degree of restraint.

found at sporting goods stores, hardware stores, fishing goods stores, and lawn-mower repair shops (Borin, 1987, 76; Kawashima, 1998e, 14). They would leave some bikes for the manager of the store to play around with for a few weeks and then talk business afterward.

Motorcycles were not attractive objects in the American cultural mindset of the mid-20th century. The machines themselves often leaked oil, and they were widely considered the implements of delinquency. Marlon Brando, for instance, rode a motorcycle in 'The Wild One', in which he played the leader of a gang responsible for disturbing the quiet of a small, California town (Sanders, 1977, 97). In an effort to change the prevailing perception of motorcycles, Honda sponsored an ad-campaign with the tagline, 'You meet the nicest people on a Honda'. The advertisements themselves depicted ordinary folks – families and friends – going about day-to-day activities on Honda's models. Although the campaign proved wildly successful, the committee responsible for it was initially divided on the decision in 1963. The director of sales had to persuade the more senior president – Kawashima himself – and treasurer, both of whom favored a competing advertising proposal (Kawashima, 1998d, 27; Pascale, 1984, 56).

There were other important advertising decisions for Kawashima to make in the early years of American Honda. He made the \$80,000 decision to place a one-page ad in LIFE magazine in 11 states (Kawashima, 1998d, 18). Grey Advertising, the agency that had sold Honda 'the nicest people' campaign, requested that they sponsor the Academy Awards when it became clear that the campaign was resonating with consumers (Kawashima, 1998d, 27). The cost was upwards of 300,000 dollars a minute, which gave Kawashima pause. In hindsight, he recalled doubting very much whether he would have made the decision if it had been his own money, but he agreed to commit the funds and take on the mitigated, but significant, professional risk for his decision.

Kawashima also presided over American Honda when it began demanding payment from dealers before releasing motorcycles to them. American Honda may never have formally sold motorcycles on consignment (Kobayashi, 2015, 4-5), but in their earliest years they did willingly advance goods before payment (Borin, 1987, 73-74, Dreyer, 2016). While some sources suggest the decision came about more quickly (Dreyer, 2016), according to Kawashima, the demand for cash-on-delivery was made in 1964 (Honda Motor Co. Ltd., 1964, 6; Pascale, 1984, 56; Shook, 1988, 35). However early the decision was made, Kawashima – who departed for Japan only in 1965 (Kawashima, 1998a, 4) – was undoubtedly the head of American Honda and was stationed in America. Reports of the effects of the decision vary (Dreyer, 2016), but sources claim that Honda's dealers were upset by the decision and that, though none did, that several threatened to drop Honda (Pascale, 1984, 56; Shook, 1988, 35).

5 ‘Following directives’ and ‘Exploiting short-run sales opportunities’ (1959-1965)

What protocols did management in the United States use to make decisions when faced with choices? In the case of deliberate strategy, managers might follow a plan authorized by or directives issued by superiors. Without the express intentions of upper management to guide decision-making, managers may proceed by exploiting sales opportunities or somewhat at random. In this section, we consider some of Kawashima’s choices, introduced above in the outline of American Honda’s history. We present evidence that various hypotheses regarding American Honda decision-making protocols are not satisfactory. And we conclude by suggesting an alternative: Kawashima followed the example of his mentor, Fujisawa.

Pascale was the first to note that senior management did not equip American Honda officials with any explicit plan before sending them off to explore a new market. In his interview with Kawashima, the latter recalled conversations with Fujisawa after a reconnaissance trip to the States in 1958, indeed after the decision to enter American markets had been made, but before returning more permanently to Los Angeles in 1959.

In truth, we had no strategy other than the idea of seeing if we could sell something in the United States. It was a new 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 US 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. (as quoted in [Pascale, 1984](#), 54)

It seems Fujisawa was interested in neither Kawashima’s tentative goal (10 percent market share) nor any intermediary steps that might be necessary to achieve this goal. Instead, he explicitly indicates that his confidence in the project is due to his faith in the skill of his subordinate.

Pascale was right to conclude that management in the United States did not make decisions according to a plan of action – taking Kawashima at his word, no such plan existed. But Fujisawa may have been all talk in giving Kawashima his blessing; despite his express confidence, he might have issued directives intervening with the operations of American Honda. Takayuki Kobayashi, who had accompanied Kawashima on the reconnaissance trip to America as his assistant and returned to American Honda for its first two years as the head of sales, insists that this was not the case. According to his recollection, as a matter of practice, Fujisawa did not interfere with decision-making at American Honda:

Fujisawa was in Japan, but he trusted us to make our own decisions, as we were the

ones on-site and more familiar with details. Deciding on your own was Honda's corporate culture. Given that we had learned Honda philosophy, we did not need to consult with Fujisawa in making daily decisions. Every six months, Kawashima went back to Japan and met Fujisawa, so it could be that Kawashima reported and consulted Fujisawa on some issues. However, I do not recall any incident where there was any change in Kawashima's decisions or directions after he returned from his trip to Japan. (Kobayashi, 2015, 3)

During the early years, Fujisawa clearly maintained the confidence in Kawashima he had expressed before the latter departed for the states. He permitted his subordinate to make decisions autonomously and apparently without amendment. In particular, Kobayashi confirmed that Kawashima did not solicit the advice of Fujisawa when deciding not to work with department store Montgomery Ward (Kobayashi, 2015, 4). Kawashima himself confirms that Fujisawa acquiesced to the initial recommendation of a \$1 million budget, deferred to the unconventional decision to locate offices in LA rather than New York City (Kawashima, 1998d, 5), and supported the recall of faulty models in the face of dissent from other members of the Honda organization (Kawashima, 1998d, 11).

This evidence makes clear that it is unsatisfactory to interpret decisions of Kawashima as obedience to orders or explicit advice from superiors. Neither is it wholly satisfactory to suppose that he made choices to exploit available sales opportunities. Kobayashi describes how American Honda struggled to find distribution options for the Super Cub before being approached by Montgomery Ward. And though the offer paled in comparison to what Honda eventually sold, the potential of the product was unclear at the time of the offer. In this case, Kawashima opted to forego a significant sales opportunity. The decision to demand cash-on-delivery was made after American Honda was better established and it did not ultimately prompt dealers to defect. Still, Kawashima recalls dealers becoming frustrated by the decision (Pascale, 1984, 56; Shook, 1988, 35) and Honda's experiences in Japan (elaborated in the following section) corroborated the possibility of backlash. In the case of the latter decision, then, Kawashima was at least willing to risk losing dealers and corresponding sales by refusing to advance goods.

Beyond the realized and anticipated effects of decisions, interviews provide some insight into the underlying rationale motivating the response to Montgomery Ward.⁹ Kawashima describes the decision as "persisting in our refusal to sell through an intermediary". Though unspecified, Kawashima is likely referring not to any intermediary between manufacturer and customer (Honda sold through many neighborhood dealerships, after all) but specifically to the large intermediaries between manufacturer and dealership. Kobayashi corroborates this point, recalling "...we did not

⁹No such self-reflection or assessment of rationale regarding the demand for cash-on-delivery is available in interviews with these actors.

want to rely on a big distributor. We wanted to be close to customers. Large distributors...would not act to meet manufacturer's needs." (Kobayashi, 2015, 4) As they recall their thought process, both focus on the position of the distributor in the supply chain. And though Kawashima and Kobayashi both mention that the offers were exclusive (suggesting sales exploitation considerations), Kawashima makes clear that "...as they would offer to sell a significant number of bikes, it did appear to be attractive in that sense" (Kawashima, 1998e, 23). The rationale provided by both Kawashima and Kobayashi for declining the offer of Montgomery Ward corroborates the notion that, in this instance, they did not act to uncritically exploit a business opportunity.

In practice, America Honda officials were authorized to make decisions on the basis of their own judgment but did not always act to exploit available sales opportunities. As a remedy to the shortcomings of hypothesized decision-making protocols, we propose another: Kawashima, who had joined Honda in 1951, made decisions by appealing to the example of his boss and former mentor, Fujisawa, whose management techniques he observed while coming up the ranks in Japan. Appeal to precedent is, after all, a possible decision-making protocol; if available alternatives closely approximate those of a choice made previously by another agent, then that agent's selection can serve as a guide for one's own.

6 Fujisawa's precedent (1949-1958)

Though appeal to historical precedent is a possible decision-making protocol, there is no reason a priori to believe that it was the one employed by Kawashima in the United States. Accounts of American Honda's management do not provide the historical context necessary to establish precedent. To elaborate decisions made by Fujisawa in Japan that could have served as precedent for Fujisawa, we draw on well-documented facts of Honda's history and our own original research. We focus on the avoidance of large intermediaries and demand for cash-on-delivery because the discussion above renders them most in need of an alternative explanation. Specifically, he let go of early Honda client Kioritz, he bypassed traditional motorcycle dealers, and he later made repeated attempts to demand advance payment from this new sales network. Notably, historical evidence shows that Fujisawa pursued this agenda despite the short-term damage it did to Honda's sales network. We discuss the context of the Japanese motorcycle market and Honda's relationship with distributor Kitagawa to argue instead that Fujisawa's motivation was to secure reliable payment.

When Honda was still in the business of manufacturing engines to supply as components, much of its business came from Kioritz Agricultural Machinery, who used the engines to make generators. Kioritz was a large company – it was listed in the first section of the stock exchange – and it was generally well regarded. Though business with Kioritz was profitable for Honda, Fujisawa decided to terminate the relationship. According to Kawashima,

His basic idea was that Honda had to follow Kioritz's production plan. If they changed their production plan, then Honda would have to give in to their plan and change our production plan. As in the case of the sales network, we did not want others to have the initiative. His idea was that we should stop doing business if Honda cannot take the initiative. That must have been a big decision to make. (Kawashima, 1998b, 13)

Fujisawa's primary concern is that Kioritz has a greater degree of flexibility than other distributors in adjusting the number of engines it orders from Honda. Kioritz's interests in rival accounts certainly makes them less dependent on successful resale of these engines.

Fujisawa was similarly wary of the traditional motorcycle dealers in the Japanese market. There were only about three to four hundred (Sakiya, 1987, 84; Honda Motor Company, 2016a) such dealers in the early 1950s and were in high demand from the many motorcycle manufacturers of the day. Honda had sold its "D-type" and "A-type" motorcycles through these outlets, but Fujisawa felt that Honda's designs had been treated dismissively, put wherever there happened to be room on the sales floor (Kawashima, 1998b, 8). In March 1952, Soichiro Honda completed the prototype of the 50cc "Cub Type F". This was the first realization of an appealing combination of power and size, which, when realized with significant technological advances in the Super Cub, would launch Honda onto the world stage. Because the engine was powerful but small enough to be clipped to a bicycle frame, (Alexander, 2009, 121; Sakiya, 1987, 83). Fujisawa realized he could bypass traditional dealers and appeal to Japan's smaller but more numerous bicycle shops instead (Sakiya, 1987, 84).¹⁰¹¹

As the Cub became a popular motorcycle, Fujisawa demanded that bicycle shop owners pay him in advance. Though some contend cash-on-delivery was the outcome of working through bicycle shops, a dealer working for Honda at the time made clear that advance payments were not required until 6-12 months after the Cub went on sale and after orders for the Cub increased. He continues:

Dealers in various parts of the country were now to be required to give advance pay-

¹⁰Because Fujisawa stopped selling through the traditional, large motorcycle distributors, this decision serves as precedent for Kawashima's later refusal of the Montgomery Ward offer. In the same historical moment, however, Fujisawa opted in favor of reaching out to non-traditional retail spaces. Although not the analytical focus of this section, the latter decision could well have served as precedent for Kawashima when reaching out to sporting goods and fishing stores. For that matter, there is evidence to suggest that Fujisawa's management style guided Kawashima when he made decisions to advertise through Time and the Academy Awards (Kawashima, 1998e, 11). Though historical precedent could have served as a decision-making guide in these case, the fact that behavior exploits sales opportunities means that we cannot rule out autonomous opportunism as a decision-making protocol.

¹¹While considering the variety of decisions guided by historical precedent, it is worth noting that American Honda and its dealers faced a number of antitrust suits during the 1960s, in which they were said to have colluded on resale prices. Our research uncovered no information linking Kawashima to this practice, but Fujisawa did successfully introduce a single nationwide price for a model of motorcycle in 1957 in Japan, where it was legal (Kawashima, 1998c, 6). If there were evidence to suggest that Kawashima himself played a role in collusion with dealers, this essay suggests a reinterpretation of events: the posture may have been naively imitative rather than willfully anticompetitive.

ments to secure products for their dealerships, and so I had to pay them myself. This news hit me like a bolt from the blue, and I wasn't pleased. This was my incentive to begin producing my own motorcycle. (as quoted in [Alexander, 2009](#), 186-87)

Thus, not only was the decision to demand advance payment distinct from the decision to appeal to bicycle shop owners, but the latter also appears to have upset Honda's dealer network and hurt short-term sales.

Even after the introduction of the Cub, Fujisawa continued to push Honda to demand cash-on-delivery. He used Honda's growing sales force to be closer in its scrutiny of clients and more persistent in its demand for advance payment ([Sakiya, 1987](#), 73). He also demanded cash-on-delivery for the Benly, a high-performance motorcycle that went on sale in August 1953, and the Juno, a scooter that went on sale in January 1954 ([Sakiya, 1987](#), 86). This demand, however, continued to give dealers pause; after the Juno proved to be a failed product, Fujisawa opted not to demand cash-on-delivery when selling the Super Cub in Japan ([Kawashima, 1998b](#), 14).

The investigation of Honda's history in Japan helps to explain Kawashima's decision-making protocol. That is, when faced with options (to advance goods or not to advance goods, to accept or decline Montgomery Ward's offer), what steps did he follow in making a selection? Honda's history in Japan suggests that he at least could have made these decisions according to selections made by Fujisawa in similar contexts. Fujisawa repeatedly demonstrated a preference for smaller distributors and for demanding cash-on-delivery. Moreover, Fujisawa's willingness to sacrifice and incur backlash for his choices could have buoyed Kawashima in following his example under similarly adversarial circumstances.

Fujisawa's preferences for smaller distributors and advance payment clearly did not stem from a desire to maximize sales in the short run. Instead, there is evidence that they stemmed from a desire for reliable sales and payment, which were hard to come by in Japan's chaotic young motorcycle industry of the late 1940s and early 1950s. Securing a reliable source of components (transmissions, engines, frames, seats, wheels and wire harnesses) could be a challenge for firms ([Alexander, 2009](#), 92-96), but it could be equally challenging to secure reliable distribution channels. Suzuki Koji, president of Meguro Manufacturing of Tokyo, described how manufacturers sold their output:

Dealers came to stay in local inns near the factory, scrambling for the products. 'No trial runs yet,' or 'The trial run was good ...' they shouted, and took the products home....At one time, there were sixty makers and over a hundred products involved in the melee [in the Kanto region alone]. (as quoted in [Alexander, 2009](#), 191)

The process of selling completed motorcycles for distribution was disorganized and relied heavily on dealers chasing hot models.

In a marketplace of such fleeting relationships, manufacturers struggled to get paid for their goods, even when dealers agreed to market them. In Honda's early years, it was common for manufacturers to sell to dealers on a consignment basis (Kawashima, 1998b, 5). When manufacturers demanded cash deposits, they were often in small amounts. Dealers were known to pay with checks that bounced. And when bank drafts became available, dealers went so far as to forge counterfeit drafts in the amount of the required deposit, leaving the manufacturer empty handed. This could cost manufacturers millions of yen and contributed to the demise of some manufacturers like Monarch motors (Alexander, 2009, 182).

After Fujisawa joined the Honda Motor Company in October 1949 (Alexander, 2009, 118), he encountered precisely the difficulty of obtaining payment from dealers. At the time, Honda produced one engine that was 98cc and another that was 50cc. The latter could be fit onto a bicycle frame by Honda, but the former required a sturdier frame than the company was able to produce. Rather than assemble a bike in-house, Honda sold the engine to a distributor who bought a suitable frame from a rival company, Kitagawa. The distributor assembled the motorcycle and then sold it downstream (Sakiya, 1987, 68). Though Honda delivered 100 engines per month to the distributor, Kitagawa had scaled back production and begun delivering only 50-80 of the corresponding frames. Kitagawa received payments un-problematically but Fujisawa had a difficult time getting the distributor to pay for all the engines Honda had provided (Sakiya, 1987, 68).

Some important determinants of sales and payment reliability are revealed by the Kitagawa example that seem to inform Fujisawa's later decision-making. First, the distributor's interest in a rival account appears to have led them to change their production schedule. This is precisely the phenomenon of which Kawashima is wary when considering Kioritz and his frustrations with the large distributors stem from their rival interests in other motorcycle manufacturers. Secondly, when goods are advanced to distributors, remuneration need not follow the terms of agreement and may instead be determined at the discretion of the distributor. This is of course remedied by demanding payment up front.

Indeed, soon after Kitagawa altered its production schedule, Honda began manufacturing the "Dream Type D", a model of motorcycle with a frame suited to their larger 98cc engines (Sakiya, 1987, 67-68).¹² No longer dependent on Kitagawa to sell their engines, Fujisawa forced distributors to choose: they could purchase either engines to pair with Kitagawa's frames or the Dream but not both (Sakiya, 1987, 68). The Kitagawa design was popular and distributors did not want to choose; many dropped Honda in retaliation, forcing Honda to rebuild part of its sales network (Sakiya, 1987, 72). But forcing the issue helped eliminate Kitagawa as a rival loyalty or interest of

¹²Fujisawa was not responsible for the decision to integrate horizontally; he had arrived at Honda after the prototype for the frame had been built and just before production began. Therefore, he cannot be credited with equipping Honda with control of the supply of frames complementing Honda's 98cc engine. His decision regarding the conditions under which Honda would sell their self-assembled motorcycles is significant notwithstanding.

the distributors who chose the Dream. This decision was thus similar in spirit to the later pursuit of small distributors.

7 ‘Appeal to precedent’ (1951 – 1965)

While it is clear that a precedent was available for Kawashima, it remains to be seen that he was aware of this precedent and invoked it when making decisions in the American context. We supplement the extant literature on the history of Honda with our own findings to substantiate both claims. Kawashima worked directly under Fujisawa for many years, showed similarities in judgment to Fujisawa immediately prior to being sent abroad to found American Honda, and had intimate exposure to Fujisawa’s decision-making process. His awareness of Fujisawa’s decision-making habits leave us inclined to take him at his word when he attests that his decision-making protocol consisted of posing the question, ‘what would Fujisawa do?’

Kawashima agreed to work for the Honda organization in 1951 after being impressed by Fujisawa’s global aspirations. He worked under Fujisawa with other members of the sales team to develop and maintain distribution channels ([Honda Motor Company, 2016a](#)). In the late 1958, as the Honda organization considered international expansion, he was appointed head of a Special Planning Division responsible for considering which foreign markets to enter and how ([Shook, 1988, 29](#)). Upon deciding to establish a wholly owned subsidiary in the United States, he was appointed by Fujisawa to head that subsidiary ([Honda Motor Company, 2016b](#); [Shook, 1988, 28](#)), in a decision sometimes attributed to the extent of his experience working under Fujisawa ([Shook, 1988, 28](#)).

Indeed, by the time of his promotion, Kawashima was an active participant in the decision-making process and his judgment was fairly consonant with Fujisawa’s, though the latter retained some formal decision-making authority.¹³ Kawashima recalls being excited about the trip he took to America in 1958 after seeing a report by the Japanese Machine Federation outlining opportunities for Japanese manufacturers to compete successfully in the American motorcycle market:

This [report] was the beginning of it all. When I read it I thought it was great....In my mind I was fully persuaded [by the report] that America would be the best place to export motorcycles to, but I couldn’t be satisfied just with these materials, I wanted to

¹³Several informal histories of the Honda Motor Company emphasize the boss-subordinate dynamic in the relationship between Fujisawa and Kawashima at the time of the decision to enter foreign markets. In these histories, Kawashima travels to foreign markets at Fujisawa’s bidding rather than on the basis of his own judgment ([Honda Motor Company, 2016b](#); [Sakiya, 1987, 120](#)) and his suggestion that Honda enter Southeast Asia is overruled ([Sakiya, 1987, 121](#); [Shook, 1988, 28](#)). Though these details are accurate, when considered alone, they suggest he was an instrumental rather than collaborative force in the decision-making process. The evidence presented here remedies this shortcoming in the literature.

go there and see for myself. (as quoted in [Otahara, 2001](#), 121)

Though he ultimately suggested Honda enter markets in Southeast Asia first, Kawashima would certainly have understood the prospects of the American market that motivated Fujisawa to overrule his proposal.

Beyond recognizing the advantages of the American market, Kawashima favored Honda's chosen mode-of-entry. Rather than entering the US with a wholly owned subsidiary, Honda had the opportunity to work through Japanese trading companies – and ultimately opted to do so in some other foreign countries ([Kawashima, 1998b](#), 10-11). Kawashima notes, however that “the idea of not using [Japanese] trading companies did not come from Fujisawa. Based on what we had learned from Fujisawa, we made our own judgment that we should not rely on trading companies” ([Kawashima, 1998b](#), 10) .¹⁴ In particular, he recalls being told the advantage of working through a general trading company was that “If [your motorcycles] are handled by a general trading company, at times when sales are slack the company can assign the employees in charge of sales to other duties, and running costs will be minimal” (as quoted in [Otahara, 2001](#), 122). He balked at this purported advantage because he felt it showed “an attitude of selling motorcycles in spare time” (as quoted in [Otahara, 2001](#), 122). This response is noteworthy for its distrust of rival accounts that might temper a distributor's commitment to Honda – a distrust held in common with Fujisawa himself.

The similarities between Kawashima's judgment and that of his boss were no coincidence. Kawashima had significant exposure to Fujisawa's decision-making process and described what it was like working for him in the early years:

He would carefully think about the possible challenges for two or three days before presenting the plan to us. Then he would see how we respond to his proposal, and if he thinks that we are not so responsive, then he would take it back and rethink the strategy....[I]t was a bit different from a consultation. I think what he was doing was that he would present his idea, and after he saw our responses, he would organize and refine the issue before making decisions. So it was not like, ‘what do you think of this issue,’ but rather something like, ‘I am thinking of doing something like this...’.
([Kawashima, 1998a](#), 8)

At this stage in their development, Fujisawa did not authorize subordinates to influence decision-making outcomes. But he did create opportunities for them to observe him as he wrestled with

¹⁴The strength of Kawashima's statement here is important. At other times in the interview, he refers to how Kawashima “told me not to use trading companies” ([Kawashima, 1998e](#), 23). Given Kawashima's confidence here, it is reasonable to conclude that Fujisawa may have talked generally about the pitfalls of trading companies and warned Kawashima against using them but not provided instructions to do so in a particular instance.

a choice and encouraged them to exercise their judgment on his behalf nonetheless. Kawashima would therefore have witness of the appropriate decision in a given context.

The effect of this mentorship was profound. Kawashima willingly embraced Fujisawa's pedagogical influence even after authorized to exercise his judgment autonomously. He consciously appealed to Fujisawa's example:

[W]henever I was about to do something, I would first think about what Fujisawa would do if he were in my place. My life in the subsequent years was all about, 'what would Fujisawa decide to do?' (Kawashima, 1998a, 8)

8 Sales crisis and segment advance (1966-1974)

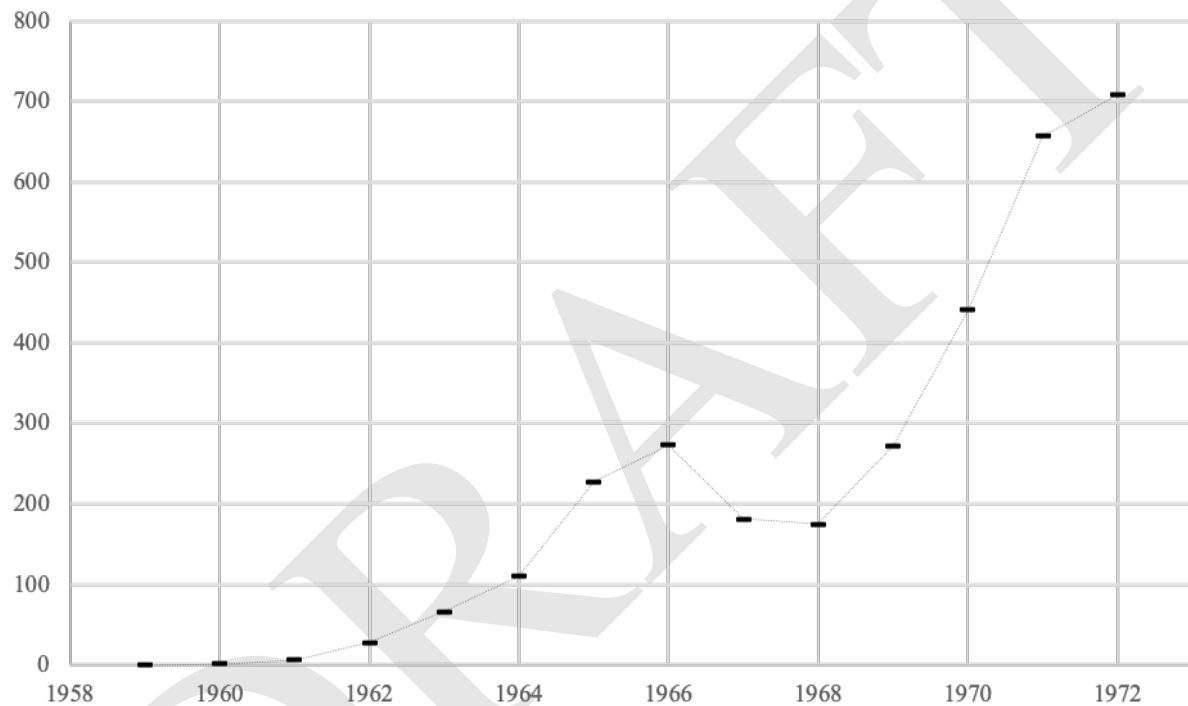
American Honda faced an inventory crisis from 1966-1968, after Kawashima had returned to Japan. Officials contacted Fujisawa, who launched a coordinated effort to mitigate losses on unsold inventory and initiated the design of new motorcycle models that would better serve consumer demand. There is no evidence to suggest that Kawashima made management decisions in anticipation of this distribution crisis. But his decisions – to the extent that they resembled those of Fujisawa's in effect – arguably provided Fujisawa with more rapid and accurate information about changing consumer tastes. In short, decision-making by historical precedent contributed to the process of segment advance observed by the BCG as the basis of Honda's continued success.

Honda sales began to falter by the spring of 1966, when it became clear that the firm would not sell as many motorcycles in America as it had anticipated. The previous year, the firm maintained an average of 20,000 units a month; they now expected to sell 8,000 units in September and only 2,000 by the coming November (Sakiya, 1987, 139). Eventually, sales of all models, including the blockbuster Honda 50, began to fall (Kawashima, 1998e, 19; Sakiya, 1987, 139). American Honda motorcycle sales fell in both 1967 and 1968 and before beginning to recover (see figure 4).

Honda's sales problem precipitated an inventory problem. The inflow of units from Japan exceeded the outflow to dealers it became expensive for American Honda to maintain their inventory. Honda officials in Japan reduced their export target from 450,000 to 360,000 during the 1966 fiscal year (Barmash, 1966) to "cope with changes in the demand situation [in America]" (Honda Motor Co. Ltd., 1966). By the end of the 1967 fiscal year, Honda reported that they had adjusted export shipments to decrease inventory levels being maintained in foreign markets (Honda Motor Co. Ltd., 1967). By the end of the 1968 fiscal year, the company reported that exports to the United States were recovering (Honda Motor Co. Ltd., 1968). But American Honda still had \$80 million tied up in 500,000 units (Sanders, 1977, 87).¹⁶

¹⁶For comparable figures, see also (Mito, 2013, 38))

Figure 4: American Honda Motorcycle Sales (1960-1972)



The sales of Honda motorcycles in the United States grew rapidly during the early 60s and during the late 60s and early 70s. However, Honda faced a considerable downturn in sales during the years 1967 and 1968.

Source: Christiansen and Pascale, "Honda (B)", 9.¹⁵

When the sales and inventory crises began in 1966, Kawashima was no longer present in Los Angeles to manage day-to-day operations; he had been promoted in 1965 to become one of Honda's managing directors ([Honda Motor Co. Ltd., 1964, 1965, 1966, 1967, 1968](#)). He acted only as American Honda Vice President ([Kawashima, 1998e, 18](#)), lived in Japan and only made occasional trips to check up on the subsidiary ([Kawashima, 1998a, 4](#)). For this reason, it was Fujisawa who was most immediately responsible for rescuing American Honda from the sales and inventory crisis it faced in the late 1960s. Kawashima had received word of rising inventory levels and contacted Fujisawa, who cut short a vacation to the Wagner music festival in Germany and flew to the States ([Kawashima, 1998e, 19](#); [Sanders, 1977, 87](#)).

The distribution channels as designed by Kawashima played a role in alerting Fujisawa to changing consumer tastes. When dealers can break contractual or verbal agreements without repercussion and are advanced goods before payment, they may err on the side of ordering units in excess of expected demand, knowing they need not repay debts in their entirety if strapped for cash. Under such an arrangement, inventory overseen by the manufacturer would propagate less quickly in response to falling demand. In the case of Honda motor, a delayed inventory crisis might have delayed managers at American Honda in contacting Fujisawa. Conversely, to the extent that large dealers with rival accounts (like department stores) face less cost than independent dealers in changing production schedules, they may be more likely to do so for reasons other than changes in consumer demand. Accumulating inventory is therefore a more robust indicator of changing consumer tastes rather than disloyal distributors in the latter case. The decision to avoid large distributors and to demand cash-on-delivery, then, may well have improved information about demand available from observation of manufacturer inventory levels.

Once alerted, Fujisawa suggested improvements to the response plan proposed by ranking officials at American Honda. They intended to heavily discount prices to facilitate sales and reduce the expenses they bore to maintain inventory. But big discounts would sacrifice considerable revenue and would risk violating anti-dumping laws in the United States, so Fujisawa convinced officials to hold off. By extending Honda's credit line with the Mitsubishi bank and by slowing factory output in Japan, he gave them more time to sell off the inventory. With more time, discounts could be mitigated to improve the revenue taken on the existing models and, when the models became outdated at years end, discounts were legally less risky ([Sakiya, 1987, 140](#); [Sanders, 1977, 87](#)).

Fujisawa noticed something else that American Honda's management had not - the plan to discount prices would solve the inventory crisis, but that the inventory problem was just a symptom. As he explained before leaving:

This drop in sales owes to my inability to supply you with new models which were neglected because of Tokyo's self-conceit. Price cutting won't work because the real problem is unattractive current models. Don't worry about the inventory – somehow

I'll manage to finance it on my return to Tokyo – but keep on trying to sell until we can get new models to you. (as quoted in [Sanders, 1977](#), 87)

Fujisawa explicitly observed a demand problem that would not be resolved by addressing growing inventory. As promised, upon returning to Tokyo, Fujisawa put pressure on engineers in Honda's R&D department to develop new models ([Honda Motor Company, 2016b](#)). In the years after 1968, Honda released a second motorcycle model in the 450cc-749cc class, its first motorcycle in the 750cc class and its first in the >750cc class ([Boston Consulting Group, 1975](#), 24).

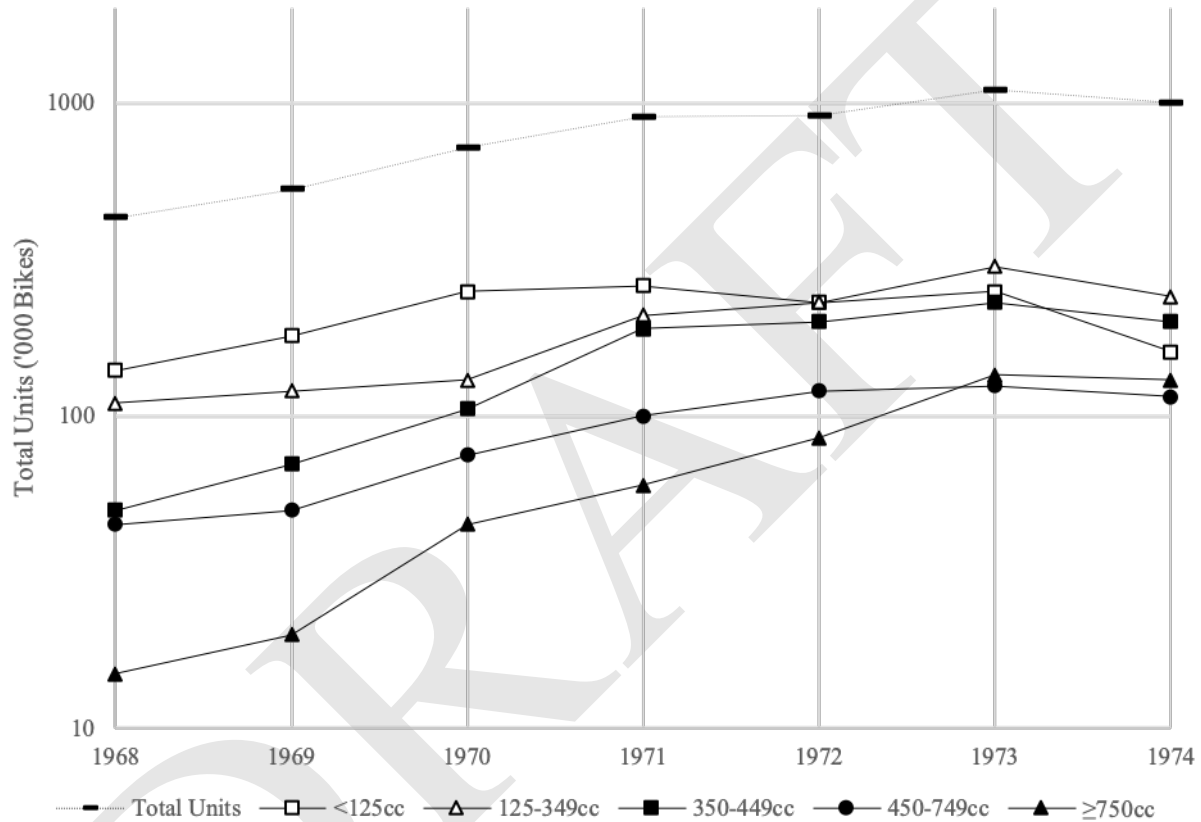
Though Fujisawa was undoubtedly right about the problem of underlying demand, there was speculation that consumer durables were all suffering as a result of macroeconomic fluctuation and the war in Vietnam ([Barmash, 1966](#); [Thomas, 1967](#)). Were this the exclusive reason for falling demand, it would not have made sense for Fujisawa to expend resources developing new models of motorcycle. As it happened, though, Fujisawa was correct that consumers' tastes were beginning to change. Following the years of the sales crisis, the American motorcycle market grew more quickly in segments featuring larger motorcycles. By contrast, sales of bikes under 125cc – the class to which the popular Super Cub belonged – tapered and eventually fell (see figure 5).

Honda's continued success in the United States therefore depended on the development and sale of more traditionally-styled motorcycles. Indeed, in its 1968 corporate report, the firm notes that, “[m]otorcycle exports to the United States, where inventory adjustments have been completed, recovered nicely with shipments of larger models rising especially fast” ([Honda Motor Co. Ltd., 1968](#)). They do not elaborate which models specifically, but it is clear that the Supercub was no longer buoying sales alone. Corroborating this point, between the years of 1968 and 1974, Honda's share of the 450cc-749cc segment of the market increased from 23% to 53% and its share of the 750cc segment reached as high as 67% ([Boston Consulting Group, 1975](#), 24).

Honda's success in the 750cc segment came after releasing the CB750 in 1969, the first model of motorcycle available with a mass-produced, four-cylinder, 750cc engine. It was accordingly inexpensive, smooth to ride, and powerful ([Brown, 1998](#), 46-49). A review in Cycle World addressed itself to Honda's new consumer base:

Tired of people not noticing? In past years, motorcycling marked you as a man apart. But now everyone rides a motorcycle, and things don't seem the same any more. The only thing that could relight your fire is the very best road bike in the world. Owning a bike like this, you could thumb your nose at the Honda Motor Company, which is most responsible for seeing that hordes of nouveau riders crowd you on your private road. But if you had the finest of all production machines, this two-wheeled answer to Ferrari-Porsche-Lamborghini, you would be riding a Honda 750cc four-cylinder. Soichiro-San would have the last laugh. (as quoted in [Brown, 1998](#), 48)

Figure 5: The US Motorcycle Market (1968-1974)
Growth in total units and by cc size class



The graph above depicts the growth of the entire motorcycle market, sales from Honda as well as other manufacturers, from 1968 to 1974. The steeper slopes associated with larger segments of the market make clear that the rate of growth of these segments was higher. It is also worthwhile to note that the <125cc segment, which includes sales of the Honda 50, tapered in growth and fell in 1972 and again, sharply, in 1974. This further suggests that growth in the industry was driven primarily by larger rather than smaller models.

Source: Boston Consulting Group, Strategy Alternatives for the British Motorcycle Industry, 11.

Honda made its name in the American Market with the Super Cub, which cultivated a new market segment: economical transportation motorcycles for the ordinary user. But Honda rose from the ashes of its sales crisis recognizing the importance of claiming the prize segment so long defended by the British: recreational motorcycles for experts. Although they sacrificed certain short-term sales opportunities, Kawashima's decision to demand cash-on-delivery and avoid large distributors contributed to the continued success of American Honda. His decisions themselves were not the product of chance or good fortune – they were consciously imitative – but it is worth adding that the effect of these decisions was not serendipitous either. In Japan, Fujisawa refused to advance goods because of dealers were fickle with payment *ex post* and he avoided large distributors because their rival accounts made them change distribution schedules. By eliminating the ability to be fickle in payment, Kawashima compelled distributors to consider seriously the level of demand *ex ante*. And by choosing smaller distributors, Kawashima ensured that changes in production would reflect changes in demand. The combined effect was to give Fujisawa better information about changing consumer tastes.

9 Conclusion

This history describes the management of American Honda by investigating the origin and consequences of distribution decisions. We focus on Kawashima's decision to decline Montgomery Ward and demand cash-on-delivery. By revisiting Honda's earlier history in Japan, we argue that Kawashima's operative decision-making protocol was an appeal to historical precedent. By considering Honda's sales crisis in the late 1960s, we argue that the decision-outcomes realized through this protocol helped facilitate the segment advance that secured American Honda's leadership in the United States. Jointly, these arguments supplement a historical literature on the managerial determinants of American Honda's success, one that has wrestled with whether American Honda's early strategy is best characterized as deliberate or emergent. Reconciling opposing points of view, we argue that – as it pertains to certain decisions – Kawashima was guided by Fujisawa's precedent, though not his explicit instructions.

In a broader sense, this paper extends the literature that seeks to divulge the origin of intentions realized in strategy. Previous literature has suggested that intentions may originate in the will of individuals at various rungs of the organizational hierarchy. This paper suggests that the intentions governing strategy may instead originate in the imagination of an employee, as he or she hypothesizes the intention of a manager or mentor. As described in the introduction, this poses a problem for the characterization of strategy as either deliberate or emergent. The intentions that govern strategic choices may be hypothetical but made credible by comparison to historical precedent, that is, something in between the categories proposed by Mintzberg.

Describing the empirically observable decision-making processes within the firm is a legitimate scientific pursuit. Doing so productively, however, requires adequate conceptual tools and categorization schemes. If there are shortcomings to a typology that describes strategic decisions as merely intended or unintended, an alternative classification scheme may provide clarity. In this history, it was helpful to instead identify the party authorized to make a decision and the decision-rule employed. In cases of deliberate strategy, decision-making authority will rest with upper management. In cases of emergent strategy, their subordinates will exercise decision-making authority opportunistically or at random. In intermediate cases like Honda, subordinates have decision-making authority but opt to follow historical precedent as a decision-rule.

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