Corporate governance

Corporate governance: basic stance

Honda considers corporate governance one of the most important management issues. We’re strengthening it on the basis of our fundamental corporate philosophy, aiming to have the global community—including our customers, shareholders and investors—place even greater trust in us as we strive to be a company society wants to exist.

To ensure objective oversight of management, Honda appoints outside directors to its Board of Directors and outside auditors to its Board of Auditors. To strengthen its business execution system in each region and workplace, as well as enhance the supervisory function of the Board of Directors, Honda has introduced an Operating Officer System. To help its Board of Directors respond quickly to changing business environments, as well as to improve the flexibility of its decision-making process, Honda limits directors’ assignments to one year and determines their compensation in accordance with business results. Based on its fundamental corporate philosophy, Honda has refined its organizational structure. A general manager from the Board of Directors or an Operating Officer is now assigned to each administrative region, business and functional division. The Executive Council deals with important global issues, and regional operating councils deal with important regional management issues. Honda has developed a highly effective and efficient business execution system to respond to the needs of customers and societies with swift, optimal decision-making. In the area of internal controls, each division is engaged in strengthening compliance and risk management measures. Thorough audits are conducted by the Audit Office to monitor execution. We issue quarterly reports on financial results and management policy to enhance the trust and respect we earn from shareholders and society. Through these and other measures, we will continue to maintain full disclosure and transparency.

Corporate Governance: Organization

As of June 30th, 2008
Business execution system

Organization
Honda has six administrative regions around the world to execute and develop business based on its fundamental corporate philosophy. These regional administrations adopt long-term perspectives and maintain close ties with local communities. Honda’s four business divisions—motorcycles, automobiles, power products and components—formulate medium- and long-term business plans. Each division aims to maximize its performance on a global basis. Each functional operation, including Customer Service Operations, Production Operations, Purchasing Operations, Business Support Operations and Business Management Operations, supports the other functional operations, with the aim of increasing Honda’s operational efficiency. Research and development activities are conducted principally at Honda’s independent subsidiaries. Honda R&D Co., Ltd. is responsible for product research and development, while Honda Engineering Co., Ltd. handles research and development in the area of production technology. The Honda Group proactively conducts research and development in advanced technologies with the aim of creating products that are distinctive and internationally competitive.

Business execution officer system
Honda assigns a general manager from the Board of Directors or an Operating Officer to each regional administrative, business and functional division, as well as to each research and development subsidiary. By ensuring swift, optimal decision-making in each region and workplace, Honda maintains a highly efficient business execution system.

Executive Council
Honda has established an Executive Council, which consists of nine representative directors, including the president and vice president. Along with discussing in advance the agendas of meetings of the Board of Directors, the Executive Council discusses important management issues within the scope of authority conferred upon it by the Board of Directors. The Executive Council met 29 times in FY2008.

Regional Operating Councils
To enhance the independence of each administrative region and ensure swift decision-making, regional operating councils have been established in each administrative region to discuss important regional management issues within the scope of authority conferred upon them by the Executive Council.

Corporate governance: policy

Management structure

Board of Directors
The Board of Directors has 21 members, two of whom are external appointees. It supervises the execution of Honda’s business affairs and makes decisions on matters of importance to the company, including legal issues. The board met seven times in FY2008.

Board of Corporate Auditors
The Board of Corporate Auditors consists of five corporate auditors, three of whom are external appointees. Each corporate auditor audits the directors’ execution of duties in accordance with Honda auditing standards, auditing policies, and apportionment of responsibilities and decisions of the Board of Corporate Auditors. Corporate auditors conduct these audits through various means, such as attending meetings of the Board of Directors and reviewing the status of the company’s assets and liabilities. In addition, a Corporate Auditors’ Office has been established to provide direct support to the Board of Corporate Auditors. In FY2008 the Board of Corporate Auditors met 13 times.

Decisions regarding director candidates
Candidates for director are nominated and appointed by the Board of Directors. Candidates for corporate auditor are nominated and appointed by resolution of the Board of Directors, subject to agreement of the Board of Corporate Auditors.

Director remuneration
The total amount of remuneration and bonuses of directors and corporate auditors is determined according to criteria that reflect company performance. Remuneration for directors and corporate auditors is based on criteria approved by the Board of Directors, and is paid within the extent of the maximum amount set by resolution of the Ordinary General Meeting of Shareholders. Bonuses for directors and corporate auditors are based on decisions of the Ordinary General Meeting of Shareholders, taking into consideration company profits during the fiscal year, past bonuses and other factors.

Accounting audits
Honda has appointed Azsa & Co. as its independent auditor for the purposes of Japan’s Company Law and Securities and Exchange Law as well as the U.S. Securities Exchange Act.
Internal controls systems: fundamental approach and current status

To earn the trust of customers and society, Honda’s divisions have implemented frameworks to ensure a systematic approach to compliance and risk management in accordance with policies determined by the Board of Directors regarding internal controls systems, and under the guidance of their respective directors-in-charge. These include the formulation of performance guidelines and procedures for self-assessment. Honda also has a system to support the initiatives of each division. Effective audits are carried out to monitor the execution status of each division.

Honda Conduct Guideline

The Honda Conduct Guideline has been created to guide the actions of all associates. In addition, each division produces more detailed performance guidelines according to its specific attributes.

Self-assessment checklist

Each division approaches compliance and risk management in a systematic way. For example, each division has a checklist that clarifies specific laws and risks to consider related to its particular business, and conducts regular self-assessments. The results of such assessments are reported to the director in charge of each division, and the overall status of compliance and risk management is evaluated regularly by the Executive Council and reported to the Board of Directors and the Board of Auditors.

Compliance

Representing Honda, a company which abides by the law scrupulously, we will demonstrate sincere respect for the law in all our actions.

I) Respect for the Law

- Proper understanding of the law
  We will understand and abide by the letter as well as the spirit of applicable laws, stay informed of any revisions to the law and take the necessary courses of action.

- What to do in case of unclear interpretation
  Whenever there is a doubt or unclear interpretation of the law, we will consult with the legal department, government bodies and/or outside experts.

- What to do if the law has been violated
  Whenever a violation of the law or the risk of such an occurrence is noticed, we will immediately report to or consult with the supervisor or the legal department, or make a proposal to the Business Ethics Proposal Line.

- Report/notification to government agencies
  We will properly make reports/notifications to government agencies as required by law.

II) Respect for Company Rules

- Proper understanding of company rules
  We will understand and abide by the letter as well as the spirit of company rules, stay informed of any revisions and take the necessary courses of action.

- What to do in case of unclear interpretation
  Whenever there is a doubt or unclear interpretation of a company rule, we will consult with the department that created the rule to confirm proper understanding.

- What to do if rules have been violated
  Whenever a violation of a company rule or the risk of such an occurrence is noticed, we will report to or consult with the supervisor or make a proposal to the Business Ethics Proposal Line.

- Report/notification
  We will properly make reports/notifications as required by company rules.

III) Respect for Social Norms

As members of society, we will behave ethically and in accordance with the common sense of the community in which we operate.
Compliance system

Honda has appointed a compliance officer to act as a director in charge of compliance-related initiatives. Other key elements of our compliance system include the Business Ethics Committee and the Business Ethics Improvement Proposal Line.

Business Ethics Committee

Honda’s Business Ethics Committee is chaired by the compliance officer and consists of directors and corporate officers. The committee deliberates on matters related to corporate ethics and compliance. The Business Ethics Committee met twice in FY2008.

Business Ethics Improvement Proposal Line

Honda places high priority on open communications. It set up the Business Ethics Improvement Proposal Line to receive suggestions related to corporate ethics. By providing appropriate responses to suggestions, Honda is constantly working to enhance corporate ethics. The system is designed to ensure the protection of those providing information, allowing them to remain anonymous. The Business Ethics Committee supervises the operation of the Business Ethics Improvement Proposal Line and submits status reports to the Board of Corporate Auditors.

Risk management system

For each type of risk the company may incur, Honda specifies a lead department that develops risk management policies, systems and initiatives and helps other departments to prevent incidents and address them should they arise. The status of risk management is confirmed in each division each year with the goal of further enhancement in accordance with overall corporate governance policies. Should an incident occur that a department is not in a position to address individually or that could have a significant impact on the company as a whole, directors specified as risk management officers mobilize a company-wide response to minimize negative effects.

Protecting personal information and preventing disclosure of sensitive data

The development of our privacy policy

Honda’s Conduct Guideline, which was enacted in 2003 to guide the actions of associates, includes sections on privacy policy and the handling of confidential information. Furthermore, in response to the introduction of Japan’s Personal Information Protection Act in 2005, Honda established a privacy policy to ensure compliance with all applicable laws and regulations. Under its provisions, personal information is not to be disclosed without the explicit permission of the person concerned, strict personal information security is maintained, and proper safeguards are in place to protect against unauthorized disclosure of information. An Information Confidentiality Committee was also created to enforce this policy and ensure optimal handling of information issues. Honda is obliged to provide written notification if any personal information is used in the creation of databases, or when the collection or handling of such information is entrusted to an external contractor.

Risk management system