

Towards a Dynamic Knowledge-Based Management: -Collective Practical Wisdom as a Source of Sustainable Innovation-

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Drucker: We need innovation, and we need a new theory

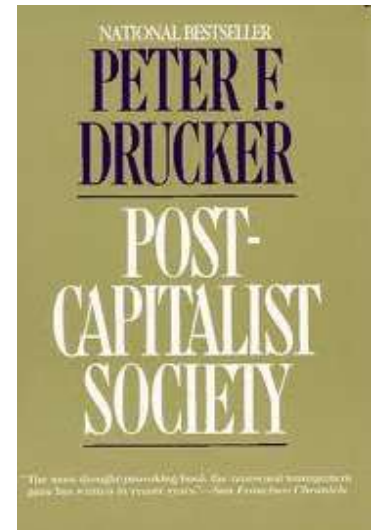
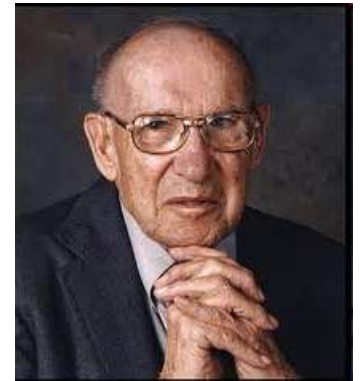
“Knowledge is the only meaningful resource today.”

“How knowledge behaves as an *economic* resource, we do not yet fully understand [...]

We need an economic theory that puts knowledge into the center of the wealth-producing process. It alone can explain innovation.”

P. F. Drucker. (1993) “Post Capitalist Society” p.183

P.F. Drucker



(1993)

Knowledge Management “Fad”

Started in the U.S in 1990s...

- As a part of “reengineering” of corporations to solve the “information overload” problem brought by the progress of ICT
- Mainly focused on the “efficient use” of information by making it easier to find, sort, and share information using ICT

“Myths” of Knowledge Management

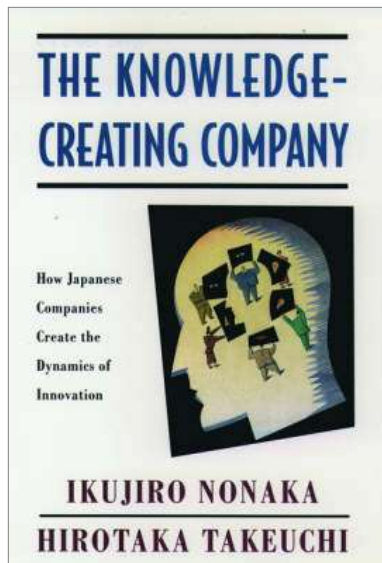
- Knowledge Management is about IT
 - ➡ It is the human factor that makes the differences
- Knowledge Management is the responsibility of “smart” people
 - ➡ Everyone's commitment to share their knowledge, and create new knowledge and wisdom is the key to success.

Almost 15 Years Ago, in 1995....

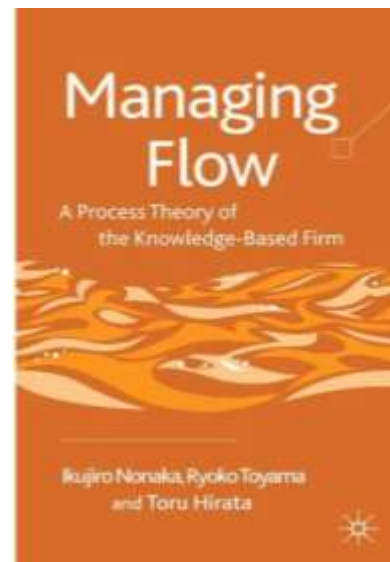
“Knowledge-Creating Company”: The first knowledge-based theory on management

“Managing Flow”: Synthesized theories and research of the 15 years

Published: 1995



Published: 2008



The Top 20: The most influential business thinkers, according to a Wall Street Journal ranking

	Name	Distinction
1.	Gary Hamel	Consultant
2.	Thomas L. Friedman	New York Times columnist
3.	Bill Gates	Microsoft chairman
4.	Malcolm Gladwell	Author, 'Blink'
5.	Howard Gardner	Harvard professor
6.	Philip Kotler	Northwestern professor
6.	Robert B. Reich	Ex-labor secretary
8.	Daniel Goleman	Psychologist
9.	Henry Mintzberg	McGill professor
10.	Stephen R. Covey	Author, '7 Habits of Highly Effective People'
11.	Jeffery Pfeffer	Stanford professor
11.	Peter M. Senge	Author, 'The Fifth Discipline'
13.	Richard Branson	Virgin founder
14.	Michael E. Porter	Harvard professor
15.	Michael S. Dell	Dell founder
16.	Geert Hofstede	Author, 'Culture's Consequences'
17.	Clayton M. Christensen	Harvard professor
18.	Jack Welch	Former General Electric CEO
18.	Tom Peters	Author, 'In Search of Excellence'
20.	Myron S. Scholes	Nobel laureate
20.	Ikujiro Nonaka	Hitotsubashi professor

What is Knowledge?

Knowledge is:

Subjective

- Based on belief, emotion, context-specific

Process-relational

- Created in social interactions

Aesthetic

- Endless pursuit of truth, goodness, and beauty

Created through practice

Hence, we define Knowledge as:

“A dynamic human process of justifying personal belief towards the truth. ”

Two Types of Knowledge

Tacit Knowledge

Subjective and experiential knowledge that can not be expressed in words, sentences, numbers, or formulas (context-specific)

Technical Skills

- craft

- know-how

Cognitive Skills

- beliefs

- images

- perspectives

- mental models

Explicit Knowledge

Objective and rational knowledge that can be expressed in words, sentences, numbers, or formulas (context-free)

- Theoretical approach

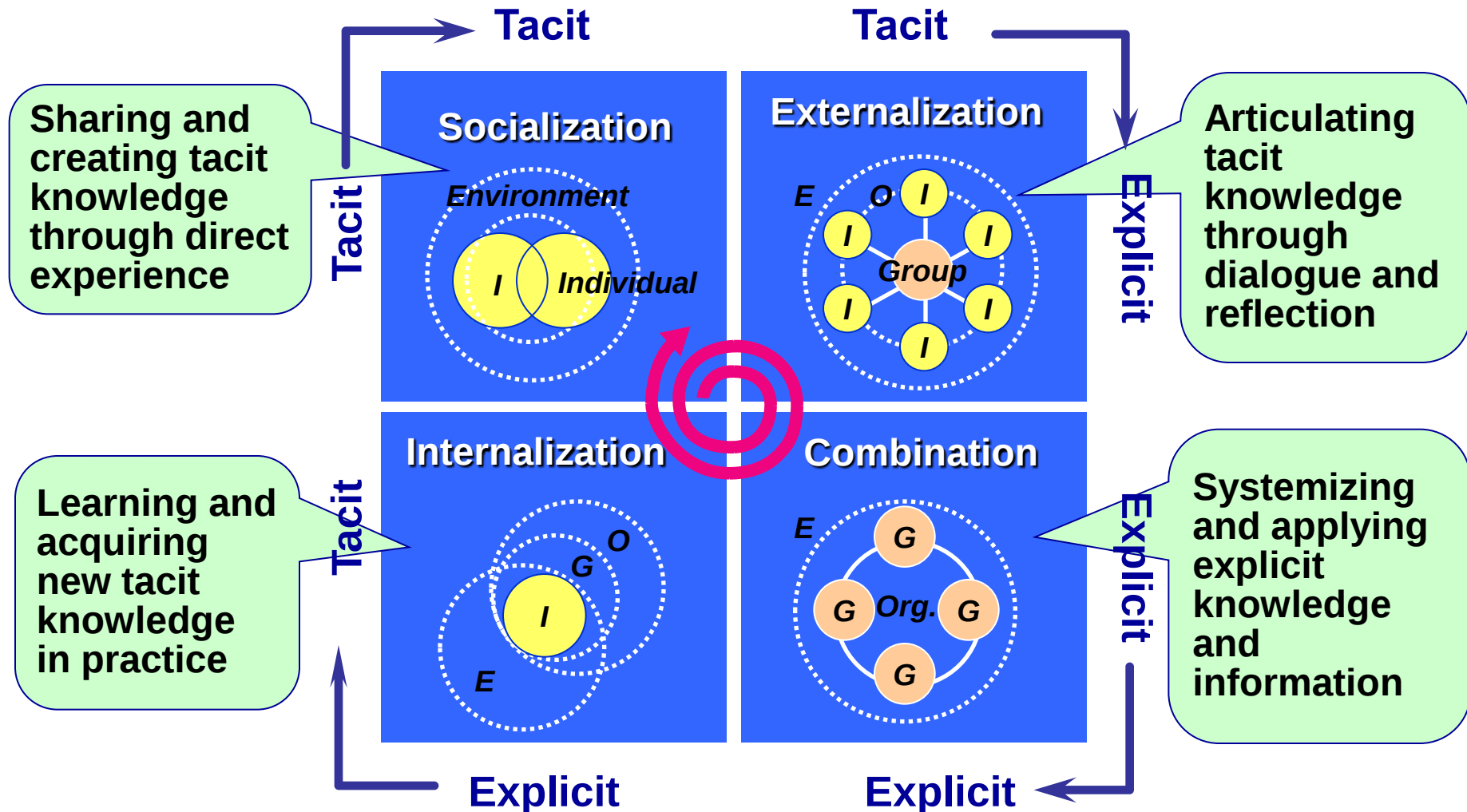
- Problem solving

- Manuals

- Database

Dynamic Interaction
Analog-Digital Synthesis

Organizational Knowledge Creation SECI Model



I = Individual, G = Group, O = Organization, E = Environment

Need a New Form of Leadership in an Age of Global Uncertainty

Need leaders with “practical wisdom”: **Phronesis**

- Leaders who know “what must be done” for the common good; have a higher purpose in mind; see what is good, right, and just for society as a whole while grounded in details of the ever-changing frontline
- Leaders who exercise judgment knowing that everything is contextual; make decisions knowing that everything is on the move; take actions knowing that everything depends on timing.

In essence, leaders who have capability of contextual judgment and timely balancing.

Abilities That Constitute Practical Wisdom

A virtuous habit of making decisions and taking actions that serve the common good

Ability to make judgment on goodness

Ability to create *ba*

Ability to grasp the essence of particular situations

Ability to articulate the essence

Ability to exercise political power

Ability to foster phronesis in others

Mobilizing Everyone's Knowledge

“Management by all the members of the company, through mobilizing their knowledge, is what I have been trying to achieve as a CEO. The more we utilize everyone's knowledge, the better the company becomes.”

Konosuke Matsushita, Founder of Panasonic

Embodying Organizational Sustainable Innovation

Unlike Schumpeter's view of innovation, the knowledge-creating theory does not view innovation as solely a product of individual entrepreneurship.

It is about **distributed innovation** which leads to spontaneous knowledge creation and effective use of that knowledge at all levels of the organization and network.

Distributed Practical Wisdom

From a company of one charismatic leader, Souichiro Honda, to a company of every worker

Honda is not a company in which only top management plays an important part. Every one at the frontline is very important. Every worker should be Souichiro Honda. It is important for Honda to create many Souichiro Honda.

-Takeo Fukui, CEO of Honda

Embodying Practical Wisdom

- Develop a knowledge vision
- Create *ba* to experience actuality
- Provide phronetic examples (apprenticeship)
- Utilize an evaluation system that cares for people and knowledge
- Adopt the tradition of pursuit of excellence

Knowledge Vision

Vision of the ideal future: “We want to be...”

Self-transcending: Not an extension of the present, but looking at the present with a vision of the future

Give the employees the absolute value to pursue “Truth, Goodness, Beauty”

Not empty words, but a concrete idea that comes with action to mobilize everyone in the organization to realize the vision

A view that pursues common good: “What is the value to the community?”

Thought Leadership

“Good” paradigm for future society and commitment to value creation

Thought = Belief towards the common good as a member of the global and local ecosystem

Thought Leadership will:

- Envision the future of society and the firm; imagine new relationships and pursue for realization
- Create new concept in vast and various relationships in the global and local ecosystem

To realize Thought Leadership:

- Extend the knowledge, deepen the belief, co-create ethical/moral values, and synthesize with the global and local ecosystem
- Diversify the business network and establish an open *ba* where relationships can connect freely
- Pursue excellence with tenacity and courage



Examples:

- Smarter Planet (IBM)
- Ecomagination (GE)
- Microfinance (Grameen Bank)
- Human-centric Intelligent Society (Fujitsu)

Vision: Common Good

Joy of Buying, Joy of Selling, Joy of Creating

“We believe that sincerely responding to the changing demands of the world through The Three Joys will provide joy to society and make Honda a company that **society recognizes and wants to exist.**”

-Honda Philosophy Handbook

Mitsui: *Yoi-Shigoto* (Good Quality Work)

“There are two viewpoints for *yoi-shigoto*. One is that the business is contributing to the society and creating value to Mitsui. The other is that it is really worth doing as a person who spends most of his/her precious life in the company. If we pursue *yoi-shigoto*, then profit will follow.”

-Shouei Utsuda

Eisai Company's Articles of Incorporation

(Codified at the June 2005 Shareholders Meeting)

The Company's mission is the enhancement of patient satisfaction. The Company believes that revenues and earnings will be generated as a consequence of the fulfillment of the mission. The Company places importance on this positive sequence of the mission and the ensuing results.

Patient satisfaction:

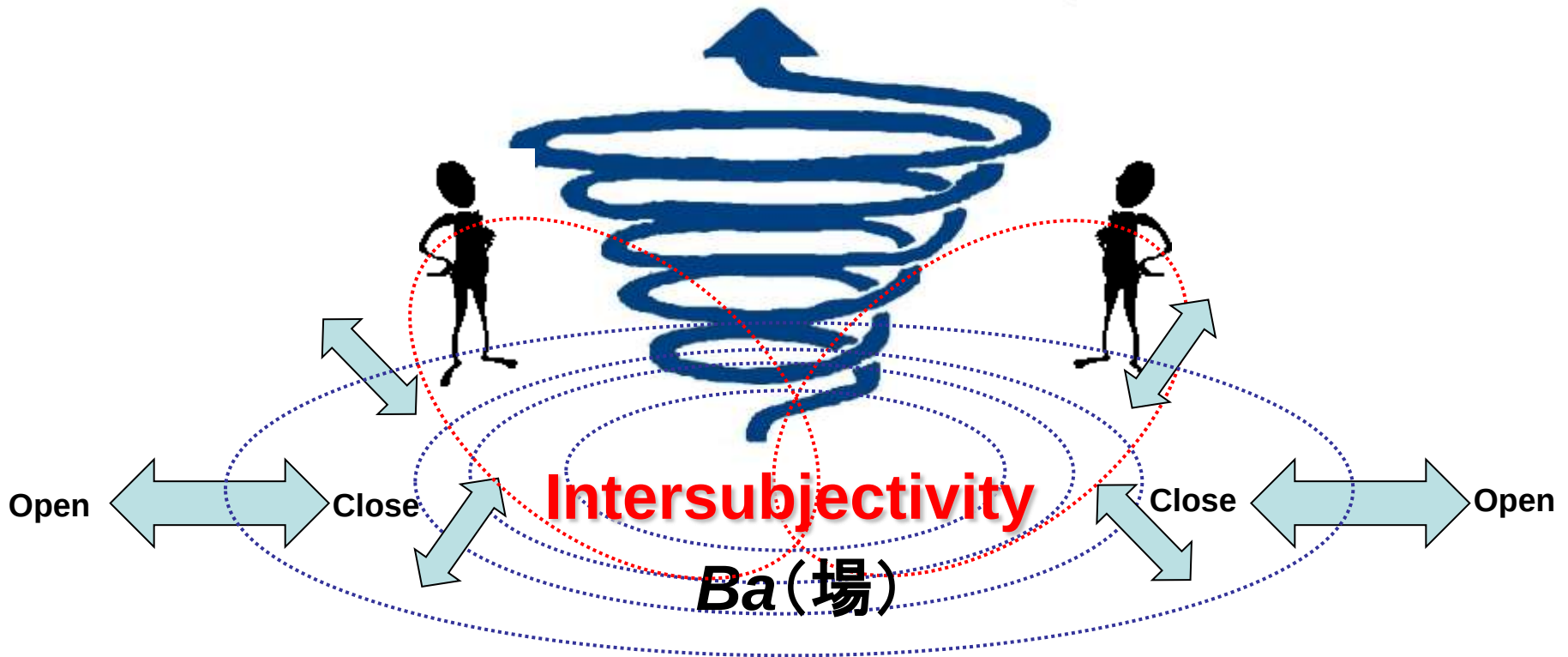
- Satisfying unmet medical needs
- Ensuring stable supply of high quality products
- Providing useful information of safety and efficacy

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Ba: Sharing “here-now” Relationship

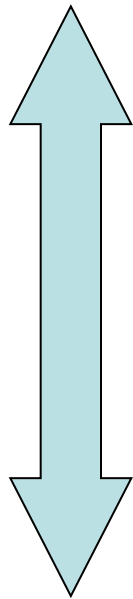
Knowledge Creation through Intersubjectivity



Individual contexts are shared at “here-now” context of *ba*.
Shared context becomes the base of emerging knowledge.

Ba is formed in various space-time

Real



Meeting, drinking

Informal organization

Project teams

Office, factory, shop floor

Formal organization, system

E-mail, TV conference

Virtual

“Waigaya” at Honda

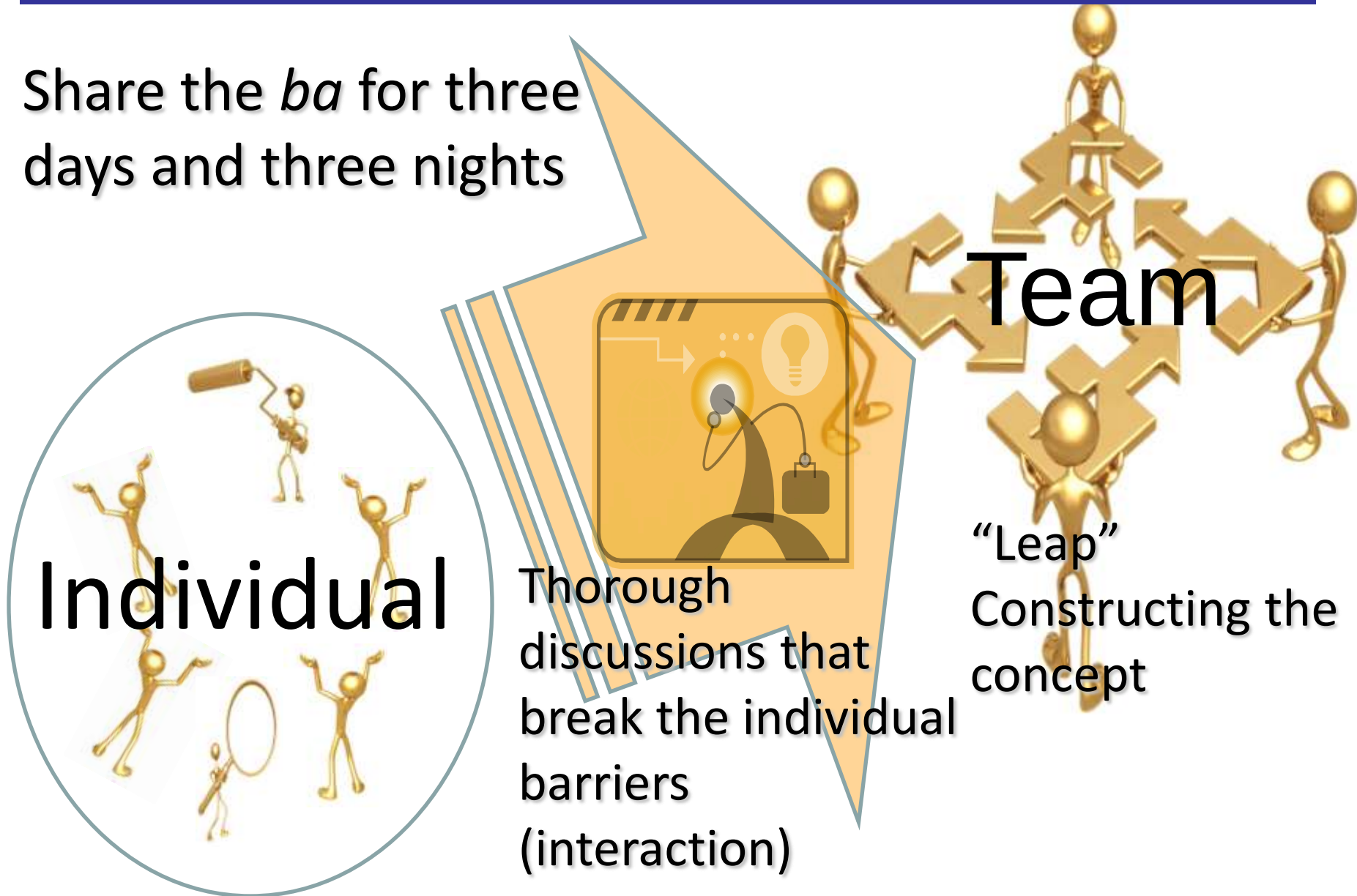
Share the *ba* for three days and three nights

Individual

Team

Thorough discussions that break the individual barriers (interaction)

“Leap”
Constructing the concept



“*Waigaya*” at Honda

Company prepares the *ba* (good hotel, good food, good spa) out of the daily work environment

Day 1: Conflict between the individuals

- Start with “bad mouthing” the boss; frustrations and conflicts
- Thorough discussions lead to conflicts but there is no escape
- As time passes, superficial explicit knowledge runs out and individual barriers disappear

Day 2: Mutual understanding and acceptance

- Accept the differences, understand the beliefs of others
- Accept the opinions of others

Day 3: Leap of the minds

With constructive thinking, leap of the minds and concepts happen

Intersubjectivity of *Ba*

Ba is dynamically created from the 3 stages of consciousness

3 stages of consciousness:

Synthesis of senses: Like the relationship of mother and child, “I-Thou” relationship, sharing the vivid present before subject-object separation by physically touching; state of passive intercorporeality

Synthesis of intelligence: Creating meaning in the form of “I-It relationship” from one’s intention and consciousness; state of active intersubjectivity

Synthesis of senses and intelligence: Encountering the other as a whole “I” in the higher dimension of “I-Thou relationship”. One’s sense is open to both oneself and to the other; not self-centered but selfless, one touches others physically and mentally



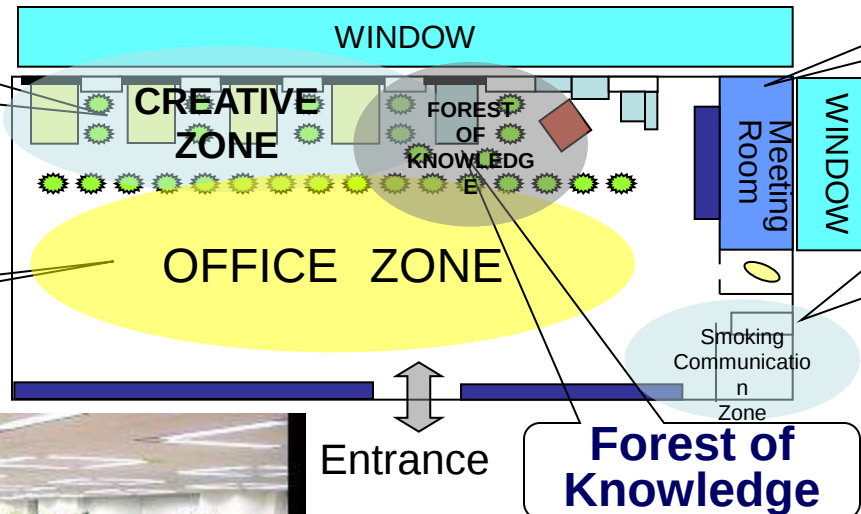
Workplace Design for Knowledge Creation



Creative Zone



meeting



Office Zone

**Smoking
Communication
Corner**

**Forest of
Knowledge**



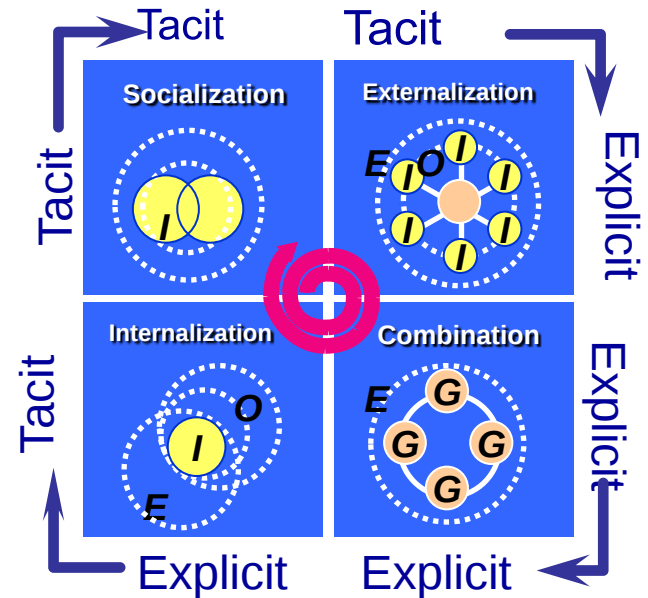
Refresh Corner

Agile Scrum

- Agile Value Creation -

“Agile scrum encourages team members to socialize, externalize, internalize and combine technical knowledge on an ongoing basis, thus allowing technical expertise to become community property for the community of practice [Nonaka 95].

Scrum Meetings are, therefore, rituals with deep cultural transcendence. Meeting at the same place at the same time and with the same people enhances a feeling of belonging, and creates the habit of sharing knowledge.”

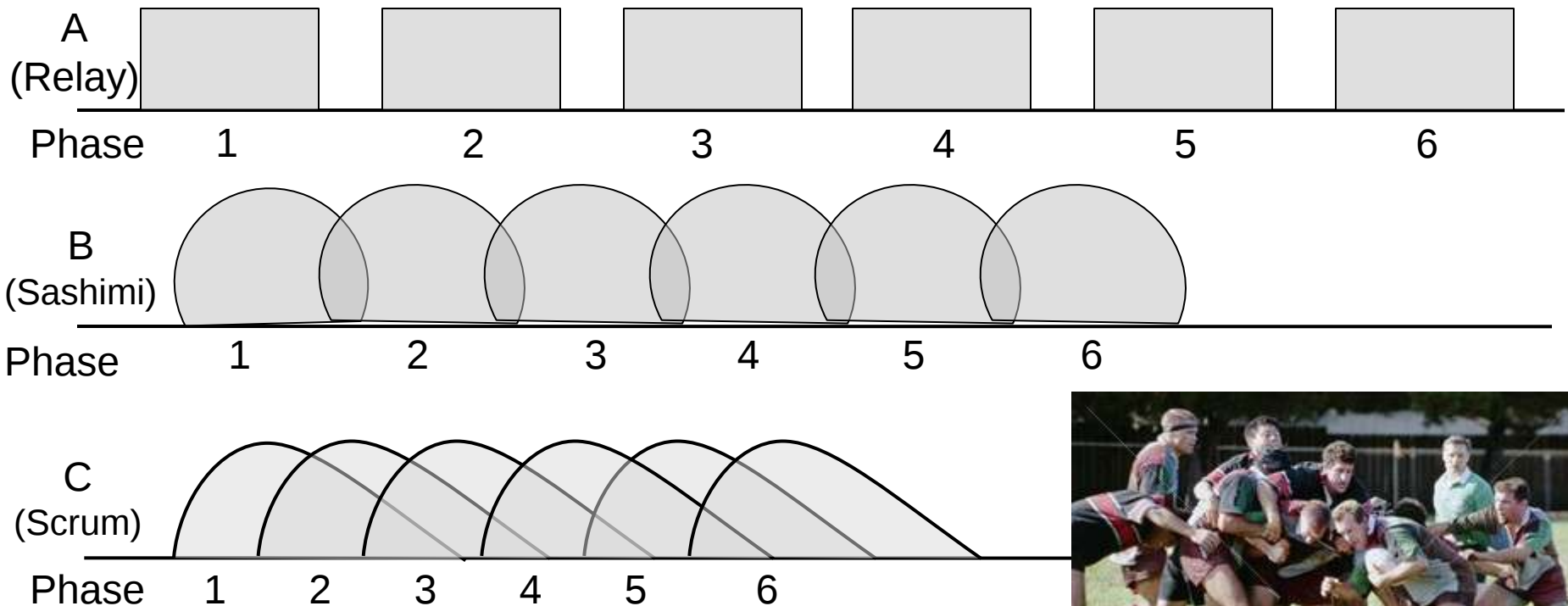


Sutherland, J. et al. Scrum: An extension pattern language for hyperproductive software development.

Scrum Approach

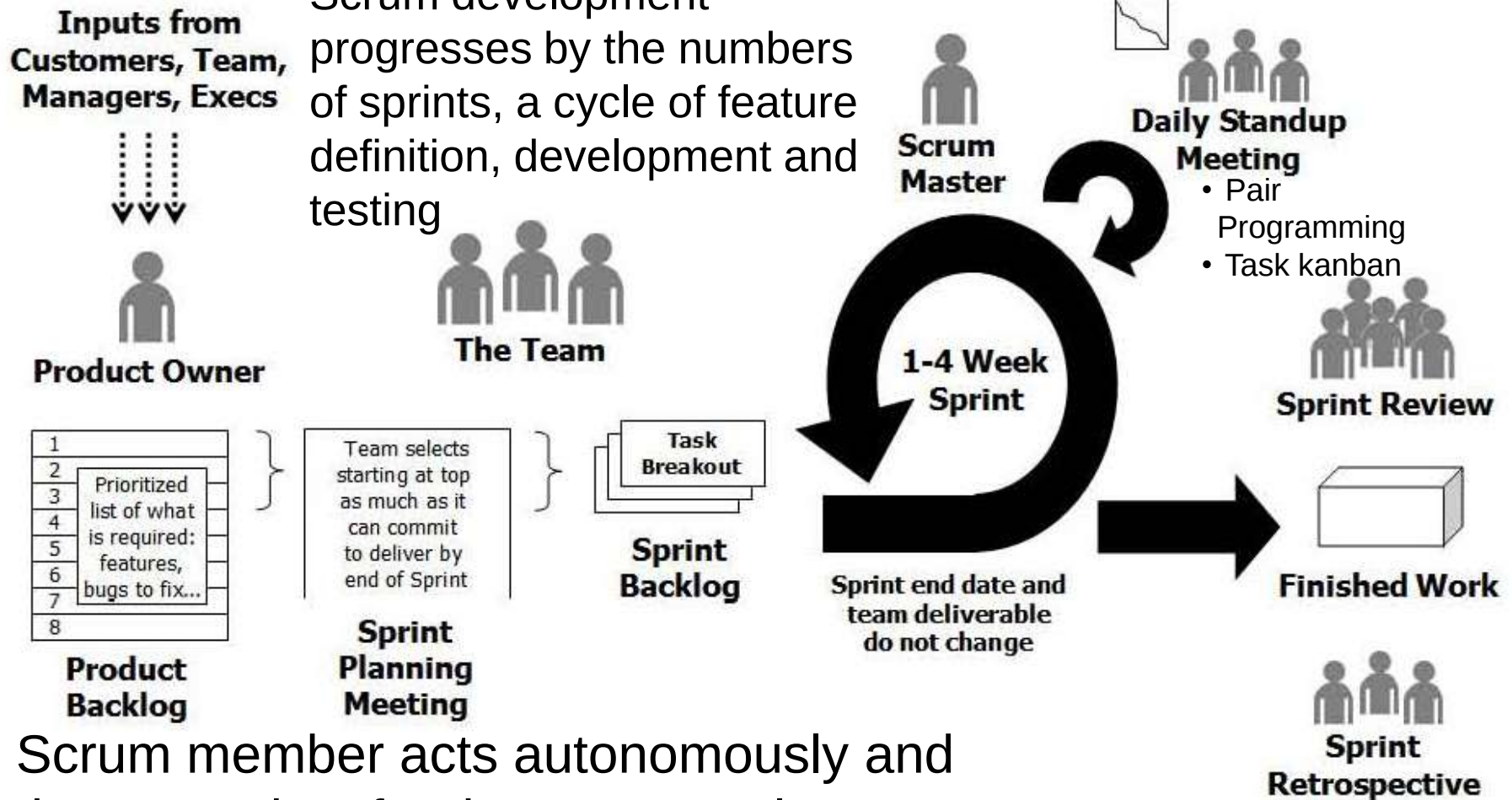
“The New New Product Development Game”

Sequential (A) vs. Overlapping (B and C) Phases of Development



Agile Scrum Combines "Human Touch" with IT

Scrum development progresses by the numbers of sprints, a cycle of feature definition, development and testing



Scrum member acts autonomously and the team aims for the same goal

Key Points of Scrum Development

Pair Programming

- Two developers (roles of a driver and a navigator) share one PC/WS
- Change roles every 5~10 minutes
- Change pairs several times a day



Candies ♪

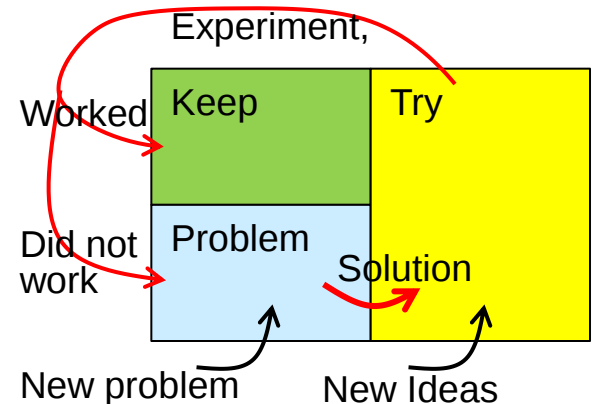
Task “Kanban” (visualize the tasks)

- Manage To Do, Doing, and Done
Everybody can start development autonomously without any instruction
- Check every morning at the 15-minute Scrum Meeting



Feedback (KPT: Keep/Problem/Try)

- In a casual atmosphere, everybody raises Keep, Problem, Try: **socialize** tacit knowledge and convert to explicit knowledge (**externalize** and **combine**)



Setting the Scrum Meeting

Laying Out the Chickens and Pigs

While the some people are committed to the project, others are merely interested. Scrum master need to lay out pigs in the center of the Daily Scrum Meeting and chickens in the back.



“Chickens and Pigs” Joke

A chicken and a pig are in a bar having a drink when the chicken says to the pig, “We should open up a restaurant.” The pig says, “Oh? And what do we serve?” The chicken responds, “ham and eggs.” The pig considers this for a moment and then answers, “I don’t think so. While you would be interested, I would have to be committed!”

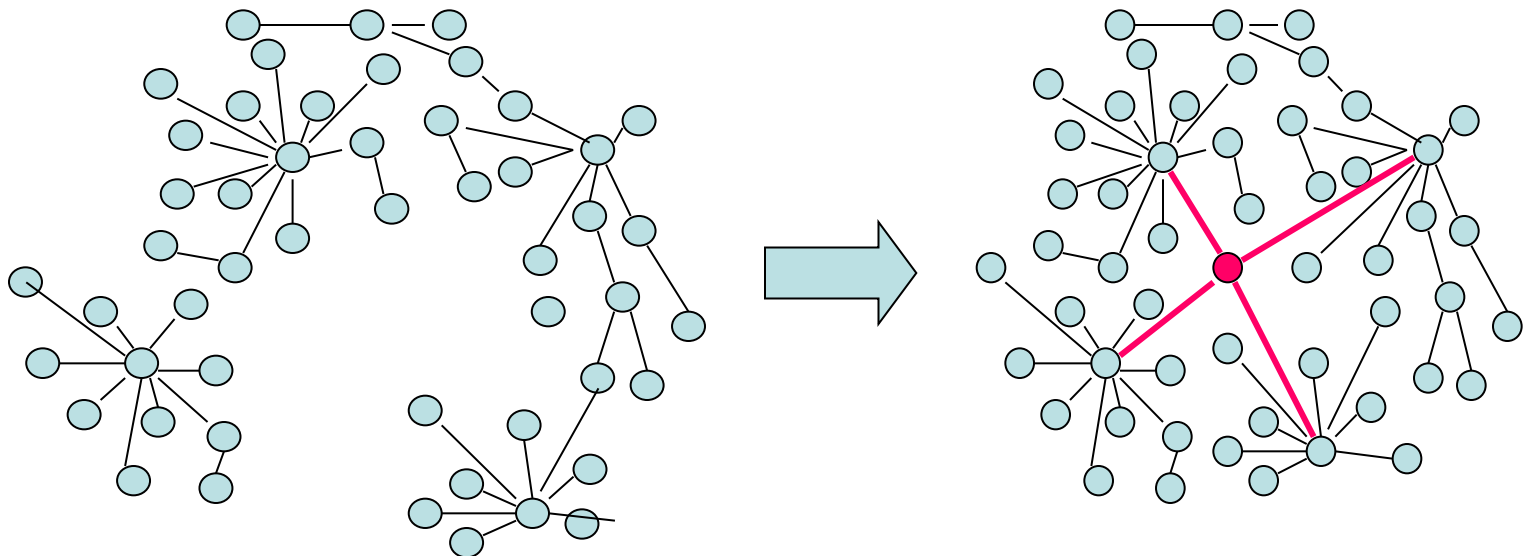
A way to manage the “committed” and the “interested”

Scrum members: must be committed

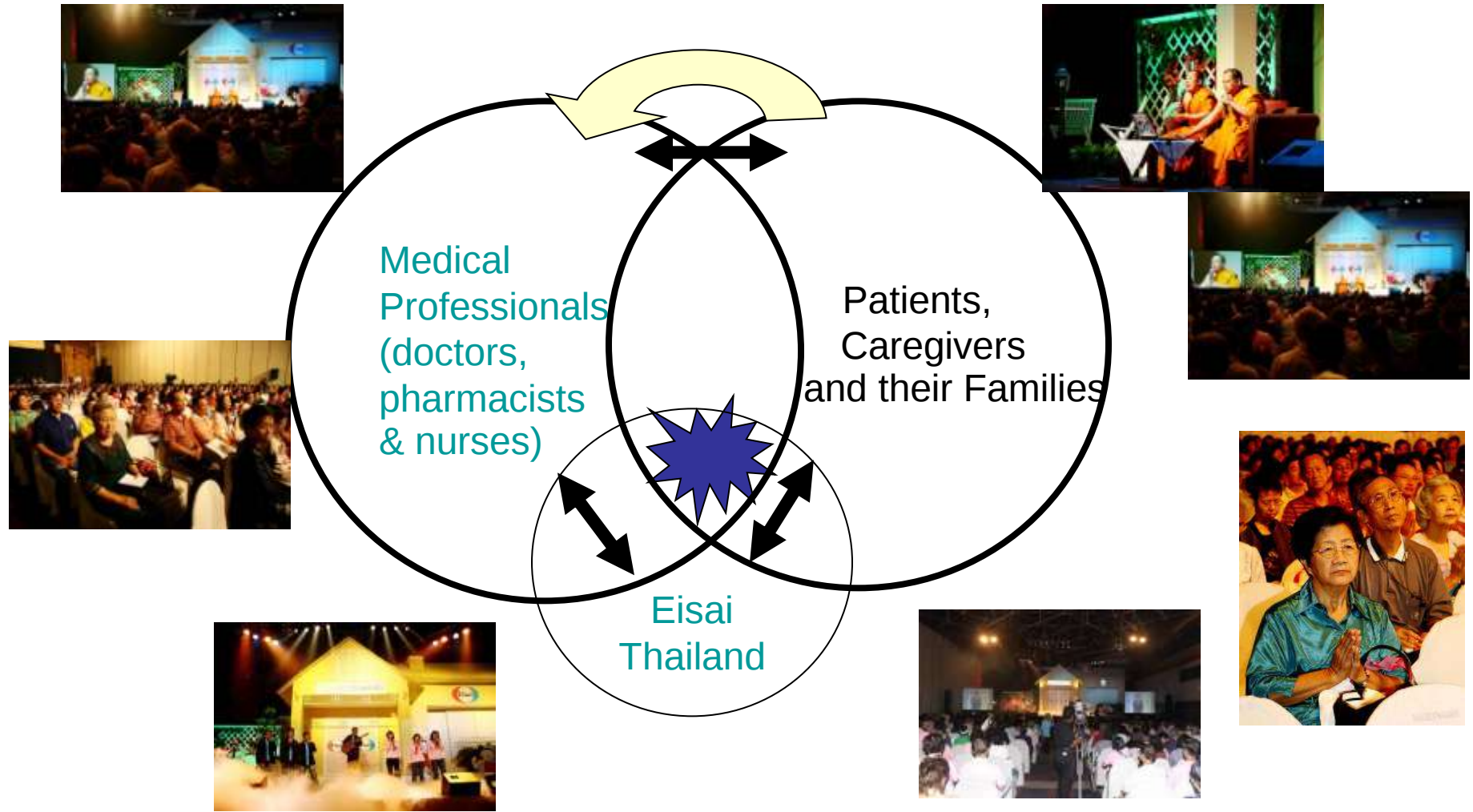
Management and other stakeholders: only interested; but must provide security and guidance (and not interruptions)

Small World Network: Rewiring the Multilayered *Ba*

Through rewiring, separated *ba* can be connected to each other to find new combinations and create new knowledge



Rewiring *Ba*: Eisai Day in Thailand



Eisai Day 2010: November 27, 2010 (Saturday) 9:00-15:00
Sofitel Centara Bangkok Hotel

Embodying Practical Wisdom

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- Provide *phronetic* examples
(apprenticeship)
- Utilize an evaluation system that cares for people and knowledge
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Provide Exemplars (Apprenticeship)

Practical wisdom

= Classroom instruction (most MBAs)

+ Practice + Feedback & Self-Correction

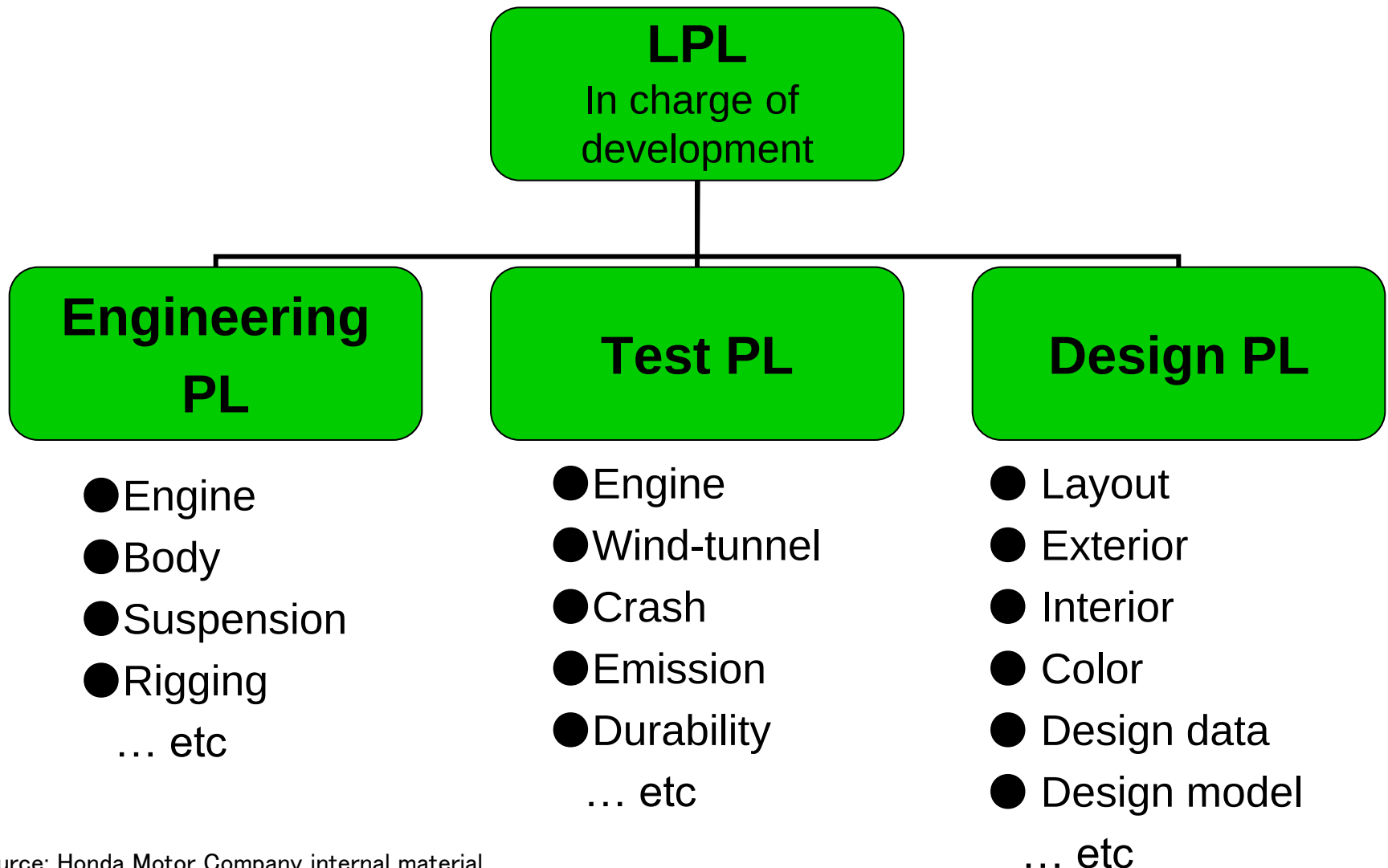
Leadership can only be developed through practice

Growth is accelerated by challenging complex jobs,
timely and detailed evaluation, and self-reflection

Can expect giant leaps in learning

System to Distribute Practical Wisdom

- LPL and PL to Nurture Honda DNA -



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Get Rid of the Performance Review

Performance reviews are a “one-size-fits-all” undertaking, neither well-suited to the individual's unique qualities or area or competence.

It's the boss' responsibility to find a way to work well with an imperfect individual, not to convince the individual there are critical flaws that need immediate correcting, which is all but guaranteed to unproductive game playing and politically inspired back-stabbing.

Culbert, S.A., "Get Rid of the Performance Review"

Evaluation System That Cares About People and Knowledge: Mitsui & Co.

Organizational evaluation: Changed from 100 % quantitative to 80% qualitative. Changed from relative evaluation to absolute evaluation by achievement to the plan

- Evaluate the process of achieving; not profit as a result
- Set plans and goals (max 8 items) according to each business domain, and evaluate the achievement on 5 levels
- Value the essential processes such as transformation of businesses and mindsets, strategic activities and mid- and long-term projects

Individual evaluation: Evaluated by the combination of organizational evaluation, and individual achievements and skills development

- Set 4 goals, weigh them in the total of 100% and difficulty at 3 levels, and evaluate the achievement
- Skills development focuses on key indicators

From partial optimization to total optimization

Embodying Practical Wisdom

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Tradition: Standard of Excellence

The essence of business is in the **relentless pursuit of the organization's own standard of excellence**. Excellence emerges only with an unyielding commitment and practice to serve the common good **based on the organization's own vision and values**.

Kata (Creative Routine)

Canon

Set one's own goal.
Think of the total optimization: See things from the president's standpoint.
You have to use simple and clear words to make yourself understood. The expression must be your own that comes from deep thinking.
Words get real meaning only when they are related with live experience on the spot.

Toyota

Observe the place of manufacturing with a clean slate and without bias.
Repeat 'why?' five times to the subject.
Set even higher goals and implement continuous improvements without settling for temporary success.

Honda

3-Gism: Be at the actual place of work (genba), know the actual product (genbutsu) and situation (genjyou), be realistic (genjitsuteki).
Respect sound theory, develop fresh ideas and make the most effective use of them.
A00 - What do you do this for? (Ontological)
A0 - What is your concept? (Conceptual)
A - What is your specification? (Operational)

Indwelling in the Patient's World: Socialization is the Foundation of Eisai's Practical Wisdom



Phronetic Leadership

Explicit Knowledge

**Objectivity
Language
Universal
Idealism**

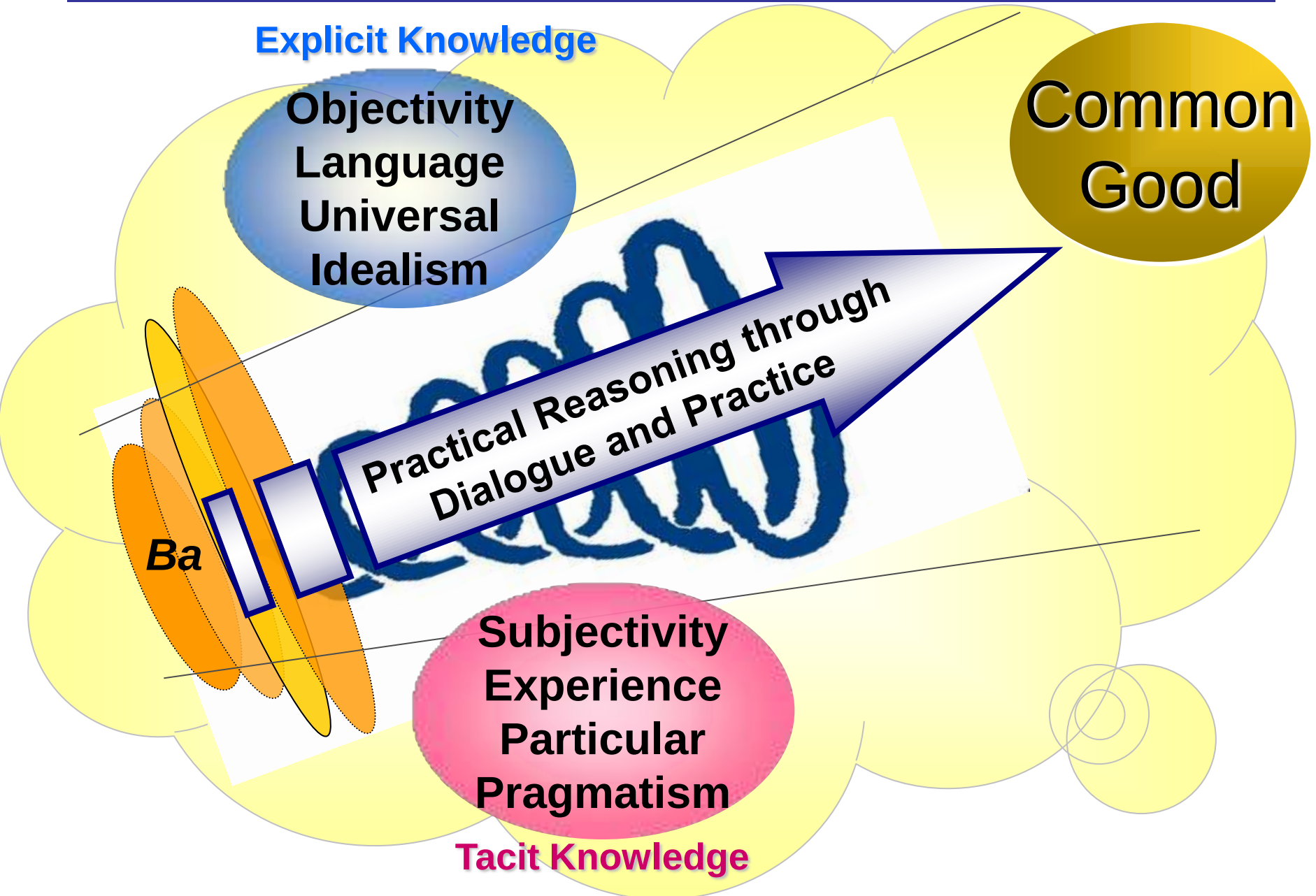
**Common
Good**

**Practical Reasoning through
Dialogue and Practice**

Ba

**Subjectivity
Experience
Particular
Pragmatism**

Tacit Knowledge



Idealistic Pragmatist: Contemplation in Action

Brain
Deep Thinker



Brawn
Doer



in One Person
“Intellectual Muscle”
Relentless Pursuit of Common Good

A Knowledge-Creating Firm/Organization/Community ...

Innovates with idealistic pragmatism which synthesizes:

- Ontology: **How to be**
“For what do we live?": the vision to the future and the commitment to it.
- Epistemology: **How to know**
“What is the truth?": the SECI spiral which synthesizes objective and subjective views.
- Creation: How one can change one's self and the environment
- Management is viewed as “**a way of life**” rather than a tool to make money.