

Wise Leader:

-Building Communities of Sustainable innovation-

Ikujiro Nonaka

**Professor Emeritus, Hitotsubashi University
Chairman, Fujitsu Economic Research Center
Xerox Distinguished Faculty Scholar, UC Berkeley
The First Distinguished Drucker Scholar,
Claremont Graduate University**

October 26, 2011

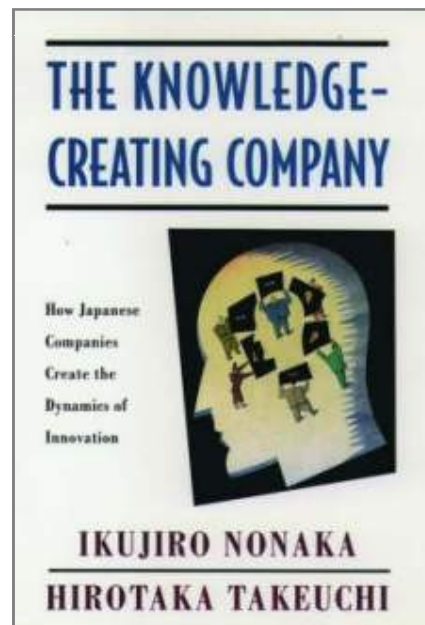
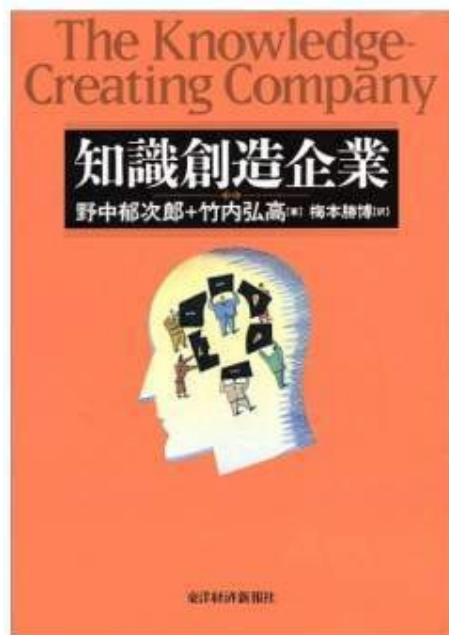
The Top 20: The most influential business thinkers, according to a Wall Street Journal ranking

	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.	Myson S. Scholes	Nobel laureate
20.	Ikujiro Nonaka	Hitotsubashi professor

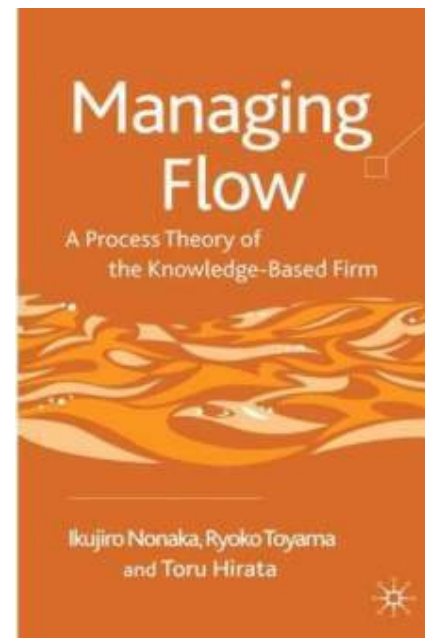
Source: "Quest for Innovation, Motivation - Inspires the Gurus", The Wall Street Journal Online, May 5, 2008

Value Propositions of “The knowledge Creating Company” and “Managing Flow”

**A firm is a knowledge
creating entity (1995)**



**A firm is a relentless
process to pursue prudence
and practical wisdom (2008)**

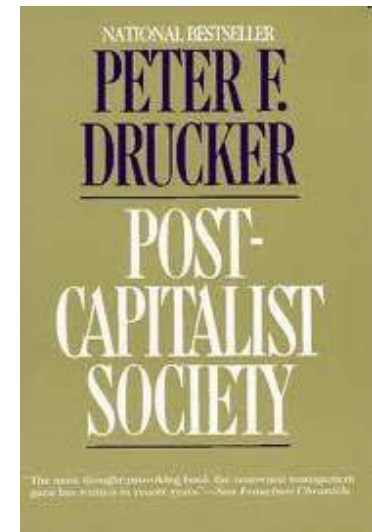
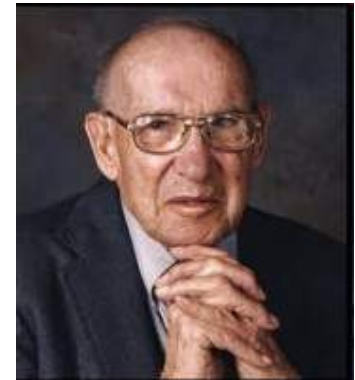


Drucker: We need innovation, and we need a new theory

- “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)

Why Do Firms Differ?

Strategy is about Creating Future

Strategy is a human capability to:

- **Interpret the reality of the world**
- **Continuously create the future in social contexts**

Knowledge is:

A dynamic human/social process of justifying personal belief towards the truth.

Strategy and innovation themselves are the knowledge creation processes.

Knowledge is not a substance waiting to be discovered but to be created

Knowledge is more than just a simple collection of information. The most prominent feature of knowledge, compared with physical resources and information, is that it is born of human interaction. It is not a self-contained substance waiting to be discovered and collected. **Knowledge is created by people in their interactions with each other and the environment.** Hence, to understand knowledge, we must first understand the human beings and the interactive process from which knowledge emerges.

Two Types of Knowledge

Tacit Knowledge

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

Cognitive Skills

- beliefs
- images
- perspectives
- mental models

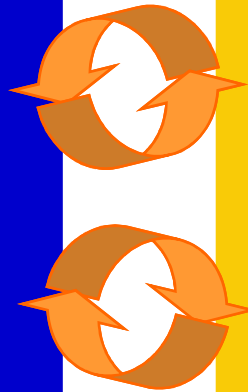
Technical Skills

- Craft, know-how

Explicit Knowledge

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

- Theoretical approach
- Problem solving
- Manuals
- Database



Spiral up through
dynamic interaction
Analog-Digital Synthesis

Tacit – Explicit Spiral

- Toyota Way -

- With IT, more tacit knowledge may be converted to explicit knowledge. While the conversion occurs, new tacit knowledge continue to emerge. President Watanabe says, “**with the spiral-up of tacit and explicit knowledge, things go well.**”

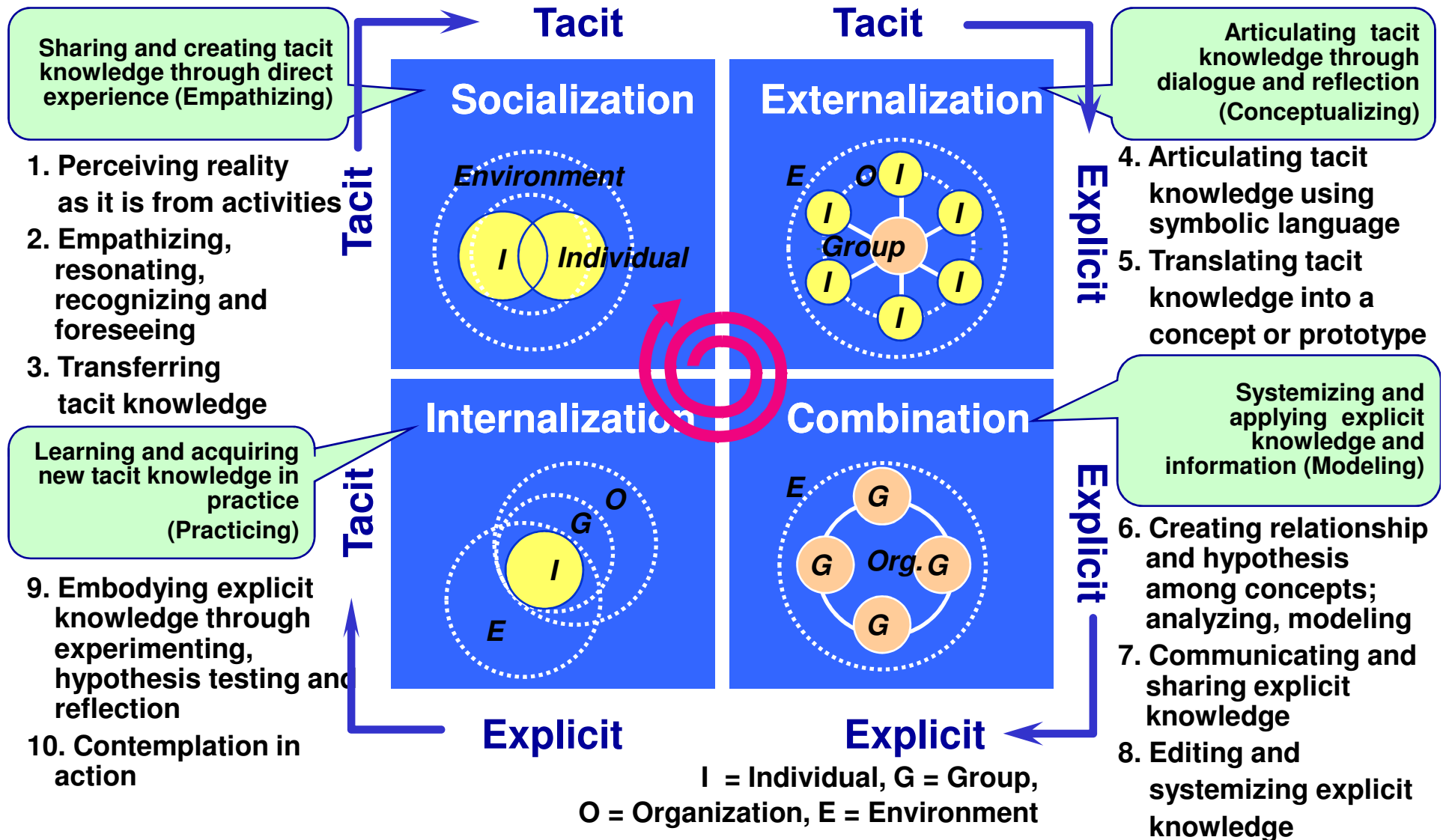
Source: Okuda, H & Zhu, J.R. (2007). *Chikyu kigyo Toyota ha chugoku de naniwo mezasunoka; Okuda Hiroshi no Toyota-ism* [What global-company Toyota aims at in China: Toyota-ism of Hiroshi Okuda]. Tokyo: Kadokawa Gakugei Shuppan.

- Senses are richer than the linguistic expressions, but the language can evoke meaning beyond senses. Collaboration and cycle between senses and language are dialectic creative relationship.

Source: Nagahama, S. (1999). *Chikaku to Kotoba* [Senses and Language] Tokyo: Nakanishiya Shuppan.

Organizational Knowledge Creation Process

SECI Model



Innovation as SECI Spiral

Empathize with the reality through actual experience (Socialization), condense the essence of awareness into concepts (Externalization), relate the concepts and systemize (Combination), create value in the form of technology, products, software, services and experiences and embody the knowledge (Internalization), and at the same time stimulate the emergence of new knowledge in the organization, market and environment, and spiral up to the Socialization step.

Through continuous and fast spinning of the SECI spiral, a firm can build its synthesizing capability of knowledge to pursue both creativity and efficiency.

Case: Eisai

Eisai: A Pharmaceutical Company

As of March 31, 2008

Founded: December 1941

Capital: 44.985 billion yen

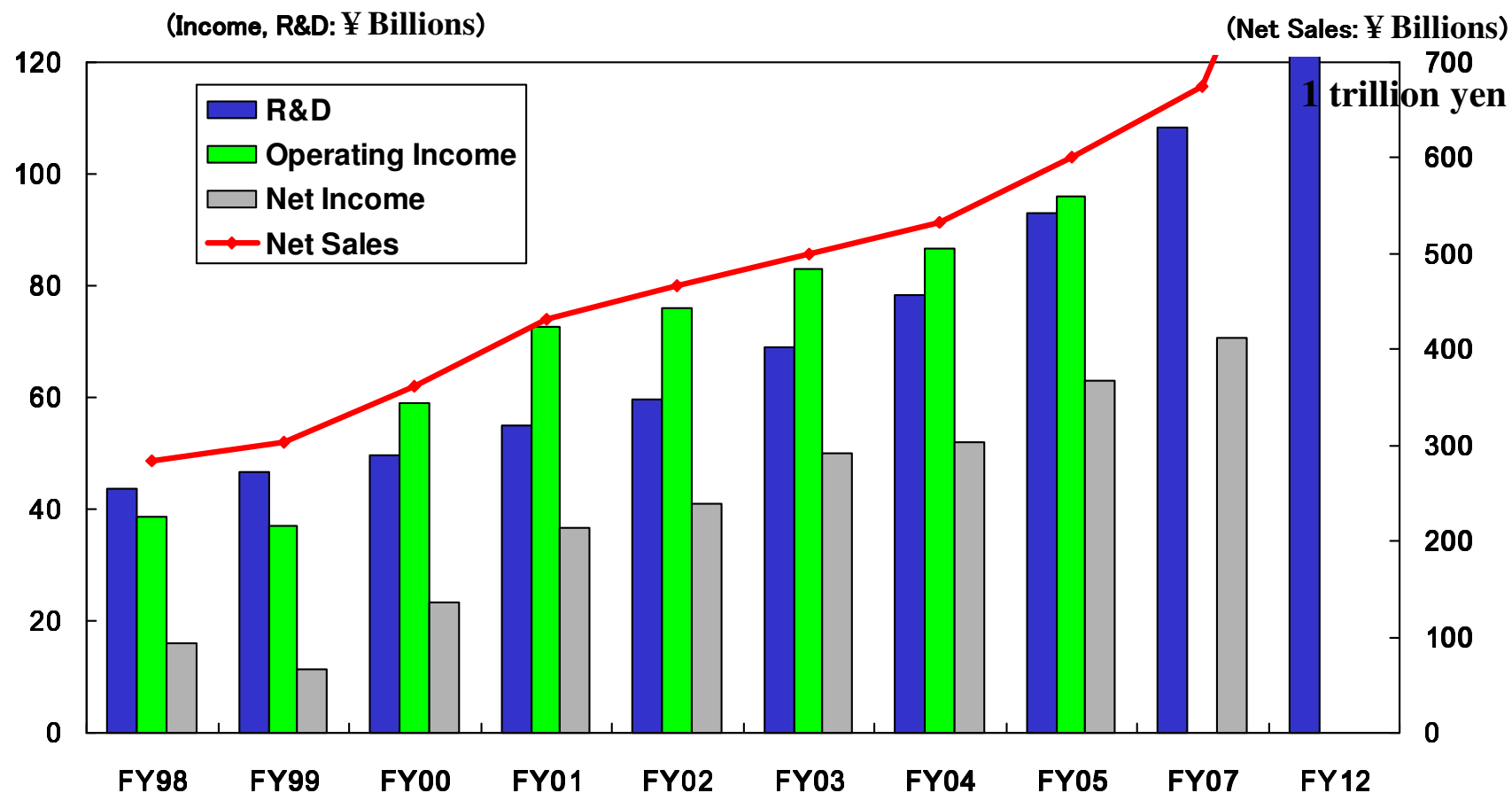
Sales: 674 billion yen (5.7 billion US \$)
22nd largest in the world,
4th in Japan in 2005

Employees: 10,000 people on a global basis

Core Products: Aricept, Pariet

Eisai Group Financial Highlights FY2008

–Revenue & Earnings Growth and Aggressive Investment in R&D–



Note: Financial figures herein are presented in conformity with Japan GAAP unless otherwise stated.



Background: Need for Change

Changes of the pharmaceutical industry environment

Increasing R&D expenses
Penetration by other industries
Competition from foreign giant
Decreasing medical expense
Changes of patients needs

To grow, We must Change

What kind of corporation would we like to become?

Focus on Patients and their families

Our Core Mission (*hhc* philosophy)

We give our first thought to the patients and their families and contribute to increase their benefits. (*hhc* philosophy)

In order to realize *hhc*, all Eisai employees are to spend 1% of their business time in socialization, namely spending time together and/or experiencing common things with the patients.

SECI Process at Eisai

Socialization

Preceptorship Program



Externalization

Knowledge Creation Conference



Internalization

SECI-Based Reflective Practice



Combination

hhc Initiative

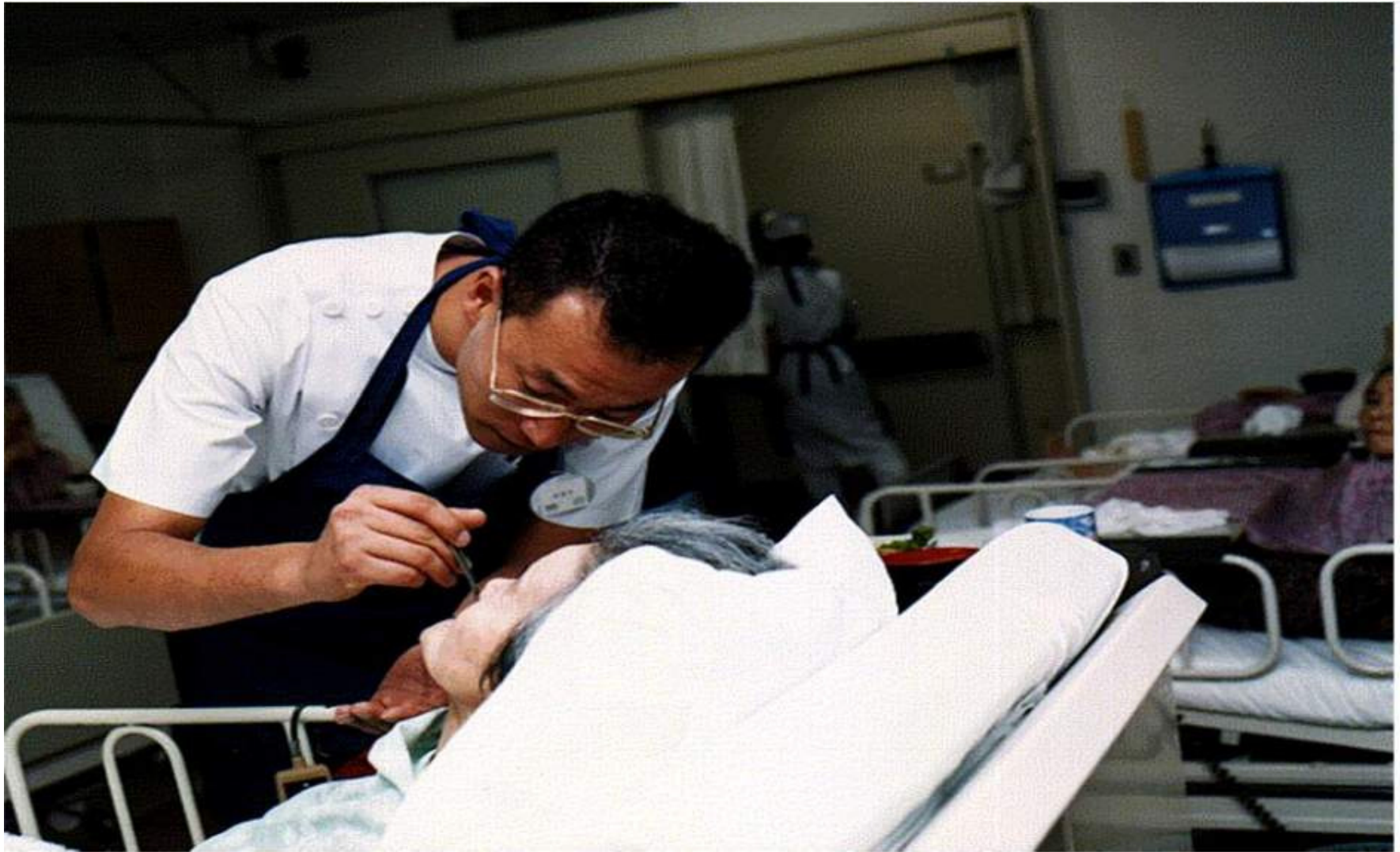


Socialization: Sharing Emotion with Patients and Their Families

- “...what we should be doing as a human health care company is making a meaningful contribution to any health care system. To do that, **it is most important that we know and share the feelings of patients**, their joys, anger, sadness, and happiness.”
 - –Eisai Commitment to Innovation, 1989



See things as they are: Hospital Training



See Things as They Are: Nursing Home



Source: Eisai Corporation

Empathizing: Simulated experience as the elderly



hhc Activities in overseas

Various “Socialization” in each country

■ Visiting children’s hospital in U.S.

Visiting the Children’s House at Johns Hopkins Medical Center to interact with critically-ill pediatric patients and their families

■ Spreading awareness of dementia in India

In 2010, for increasing the early detection, early diagnosis & treatment of dementia. Eisai organized 1,135 screening camps, where 12,547 senior citizens were screened for dementia



■ Patient support program in Indonesia

■ Improving access to health care in remote areas with undeveloped health environment
In 2010, Eisai organized screening activities where 15,323 elderly people got screened. The integrated patient support program also includes telephone calls, home visits, hotline service, newsletters, patient gatherings, etc.

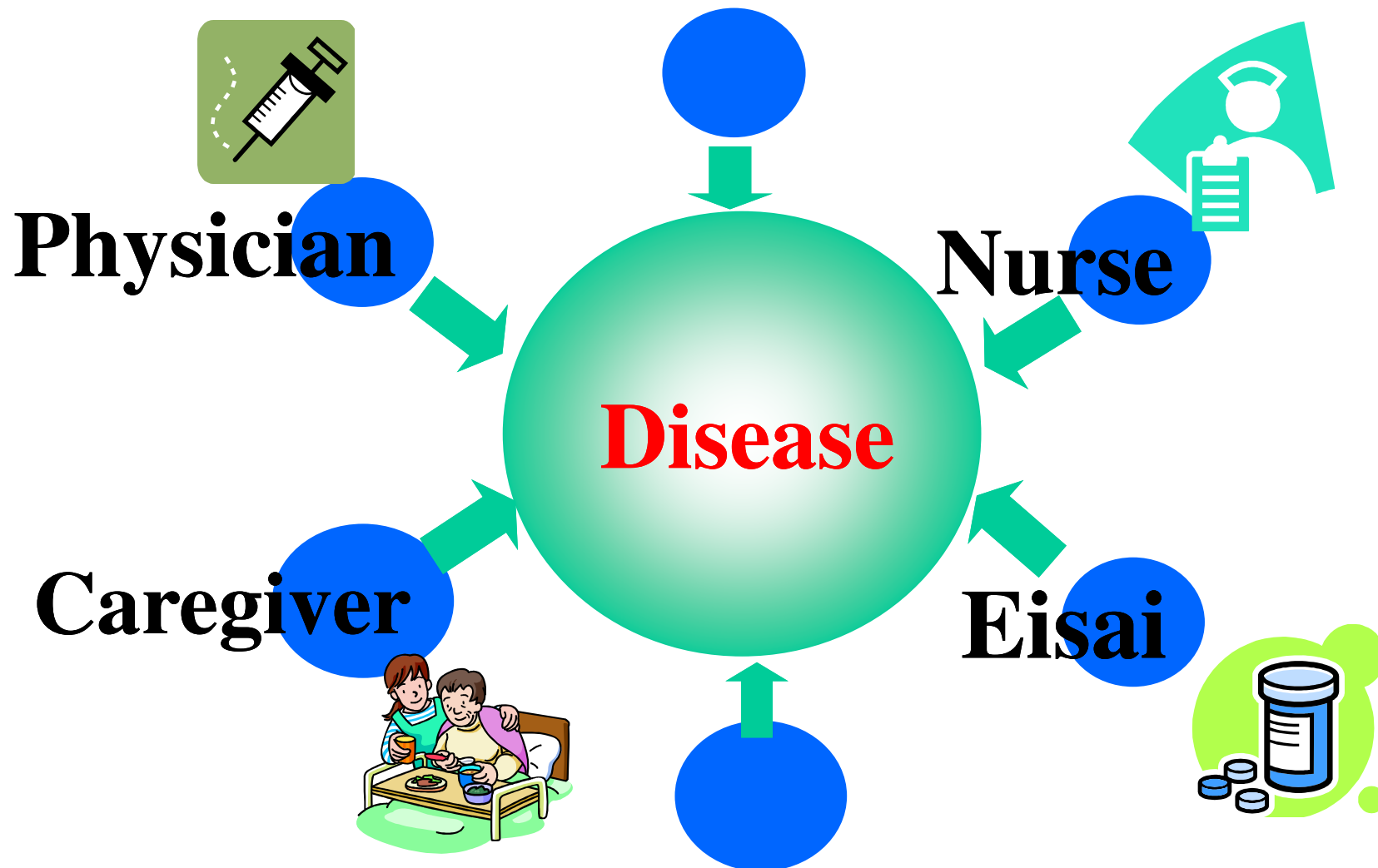


Seeing the Entire Picture

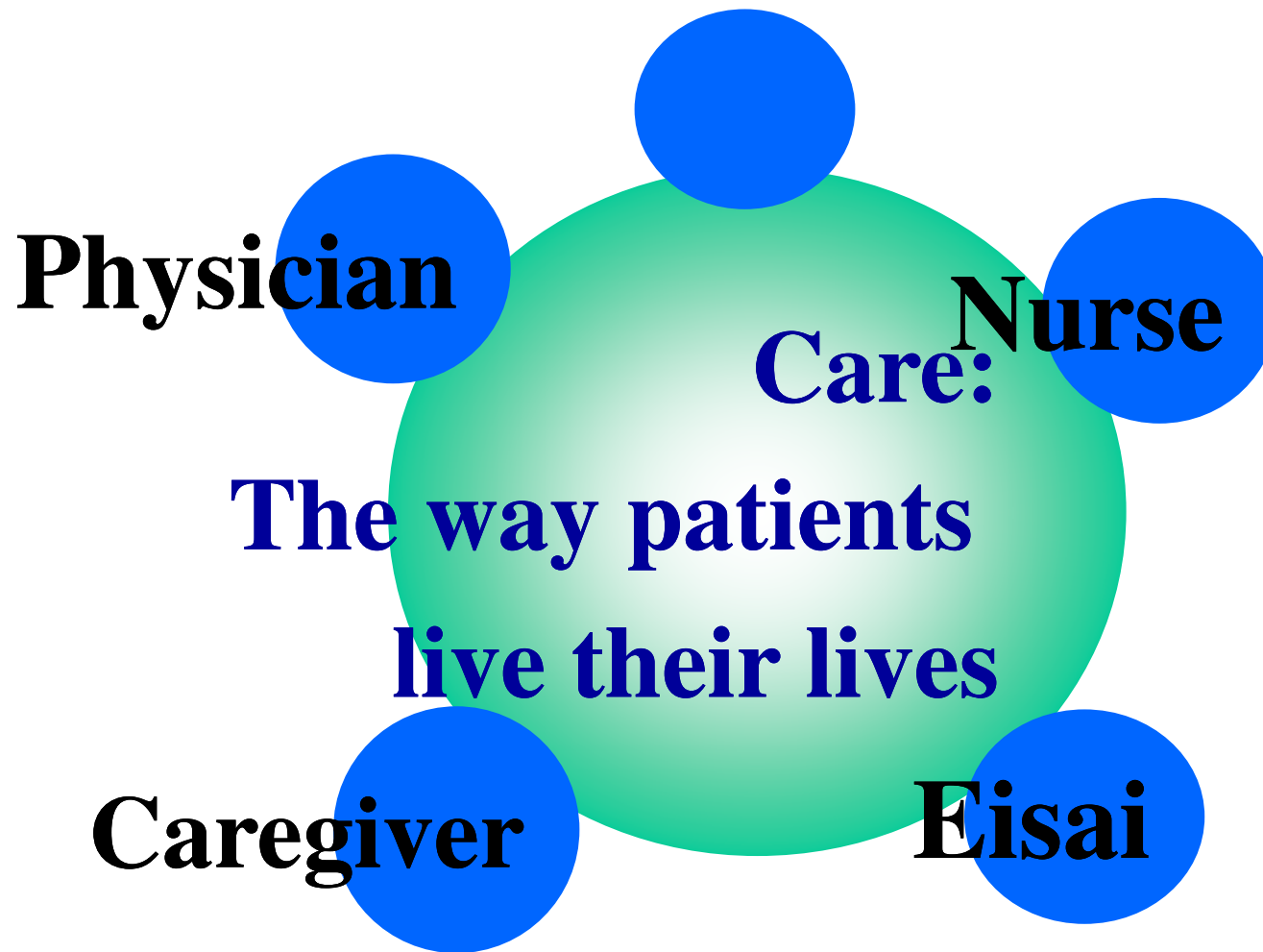
“I had been totally focused on medicines, but at the hospital, **the focus of treatment was not on medicines, but on the patients.** I realized that drug treatments were only **a tool to help people live easier** even they became old. In the lab, it is easy to mistake the development of new drugs as the ultimate goal of research. I was satisfied and felt a sense of achievement just doing that. But I realized it was not enough. **Drugs are only useful in certain situations.** The training gave me a new understanding of the purpose of medicines and how they should be developed.”

–An Eisai employee, after hospital training

Substance (Mono) Thinking: Controlling Disease



Event (Koto) Thinking: Care



hhc Initiative:

Ba for Externalization and Combination

of *hhc* Projects in 2007

Prescription Drug	157
Consumer Health Product	15
Research & Development	91
Production	21
Global Headquarters	13
Network Companies – Japan	67
Network Companies – US/Europe	10
Network Companies – Asia	123

497

Nurses prompted the change



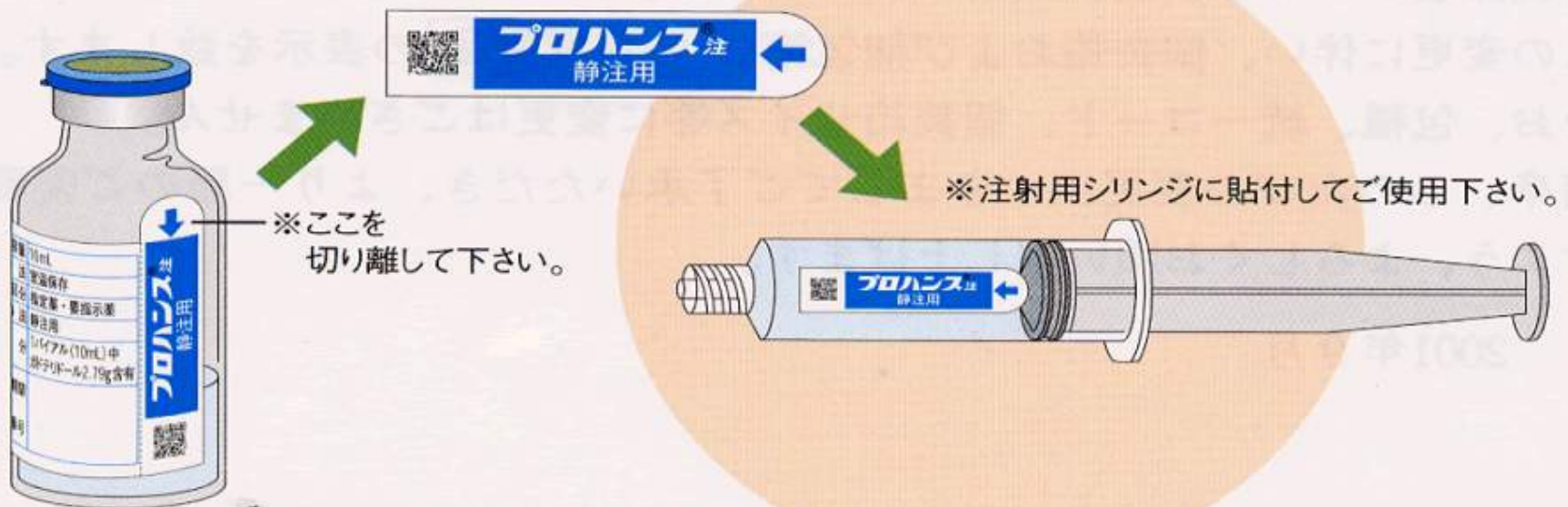
Handwritten by the nurses so
it is not mistaken for
physiological saline

"I think it would be
convenient to have a
stick-on seal."

Strong requests from two facilities
Product Manager Imanishi came
along



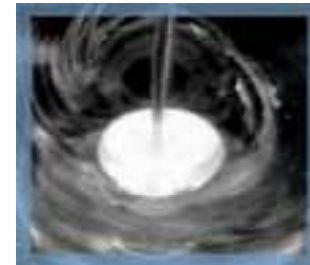
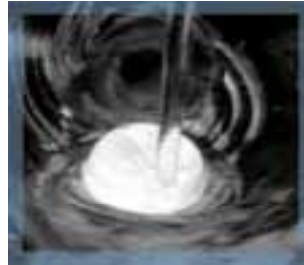
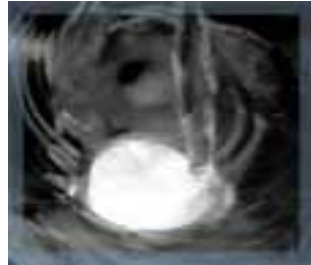
The subsequent result



MR watched dementia patients

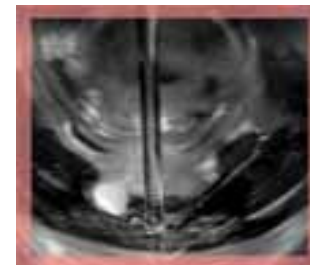
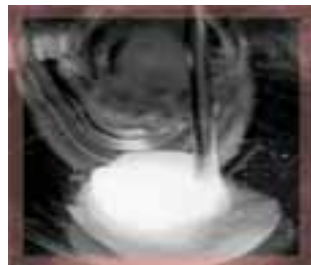
Patients with dementia cannot swallow general tablets, or takes more than 30 minutes to swallow. So nurses grinded the tablet, but the taste is very bitter. MR, watching the situation, reported back to R&D.

Before

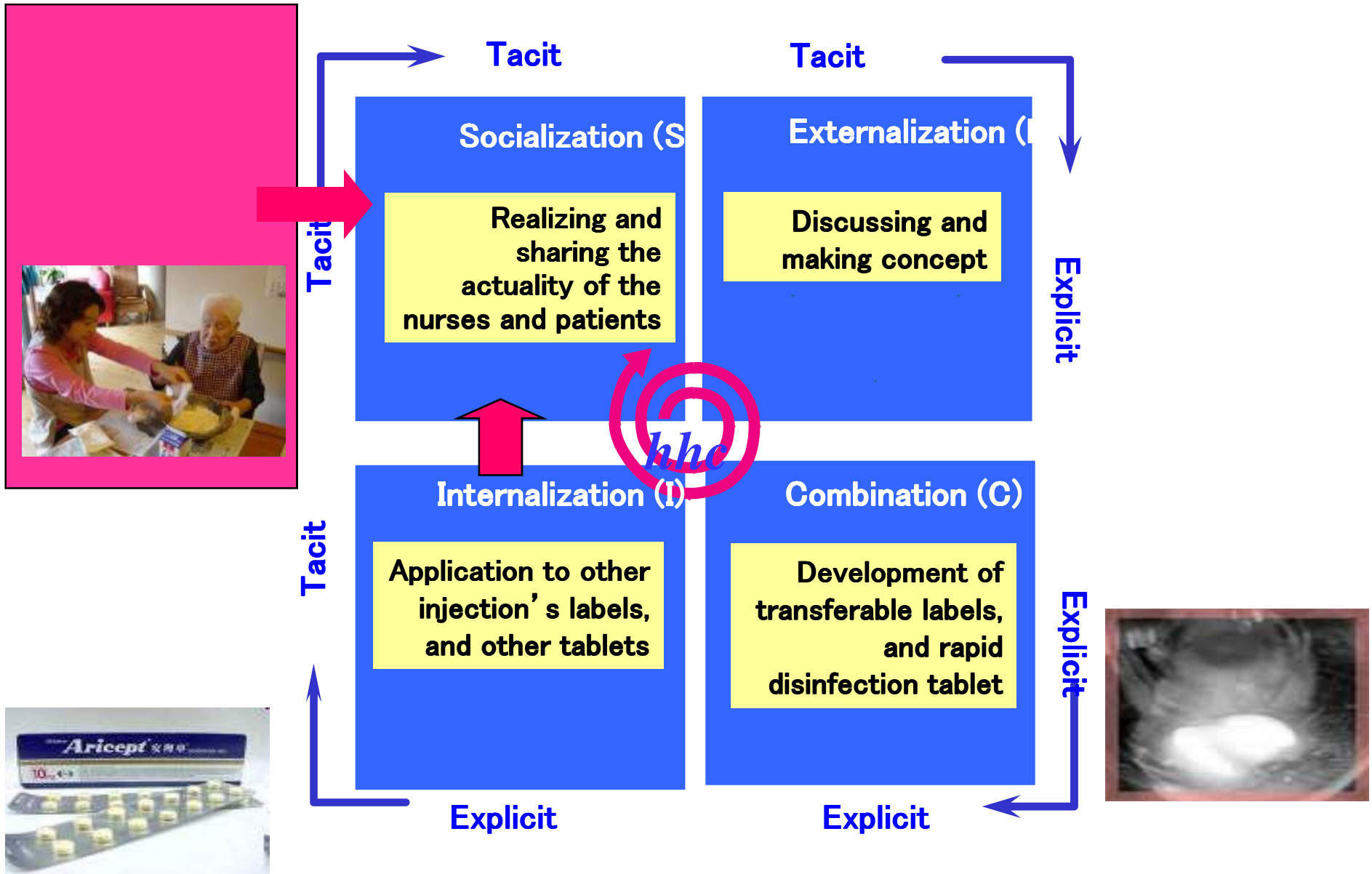


R&D developed Rapid Disintegration Tablet, which melts in ten seconds. But the cost is three times more. MR, knowing the actual situation, decided to GO with the new tablet. President Naito, of course, agreed.

After



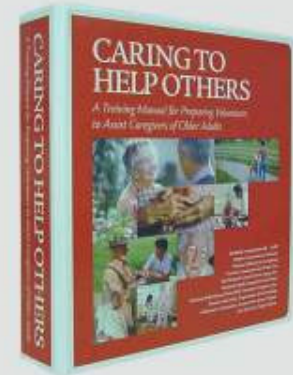
SECI Process: Case of Transferable Labels and Tablets



‘Caring to Help Others’ Manual

The highest hhc Activity Award for 2000

➤ With 9 non-profit organizations & Distributed *13,000 copies*



“Caring to Help Others” is a highly evaluated training manual of caregivers for senior citizens.

Total # of Page: 500

Contents:

Various Issues about elderly care

Useful advice for caregivers

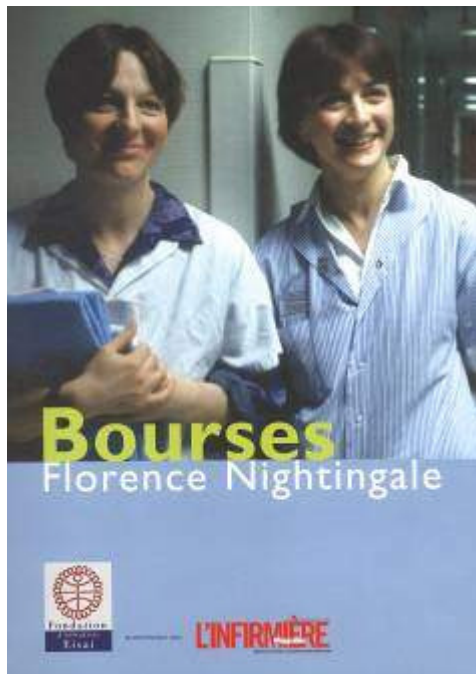
Target Readers:

Trainers of elderly care volunteers

Foundation Projects 2002-2005

Florence Nightingale Award

Nurse education → Improve QOC
Yearly project and Award
EF, Nurses, Physicians,



ARCHI-Project

Improve NH environment
Donate a guide manual
EF, Architects, NH Dirs.,
and Family Assoc.



Planet Cerveau (Brain Planet)

- Provide interest and knowledge on roles of brain and related diseases
- Enhance desire for future medical development

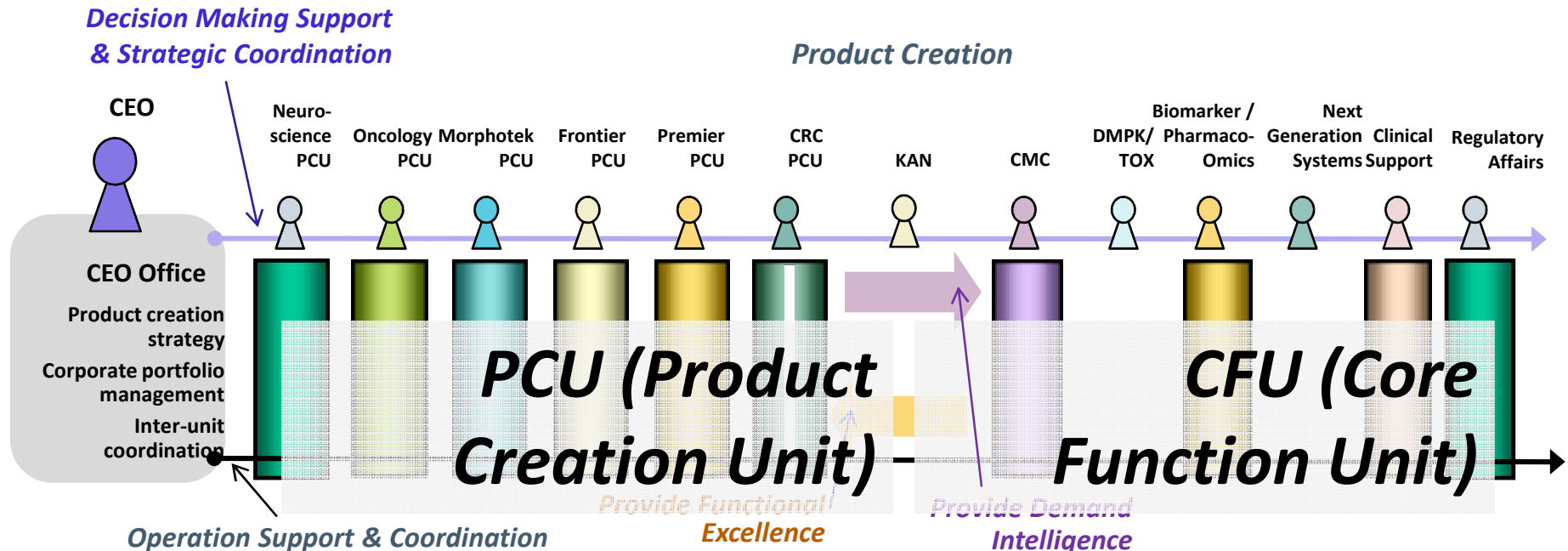


R&D Organization

Developing 13 “Intra-prenuers”

Three Components:

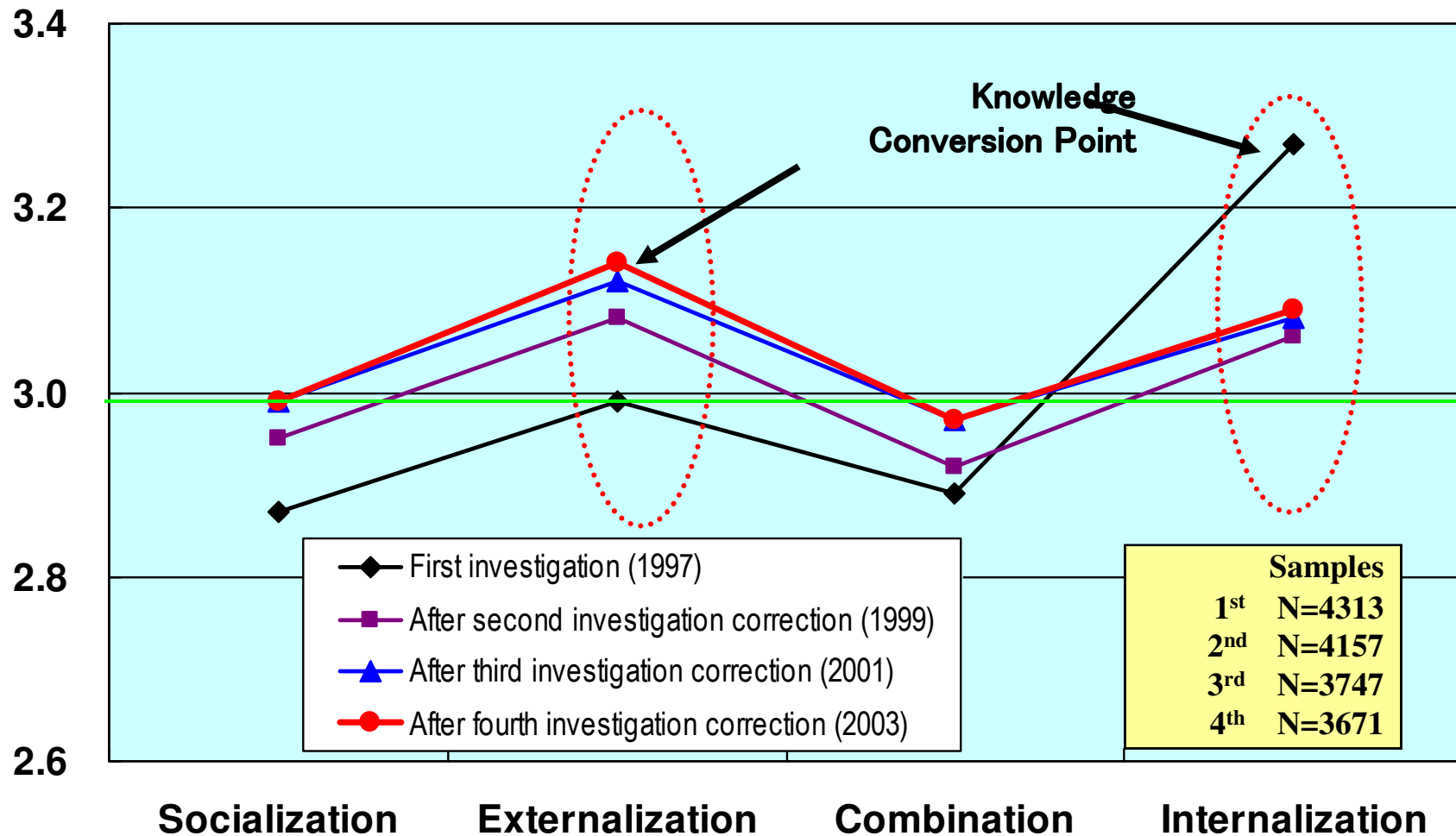
- **Product Creation Units (PCUs):** accountable for discovery to NDA filing of cutting edge innovative drug candidate with timely speed in specific area.
- **Core Function Units (CFUs):** accountable for maintaining world class functional capability (operational, technological and regulatory) and promoting drug candidates as an equal partner to PCU.
- **CEO Office:** accountable for production creation structure, corporate portfolio management and inter-unit coordination.





"Further upgrading, in an ideal form"

– Comparison of the four modes company-wide (first through fourth times) –



Eisai'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.

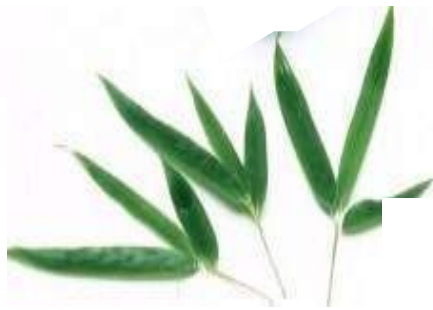
Patient satisfaction:

Satisfying unmet medical needs

Ensuring stable supply of high quality products

Providing useful information of safety and efficacy

Irodori (Leaf-selling business)

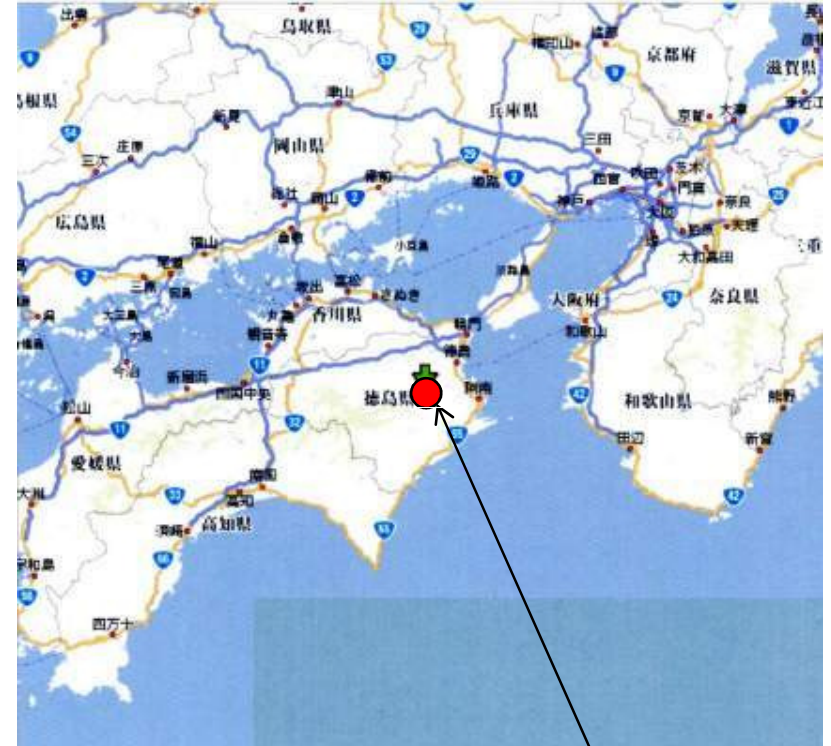


Kamikatsu Town

Kamikatsu Town is located in the mountains of Tokushima Prefecture on Shikoku Island, southwest part of Japan

Population: 2,016 (May 2008)

47.9% over 65 years old which is more than Japan's average of 21.5%



**Kamikatsu
Town**

Limited Land Usage



Because located in the mountains, farming land is scarce.

出所: <http://www.geic.or.jp/geic/partnership/casestudy/055/index.html>



Cultivate “tanada” a stair-like fields

Kamikatsu Town Around 1980 ~

- Decreasing population & increasing number of the elderly
Population declined by 50 percent in 30 years ... 6,356 people in 1950 to less than 3,000 people in 1979
- Average age: About 70 years old
- Lumber industry was sluggish
- Dissatisfaction with the quality of life: men started drinking in the morning and women were finding blame with living conditions
- Famous mandarin oranges were destroyed due to cold weather



Need another income source!!

Begin with a Young Entrepreneurial Employee

Tomoji Yokoishi

- In 1979, at the age of 20, Yokoishi started working at the farmers' cooperative (*nokyo*) in Kamikatsu town. He was recruited by the town mayor and chairman as an outsider.
- As an outsider, he was initially shunned by the local people because he complained about men drinking in the morning, and women complaining about their husband and son's wife.



Sense of crisis:

When the severe cold weather hit Kamikatsu, sales of mandarin oranges, which was the main revenue source for the town, was reduced to 25% over two years. Yokoishi sought ways to generate income and cash for the people of the town.

Responding to the Crisis - 3 Phases

1981 Total destruction of mandarin orange trees



Need other agricultural products



1982 Vegetable cultivation (spinach and spring onion)

Sales revenue increased but was not stable because the vegetable could be harvested only in season



Need agricultural products that could be harvested through all seasons



1984 *Shiitake* mushroom cultivation

Sales revenue increased and became stable but required the hands of young males because log-beds for the mushroom were very heavy



Need products that could be cultivated by the elderly

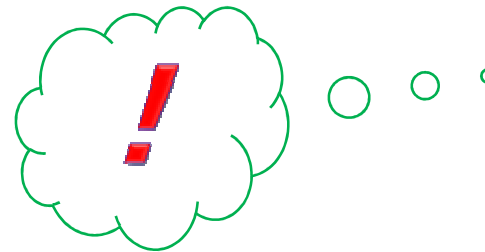


Yokoishi was thinking, thinking, and thinking...

Yokoishi's “Aha” Moment

In 1986, at a sushi restaurant in Osaka...

He saw female customers looking at the “red maple leaves” which decorated their dishes. They started wrapping the leaves with their handkerchiefs to take home.



***We can sell leaves!!
We have plenty of them!***

Decoration in Japanese Cuisine

■ Traditional Japanese Method

- Taste with eyes
 - = Show sense of the season
- A story on the dish
 - = Not just a food to eat
- Decoration represent the sensitivity of the chef = Special know-how



Selling Leaves

“Let’s Give It a Try!”-- but failed

Yokoishi explained his idea to the people of the town, but no one listened (existing knowledge prevented)

“Selling leaves? No way. I am not that down-and-out.”

“Leaves are not farm products; they are just there.”

He finally persuaded four elderly ladies to start selling the leaves...but no sales!

Why?



Traditions and Demands for Leaf Decorations

A chef came to Yokoishi and said, “I will not buy your leaves.” This opened up Yokoishi’s eyes.

- Yokoishi knew nothing about cooking traditional Japanese cuisine, and he had no knowledge on leaves
- But, one-time visitor is never allowed in traditional Japanese kitchen

So, Yokoishi started visiting traditional Japanese restaurants as a customer.

He spent all of his salary (150,000 yen/month to pay for dinners (20,000 yen/meal)

And, as a result, he gained weight and suffered from gout. But he also accumulated tacit knowledge on how and which leaves are used in decorating dishes.



Tenacious Efforts to Find Markets

- He spent about two to gain knowledge on dishes, and was finally accepted by the chef to enter the kitchen, and learn the tradition and the needs.
 - Leaves must represent the coming season. Color and size must fit the dish and the food.
 - Now Yokoishi could understand how a “single maple leaf” would be used to decorate which dish
- He visited markets and get acquainted with the buyer and learned the needs, and cultivated the sales channels



■ <http://gourmet.blog.suntory.co.jp/001234.html>



■ Copyright Nonaka, I. 2011

Tenacious Efforts to Persuade People of the Town

Yokoishi took people of the town to restaurants for dinner

People were impressed with the leaf decorations and agreed that the leaves were indeed useful



People: “Maybe leaves do sell!?”

Yokoishi invited chefs and cooks to lecture on the art of leaf decoration



People: “Maybe we should give it a try!”



From Collection to Cultivation

Utilized existing knowledge

- Pick leaves not from naturally grown trees, but from cultivated trees
- Covered trees with net to avoid worm holes, and not use chemical
- Cultivated in greenhouse to control the season
- “Pick green leaves and preserve, then clear color will develop
- “Plant magnolia trees in a slope so that picking will be easier”
- “Plant trees where there is not much sunlight and rain to pick green leaves



Irodori's Products



Price: 250 to 300 *yen* per package

Stimulate People to Think and Act on Their Own

Orders were sent via fax over towns' wireless network. Every farm received the information at the same time

A first-come-first-served response system generated a sense of competition

Enthusiasm and excitement for business grew

44 既 8 里 10 月 12 日 午前 10 時 49 分 0854 5 2855+ 9.01

形 情 報

平成 19 年 7 月 12 日 木 曜 日 午前 10 時 49 分

下記の通り注文がありますので、山荷できるとは書面様で御座います。

品名	数量	単位
西 金蓮葉	1%	
" うらじろ	200枚	小
" レンコン葉	10枚	20ml
" うらじろ	2%	大
" 特選レモン	1%	
" 大 葉	250枚	
" ハスイモの葉	25枚	30ml
東 かい葉	40枚	25ml
" レンコン葉	50枚	30ml
" レンコン葉	10本	
" 黒いもの葉	20枚	10~12ml
" ハスイモの葉	40枚	40ml
" うらじろ	3%	中
" "	2%	小
" レンコン葉	30枚	20ml
" ハスイモの葉	10枚	20ml
" 大 葉	30枚	小

山荷通 平成 19 年 7 月 12 日 木 曜 日 午前 10 時 49 分

山荷時間 平成 19 年 7 月 12 日 午前 10 時 49 分

Change in Yokoishi's Leadership Style From Leader to Producer

- In 1996, Yokoishi resigned from the farmer's cooperative (*nokyo*). Sales dropped, and people realized it was Yokoishi's leadership that motivated people and expanded the business.
 - In 1999, Irodori Company was established with 70% of its capital from Kamikatsu town. Yokoishi became the CEO, and the mayor of Kamikatsu became the president of the company, and as a producer he stimulated the motivation
- As of 2010:

200 contract farmers

Sales revenues: 260 million yen

Average per farmer is 1.07 million yen

Some elderly (80+) earn more than 10 million yen per year

Wisdom accumulated in the elderly ladies finally flourished

Easy-to-Use PCs for Elderly: “Support Efficiency and Competition”

Based on Seven-Eleven's POS system, Yokoishi wanted to introduce easy-to-use PCs and persuaded the government to support this “experiment”

The merit of obtaining information on best-selling items and price, and their competitive mind to check their sales ranking daily inspired them to use the system.

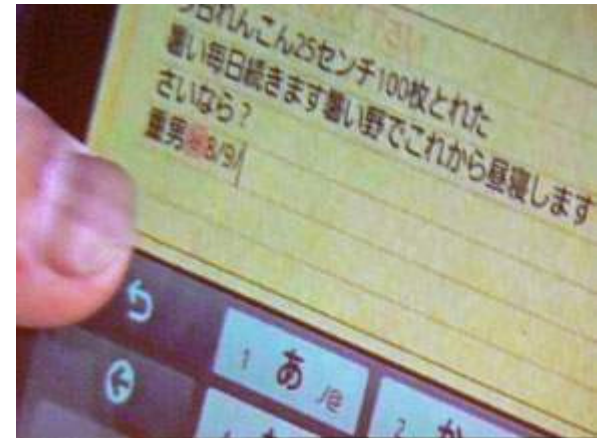


“I will do better than her the next time.”

Easy-to-Use Tablet PC

Android Tablet for Elderly

- Elderly ladies now use Android tablet PC “GALAXY Tab” and improve productivity
 - Developed simple and easy-to-use application: Big button. Screen turn red when order comes. Can check daily results
 - Even in the field, can take order timely which reduces opportunity loss
 - Can confirm which leaves or how many leaves are needed when picking the leaves in the field



■ Source : <http://www.itmedia.co.jp/promobile/articles/1110/17/news092.html>

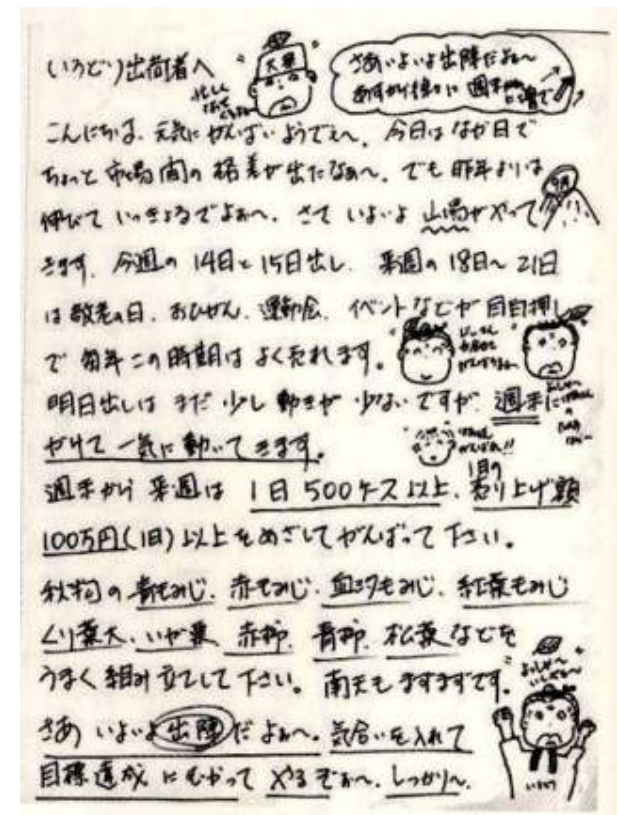
“Love Letter” from Yokoishi:

“Keep Motivating the Elderly”

To complement the PC system, Yokoishi hand wrote letters to farmers and sent them via wireless fax daily
Obaachan waited for the fax

“Mr.Yokoishi’s letter motivates me”

“I can feel the heart of Mr. Yokoishi which makes me want to do a bit more”



Elderly People Motivated: Kamikatsu Town at the Present

**Population increased slightly but is still dominated by the elderly.
Population hit the bottom in 2005 with less than 2,000 people,
but increased about 100 people since then.**

***Obaachan (elderly ladies) & Ojiichan (elderly men)
are living happily in Kamikatsu town.***



**Men drink less, women complain less,
and the healthcare expenditures decreased**

Embedding a Creative Routine to Spontaneously Think and Act

The success of Irodori attracted media around the world. Yokoishi was named one of 100 social entrepreneurs of the world in 2007 by *Newsweek Japan*

The town started a “zero-waste” program that synchronized with the environmental and economic objectives of the Irodori business

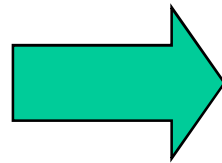


We have ripple effects. Rivalry created a routine to think spontaneously. Market change created a routine to observe closely. You can see an elderly lady strolling. She seems to be just walking, but she is observing and thinking “From that tree, I can pick leaves of this size for this many, that size for that many”

The story continues ...

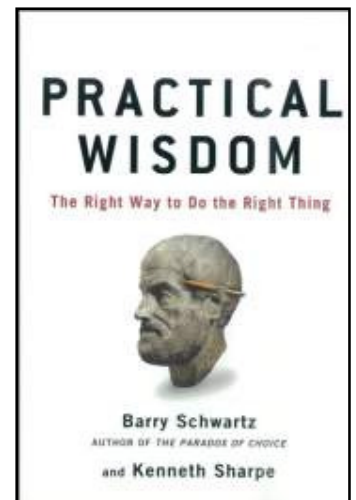
Experience (Koto): Irodori

Not Leaves, but Beauty and Wonder at Table



Attention to Practical Wisdom is increasing

- **Practical Wisdom, a contradiction?**
 - **Plato: Wisdom is theoretical, abstract and for the few elites; has nothing to do with practice**
- **Truth is, only the practical wisdom can solve the daily issues**
 - **Aristotle: Wisdom is to make judgment in everyday life with deliberation and emotion, and make a right action. Wisdom is embedded in practice**
 - **Rules can help only in a specific situation; in the complex and dynamic world, need here-now judgment depending on the context**



(2010)

Source: Schwartz, B. & Sharpe, K. (2010). *Practical Wisdom*. New York: NY. Riverhead Books.

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Plato(left) & Aristotle(right)

School of Athens—Raphael



Why Practical Wisdom Now?

- We face various contradictions everyday
Believe in the past data or patient in front? . . . in hospitals
Act based on manual or for the customer? . . . at stores
Judge by the precedence or the situation? . . . in the court
Lead by the orders or for the student? . . . in schools
- Practical wisdom can balance and synthesize these contradictions: can live healthier, wealthier and wiser

Source: Based on Schwartz, B. & Sharpe, K. (2010). *Practical Wisdom*. New York: NY. Riverhead Books.

- Context is important to pursue practical wisdom

Context is a relationship between things and situation.
Meaning can only be understood by knowing the relationship with the surroundings (= environment)

- Knowledge is a resource which human creates within the context

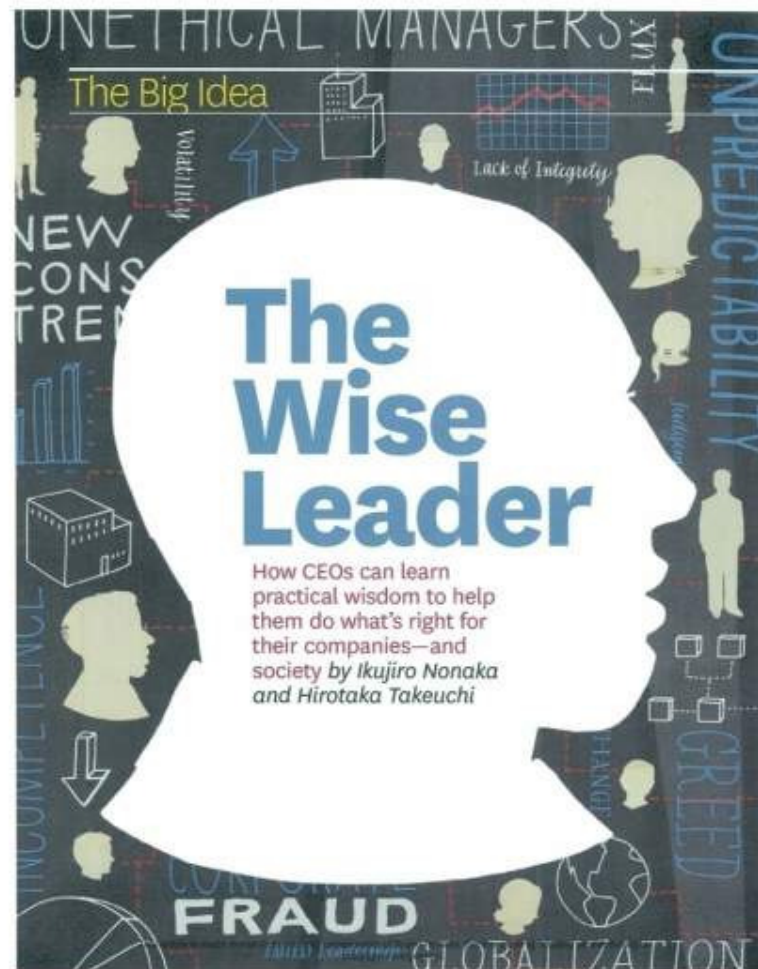
Phronesis by Aristotle

Prudence, Practical Wisdom

Phronesis is a **practical wisdom** to make a best judgment with common good in a **particular context**

- Ability to find a just right answer in a particular context
- Ability to synthesize the particular and universal, contemplated rationale and improvisation on the spot
- Contemplation in action
- Contextual judgment and timely balancing

The Wise Leader



Source: Harvard Business Review: MAY 2011



Occupy Wall Street (Sep. 17, 2011~)

Protest Against Extreme Capitalism

Anti-Wall Street movement

- Issues of unemployment, income and tax inequality, unfair healthcare service, etc.
- Backed up by unions
- Movement spreading in U.S.
- May affect the 2012 presidential election



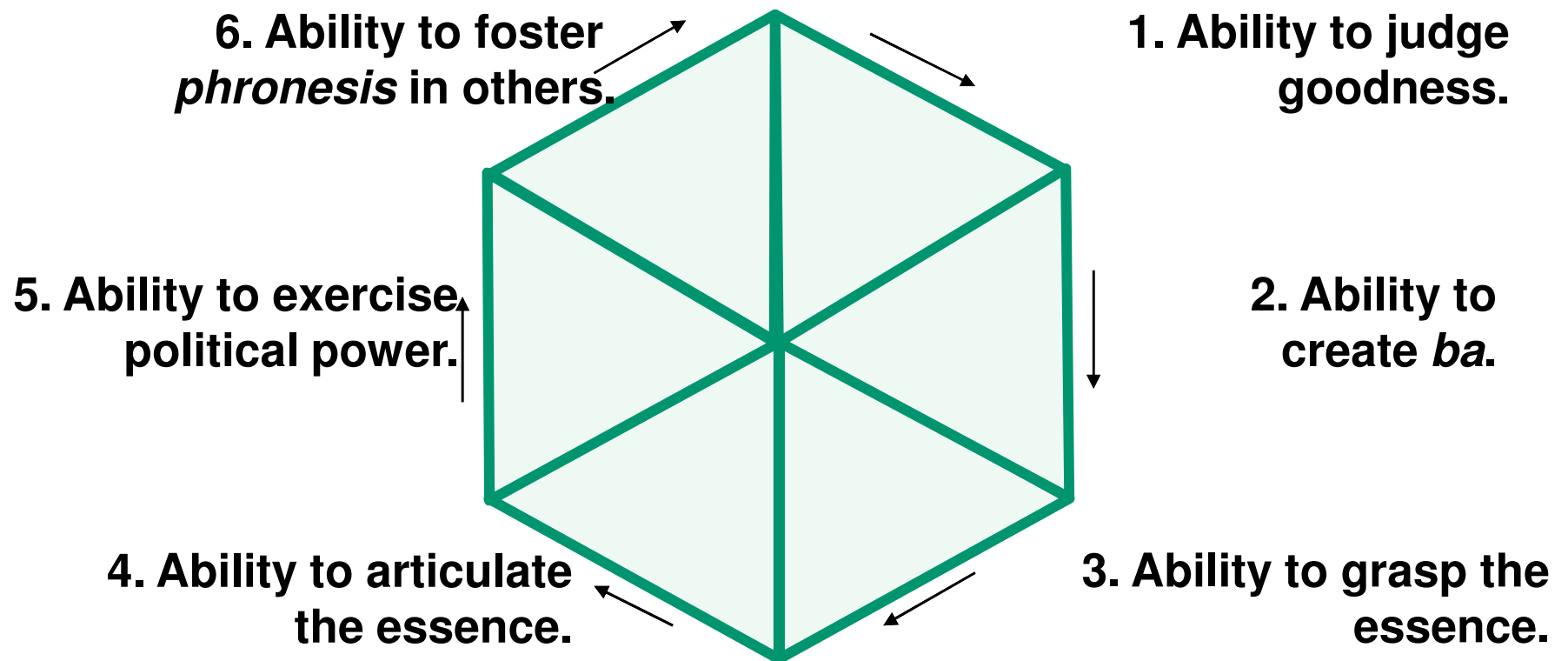
“Occupy Wall Street is leaderless resistance movement with people of many colors, genders and political persuasions. The one thing we all have in common is that **we are the 99% that will no longer tolerate the greed and corruption of the 1%.** We are using the revolutionary Arab Spring tactic to achieve our ends and encourage the use of nonviolence to maximize the safety of all participants.”

Source: <http://occupywallst.org/>



Abilities to Constitute *Phronesis*

***Phronesis* is a virtuous habit of making decisions and taking actions that serve the common good**

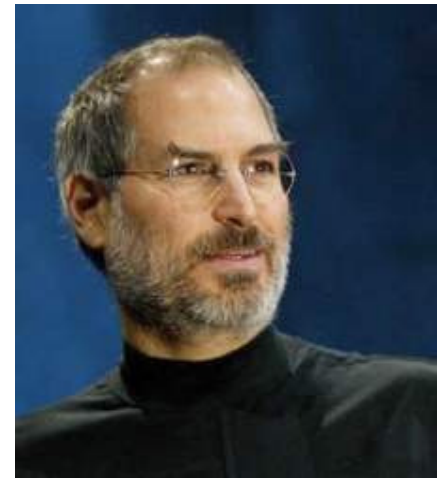


Phronetic Leaders: Soichiro Honda and Steve Jobs

- **Soichiro Honda (1906 – 1991)**
Founder of Honda Motor Corporation



- **Steve Jobs (1955 –2011)**
Co-founder of Apple Computer



1. Ability to judge goodness

Knowledge Creation begins from

Human Ontology: Heidegger

Heidegger's projection and the time

The only certainty in the future is death. The most important dimension of temporality is future because it presents the potentiality-for-being. As we project our future in the present, our present exercise and past experience can be seen in different light.

For a woman who pursues the project of being a novelist and approaches her past as a source of stories, the world opens up as a place filled with fellow artists, audiences, publishers and so on. Her future and her past give rise to her present.



(Source: Heidegger, Being and Time)

Knowledge Creation begins from Human Ontology: Steve Jobs

Remembering that I'll be dead soon is the most important tool I've ever encountered to help me make the big choices in life.

Remembering that you are going to die is the best way I know to avoid the trap of thinking you have something to lose. "If today were the last day of my life, would I want to do what I am about to do today?" You are already naked. There is no reason not to follow your heart.

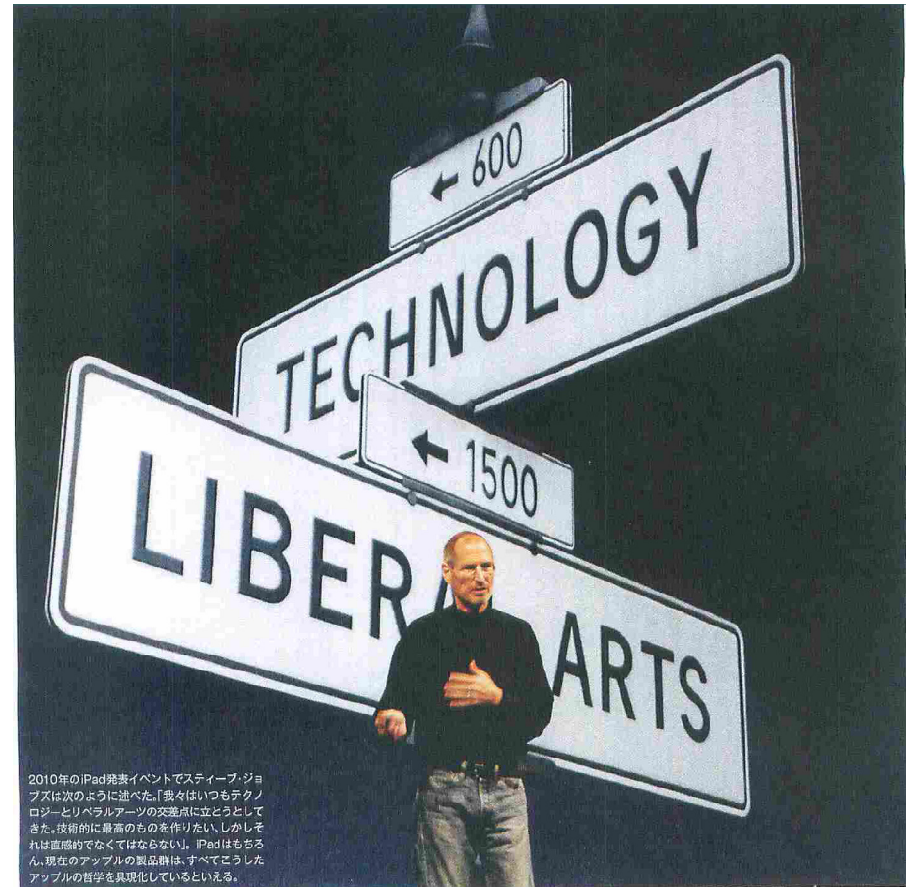


Source: Steve Jobs "Stay Hungry, Stay Foolish", September 2005.

Technology Married with Liberal Arts and Humanity: Steve Jobs

Apple's DNA: "Technology alone is not enough. It's technology married with the liberal arts, married with the humanities, that yields the results that makes our hearts sing."

Steve Jobs, Apple



2010年のiPad発表イベントでスティーブ・ジョブズは次のように述べた。「我々はいつもテクノロジーとリベラルアーツの交差点に立とうとしてきた。技術的に最高のものを作りたい。しかしそれは直感的でなくてはならない。iPadはもちろんだが、現在のアップルの製品群は、すべてこうしたアップルの哲学を具現化しているといえる。」

Need for a Good Theory: Soichiro Honda

Respect for Sound Theory:

“Action without philosophy is a lethal weapon; philosophy without action is meaningless.”

“Just to be hard working has no value. ‘The good theory’ is the necessary premise for working hard.”

“Joy of buying determines the value of the product in a most fair way. The person who knows the value of the product and gives final evaluation is not the manufacturer or the dealer, but the buyer who will be using the product in daily basis [...]

Source: Honda Top Talks “Passing down the basics”

Copyright Nonaka, I. 2011

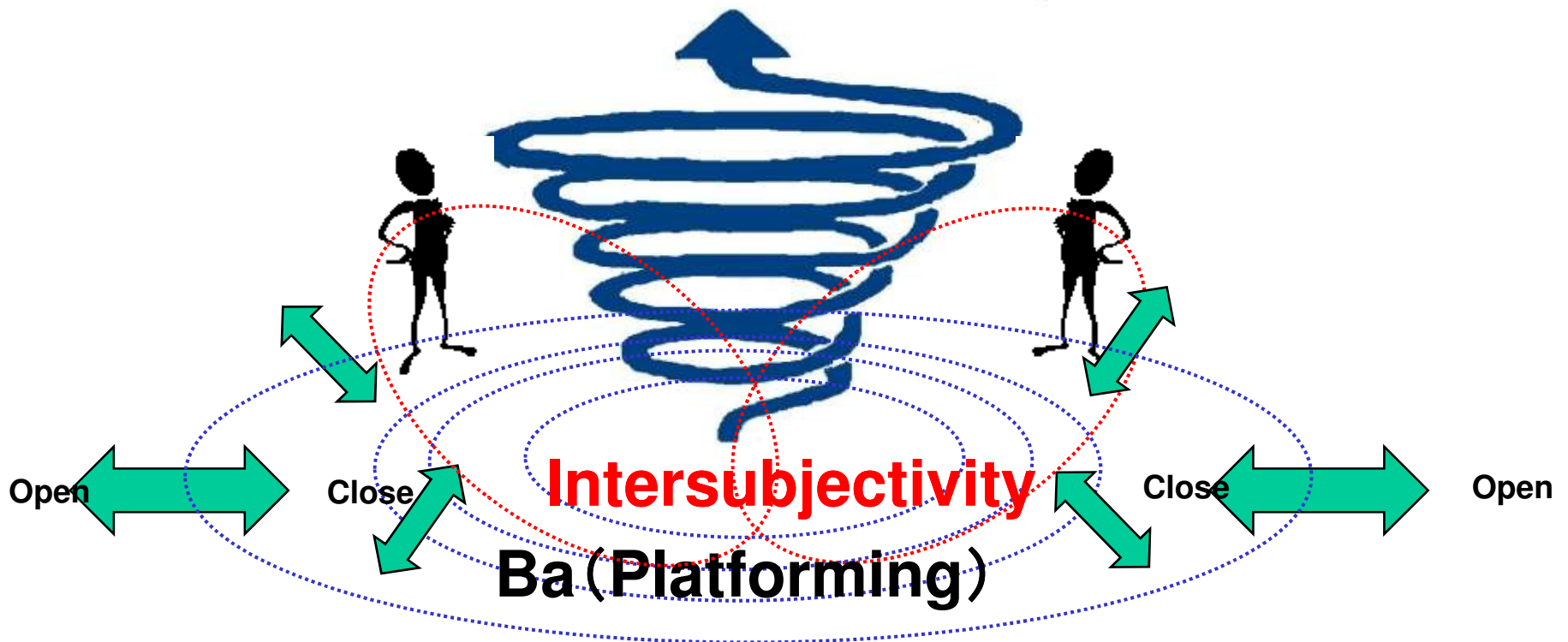
Phronetic Leadership

2. Ability to create *ba*

Imaginative capacity to understand and empathize with others through daily verbal and nonverbal communication, to read the situation to judge the best timing for interaction, and to elicit empathy in return.

Ba: Dynamic Platforming for Intersubjectivity

Knowledge Creation through
Co-transcendence



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

Joking is Difficult

Soichiro Honda

“Joking is very difficult. You have to grasp the atmosphere of the occasion and the opportunity. It exists only for that particular moment, and not anywhere else. The joke is in the timing and it doesn’t work at any other moment.... To joke is to understand human emotion.”

Soichiro Honda

Magnetic Pull

Steve Jobs

He uses your first name very often. He looks directly in your eyes with that laser-like stare. He has these movie-star eyes that are very hypnotic. But what really gets you is the way he talks – there's something about the rythem of his speech and the incredible enthusiasm he conveys for whatever it is he's talking about that is just infectious.

Source: Gallo, C. (2009). The Presentation Secrets of Steve Jobs: How to Be Insanely Great in Front of Any Audience. McGraw-Hill Professional. P.28.

“*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

***Ba* Promotes Socialization**

by Physical and Mental Touching

- **Interpenetration of the body senses
Intercorporeality (Merleau-Ponty)**
- **Knowledge creation base on the
body: Findings of cognitive science**
(Pfeifer and Bongard :2006)
- **Socialization occurs in the brain by copying the
actions of others: Discovery of the Mirror-
neurons (Iacoboni, et al:2005, Rizzolatti:2005)**
- **Emphasize with others as a whole being:
Intersubjectivity**



Internet and Holistic Dialogue

- For Productive Dialogue, Need Independent People -

Internet: Casual dialogue is always possible and apparent. Such dialogue holds no awe or tension, so threshold is very low and thus not productive.

When a person speak up to other person, he/she may be hesitant, nervous, and ashamed, but he/she gathers her courage, face up, stand up, and speak up because she has something to say

Source: Matsuura, Y. and Karube, T. (2011). "Shintaika sareta chi no fukken wo (Restore the embodied knowledge)" Chuou Kouron, August 2011

Phronetic Leadership

3. Ability to grasp the essence

The ability to recognize the constantly changing situation correctly, and quickly sense what lies behind phenomena to envision the future and decide on the action to be taken.

God is in the details

(3) Grasp the Essence Soichiro Honda



Contemplation in Action:

Indwelling in the actuality with deep thinking

Indwell in the subject by combining every minute details and see and feel from the view of the rider

“I can see many things when I see a machine. How can we maneuver through that curve? We should do this, we should do that.... Then I think about the next machine. We can make a faster machine if we think like this, and so on. It’s a natural progress into the next step.”

- Soichiro Honda

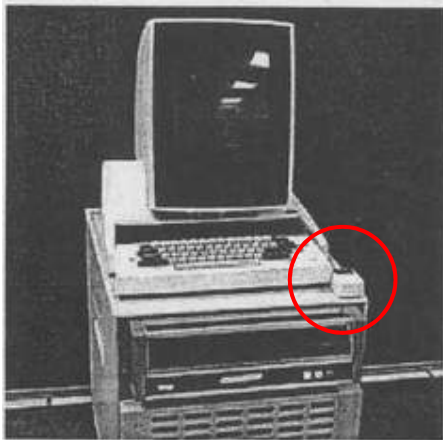
Source: Honda Motor Corporation
(Picture at the Automobile Hall of Fame, Detroit)

(3) Grasp the Essence

Steve Jobs



■ http://images.businessweek.com/ss/09/09/0929_jobs_presentations/index.htm



The Seer and Stealer:

In 1979, Jobs visited Xerox Palo Alto Research Center (PARC) and saw the first computer with a “mouse (point and click device)”:

“it was the best thing I’d ever seen in my life.... within ten minutes it was obvious to me that all computers would work like this some day.”

Source: Kahney, L. (2008). *Inside Steve’s Brain*. Portfolio, NY: New York.

Phronetic Leadership

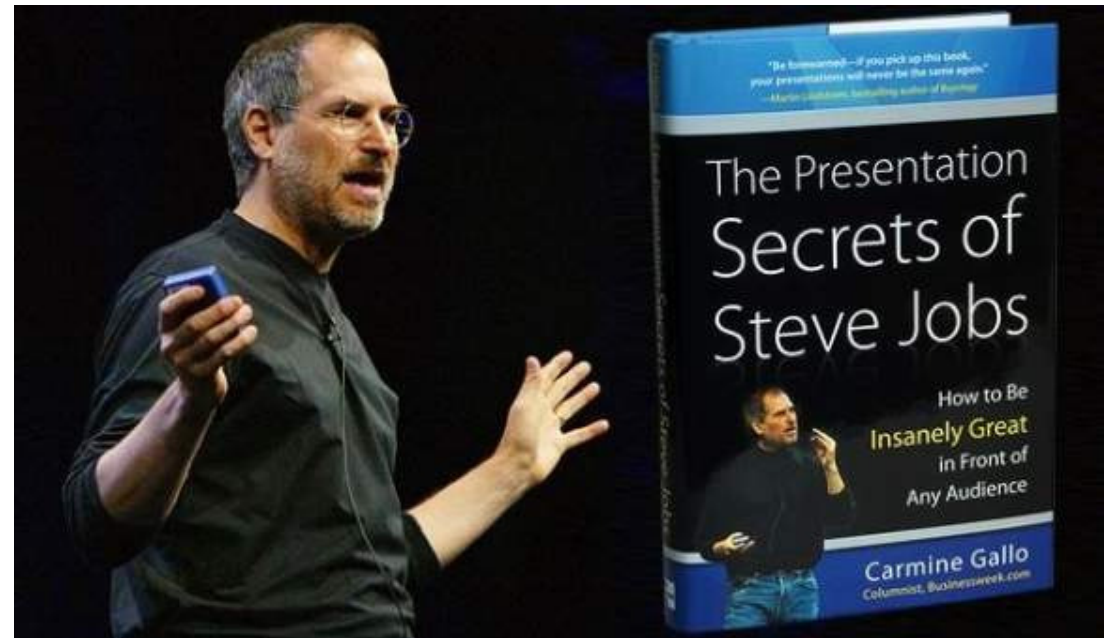
4. Ability to articulate the essence

The ability to conceptualize and articulate subjective ideas in clear language, link these ‘micro’ concepts to a macro historical context and convincingly articulate them as vision and story for the future.

Harmonize the Concepts in *ba* / Make Full Use of Metaphor Soichiro Honda & Steve Jobs



Source: Honda Motor Company

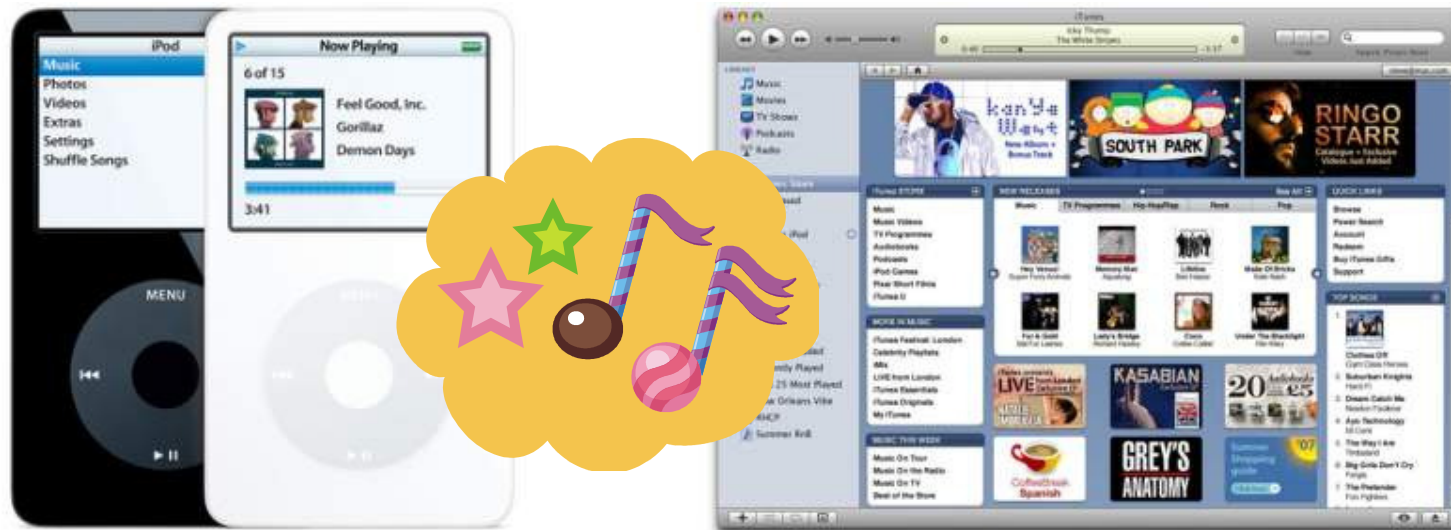


http://images.businessweek.com/ss/09/09/0929_jobs_presentations/index.htm

An Organization has to Offer a Unique Value - Apple

Not thing (mono), but event (Koto)

Not iPod, but multimedia experience (easy to download, easy to manage, easy to carry, can listen, view, and take video/photo)



Methodology for transforming Thing (mono) to Event (Mono)

- **Event (Koto) starts from facing up to reality**
 - **To convert “mono” term (e.g. noun) to “koto” term (e.g. verb), put apparent preconditions into bracket and directly sense reality (“*epoché*” phenomenological suspension of judging reality)**
- **Product (Mono) is one form of social relationship**
 - **Marx perceived product as not a visible thing but a social relationship between capitalists exploiting workers. By so doing, he captured reality as not fixed object but active subject**

Source: Based on Maki, Y. (2003). *Kiryu no naru oto* (Sound of air current). Tokyo, Chikuma Gakugei Bunko.

Phronetic Leadership

5. Ability to exercise political power

The ability to bring people together and spur them to action, combining and synthesizing everyone's knowledge and efforts in pursuit of the goal, by choosing and utilizing the means and rhetoric (the art of effective or persuasive speaking or writing) suitable to each particular situation with shrewdness and determination.

Leadership to Exercise Political Power

Soichiro Honda and Steve Jobs

Declaring the participation to the Isle of Man Tourist Trophy Race

I address all employees!

Let us bring together the full strength of Honda Motor Co. to win through to this glorious achievement. The future of Honda Motor Co. depends on this, and the burden rests on your shoulders. I want you to turn your surging enthusiasm to this task, endure every trial, and press through with all the minute demands of work and research, making this your own chosen path. The advances made by Honda Motor Co. are the growth you achieve as human beings, and your growth is what assures our Honda Motor Co. its future.

Source: Honda Top Talks “Passing down the basics”

Reality Distortion Field

The reality distortion field was a confounding mélange of a charismatic rhetorical style, and indomitable will, and an eagerness to bend any facts to fit the purpose at hand. In one line of argument failed to persuade, he would deftly switch to another. Sometimes, he would throw you off balance and suddenly adopting your own position as his own, without acknowledging that he ever thought differently.

Source: Karney, L. (2008). *Inside Steve's Brain* (expanded edition). pp.162-163

Phronetic Leadership

6. Ability to foster *phronesis* in others

The ability to create a system of distributed *phronesis* by fostering and transferring the existing *phronetic* capabilities of individuals to others to build a resilient organization which can respond flexibly and creatively to any situation to pursue its own good.

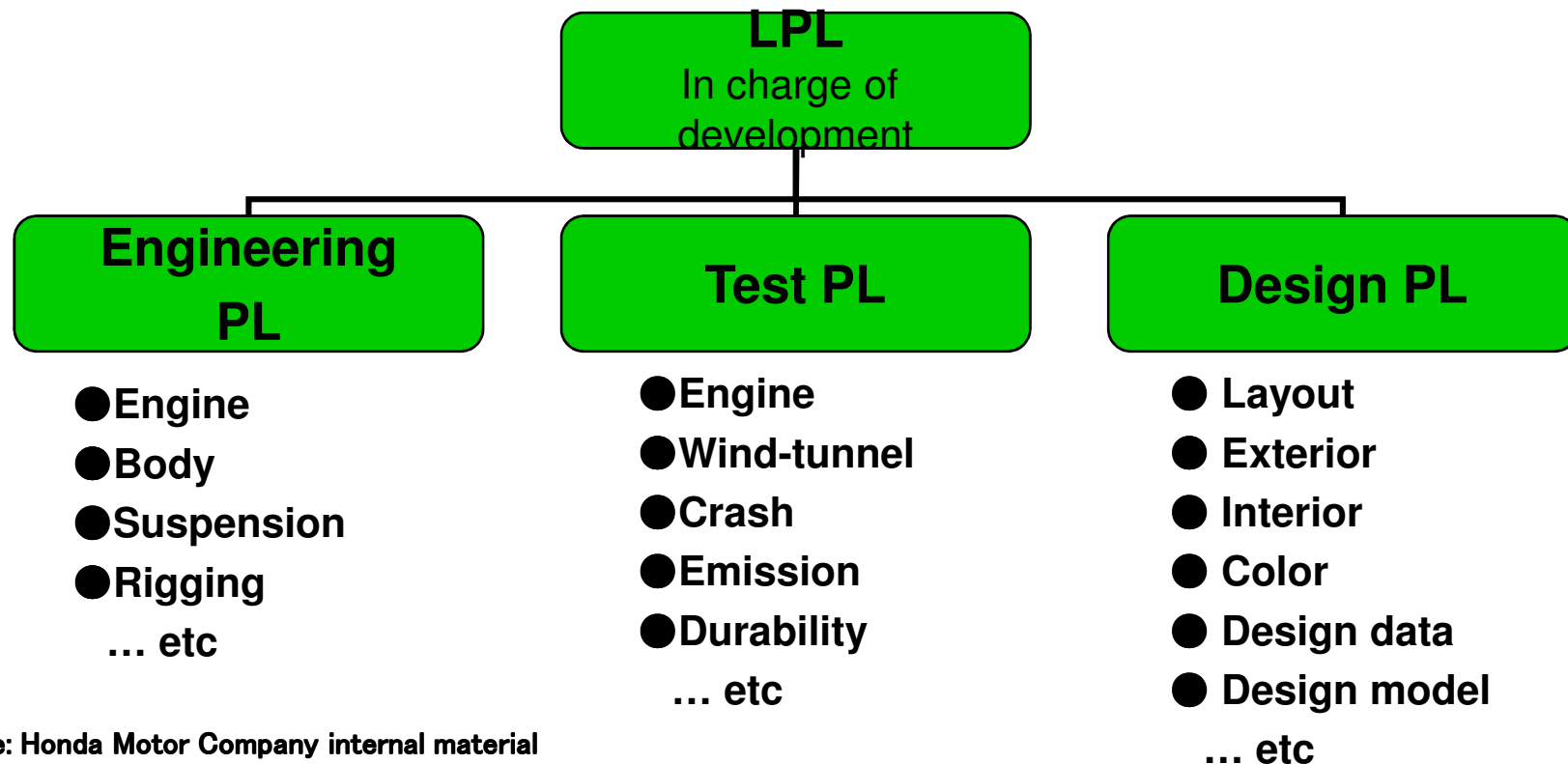
System to Distribute Phronesis

- LPL and PL to nurture Honda DNA -

Honda's exemplar is Soichiro Honda

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 Soichiro Honda. It is important for Honda to create many Soichiro Honda.

-Takeo Fukui, CEO of Honda



Foster Phronesis

Steve Jobs

The Hero/Asshole Rollercoaster

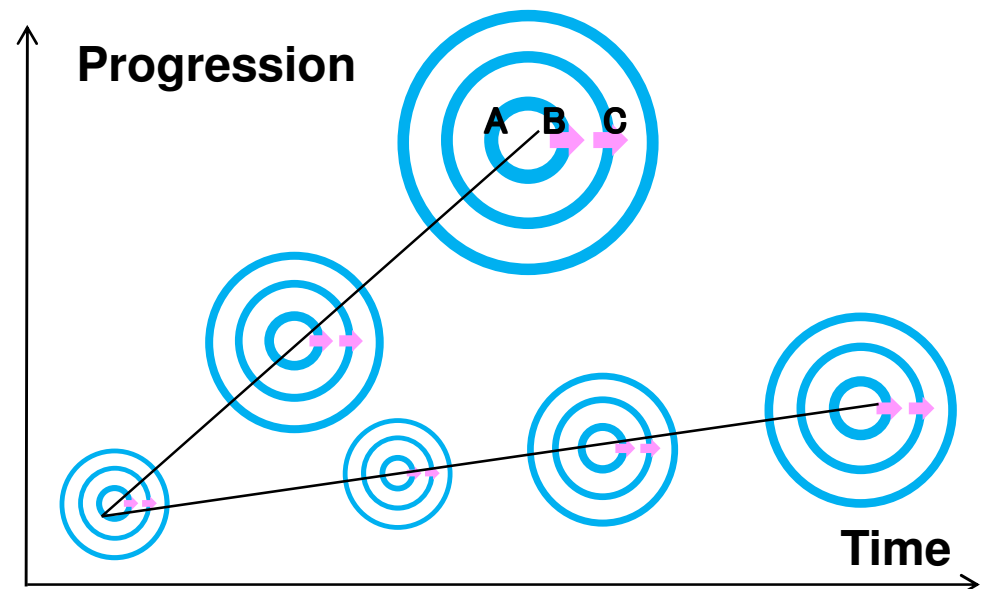
Just as Jobs is exceedingly demanding of the people who report to him, Apple's middle managers demand the same level of high performance from their staff. The result is a reign of terror. Everyone is in constant fear of losing their jobs. (...) One day you're a hero, the next day, you're an asshole. (...) "There's incredible highs and there's incredible lows.

Source: Karney, L. (2008/2009). *Inside Steve's Brain* (expanded edition). Portfolio, New York. Pp.150-151

Apprenticeship Model

Spiral of Concentric Learning and Deliberate Practice

- Expand core skills by concentric learning in broader and more complex job assignments ($A \rightarrow B \rightarrow C$)
- Deliberate practice that combines practice, feedback from bosses/mentors and self-correction etches pathways that make certain responses automatic and instinctive; underlies the superb judgment successful leaders demonstrate
- Experience hones personal attributes, expands capability and capacity, and prepares for bigger and more complex challenges
- Bosses give assignments and feedbacks timely and appropriately **to promote progress**

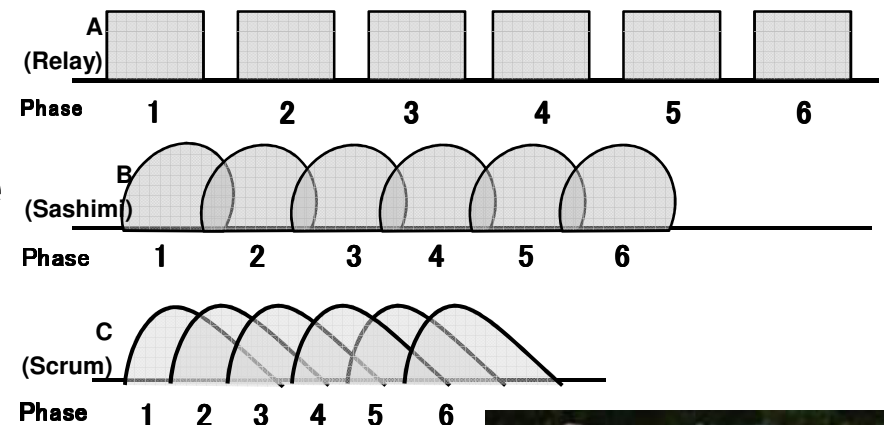


Agile Scrum Innovation

- Software Development is a Knowledge Creating Process -

“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.”



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

Source: Takeuchi, H. & I. Nonaka. (1986). The new new product development, *Harvard Business Review* January-February, 1986.

Human Touch with IT

Key Points of Scrum Development

■ Pair Programming

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



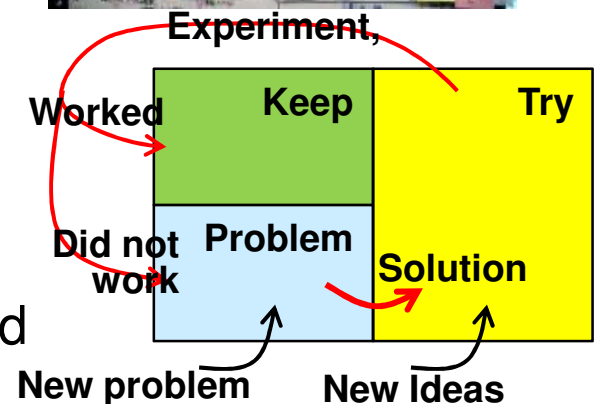
■ Task “Kanban” (Visualize the tasks)

- Way to manage “ToDo”, “Doing”, and “Done”.
- Everybody can start working on their task autonomously without any instruction
- Check every morning at the 15 minutes of Scrum Meeting



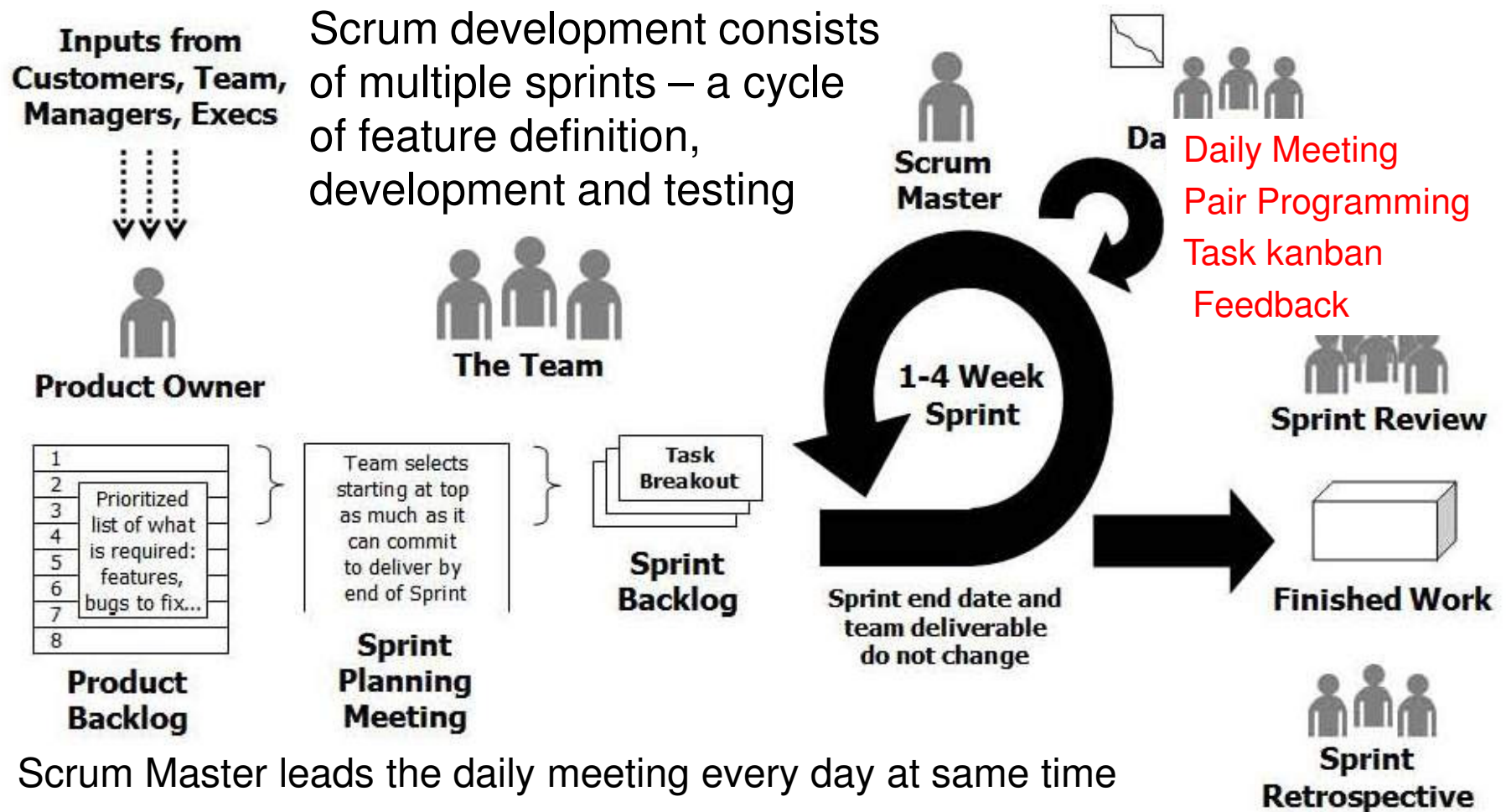
■ Feedback (KPT:Keep/Problem/Try)

- In a casual atmosphere, everybody share their ideas on “Keep”, “Problem”, “Try”.
- Through the dialogue, **socialize** tacit knowledge and convert to explicit knowledge (**externalize** and **combine**)



Process of Scrum Development

Agile Value Creation



Scrum Master leads the daily meeting every day at same time
 Scrum members act autonomously (task kanban) and collaborate with each other (pair programming)

Source: Schwaber, K. (XXXX). Scrum Development Process

Involve those who are committed

Laying Out the Chickens and Pigs

- While the some people are committed to the project (pig), others are merely interested (chicken). 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?”

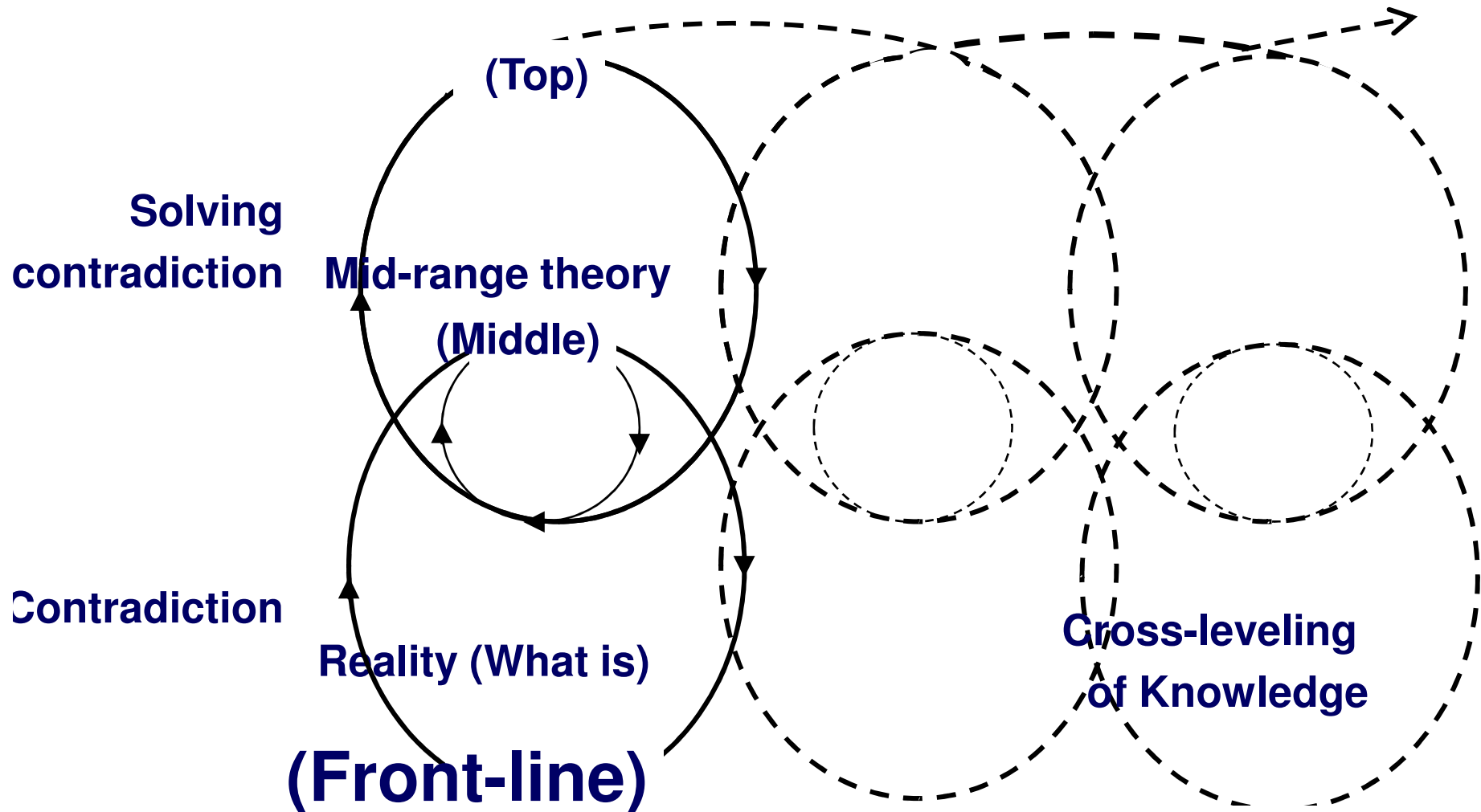
The chicken responds “ham and eggs.”

The pig considers for a moment and then answers, “I don’t think so. While you would be interested, I would have to be committed!”



Middle-up-down Knowledge-creation Process

Grand Theory (What ought to be)



Distributed Idea Engine

-Cisco's CEO John Chambers-

- From a top-down command-and-control company to the teamwork and collaboration; connected communities of the distributed leaders.

"Leading from the middle is the biggest change in the management of the company ever."

"You won't have to depend on the CEO anymore. We now have a whole pool of talent who can lead these working groups, like mini CEOs and COOs. We're growing ideas, but we are growing people as well... where I might have had two potential successors, I now have 500."

Source: McGirt, E. (2008). How Cisco's CEO John Chambers is turning the tech giant socialist. *Fact Company.com*. Retrieved April 8, 2011 from <http://www.fastcompany.com/magazine/131/revolution-in-san-jose.html>

Source: Fryer, B. (2008). Cisco CEO John Chambers on Teamwork and Collaboration. *Harvard Business Review blog*. Retrieved April 12, 2011 from http://blogs.hbr.org/hbr/hbreditors/2008/10/cisco_ceo_john_chambers_on_tea.html

Practice as *Kata*

***Kata* 型 (form) : “Way of doing things,”
core of the ideal action.**

**Good *Kata* functions as archetype that
fosters creative routine but provides
higher freedom.**

***Shu* 守 (learn), *Ha* 破 (break), and *Ri* 離
(create) steps are critical in continuous
self-renewal processes.**

Creative Routines

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)**

Apple

- **Simplify. Strip back, and focus. Say “no”**
- **When it comes to idea, everything is game. Willing to try new things**
- **Don't compromise. Hash it out, get way down in the details. Seek out the highest quality**
- **Include everyone. Work people hard. Embrace the team**
- **Engage in intellectual combat. Argument and debate foster creative thinking**
- **Find a passion in your work. Insist on seemingly impossible. Motives makes a difference**

Source: Karney, L. (2008/2009). *Inside Steve's Brain* (expanded edition). Portfolio, New York.

Basis of *Phronesis*

■ Humanity

Philosophy, History, Literature, Art, Greek Tragedy

* Anthropology, Biology, Design, Politics, Urban planning, Theology (HBS)

■ Peak Experience

Pure Experience, Flow Experience, Challenge, Love, Awe of Nature, Shared Experience with exemplars

■ Practice and Tradition

Kata (Relentless Pursuit for Excellence), Artisananship, Organizational Standard of Excellence

* Moon shots for management (HBR, April 2009)

Management as a Liberal Art

One crucial element that links the liberal arts and management is the fostering maintenance of cultural values. Historically, liberal arts training emphasized the cultivation of beliefs, behaviors, and opinions that were thought by a given civilization to be of high moral quality (good or right).

“Management as liberal art” must therefore involve a foundation in values, virtues, and character formation.

Source: Linkletter, K.E. and Maciariello, J.A. (2010). ‘Management as a Liberal Art’ in “The Drucker Difference” C.L. Pearce, J.A. Machiariello and H.Yamawaki. (eds). MacGraw-Hill.

Idealistic Pragmatist: Contemplation in Action

Brain
Deep Thinker



Brawn
Doer



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

“Be Someone Who Tries”

Soichiro Honda

Life consists of knowledge from seeing, listening, and trying. But many people only see and listen. They seldom try, but trying is the most important of all.

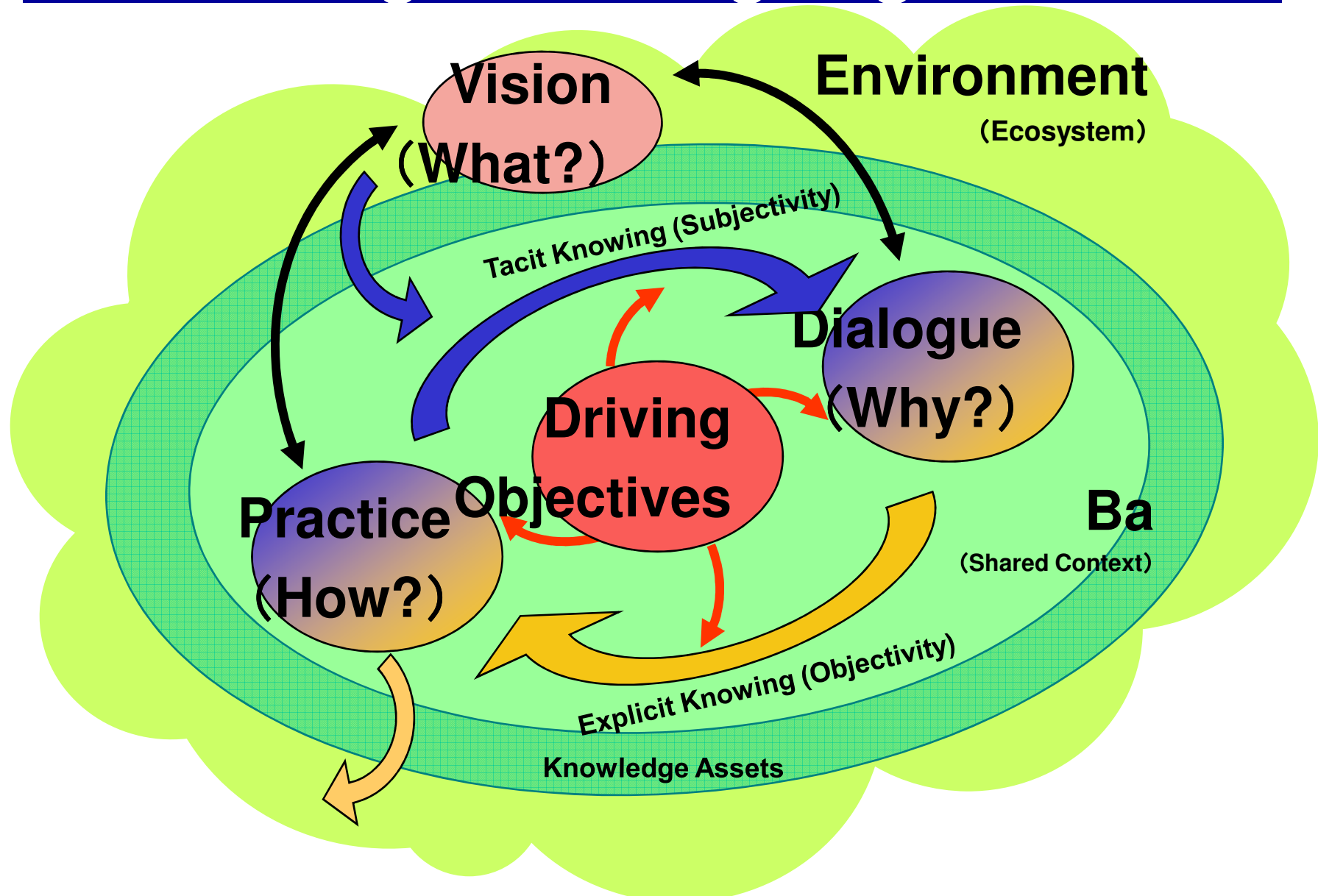
It's common sense that failure and success are the two sides of one coin. Because people are afraid to fail, they don't try; resulting in less chances for success.

Everything starts from trying.



“Be Someone Who Tries”
A stone monument at Komyo
Elementary School, Hamamatsu
City, Shizuoka (Soichiro Honda
graduated from this school)

Dynamic model of Knowledge-Creating Organization

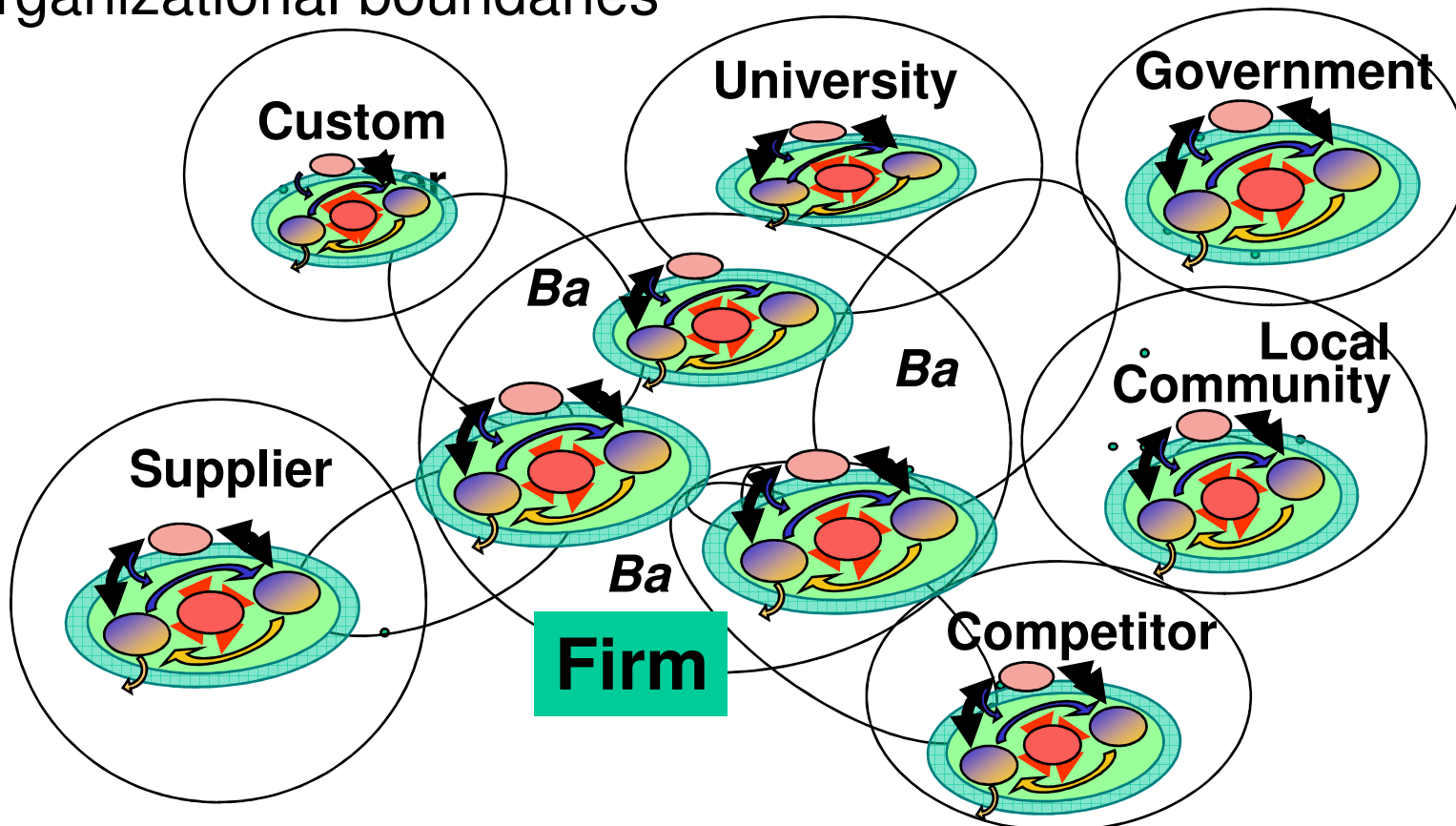


Components of the dynamic model

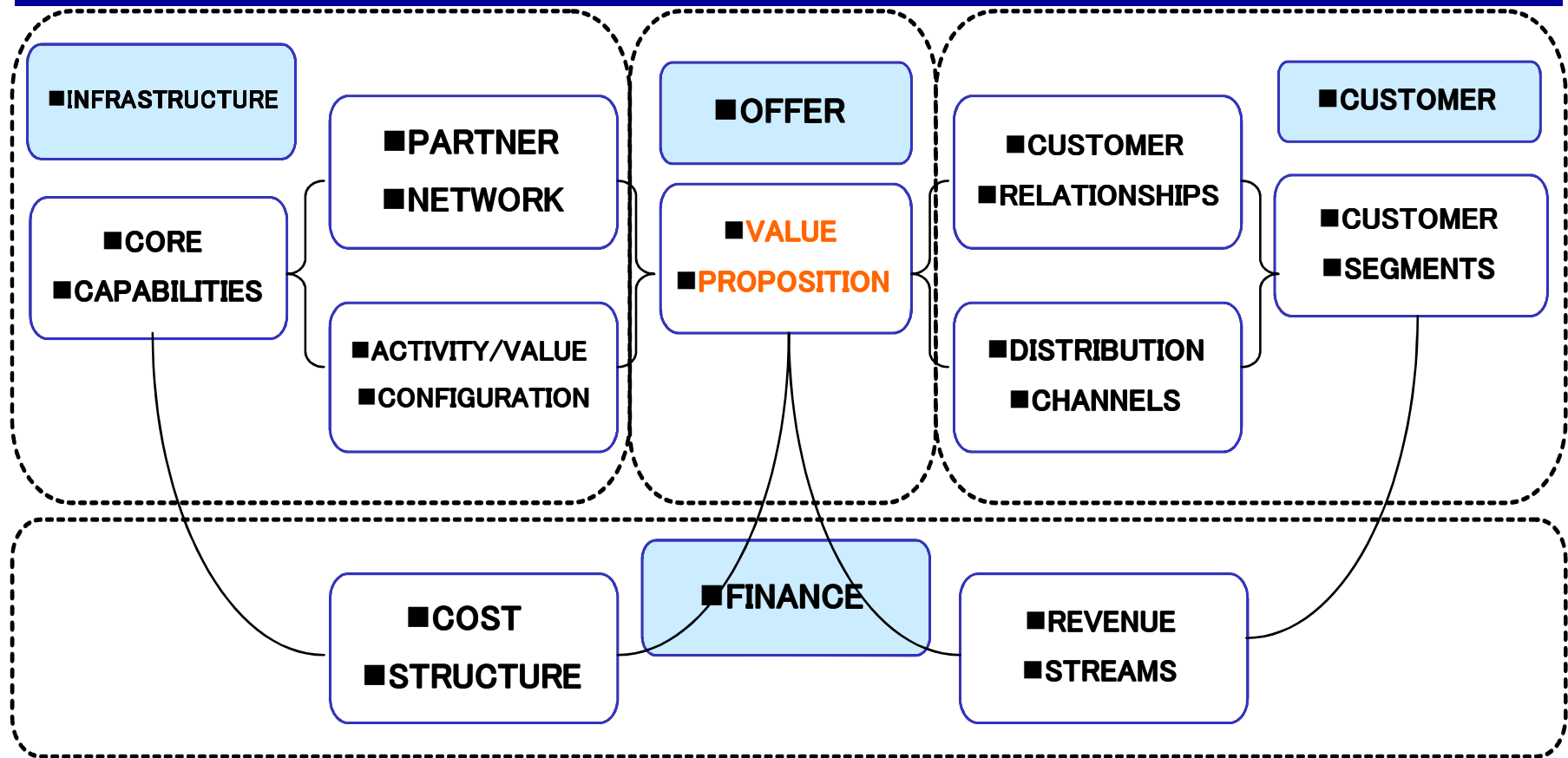
Knowledge Vision	“What do we exist for?” Fundamental question of the firms which states its ideal future and absolute values of truth, goodness and beauty. A purpose that never become means.
Driving Objective	“What value do we offer to the customers?” Value proposition of the firm which relentlessly drives the interchange between the dialogue and the practice
Dialogue	Dialectic in thought; synthesis of contradiction between the belief and the concept
Practice	Dialectic in action; synthesis of contradiction between the conceptualization and crystallization
Ba	Field of time-space nexus where knowledge emerges; process of sharing contexts and relationships
Knowledge Assets	Input / Output of the knowledge creating process
Environment (Ecosystem)	Community of stakeholders; organization, institution, system, individual, customer, supplier, etc

Knowledge is Created in the Relationship: A Global Ecosystem

Knowledge ecosystem dynamically interact and evolves the relationships between the stakeholders in the multi-layers of ba; stakeholders compete, collaborate and transcends the organizational boundaries

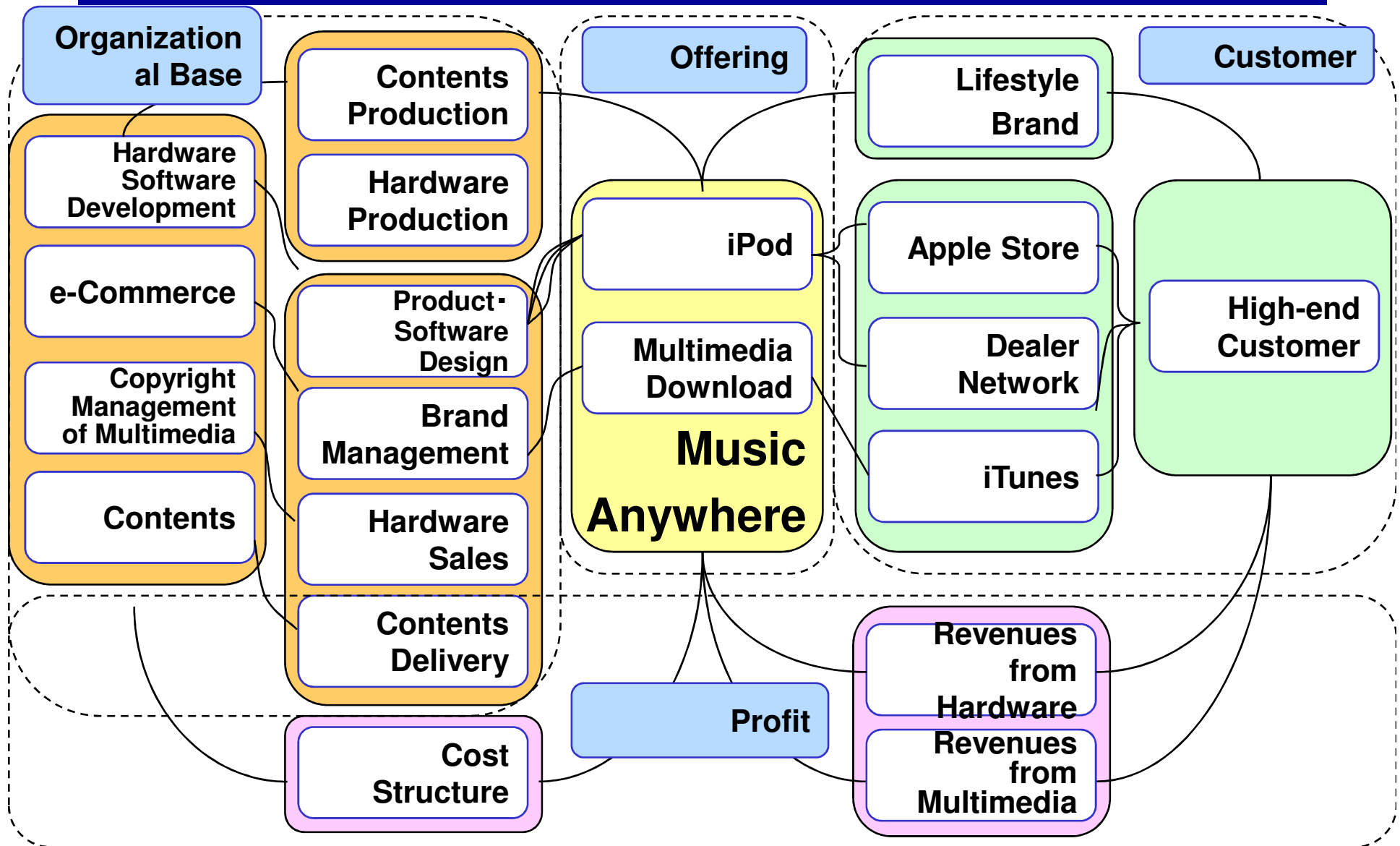


■ A Business Model Framework – Converting Knowledge into Revenue Streams –



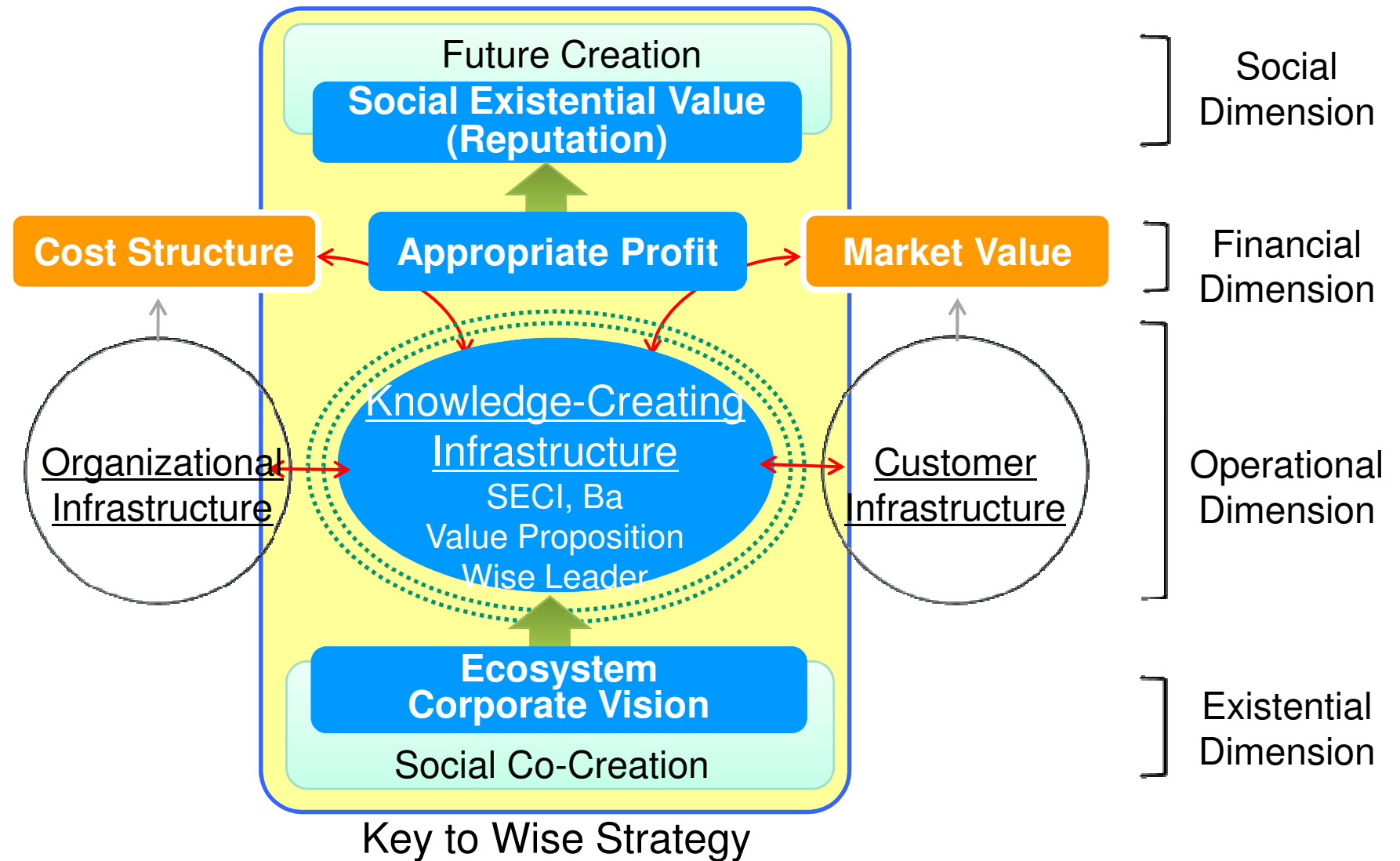
■ Business Model is a description of the value an organization offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, delivering this value and relationship capital, to generate profitable and sustainable revenue streams.

Business Model of iPod



Source: De Kluyver, C.A. (2009)

Business-Creating Model



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.