Strategic Management as Distributed Phronesis

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Why Do Firms Differ ?

Positioning Theory: Mobility barriers
RBV: The cost of acquiring resources

Problems in the rationalist approach to strategic management:

- Overlooking the aspect of strategy as practice in a particular context
- Emphasis on objective analysis overlooks the subjective aspect of strategy
- Emphasis on analysis of the past misses the fact that strategy is a process of creating the future.

Why Do Firms Differ ?

Because

Firms/Organizations *Envision*

Different Futures and Realize Dreams.

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

Reality has Duality
- Subjectivity and Objectivity -

Tacit	Explicit
Insider sensitivity **Life world** **Commitment** **/ Indwelling** **Here and now** **Phenomenologist** **Existentialist**	**Outsider objectivity** **Factual world** **Detachment** **/ Analysis** **There and then** **Positivist** **Spectator**

The Knowledge-Creating Theory synthesize both subjective and objective views toward reality / truth

Nature of Knowledge

We can know more than we can tell.

- Michael Polanyi (1983)

The objective truth can only be obtained by the commitment of the knower.

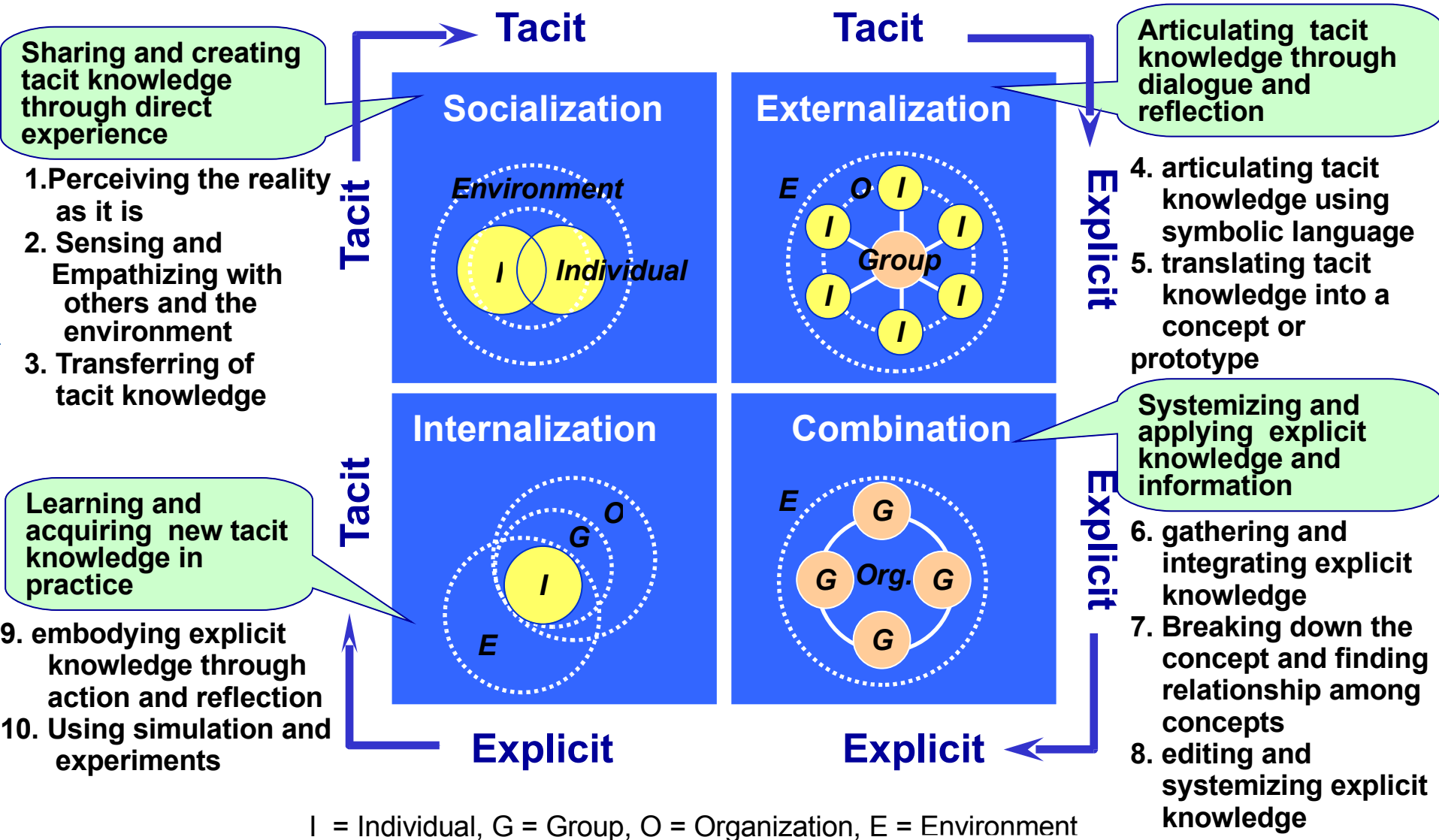Unless ye believe, ye shall not understand

- St.Augustine
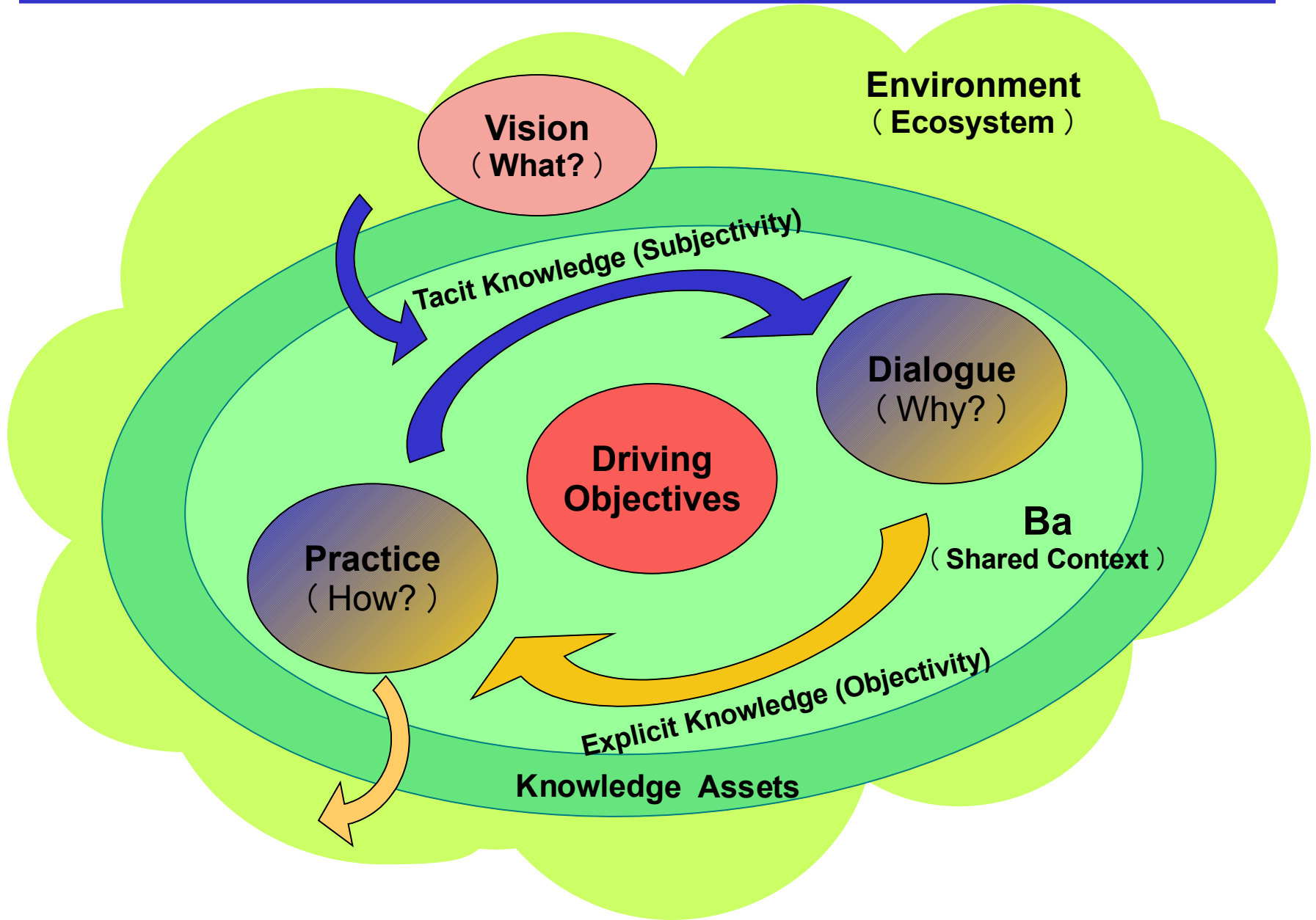
There are no whole truths; all truths are half-truths.

- Whitehead (1954)

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

Organizational Knowledge Creation SECI Model

Tacit → **Tacit**

Sharing and creating tacit knowledge through direct experience

Socialization

Environment

I *Individual*

1. Perceiving the reality as it is
2. Sensing and Empathizing with others and the environment
3. Transferring of tacit knowledge

Articulating tacit knowledge through dialogue and reflection

Externalization

E O I
I   I
Group
I   I
I

4. articulating tacit knowledge using symbolic language
5. translating tacit knowledge into a concept or prototype

Tacit (vertical, left) / **Explicit** (vertical, right)

Internalization

O
G
I
E

Learning and acquiring new tacit knowledge in practice

9. embodying explicit knowledge through action and reflection
10. Using simulation and experiments

Systemizing and applying explicit knowledge and information

Combination

E
G
G *Org.* G
G

6. gathering and integrating explicit knowledge
7. Breaking down the concept and finding relationship among concepts
8. editing and systemizing explicit knowledge

Tacit (vertical, left) / **Explicit** (vertical, right)

Explicit ← **Explicit**

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

Dynamic Model of a Knowledge-creating Firm

Knowledge Vision

Knowledge Vision

- Essential Questioning: "What do we exist for?"

"Where should we live?" (Existence and Domain)

"Why do we create knowledge?"

A vision that transcends the existing boundary. A vision that can be accepted by and can inspire the people with various contexts.

-Gives the firm an <u>absolute</u>, not a relative, value system.

"You do it because you want to do it, not because everyone else is doing it."

-A long-time view that goes beyond the arena of competition. It is not a short-time view on efficiency in knowledge <u>utilization</u>.

Driving Objectives

It is a concept, number, or codes of conduct to synchronize vision, dialogue, and practice. By pursuing it, contradictions are created between the idealized praxis and present reality, and synthesized to create high quality of knowledge.

- Seven-Eleven Japan: Opportunity loss
- Canon: Cash Flow
- Matsushita Electric: Super-manufacturing, Black Box
- Suzuki: 1cc=1000 Yen
- Hamamatsu Photonics: Grab the forelock of the Goddess of Fortune (chance)
- Eisai: Knowledge Creation / Value Creation

Dialogue
- Dialectic in Thought -

1. Dialectic
   Truth is dynamic and is developed through the dynamic process of thesis, antithesis and synthesis.

2. Existential Context
   A theme is created by sharing deep thoughts and beliefs.

3. Nature of Time, Continuity and Contents
   **It is not about whether it exists or not, it is a question of the process of how it comes into being. The process productively examines the contents rather than form through denial.
   "Human is mortal. Socrates is a human. Socrates is mortal"**

   **So what? No new meaning can be created. For example, if one asks,
   "What does it mean to be mortal?" we might reach a new conclusion,
   "Socrates as a thought is immortal"**

4. Open Thought
   Beyond the recognition of one's self-fallibility, conflict with others serves as a catalyst to reach a higher level of understanding.

Practice
- Dialectic in Action -

Practice as Kata (Creative Routine)

- Creative Routine: Continuous spiral of tacit and explicit knowledge until it becomes the second nature.
  Kata (form) means "way of doing things."
- *Kata* is the core of ideal action.
- Good *Kata* functions as archetype that fosters creative routine but provides higher freedom.
- *Kata* has a high quality feedback function that sharpen senses and help to notify and modify the differences between predicted outcomes and reality.
- *Shu* 守 (learn), *Ha* 破 (break), and *Ri* 離 (create) steps are critical in continuous self-renewal processes.

Leadership
in Knowledge-Creating Company

It is a dynamic process of synthesizing the vision, ba, dialogue, practice, knowledge assets, and the ecosystem of knowledge to create knowledge.

At the basis of such leadership is **phronesis.**

Aristotle's Three Types of Knowledge

- Episteme (Scientific Knowledge)

  Universal, context-free and objective knowledge (explicit knowledge)

- Techne (Skills and Crafts Knowledge)

  Practical and context-specific technical know-how (tacit knowledge)

- Phronesis (Prudence/Practical Wisdom)

  Experiential knowledge to make context-specific decisions based on one's own value/ethics (high quality tacit knowledge)

Phronesis as a Synthesizing Glue

Phronesis is a concept that synthesizes "knowing why" as in scientific theory, with "knowing how" as in practical skill, and "knowing what" as a goal to be realized. Unlike *episteme*, it emphasizes practices in particular contexts because the "goodness" one perceives has to be realized by a means suitable to each situation. However, *phronesis* is not just knowledge about a certain, particular context per se. Since it is knowledge to serve the "common good", it implies an affinity with universal principles.

Six Abilities that Constitute Phronesis

1. Ability to make a judgment on goodness.
2. Ability to share contexts with others to create ba/shared sense.
3. Ability to grasp the essence of particular situations/things.
4. Ability to reconstruct the particulars into universals using language/concepts/narratives.
5. Ability to use any necessary means well to realize concepts for common goodness.
6. Ability to foster phronesis in others to build resilient organization.

Phronetic Leadership ①

Ability to make a judgement on goodness.

Judging What is Good

Every sort of expert knowledge and every inquiry, and similarly every action and undertaking, seems to seek some good. Because of that, people are right to affirm that the good is 'that which all things seek'.

Aristotle, Nicomachean Ethics

Internal Good: Realized in the course of trying to achieve those standard of excellence.

MacIntyre

Example: Self-sufficient values such as happiness.

Judging by Philosophy

Philosophy is more important than technologies. Such things as money and technologies are just means to serve people…There is no meaning to a technology if it does not consider people at the basis of it. What drives a firm's growth is philosophy…A true technology is a crystal of philosophy.

-Souichiro Honda

Judging what is Good

Our competitors are neither other companies nor other stores, but our customers' needs and wants. Our absolute value is to answer the fundamental questions of "what does the customer want?"

-Toshifumi Suzuki, CEO, Seven-Eleven Japan

Animals also seek for "happiness and self-actualization"

Masao Kosuge, Zoo Director

Penguin Walk

Phronetic Leadership ②

Ability to share contexts with others to create ba/shared sense.

Ba: Shared Context-in-Motion

Knowledge cannot be created without specifying context (time, space, and relationships); context is essential.

***Ba* is the inter-subjective space-time (place/field) for knowledge emergence.**

It can exist in various spaces such as:
- ➤ *Physical*   - Office, dispersed operating spaces
- ➤ *Virtual*   - E-mail, video conference
- ➤ *Psychological*   - Shared experience (history), beliefs, ideals
- ➤ Organizational - Formal and informal organization & system, project team

Ba as Shared Context in Motion

Co-transcendence

Comprising self

Losing self

Shared Context in Motion

Open — **Close**

Close — **Open**

Ba
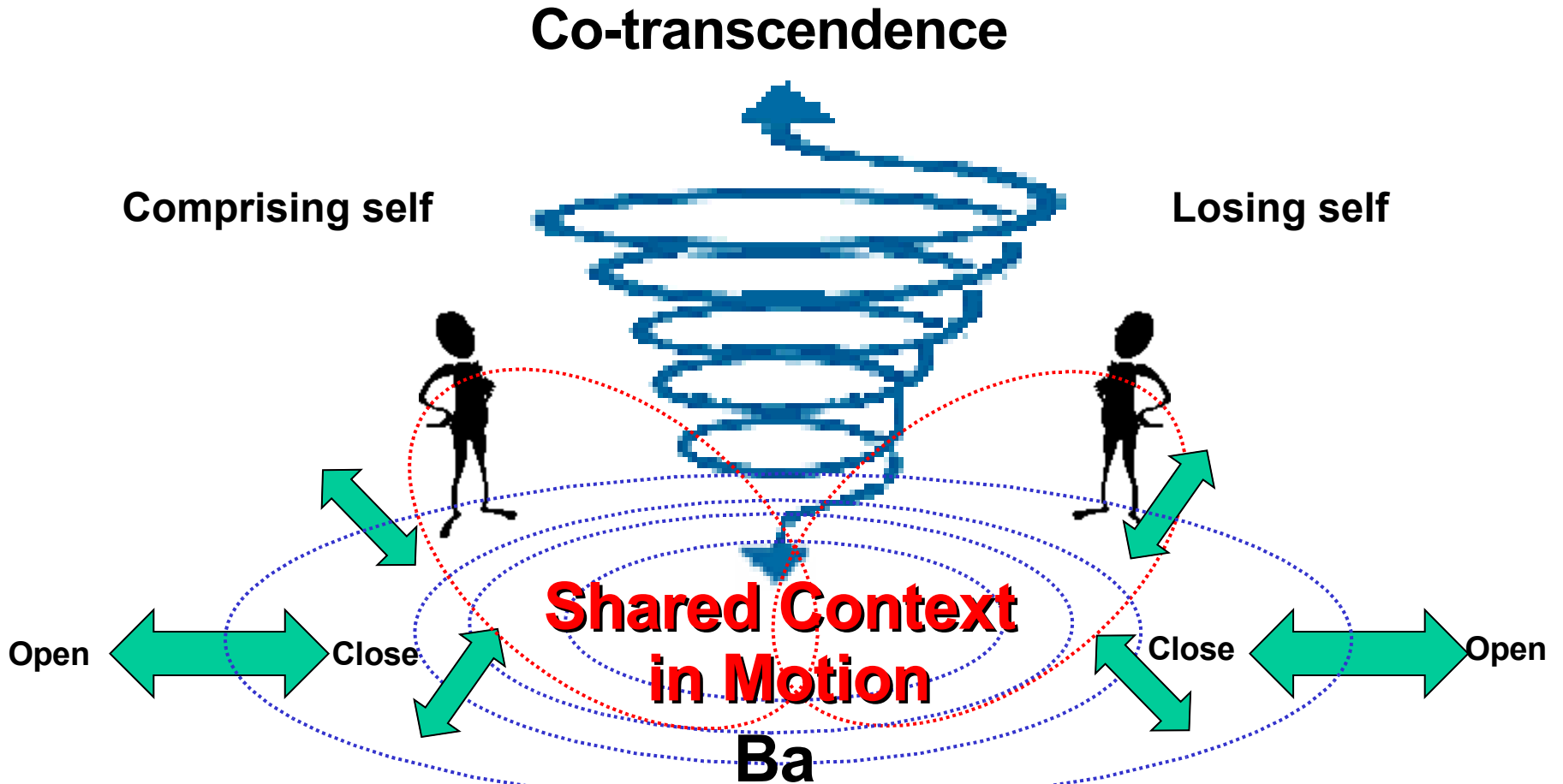
Individual contexts are shared at Ba, and the shared context
and individual contexts expand themselves through such interaction

Factors for Knowledge Emergence

1. Self-organized
2. Shared sense of purpose and commitment
3. Activating timely experience of the "here and now" relationship
4. Open boundary
5. Particpants with diverse knowledge

Reading the Situation and Grasping the Opportunity

"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."

Souichiro Honda
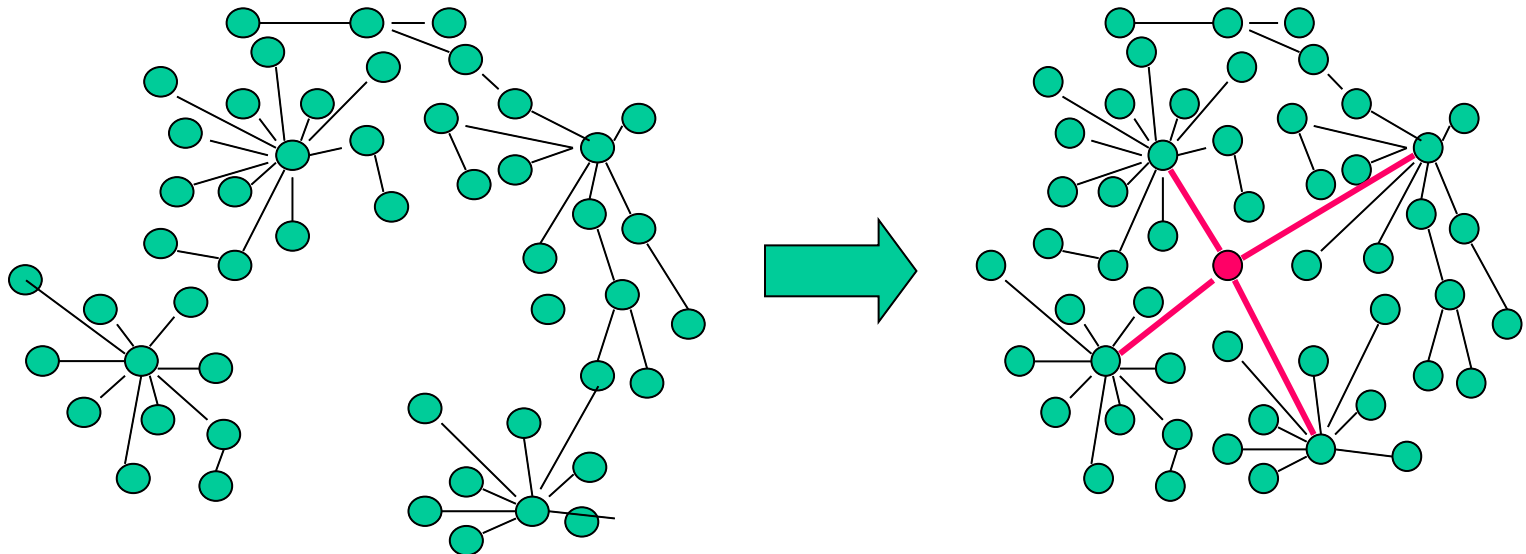
Ba: Asakai (Morning Meeting) at Canon

Ba as Multi-layered Context in Motion

Open — Close — Ba — Close — Open
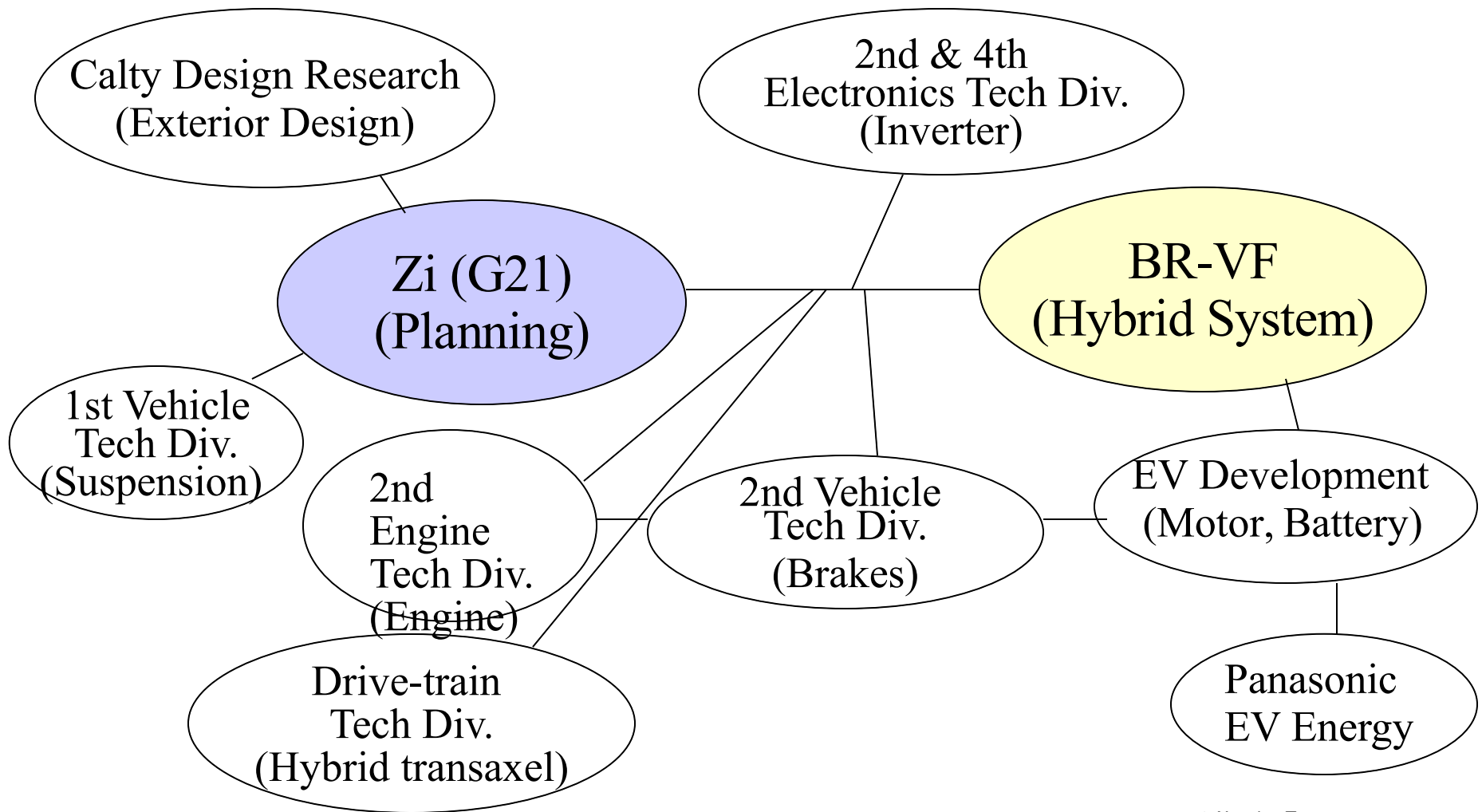
Sharing Context in Motion

Ba
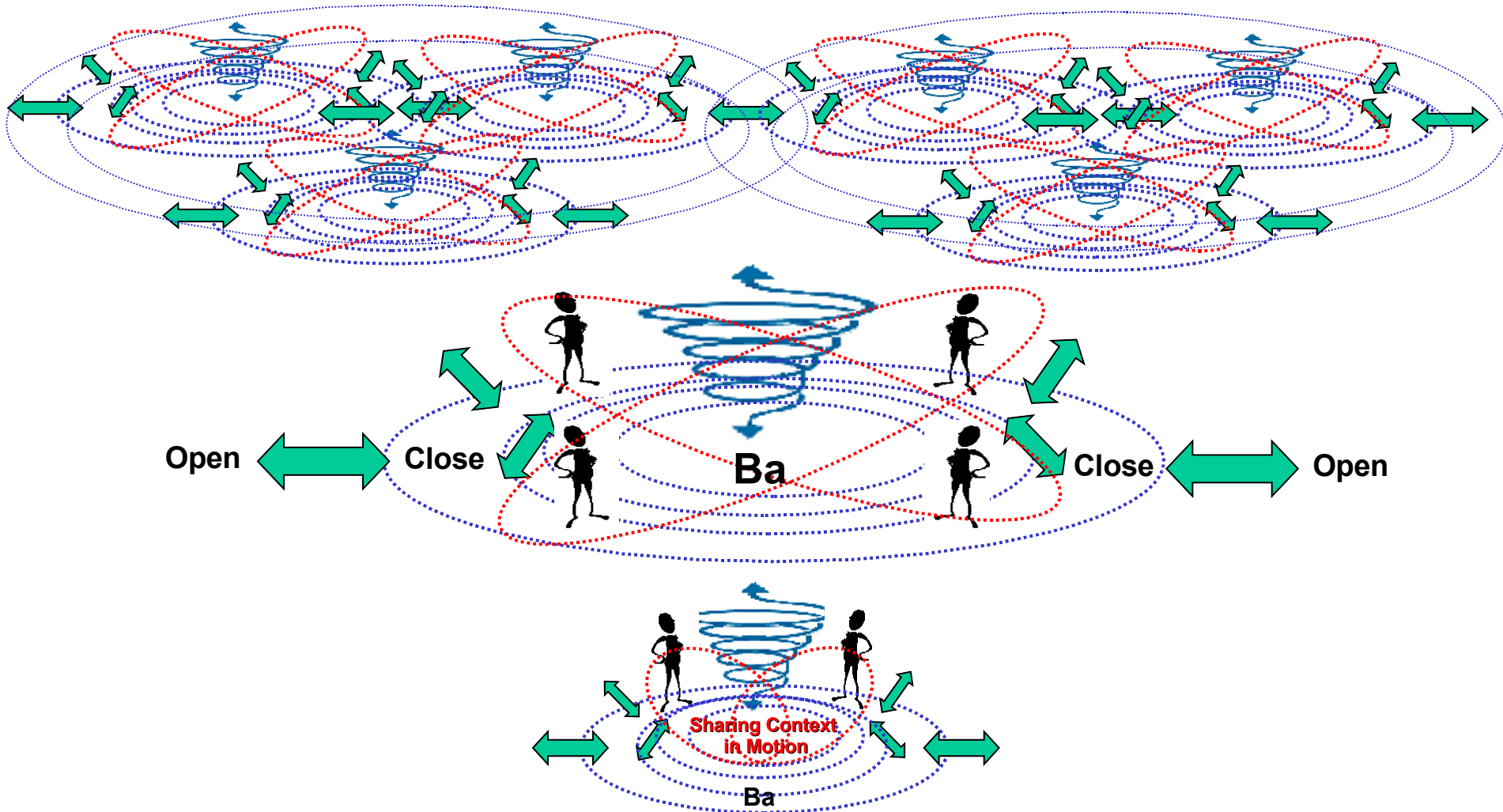
Small World Network: Rewiring the Multilayered *Ba*

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

Various *Ba* at Toyota Prius Project

Calty Design Research
(Exterior Design)

2nd & 4th
Electronics Tech Div.
(Inverter)

Zi (G21)
(Planning)

BR-VF
(Hybrid System)

1st Vehicle
Tech Div.
(Suspension)

2nd
Engine
Tech Div.
(Engine)

2nd Vehicle
Tech Div.
(Brakes)

EV Development
(Motor, Battery)

Drive-train
Tech Div.
(Hybrid transaxel)

Panasonic
EV Energy

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Interaction Between Zoo Keepers and the Animals

Phronetic Leadership ③

Ability to grasp the essence of particular situations/things.

God is in detail

Indwelling in a Particular Situation
Soichiro Honda

Racing Challenge Defines Honda
In March 1954, Honda stood on a small wooden box in the back of the factory and told his employees that the company would enter and win the Isle of Man Tourist Trophy race, then the most prestigious motorcycle race in the world. At the time, Honda motorcycles had not even raced in Japan. Producing larger motorcycles for the first time, the company won the manufacturers trophy for 125cc bikes in 1959 and swept the top 5 places in both the 125 and 250cc classes in 1961

Phronetic Experience

"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

In Touch with the Reality
Mitarai Visiting the Factory

See Reality in Dynamic Context

It is impossible to apply universal rules derived from past experiences, since customers' need keeps changing and each store is operating in different context. We are successful only by denying the past and constantly reflecting on the future to find fundamental solutions in each particular context.

-Toshifumi Suzuki, CEO, Seven-Eleven Japan

Emphasize with the Animals

- "Human want to see Seals. Seals want to see human, too"

Eye to eye contact with animals

Cannot explain by "Animal Behavior" theory

Source: Asahiyama Zoo Webpage

Phronetic Leadership ④

Ability to reconstruct the particulars into universals using language/concepts/narratives.

Concept Building: Dialoguing on the Spot
Soichiro Honda

Need for Universal Theory

"Action without philosophy is a lethal weapon; philosophy without action is meaningless."

"Just to be hard working has no value. Rather, working hard in the wrong way is worse than laziness. 'The right theory' is the necessary premise for working hard."

Souichiro Honda

Strategy is a Creation of Stories

Strategy is a creation of events. Quantify your objectives as much as you can. And develop a story to crystallize the numbers by specifying the beginning-middle-end story structure.

-- Fujio Mitarai, CEO, Canon

Seeing the Entire Picture

It is not good if you just see a tree, not a forest. Of course you have to see the particular tree. But you have see to the entire forest as well as the trees.

-Toshifumi Suzuki, CEO, Seven-Eleven Japan

Concept of Action Exposition

■ **Animals in Action: Show their true nature and behavior**

Source: Asahiyama Zoo webpage

Phronetic Leadership ⑤

Ability to use any necessary means well to realize concepts for common goodness.

Making Political Judgment

The reality of the strategic process is dynamic and full of confusion and contradiction. In a knowledge-creating company, they are synthesized in dialectical thinking through social interactions. Phronetic leaders exercise political judgment in such a process by understanding others' emotions, and by giving careful consideration to the timing of their interaction with others.

Canon as a Dialectic Company

"Paradox is a way of life at Canon…
.Facing a paradox, we embrace it
and go ahead coping with it. We are
constantly on the move."

-- Fujio Mitarai, President and CEO

Keep Communicating

Persuasion is important. Our goal is to move forward through reform, and in many cases, reform means destruction of the status quo. […] Persuasion is necessary to turn those who oppose such reform positive and bring out their efforts.

-Fujio Mitarai, CEO of Canon

Phronetic Leadership ⑥

Ability to foster phronesis in others to build resilient organization.

Fostering Phronesis

To make phronesis a distributed phenomenon, one has to present the issues to be worked out, to constantly ask the question 'what is the good,' and provide examples in each situation that can teach the phronetic way of thinking in practice. It is an ability to enable people to understand what phronesis is through dialogue, and practice at various Ba.

Honda Philosophy (1998)

Fundamental Beliefs: Respect for the Individual, Three Joys (of Buying, Selling, Creating)

Management Policies:

- Proceed always with ambition and youthfulness.
- Respect sound theory, develop fresh ideas and make the most effective use of time.
- Enjoy your work, and encourage open communication.
- Strive constantly for a harmonious flow of work.
- Be ever mindful of the value of research and endeavor: Go to the actual place, know the actual situation, and be realistic

Respect for the Individual

From a company of one charismatic leader, Souichiro Honda, to 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.
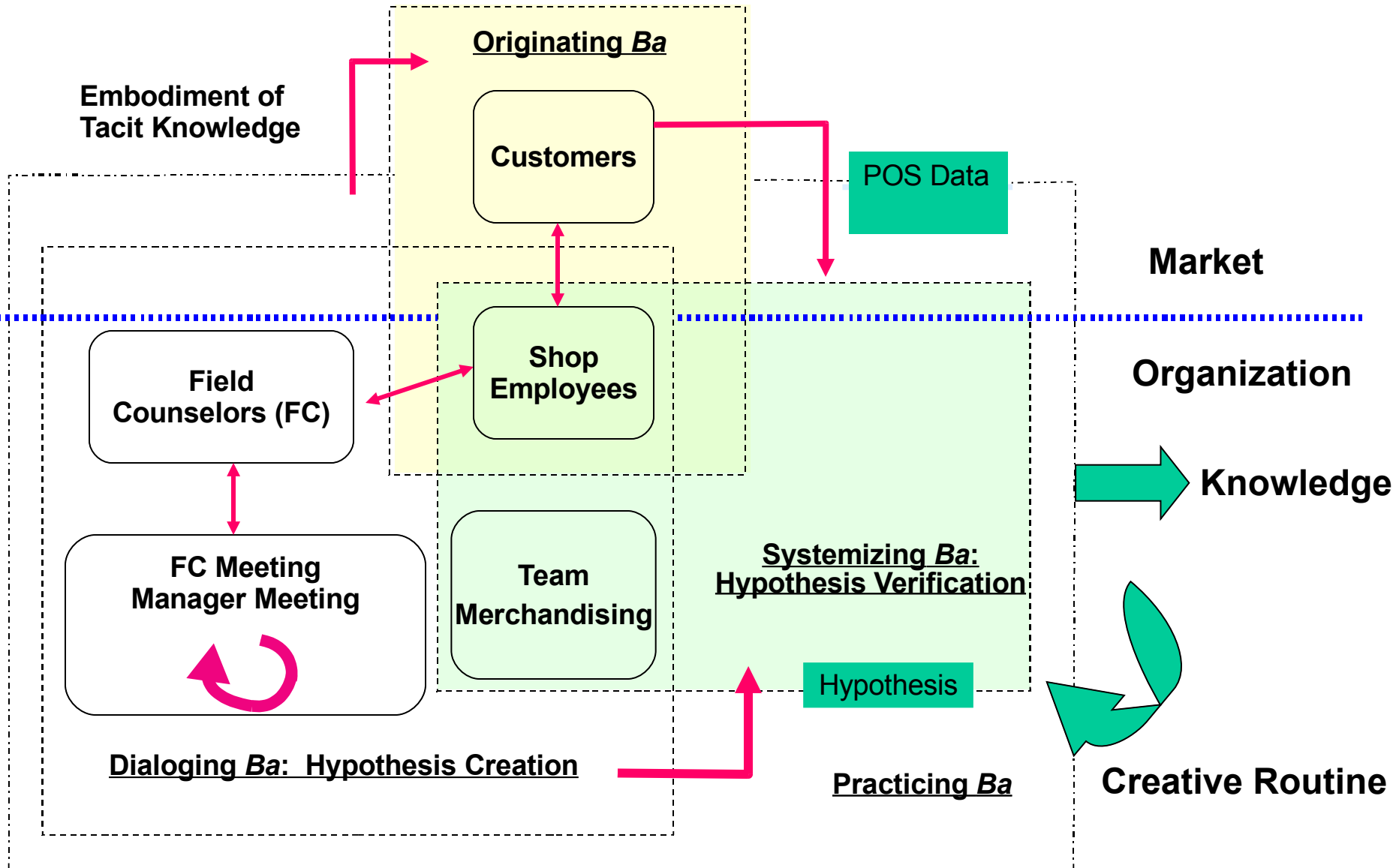
-Takeo Fukui, CEO of Honda

Developing Distributed Phronesis

I only have two eyes. There are several ten thousands part-time works at Seven-Eleven Japan stores. If everyone can make a judgment on his/her own, we have quite a few eyes. To do so, everyone of us have to respect the fundamental rules of business.

No one knows for sure how the society will change in future. Because we don't know, we keep tackling the difficult task to adapt to changes. Everyday, I say that the most important thing is to adapt to any changes.

-Toshifumi Suzuki, CEO, Seven-Eleven Japan

The Organic Configuration of Seven-Eleven's *Ba*

Originating *Ba*

Embodiment of Tacit Knowledge

Customers

POS Data

Market

Field Counselors (FC)

Shop Employees

Organization

FC Meeting Manager Meeting

Team Merchandising

Systemizing *Ba*: Hypothesis Verification

Knowledge

Hypothesis

Dialoging *Ba*: Hypothesis Creation

Practicing *Ba*

Creative Routine

Basis of Phronesis

Humanity

Philosophy, History, Literature, Art, Mathematics (Plato), Greek Tragedy (Aristotle)

Peak Experience

Pure Experience (Nishida), Flow Experience (Csikszentmihalyi), Challenge, Battle, Love…

Practice

Relentless Pursuit for Excellence (MacIntyre), Artisan (Dobson)
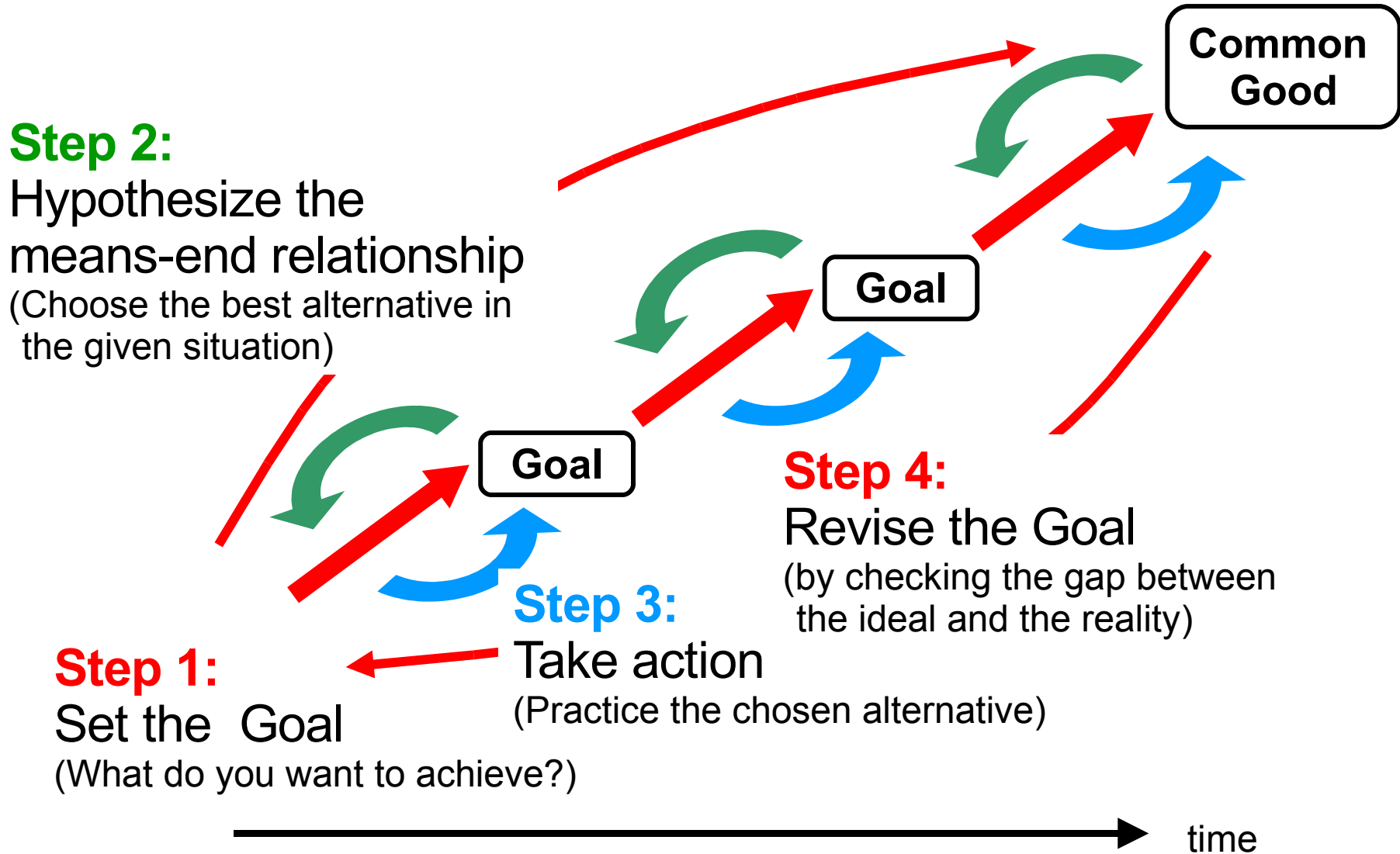
Tradition

High Standard of Excellence

Practical Reasoning

A practical reasoning is based on a premise that states a goal and premise that states a means to realize the goal and has a conclusion that recommends an action.

It is practical since it infers a conclusion that leads to a most practical action in a particular context.

Practical Reasoning

Step 2:
Hypothesize the
means-end relationship
(Choose the best alternative in
 the given situation)

Common Good

Goal

Goal

Step 4:
Revise the Goal
(by checking the gap between
 the ideal and the reality)

Step 3:
Take action
(Practice the chosen alternative)

Step 1:
Set the Goal
(What do you want to achieve?)

time

Creative Routines of Practical Reasoning

GE

- **What does your global competitive environment look like?**
- **In the last three years, what have your competitors done?**
- **In the same period, what have you done to them?**
- **How might they attack you in the future?**
- **What are your plans to leapfrog over them?**

Toyota

- **Set even higher goals and implement continuous improve-ments without settling with temporary success.**
- **Observe the place of manufacturing with a clean slate and without bias, repeat 'why?' five times to the subject.**
- **Understand one's own capability through comparison internally and externally.**

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)**

A Knowledge-Creating Firm is…

A company who practices the 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 itself and the environment

Management is viewed as "a way of life" rather than a tool to make money.