

# Strategy as Distributed Phronesis

**Ikujiro Nonaka**

**Professor, The Graduate School of International  
Corporate Strategy**

**Hitotsubashi University**

**Xerox Distinguished Faculty Scholar**

**UC Berkeley**

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# Why Do Firms Differ ?

Positioning Theory: Mobility barriers

RBV: The cost of acquiring resources

Evolutionary Economics: Managers' limited capability to foresee the future.

Problems in the rationalist approach to strategic management:

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

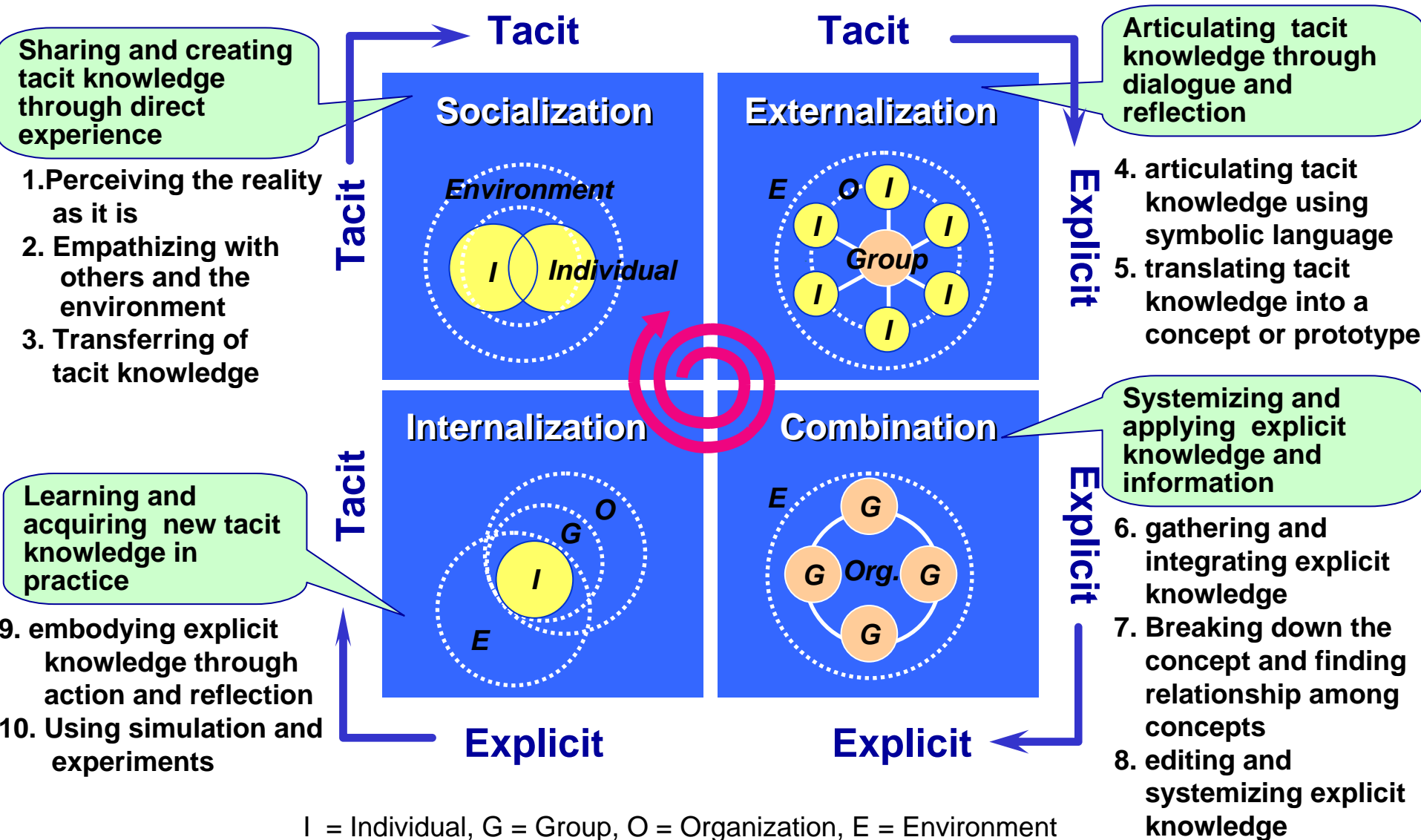
# Why Do Firms Differ ?

Because

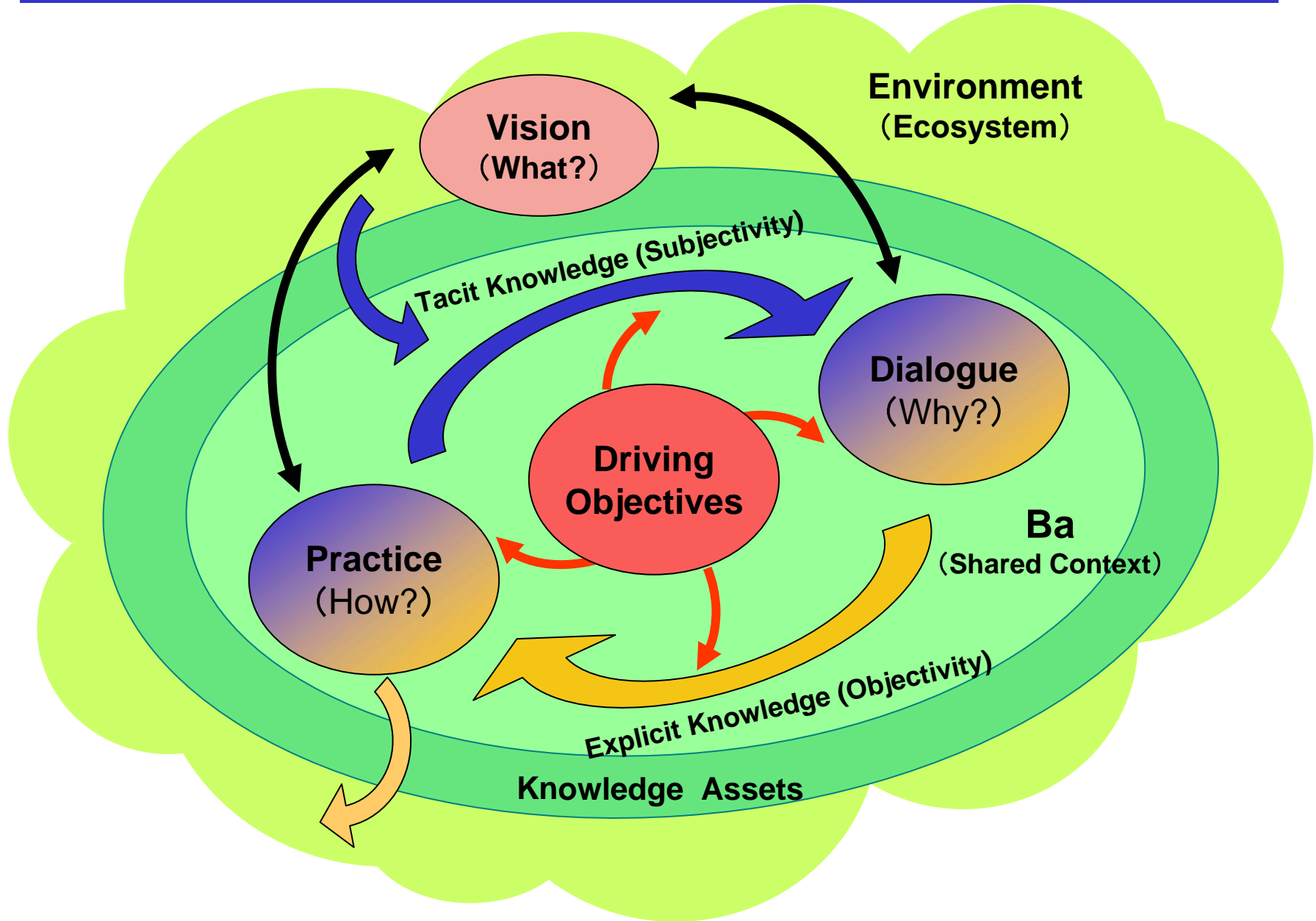
Firms/Organizations *Envision*

Different Futures and Realize Dreams.

# Organizational Knowledge Creation SECI Model



# Dynamic Model of a Knowledge-creating Firm



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

# Phronesis (Prudence, Practical Wisdom)

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

A capability to find a “right answer” in particular context.

Deliberate reasoning and improvisation that comes from the SECI process, which synthesizes particulars and universals.

Can acquire only through high quality direct experiences.



# Six Abilities that Constitute Phronesis

## Ability

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

# Phronetic Leadership ①

Ability to make a judgement on goodness.

# Seeking 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)

# Why do we create knowledge?: A story of Honda

Honda was trying to develop the CVCC engine, which had lower emission and higher fuel efficiency.

Souichiro Honda, the founder and then CEO of Honda one day told his engineers that the engine would finally give Honda the opportunity to beat Big 3.

The engineers looked at Mr. Honda, and said, “Please, don’t say such a thing. We are not doing this to beat other guys. We are doing this for our children.”

Mr. Honda was ashamed of himself, and said that he realized that he had become too old, and decided to retire.

# 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

## Phronetic Leadership ②

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

# 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)





# Phronetic Leadership ③

Ability to grasp the essence of particular situations/things.

God is in detail

# Indwelling in a Particular Situation



# 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.”

# 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

# Phronetic Leadership ④

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

# Concept Building: Dialoguing on the Spot



# 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

# In Touch with the Reality Mitarai Visiting the Factory





# Hypothesis Building

The concept of opportunity loss from unrealized sales is invisible and difficult to grasp since it is buried in tacit insights gained in particular context for each store. Rather than written manuals, each employee is requested to think and act on his/her subjective insights into the local market accumulated through daily face-to-face interactions with customers.

Such subjective insights in particular contexts are objectified through the process of hypothesis building and testing. 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 to see to the entire forest as well as the trees.

-Toshifumi Suzuki, CEO, Seven-Eleven Japan

# 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 organization, rather than seeking an optimal balance between contradictions, they are synthesized in dialectical thinking through social interactions. Such process is political, driven by the ability to make political judgments. Phronetic leaders exercise political judgment 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

# 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.

# Distributing Honda Philosophy (1998)

- Our fundamental Beliefs

  - Respect for individual; and
  - The Three Joys

- The Honda Company Principle

  - Maintaining a global viewpoint, we are dedicated to supplying products of the highest quality yet at a reasonable price for worldwide customer satisfaction.

- Honda Management Policies

  - Proceed always with ambition and youthfulness.
  - Respect sound theory, develop fresh ideas and make the most effective use of them.
  - Enjoy your work, and encourage open communications.
  - Strive constantly for a harmonious flow of work.
  - Be ever mindful of the values of research and endeavor.

# Developing Distributed Leadership

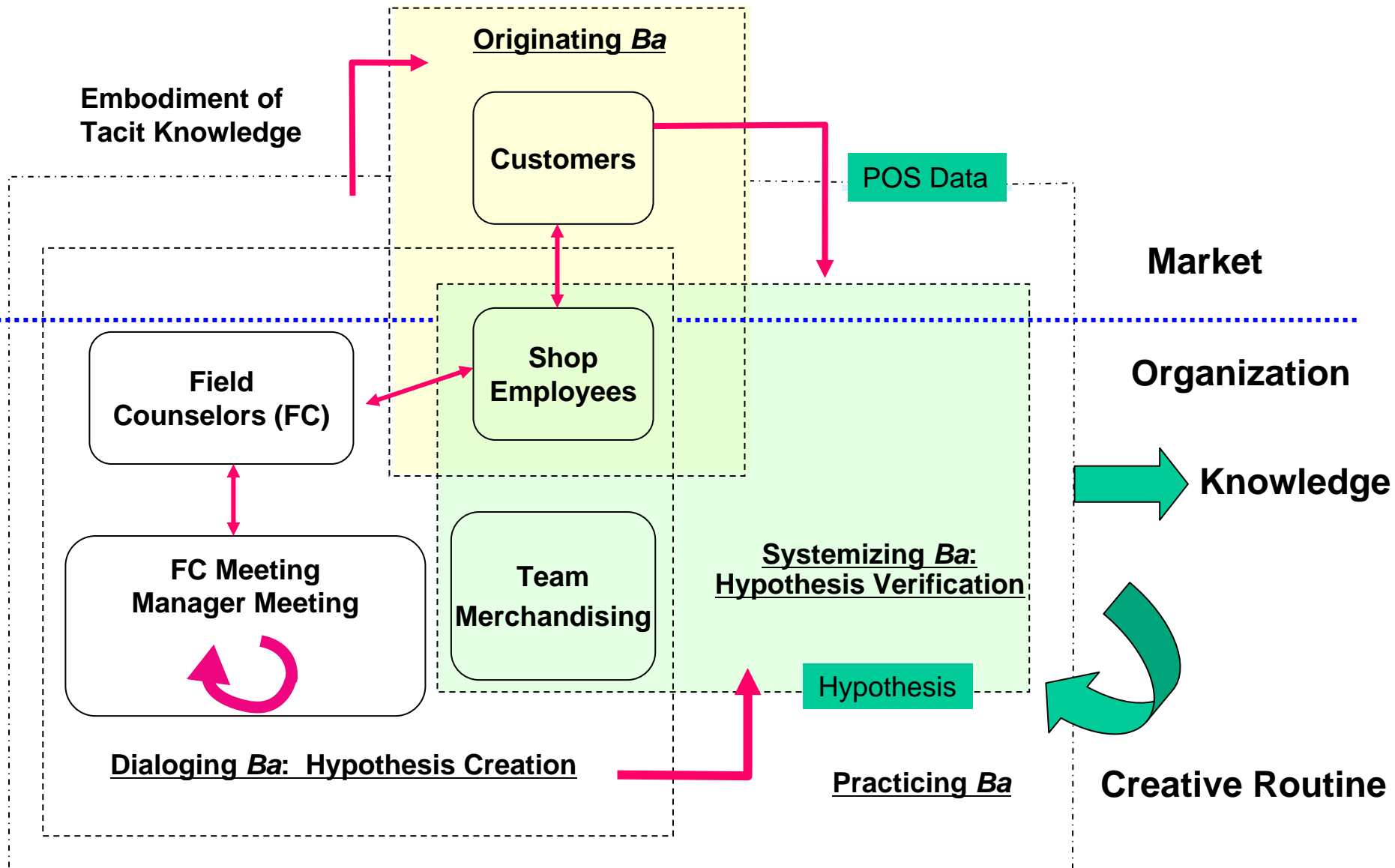
I only have two eyes. There are several ten thousands part-time works at Seven-Eleven Japan stores. If everyone can make a judgment on his/her own, we have quite a few eyes. To do so, everyone of us have to respect the fundamental rules of business.

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



# Systemizing Multi-layered Ba at 7-11 Japan



# 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.