Towards the Knowledge-based Management

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We need an economic theory that puts knowledge into the center of the wealth-producing process. Such a theory alone can explain the present economy. It alone can explain economic growth. It alone can explain innovation.

What is innovation?

Innovation means new value, or new way to deliver value.

Innovation is change that creates a new dimension of performance (Drucker).

Through innovation, organizations create new value to contribute to the society and make their continuous growth possible.
Value for whom?

Three joys at Honda
  Joy of Buying, Joy of Selling, Joy of Creating

Value is for customers.
Value is created out of your own value system.
Innovation is Future Creation Process

To create a new value, an organization envisions and realizes its unique future which no other envisioned. By envisioning and creating new future through knowledge creation, the organization transforms itself and change the world.
Do you see future here?
On a rainy day on the road of Mumbai, Ratan Tata saw a vast market for an affordable car for such families with low income.

He organized a team of young engineers to radically change the cost structure of car manufacturing. 85% of parts are outsourced; number of vendors were cut to 40%.

With module parts and the network of outside factories, “Nano”, the $2,500 car was born.
What is Knowledge?

In Western Epistemology: “Justified True Belief”

The belief must be true, and the truthfulness must be justified.

No Belief, No Knowledge
One’s Belief Became “Truth”

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

“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.”

Knowledge is created from different perspectives

Human subjectivity interprets and reads the meanings behind the facts/data. It is the differences in such subjectivity that creates new knowledge.

Differences make a difference.
Synthesize (Webster): “The dialectic combination of thesis and antithesis into a higher stage of truth”. It is not compromise, but integration of opposing aspects through a dynamic process.

Synthesis is achieved through dialogue and action based on shared context.
“Myth” of Knowledge Management

Knowledge Management is...
Something to do with IT.

78% of IT systems introduction project fail. IT can help, but it is human factor that makes differences.
“Myth” of Knowledge Management

Knowledge Management is...
Something that makes us efficient.

50-75% of Knowledge Re-engineering projects fail. It is not just about efficiency (exploitation of existing knowledge), but also about effectiveness (exploration of new knowledge).
“Myth” of Knowledge Management

Knowledge Management is...
Large-scale operation.

It can start small.
It requires creativity and persistence, rather than large capital.
“Myth” of Knowledge Management

Knowledge Management is...
Responsibility for the “smart people”

How we can get everyone's commitment to share their own knowledge and create new knowledge is the key to success. 82% of the reason to fail is organizational resistance
Knowledge Management is...

Not “Managing Knowledge”
But “Knowledge-based Management.”

Not a tool but a theory toward a new paradigm in the Knowledge Economy

“Good theory is the most practical”
(Kurt Lewin)
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
Tacit and Explicit Knowledge

A metaphor: Iceberg

Explicit

Tacit
“The strength of Japanese manufacturing industries are at the technologies (based on) tacit knowledge. With the progress in Information Technology (IT), tacit knowledge is converted into explicit knowledge. Still, we need tacit knowledge. To build a car, we have to build people.”

-Hiroshi Okuda, Former chairman of Toyota
Knowledge Creation
- SECI Model -

Sharing and creating tacit knowledge through direct experience

Articulating tacit knowledge through dialogue and reflection

Learning and acquiring new tacit knowledge in practice

Systemizing and applying explicit knowledge and information

Tacit

Explicit

Socialization

Externalization

Internalization

Combination
Underlying Methodologies of SECI

Socialization

Tacit knowledge

Externalization

Explicit knowledge

Internalization

Explicit knowledge

Combination

Tacit knowledge

See things as they are, Empathizing

Pursuit of Essence

Learning through Practice

Analyzing and Systemizing by Logic
Socialization: “Don’t Think, Feel”

Empathizing: See things from others’ viewpoints, share feelings and passion with others.

“Do not think for a customer. Think as a customer.” Seven-Eleven Japan

See things as they are.

Forget the past success or “common sense”.

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Ernesto Sirolli:
“Want to help someone? Shut up and listen!”

http://www.ted.com/talks/ernesto_sironi_want_to_help_someone_shut_up_and_listen
See Things as They are

The "untrapped mind" is open enough to see many possibilities, humble enough to learn from anyone and anything, forbearing enough to forgive all, perceptive enough to see things as they really are, and reasonable enough to judge their true value.

Konosuke Matsushita
“…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
Empathizing:
Simulated experience as the elderly
See Things from Patients’ Perspectives

What do you see?
Do you see…

- Cure for the disease?
- Hope?
- Fear?
- Worry?
- Bad memory?

Need to “indwell” in the customers’ world and see things from customers’ viewpoint.

At the same time, a firm has to see things from the viewpoint that goes beyond that of customers to offer value that would exceed the customers’ expectations.
Aricept Jelly
Underlying Methodologies of SECI

- Socialization: See things as they are, Empathizing
- Externalization: Pursuit of Essence
- Internalization: Learning through Practice
- Combination: Analyzing and Systemizing by Logic
Knowledge-based Business Model

Social Value and Sustainability

Knowledge Vision

Value Proposition

SECI Process

Phronetic Leadership

Customer

Segment Relationship Channel

Multilayered Ba

Infrastructure

Partner network

Core resources

Core activities

Cost

Finance

Revenue

Value Dimension

Operational Dimension

Financial Dimension

Value Proposition

Finance
Knowledge Vision

Vision of the ideal future: “We want to be…”
Self-transcending: Not an extension of the present, but looking the present from the vision of the future.

Gives the members of the organization the absolute value to pursue “Truth, Goodness, Beauty”

A view that pursue common good: “What is the value to the community?”
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
It might be just an idealistic talk, but…

Humans are purposeful beings who will act to realize their dreams and ideals – and these are beyond mere preferences. Optimal results are claimed to be attainable only by trying for too much – by reaching beyond the limits of the possible.

(Rescher, 2003)
Knowledge-based Business Model

Social Value and Sustainability

Knowledge Vision

Value Proposition
SECI Process
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Customer
Segment
Relationship
Channel

Multilayered Ba

Operational Dimension

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Value Proposition

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Ba is an open space-time where meaning is created through relationships with others, i.e. context. Ba is not a mere physical space.

Context is the relation or situation at particular time, space, people, and things. When the context is shared, shared-sense is created.

When ba is created, people empathize their values and feelings with others, and create a meaning that transcends themselves in such open and permeable relationships.
Shared Context
Intersubjectivity

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

Self-Organizing with shared objectives
Sharing sensitivity, senses, and emotion through direct experience.
Social Capital – care, love, trust, and safety
Commitment
Permeating Boundary
Diversity of knowledge and efficient interface
The way we work at Apple is that the complexity of these products really makes it critical to work collaboratively, with different areas of expertise. I work with silicon designers, electronic and mechanical engineers, and I think you would struggle to determine who does what when we get together. We’re located together, we share the same goal, have exactly the same preoccupation with making great products.

One of the other things that enables this is that we’ve been doing this together for many years - there is a collective confidence when you are facing a seemingly insurmountable challenge.

Jonathan Ive
Senior Vice President of Industrial Design, Apple

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.
Connect People and Change the World

Melt down the barrier and transform to membrane, instead of breaking down the walls; connect people and change the world.

From problem solving to value creation.
The Knowledge Leadership...

Drives the dynamic process of knowledge creation by:

– providing knowledge vision and driving objective
– developing and promoting the sharing of knowledge assets
– creating, energizing, and connecting ba
– enabling and promoting the continuous spiral of knowledge creation through dialogues and practices

At the base of such leadership is Practical Wisdom
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)
What is Practical Wisdom

- A virtuous habit of making the “right” decisions and taking “right” actions in the particular context with values and ethics that serve the common good.
- A capability to find a “right answer” in particular context.
  - Contextual Judgment
  - Timely Balancing
- Can acquire only through high quality direct experiences with contemplation.
“the making of Marines who possess the judgment, strength of character, and ability to make sound, timely, and independent decisions in a chaotic environment that is likely to constantly change.”

Marine Corps Strategy 21
Six Abilities to Foster *Phronesis*

1. Ability to make judgment on goodness.
2. Ability to create *ba*.
3. Ability to grasp the essence of particular situations/things.
4. Ability to articulate the essence.
5. Ability to exercise political power.
6. Ability to foster *phronesis* in others.

Source: Nonaka & Takeuchi, HBR May 2011
Phronetic Leadership

1. Ability to make a judgment on goodness

Every sort of expert knowledge and every inquiry, and similarly every action and undertaking, seems to seek some good.

Aristotle, Nicomachean Ethics

Example: Self-sufficient values such as happiness and self-actualization.
“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.”

-Soichiro Honda
Phronetic Leadership

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

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.
Phronetic Leadership

3. Ability to perceive the reality as it is.

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.
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
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 suitable to each particular situation with shrewdness and determination.
Making Political Judgment

Reality is dynamic and full of confusion and contradiction. 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.
Leadership to Exercise Political Power
Steve Jobs

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.

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
To Communicate

If you want to communicate your thought to your subordinates, you have to say it with passion, say repeatedly, and explain why you are saying it.

Konosuke Matsushita
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.
“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
Until senior management gets their egos out of the way and goes to the whole team... goes to all of them and leads them all together... then senior management will continue to miss out on the brain power and extraordinary capabilities of all their employees.

As you can see, the contrasts are not high-tech or exotic in any way. At Toyota, we simply place the highest value on our team members, and do the best we can listen to them and incorporate their ideas into our planning process.

Alex Warren, former SVP, Toyota Motor Mfg. Kentucky
Middle-up-down Knowledge-creation Process

Grand Theory (What ought to be)

Solving contradiction

Mid-range theory

Contradiction

Reality (What is)

Cross-leveling of Knowledge

(Top)

(Middle)

(Front-line)
Fostering Phronesis

- Present the issues to be worked out
- Constantly ask the question ‘what is good’
- Provide examples in each situation that can teach the phronetic way of thinking in practice
Idealistic Pragmatist: Contemplation in Action

Brain
Deep Thinker

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

Brawn
Doer
“Self-Transcendence means reaching out beyond the boundaries of one’s own existence (Jantsch, 1980)

Through knowledge creation, one transcends the boundary between self and other.

Through knowledge creation, one changes oneself, and the environment in which one acts and interacts.
Adapting to Changes

“It is not the strongest of the species who survive, nor the most intelligent, but those who are most adaptive to change”

Charles Darwin
In a period of rapid structural change, the only ones who survive are the change leaders. [...] 
To make the future is highly risky. It is less risky, however, than not to try to make it. A goodly proportion of those attempting to will surely not succeed. But predictably, no one else will.

Peter Drucker, 1999
Knowledge Creation is...

A Continuous Process

It’s a never-ending process!