

Ikujiro NONAKA, professor emeritus at the Graduate School of International Corporate Strategy of Hitotsubashi University

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# What Kind of Leadership Would Make the IT Society More Creative and Affluent?

Interviewer: Naoyuki HARAOKA



Ikujiro Nonaka

Ikujiro Nonaka, professor emeritus at the Graduate School of International Corporate Strategy of Hitotsubashi University in Tokyo as well as holder of several other distinguished academic positions, is an innovative, prominent business-philosopher who is widely considered the leading scholar in the field of knowledge creation and management theory. He was selected by the *Wall Street Journal* (May 5, 2008) as one of the 20 most influential business thinkers in the world (the only Japanese person on the list). His research focuses on the interactive relationships among people, companies, and the larger environment, and considers how companies resolve “the inherent contradiction of needing both stability and change to survive” by managing flow. (For more information on this fascinating subject, see *Managing Flow: A Process Theory of the Knowledge-Based Firm* by Ikujiro Nonaka, Ryoko Toyama, and Toru Hirata, Palgrave Macmillan, 2008.)

A series of columns on “Easy Economics; Knowledge Management and Innovation” was featured in the *Nikkei Shimbun*, Japan’s leading business newspaper, in January 2011. Prof. Nonaka’s comprehensive views, razor-sharp intellect, and ongoing research provide those of us living in today’s information society with very useful guidance.

*Japan SPOTLIGHT* interviewed Prof. Nonaka and asked him about his wide-ranging, profound views on the quality and nature of knowledge management to create innovation in business as well as in society. Since our digitalized *Japan SPOTLIGHT* aims at contributing to the knowledge society, Prof. Nonaka’s remarks were extremely enlightening to us as well.

## The 20 most influential business thinkers

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

**Quality of leadership is very important for developing a business environment conducive to innovation. Asia is now referred to as a driving force of economic growth. Is the leadership of business management in Asia effective for consolidating a sound basis for innovation, and is its innovation, one of the main sources of its growth, built on a sound basis? Do you think the business leadership in Japan differs from that in other Asian countries and, if so, in what ways?**

**Nonaka:** Whereas in Western countries, knowledge management is based on explicit knowledge and verbal expression (as found in the Bible: “In the beginning was the Word”), in Japan, knowledge management is led by working experience, a more body-based artisanship or craftsmanship characterized by *anmoku*, which we call tacit knowledge. Other Asian countries are closer in style to Western countries than they are to Japan. Namely, a scientific approach based on explicit knowledge is leading innovation in Asia. This is because other Asian countries have to go global, whereas Japan in fact doesn’t. Japan is now moving from the West to the BRIC and Bottom of Pyramid (BOP) areas, in what you could call reverse innovation.

Until recently, Japan has been slow to pursue globalization. Of course, even with globalization, local ecosystems must be adapted to suit each particular local environment – such as in China, where there are enormous differences between Beijing and Shanghai, for example. There is a growing need for this particular capability. Japanese companies now need revitalized, locally focused innovation, rather than simply overall manufacturing ability which was one of their main traditional strengths.

However, I believe that we need both explicit knowledge and craftsmanship that is tacit knowledge to achieve ideal innovation in

business entities. The spiral process of conversions of both kinds of knowledge is described in detail in what we call the SECI model that comprises socialization, externalization, combination, and internalization, four modes of knowledge conversion. In this process, new knowledge is created from the continuous interaction of tacit and explicit knowledge. (Chart 1)

**What do you think about the basic character of the future innovation to be pursued in Japan? Many people say that innovation in Japan is stagnant.**

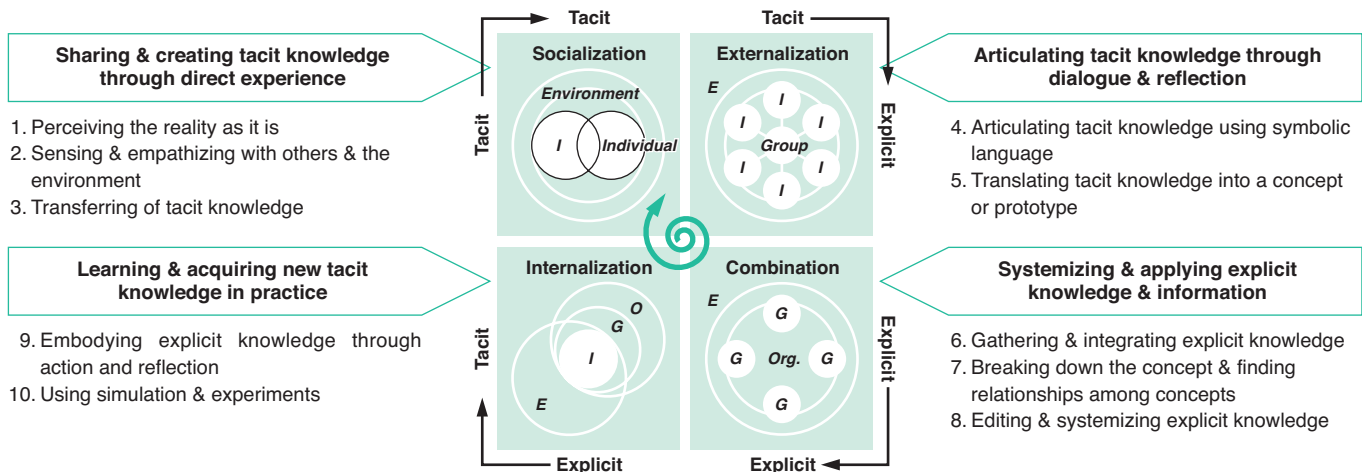
**Nonaka:** I do not think that there is very little hope about the future of Japanese innovation. Rather, as the SECI model clearly shows, Japan has the truly unique potential of combining craftsmanship with explicit knowledge and, thus, Japan has the potential to sharpen its competitive edge in the future.

However, the age of innovation in goods mainly led by craftsmanship in Japan is now over, and we are facing a new need to create a different set of innovation - innovation of a business model creating an event and a human network surrounding goods and services. For example, the iPad not only is a new product but also creates new human networks through people working and playing with it. Such a product could change human relations in society. Japan may be slightly behind in this kind of innovation. A think-tank is another good example since it creates a new human network and a synergy effect through personal contacts between a wide range of diversified experts in social and natural sciences, thus producing an intellectual stimulus. We need historical imagination to achieve better innovation.

**The above-mentioned new innovation or, in general, the integration of craftsmanship and explicit knowledge that is expected to stimulate**

CHART 1

**The knowledge-creating process: SECI model**



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

Source: "Managing Flow: A Process Theory of the Knowledge-Based Firm," Ikujiro Nonaka, Ryoko Toyama, and Toru Hirata, Palgrave Macmillan, 2008

**innovation in Japan and thus restore Japanese leadership in business can be achieved only by leaders with deep insight and the competency to organize a group consisting of individuals and entities with different missions and incentives and lead it to pursuing a single mission, namely, a new type of innovation achieved by integrating artisanship and explicit knowledge. I assume that it is very important to emphasize the role of education in the liberal arts at universities in order to acquire such a competency. Would you agree?**

**Nonaka:** Yes, I would. The “practical wisdom” necessary to achieve this innovation can be acquired by knowledge of the classics. Philosophy, literature, and historical imagination are in particular very important subjects. As in Silicon Valley, we should not have any explicit distinction between social science majors and natural science majors. In Silicon Valley, there are many intellectuals with practical wisdom who may have graduated from both law school and engineering school, or both business school and medical school, for example. They play the role of mediators as lawyers or business consultants in introducing highly academic discoveries or inventions to the business world. Practical wisdom could be fostered in education without discriminatory treatment based on one’s particular specialty.

**In addition to the practical wisdom described above, what else is important in increasing the capacity to achieve innovative business models?**

**Nonaka:** It is certainly the capacity to convince people to utilize a new business model which pursues the innovation process. A competency for rhetoric describing a new world brought about by the innovative business model, illustrated with a surprising story or concept, is needed. In Japan, we once had several great people such as Soichiro Honda, who were basically craftsmen but were also geniuses in using dramatic rhetoric to convince people of the utility of a new business model. Mr. Honda still has an influence on some US business thinkers. We have to develop this capacity, now lacking in many of Japan’s leaders, through education in schools as well as in business corporations. Again, we need education in liberal arts such as philosophy and literature since these can provide a macroscopic vision for the business model pursued by a business firm to integrate the micro-stories coming from each person’s working experience. For example, in Japan metaphor and paradox are generally not taught in schools. However, it is also possible to have too much rhetoric and no action; we need to combine both aspects to get to practical wisdom.

**It is often said that innovation needs shared context where knowledge is created by stimulating**

**human relations. How would you describe the way that shared context provokes innovation?**

**Nonaka:** Japanese companies used to have many shared situations (*ba*, literally place; shared context or “a space-time nexus for the SECI process to occur”) to discuss innovation among colleagues and friends in face-to-face meetings. However, as IT prevails in society, face-to-face communication is becoming less and less utilized and, thus, it is becoming extremely difficult to create shared context. Informal dialogues at pubs and restaurants among colleagues and friends used to play a very important role in Japan in creating innovation. Such classical Japanese-style face-to-face meetings utilized in software development projects - the so-called “agile scrum” whereby IT expertise is shared - contain a universal wisdom and have influenced American management. A combination of these face-to-face meetings with IT communication would be a proper use of IT, by integrating ICT and human touch.

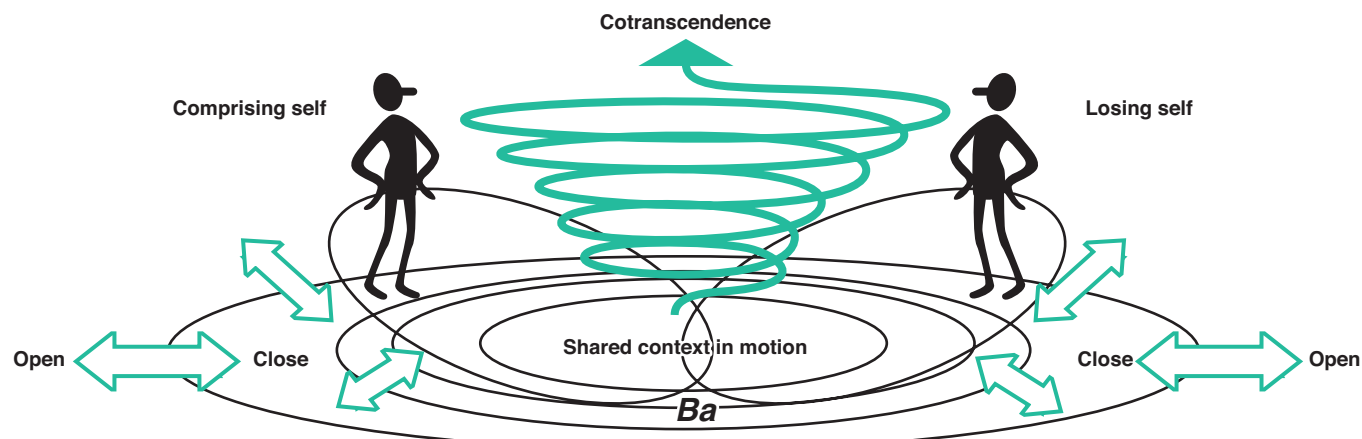
We should also make these *ba*, shared context, open to outsiders. If *ba* are closed, creation of new knowledge will not be realized, and vested interests and outdated existing knowledge will be dominant. Under the ongoing globalization, openness of these *ba* is essential to avoid isolation from the stream of innovation flowing worldwide. We do now have some leaders who are both idealistic and pragmatic, and are beginning to realize the importance of such *ba* where participants have established a shared sense of purpose, and each is deeply committed and willing to engage in and contribute to the *ba* or group, on an ongoing basis. (*Chart 2*)

**What kind of open *ba* should we create to encourage innovation?**

**Nonaka:** Networking in such open *ba* inside as well as outside companies is crucial for innovation and, more importantly, we have to create them intentionally, since today, as I mentioned, it is difficult to create such *ba* spontaneously, and they should not be too controlled. In some think-tanks (a good example of an open *ba*, since they often include experts from many diverse areas and of many nationalities), members mingle with each other and have face-to-face communication every day. This is very important for innovation. ICS of Hitotsubashi University also plays a major role in creating open venues. The Knowledge Forum we established in 2008 to develop character and integrity helps create leaders who apply practical wisdom in Japanese companies. During the intense 15-month program, executives meet once a month, and speak freely and frankly about their “defining moments.” Through the program, executives recognize that our work is done not by individuals alone but in pairs or teams, enhancing creativity and community sharing.

In business, companies with a capacity to create such open *ba* tend to be competitive and successful. It is also to be noted that

## Ba as a shared context in motion



Individual contexts are shared in *Ba*, and the shared context and individual context expand themselves through such interaction.

Source: "Managing Flow: A Process Theory of the Knowledge-Based Firm," Ikujiro Nonaka, Ryoko Toyama, and Toru Hirata, Palgrave Macmillan, 2008

over-compliance or excessive internal rules and regulations are not to be recommended since they are detrimental to full achievement of creative innovation in such open venues. We need freedom to think and act in those *ba*.

**It is often pointed out that, for business managers, one of the most important tasks is to educate the leaders of the next generation. What should be done to implement such an education?**

**Nonaka:** We need mentors at workplaces who can foster potential future leaders practical management through on-the-job training. If we have such mentors of many nationalities, it is even better in helping the candidates to acquire the capacity to establish their personal identities in different cultural contexts and to execute proper judgment on their own.

Japan has been excellent in providing distributed practical wisdom for candidates of next-generation leaders. However, in order to achieve new kinds of innovation, we need contextual wisdom in addition, and with it we have to make the best possible judgment. Also, leaders are expected to create opportunities and *ba* for innovation. In order to do this, we need high-quality tacit knowledge or practical wisdom. Local expertise is needed within R&D teams, for example. Again, a liberal arts education is extremely important for cultivating practical wisdom in the sense that it enables potential leaders to accurately identify and understand truth, good and beauty, crucial values necessary to make the right judgments. Finally, leaders with practical wisdom must be distributed and collective within the organization so that the organization will be resilient.

**How can knowledge-based management best be applied to national economic policy?**

**Nonaka:** Japan's industrial policy implemented by the Ministry of International Trade and Industry (MITI, the predecessor of the

current Ministry of Economy, Trade, and Industry, METI) worked correctly in the 1960s and '70s in the light of this application of knowledge management for integrating a wide range of knowledge and information into national economic policy. Many countries today attempt to follow the former MITI policies in formulating their long-term strategy and vision to foster new industries. MITI used to be very good at providing the right venues to stimulate innovation as well. It is good for METI to distribute knowledge worldwide. However, in the light of the sagging competitiveness of Japanese industries, we need to restore METI's policies to reactivate innovation.

**To sum up, according to Prof. Nonaka, there are many practices in Japanese management that have had an important impact on other countries' management practices. Japan should be aware of this and try to restore such practices as much as possible. However, Japan also needs to respond to the particular challenges brought about by globalization. This is how Japanese companies or the economy itself will be able to evolve gradually towards substantive contributions to overall Asian or even global innovation.**

**As Shumpeter said, "creative destruction" is always the most important engine of growth. Prof. Nonaka's remarks provide us with useful suggestions for such creative destruction through innovation. Reactivation for innovation is especially crucial for Japan, since the Japanese population is declining and the sole way to achieve growth at present is by raising labor productivity through innovation.**

J.S

*Naoyuki Haraoka is editor-in-chief, Japan SPOTLIGHT, and executive managing director, Japan Economic Foundation.*