Strategic management as distributed practical wisdom (phronesis)

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This article claims that effective strategic management requires distributed wisdom (which the philosopher Aristotle called “phronesis”). Strategy is created out of one’s existential belief or commitment to a vision of the future, the ability to interpret one’s environment and resources subjectively, and the interaction between subjectivity and objectivity. These abilities need to be distributed among organizational members. Strategy as distributed phronesis thus emerges from practice to pursue “common goodness” in each particular situation since a firm is an entity that pursues a universal ideal and a particular reality at the same time. Such idealistic pragmatism means that in a specific and dynamic context knowledge can be created and refined to become wisdom.

1. Introduction

The purpose of the firm is to create value. To do this, a firm has to offer either a unique product/service or a price that is cheaper than competitors so that customers will pay more than the cost of producing the product/service. It sounds simple, but we all know it isn’t.

We are still far from understanding how firms create value because strategic management scholars keep looking for that elusive “right answer.” They continue to build more and more precise theoretical frameworks to help a firm logically deduce one universal strategy, testing these frameworks with empirical data to explain and predict the firm’s activities. Certainly, strategic analysis can explain, in hindsight, how a firm has created value. It may also be able to tell a firm where it might find value, or provide a checklist of the issues it should be aware of so it doesn’t lose that value to others. But it cannot specify exactly how a firm finds a way to create value by finding an unfulfilled customer need or a new way of fulfilling an existing need, such as with new technologies or a new combination or application of existing technologies.

Part of the reason for this difficulty is that value creating strategies are perceived and created by human beings. Value can be created when one person perceives and interprets reality differently from others, indicating a new unseen opportunity.
In other words, value can be created from insight. Only the customer who perceives such a new product or service as valuable will pay a price for it. And since customers differ from each other and they keep changing, there is no one “right answer” or “cold truth” to what a particular customer or segment of the market considers valuable.

The rationalistic approach to strategy has resulted in strategic theories that exist apart from the realities of business because they obscure the most significant reality—that strategy is a dynamic process created and practiced by human beings. While parts of strategic management theory have become more precise, more practitioners have come to feel that it has nothing to do with their reality and they no longer pay attention to theoretical developments (Gopinath and Hoffman, 1995). In the effort to create a “valid science” of management, theorists have missed the fact that in the knowledge society strategic management is an art which can only be understood in the language of art.

In summary, there are three major problems in the current scientific-rationalist approach to strategic management that result in this disconnect. Emphasis on (i) finding a universal theoretical answer tends to overlook the aspect of strategy that is based on practice in a particular context; (ii) objective analysis of the firm’s environment and resources forgets the subjective aspect of strategy that is conceived and practiced by human beings; (iii) analysis of the past misses the fact that strategy is a process of creating the future.

By examining the practical, subjective, and future-creating aspects of strategy, one can see that these aspects are knowledge itself, where knowledge is defined as a dynamic process of justifying personal belief towards the “truth” (Nonaka and Takeuchi, 1995). Knowledge creation can be thought of as a process of realizing one’s vision of the future or personal belief through the practice of interaction with others and the environment. Expanding the theory of the knowledge-creating company (Nonaka and Takeuchi, 1995; Nonaka and Toyama, 2002; Nonaka and Toyama, 2005a), this article proposes a view of strategy as distributed phronesis, using Aristotle’s concept of phronesis, which translates roughly as “prudence,” “practical wisdom,” and “practical rationality.”

2. Aspects of strategic management

2.1 Strategy in practice

The conventional view of strategy as a universal, “grand scheme” emphasizes the planning aspect of strategy to the neglect of practice. For strategic management scholars who seek universal rules for planning strategy by analyzing a firm’s resources or the environment in which it operates, the particular problems that a firm faces in specific situations are viewed merely as initial conditions to be entered into the
strategic planning formula. They believe that the right “rules” will naturally lead to the right strategy, and as long as the inputs are correct any gaps between theory and practice are considered the fault of practitioners who are unable to fully utilize the theory. But the particular situations that practitioners face everyday are not just “initial conditions.” They are real problems, which change day-to-day and have to be dealt with by practitioners when they plan, modify, and put their strategies into practice. In these situations, there is no time to do detailed analyses of the environment or resources; nor is there any guarantee that general rules that applied in the past will still apply.

Some management theorists discuss the problem of viewing strategic planning as a set of universal rules (Mintzberg et al. 1998). Mintzberg argues that strategy is not only planned, but also emerges. Strategy is not formulated by analysis based on universal rules, but emerges through practices devised to deal with the particular problems that a firm faces. In this view, management is more art or craft than science because it is based on insight, vision, and intuition, and relies on experience (Mintzberg, 2004).

Management scholars with this view argue that the essence of strategy lies in the micro-practices of strategizing rather than in the macro analysis (Chia, 2004; Whittington, 2004). They reject a linear, causal relationship of means and ends, which has been the implicit assumption of conventional strategic analysis. They argue that the source of competitiveness is in the ability to adapt, in practice, to continuous change, rather than the ability to draw up a precise analytical plan. It is the social ability to improvise, which is the ability to react quickly and appropriately to an unpredictable situation. Weick (2001) calls it a just-in-time strategy, that is, the ability to improvise a strategy to capture an opportunity at the right moment. However, the analysis stops short of explaining the process in which strategy actually emerges in practice.

2.2 Strategy as a subjective process

For management scholars who emphasize objectivity in the analysis of a firm’s strategies and organization, the subjective aspects of management, such as a manager’s value system, or the personal commitment of members of the organization are nothing more than ambient noise that biases decision makers and inhibits correct, rational decision-making. They believe that management science, in order to be good science must carefully exclude subjectivity and evaluate the objective “facts” and universal rules that connect these facts, following the tradition of Herbert Simon, who tried to establish management science as “valid” science.

Despite this “rational” effort, it is impossible to completely exclude subjectivity from the planning and implementing process of strategy. As Flyvbjerg (2001) notes, social science cannot be freed from subjective factors because it deals with the issues of subjectivity, such as values, contexts and power. Management science
is no exception. A few management scholars and practitioners have begun to point out that management theories have to be based on the experience of human beings, who have intentions and values (Yu, 2003). In the analysis of environment or the firm’s resources, Weick (1979) argues that an organization does not merely react to the environment, but *enacts* the environment by interpreting it through a subjective framework. Reality does not exist objectively. It is *created* by an organization that perceives it as real. It means that strategy is not just a framework for creating a plan to *react* to the reality, but is also a framework to *perceive* a reality, and the framework, in turn, is formed through the interpretation of that reality.

We need to deal with the issue of subjectivity not only because it is impossible to exclude subjectivity from strategy planning and implementation, but more importantly, because it is the very thing we need to examine if we want to know how a firm creates value. As stated earlier, value is created out of our value systems, so to understand how a firm can create value we have to deal with the subjectivities from which that value emerges.

To understand the process of value creation is to understand the process of knowledge creation, in which human values and ideals are inherent. Knowledge starts with subjective “belief,” and it is humans who hold and justify those beliefs. Knowledge cannot exist without human subjectivities and the contexts that surround them. What is “truth” depends on who we are (values) and from where we look at it (context). And it is the differences in our values and contexts that create new knowledge.

At the same time, the extreme, relativist view that everything is subjective and there is no universality is of little, practical use. Value creation at a firm is an organizational process, in which a person’s subjective knowledge is objectified so that it can be understood and shared by others, and combined with their knowledge to create new knowledge and achieve a universality of knowledge (Nonaka and Toyama, 2005a). We need to understand this dynamic process of organizational knowledge creation, the synthesis of subjectivity and objectivity, in order to understand how strategy is formed and implemented to create value.

### 2.3 Strategy as a future-creating process

While emphasizing their differences, the positioning school of strategy and the resource-based view of the firm have much in common. Both schools see strategy as a way to escape the dilemma of perfect competition, either by utilizing entry or mobility barriers, or through the exclusive possession of unique resources which in turn enable the firm to offer unique products and services.

Both theoretical approaches can explain why firms are able to extract and protect above-average returns from their markets, but they can’t explain how firms find or create new opportunities, new markets, or new technologies to gain such returns. Porter (1996) states that strategic position is found as a result of the creativity and
insight of managers, but he doesn’t explain how managers find that position. The resource-based view of the firm can explain, in hindsight, how resources determined why a firm adopted a certain strategy (and why it was successful or unsuccessful), but it cannot predict a firm’s future strategy based on the resources it currently holds. Even two firms with exactly the same resources and operating in exactly the same environment will not necessarily choose the same strategy. The resource-based view has not given a clear answer to the question of how a firm combines and utilizes its resources and how it decides what resources it will need in the future.

Answering this criticism, Teece et al. argue that firms create value with their dynamic capabilities. That is, the ability to sense and then seize new opportunities and to reconfigure and protect knowledge assets, competencies and complementary assets to adapt to ever-changing market needs, technologies, or competitive situations (Teece et al., 1997; Teece, 2006). They argue that leadership is the key to develop and exercise such capability.

Why do firms differ? Why do they choose different strategies? Firms differ not only because of factors like mobility barriers, or the cost of acquiring resources, which prevent one firm from imitating the successful strategies of another, but also because they envision different futures based on their unique views of the world, their values, or their ideals. Not only do firms differ in their ability to foresee the future, and to sense and seize new opportunities, but they also differ in their ability to envision the future, and to create new opportunities, thereby realizing their own vision of future. Not only do firms own and utilize different resources, but also they create and accumulate different resources to realize different visions of the future. Not only do firms react to the environment in which they operate, they choose the environment and shape it according to their vision of the future. In other words, the ontology of the firm, which defines “how the organization should exist in the world,” first sets the firm’s vision of the future and then the strategy and its outcomes.

Since strategy is about making choices based on a firm’s goals, environment, and resources, strategic management theories have to understand how a firm defines its strategic goals. Traditional strategic management theories originating in neoclassical economics implicitly put profit maximization as the sole purpose of the firm. We have to question the validity of this assumption when we see the reality of how firms operate. Collins (2001) argues that many excellent firms have pursued their own, absolute values as goals, rather than as mere means to the goal of profit maximization.

In the case of Honda, they entered the global automobile market not because they found an advantageous strategic position after detailed market analysis, nor because they believed their resources would bring them a competitive advantage. It was because Honda envisioned a future of being in the global automobile market. This was already stated in the company mission in the 1950s, when Honda was just a small motorcycle factory in the provincial town of Hamamatsu in central Japan.
Honda created and accumulated the resources and interacted with the environment to realize this goal. It was a dynamic process that could not be predicted by rationalist theories of strategy based on static analyses of the environment and the firm’s resources.

To realize their vision, firms create and utilize resources and interact with the environment through the knowledge-creating process. To understand the dynamic process in which strategy is built and practiced, we need a theory of the knowledge-based firm that is up to the challenge of explaining how firms perceive and interpret realities, manage interactions, both inside and outside the organization, and synthesize various subjective interpretations into a collective knowledge that is then objectified and validated as universal.

3. Strategy as distributed phronesis

3.1 The dynamic model of a knowledge-creating company and the role of leadership

Figure 1 shows the model of a knowledge-creating firm (Nonaka and Toyama, 2005a). A firm creates knowledge through the synthesis of subjectivity and objectivity in the SECI process of Dialogues and Practice. The process is based on the Knowledge Vision and Driving Objective, which gives direction and energy to the SECI process. Ba, defined as a shared context in motion, provides an existential place for the

Figure 1 The model of a knowledge-creating firm.
SECI process. *Knowledge Assets* are the inputs and outputs of the SECI process, and a firm creates knowledge through interactions with the Environment as an ecosystem of knowledge and multi-layered *Ba*.

In this model, a firm pursues its vision and driving objective, which leads to creation of new knowledge through practice and dialog in interaction with the environment. But what is the key resource that enables this process? The capability to coherently direct, synthesize, and implement the elements that foster knowledge creation is accomplished by leadership.

Leadership in a knowledge-creating company is not about fixed administrative control. It is a flexible and *distributed* leadership, where the leader is determined by the context. Schumpeter argued that innovation is brought about by entrepreneurial leaders. However, he viewed leadership as an activity of elites, and entrepreneurship as a matter of individual disposition (Peukert, 2003). Knowledge creation, on the other hand, implemented at every level of the organization through daily practice, demands the active commitment of every individual in the organization, not just a small group of elites.

A knowledge-creating firm must be capable of immediate action in response to the various *ba* that emerge and disappear in real time, both inside and outside the organization. In a fixed leadership company, this would be impossible. As knowledge is created in dynamic interactions with the environment, managing the knowledge-creating process requires the ability to foster and manage those interactions according to the situation. It is the responsibility of the leadership to mobilize knowledge that is unevenly distributed, while determining how to enhance the quality of knowledge on all levels and how to synthesize the diversity of knowledge. To do so, knowledge leaders must be able to connect various *ba* both inside and outside the organization to form a self-organizing ecosystem of knowledge. This process is similar to the establishment of a small world network (Watts, 2003) in which individuals, in many cases middle managers, become nodes, which are connected to each other on their own will (Gladwell, 2000).

### 3.2 Phronetic leadership

Knowledge creation requires the kind of leadership that synthesizes practice and dialogue. Based on idealistic pragmatism (Rescher, 2003), this synthesis centers on the kind of skill leaders in the knowledge-creating process require. The practice of phronesis provides an illuminating description of what that skill is (Nonaka and Toyama, 2005a).

The concept of phronesis originates with Aristotle. In the *Nicomachean Ethics*, he distinguishes between three types of knowledge: *episteme*, *techne*, and *phronesis*. *Episteme* is universal truth, corresponding to the universal validity principle in the practice of modern science. Based on the rational analysis of idealism, it is context-independent, objective (explicit) knowledge that focuses on universal
applicability independent of time or space. *Techne* roughly corresponds to technique, technology and art. It is the know-how or practical skill required to be able to create. Based on instrumental rationality, it is context-dependent, practical (tacit) knowledge. *Phronesis* is an intellectual virtue. Roughly translated today as prudence, ethics, practical wisdom or practical rationality, phronesis is generally understood as the ability to determine and undertake the best action in a specific situation to serve the common good. *Phronesis* takes into account contextual circumstances, addresses particulars, and shifts aims in process when necessary (Eisner, 2002). In other words, it is the high-quality tacit knowledge acquired from practical experience that enables one to make prudent decisions and take action appropriate to each situation, guided by values and ethics. *Phronesis* is acquired through the effort to perfect one’s craft, which makes one a virtuous artisan.

In general, *Phronesis* is the practical knowledge of ethical, social and political life, which accounts for its development first in the field of political science. Politics is the art of the possible, which creates the future through a process of negotiation and coordination. *Phronesis* as political judgment is the ability to initiate action toward the future based on universal consensus about specific goals and measures reached through the shared judgment and conviction of individuals in each context (Beiner, 1983).

If the concept seems complicated, let’s look at it using the example of the car. Anyone in possession of the necessary technology and parts can manufacture a car. But whether a user finds a value in the car, that is, whether the car conforms to what the user would consider a “good car” is another matter, because the values of those who made the car and those who use it are different. A product, in this case a car, incorporates the values held by its makers at the time it is made. Simply put, if *techne* is the knowledge of how to make a car well, *phronesis* is the knowledge of what a good car is (value judgment), and how to endeavor to build such a car (realize the value judgment). A company cannot survive on *techne* alone, because no matter how well a company can make a car, if it’s not a “good” car, it is meaningless. *Episteme* cannot answer the question of what a good car is either, since “good” is a subjective value whose definition depends on the person using the car. This value cannot be a universal truth since it depends on the context, or who perceives that goodness, and the answer continuously changes. In short, *phronesis* is the ability to understand and bring to fruition that which is considered good by individual customers in specific times and situations.

With *phronesis* as the synthesizing glue, we can explain the practical, subjective, and future-creating aspects of the dynamic process of strategy building and execution in the knowledge-creating company. *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. According to Dunne (1993), phronesis is characterized as much by perceptiveness with regard to concrete particulars as it is by knowledge of universal principals. As actions originate from particular situations, phronesis is the ability to synthesize a general, universal knowledge with the particular knowledge of a concrete situation.

In leadership, phronesis is manifested in the capacity to choose the appropriate goals and to successfully devise means to reach them (Halverson, 2004). Phronetic leaders use their sense of the details to “see” or “feel” the problems of their organizations as solvable within local constraints, and they are able to develop successful plans to address identified problems. In decision-making, phronetic leaders must be able to synthesize contextual knowledge accumulated through experience, with universal knowledge gained through training.

Working in educational theory, Halverson (2004) states that leaders in organizations with collective phronesis create organizational structures that help them to shape the problems they are able to identify and the solutions they offer. As a consequence, the organization develops shared practices through which it can detect and process various problems and solve them. The seemingly effortless integration of political and personal phronesis in expert practice is a characteristic of virtuoso performance (Dreyfus and Dreyfus, 1986).

3.3 The abilities that constitute phronesis

What exactly is phronesis, then, in the context of a knowledge-creating company? We argue that it consists of the following six abilities: (i) the ability to make a judgment on “goodness”, (ii) the ability to share contexts with others to create the shared space of knowledge we call ba, (iii) the ability to grasp the essence of particular situations/things, (iv) the ability to reconstruct the particulars into universals and vice-versa using language/concepts/narratives, (v) the ability to use any necessary political means well to realize concepts for the common good, and (vi) the ability to foster phronesis in others to build a resilient organization.1

The following sections explain these six abilities in detail, while bearing in mind the phronesis of Aristotle and how that concept has been developed in political science and pedagogy.2 The six abilities are ideal models. They are not necessarily equal, but allow for a broad range of variation depending on the situation, and therefore, should be judged on their overall coherence. Furthermore, we reiterate that the need for phronesis is not limited to top management. Knowledge creation is a process in which phronesis is practiced by a distributed leadership,

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1For an early application of the concept to political and military leadership, see Nonaka et al. (2005) and for strategy and management in general see Nonaka and Toyama (2005b).

2Our work on this topic is still in progress and further research is required.
where people at various organizational levels are able to exercise *phronesis* in their own situations.

3.3.1 The ability to judge goodness

Judging goodness refers to the ability to practice one’s moral discernment on what is “good” and enact that judgment on a practical level according to the particular situation. It is the ability to both conceive an ideal and to pursue its realization. The judgment of “goodness” begins with individual values. Knowledge created in an organization depends upon the values of truth, goodness, and beauty possessed by the leader of the organization. Without a solid, philosophical foundation for their values, an individual cannot make a judgment on what is good, and a company is unable to produce value.

As Honda Motor Company founder Souichiro Honda argued, sound philosophy is absolutely essential to developing technologies and using them because it is people who create technology for the benefit of society. He wrote: “Philosophy is more important than technologies. Things like money and technologies are merely the means to serve people....There is no meaning in a technology if, at the base of it, it does not consider people....What drives a firm’s growth is philosophy....A true technology is a crystal of philosophy. Therefore, even in a research lab, the philosophy of the people who work there should take precedence over the technology” (Honda, 1963).

The values or philosophy that is the basis for judging “goodness” has to be one’s own. It cannot be given by others. At Honda, the most important question asked of everyone is: What do you think? (Kobayashi, 2006). Honda recognizes that its value is a product of the values or philosophy of each individual in the company. Its management principle, *respect for the individual*, acknowledges that every human being is different, and these differences are an important source of the values Honda creates (Honda, 1998). However, it does not mean that each individual should pursue what is good only for himself/herself. *Phronesis* is the ability to judge goodness for the common good. This kind of judgment requires a higher point of view to be able to see what is good for the whole, even though that view stems from one individual’s values and desires.

Another principle that expresses Honda’s fundamental beliefs is *The Three Joys*. These are: the joy of buying, the joy of selling, and the joy of creating (Honda, 1998). The joy of creating things from one’s own, original idea is important at Honda. Employees are told to create what gives them joy to create, based on their own values. Still, they are told that the product should not be something that only Honda engineers can enjoy. Those who sell the product, and above all, those who buy the product must enjoy it as well. This viewpoint sets the value standard for Honda employees to act for the common good. When Honda was developing the CVCC engine, a low-emission engine that would meet a revised Clean Air Act in the United States in 1970, Souichiro Honda declared that it would put Honda in
a position to beat out the Big Three US auto manufacturers who opposed the new law. But Honda engineers objected to Souichiro suggesting that what they wanted was to develop an engine that fulfilled their social responsibility as an automobile company to reduce harmful emissions. They said they were doing it for children. As the story goes, Souichiro was so ashamed of himself when he heard this that he decided it was time to retire (Nonaka, 1985).

It is this kind of value of the common good that gives a firm an absolute value to pursue that is a goal in itself. It is not simply a means to achieving profit enhancement, which is the goal implicitly set by conventional management scholars in their theories of the firm. In his introduction to *Metaphysics*, Aristotle writes, “All men by nature desire to know,” and in the *Nicomachean Ethics* he writes, “Every sort of expert knowledge and every inquiry, and similarly every action and undertaking, seems to seek some good” (Aristotle, translated by Broadie, p. 95). In short, man pursues good for its own sake, not because such good leads to profit or advantage over others. It is not simply a means, but an absolute, self-sufficient good such as happiness, or more specific to the firm, self-realization. Money is not goodness in itself, but a means to achieve a goal, that is, goodness. Profit is something gained as a result of exercising *phronesis* relentlessly rather than the ultimate goal of the firm.

How can one acquire phronesis then? The ability to make a judgment on goodness is fostered through life experiences. The importance of experience as a source of knowledge has been discussed, but the experience needed to foster phronesis goes beyond experiences at the workplace. According to Aristotle, phronesis is the character embodied in a good man. To foster goodness one needs experiences as a human being in every aspect of life. Especially important are aesthetic experiences and a culture of philosophy, history, literature, and the arts, which foster insights into historical and social situations (MacIntyre, 1984). To cultivate critical *phronetic* leadership, an organization must provide a mechanism for learning through high-quality experiences.

3.3.2 The ability to share contexts with others to create *ba*

As explained earlier, *ba*, which roughly means “place” in Japanese, is defined here as a shared context in motion, where knowledge is shared, created, and put to use. *Ba* as a shared context means that individual, subjective views are understood and shared so that one can see oneself in relation to others and accept others’ views and values. It is the space where individuals share directly with each other the emotional underpinnings of their particular knowledge and expertise. To participate in *ba* means to get involved and transcend one’s own, limited perspective.

To function in *ba*, one must have the ability to empathize; to put oneself in the position of the other and understand their feelings. Anticipating what customers value requires the ability to empathize, and understanding another’s emotions requires imagination. The ability to mobilize people depends on one’s imaginative capacity to understand and empathize with others and to elicit empathy in return.
Being able to imagine others’ emotions and the consequence of the actions of oneself and others is important to building and managing ever-changing contexts.

To do this, one needs an ability to “read” a situation and adapt to it quickly. Since phronesis is the ability to make a decision that is suitable for each situation, one has to be able to quickly recognize a situation and understand what is required in that context. Souichiro Honda once said: “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” (Honda, 1963, pp. 56–57).

A phronetic leader also needs to have the ability to engage in and cultivate sharing among participants of ba. For a ba to form, the social capital of caring, love and trust should be cultivated (von Krogh et al., 2000). It is only in such an environment that individuals are able to transcend the self and connect with others. The same social capital is employed to link ba in multiple layers.

3.3.3 The ability to grasp the essence of particular situations/things

What we gain from empathizing in ba is no more than a single experience unless we endeavor to understand the essential meaning of that experience; the essence that makes it universally relevant as a constant, universal truth. Seeing essence is the ability to fathom intuitively the true nature and meaning of people, things and events. It is the ability to quickly sense what lies behind phenomena and accurately project an image of the future based on this intuition.

By recognizing the situation correctly and grasping the essence, one can envision the future and decide on the action to be taken to realize that future. To do this, one has to be able to see at both the micro and the macro levels simultaneously. Like the saying, “God is in the detail,” the kind of consciousness that enables one to sense truth in individual details is the starting point of creativity. To borrow from Hayek, it is the everyday small changes that make up economic phenomena that are important (Hayek, 1945). A keen sensitivity to daily changes, and the ability to see the implications of those changes in the bigger picture are essential attributes of phronesis. It is also important to correctly interpret the particular situation. For that, dialog is important (Gadamer, 2006).

The Automobile Hall of Fame in Detroit, which honors those who have made a significant contribution to the industry, has a corner devoted to Souichiro Honda. One of the photos in the exhibition shows Honda at a motorcycle race, squatting to put himself at eye level with the rider. This pose captures the essence of the Honda way: the focus on place, product and the reality of experience. Honda once said, “When I look at a motorcycle, I see many things. I see that I should do such and such to maneuver past the curve. And I think about the next generation machine: I think, if I do this, it will have more speed . . . .I move naturally into the next process” (Honda, 1963). When one is able to perceive universality through experience, to see
Phronesis enables one to perceive beyond the ordinary to see essence.

3.3.4 The ability to reconstruct the particulars into universals and vice-versa using language/concepts/narratives

Traversing between the particular and the universal requires an ability to conceptualize and articulate subjective, intuitive ideas in clear language, link these “micro” concepts to a macro historical context and convincingly articulate them as vision and scenario for the future. In this process, both vertical methods of deductive and inductive reasoning, as well as horizontal methods of expression such as metaphor, analogy and narrative are used. As stated earlier, *phronesis* requires more than just practical knowledge of a particular situation. It requires the ability to sense a universal “truth” from the particular in order to determine the best way to act for the common good. Hence, it requires continuous interaction between subjective insight and objective knowledge to identify the optimal way to behave. While Souichiro Honda was a strong believer in the importance of the front line, he also stressed the need to cross-pollinate front-line, subjective insights with objective knowledge. He said: “Action without philosophy is a lethal weapon; philosophy without action is meaningless” (Honda, 1963). While stressing the importance of seeing the actual situation or thing, Honda Motor Company also urges a *Respect for Sound Theory*. Even if one is able to grasp essence and conceptualize it, that concept remains buried inside the individual until it can be communicated to others. The essence grasped must be communicated in a universal language that everyone can understand, and expressed as aspiration or vision that motivates people. This requires rich imagination, especially historical imagination, and an outstanding ability to create and communicate a vision of the future that captures the imagination of others, effectively using metaphor, analogy, or simple story-telling.

Canon’s CEO Fujio Mitarai is known for his ability to modify his message to fit the context of the interaction. Mitarai shares his management philosophy with Canon employees in ways that are easily understood, through annual visits to every Canon office and factory in Japan. During those visits, he speaks for about two hours at a time, then meets with every employee in the smaller branch offices, and with everyone from assistant manager on up in the larger offices. While sharing his knowledge, he is also able to acquire contextual knowledge, which he uses in strategic decision-making. The central concept that Mitarai communicates is *Cash-flow Management and Cost Optimization*, which works as Canon’s driving objective (Nonaka and Toyama, 2005a). Unlike the simple entreaty such as Increase Sales, he has articulated a multidimensional concept that bridges the particular and the universal, forcing employees to think on a deeper, more complex level about how each can achieve the goal by optimizing cash flow in one’s own level of the organization.
3.3.5 The political power to realize concepts for the common good

It is not enough to identify essence, share it, and communicate it to others. One must also be able to bring people together and spur them to action, combining and synthesizing everyone’s knowledge and efforts in pursuit of the goal. Strategy is not just a written plan, but something that is actualized through practice. To mobilize others to achieve the common good, phronetic leaders must choose and utilize the means suitable to each particular situation, including sometimes Machiavellian means, where shrewdness and determination can help to achieve “the good” result (Badaracco, 1997).

While it is difficult to provide an ideal example, we can say that the probable sources of effective enactment of political power are personal magnetism, consideration of others’ viewpoints, and a sense of timing. The sense of balance to achieve what Aristotle called the golden mean is also important in making such political judgment. The golden mean here does not mean simple middle ground. It means to avoid extremes and act to solve the contradiction, with moderation. For that, phronetic leaders need to be able to think in the way of “both and,” not “either or.” Political power is the ability to understand the full complement of contradictions in human nature—good and bad, optimism and pessimism, civility and uncivilility, diligence and laziness—and to harmonize them in a timely fashion as each situation arises. It has been said that personal magnetism is hard to describe but those who possess it have, in their own way, embraced the contradictions associated with human nature and been able to synthesize them (Iizuka, 2003).

The reality of the strategic process is that it is dynamic and full of confusion and contradiction. Traditional management theories have tried to resolve contradictions through the design of organizational structures, incentive systems, routines, or organizational culture. In a knowledge-creating organization, contradictions are not obstacles to overcome but are necessary for the creation of knowledge. Rather than seeking an optimal balance between contradictions, they are synthesized in dialectical thinking that negates the dichotomy and yields knowledge. By accepting contradiction, one is able to make the decision best suited to the situation without losing sight of the goodness to be achieved. The dialectical process of achieving the goal through social interaction is political, driven by the ability to make political judgments. Phronetic leaders exercise political judgment by understanding others’ emotions in verbal and non-verbal communication day-to-day, and by giving careful consideration to the timing of their interaction with others (Steinberger, 1993). Such political power can also reduce the justification cost of knowledge, which is necessary to utilize knowledge created within the organization or imported from outside (Nonaka and Toyama, 2002).

Canon President Mitarai exercised political power to transform Canon. He broke down the barriers between divisions, reduced inventory by introducing a cell system of production and a meister system to recognize masterful assembly workers. He synchronized Research and Development with Production and Sales to speed
up the development of better products, and withdrew the company from several unprofitable businesses. Throughout this process it was critical that he maintain close communication with the front line and the labor union. In his description of the effort to lead the transformation, Mitarai says that it is the frequency of communication that is key to persuade and convince others to take active part in the transformation (Mitarai and Niwa, 2006). In addition to his annual office and factory visits which take about one month for him to complete, he meets with about 800 managers and with the labor union every month to discuss the current important topics and management policies.

3.3.6 The ability to foster *phronesis* in others to build a resilient organization

Strategy as *phronesis* is not planned or implemented by a few select leaders in the organization. Rather, phronetic leadership is embedded and distributed throughout the organization, with various members assuming leadership according to the situation. Cultivating this kind of leadership requires mechanisms for fostering and transferring the *phronesis* that is already embedded in individuals to create a system of distributed *phronesis* (Halverson, 2004). This will ensure that an organization has the resilience to respond flexibly and creatively to every situation, to pursue its own “goodness.”

The ability to foster *phronesis* is a form of knowledge that enables a firm to cultivate the critical, next generation of employees. It is the ability to present the issues to be addressed, to create the necessary *ba* for creative exchange and peak experience (Maslow, 1970) such as challenging high quality direct experience or constantly asking oneself what is the “good.” It is also important to provide clear examples of phronetic way of thinking in practice. People learn to understand what *phronesis* is through practice, accomplished in interaction. As Dobson (1999) states, ethics is something that is learned through observations of others’ behavior (p. 133, emphasis in the original). Through phronetic managers, or aesthetic-manager-as-artisan as Dobson calls, who act as exemplars, *phronesis* is distributed throughout the organization.

For example, Honda’s routine to ask its people “what do you think?” constantly is to let them think deeply about their own values in relation to the values of Honda and the society. The question also makes them think about what they want to do in their work at Honda, to put their values into practice. Honda also emphasizes the importance of direct experience with its *sangenshugi* or the three *gen* principle. These are: go to *genba*, the actual place or frontline; know *genbutsu* (and *genjyou*), the actual elements and actual situation; and be *genjitsu-teki*, realistic. The implications of the three *gen* principle are that one observes the product in *gen* or the present time, in the place where it is made and used, and thereby understands its essential reality. Thus, when Honda was developing its Fit vehicle, initially envisioned for the European market, the development team first went to Europe to observe, with their own eyes, the types of cars in use in each region and how they were being used.
The team did not solicit the views either of Honda people working in Europe or others knowledgeable about the European market, because they wanted to directly observe the various situations of users without any preconceptions. Through such dialog and practice, distributed phronesis at Honda is cultivated and distributed.

3.4 Exercising phronesis

How, specifically, is *phronesis* exercised? The practical syllogism of Aristotle can be effective in exercising *phronesis*. Logical syllogism, which has been a typical way of thinking in scientific research, comprises a major premise (all men die), a minor premise describing a specific event, fact or action (Socrates is a man), and a conclusion that leads deductively, for example, to an event or truth (Socrates will die). Syllogism is thus a methodology in which two or more premises (major and minor) lead to a necessary conclusion. The relationship between the premises and the conclusion is conceptual. This method of formal logic is deductive, such that, if the two premises are true then the conclusion must also be true. However, since the conclusion is already contained within the premises, the potential of this method to create new knowledge is minimal.

In contrast, practical syllogism aims to elicit actions as conclusions, each with concrete individual implications. *Phronesis* is the ability to gain insight into the events of the minor premise immediately facing the observer and choose the best action. In the process, the minor premise and conclusion can become the major premise. The strength of Aristotle’s practical syllogism is that it begins with the minor premise (intention, objective) of what needs to be done right now, and while continuing discussion at the universal level, realizes the best action, not through logic but by traversing back and forth between the particular (practice) and the universal (theory) in “good practice.” Unlike logical syllogism, the conclusion gained through practical syllogism is not necessarily “right,” since it often cannot answer such questions as whether something is absolutely right or wrong. Because of this ambiguity, practical syllogism enables one to relentlessly pursue perfection if one has a vision or ideal to pursue.

When we decide what action to take, we do not deductively follow a given principle to the specific outcome, but rather begin with intention and, while maintaining a balance with the particular context, take action that satisfies both the objective and the situation. Thus, the difference between logical syllogism and practical syllogism is that the former logically judges whether the proposition is true, while the latter judges whether the action can be justified. In this regard, practical syllogism is close to the method of abduction, which freely combines the vertical logic of deduction with the horizontal, analogical reasoning of induction to

\(^3\)Walton (1998, 2006) argues that since it is quite different type of inference from deductive syllogism, it should be called practical reasoning rather than practical syllogism.
achieve the objective through hypothesis building and testing (Josephson and Josephson, 1994). Furthermore, as the process develops through practice, the ability to synthesize antinomy improves in dynamic interaction with the environment.

We can see this process in action at Toyota Motor Company. For example, the conflict between cost and quality is a typical antimony confronting all companies. One potential solution is to seek a compromise between price and quality that is acceptable to customers. At Toyota, instead of accepting the constraints as given and simply seeking an optimum solution under those conditions, they began by questioning the constraining conditions. They questioned what they needed to be done right now to achieve their ideal level of quality and cost, and then synthesized the knowledge of all frontline workers through kaizen activities to make operational improvements. In the end, Toyota created new knowledge in the form of a unique manufacturing system that overcame the paradox and enabled them to achieve both lower costs and higher quality (Monden, 1998). In practice, the company’s approach to problem-solving consists of asking the question “why?” five times. Beginning with a situation where “there is excess stock of parts,” the question is asked, “what should be done about it,” followed by the related question of “why the stock is there.” As the question “why” is put four more times, the answer becomes increasingly focused (Wakamatsu and Kondo, 2003). For example: (Why?) “We produced the excess parts because we were ordered to do so, even though there was no need for it” (Why?) “Because we are still producing at the front-end, even though a problem has arisen at the back-end of the process,” (Why?) “Because nobody told us that they didn’t need any more of these parts at the back-end process,” and finally, (Why?) “Because production is based on a ‘push’ system, in which the front-end pushes what it produced to the back-end regardless of its needs”. Toyota concludes that the solution is to build a back-end-production system in which the back-end process orders the exact amount it needs to the front-end process. By employing both vertical and horizontal reasoning in a kinetic chain of minor premises and conclusions based on specific contexts, Toyota engages in a process of universalization that moves production from partial to more complete optimization.

3.5 A case of distributed phronesis: Seven-Eleven Japan

The process of distributed phronesis can be seen in action most clearly in the management systems developed by Toshifumi Suzuki, Chairman and CEO of Japan’s largest and most profitable convenience store franchiser, Seven-Eleven Japan (SEJ). Suzuki understands that the pursuit of an absolute value based on the “common good” reaps returns at every level of the company, including the bottom line. Guided by this ideal, his system facilitates an environment of free and open exchange of information, where every employee is engaged in the expanding spiral of knowledge creation, conversion and validation that cultivates the development of both personal and collective phronesis.
The history of the well-known US brand, the Seven-Eleven convenience store, starts in Japan in 1973 when its originator, Southland Corporation of the US, licensed the rights to develop the concept in Japan to Ito-Yokado Co., Ltd. Suzuki opened the first store in Tokyo in 1978 and SEJ was publicly listed 5 years later. It became one of the most profitable companies in the country. SEJ bought the entire global franchise from a bankrupt Southland in 1991. As of June 2006, it had an overall network of 30,473 stores in 18 countries including Japan. In the fiscal year of 2005, its total store sales of 2498.7 billion yen (21.9 billion USD converted at 114 yen to 1 USD) and operating revenue of 492,831 million yen (4.3 billion USD). In 2003 the number of outlets exceeded 10,000, accounting for 21.7% of all convenience stores and 31.5% of total sales. All of the stores, except for the dozen or so under direct management of SEJ headquarters, are run by self-employed managers under franchising contracts.

The absolute value that guides SEJ stores is articulated in the two principles of their corporate philosophy: “adaptation to change,” and “pursuit of fundamentals.” They are the answer to the fundamental question, “what does the customer want?” and they are emphasized in every SEJ operation. This philosophy defines the absolute value of “goodness” for SEJ as the ability to meet the ever-changing needs of customers. Instead of imitating the best practices of competitors, SEJ pursues the value of keeping up with customers’ changing wants and needs. Suzuki eschews imitation, viewing it as merely a process of extending the past rather than creating a future. He says SEJ’s competitors are not other convenience stores but its own customers’ needs and wants.

The philosophy is not expressed in universal rules written down in glossy corporate plans or manuals. Instead, it is practiced daily in the particular context of each store’s operations. Suzuki says there is no universal model for franchise management. It is impossible to derive universal rules from past experience because customer needs change continuously and quickly, and each store operates in differing contexts of size, customer base, and competition. Convenience store chains are successful, according to Suzuki, only if they shed the past and constantly look to the future, seeking fundamental solutions to problems that are appropriate to each, particular context. Since customer needs and wants change faster than static corporate planning, SEJ has no formal long range planning except their vision.

The difficult job of evoking adaptations to change is achieved, not by one charismatic leader, but through distributed phronetic leadership, carried out at every level of the organization. “No one knows for sure how society will change in future,” and “I only have two eyes,” says Suzuki. “There are several tens of thousands of part-time workers at Seven-Eleven Japan stores. If everyone can make judgments on their own, we will have quite a few pairs of eyes.” (Ogata, 2005, p. 185). In daily operation,

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4From the company’s annual reports.
this is achieved by trying to meet SEJ’s driving objective—the ‘reduction of lost opportunities’ through the spiral of constant hypothesis building and testing, visualized in the SECI model. Lost opportunities occur because of an inability to provide the right products or services at the right place/time. Since Seven-Eleven stores have limited floor-space, it is important to sell what customers really want and not sell what they don’t want. Of 3000 items sold at a typical Seven-Eleven store, 70% disappear from store shelves within one year (Ogata, 2000). Inventory management down to the level of a single item is the key to SEJ’s success. Unlike the visible costs of overstocking inventory, opportunity lost from unrealized sales is invisible and a difficult concept to grasp because it is buried in the tacit insights gained in the particular context of each store, accumulated through daily face-to-face interaction with customers. For example, store employees have to know what particular soft drinks in terms of brand and size that local customers want, instead of ordering just “soft drinks.” Single item management by store employees is necessary because the particular context each store faces is different from each other even if they are in the same neighborhood.

The subjective insights of particular contexts is objectified through hypothesis building and testing. SEJ empowers store employees, including part-time workers, to build their own hypotheses about the sale of particular items by giving them responsibility for ordering the items to be stocked in their stores. To build a hypothesis on sales of a particular item, one has to pursue an understanding of the essence of that particular situation. Even if the item has sold well today, there is no guarantee that it will sell well tomorrow, because customers and situations change quickly. One has to think about the essential reason why the item sold well today, taking into account the particular context of that day and the next, including such factors as weather and local events.

SEJ trains employees to cultivate the multi-perspectives characteristic of phronetic leadership when they build hypotheses. Instead of thinking for customers, they are encouraged to think as a customer, first from the perspective of an average customer, second from that of an average family, and finally, from the perspective of a close friend. This helps employees to think about products and services from different standpoints and be attuned to particular contexts while developing a broader hypothesis that can be universalized through group validation. SEJ also trains their employees to have direct experience with the customers so that they can gain high quality tacit knowledge. SEI headquarters operates about a dozen of company-owned stores, whose sole purpose is to provide on-the-job training to employees who will become store managers in the future.

Objectifying subjective insight by hypothesis building is also practiced through interaction with others. While each employee is responsible for certain categories of merchandise, dialog with those responsible for other categories plays an important role in hypotheses building. SEJ also has about 300 Operational Field Counselors (OFCs), who visit each store twice a week for two to three hours to engage
in dialogue with store owners and employees and give them advice on ordering stock and store planning and management. This close interaction not only gives local employees access to the company’s broader knowledge base, but gives field counselors the opportunity to absorb localized knowledge about customer preferences in context-specific time frames. Field counselors can also identify innovative ideas in particular stores and disseminate them to other stores and regions through their regional managers who act as key points of knowledge sharing throughout the organization.

Employees are also encouraged to think from a larger perspective than the particular situation they are facing. “It’s not good if you just see a tree and not the forest,” says Suzuki. “Of course, you have to see the particular tree. But you have to see the entire forest first, and then see the individual trees. Many think, wrongly, that single-item management means just managing a single item. But you also have to be able to place the item in the store as a whole” (Ogata, 2005, pp. 142–143).

The larger perspective is attained by combining subjective insights with objective information from the company’s state-of-the-art point-of-sale (POS) information system. For example, employees can hypothesize that consumption of beer and fast food will increase on the day of a local festival. To enhance the accuracy of the hypothesis, employees can check consumption patterns during previous festivals before placing an order. As the order is placed, sales data from the POS system verify whether the hypothesis was right, and this information is used the next time the store places an order. This cycle of knowledge creation is repeated every day in a never-ending process of hypothesis building and testing that makes SEJ a resilient company capable of constant change and self-reinvention.

SEJ has revamped its information system five times. At a cost of 60 billion yen to develop, the current fifth-generation system is the world’s largest, connecting convenience stores, distribution centers, manufacturers, headquarters, field counselors, and district offices by satellite telecommunication and an integrated digital network. The stores are provided with information in multimedia format, from numerical data, text and audio to still and moving pictures. The information system allows employees to check the latest product information and product display methods, weather and public events, and the company’s current television commercials. SEJ provides information about past order entries, sales records, sold-out stock, sales trends and new products. Moreover, the system enables each store to create a database of its own sales performance figures.

Even with the increased role of information technology, SEJ operations are largely based on the power of human insight. Recognizing the importance of face-to-face interaction for the communication of subjective/tacit knowledge, SEJ is the only company in Japan that systematically holds weekly meetings with more than 1000 people. Regional managers meet every Monday to review the previous week’s performance and map out strategies based on objective data and subjective, tacit insights that are often expressed in metaphorical language. OFCs meet every Tuesday
to exchange knowledge and develop tactics for implementing those strategies at the local level. These weekly gatherings are costly. SEJ spends more than 18 million dollars annually on travel, lodging, and related costs. The importance of these weekly meetings cannot be explained by simplistic economic rationale. While some of the information could be shared through information technology, the company recognizes that only physical interaction enables the sharing of tacit knowledge through dialog.

Operational methods at SEJ illustrate that in the knowledge creating company, strategy is not created out of a logical analysis of a firm’s resources and environment. It is created out of the ability to interpret the environment and resources both subjectively and in combination with objective information in a continuous interplay that is open, inclusive and collective.

4. Conclusion

This article claims that effective strategic management requires distributed phronesis. Strategy is not created from the logical analysis of environment and a firm’s resources. It is created out of one’s existential belief or commitment to a vision of the future, the ability to interpret one’s environment and resources subjectively, and the interaction between subjectivity and objectivity. And these abilities need to be distributed among organizational members rather than just held by a selected few in top management.

Strategy as distributed phronesis emerges from practice to pursue “common goodness” in each particular situation. A firm is not merely a profit-pursuing entity, but an entity that pursues universal ideal and particular reality at the same time. It is an entity that pursues idealistic pragmatism, which synthesizes the rational pursuit of appropriate ends, whose appropriateness is determined by ideals (Rescher, 2003). By pursuing such ideals everyday through the SECI process, in a specific and dynamic context, knowledge is created and refined to become wisdom.

To build and practice such a strategy, one has to know what is “good” (ideal), and make judgments in particular situations (practice) to realize such goodness. Such phronetic capability has to be shared collectively with organizational members, not just by one phronetic leader in order for strategy to be implemented. Building such organizational phronesis helps a firm become a resilient organization which can proactively deal with any environmental changes to realize its idealistic vision.

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