

# Wise Leadership and Wise Capitalism

**Hiroataka Takeuchi**

*Harvard University Graduate School of Business Administration, USA<sup>1)</sup>*

## **Abstract**

This paper combines two different tracks of research: (1) the research that I have conducted over the years with Ikujiro Nonaka on knowledge creation, the most recent publication being the May 2011 Harvard Business Review article entitled “The Wise Leader,” and (2) the field study Harvard Business School students and I conducted this year in Tokyo and Tohoku, which culminated in a five-case series published by the Harvard Business School, entitled “The Great East Japan Earthquake.” It highlights the fast response towards relief and restoration on the part of four Japanese companies – Fast Retailing, Ken-iku Kai which operates the Ishinomaki Kouwan Hospital, Lawson, and Yamato Transport – following the triple disaster (earthquake, tsunami, and nuclear explosion) of March 11, 2011. These four companies made judgments and took actions in midst of unprecedented turmoil, doing so with a higher point of view – what is good for society. This paper delves into how these companies and their CEOs practiced a new form of leadership and capitalism based on practical wisdom (called wise leadership and wise capitalism), which is focused on creating both economic value and societal value.

**Keywords:** *Tohoku relief, Practical wisdom (phronesis), Wise leaders, Wise capitalism, Societal value*

## **INTRODUCTION**

The world is in a flux today. We are now living in an era when discontinuity is the only constant....an era of unpredictable chaos, turbulence, and volatility. Just go back a few years. No one predicted – or could have predicted – the sudden demise of financial institutions in Wall Street in 2008. No one predicted the quick spread of the Occupy Wall Street movement last year. Close to home, no one predicted the March 11, 2011 earthquake and tsunami, as well as the explosion of the nuclear reactor the following day (the so-called “3-11 triple disaster”) and the devastation 3-11 would bring to the Tohoku region of Japan. Once again, these developments reinforce something we have known all along, namely that we cannot predict what the future holds for us.

We do know, however, that an era of discontinu-

ity presents the ultimate leadership opportunity. It can become a catalyst to spark new ways of thinking and doing business. As Sam Palmisano, the ex-CEO of IBM, pointed out:

Over the next couple of years, there will be winners, and there will be losers. And though it may not be easy to see now, I believe we will see new leaders emerge who win not by surviving the storm, but by changing the game. To do that, they will need to practice new forms of leadership...approaches that are very different from the models of the past.<sup>2)</sup>

The new form of leadership in this new era of discontinuity, I believe, will be based on “practical wisdom.”<sup>3)</sup> As we will see in this paper, practical wisdom will enable us to determine what is good in

specific times and situations and to undertake the best action, then and there, to serve the common good. It will allow us to see what is good, right, and just for society, while being grounded in the details of the ever-changing front line. Needed today are leaders who will make decisions, knowing that everything is on the move; make judgments, knowing that everything is contextual; take actions, knowing that everything depends on timing. At the same time, these leaders will have to do so “knowing what must be done” for the common good. Management must serve a higher purpose; CEOs need to ask if decisions are good for society as well as for their companies.

Companies will then start thinking of themselves as social entities charged with a mission to create lasting changes to society. Unless companies create societal as well as economic value, they will not survive in the long-run<sup>4)</sup>. In contrast to the old notion of capitalism, which pitted business and society against each other (Reich, 2007), we will see in this paper a new, communitarian<sup>5)</sup> approach to capitalism called “wise capitalism<sup>6)</sup>” being practiced by four Japanese companies during the most volatile of times, namely right after the triple disaster hit Tohoku last year.

### 3-11 TRIPLE DISASTER<sup>7)</sup>

As mentioned in the beginning, no one predicted how severely devastated the Tohoku region would be after it was hit by a 9.0M earthquake at 2:46 pm on March 11. The tsunami that followed was the greatest recorded wave in history, with its highest peak at 38.9 meters and waves higher than 10 meters hitting 530 kilometers of the coastal shores of Tohoku. At 3:30 pm the following day, an explosion was heard in the Number One reactor of the Fukushima Daiichi nuclear power facility.

A little over a month after 3-11, the government ordered the evacuation of all people in a 20 kilometer radius surrounding the nuclear reactors. In the meantime, the country braced in fear as government officials and Tokyo Electric Power Company (TEPCO) officials tried to deal with the nuclear meltdown situation. They both took a beating from the public and the press for not taking quicker action to prevent the explosion and for not accurately disclosing the severity of the situation.

The triple disaster had a massive impact in Tokyo as well. Millions of workers who commuted long distances were stranded from home when JR East stopped all trains and closed all the shutters of Tokyo metropolitan area stations on March 11. Roads were completely congested that day and so were telephone lines. *Keikaku teiden* (planned power outages) in Tokyo and eight surrounding prefectures continued until March 28, shutting off power in sequential blocks during peak hours. Nearly 40,000 foreigners, most of them living in Tokyo, fled the country to seek safe havens. Fear of radiation in Fukushima raised serious safety concerns for food and public health even in Tokyo.

One year after the disaster, official numbers indicated 15,854 deaths, 1,407 related deaths to the earthquake (sick patients whose condition worsened as a result of the shock), 3,155 still missing, 26,992 wounded, 343,935 displaced, and 383,246 buildings irreparably damaged or destroyed. Miyagi Prefecture was the hardest hit (9,512 deceased), followed by Iwate Prefecture (4,671), Fukushima Prefecture (1,605) and Ibaragi Prefecture (24).

Despite these negatives, the calamity brought to light some positives. First and foremost, it brought to light the resilience of the Tohoku people and their dogged determination to rebuild their cities/towns and attract new industries. It also highlighted the calmness and patience of the Japanese people to conjure a little “order out of chaos.” The author was in Tokyo on March 11 and was amazed to see people a few hours after the earthquake queuing up patiently in line to buy bicycles at a bike shop and food items at a convenience store, and cars not violating traffic lights and staying in lane despite the horrific congestion. Other positive insights were gained, including the following:

- the Japanese Self Defense Force, which had largely been seen as an organization without much strength in defending the lives of ordinary people, played a pivotal role in supporting the disaster victims and ordinary lives
- the fast rise in the number of volunteers pouring into stricken areas to 800,000, just six months after the disaster
- the large amount of donation received from as many as 160 countries outside of Japan as

well as within Japan, with three out of four Japanese having made some kind of donation, according to one survey

- the humanitarian aid and logistical support provided by the U.S. military in what came to be known as Operation Tomodachi, as well as similar aid/support from a host of other countries, including Korea and China
- the value of social network systems (Twitter, Facebook, etc.) in providing the communication infrastructure during times of crisis
- the reassurance regarding the safety record of the Shinkansen operated by JR East: no casualties as all the bullet trains running in the Tohoku area stopped minutes after the earthquake hit

In this paper, I will focus on the positive role four Japanese companies played in responding quickly to the crisis situation in the Tohoku region and in organizing their relief efforts. They are (1) Fast Retailing, (2) Ken-iku Kai which operates Ishinomaki Kouwan Hospital, (3) Lawson, and (4) Yamato Transport.<sup>8)</sup> Twenty-one MBA students from the Harvard Business School (HBS) enrolled in the Immersion Experience Program course (IXP: the first field study course offered for credit at HBS' 104-year history) visited these companies in early January 2012, interviewing their CEOs as well as their headquarter employees in Tokyo and regional managers in the Tohoku region. They formed four teams and wrote cases on how these four companies made judgments and took actions in midst of unprecedented turmoil, doing so with a higher point of view – what is good for society. These four cases illustrate the inner workings of a new form of leadership and capitalism based on practical wisdom.

#### FROM KNOWLEDGE TO WISDOM<sup>9)</sup>

Before delving into the four cases, we will take a step back to explain the roots of practical wisdom. The origin of practical wisdom can be traced back to a Greek concept of *phronesis*, which is one of the three forms of knowledge Aristotle identified in *Nicomachean Ethics* VI.6 (Aristotle, 2002). *Phronesis*, which is commonly known as practical wisdom or prudence, is defined as a virtuous habit of making decisions and taking actions that serve

the common good<sup>10)</sup>. It can be interpreted as the higher-order tacit knowledge acquired from practical experience that enables humans to make prudent decisions and take timely action appropriate to each situation, guided by values and ethics.

Aristotle identified two other forms of knowledge, *episteme* and *techne*. *Phronesis* is contrasted with *episteme* (universally valid, scientific knowledge) and *techne* (skills-based technical know-how) on three grounds. First of all, it is the least known of the three forms of knowledge. Compared to the link *episteme* has with science and *techne* with technology, *phronesis* has been relatively unexplored in management practice to date. Second, *phronesis* is acquired “here and now” through practical experience – on a trial and error basis – and does not lend itself to scientific validation or precise codification. Third, *phronesis* has an ethical component (serving the common good), which makes it the highest intellectual virtue above and beyond the other two.

If *episteme* is know-why and *techne* is know-how, *phronesis* is know-what-should-be-done. For instance, because no universal notion of a good car exists, *episteme* cannot answer the question “What is a good car.” That will depend on who is using the car, for what purpose, under which context, and it will change over time. *Techne* is knowing how to make a car well; *phronesis* is knowing both what a good car is and how one can build such a car. Thus, to repeat what we mentioned upfront, *phronesis* enables managers to determine what is good in specific times and situations and to undertake the best actions at those times to serve the common good.

To look back a little, it has been over 15 years since *The Knowledge-Creating Company* book that Nonaka and Takeuchi co-authored was published<sup>11)</sup>. Over these years, as Peter Drucker predicted, knowledge has come to be recognized as *the* resource and knowledge management initiatives have been implemented all over the world (Drucker, 1993). Companies now know how to capture, store, and leverage knowledge and spread it to others in the organization. Just when we have become comfortable with tacit and explicit knowledge (Grant, 1996; Spender, 1996; von Krogh, Ichijo, and Nonaka, 2000; Teece, Pisano, and Shuen, 1997; Teece 2000), Nonaka and Takeuchi are arguing that a higher-order tacit knowledge acquired from practical

experience, or practical wisdom, is needed. The latest thinking by Nonaka and Takeuchi is presented in our co-authored article “The Wise Leader,” published in the May 2011 issue of *Harvard Business Review*.

#### THE SIX ABILITIES OF WISE LEADERSHIP

In the *Harvard Business Review* article, Nonaka and Takeuchi identified the following six abilities of wise leadership:

1. **Wise leaders can judge goodness:** they make decisions only after they figure out what is good for the organization and society
2. **Wise leaders can grasp the essence:** they can quickly grasp the essence of any situation or problem and intuitively fathom the nature and meaning of people, things, and events
3. **Wise leaders can create shared context or *ba*:** they constantly create informal as well as formal shared contexts for senior executives and employees to construct new meaning through their interactions
4. **Wise leaders can communicate the essence:** they know how to use metaphors and stories to convert the essence of their actual experiences into tacit knowledge for individuals and groups
5. **Wise leaders can exercise political power:** they exercise political power to bring together people with conflicting goals and spur them to action
6. **Wise leaders can foster practical wisdom in others:** they encourage the development of practical wisdom in others, especially employees on the front lines, through apprenticeship and mentoring

The HBR paper described each of the six abilities in detail and offered concrete suggestions on how to go about developing each one of these abilities. The focus of this paper is to describe how the leaders of the four case companies – both at headquarters and in Tohoku – actually demonstrated these six abilities in practice right after 3-11.

Each of the four CEOs exhibited a different ap-

proach in responding to the 3-11 triple disaster. For example, the CEO of Fast Retailing made the decision a day after the disaster to donate one billion yen so that “other rich people like me will follow suit.” The CEO of Ken-iku Kai established a disaster response team at its Tokyo headquarters within an hour after the earthquake and appointed himself as the director of the team. The CEO of Lawson focused on delivering food for free to the disaster victims and befriended the mayor of Soma City in Fukushima, which ultimately led the company to open its first convenience store after 3-11 in that city. The CEO of Yamato visited the devastated areas in person, after communication was restored, to gain a fuller understanding of the situation on the ground, which ultimately led the company to do something unthinkable during normal times, namely to have the Japanese Self-Defense Force work under its direction.

All four companies, however, have one thing in common. They responded quickly and focused their relief efforts on what they were doing in their core business. For example, Fast Retailing as a company decided to donate cash (120 million yen) and clothes (worth 700 million) the first thing on Monday, March 14 and started delivering clothes to victims in Miyagi, Fukushima, and Iwate by that weekend. Ken-iku Kai dispatched a car loaded with water, food, medical supplies, and other essentials from Tokyo to Ishinomaki Kouwan Hospital 20 hours after the earthquake, re-opened the hospital doors to new out-patients exactly one month after March 11, and was in full operation by September 1. Lawson opened the first of the 387 convenience stores located in Tohoku, which were temporarily closed, 15 days after March 11, regained full store operation in all but 53 stores within one month after the disaster, and delivered over 180,000 prepared meals to the victims during the first two weeks after the disaster. Yamato resumed its normal delivery services (*Takkyubin*) in Tohoku 10 days after the earthquake, started delivering relief supplies that started to flow into the region by allocating 200 trucks and 500 people to this volunteer initiative on March 23, and announced its corporate-wide program of donating 10 yen for each parcel sent (estimated to reach 40% of Yamato’s net profit that year) on April 7.

In essence, all four companies made quick judgments and decisions and took timely “here and now” actions in midst of utter chaos, doing so with a moral purpose in mind....trying to serve the common good. We will revisit the six abilities one at a time and examine how the four companies applied them in practice below.<sup>12)</sup>

### JUDGING GOODNESS<sup>13)</sup>

Both Takeshi Niinami, CEO of Lawson, and Makoto Kigawa, CEO of Yamato, made a judgment call that they probably would not have made under normal circumstances, namely to disregard cost and not to worry about profitability. Niinami gave the following order before the tsunami reached the shores of Tohoku: “Deliver food to disaster victims within seven days. And disregard cost.” Kigawa sent out the following message to all 10,000 or so employees in the Tohoku region: “If help is needed, then help. Don’t worry about profits.” They both made the judgment call that, given the context, the right thing to do was to look after the victims first and foremost, not the shareholders.

When Kigawa announced the corporate donation program – to donate 10 yen for each parcel sent – on April 7, he had a conviction that Yamato’s shareholders would understand and approve the initiative. But for this to happen, he also knew that the money had to be spent in an efficient and totally transparent manner and had to be directed towards re-building and recovering local industries. By the end of June, when the shareholders meeting was scheduled, the institutional investors – both domestic and foreign – approved the donation program and signed legal documents saying that they would not sue Yamato. The remaining group of investors, the individual investors, heard Kigawa’s explanation about the disaster relief initiative on the day of the shareholders meeting and gave him a prolonged applause of approval.

Yamato’s year-long campaign successfully raised over 14 billion yen and funded several vital initiatives to help the recovery and rebuilding of the Tohoku region. Kigawa was proud of the actions the company took, and reflected on how the precepts set forth by the company founder Yasuomi Ogura in 1919 were still at the heart of Yamato. Employees at Yamato still recite the following pre-

cepts every morning, both at corporate and branch offices across Japan:

1. We “all” represent the company.
2. We deliver with a personal touch.
3. We work with gratitude and politeness.

Kigawa felt that the employees knew that this was the time to show their gratitude to society by donating 10 yen that they received per delivery from their customer. Such a move would be good for both the company and society.

The founder’s beliefs have a strong impact when making judgments for the common good. Tadashi Yanai, the founder and CEO of Fast Retailing (which owns Japan’s fastest growing apparel brand, UNIQLO) stresses the importance of contributing to society, as follows: “Not only does a company have to live in harmony with society, but to be accepted, it must contribute to society. The majority of companies that have failed did not maintain that balance. Everyone is, first, a member of society before one of the company. Thinking only about the company will undoubtedly result in failure.”<sup>14)</sup>

### GRASPING THE ESSENCE<sup>15)</sup>

Niinami of Lawson intuitively understood how re-opening a convenience store in Soma City could create hope for the future, but he had to exercise restraint in approaching his franchisees. He knew he could not approach them directly since a call from the CEO might place too much pressure. He needed to pick the “right” franchisee. After careful consideration, he called on Etsuko Kato to re-open the first Lawson store in Soma City. The tsunami claimed two of her four Lawson stores, in addition to destroying her house. Her mother-in-law and pet cat were still missing. Despite the hardships, Niinami chose Kato because of her character and unique background. Kato lost her husband to disease four years prior, but overcame personal struggle to re-open her family’s Lawson stores. Since her home was destroyed, she lived in a refugee shelter and knew first-hand what refugees needed the most. Under Niinami’s guidance, the trusted employees of Kato approached her and gently nudged her to re-open the stores. She finally called Niinami and accepted the challenge. It is attention to this



kind of detail that allows a leader to sense what lies behind a situation and to take action on what is best for the future.

Yanai of Fast Retailing felt strongly that the government decree to turn off the outdoor lights of the stores was a mistake. He thought this was another example of Japanese businesses worsening the crisis through excessive self-restraint. UNIQLO store managers were caught in the middle between the regulators and their CEO. So, Yanai and the regional office heads sent the following message to the store managers: individual stores were to make their own decisions, incorporating directives from regulators, but the signs would stay on. Some customers in the affected areas were skeptical of UNIQLO's decision to stay open and keep the signs lit, but many were grateful. They told store managers that they would be driving around, looking for open businesses, and the only store they were able to see was the UNIQLO store. "Some customers came in crying, thanking us," noted one store manager. Yanai had a good sense of the situation, since he had seen stores in the shopping district of his own town of Ube close their shutters and become a ghost town years ago with lights going off one store at a time. He could intuitively fathom the nature of customer sentiments, given this experience.

#### CREATING SHARED CONTEXTS OR *BA*<sup>16)</sup>

Setsuo Takekawa, CEO of the privatized Ken-iku Kai Medical Group, interacted with every new staff through MVV (mission, vision, values) sessions, which became a formal *ba* for the company. *Ba* (place, space, or field) refers to the context in which relationships are forged and interactions occur. Those participating in a *ba* share information, build short-term relationships, and try to create new meaning. During the MVV sessions, Takekawa spent hours walking through the MVV in person in an effort to align new employees behind a common goal: providing value to key stakeholders. The list and order of the stakeholders as well as the value provided to each consisted of the following:

- 1) Patients: high-quality services
- 2) Families: peace of mind
- 3) Communities: contribution
- 4) Referrers: satisfaction

- 5) Partners: credibility
- 6) Employees: fulfillment
- 7) Shareholders: reputation

When asked how employee morale was maintained in the aftermath of 3-11, Takekawa pointed to the strong sense of mission ("To create shining examples of private-sector hospitals") and the corporate culture of speaking up and solving problems together that were nurtured in his MVV sessions.

The Medical Director, Managing Director, and Nurse Director at Ishinomaki Kouwan Hospital remained at the hospital night and day for over two weeks before they headed home. They developed shifts so that the remaining 100 staff members could leave the hospital to check on their family members and homes. An important *ba* for them was an apartment near the hospital, which the headquarters rented at the suggestion of the staff members. This apartment with working electricity, running water, and a washing machine became an oasis for the staff whose homes were destroyed, forcing them to stay at the hospital for as many as five consecutive days with no electricity, gas, or water. The apartment not only re-energized them for their next shift, but more importantly, became a *ba* where the staff generated ideas both large and small to make patient care easier and more efficient through informal conversations.

At Yamato, Koji Higasa – the Regional Branch Manager in Iwate Prefecture – spent days at various locations to better assess the situation. He explained, "If leaders don't go to the *gemba* (where the action is), they can't make the right decisions and people often won't listen." Higasa spent nights at branch offices with his regional employees, enduring wintry conditions with no electricity, limited food, and no running water. Every morning at 7:00am, Higasa held a meeting with other managers and sales-drivers to kick off their day and also at 8:00pm at night to review progress. These early morning and late evening meetings became a *ba* to share information, talk about their immediate concerns or problems, and re-affirm their sense of purpose. Higasa explained, "Even when telephone service was restored, we still don't know everything at the local level. The workers are stressed and fatigued, and thus face-to-face dialogue is essential to get the

complete picture and situation.”

#### COMMUNICATING THE ESSENCE<sup>17)</sup>

Wise leaders must be able to communicate in a way that everyone can understand. Giving simple instructions was the key during a crisis situation, according to Higasa of Yamato:

Ordinarily, we think about profit and the bottom line, but [in this situation] we have to save people. There were many goods sent to the region, but the area was a complete mess. We had to clear the roads and sort out the best method for delivery. In this case, simple instructions were necessary: “save people if required; make your ultimate effort.”

The essence of a situation is often hard to express, so wise leaders must use stories, metaphors, and other figurative language. That allows individuals grounded in different contexts and with different experiences to grasp things intuitively. Niinami of Lawson is fond of telling the following story that describes the essence of the corporate philosophy, namely contributing to “Happiness and Harmony in Our Community”:

I approached Mayor Hidekiyo Tachiya of Soma City about throwing a large celebration throughout the city when the Lawson store reopened there. Mayor Tachiya thought for a second and refused. He told me, “At Soma, we have a long and arduous road for a true recovery. My people are doing okay right now and it isn’t a one-time deluxe meal that my people need. I’d like to take a rain-check until a time comes when we really need it.” That day came in early April when Soma could not provide lunch services over three days for students when the elementary schools opened. I knew we were providing lunches, but tears came to my eyes when Tachiya thanked me for the desserts. I never ordered that. It was my employees who decided on their own to add dessert for the students.”

Hanging on the wall of the corporate headquarters of Lawson is a large picture frame that showcased hand-written thank-you notes from the elementary school students of Soma. All of them mentioned how delicious the dessert was or how happy they were to find the dessert in their lunch menu.

The opening paragraph of the case on how Fast Retailing responded to 3-11 reads as follows:

Yanai Tadashi, CEO of Fast Retailing, was at a sushi restaurant near his office in Tokyo the evening of March 11, 2011, only a few hours after an earthquake and tsunami had inflicted terrible damage on Japan. The catastrophe had damaged several of Fast Retailing’s UNIQLO stores, and the domestic infrastructure that allowed the retailer to function was in a state of crisis.

A manager from the Human Resources department suggested that the part about Yanai “eating sushi at a restaurant” be deleted, since those reading the case may interpret the incidence negatively, viewing the CEO as being either irresponsible or out of touch with actuality, or both. Yanai did not mind keeping it in the case, but went a step further in pointing out that “eating sushi at a restaurant” is a good metaphor to convey the message that once the key decisions are made, the leader should trust that the organization will act autonomously to do the right thing and should feel comfortable about being on “auto-pilot” mode.

#### EXERCISING POLITICAL POWER<sup>18)</sup>

It isn’t enough to grasp the essence or communicate it. In addition, wise leaders must bring different people and constituents together and spur them to action. The four case companies did exactly that, combining the knowledge and effort of others in a single-minded pursuit of bringing normalcy back and providing relief and recovery to the Tohoku region. For example:

- Fast Retailing leveraged its existing partnership with Japanese Emergency NGO (JEN), an NGO that deployed necessities to crisis areas abroad, and distributed clothes together

in the Tohoku region. It was the first time JEN engaged in relief efforts domestically.

- Both Lawson and Yamato worked with the Japanese Self-Defense Force, enabling Lawson to deliver 50,000 loaves of bread and onigiri rice-balls to reach disaster victims in the first week and Yamato to distribute relief supplies to those affected in the region.
- Ishinomaki Kouwan Hospital solicited the assistance of five other hospitals as well as several smaller clinics and nursing care facilities that Ken-iku Kai operated to determine what supplies would be most useful to load in the car that left Tokyo 20 hours after the earthquake. It was also able to supplement their staff with support teams from other group hospitals.
- Yamato negotiated with the Ministry of Finance and received a tax-free “special purpose donation” status after three months. If the approval were not granted, Yamato could only donate 2.2 billion yen tax-free; any amount donated beyond that would be taxed at an approximately 50% rate.

To mobilize others, wise leaders must utilize all the means – including Machiavellian ones – suited to the situation. Our case companies exhibited such kind of shrewdness and ingenuity, some bordering on being illegal and unethical. For example, when food supplies at Ishinomaki Kouwan Hospital ran out on the fourth day after the earthquake, the staff had to drive out 60 kilometers or so to get food for the patients. Gas stands were closed, forcing the staff to siphon gas from abandoned cars to drive back.

Another example comes from Lawson, which delivered 180,000 prepared meals to the victims in the first two weeks after the disaster, as mentioned earlier. Some of the food items did not have the appropriate labels prescribed by law on them. Strict food sanitation standards in Japan mandated that product labels be placed directly on the packaging for food items such as onigiri rice-balls and bread. This regulation prohibited Lawson from delivering the food items directly to refugee shelters even though the food items were ready to go. Printing such labels right after the disaster was considered a

near impossibility at the time. A regional president of Lawson decided to distribute the food items in a “raw” package, without the printed labels. He reflected back on that situation as follows: “We had to be judicious when we weighted regulation over the welfare of victims.” He made a “here and now” judgment that gave more weight to delivering food items to the victims even if it infringed the regulation.

#### FOSTERING PRACTICAL WISDOM IN OTHERS<sup>19)</sup>

Practical wisdom should not be treated as if it were the preserve of the CEO or the top management team. It must be distributed throughout the organization with employees at all levels practicing it. The 3-11 triple disaster of Tohoku provided a litmus test to gauge whether or not a company is fostering practical wisdom at the front line. All communication was out for a few days between the Tokyo headquarters and the regional offices. In all four cases, local staff members made here-and-now judgments and decisions on what was the best action to take for the community autonomously and independently. For example, the local Fast Retailing store in Tohoku decided to keep the outside light on, despite the mandate. The local staff at Ishinomaki Kouwan Hospital came up with the idea of making portable toilets out of cardboard and diapers since the hospital lacked working toilets. The local Lawson employee at Soma added dessert to the lunch menu for elementary school children without letting the CEO know. A branch manager of Yamato at Ishinomaki decided to rebuild and re-open the local shipping and delivery center without approval from the headquarters and did so 20 days after the tsunami, the first company to do so in the city. In all cases, the front-line people responded flexibly and creatively to the crisis situation at hand. They also knew “what must be done” for the common good.

Distributed *phronesis* is made possible in these companies as a result of the CEO taking time to share their experiences, contexts, and beliefs on a regular basis during normal times. At Fast Retailing, for instance, Yanai started a program three years ago in which he serves as the mentor for 200 apprentices all over the world, spending enormous amount of time personally overseeing and evaluat-



ing 600 projects that will change the company's status quo<sup>20</sup>). At Ken-iku Kai, Takekawa personally walks through the mission/vision/values with every new staff, as mentioned earlier. At Lawson, Niinami believes that the months he spent embedding the corporate philosophy (Happiness and Harmony in Our Community) in training programs prior to the disaster has clearly taken effect and is proud of how faithful the company is to its credo. At Yamato, Kigawa attributes the diffusion of practical wisdom throughout the company largely to the reciting of the three precepts set forth by founder Yasuomi Ogura every morning by everyone in the company, both at headquarters and branch offices.

## CONCLUSION

We have observed the use of *phronesis* among four Japanese companies that responded quickly and nobly to the discontinuity created by the triple disaster of March 11, 2011. As Nonaka and Takeuchi mentioned in "The Wise Leader" article, Japanese companies have been criticized for not being sufficiently capitalistic<sup>21</sup>). They have not returned enough capital to investors; not maximized shareholder value in the short term; not moved quickly with offshoring; not laid off enough employees to reduce costs; not paid enough compensation to incentivize top management.

The flip side, however, is a continuing belief that the best Japanese companies live in unity with society, have a social purpose in earning profits, pursue "toku" or the common good as a way of life, have a moral purpose in running a business, shy away from excess and greed, and practice distributed *phronesis*. They do not pit business against society, but are keen on pursuing harmony between the two<sup>22</sup>). They are not capitalistic in the old notion of capitalism, but may be practicing a new approach of capitalism called "wise capitalism," which is focused on creating both economic value and societal value. Business and society co-exist and co-prosper under wise capitalism.

Having experienced 3-11, Japanese companies know, both tacitly and explicitly, that discontinuity is the only constant. As we mentioned at the outset, we know that we cannot predict what the future holds, but we know that companies can *make* the future. The future to *make* should not be based on

the old, narrow view of capitalism, but on wise capitalism. This shift, this discontinuity offers a glimmer of hope, for both companies and society.

## NOTE

- 1) The author acknowledges the assistance of Ayano Hirose, Assistant Professor at Hitotsubashi University, Graduate School of International Corporate Strategy in providing useful comments and feedback for this paper.
- 2) Palmisano, Samuel, J. (2008). A Smarter Planet: The Next Leadership Agenda. Remarks prepared for the IBM Business Leadership Forum in Istanbul on November 12, 2008.
- 3) The discussion of practical wisdom in this paper is adapted from Nonaka, Ikujiro, and Takeuchi, Hirotaka. (2011). The Wise Leader. *Harvard Business Review*, May 2011, Vol. 89 Issue (5), pp. 58-67.
- 4) Porter, Michael, E. and Kramer, Mark, R. (2011). Creating Shared Value. *Harvard Business Review*, Jan/Feb 2011, Vol. 89 Issue (1/2), pp. 62-77.
- 5) Sandel, Michael. J. (2009). *Justice: What's the Right Thing to Do?* New York: Farrar, Straus and Giroux.
- 6) The term "wise capitalism" was used for the first time in Takeuchi, Hirotaka and Hirose, Ayano. (2012). Wise Capitalism and Wise Leader. *GSR Research Report: GSR White Paper 2011*. Tokyo: Nihon Keizai Kenkyu Center.
- 7) This section of the paper is based on Takeuchi, Hirotaka and Stone, Victor. (2012). The Great East Japan Earthquake (A). *Harvard Business School case*, N9-712-480.
- 8) These companies have been written up in the following Harvard Business School cases by Takeuchi, Hirotaka et al. (2012). The Great East Japan Earthquake (B), (C), (D), and (E). *Harvard Business School cases*, N9-712-482, N9-712-483, N9-712-485, N9-712-486 respectively.
- 9) This section of the paper is adapted from Nonaka, Ikujiro, and Takeuchi, Hirotaka. (2011). op cit.
- 10) See Nonaka and Toyama 2007; Nonaka, Toyama, and Hirata, 2008; Nonaka, Toyama, and Hirata,

- 2010 for more discussion on *phronesis*.
- 11) Nonaka, Ikujiro and Takeuchi, Hiroataka. (1995). *The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation*. New York: Oxford University Press.
  - 12) For a more detailed description of the six abilities, see Nonaka, Ikujiro and Takeuchi, Hiroataka. (2011). *op cit*.
  - 13) This section of the paper is based on Takeuchi, Hiroataka et al. (2012). The Great East Japan Earthquake (D): Lawson's Response, and (E): Yamato Transport's Response. *Harvard Business School cases*, N9-712-485, N9-712-486.
  - 14) Nonaka, Ikujiro and Takeuchi, Hiroataka. (2011). *op cit*.
  - 15) This section of the paper is based on Takeuchi, Hiroataka et al. (2012). The Great East Japan Earthquake (C): Ishinomaki Kouwan Hospital's Response, and (E): Yamato Transport's Response. *Harvard Business School cases*, N9-712-483, N9-712-486.
  - 16) This section of the paper is based on Takeuchi, Hiroataka et al. (2012). The Great East Japan Earthquake (B): Fast Retailing Group's Response, (D): Lawson's Response, and (E): Yamato Transport's Response. *Harvard Business School cases*, N9-712-482, N9-712-485, N9-712-486.
  - 17) This section of the paper is based on Takeuchi, Hiroataka et al. (2012). The Great East Japan Earthquake (B): Fast Retailing Group's Response, (C): Ishinomaki Kouwan Hospital's Response, (D): Lawson's Response, and (E): Yamato Transport's Response. *Harvard Business School cases*, N9-712-482, N9-712-483, N9-712-485, N9-712-486.
  - 18) This section of the paper is based on Takeuchi, Hiroataka et al. (2012). The Great East Japan Earthquake (B): Fast Retailing Group's Response, (C): Ishinomaki Kouwan Hospital's Response, (D): Lawson's Response, and (E): Yamato Transport's Response. *Harvard Business School cases*, N9-712-482, N9-712-483, N9-712-485, N9-712-486.
  - 19) This section of the paper is based on Takeuchi, Hiroataka et al. (2012). The Great East Japan Earthquake (B): Fast Retailing Group's Response, (C): Ishinomaki Kouwan Hospital's Response, (D): Lawson's Response, and (E): Yamato Transport's Response. *Harvard Business School cases*, N9-712-482, N9-712-483, N9-712-485, N9-712-486.
  - 20) See Takeuchi, Hiroataka (2011). Fast Retailing Group. Harvard Business School case N2-711-496 for more information on this training program, which is one of the programs offered by FRMIC (Fast Retailing Management and Innovation Center).
  - 21) Nonaka, I., & Takeuchi, H. (2011). *op cit*.
  - 22) Porter, Michael, E. and Kramer, Mark, R. (2011). *op cit*.

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Dr. Hirotaka Takeuchi is professor of the Graduate School of Business Administration, Harvard University, United States of America. htakeuchi@hbs.edu