

Practical Strategy as a Co-Creating Collective Narrative: A Perspective of Organizational Knowledge-Creating Theory

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Abstract

From the perspective of the knowledge-creating theory, a management strategy should be subjective and practical. However, three major phenomena in many ailing companies in Japan and the world have been observed: over-analysis, over-planning, and over-compliance. A 'narrative turn' and a 'practice turn' in management enables breaking through these situations. These two turns are essential factors embedded in the organizational knowledge-creating theory. The Externalization phase of the SECI spiral incorporates the narrative turn, and the Internalization phase incorporates the practice turn. These two turns together enhance the further practice and development of the knowledge-creating theory, especially from the strategy perspective. This paper presents the concept of narrative strategy with two concrete cases of Fujifilm and Hitachi. Implications and further research challenges are provided.

Keywords: *Organizational Knowledge-Creating Theory, Knowledge-based Management, Phronesis, Leadership, Narrative Strategy, Fractal Organization*

INTRODUCTION

From the perspective of the knowledge-creating theory, a management strategy should be subjective and practical. This is often not the case in western management theories. For example, positioning theory and resource-based view both eliminates human subjectivity, values, beliefs, and passion in an effort to become a "science." Such a theory tends to apply theoretical frameworks to reality in a deductive way. That is, if the reality does not match the theory, the reality is wrong. We think such detachment from reality ultimately led to the global financial crisis.

Henry Mintzberg stated that management is a practice that has to blend a good deal of craft (experience) with a certain amount of art (insight) and some science (analysis) (Mintzberg 2004). Most crucial in the process of planning and implementing strategy is the individual belief of and commitment to what one hopes to achieve. Practitioners who work at the frontline in actual businesses understand this statement as common sense.

However, three major phenomena have characterized many ailing companies in Japan and the world: over-analysis, over-planning, and over-compliance. Businesses are increasingly quantitatively managed by financial indicators. Top man-

agement tends to avoid risks, and middle managers and frontline employees behave accordingly to avoid risks. Thus, organizations become homogeneous and closed within themselves, losing the vitality to innovate.

The 'narrative turn' and 'practice turn' in management enable organizations to break through these situations. These two turns are essential factors embedded in the organizational knowledge-creating theory (Nonaka and Konno, 2008; 2012; Nonaka 2013). For example, the SECI model explains the processes of knowledge creation in which individuals share and create tacit knowledge from direct experiences through empathizing (Socialization), and then articulate tacit knowledge through dialogue and reflection into a concept (Externalization). Individuals then systemize and apply explicit knowledge and information into a model (Combination), and learn and acquire new tacit knowledge in practice (Internalization). In the Internalization phase, products and services created in the Combination phase are put on the market and used by the consumers, thereby, amplifying the collective knowledge of the organization and the creativity of the individual, which feeds the next SECI spiral for continuous input. The Externalization phase of the SECI spiral incorporates the narrative turn, and the Internalization phase incorporates the practice turn. These two turns together enhance the further practice and development of the knowledge-creating theory, especially looking at strategy from knowledge creation within the organization.

This paper presents the concept of narrative strategy from the perspective of organizational knowledge-creating theory with two concrete cases. It then concludes with implications and further research challenges.

DEVELOPMENT OF THE NARRATIVE STRATEGY THEORY

Narrative is a main subject of study in psychology, history, and other humanities as well as in social sciences (Fujii, et. al. 2011). Literature, history, and psychology are academic fields that are based on stories themselves, while philosophy and other fields address their essence. Moreover, clinical psychology, sociology, and ethnology are some of the sciences that utilize stories. For example, a recent

trend in clinical science is narrative-based medicine that incorporates patients' narratives into treatment decisions (Yamada, 2000; Saito 2012). This approach reflects the lessons learned from the failures of making decisions based only on evidence, called evidence-based medicine, that emphasize cause-and-effect reasoning, and statistical and scientific diagnosis.

Management studies have also utilized stories, but the terminology and objectives have evolved over the years. During the 1970s and 1980s, the terms 'story' or 'storytelling' were mainly used in organizational theory as a means to create the culture, values, and identity of an organization. In the second half of the 1980s when analytical management theory became predominant, stories as a means in management were abandoned. In the 1990s, Karl Weick, Henry Mintzberg, and other academics questioned the *raison d'être* of organizations and the meaning of organizational activities (Mintzberg, 1994; Weick, 1995). They began to focus on organizational processes through which the story reemerged as the means to narrate the processes. Then from around 2000, the narrative turn started to emerge and storytelling as narratives were revived (Barry and Elmes, 1997; Prusak et. al. 2012). Organizations used narratives to capture integrated corporate activities, encompassing both the formation and practice of strategies (Fenton and Langley, 2011).

The practice turn was also advocated around the same time (Whittington, 2006; Brown 2012) and, together with the narrative turn, shifted from an objective, deductive, and analytical management approach to a subjective, inductive, comprehensive, and inclusive approach. This shift reflected the necessity to cope with the dynamic changes in management environments and also led to changes in the way one thinks about strategy. The next section includes a review of what strategy is, and the implication of the narrative turn in the formation and practice of management strategy.

What is strategy?

In 2013, Sir Lawrence Freedman, professor of war studies at King's College London and scholar of international politics, published his book, *Strategy: A History* (2013). This 751-page book covers broad

strategy theories from classic strategies such as the Bible, myths of ancient Greece, Confucius, and Machiavelli, to military strategies of Carl von Clausewitz and Sir Basil Henry Liddell-Hart, to political and economic strategies of Karl Marx and Max Weber, and to corporate strategies of Sloan and Drucker. What is interesting about this book is the conclusion that “strategy is an art of creating power.”

On the other hand, in mainstream management theories, such as the ones taught in MBA programs, strategy is mainly formed by the analytical deductive approach based on the neo-classical economic theory, and focusing on environmental adaptation. A typical example is Michael Porter’s strategic positioning theory, which asserts that companies or businesses can dominate the market by assessing the attractiveness of the business environment and taking the optimum position (Porter, 1980). Moreover, thorough research, objective planning and strict control are crucial in the analytical deductive approach. Efficiency and effectiveness of a strategy is quantitatively evaluated by financial indicators such as return on invested capital (ROIC), and management indicators such as key performance indicators (KPI) and balanced scorecards.

However, in reality, not all the conditions assumed as the premise for the analytical strategy can be controlled. In the real world, all the various phenomena are intertwined and, thus, a strategy based on this premise would face great limitations. Globalization and the proliferation of information have made the world a complex system where the unpredictable can suddenly happen. The concept of ‘sensitivity to initial conditions’ of the chaos theory also applies to strategy. It asserts that minute changes in initial conditions can lead to major upheaval (Lorenz, 1972). Strategies should be formed and practiced based on this idea.

Strategy, therefore, should primarily be considered a means to solve present conflicts, rather than to control the future. In other words, strategy becomes necessary when an actual conflict emerges and needs to be addressed. Therefore, a strategy must always have an eye on the ever-changing reality, and provide the means that address the dynamic relationships of the here-and-now. The future is embedded in the contradiction of the present. As

indicated by the chaos theory, the relationship between the present and the future is not simply cause-and-effect. That is, all we can do is recognize the patterns from the particular present context.

Thus, strategy should have its starting point in the present rather than in the future, and should steadily overcome the conflict with small steady steps, reevaluating the objectives and means in each step. This approach results in the greater likelihood of gaining new means and opportunities along the way, even if an unanticipated situation suddenly unfolds and changes the environment. Most importantly, small steps are to be repeated even if it appears the ultimate goal has been reached, because strategy does not come to an end when the goal is reached. Strategy needs to be constantly revised as new situations unfold in the present reality. Strategy is similar to an endless drama series. Strategy is a never-ending story; there is no “The End” but always “to be continued.”

This notion of strategy explains the reason for the assertion that the narrative approach is effective in forming and practicing strategy. Also, as Freedman concludes, the most effective approach to strategy is the open-ended narrative in which insights, patterns, and relationships of phenomena based on subjective views and pattern recognition are verbalized.

What is a strategic narrative?

A strategic narrative explains the strategic objective, goal, direction, and content in the broad and deep time-and-space nexus, describing the rules and the values to execute the strategy, and encouraging people to take appropriate actions. Therefore, communicating strategy with a narrative is, in fact, simultaneously forming and executing the strategy. In many cases, people are unconsciously influenced to make strategic decisions or take actions based on the plots and scripts of the narrative strategy.¹⁾

A narrative strategy creates a new meaning of the future based on the present context. The direction of a narrative strategy is determined by dialogue among members that influences the way of thinking and actions of the members and drives the implementation of the strategy. Thus, it is important for a narrative strategy to be unique and persuasive. It has to match the organization’s rules and



Figure 1: Narrative Strategy as a Practical Strategy

Source: Revised by authors based on Fenton, C. and Langley, A. (2011).

values as well as its context including its history and traditions. If all goes well, members accept, approve, adapt, and act on it.

However, the objective of a narrative strategy is not to predict the future and force employees to comply. To the contrary, a narrative strategy inspires employees to take proactive actions that realize the future. Plot and script help them take action autonomously, rather than reactively. Because a narrative strategy integrates rules and values based on the organization's history and traditions as standards for making judgments and taking action, employees can judge what action to take in a specific context or situation to realize the future. In other words, when employees commit to the narrative, they voluntarily take action appropriate to the storyline of the narrative.

A strategic narrative is like a narration of history because it selects and connects past events to coincide with the historical perspective, describes the present interpretations, and outlines actions to take. In other words, a strategic narrative indicates inevitability rather than rationale, and truth rather than accuracy. Thus, the strategic narrative must utilize not only *logos* (logic and theory), but also *pathos* (emotions and beliefs), and *ethos* (dignity

and trust) (Simpson 2013).

A strategic narrative also shows who has what kind of power according to the situation that is narrated. The meaning of the narrative or the influence on the employees depends on who shares the narrative, and how and when it is told. What happens when a contradictory narrative is told or the narrative evolves according to changes in the situation? It all depends on the relationship of the narrator and the listeners.

This means, narratives that start out with the same objective and content have different meanings or unforeseen impacts because the power balance between narrator and listeners differs in each context. Therefore, the narrator and the situation of the narrative should be dynamically modified accordingly to the situation and context as it is told. Thus, it is essential to allow room for improvisation to maintain consistency. Improvisation of the narrative occurs in various formal and informal *ba* platforms that reflect the actual context of reality.

Figure 1 illustrates a narrative strategy as a practical strategy. In practice, the strategy is supported by the strategy 'practitioner' (the person who practices the strategy), and the practitioner's context and actions, each synthesized by the perspective of

the narrative. The strategy practitioner understands the strategy's direction, values, and roles. The practitioner connects the plot and script of the strategy to daily activities, and takes the initiative to accomplish the strategy. When these three aspects interact and synthesize, the narrative practitioner implements the strategy according to the actual context. Then, the practice becomes a creative routine and people start spontaneously thinking and behaving according to the strategy.

TECHNIQUES OF THE NARRATIVE STRATEGY THEORY

So far, effectively sharing a narrative to form and practice strategy has been explained. Then, what should be done in an actual situation to create and share narratives in a more effective manner? There are varieties of literatures detail narrative techniques, so aspects important in management for creating and narrating strategies are described below.

What is a narrative?

The terms 'story' and 'narrative' are different in meaning. The word 'narrative' is an act (verb), while 'story' is a structure (noun). Narrative is open-ended while story has an end and completes itself.²⁾ A story has a plot connecting several events, giving them a unified meaning within a set timeframe, and the script describes how and for whom the events unfold. In other words, a story predetermines the plot into the future and includes future events into the script.

On the other hand, a narrative uses patterns found in actual phenomena to form scripts and by combining several of them, creates the plot. The script can change as the people in the actual situation rewrite them or perform them according to the actual and particular context. The plot connects the scripts and gives meaning to the individual scripts as they flow. Therefore, if the current situation changes, the script and plot change dynamically transforming into a new narrative with new meaning. When that future becomes reality, another narrative for the new future emerges.

As Freedman points out, a director produces a drama to have a satisfying ending, but the strategist creates a never-ending open-ended narrative.

A narrative is said to have four features (Yamada 2000). First, a narrative captures humans as an existence (a 'human being'), but also as something that is generated (a 'human becoming') within the time-and-space nexus of the ecosystem, and describes the complex relationships of people that cannot be simply explained by cause-and-effect. Second, a narrative perceives essential patterns in reality – daily, individual, particular, and complex phenomena – converting them into visible forms. Third, a narrative collects diverse wisdom based on different perspectives, leading to diverse plots – the main genres being the romantic play, satirical play, comedy, and tragedy. In fact, actual narratives intertwine several plots to weave one larger narrative. Fourth, a narrative examines how we live our lives. It makes everyone – the people creating the narrative, telling the narrative, performing the narrative, and listening to the narrative – consider the relationship between their past and future from the perspective of the present.

The structure and plot of the story

Stories are generally created in a three-act structure. Most of the famous plays, films, and documentaries follow this arrangement.³⁾ The first act establishes the setting and main characters of the story, and presents the first turning point that clarifies the objective of the protagonist. The second act describes the protagonist's efforts to overcome a predicament that is subsequently altered by a symbolic event that occurs halfway through the act. The end of the second act presents the second turning point that unleashes the most physically and mentally challenging situation upon the protagonist. The third act describes how the protagonist addresses and resolves this challenge.

In Japan, stories are often created according to the concepts of *jo-ha-kyu* or *kishotenketsu*. *Jo-ha-kyu* is similar to the three-act structure, and applied in traditional theater including Noh, Joruri, and Kabuki. Meanwhile, *ki-sho-ten-ketsu* is originally a word that describes the structure of *jueju* Chinese poetry, comprised of four lines (*jintishi* or regulated verse). It now describes the structure of a literature, a thesis, or a story. The *ki-sho-ten-ketsu* structure may sound illogical because the '*ten*' (twist) introduces an element unrelated to the preceding '*ki*'

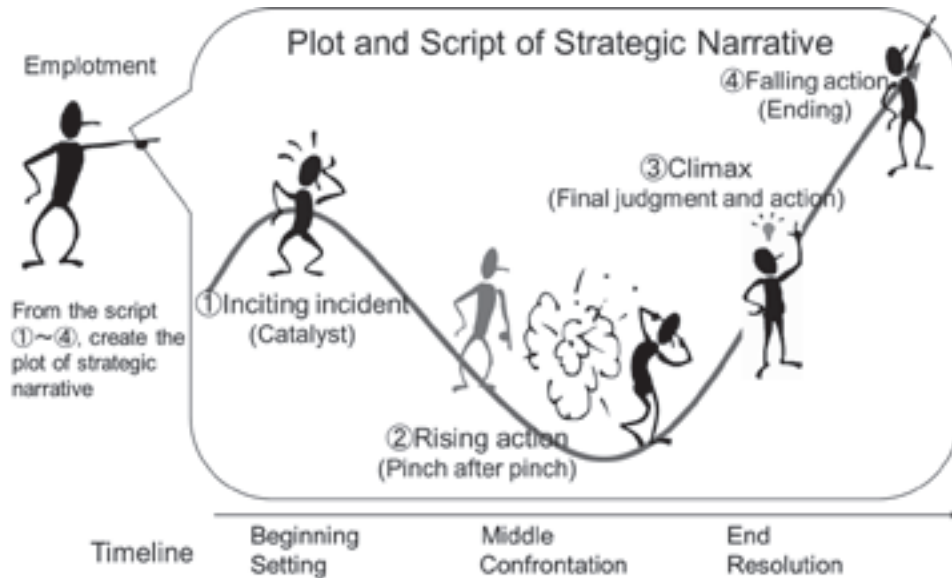


Figure 2: Prototype of Strategic Narrative

Source: Revised by authors based on Nonaka & Konno (2012), P.113 Figure 3-3.

(introduction) and *'sho'* (development), but then is tied in with everything in *'ketsu'* (conclusion). In Japan, the *'ketsu'* or *'ochi'* (ending) is provided to give the entire story consistency.

Story plots include a hero story, romantic play, satirical play, comedy, tragedy, or other genre, but the appropriate plot for a narrative strategy is the romantic play where the protagonist overcomes adversity: develops his or her character, resolves issues, and achieves the objective. In contrast, a satirical play involves only criticism, a comedy does not include development, and a tragedy is without a future. However, narratives of other genres are sometimes inserted into the strategic narrative because it has the power to bring together the various narratives of individuals and create a single larger collective narrative.

Figure 2 shows the prototype structure of a strategic narrative. The leader's role is to choose a script (for example, ① to ④ of Figure 3) and create the entire plot. The leader is the author of the narrative strategy and, concurrently, the leader is the first narrator who shares the strategic narrative as well as a character (although not necessarily the protagonist) in the narrative. There can be several leaders, and they may represent top or middle management and front-line staff. The crucial aspect

is that leaders co-create and narrate a plot and script that inspire empathy and commitment in others.

Useful methodologies for creating and sharing a narrative are inference, metaphors, and pattern recognition. Methods of inference are induction, deduction, and practical syllogism (also called 'abduction'). In particular, practical syllogism is an inference that precipitates a completely unknown hypothesis from a surprising fact – a creative way of thinking that causes a leap instead of incremental induction.

Meanwhile, a metaphor essentially converts the standard meaning of a word into new meaning. Metaphors express the narrator's attitude towards the world, and the narrator's perspective and approach towards the subject.

Pattern recognition is also important in increasing the repertoire and depth of the narrative. By associating events, the leader creates a deeper and wider pattern recognition in time-and-space nexus. The larger the repertoire, the more patterns will enrich the scripts of a narrative. However, it is important to find new patterns in reality and avoid applying existing patterns. If existing patterns are applied, reality becomes stereotyped, making it only possible to create self-indulgent, reclusive stories with a pre-determined ending.

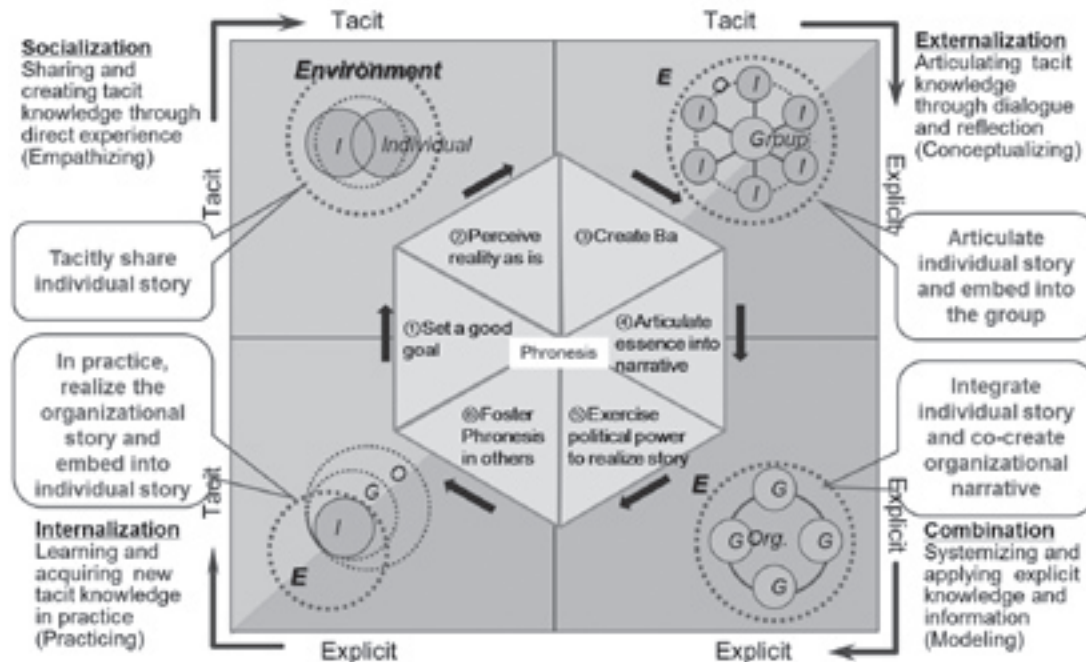


Figure 3: Co-creating and Practicing Strategic Narrative

Source: Authors

Finally, it is important to decide on the narrative perspective. Generally, a first person or third person perspective is used. Since the first person tells the narrative through the eyes of the protagonist, the narrative increases in reality. However, it is difficult for the protagonist to describe unknown events. On the other hand, the third person narrative can narrate regardless of time-and-space from a bird's eye view. However, the limitation with this perspective is that the narrator cannot take part in the narrative she/he narrates.

A strategic narrative makes it possible for several narrators to co-exist. These narrators can include the person who creates the narrative strategy, executes the narrative strategy, or inserts a new narrative. Therefore, in a strategic narrative, the narrator can switch between the first person and the third person according to the context and objective.

DYNAMIC FRACTAL ORGANIZATION FORMS AND PRACTICES THE NARRATIVE STRATEGY

When forming and practicing the narrative strategy,

it is important to connect the narrative at the individual level with the narrative at the organizational level. This is equivalent to sharing individual tacit knowledge among the organizational members.

As long as individual tacit knowledge stays with an individual, tacit knowledge cannot be broadened or deepened beyond the boundaries of that person. Likewise, new concepts and products/services can only be created beyond the limits of individual level; that is, creation occurs through the process of sharing individual tacit knowledge and explicit knowledge at all levels of individuals, groups, and organizations. This shared tacit and explicit knowledge then co-creates the collective narrative through interaction with the environment.

Figure 3 illustrates this with the SECI model and the six requirements of leaders who exemplify practical wisdom. The illustration shows the conversion of tacit and explicit knowledge in forming and implementing a narrative strategy through the interaction among the individual (I), group (G), organization (O), and environment (E).

A strategic narrative dynamically encompasses the knowledge inside and outside the organization

in all directions, creates the plot and script that match the actual context, and continues to produce reality.

This spiral process is made possible by the dynamic fractal organization – an organization that comprises a network of multi-layered *ba* that fosters the dynamic knowledge triad – a relentless synthesis of tacit knowledge, explicit knowledge, and practical wisdom (Nonaka, et. al., 2014). This is not simply an ‘ambidextrous organization,’ but rather a ‘multi-dexterous organization’ where the whole and the parts are connected by the *ba* in dynamic multi-layered comprehensive relationships. In a dynamic fractal organization, each individual fractal reflects the entire organization, and sharing the strategic narrative enables each fractal to mobilize its knowledge to exercise judgment and take action according to the context and individual reality.

A dynamic fractal organization that practices the strategic narrative promotes ‘middle up-down’ management, which is a synthesis of top management and frontline staff by the leadership of middle managers. These managers incorporate the vision of top management along with the reality at the frontline to create a collective narrative that synthesizes top and middle management with the frontline.

Then, the key to creating a dynamic fractal organization is the appropriate allocation of personnel who practice this narrative strategy. The role of top management and the human resources department is to select the best people for the protagonist and supporting characters for the specific situation. The ‘just-right’ placement of personnel, who can narrate and practice the strategic narrative in a specific context, makes it possible to spread the narrative strategy envisioned by the top management throughout the organization, create opportunities, and mobilize people. At the same time, these personnel comprise the story’s cast who serve as the linking pins that gather people to the *ba*, and train the personnel who become the linking pins in other *ba*.

This network of people and *ba* enables the co-creation of collective narrative strategy. The concept of the fractal organization and the allocation of appropriate personnel as linking pins to co-create and practice narrative strategy is new in management

strategy from the perspective of organizational knowledge-creating theory.

CASE STUDIES OF THE NARRATIVE STRATEGY

Actual examples of the narrative strategy are examined with two case studies of the innovation processes at Fujifilm and Hitachi. Both companies experienced a management crisis but managed to overcome the crisis by finding patterns of reality inside and outside the company, and by connecting the patterns to co-create a collective narrative strategy.

Fujifilm

In 2012, Eastman Kodak (hereafter referred to as ‘Kodak’), a time-honored company founded nearly 130 years ago, filed for Chapter 11 bankruptcy in the United States District Court in the Southern District of New York. At that time Kodak had 15,000 employees and was approximately 6.75 billion dollars in debt.

Since 2000, the global photo film market had been shrinking rapidly due to the proliferation of digital cameras. By 2010, the market decreased to roughly a tenth in size. Kodak failed to follow the trend of digital cameras and, despite efforts to rebuild its operations by expanding its printer business and selling off patents and other intellectual property, it could not stop its business from deteriorating. In contrast, photo film manufacturer Fujifilm steadily increased its business performance.

How was Fujifilm able to overcome this crisis? The short answer is that Fujifilm thoroughly optimized the knowledge in its organization, determined its focus areas, created a dynamic fractal organization, and continued to co-create knowledge. Their narrative strategy was envisioned and led by Shigetaka Komori, Chairman and CEO, and Representative Director, as of 2014. As the film market shrank, Komori declared Fujifilm’s second foundation was to be led by digitization and new business initiatives, and he made it a reality.

Fujifilm was founded in 1934 in Minami-Ashigara City of Kanagawa Prefecture at the foot of Mount Fuji, in response to the government’s plan to establish a domestic photo film manufacturer. From

its establishment Fujifilm was expected to develop unique technology without relying on overseas technology. Fujifilm's corporate culture then became technology-driven with an entrepreneurial spirit.

Komori joined Fujifilm in 1963 and established his career in technology development and sales for the print and recording media. Komori's philosophy has been to observe reality, assess the situation, decide what to do, and make it happen. Komori observed the spread of personal computers in the 1980s and the Internet in the 1990s. He believed that digitization would be an unavoidable trend, although the film business still accounted for roughly 60% of all sales and two thirds of profits when he was named CEO in 2000. However, the demand for color film plummeted in the following year and, five years later, the film business was in the red. It was thus necessary to find new pillars for sales and income.

Meanwhile, Fujifilm already possessed 30% (or the world's number one share) of the digital camera market at the time but, just as Komori feared, the severe price war that ensued pushed sales price down by roughly 15% annually. Digital cameras were not a viable option as one of the main pillars of its business. Komori believed that Fujifilm reached the stage he had anticipated, and doing nothing would mean serious trouble.

He believed that Fujifilm could survive as long as it planned and implemented a new growth strategy that effectively combined Fujifilm's strengths, namely, its sophisticated technology, quality, brand, human resources, and finances. He then set the goal that would enable Fujifilm to survive as a leading company throughout the 21st century. Komori did not consider the option of slashing unprofitable operations. Rather, his idea was to present a strong sense of direction to all employees, who were worried about layoffs because the main film business was shrinking.

To narrate his strategy, Komori used the metaphor of 'the Owl of Minerva takes flight only as the dusk begins to fall.'⁴⁾ Komori interpreted the Owl of Minerva's flight as the start of a new age, and that the new age required new knowledge and wisdom symbolized by the owl. Thus, he generated the strategic narrative of creating new products and ser-

vices by utilizing the research, technology, and other various knowledge and wisdom of the company.

This was how Fujifilm produced its 2004 medium-term management plan, 'VISION 75.' Komori told his employees, "If this situation were Toyota's, cars are becoming obsolete. If it was Nippon Steel, steel is becoming obsolete. Declining demand for photo film means we are facing the same situation. We need to address this situation head-on" (Komori, 2013: 49-50).

But, at the same time, Komori believed that it was Fujifilm's mission to protect and develop the film photography culture. However, that would require streamlining the manufacturing equipment, production system, and sales structure that had become redundant, stripping everything down to its bare minimum. Thus, VISION 75's first pillar of 'thorough structural reform of management in general' was an initiative to enable the photo film business to survive in a sustainable form. Since Komori was hesitant to cut jobs, he addressed the issue with the greatest of care including providing monetary assistance to designated stores. In 2006, the company was forced to cut 5,000 jobs including transfers to other divisions, but this relatively early decision made it possible to provide financial support.

Komori also considered new main businesses initiatives. Based on his belief that Fujifilm's strength existed in technology, he instructed the top personnel of the technology development division to list the 'seeds of technology' within Fujifilm and Fuji Xerox (consolidated as a subsidiary in 2001), compare them with consumer needs, and plan new focus areas. He made them distill technology into knowledge levels and, through thorough discussion, they considered the business areas and markets where the company's knowledge assets could be used.

As a result, the company narrowed the list to six business areas: digital imaging, optical devices, highly functional materials, graphic systems, document solutions, and healthcare. All were businesses that could take advantage of Fujifilm's film and digital-related technology as well as Fuji Xerox's copier-related technology. This was the second pillar of VISION 75: 'building a new growth strategy.'

To narrate this strategically, a prototype of success was necessary, and the product that was developed was a cosmetic product called Astalift (Nonaka and Katsumi, 2012). When the products first went on sale, people asked why Fujifilm was producing and selling cosmetics. For the researchers and engineers at Fujifilm, the reason was clear. The core technologies for the photo film – the anti-oxidation technology, collagen processing, and nanotechnology – are all actually the basis for cosmetics that offer functional value (i.e., antiaging).

Project leader Yoshisada Nakamura had always believed that Fujifilm could do more by using the unique cutting-edge photo film technology, and several other engineers also hoped to put the technology to greater use. However, when they actually presented prototype samples, the typical response was, “Why is Fujifilm doing this?” Nakamura and his colleagues responded with: “Fujifilm is capable of doing things like this,” “This is what is so great about it,” “We made this possible because we wanted to do so-and-so.” They gradually realized that they needed to come up with Fujifilm products. The Fujifilm DNA focused on pursuing functionality and using unique cutting-edge technology in the process. Thus, the technology and passion of these engineers shifted the value of cosmetics from feeling to functionality. This led to the creation of cosmetics with superior skin permeation and an anti-oxidation effect that became a popular product.

Meanwhile, Fujifilm also decided to focus on pharmaceuticals as one of their main businesses, noting the existence of medical needs without effective treatment. Fujifilm possessed many technologies that could be applied to pharmaceuticals. Since the best way to accelerate new business in terms of obtaining necessary technology and saving time was to acquire a company and enhance its potential, Fujifilm acquired Toyama Chemical, a medium-sized pharmaceutical manufacturer through a takeover bid in 2008. Toyama Chemical had a reputation for its unique technologies in developing new drugs.⁵⁾ By combining the technologies and passion of both companies, they expected to develop high quality, highly reliable, and competitive products.

The key to sustaining new businesses developments was the research institute that develops the

technology. Fujifilm’s research structure was previously divided based on functions, and the main focus had been on their principle business of photo film. To change its structure for promoting technology development for new businesses, Komori envisioned a new research institute centered on the researchers who developed the technology and focused on the customers. The new institute allowed researchers to come from all fields, enabling corporation-wide cutting-edge research. Further, the institute served as a platform for merging diverse knowledge including that of the customers, making it possible to develop core technologies that would become the foundation for new businesses and products. This concept was shared with the research institute leaders and, through discussions, they established three policies for forming the ideal research institute.

1. Fuse Knowledge: Synthesizing knowledge, way of thinking, and approach of engineers of different specialties
2. Create something new: Creating new disruptive innovation/technology and values
3. Create new value: Providing new value to serve customers and society

The Fujifilm Advanced Research Laboratories, built in Kaisei town of Kanagawa Prefecture, features a sculpted figure of the Owl of Minerva from Roman mythology at its front gate, and a statue of the Goddess Minerva at the entrance of the building. They symbolize the narrative of Fujifilm that continues to respond to ‘Why Fujifilm?’ technologies and products. The facility is designed to eliminate any psychological or physical barriers. There are meeting rooms with glass walls and meeting spaces without partitions that create an atmosphere where people, including customers, can engage in free discussion.

Kodak filed for bankruptcy in 2012. Fujifilm issued its medium-term management plan ‘VISION 80’ for fiscal year 2013 which coincidentally marked the company’s 80th anniversary. This plan announced Fujifilm’s growth strategy for its main businesses, spreading its global reach in the focus areas of healthcare, highly functional materials, and document solutions. In 2014, the company created

the Open Innovation Hub at its headquarters to increase exposure to customers and encourage co-creation by displaying Fujifilm's core technologies so that customers could actually touch and feel them firsthand. By fusing the digital and analog together in a spiral, the customers and engineers stimulated each other's imagination and creativity, encouraging the creation of new products and business ideas.

Based on his own experiences, Komori describes the ability a management executive should have as 'muscle intelligence' (Komori, 2013:130). An executive must solidly grasp the present situation and future outlook, render judgments about how to act and, once judgment is made, take action in a speedy and dynamic manner, leveraging insight, intuition, and political power. Komori says that these sensibilities and intuition are honed by the accumulation of daily experience using the five senses.

Komori also emphasized that it is important to create *ba* to send clear messages and communicate with each and every employee. This *ba* not only supports directly and indirectly conveying the message, but also provides the opportunity for directly and indirectly listening to the voices of people at the front line and in middle management. Thorough dialogue enables people to share knowledge at the tacit knowledge level and, while producing new knowledge, the dialogue also becomes an opportunity for employees to learn about themselves and grow beyond their boundaries.

Fujifilm's innovation has been about condensing the actual situation and experience knowledge of each employee at the tacit knowledge level, articulating the tacit knowledge into words, merging the technologies, brand, and other aspects of the organization, and weaving them into Komori's vision. This process has contributed to the larger narrative of Fujifilm's collective dream or ideal.

Hitachi

On March 16, 2009, Hitachi announced a major shake-up in personnel. Takashi Kawamura (age 69 at the time), who had already retired from Hitachi and was the Chairman of Hitachi Plant Technologies and Hitachi Maxell, was appointed Chairman and President of Hitachi, effective April 1, 2009. Accompanying this announcement were the ap-

pointments as Executive Vice Presidents of Takashi Miyoshi (age 61 at the time) who was the President of Hitachi Systems & Services, and Takashi Hatchoji (age 62 at the time) who was the President of Hitachi Research Institute. Hitachi's decision to appoint the next top management from its subsidiary executives, and to reinstate veterans instead of choosing younger candidates was remarkable. However, there was a compelling reason behind this unprecedented move: Hitachi was facing the largest deficit in its history, a crisis of being 787.3 billion yen in the red. Ultimately, this extraordinary choice of personnel triggered the creation of Hitachi Group's strategic narrative, strengthening the discipline and partnership between its group companies. The social innovation businesses Hitachi aimed for also started to produce results.

Etsuhiko Shoyama, Hitachi's Chairman at the time, concluded that Hitachi would not survive under the status quo. He had asked Kawamura to become President, and Miyoshi and Hatchoji to be Executive Vice Presidents only about 10 days before the announcement. Kawamura said that "I might be able to achieve reform because I've been watching the company from the outside. If it doesn't go well, I'll just step down." Regarding his appointment, Miyoshi replied, "It might be a good idea for me to do it if it's for a short period. People tend to listen and do what you say when older people are at the top." Hatchoji said, "I guess you have your reasons." Thus, the three accepted Shoyama's offer (Koitabashi, 2014).

The three Takashis were complemented by three other Executive Vice Presidents: Hiroaki Nakanishi, Chairman and CEO of Hitachi Global Storage Technologies (an HDD subsidiary in North America); Kazuhiro Mori, former Executive Vice President when Etsuhiko Shoyama and Kazuo Furukawa were top management; and Naoya Takahashi, former Executive Vice President of the Information and Telecommunication Systems Group. Thus, this six member leadership team was responsible for restructuring Hitachi. Their diversity successfully merged the variety of knowledge that existed throughout the company, driving the motivation to create a new Hitachi.

Before launching the innovation process with these members, Kawamura told Shoyama that, be-

cause of the crisis situation in which speed was of the essence, he would serve as President and Chairman for a year. He declared that the important decisions would be made among the six members. The company then embarked on a journey to produce tangible results in 100 days.

Around this time, there was an unforgettable incident. Kawamura received an email from a female employee that said, "Hitachi survived two oil shocks and used to be described as the unsinkable ship. But now it is described as the sinking giant. What makes me sadder than anything is that I have become used to being told so." This reminded Kawamura of the story of British navy battleships. On a battleship, when the crew was permitted to bring private belongings, the ship's weight increased little by little, causing the ship to sink little by little and, by the time the weight was realized, the ship was unusable. Consequently, the British navy strictly regulated private belongings. Similarly, Hitachi had been aware that, little by little, it was being swept up in inertia and force of habit and would eventually sink. But the company had done nothing to stop it and became used to the situation. Transforming this sinking giant ship became the plot for Kawamura and his colleagues' strategic narrative.

The six members met almost every week at the headquarters, engaging in face-to-face candid and thorough discussions regarding Hitachi's new direction and finally settled on four areas.

1. Incorporate listed subsidiaries and prevent the profits from leaking outside the company
2. Restructure bleeding businesses and identify businesses that should be kept close or away
3. Produce a growth strategy to extend the company's global reach with social innovation businesses
4. Implement an in-house company system so that business divisions can be self-sustaining

In April 2009, the company announced its reorganization plans based on the four directions. This included establishing, in July 2009, the digital home electrical appliances and automotive equipment

divisions (which had been promoted by the Shoyama and Furukawa regime) into separate companies. The reorganization reduced the number of consolidated subsidiaries from 910 to 700 by the end of March 2010, withdrew from unprofitable businesses, consolidated domestic and international bases, and made group concentrated purchases.

Hitachi's traditionally strong spirit of independence created a backlash from employees. To respond, top management, on a weekly basis, required the people in charge of the businesses in question to discuss the matters face-to-face with employees in an effort to change their attitude. The fact that Kawamura was 69 years old also proved to be beneficial. Hitachi had a corporate culture of respecting consensus-building with alumni, and this had made it difficult for board members at headquarters to give instructions to older subsidiary presidents. However, there were only a few presidents and board members with longer careers than 69-year-old Kawamura, enabling Kawamura to overcome opposition.

As a result, by July 2009, Kawamura was able to acquire 100% ownership of five listed subsidiaries through takeover bids. This also demonstrated how serious Hitachi was with this reform to people both inside and outside the company.

The team had 100 days to produce visible results that included identifying businesses to keep, close, or restructure, and developing plans for growth. For that, the six members used the metaphor of the flow of a river. They outlined the strategy of withdrawing from the unprofitable commodity businesses in the midstream area, and combining the research and development, material, and core parts of the upstream area with the solution businesses in the downstream area to promote social innovation businesses.

This move signified Hitachi's departure from being a comprehensive electronics manufacturer. Persuading the employees to follow the plan would be difficult without presenting a prototype. Thus, Takahashi, who came from the strong information and telecommunications systems division, fused IT technology with the electronic infrastructure to develop and market the Environmentally Conscious Datacenter system. This system reduced power consumption by 50%. Meanwhile, Mori, who was

in charge of sales, addressed the customers across the group and built a framework that provided solutions leveraging the entire array of Hitachi's technology. Both cases symbolized Hitachi's innovation.

Hitachi had also promoted its railway business in the United Kingdom from around 1999. This project reached fruition with a formal contract in July 2012 to provide trains for the Intercity Express Programme (IEP). This successful project was also a narrative that symbolized the new Hitachi.⁶⁾ The company won the contract over three major railway players, Bombardier, Siemens, and Alstom.

Hitachi used to be mocked for having 'paper trains' because of its lack of experience outside Japan. However, the company won the bid as a result of steady efforts to prove its technology, and flexibly accommodating changes in the context (i.e., the change of the British government and Europe's debt crisis).

Hitachi also appointed Alistair Dormer as the local officer in charge, thus creating a system with expert knowledge of the UK. Moreover, Hitachi organized standard documents using local consultants to build trust. Hitachi demonstrated the Japanese way of meeting customer needs and meeting deadlines in the UK, validating the expectations of Japanese quality. Nakanishi also articulated the company's serious commitment to continue the railway business in the UK, providing the narrative of building factories, creating jobs, and establishing an export industry from the UK to continental Europe based on the concept of 'Made with Japan.' Subsequently, this initiative was welcomed by the UK government and the local people. The dispatched staff and local employees worked as one to build a framework that provided a total solution appropriate for the local context in the UK, the birthplace of the railway. This became a symbolic prototype of Hitachi's social innovation business ideal.

In February 2010, Kawamura announced that he would focus on being Chairman and handed over the seat of President to Nakanishi. Finally Kawamura and Nakanishi embarked on the task of addressing the 'big three': Hitachi Metals, Hitachi Cable, and Hitachi Chemical. The strong sense of independence of these three companies made it

difficult for any outsider to intervene. In April 2010, Nobuo Mochida, President of Hitachi Metals, was appointed Executive Vice President of Hitachi, an unusual move given that there had been no personnel exchange between two Hitachi entities until then. Meanwhile, struggling Hitachi Cable, having been in the red for a while, welcomed a new president with the promotion of Hitachi's Vice President and Executive Officer Hideaki Takahashi to President in April 2011. In November 2012, Hitachi Metals and Hitachi Cable merged. This was a management shuffle that was met with cynicism – some said that they had parachuted people in – it certainly was the start of the exchange of personnel that transcended the walls dividing the organizations and of the movement to merge the group companies.⁷⁾

Hitachi also implemented other measures to operationally and mentally reinvigorate the system, and spur innovation. These measures included the business restructuring efforts of selling Hitachi Global Storage Technologies to Western Digital and integrating the hydropower and thermal power business with Mitsubishi Heavy Industries. Other measures included appointing outside directors, including non-Japanese directors, and reinforcing the board of directors; naming headquarter executive officers as subsidiary presidents and subsidiary executives to positions in headquarters; and the establishing a global human resources training system and global CEO structure.⁸⁾

Hitachi was used to being called the sinking giant, and it was caught in the boiling frog syndrome, unable to move although it knew danger was imminent. However, that characterization changed completely. By applying both soft and hard pressure, Hitachi brought in diverse knowledge, connecting the passion of each person to solidify the top management and the organization. In April 2014, Kawamura stepped down to become Advisor, Nakanishi became Chairman and CEO, and Senior Vice President and Executive Officer Toshiaki Higashihara was promoted to President and COO. This innovation or 'Hitachi magic,' started by Kawamura and his colleagues, skillfully exploited changes in personnel to verbalize the Hitachi Group narratives that had existed separately, merging them into a single larger narrative.

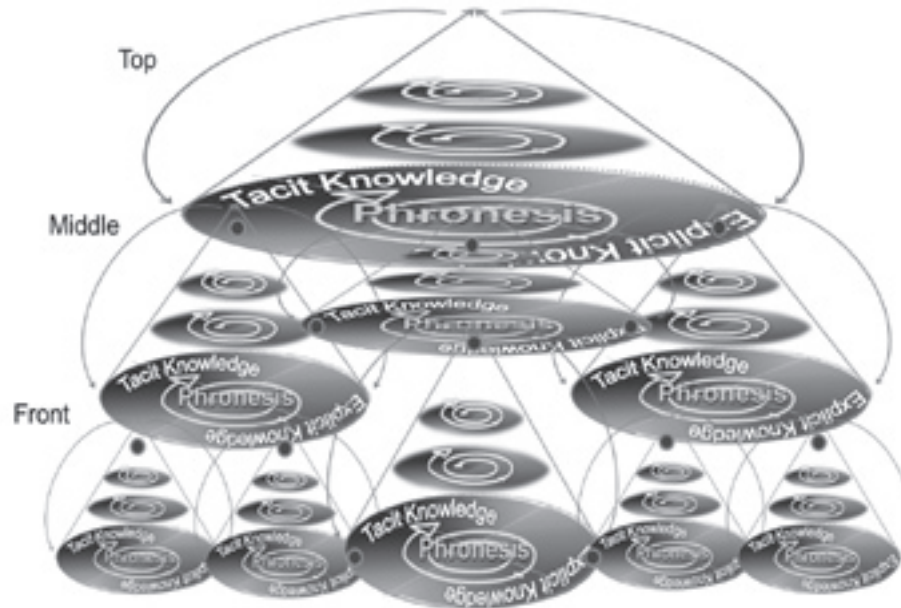


Figure 4 Dynamic Fractal Organization for Co-Creating Collective Narrative

Source: Authors

CONCLUSIONS

Fujifilm and Hitachi broke through the dreaded three “O’s” – over-analysis, over-planning, and over-compliance. Specifically, while the two case studies present narratives that focus on the top leaders of the company, both shared a narrative strategy about their dynamic goals and visions in such a way that they could be understood at the middle management level and the at frontlines. By integrating top management, middle management, and frontline narratives, the leaders created and implemented plots and scripts. The leaders also cast key personnel to become the linking pins at key points of the strategic narrative. The high-speed rotation of the dynamic knowledge triad – the synthesis of tacit knowledge, explicit knowledge, and practical wisdom in an organization – created the strategic narrative. Then, the co-created narrative became a collective dream that was shared and executed by everyone (see Figure 4).

The two organizations examined are examples of a fractal organization in which a network of multi-layered *ba* replicated throughout the organization fosters dynamic knowledge triad. When the dynamic knowledge triad continuously rotates at a

high speed, the *ba* platforms are repeatedly adjusted and synthesized in various ways according to each context. Such adjustment enhances the permeability of organizational boundaries. One such example is Open Innovation, which indicates how the objective for setting boundaries has changed. Conventional boundaries are based on efficiency in terms of the transaction cost theory, but the introduction of the fractal concept changes the organization’s objective to value creation.⁹⁾ Now the issue is justifying the cost of creating the dynamic knowledge triad and dynamic fractal organization.

Indeed, the essence of narrating a strategy is never a one-way telling of the story with a pre-determined ending and environmental determinism from a theater director’s point-of-view. Instead, a narrative strategy involves continuing to discuss, create, and practice the narrative of the desired future, based on the various events and experiences of the past, in the midst of real interaction between the ever-changing environment and individual and particular contexts.

An important aspect of an organization’s effectiveness is knowing how deep and wide to extend one’s historical imagination. Sheldon Wolin, author of *Politics and Vision: Continuity and Innovation in*

Western Political Thought (1960), expressed sharp criticism in his new expanded edition (2004). He asserted that, as the United States gradually fails to function as a superpower, the tradition of lyrical poetry at the national level has been trivialized to financial indicators, becoming preoccupied in the repetition of hypotheses and verifications for minor issues. He pointed out that this was why Western nations have been unable to produce narratives in deeper and wider time-and-space nexus.

Analytical methods are obviously necessary, but they alone do not produce narratives. On the other hand, caution should be taken to avoid turning stories into myths. Mythologized stories become stereotypes and cause the distortion of reality. Indeed, over-adaption to past successful experiences is never a good idea.

The world is comprised of complex relationships in the social ecosystem, and minute differences in the early stages can emerge later as major changes. These fluctuations and changes cannot be captured by cause-and-effect relationships, and better judgments are made depending on the context. Organizations need to co-create their narrative and collaborate in practice. Freedman describes strategy as 'the art of creating power' but, in fact, it is 'co-creating wisdom.'

An individual position in the narrative that spreads out in time and space depends on each individual's depth of experience and intensity of belief, passion, and commitment. The most important factor is one's courage to see things as they are even during a crisis situation at present, and the courage to act on challenges well into the future to resolve the conflicts. The narrative strategy is indeed to question the "way of life" one lives day by day.

NOTES

- 1) 'Narrative strategy' can also be described as 'strategic narrative,' 'strategy-as-narrative,' or 'narrative approach to strategy.' This paper uses 'narrative strategy' when the emphasis is on strategy, and 'strategic narrative' when the emphasis is on narrative.
- 2) Storytelling' is also an act of narrating a story, but here, we use the word 'narrative' to empha-

size the dynamic characteristic of the narrative and the act of telling the narrative. Here, we have used the word 'monogatari' (story) to emphasize the noun form, and 'monogatari (with the okurigana of 'ri'; narrative) to emphasize the verb form, based on Noe (2007).

- 3) Based on Wikipedia's Japanese language pages of "Three-act structure," "Plot (narrative)," "Jo-ha-kyu," "Kishotenketsu," and others.
- 4) The Owl of Minerva originates from the Goddess Minerva in Roman mythology. Minerva was the goddess of wisdom, knowledge, crafts, and also war. She is supposed to have let her owl fly in preparation for war in the new world in the future, and processed the knowledge the owl collected to understand it as a single piece of wisdom.
- 5) Toyama Chemical developed the experimental therapeutic drug for Ebola fever, a disease that has recently been terrifying the world.
- 6) For details of this project, see Nonaka and Katsumi (2013).
- 7) It is said that the Kawamura-Nakanishi pair starts with changing personnel before anything. Based on "Tokushu: Fukkatsu Hitachi (Special feature: Hitachi makes a comeback)," *Diamond Weekly* July 12, 2014, edition.
- 8) The appointment of non-Japanese outside directors or non-Japanese directors led to candid criticisms, "Why is the operating margin below 5%?" or "Why such bad performance even though they are graduates of excellent universities?" The board meetings changed into very tense events, and the influence is starting to spread throughout the company. Koitabashi (2014), p. 224.
- 9) Kikuzawa and Nonaka (2011) incorporate the transaction cost theory in the SECI model, explaining the expansion and further ambiguity of boundaries.

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