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978-1-107-00184-8 - Pragmatic Strategy: Eastern Wisdom, Global Success

Ikujiro Nonaka and Zhichang Zhu

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## Pragmatic Strategy

Pragmatism is enjoying a renaissance in management studies and the social sciences. Once written off as amoral, relativist and opposed to the ideals of Truth, Reason and Progress, it is now regaining influence in public policy, international relations and business strategy. But what can pragmatism teach us about strategy? How can pragmatic strategies help businesses to succeed? This innovative book presents a pragmatic framework for shaping and solving strategic problems in a practical, creative, ethical and finely balanced manner. To achieve this, the authors draw from Confucian teaching, American pragmatism and Aristotelian practical wisdom, as well as business cases across industries and nations, particularly from emerging economies. With significant theoretical depth, direct practical implication and profound cultural sensitivity, the book is useful for executive managers, public administrators, strategy researchers and advanced students in the search for pragmatic strategies in an interconnected, fast-moving world.

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# Pragmatic Strategy

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## Cited classics

*Daodejing* (道德经), also known as *Laozi* (老子). In 81 chapters, just over 5,000 words, compiled during the Zhou Dynasty (周, 1111–249 BC), probably in the sixth century BC. A classic attributed to the Taoist sage Li Er (李耳, believed to be a contemporary of Confucius), it is not a philosophy for the hermit who withdraws from social affairs but for the sage-ruler who engages in the world wisely without forced interference. The subtlety of this classic is that, while it advocates ‘non-action’, it supplies practical advice for making one’s way in the world. The ideal is not doing nothing, but doing things naturally. An English translation we recommend is Roger Ames and David Hall’s *Daodejing: Making This Life Significant – A Philosophical Translation* (Ballantine Books, 2003).

*Daxue* (大学, *Great Learning*). In ten chapters, part of a classic *Liji* (礼记, *Record of Rites*) and one of the *Sishu* (四书, *Four Confucian Canons: Analects, Daxue, Zhongyong, Mencius*). It is a collection of treatises written by Confucian scholars in the third and second centuries BC, with later commentaries by Zhu Xi (朱熹, 1130–1200), the leading neo-Confucianist in the Southern Song Dynasty (1127–1279). With a social, political and moral orientation, this classic has as its core the ‘eight wires’ that translate humanity into the actual experience of achieving harmony between persons and society. We recommend the full translation and commentary by Chan Wing-Tsit in his *A Source Book in Chinese Philosophy* (Princeton University Press, 1963).

*Guoyu* (国语, *Conversations of the States*). A classic compiled in the fourth to third centuries BC. The version now available is believed to be the work of Zuo Qiuming (左丘明, 556–451 BC), a disciple of Confucius. It is accepted as an authentic record of

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conversations in various states during the Spring and Autumn Period (春秋, 722–481 BC).

*Huainanzi* (淮南子). In 21 chapters, written by Liu An (刘安, ?–122 BC), Prince of the Huainan Domain of the Han Dynasty (汉, 202 BC–AD 220) and the guest scholars attached to his court during the second century BC. It is a Chinese philosophical classic that integrates Confucianism, Taoism, the *Yin–yang* School and Legalist teachings, and had a great influence on the later Neo-Confucianism, Neo-Taoism and East-Asian Buddhism. An English translation is available in John Major *et al.*, *The Huainanzi: A Guide to the Theory and Practice of Government in Early Han China* (Columbia University Press, 2010).

*Liji* (礼记, *Record of Rites*). In 46 chapters, this classic describes the social forms, governmental systems and ceremonial rites of the Zhou Dynasty (周, 1111–249 BC). It was believed to have been written by Confucius himself, but is more likely to have been compiled by Confucian scholars from memory during the Han Dynasty, after Qin Chi Huangdi's (秦始皇帝, China's first emperor) 'burning of books and burying alive Confucian scholars' in the short-lived Qin Dynasty (221–202 BC). An English translation is available in James Legge's *The Sacred Books of the East*, vols. XXVII and XXVIII (Oxford University Press, 1879–1910).

*Lunyu* (论语, *Analects*). In 20 books, a collection of sayings by Kong Qiu (孔丘, Confucius 551–479 BC) and some of his disciples, recorded by Confucian scholars during the Spring and Autumn (春秋, 722–481 BC) and the Warring States Periods (战国, 403–221 BC), a time of continuous political struggle, moral chaos and intellectual conflict. Generally accepted as the most reliable record of Confucius' teaching, *Lunyu* looks to ideal humans rather than a supernatural being for inspiration, with a profound belief in good society based on good government and harmonious human relations. For an English translation and commentary, we recommend Roger Ames and Henry Rosemont's *The Analects of Confucius: A Philosophical Translation* (Ballantine Books, 1998).

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*Mengzi* (孟子, *The Work of Mencius*). In six books, a collection of sayings of Meng Ke (孟軻, Mencius 371?–289? BC), an ‘idealist wing’ disciple of Confucius. Usually regarded as the greatest Confucianist only after Confucius, Mengzi advanced beyond the Master and believed that human nature is originally good, that love is an inborn moral quality. As such, everyone can become a sage, and governments become humane governments guided by ideals of humanity and righteousness as long as we fully develop our good nature through learning and socialising. We found a good English translation in Lau Din Cheuk’s *Mencius* (Penguin Classics, 2004).

*Mozi* (墨子). In 71 chapters, a collection of writings of the Moist School, produced almost immediately after Confucius’ death. Founded by Mozi (墨子, 479?–438? BC), who was popular among the craftsman class, the school was, from the fifth to at least the third century BC, the greatest critic of traditional institutions and practices and the strongest rival to Confucius’ teaching on human relations. The school lost influence after the Han emperor granted Confucianism official domination. An English translation of the key teachings of Mozi is available in Chan Wing-Tsit’s *A Source Book in Chinese Philosophy* (Princeton University Press, 1963).

*Shijing* (诗经, *Book of Odes*, or *Classic of Poetry*). A collection of 305 poems and songs, official as well as folk, collected from the various states during the early Zhou Dynasty (周, 1111–249 BC). Confucius is believed to have selected and edited the poems from a much larger body of material. Confucius held *Shijing* in the highest esteem, regarding it as an important source of good human character and social-political governance. An English translation is available in James Legge’s *The Sacred Books of China* (Oxford University Press, 1879–1910).

*Xunzi* (荀子). In 32 chapters, believed to be the work of Xun Qing (荀卿, 298–238 BC), a ‘naturalist wing’ disciple of Confucius. While both stressed the vital importance of education and human character, in contrast to Mengzi who emphasised humanity, Xunzi praised wisdom, realism, logic, progress, discipline and the rule of

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law. Two of Xunzi's pupils, Han Fei (韩非, ?–231 BC) and Li Si (李斯, ?–208 BC), when serving as key ministers in the Qin State and Dynasty, played decisive roles in the grand unification of China. We found an English translation in John Knoblock's *Xunzi: Translation and Study of the Complete Works*, three volumes (Stanford University Press, 1988).

*Yijing* (易经), also known as *Zhouyi* (周易). One of the basic Confucian classics, divided into texts and commentaries. The texts, which emerged from the ancient practice of divination, are cryptic. The commentaries, usually ascribed to Confucius himself but more likely to have been compiled by unknown Confucian scholars in the early Han Dynasty (汉, 206 BC–AD 220), outline a humanised, rational approach to an experienced universe full of perpetual activity. The cosmology may be naive and crude, but the philosophical spirit is engaging and inspiring. There are numerous English translations available, among which we read Richard Lynn's *The Classic of Changes: A New Translation of the 'I Ching' as Interpreted by Wang Bi* (Columbia University Press, 2004).

*Zhongyong* (中庸, *Focusing the Familiar*). In 33 chapters, usually translated as *Doctrine of the Mean*. This work, incorporated as part of *Liji* (礼记, *Record of Rites*), was attributed to Zi Si (子思, ?–402? BC), grandson of Confucius. *Zhongyong* achieved truly canonical pre-eminence when it became one of the Confucian *Sishu* (四书, *Four Confucian Canons*). It is a Confucian discourse of psychology and metaphysics, with a profound appeal to both Taoism and Buddhism. An English edition we recommend is Roger Ames and David Hall's *Focusing the Familiar: A Translation and Philosophical Interpretation of Zhongyong* (University of Hawaii Press, 2001).

*Zhuangzi* (庄子). In 33 chapters. Usually attributed to Zhuang Zhou (庄周, 369?–286? BC), this Taoist classic must, however, have been written after his death. What differentiates Zhuangzi from Confucius, even from Laozi, are probably the manifestations in his work of the transcendental spirit, intellectual freedom, subtle

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individualism, emphasis on dynamic transformation, dismantling of artificial categories, appreciation of situated particulars and profound interest in how to interact beneficially with all things in the experienced world. An English translation is available in Brook Ziporyn's *Zhuangzi: The Essential Text with Translations from Traditional Commentaries* (Hackett Publishing, 2008).

*Zhuangzi Zhu* (庄子注, *Commentary on Zhuangzi*). A Neo-Taoist classic compiled after the Han Dynasty by Guo Xiang (郭象, ?–312) and Xiang Xiu (向秀, 221–300). Interestingly, this work, while inclined to Laozi and Zhuangzi in metaphysics, adheres to Confucianism in social and political philosophy and contributed greatly to the later emergence of Neo-Confucianism and East-Asian Buddhism.

*Zuozhuan* (左传). Probably written or compiled during the third century BC, it is a general history of the China of that time. It is considered to be a commentary on another classic, *Chunqiu* (春秋, *Spring and Autumn Annals*). The latter is a year-by-year chronicle of the state of Lu (鲁, Confucius' native country), from 722 to 481 BC. An English translation is available in James Legge's *The Chinese Classics*, vol. V (Oxford University Press, 1879–1910).

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## Preface

This book is the outcome of an unexpected cooperation. It began on a sunny winter afternoon in 2007, at Jiro's Hitotsubashi University office overlooking the Imperial Palace in downtown Tokyo. It was the first time Jiro and Zhu sat down together. Two days earlier, Jiro delivered a keynote speech at a conference in Ishikawa. After the speech, as Jiro's students struggled to create a path for him to escape from the enthusiastic audience, Zhu managed to present him with a business card, saying 'Professor, it was I who wrote that article.' The article, just published in a knowledge management journal, was titled 'Nonaka meets Giddens: a critique'. When the conference ended, Jiro invited Zhu to Tokyo.

Zhu expected a barrage of questions, corrections and instructions. Instead, after being served the first round of green tea, the conversation was about the worries and joys of being a father, calligraphy and sushi, Confucius and Dewey, Mao Zedong and T. E. Lawrence, IBM and Lenovo, changes in Japan and the rise of China. Before the second round of green tea, Jiro suggested co-authoring a book on corporate strategy.

Jiro and Zhu talked to each other in English. The differences between them, however, go beyond native languages. Jiro received rigorous training at Waseda University, obtained a degree in political science, worked in a Japanese corporation for ten years and wrote several books on military and business strategies before writing the award-winning *The Knowledge-Creating Company*. At the time of our meeting, Jiro was being bombarded by competing invitations from the worldwide business and academic communities.

In stark contrast, Zhu's formal education stopped when he was 16, due to China's 'Cultural Revolution'. Zhu has been a Maoist

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Red Guard, farm labourer, shop assistant, lorry driver, enterprise manager, college teacher, assistant to the dean of a business school, software engineer, system analyst and IS/IT/business consultant. Even today, Zhu does not have a high school certificate, let alone a university first degree.

What brings and binds us – Jiro and Zhu – together, we believe, is our Confucian roots and, perhaps counter-intuitively, our Western educations (Jiro received his masters and doctoral degrees from the US and Zhu from Britain), as well as humble industry experiences, curiosity in knowledge and a keen desire to explore how managers can make the world a better place via business and strategy.

Careful readers will recognise the intellectual continuity of this book. Where *The Knowledge-Creating Company* (Nonaka and Takeuchi 1995) laid down a knowledge foundation and *Managing Flow* (Nonaka *et al.* 2008) forged a theory of the firm, this book focuses on exploring a pragmatic approach to strategy. While many of the ideas in this book can be traced back to the 1995 knowledge foundation and the 2008 theory of the firm, Jiro insists that each book must have unique, interesting things to say. What we dislike most is intellectual laziness – producing a ‘new’ book every few years, only to repackage old ideas in it, for example. Great scholars continuously push the knowledge frontier forward. The sea of learning has no end (学海无涯), as a Confucian teaching goes. The late C. K. Prahalad set us an example: he never wrote a second paper on the same topic with the same idea; he is still ranked top of the world’s most influential business thinkers. We create, therefore we are.

Most of the topics and cases in this book have been written about by many people. In writing this book, our motto is: ‘Don’t insult the reader’s intelligence.’ What we have to say must be interesting, offer a distinctive perspective and provide managers with useful ideas to work out. This is not a textbook in the conventional sense of bringing together everything ever said,



written and proven on a subject. Our aim is to urge, challenge and facilitate managers to think about and do strategy differently, wisely, beneficially.

In this book we call for a pragmatic turn. While we humans have been pragmatic at our wise moments, pragmatic strategies are not natural or God-given, but the result of managers' purposeful, effortful accomplishments against all odds. If strategy is evolutionary, it is evolution with design; if pragmatism is opportunistic, it is purposeful opportunism. 'It is Man who makes *Tao* great, not *Tao* that makes Man great (人能宏道, 非道宏人)', Confucius famously taught us. In a pragmatic world, strategy is about how firms, in fact, managers, orchestrate material-technical assets, mental-cognitive capabilities and social-normative relationships in a timely, appropriate manner so as to create and capture value. We make our way in a world full of complexity, ambiguity and uncertainty; strategy is purposeful action to get fundamentals right, promote situated creativity and realise common goodness. The numerous business cases cited in this book show us that, by acting pragmatically, we can bridge the practice gap, bring ethics back in and overcome specialised deafness. Understood and practised as such, pragmatism is our best hope for reinventing strategy as a positive force for bettering the material, spiritual and ecological conditions of persons, communities and society.

We decided to use Confucian pragmatism as an overarching narrative. This shapes not only the ideas presented, but also the way in which they are presented. Because of this, we have had to decline many kind suggestions from colleagues. Some suggested that we target the market more precisely – is the book for managers, researchers or students? We turned down this suggestion because, according to Confucius, doing and thinking are one: managers need to be theoretically informed, while researchers and students should be practice-oriented. Others recommended providing a glossary so that readers could grasp the precise and consistent meaning of key concepts. We were not able to do this because, like Confucius,

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we had difficulty supplying context-free, all-purpose definitions. Still others were concerned with the tangling of rational analysis, judgemental descriptions and emotional comments in many of the case studies. We refused the quest for separation because, in our tradition, logic, beauty and ethics are a reciprocal oneness. Making our way in the world, Newton, Picasso and Confucius are good friends, not rivals or strangers.

We recognise that this may seem inconvenient to some readers in 'the West'. Nevertheless, even for these readers, it is perhaps a good time to note, make sense of and live with different styles of human experience. The world needs to face not only the economic (re-)rise of 'the East', but also its mindscapes. Culture is not just in lion dancing, sushi eating or Hollywood films; it is in the ways we think, interpret and interact. We are aware of the price we may have to pay for the style of this book. By spreading case studies throughout every chapter instead of putting them together into a separate section, for example, we depart from the norm of Western strategy textbooks and make our chapters look lengthy. We notice this, make the choice and are prepared for the consequences. We make this clear to readers, up front.

While recognising uniqueness, we strive to avoid making Confucian teaching and pragmatic strategy a mysterious enterprise. Managers with different cultural roots will search for practically wise strategy in heterogeneous, locally meaningful ways. This is naturally and rightly so. That said, we would consider it our great failure if, after reading this book, managers outside East Asia conclude: 'Excellent. But, this is for them, not us.' There is no universal 'best practice', there can be no provincial wisdom either. In an increasingly diverse and interconnected world, helpful is cultural confidence and sensitivity, not cultural arrogance, fatalism or indifference. Yes, we have passed well beyond the age when 'What is good for America is good for the world' or 'Japan does everything best'; we do not need a new mystique of 'Chinese strategy masters' or 'Indian management gurus'. If Confucianism

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PREFACE xix

and pragmatic strategy are wise and good, they must be meaningful, doable and beneficial to people all over the world. Without 'Great Harmony under Heaven [天下大同]', 'the East' cannot have lasting prosperity, and neither can 'the West'.

We started writing this book in 2008. Jiro had to satisfy almost non-stop demands from around the globe and Zhu to fulfil his teaching load in the UK as well as overseas. Despite this, we decided not to rely on any research assistance or funding. As a result, it took us some years to complete the book. What has happened on the world stage since that winter afternoon, not least the near-collapse of Wall Street and the City of London, has only heightened our sense of urgency. Managers and citizens have learned the hard way that, in their own interest and that of their children, it is imperative to engage strategy consciously, purposefully, collectively. At this historical juncture, we present this book to managers, researchers and MBA students; it is our effort to join the ongoing collective search for an alternative strategy paradigm. In the end, it is you, the readers, to judge whether the book is interesting, useful, worthwhile.

We thank our manager friends, academic colleagues and MBA students for their input over the years. We thank Paula Parish of Cambridge University Press for her encouragement, patience, professionalism and warm smile.

Thank you to Sachiko and Xiaoping, for your quiet companionship during those long, peaceful, productive mornings, seven days a week, 365 days a year.

*IN and ZZ*  
*Hawaii*