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Ikujiro Nonaka and Zhichang Zhu
Excerpt
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PART I Why pragmatism, why now?

天道远，人道近。
«左传»

The *Tao* of Heaven is far away;
the *Tao* of Man is near.
– *Zhuozhuan*

1 Introduction

This is a strategy book. It is about how to strategise creatively, ethically, effectively. Our message is: we humans are pragmatic in our wise moments, and pragmatic strategy is apt for bettering firms, communities, society and Mother Nature. If you want to walk in the world wisely, this book is for you.

But why should we bother with another strategy book, one wonders, at a time when typing 'strategic management' and 'business policy' pops up more than 76,000 results from Amazon and 3,380,000 from Google Scholar?[1] To answer this question, in this introductory chapter let us have a brief look at how strategy has been doing, what is at stake and what pragmatism means to strategy.

STRATEGY IN A CHANGING WORLD

Strategy is one of the oldest practices of humankind. Remember *The Art of War* of Sunzi (孙子), the ancient Chinese general? Yet as a systematic corporate undertaking, a scholarly field of study and a multi-billion-dollar consultancy industry, the search for modern strategy did not emerge until the 1950s–1960s when Kenneth Andrews at the Harvard Business School delivered a course called *Business Policy*, Igor Ansoff published his seminal book *Corporate Strategy* in the US, Alfred Sloan illustrated the M-form corporate structure in *My Years with General Motors* and Alfred Chandler laid down the founding blocks of *Structure and Strategy*, *The Visible Hand* and *Scale and Scope*.[2] That was the time of America's undisputed industrial might, economic success and acclaimed business education. For decades, all this served companies well. Subsequently, as McDonaldisation spread around the world, so did strategy based on Western, or more precisely Anglo-Saxon, mindsets and experiences – the world was flat.[3]

But the world is turning upside down. The business landscape facing managers now is a strange one, featuring the collapse of shareholder capitalism, shifting economic gravity, an ambivalent attitude towards globalisation and increasing concern for the ecological environment.

Crisis of shareholder capitalism

Triggered by a credit crunch associated with imploded subprime mortgages in the US, the bankruptcy of leading investment banks such as Lehman Brothers in 2008 threatened to collapse the whole financial system. The danger was real and immediate: people might wake up next morning to find ATMs no longer working. To keep capitalism afloat, governments used taxpayers' money to bail out the banks, but the damage had already been done.[4] Banks refused to lend to each other, let alone to other businesses. Factories were closed, workers laid off and families forced to tighten their belts. Countries, in particular those most exposed to the shareholder model, are now in deep deficit and debt. Advanced economies entered the 2008 crisis with an average budget deficit of 1.1 per cent of national income; by 2010 the figure had risen to 8.4 per cent, and government gross debt is set to rise from around 70 per cent of national income to nearly 120 per cent by 2015.[5] At the time of writing, the US national debt exceeded $14 trillion, $121,000 for each family.[6] At present, annual interest on the federal debt is running at more than $200 billion; at this rate, America will be paying its creditors $928 billion annually in ten years' time.[7] In the hot summer of 2011, the US managed to avoid a default of its national debt at the eleventh hour – by borrowing more. It subsequently lost its top credit rating for the first time in history.[8] In Europe, Greece, Ireland and Portugal were forced to seek EU–IMF rescue packages that imposed deep cuts to public services, high increases in taxes and a huge decrease in living standards.[9] Some other larger economies may follow.[10] We have witnessed an unprecedented boom and bust. Bailing out the banks escalated into bailing out national economies.[11] We have simply transferred liabilities and risk from the private sector to the state.[12] Protesters in the streets are angry: why should the whole world pay for the mistakes of a few greedy bankers who are still filling their pockets with scandalous bonuses? What social model are we living by? Some recall Marx.[13]

But it is not just the bankers who are to blame; we are all in this together.[14] Central banks and rating agencies failed to do their job, governments and politicians pleased voters with frantic spending, companies borrowed money to buy other firms and football clubs, while consumers, i.e. the rest of us, happily lived beyond our means.[15] Our good life was a fake one, built on a few plastic cards. In 'the West', we borrowed cheap money and bought cheap goods from China, India and poorer countries.[16] We managed to believe this could continue forever. Our strategies were plainly flawed: one does not need to be a rocket scientist to be able to anticipate the dangers of investment banks 'leveraging' 42 times their assets to gamble on 'the market'.[17] Some saw the calamity coming and blew the whistle; we did not want to listen and called them 'Doctor Doom'.[18] Ours is a democratic debt. But reality does not allow us to continue; it is payback time. The current crisis, the worst in 60 years, may turn out to be more significant than the collapse of communism. Capitalism is changing in fundamental ways.[19]

At this critical moment, we need to take a long and hard look at our business, corporate, industrial and national strategies. What went wrong?

Shift of economic power

What will emerge from the debris of shareholder capitalism is uncertain. Nevertheless, one consequence is becoming clear: a shift of economic power.[20] Economies in 'the West' were weakened by the crisis.[21] If the toxic mortgage securities and opaque credit swaps were 'Made in the US', European banks were eager buyers. Subsequently, the US paid $700 billion for its hubris, and European governments from Ireland to Germany were forced to shore up their banks.[22] The result was global recession and bankruptcy of nations. In contrast, although compelled to follow 'the West' in cutting interest rates and launching stimulation packages, China, India and a host of emerging economies have continued to grow: China at an annual rate of more than 10 per cent and India 8 per cent during the last five years.[23] Financial crises of the past were things inherent to Latin America, Asia, and Russia, while Washington, London and Zurich watched from a distance and lectured the developing world on how to get out of its mess. No longer. For the first time, the epicentre has been in 'the West', with 'the East' acting as a pillar of stability, recovery and prosperity.[24]

Even before the current crisis, the economic gravity was shifting. As early as 1981, Antoine van Agtmael of Emerging Market Management coined the phrase 'emerging markets', and in 2001, Jim O'Neill of Goldman Sachs the term 'BRICs'.[25] It is customary nowadays to talk about the pace of China's rise, India's emergence as a geopolitical player and the growing potential of Brazil, South Africa, Turkey and Indonesia. It is widely recognised that a new world order is in the making, and this time it will not be on the terms of Western, rich nations.[26] Some in 'the West' begin to challenge the assumption that industrialised countries have 'graduated permanently' into the developed world,[27] while others warn that those things which give 'the West' the edge, e.g. competition and work ethic, are no longer the monopolised property of 'the West'.[28]

What are the implications of all this for corporate practice? As 'fear is in "the West" and hope in "the East" ',[29] businesses vote with their feet. IBM relocated its procurement headquarters to the southern Chinese city of Shenzhen,[30] and HSBC moved its chief executive to Hong Kong.[31] As *The Economist* reported in April 2010, *Fortune* 500 companies from developed nations have 98 R&D facilities in China and 63 in India, in addition to manufacturing and software operations.[32] Significantly, emerging countries are no longer content to be sources of cheap hands and low-cost brains, or a marketplace for products designed in rich nations. They are climbing up the value chain, becoming hotbeds of innovation and making breakthroughs in everything from car-making to health care. In 2008, the Chinese telecom equipment supplier Huawei applied for more international patents than any other firm. Companies from emerging economies compete at home, in each other's markets and in advanced economies, on creativity as well as on low cost, with new concepts, models, rules and practices. In the *Financial Times* 500, companies from emerging economies increased from 26 in 2000 to 119 in 2010. In 2009, for the first time, takeovers by emerging world companies of developed world groups exceeded takeovers going the other way.[33] At a time when 'the West' is reluctantly preparing for austerity,[34] India and China are creating one billion bourgeoisie.[35] At the top of multinationals' agendas, Made-in-China is quickly replaced by Made-for-China.[36] 'Go East, young man' looks set to become the rallying cry of the twenty-first century.[37]

Yet the challenges are for everyone. As to 'the East', let us look at just one issue: while there is no doubt that most of its economies will continue to develop in the coming decades, what remains unclear is how the benefits will be distributed – China is today perhaps the most unequal society in Asia in terms of wealth distribution.[38]

How should firms, industries and nations strategise in the face of all of this?

Ambivalence towards globalisation

When the Berlin Wall fell, we proclaimed 'the end of history', celebrated Western-style liberal democracy as 'the final, universal form of human government'.[39] Associated with this was the 'Washington Consensus' that promoted market economy, macroeconomic discipline and openness to the world. Gradually, the Consensus was interpreted in narrower terms: deregulation plus privatisation.[40] State intervention was dead; long live the self-regulating market. Reforms in China, India, Russia and Eastern European countries were taken as evidence.[41]

But history refuses to lie down. It is reborn. The reforming countries apparently created different versions of capitalism. The near-collapse of the shareholder model and a weakened 'West' have reinforced the confidence of rising economies who are no longer willing to be lectured about the virtues of liberal markets. 'The market', which once could do nothing wrong, not only faces setbacks in emerging economies but is put to rest at home, in practice if not in rhetoric. Survival of the fittest is giving way to bail-out politics; the state decides which sectors should live or die.[42] A large chunk of the US and UK financial sectors are now practically nationalised, and the total gross value of state intervention has reached $14,000 billion.[43] Martin Wolf, a distinguished economist, wrote in the *Financial Times*, 'This is state capitalism', while Gao Xiqing, president of the China Investment Corporation, called it 'socialism with American characteristics'.[44] On the other hand, as Western trade and foreign direct investment fall while those of the BRICs soar, poorer countries increasingly conclude, rightly or wrongly, that the BRIC models are more suitable for their development.[45] While some writers passionately defend the supremacy of 'the West' over 'the Rest',[46] the harsh bottom line appears to us that, as long as 'the West' fails to reverse the relative decline in wealth generation, its democratic values and supposed supremacy will come to naught.[47]

While the threat of the Cold War fades, new confrontations between members of the G8, G20 and G2 emerge on other fronts. On the monetary front, for example, while the US insistently accuses the Chinese of unfairly manipulating currencies, the Chinese condemn America's irresponsible 'quantitative easing', now in its 2.0 phase (or 'QE2'), for destabilising the world economy. When the big guys point fingers at each other, smaller economies suffer.[48]

Equally troubling is what some economists call 'deglobalisation'. According to IMF and UNCTAD data, the global movement of goods, capital and jobs is retreating on all fronts.[49] While critics have long been condemning the failure of globalisation to deliver promised benefits to the poor,[50] two-thirds of EU citizens now see globalisation as beneficial only for large firms, not for society.[51] In 2010, China displaced America as the largest manufacturer in the world – the first time the US has lost this top slot in 110 years. Consequently, the majority of Americans consider trade a threat, not an opportunity.[52] Protectionism dies hard, particularly in economic downturns and election times. The US Congress attempted to attach a 'Buy American' provision to the stimulus bill and Gordon Brown, then UK prime minister, pledged 'British jobs for British workers'.[53] Where is their moral authority? Is this not another troubling 'consensus' in the making?

What does all this mean for firms that are seeking global markets, optimising global supply chains and competing the world over for local talents?

Concerns for the environment

The public's perception of a deteriorating biosphere has been heightened in past decades by high-profile industrial accidents. People were horrified by the Chernobyl and Bhopal accidents. As we write, the battle to contain the Fukushima nuclear plant crisis is still ongoing. BP's Deepwater Horizon rig deep in the Gulf of Mexico leaked some 60,000 barrels of oil per day into the ocean after an explosion that killed 11 workers. The oil spill reached the coastline of four US states, threatening an ecological and economic catastrophe.[54] However, these high-profile cases are widely considered merely the tip of an iceberg of industrial pollution, which includes toxic smog, black rivers, hazardous-waste sites, acid rain and ozone depletion. Experts warn that we are living with constant 'technoenvironmental risks'.[55]

Industrial pollution is not the only problem. The world's population has doubled during the past 40 years and is likely to double again in the next 40. As surveys and reports show, this has widespread impacts on the environment: shortage of water, disappearing rainforests, damage to fishery and wildlife, soil degradation, desertification on a massive scale and, arguably, global warming.

Worldwide, there is an awareness of the worsening state of the bio-environment, and the pressure to tackle it is mounting. Solutions from international bodies have so far been elusive. From Kyoto to Bali to Copenhagen, despite sound bites, finger-pointing and tears, collective commitments are hard to come by. 'Meaningful agreements' in Copenhagen, for instance, are merely 'noted', not approved, let alone legally binding. What the crowded summits have so far produced are their own carbon footprints, deepened suspicions and promises of future talks. The *Sunday Times* calls this 'Hot air in our time'.[56] Citizens express their anger outside the summit halls with stones and bricks; they want no more 'Brokenhagens'.

Under pressure, national governments resort to legislation: acts, laws, enactments, amendments. When real decisions are made, however, environmental concerns are quickly undermined by perceived 'benefits to economy and jobs'. While putting on paper a target of reducing carbon emissions by 80 per cent by 2050, for instance, the former UK Labour government decided to build a new runway and terminal at Heathrow. Heathrow, one of the busiest airports in the world, currently has two runways and five terminals. The project would increase the number of flights from 473,000 in 2009 to more than 700,000 by 2030 and raise passenger numbers from 67 million to 120 million and carbon emissions from 17.1 million tonnes to 23.6 million tonnes.[57] The public is wary: 'How dare the government tell us to change all our light bulbs and then do something like this?'[58]

The hidden problem, however, is more fundamental. When we – governments, businesses, unions – urge the Chinese to buy more so as to balance the mammoth deficits run up in boom times by Western economies, does anyone care about the consequential impacts on the planet?[59] Is it not that our whole way of thinking, and of living, is in trouble?

A PRAGMATIC TURN

A changing world demands novel strategies, and strategies are derived from 'paradigms'. Thomas Kuhn's *The Structure of Scientific*