

Management Based on Human Empathy

For Building a Future of Better Living in a Dynamic World

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From Analytical Strategy to Human-centered Management

"The New Enlightenment" was a scholarly event held at the beginning of July last year in Edinburgh, Scotland at the historic home of Adam Smith. Calling it the "new" enlightenment was an explicit reference to an intellectual movement called "the Enlightenment," which chiefly advocated for freedom, democracy, and reason as the primary values of society and of which Smith was a part of. The aim was to put forward the antithesis of the current situation in which the concept of free markets presented in Smith's *"The Wealth of Nations"* has taken on a life of its own in the form of market fundamentalism and shareholder capitalism characterized by the pursuit of profit without consideration for others.

In *"The Theory of Moral Sentiments,"* written prior to *"The Wealth of Nations,"* Smith focused on human "sympathy" and

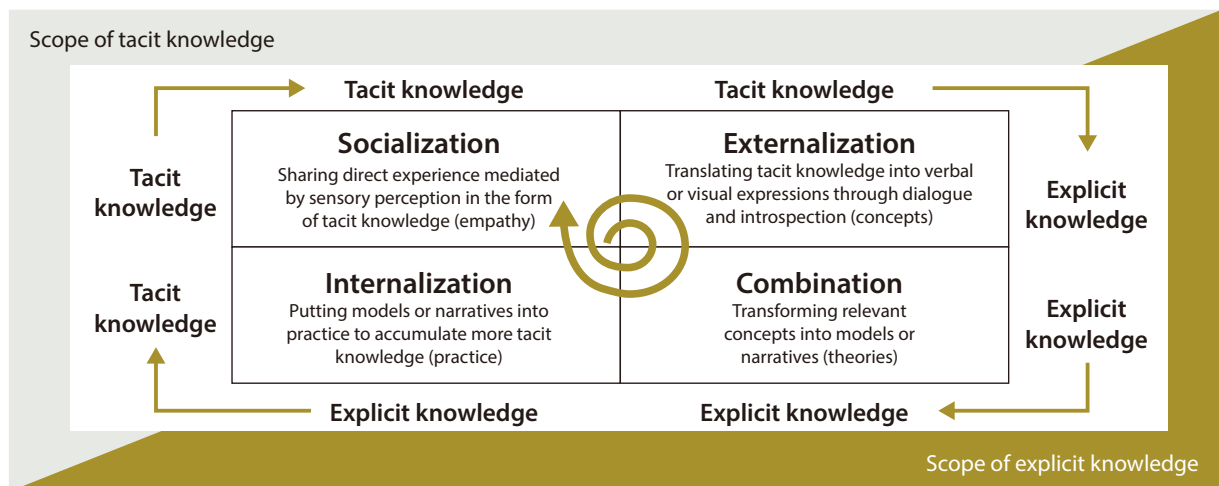
presented the view that this "sympathy" was what enabled the public order to be maintained despite people acting out of self-interest. In other words, even the free market was premised on the basis of human morality and ethics.

It was on this moral aspect of capitalism that the Edinburgh event hoped to shine a new light on. Specifically, it dealt with issues such as the restoration of worker rights, asserting that workers should be given back their dignity and be treated not as a type of resource, but as the active agents who create capital; and issues such as doubts about the obligation to maximize shareholder value, asserting that profit arises from dealing with customers and delivering value to them. The core proposition was to consider "sympathy" with customers and staff as well as with third parties and the public at large, and to contemplate a more humanistic and human-centered management that combines the free market with consideration for others.

One of the hosts of the event was David Teece, originator of the concept of "dynamic capabilities" (the ability to adapt competencies to address a rapidly changing environment) that is becoming a central tenet of modern management. As alternatives to the analytical and scientific approach exemplified by Michael Porter's concept of competitive strategy, the ideas of "open innovation" promoted by Henry Chesbrough (Teece's pupil) and our own "knowledge creation" have much in common, as they both offer a more dynamic and humanistic approach to strategy. These developments seem to suggest that the central tenets of management are shifting toward something more human-centered.

However, Japanese management has lagged behind these trends, obsessing over the ideas of return on equity (ROE) and the plan, do, check, act (PDCA) cycle. As a consequence of the overreliance on analytical management practices imported from the USA, many Japanese companies have been suffering from a loss of vitality, their actions impeded by three forms of excess: over-analysis, over-planning, and over-compliance. The same applies to today's ESG management and the SDGs, suggesting that this is a result of companies tying themselves up in knots with frameworks adopted from overseas.

Traditionally, Japanese management has been well endowed with a sense of morality and of balance, as evidenced by the *"sanpo yoshi"* (or "three-way satisfaction") concept of mutual benefit. Shifting our focus toward human-centered management and rethinking Japanese-style business practices should offer a variety of options to help restore



SECI model

The model describes a process of knowledge creation across an organization, converting people's tacit knowledge into explicit knowledge.

the abundance of vigor and vitality that characterized the time of *"Japan as Number One."*

SECI Model Inspired by Empathy

We proposed the SECI model in the theory of organizational knowledge creation as an approach to strategy in which humans play the central role. It is built on Japanese-style business practices from before we fell victim to the over-application of outside ideas. In particular, the SECI model, unlike analytical strategy and the PDCA cycle, never starts from analysis or planning, but from human empathy.

The SECI model describes the ongoing process of knowledge creation across the entire organization as an upward spiral (virtuous circle), one that involves four steps: (1) Socialization (empathizing with others and the environment to feel and sense reality), (2) Externalization (engaging in a dialogue to identify and conceptualize the essence of reality), (3) Combination (putting those different concepts and ideas together to develop a wholistic, coherent system, theory, and/or narrative), and (4) Internalization (practicing such a system, theory, and/or narrative through action).

The initial step, Socialization, is of particular importance and Eisai Co., Ltd. is one company that has put the SECI spiral into practice. Based on its slogan of "human healthcare" (hnc),

Eisai has a policy of encouraging its staff around the world to spend 1% of their working time among patients to fulfill their corporate mission: "We give first thought to patients and their families, and to increasing the benefits that health care provides." This starts with getting close to the patients who are their customers and seeing situations from their perspectives.

In practice, it means individual employees receive training on hospital wards or visiting care facilities where they can learn about the specific circumstances of particular patients and their families, hear what they really think, and empathize with their pain and suffering. The employees can then draw on these real-world experiences to develop hypotheses, articulating them in the process of doing so. These activities have led to a 180-degree turnaround in how staff approach drug development, tending to give them a fresh perspective on their work that extends not only to ideas for new drugs, but also to solutions for patient treatment and family care.

In this context, Hitachi's Lumada could also be seen as an example of putting socialization and the other subsequent steps of the SECI model into practice. It is a means of co-creating with customers that draws on the skills and knowledge that Hitachi has acquired as a manufacturer, engages closely with customers on their own turf and then, based on the empathy so acquired, identifies the true essence of the work being done by the customer, while uncovering meaning and value in the process. This is an ongoing process that leads to

the accumulation of even more knowledge. In other words, it forms a virtuous circle of knowledge creation.

Forming Intersubjectivity to Transcend the Self

Socialization is also at the heart of what is happening at staff-gathering events such as *Compa* held by Kyocera Corporation and *Waigaya* put on by Honda Motor Co., Ltd. At *Compa*, for example, employees sit down together on tatami mats to enjoy a drink while engaging in rigorous discussions about work, working practices, and living practices in a convivial environment where everyone is both physically and mentally present. Through engaging in intellectual combat, they empathize with each other and transcend their own egos to develop the subjectivity of “us,” which leads to a round of co-creation. *Waigaya* at Honda are held over three days and three nights. Since Honda builds intellectual combat into its daily routines, where teams take on difficult challenges in a cross-functional manner that transcends nationality and company affiliation, the company delivers the results exemplified in the recent development of HondaJet^{*1} and the company's resurgence in Formula One.^{*2}

Another example based on the socialization phase of the SECI model is the agile scrum approach of Jeff Sutherland, a software development method that has become the industry's mainstream practice in recent years. Sutherland drew on his experience piloting Phantom reconnaissance planes, one of the most dangerous military tasks to take on during the Vietnam War. Combining socialization from the SECI model with his experience of two people risking their lives together to accomplish the mission at hand, he came up with the idea of a “pair programming” where two people work as one with a shared perspective.

Pair programming involves one software developer and one quality control person teaming up to work on software development by engaging in intellectual combat together in front of a single personal computer. The idea is to establish a system of autonomous and distributed leadership in organization. Pair programming means these pairs to form scrums whenever necessary (that is, the pairs are treated as single units), allowing them to deal with the issue at hand in a flexible and dynamic manner.

*1 HondaJet is a registered trademark of American Honda Motor Co., Inc.

*2 FORMULA 1, FORMULA ONE, F1 and related marks are trademarks of Formula One Licensing BV, a Formula 1 company.

Incidentally, “scrum” was so named for the intuitive sense of how Japanese companies in the 1980s addressed difficult problems posed by their customers by having people come together from different departments and functions to work as one, as in the Honda example above.

People generate meaning through empathy. It is essential to devote one's self to the environment and other people just like a relationship between a mother and her baby where they feel each other as one entity. In other words, you must put yourself in another's shoes. It is only through dialogue based on such a depth of empathy that we can get a real sense of commonality and difference between ourselves and others, and thereby create new meaning and value.

The SECI model emphasizes the rigorous articulation of tacit knowledge, which is acquired through deep empathy, and its transformation into explicit knowledge in the form of concepts and theories. Sharing this explicit knowledge within organizations and enhancing it as practical knowledge enables the knowledge creation process to spiral up rapidly.

Narrative Strategy as a Way of Life

The problem we have with the analytical and scientific approach exemplified by competitive strategy is that it trivializes how people live their lives. Even though it is human beings who engage in management and create value, the analytical and scientific approach consistently discounts people's subjectivity and autonomy. Regardless of how much we analyze emerging threats or negotiating capabilities objectively, no one will act autonomously, unless there is a greater purpose or vision, something that could be described as a “way of life.” Such a purpose or vision asks questions like, “Why do we do this?” or “What kind of story do we want to tell?” It is even more difficult for organizations to come together and act in an autonomous and decentralized manner to address the situation that unfolds in front of our eyes. Therefore, we emphasize a narrative strategy that advocates for a way of life to practice human-centered knowledge creation.

In addition to the overarching plot of the narrative, chiefly the manager's vision and way of life that spur people into action, the behavioral script guides their decisions and actions when examining how to respond to emerging situations. It is desirable that this script be phrased in a gut-level rhetoric that intuitively conveys the essence of the strategy, so that we are

able to act as soon as the narrative is told. Ideally, it should be rigorously practiced in the organization.

A prototype of such a narrative, other than *"The Protestant Ethic and the Spirit of Capitalism"* by Max Weber, would be Benjamin Franklin, one of the Founding Fathers of the United States of America. He listed 13 virtues that remain relevant to us today, including "Drink not to elevation" and "Time is money." These virtues informed his life philosophy and served as a behavioral script for Protestants, such that the more they lived this way, the greater amount of capital they inadvertently accumulated. This story can be thought of as embodying the balance of morality and capitalism as discussed at the beginning of this article.

"Kyocera Philosophy" is made up of 78 sayings that distill the management philosophy of Kazuo Inamori, founder and chairman emeritus of Kyocera. Examples include "Always be creative in your work" and "Position yourself in the center of the whirlpool," all of which serve as a behavioral script that is both concise and intuitively graspable. A booklet describing the philosophy that is distributed to all Kyocera staff lays out the meaning and thinking behind each saying to ensure that it can also be understood at a rational level, allowing employees to choose a script that suits their own situation and reflect it in their actions. Furthermore, as a means of acting out the script, the company also has a tradition of morning gatherings where employees talk about their interpretation of the philosophy and how they put it into practice, and also a tradition of people getting together for communal readings. Along with the social events mentioned earlier, these serve as a forum for dialogue where staff can bridge the gap between their different ways of thinking.

Eisai, meanwhile, has what it calls a "red book" and a "blue book." The red book presents the president's vision, which is to say his approach to life, while the blue book contains case studies of this vision produced by employees. By collating practical examples of what was done when putting the vision into practice to achieve successful outcomes in particular contexts, the blue book serves as a growing repository of new behavioral scripts within the company. In this way, knowledge is newly acquired and enriched by sharing organizational expertise and continuing to take what is considered to be the best action under the different circumstances that arise from time to time. By following this practice, the never-ending story continues to evolve.

Many analytical approaches construct strategy by closely studying both a company's internal situation and the external

environment as represented by the market or how its industry is structured. Unfortunately, the assumption that there is such a static environment, which the company can control completely, is utterly unrealistic. The real world is full of entanglements, uncertainty, and dynamic changes. In such a world, it is important to build a way of life that promotes autonomy by facing the "here-and-now" of the dynamic environment. Based on the narratives of how one should live, one can find meaning and values in relationships with others. The process of living a life this way is equivalent to a strategy that creates the future.

Transforming Society for the Common Good

One of the managers I pay the most attention to right now is Satya Nadella, the third chief executive officer of Microsoft Corporation. He is one of the few leaders in America who engages in management through empathy. Unlike sympathy, in the sense of rationally sympathizing with another person, empathy is the state of putting yourself in others' shoes and sharing their feelings, just like what the socialization phase in the SECI model is about. In fact, at its management meetings, Microsoft has abandoned the practice of reporting analytical data on its business performance and instead has focused on fostering a shared perspective by having company leaders talk to each other about their experiences.

Based on the idea of empathy, Nadella is seeking to create a world where people put more value on human happiness. His idea is also expressed in many ways, including their goal of developing artificial intelligence (AI) to extend human capabilities, rather than to replace humans, and their shift of focus from the expansion of their market share to the concept of open source. These actions by Microsoft mark a stark contrast to the profit maximization behaviors taken by the majority of corporations in the world.

Aristotle argues that the "good life" requires the intellectual growth that comes from actively engaging the world and the moral growth that comes from creating and exploring in the face of great uncertainty. He essentially believes that human beings were born to seek the common good. In other words, living a life means continuously seeking new meaning in social relationships and finding joy in the ongoing pursuit of something better. Accordingly, telling a never-ending story based on empathy with others would lead to the pursuit of the common good.

Social innovation aims to bring about the common good by seeking to overcome the persisting challenges in society that are not adequately addressed by the current system. Social innovation is carried out by individuals and organizations committed to realize the common good. Meanwhile, new knowledge and meaning arise from relationships. Japanese companies ought to take up the challenge of creating a society that thrives on both morality and prosperity, a place where people can live better lives. They need to establish a knowledge ecosystem where people from different industries, government, academia, and other private sectors can all come together to engage in knowledge creation in a harmonious and connected way.

Hitachi in particular is a company that is already implementing a knowledge creation process empathizing people, as exemplified by its work on Lumada. My intuition as a researcher tells me that this work would generate a great surge of co-creation. As its current mission advocates for "POWERING GOOD" to bring about the common good, I am thrilled to see the social change it is going to create in the future.