

# 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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## 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

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).

*Mengzi* (孟子, *The Work of Mencius*). In six books, a collection of sayings of Meng Ke (孟轲, 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

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

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).



# 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

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,

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

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*



# 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*



# I 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?<sup>1</sup> 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*.<sup>2</sup> 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.<sup>3</sup>

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.<sup>4</sup> 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.<sup>5</sup> At the time of writing, the US national debt exceeded \$14 trillion, \$121,000 for each family.<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup> 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.<sup>9</sup> Some other larger economies may follow.<sup>10</sup> We have witnessed

an unprecedented boom and bust. Bailing out the banks escalated into bailing out national economies.<sup>11</sup> We have simply transferred liabilities and risk from the private sector to the state.<sup>12</sup> 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.<sup>13</sup>

But it is not just the bankers who are to blame; we are all in this together.<sup>14</sup> 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.<sup>15</sup> 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.<sup>16</sup> 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'.<sup>17</sup> Some saw the calamity coming and blew the whistle; we did not want to listen and called them 'Doctor Doom'.<sup>18</sup> Ours is a democratic debt. But reality does not allow us to continue; it is pay-back 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.<sup>19</sup>

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.<sup>20</sup> Economies in 'the West' were weakened by the crisis.<sup>21</sup> 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.<sup>22</sup> 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.<sup>23</sup> 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.<sup>24</sup>

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'.<sup>25</sup> 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.<sup>26</sup> Some in 'the West' begin to challenge the assumption that industrialised countries have 'graduated permanently' into the developed world,<sup>27</sup> 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'.<sup>28</sup>

What are the implications of all this for corporate practice? As 'fear is in "the West" and hope in "the East"',<sup>29</sup> businesses vote with their feet. IBM relocated its procurement headquarters to the southern Chinese city of Shenzhen,<sup>30</sup> and HSBC moved its chief executive to Hong Kong.<sup>31</sup> 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.<sup>32</sup> 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.<sup>33</sup> At a time when 'the West' is reluctantly preparing for austerity,<sup>34</sup> India and China are creating one billion bourgeoisie.<sup>35</sup> At the top of multinationals' agendas, Made-in-China is quickly replaced by Made-for-China.<sup>36</sup> 'Go East, young man' looks set to become the rallying cry of the twenty-first century.<sup>37</sup>

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.<sup>38</sup>

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'.<sup>39</sup> 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.<sup>40</sup> State intervention was dead; long live the self-regulating market. Reforms

in China, India, Russia and Eastern European countries were taken as evidence.<sup>41</sup>

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.<sup>42</sup> 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.<sup>43</sup> 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'.<sup>44</sup> 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.<sup>45</sup> While some writers passionately defend the supremacy of 'the West' over 'the Rest',<sup>46</sup> 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.<sup>47</sup>

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.<sup>48</sup>

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.<sup>49</sup> While critics have long been

condemning the failure of globalisation to deliver promised benefits to the poor,<sup>50</sup> two-thirds of EU citizens now see globalisation as beneficial only for large firms, not for society.<sup>51</sup> 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.<sup>52</sup> 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’.<sup>53</sup> 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.<sup>54</sup> 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’.<sup>55</sup>

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'.<sup>56</sup> 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.<sup>57</sup> The public is wary: 'How dare the government tell us to change all our light bulbs and then do something like this?'<sup>58</sup>

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?<sup>59</sup> 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*

*Revolution*, regarded as one of the most important books published in the second half of the last century, posits that we live by paradigms – frameworks of how things work.<sup>60</sup> We use paradigms, usually without being conscious of it, to interpret what we see and decide what to do. We use paradigms to think about and do strategies: what the important issues are, what we should value, what customers need, how to serve them and so on.

Amid the unprecedented, continuing crisis, we need to question the paradigm we have been using in the past. We must assess its social, political and intellectual as well as economic consequences, and ask how we could strategise differently. While the conventional paradigm has been shaken by recent events, as we shall detail in later chapters, it lingers, nevertheless, like a ‘normal science’.<sup>61</sup> Bankers still manufacture fat bonuses, governments battle for a 1 per cent debt cut, consumers fly more often for overseas holidays and companies promote more, not less, consumption. ‘Business has not yet found its Copernicus.’<sup>62</sup>

Let us make our position clear. As we shall propose throughout this book, business can be a positive force and strategy a useful tool for making the world a better place. With proper strategy, nations, industries and firms have made tremendous differences, which we should be proud of. Just look at how the reforms of China, India and Brazil are changing the world, how the Bangladeshi Grameen Bank’s microloans and micro-deposits enable millions of the poorest to stand on their own feet, how Nintendo’s Wii machine lifts the young and the old, male and female, joyfully into exercise; there are many more success stories. Crucially, all this is achieved despite, rather than because of, the conventional paradigm. The paradigm is chiefly responsible for the crises, calamities and deteriorations we still live with, so much so that many, not least many of those in ‘the West’, conclude that strategy is ‘at a crossroads’, ‘in a state of crisis’.<sup>63</sup>

Damning evidence and critical analysis, however overwhelming, do not, as Kuhn pointed out, dislodge a dominant paradigm unless a more attractive alternative is presented.<sup>64</sup> Walking in a fast-moving

world amid crisis, facing the dangerous return of business-as-usual, we urgently need an alternative. We need to strategise differently, wisely. While sharing the concerns of our Western colleagues who believe that strategy is in crisis (危机), we suggest that in crises there are both dangers (危) and opportunities (机). To neutralise danger and seize upon opportunity, we need a paradigm shift. Strategy needs a workable alternative. This book will explore an alternative useful for strategising differently, wisely, beneficially.

Where will the alternative come from; is an alternative ever possible? Look around, there are confusions. On one side, we have Gary Hamel, a strategy guru, urging us to press the 'reset button': to reinvent strategy in a 'make-or-break' fashion.<sup>65</sup> On the other side, Tom Peters, another guru, warns us about the arrogance of believing that we face unprecedented challenges – what we say now about the Internet we said before about the railway and electricity.<sup>66</sup> Robert Eccles and Nitin Nohria of Harvard Business School, too, remind us of the danger of 'the desperate search for quick solutions to eternal management challenges'.<sup>67</sup> As with many strategy issues, we receive seemingly conflicting advice: to change or not to change? And, if we are to change, how and into what?

Out of the confusion we propose a third way: learning from enduring wisdom so as to strategise here-and-now wisely. Beyond the 'hype of newness', we appreciate enduring wisdom; in the place of 'eternal challenges', we see emerging particulars. It is the responsibility of managers to innovate novel solutions based on enduring wisdom for coping with unfolding problems.

In their shocking 1980 paper 'Managing our way to economic decline', Robert Hayes and William Abernathy called for 'getting back to basics'.<sup>68</sup> At that time, they meant managers should re-embrace the 'traditional basics': getting involved in details, being at the forefront of technology, focusing on core business and so on. Almost 30 years later, after a couple of rounds of boom and bust, when *Harvard Business Review* republished the paper in 2007, Hayes renewed the call, but stressed that 'a mastery of the old basics no longer suffices'

because 'changes in the world economy have added more items to the list'. In his view, it is imperative to create and implement 'a new set of essentials': involving multiple parties, better incentive systems and implicit contracts.<sup>69</sup> We acknowledge the call of Hayes and Abernathy, but consider our appeal for 'enduring wisdom' to be different from their 'basics' or 'essentials'. Their basics and essentials appear to concern matters of operation that need to be updated as the world changes.

Our 'enduring wisdom', in contrast, is closer to James Collins and Jerry Porras' 'core values' or 'philosophy'. In their 1994 best-selling *Built to Last*, Collins and Porras, citing John Young, the former CEO of Hewlett-Packard, write: 'We distinguish between core values and practices; the core values don't change, but the practices might.'<sup>70</sup> In this terminology, Hayes and Abernathy's 'old basics' and 'new essentials' are changeable practices, not core values or philosophy that last a company's whole life. With Collins and Porras' 'core values', we feel very much at home.

But, still, our 'enduring wisdom' differs in one important aspect. 'Core values' in *Built to Last* are firm-specific: each visionary company establishes and maintains a unique philosophy. This philosophy is a company's property, not to be shared by other firms. In contrast, the 'enduring wisdom' we explore in this book is meant to be meaningful, doable and workable for managers across the globe as long as they intend to strategise creatively, ethically, effectively. It is a treasure for all, we can all benefit from and contribute to it.

Like Collins and Porras' core values, enduring wisdom is a never-ending, rich spring for doing strategy wisely. But enduring wisdom does not offer ready formulas or quick solutions that can be picked off a shelf. Managers need to translate enduring wisdom skillfully so as to make it work in specific circumstances.

The enduring wisdom we shall share with readers is pragmatism. Why pragmatism? Because the real world appears to reward what works and to penalise what doesn't, and we humans are pragmatic in our wise moments.<sup>71</sup> We see many examples of pragmatism

in action, underlying numerous successful strategies. Consider the following:

- What was the strategy that fuelled China's miraculous economic reform in the early years? According to Beijing's official version, it was the Party's 'Four Cardinal Principles', while to Deng Xiaoping, with whom the Chinese people overwhelmingly agree, it was 'crossing the river by touching stones' and 'white cat or black cat, the one that catches the mouse is a good cat'.<sup>72</sup>
- Hank Paulson, the former boss of Goldman Sachs who became Secretary of the US Treasury, is a market-can-do-no-wrong guy; but he intervened in 'the market' in 2008 with a heavy and visible hand in order to prevent financial institutions from immediate total collapse. 'I hate the fact that we have to do this. But it is better than the alternative.'<sup>73</sup>
- In the 1960s, as the story goes, Honda planned to explore the US market with its 500 cc jumbo motorcycle, but switched to marketing the 50 cc Super Cup when the sales team accidentally discovered that local consumers preferred the small machine, which kicked off Honda's sustained success story.<sup>74</sup>
- When Bill Gates started his business, he laid down a principle: in Microsoft no employee should work for a boss who wrote worse computer code than she/he did. As the company grew and business got complicated, Gates quickly abandoned his principle and put experienced managers in place, regardless of whether they were good at programming.<sup>75</sup>
- To Michael Dell, 'the Direct Model is a revolution not a religion'. Since 2007, customers could purchase Dell machines in Wal-Mart and Staples in the US, Carphone Warehouse in the UK, Guomei in China and Bic Camera stores in Japan. Dell also restructured its value chain by acquiring IT distribution and service companies.<sup>76</sup>

Behind all these and many other real-world stories is sheer down-to-earth vigilance and flexibility. In this sense, pragmatism is deeply ingrained common sense and has always been part of strategy. But pragmatism goes beyond mere common sense or flexibility. Our experiences in China, Japan, Europe and the US, and many conversations with managers around the world, tell us that pragmatic strategy is the purposeful accomplishment of idealistic, informed, disciplined

experimentations. Pragmatism is not anything-goes or opportunism-without-purpose, despite what many strategy professors would have us believe. Pragmatic, that is, innovative, ethical and effective, strategy is about moral standing, sound judgement, implementation skill and learning capability. Pragmatic strategy grows out of profound intellectual traditions and subtle life experiences.<sup>77</sup>

It is this kind of idealistic and realistic, creative and disciplined, instrumental and ethical pragmatism that we intend to share with readers. It is our best hope for practically wise strategy. Taking pragmatism as a marginal part of strategy is not good enough. Unless we embrace pragmatism as an overarching orientation, the conventional paradigm will linger on, continuing to litter the world with bigger collapses, deeper crises and more painful cuts.

As a legacy of the current crisis, we are waking up to the inadequacy of hyper-rational, overly simplistic views of the complex, ambiguous, uncertain world. We have learnt the hard way that governments and markets can both go wrong and be corrupted. We are all fallible. The economist Anatole Kaletsky suggests in his 2010 book *Capitalism 4.0* that 'experimentation and pragmatism will become watchwords in public policy, economics and business strategy'.<sup>78</sup> It is time to act upon pragmatism consciously and proudly, rather than packaging it with Reason, Truth, Theory or Science. We call for a pragmatic turn.<sup>79</sup>

We choose to base our inquiry on Confucian-samurai pragmatism. This is a considered choice. Confucianism is a tradition that has served a huge population of humankind for around two thousand five hundred years. At its core is a pragmatist orientation: how to engage wisely in this-worldly affairs with all our rational faculties, creative imagination and moral sensibilities so as to achieve harmony between communities and with Nature. Our task is to explore how to make Confucian pragmatism relevant and actionable to managers.<sup>80</sup>

Confucianism is an open, evolving tradition. During its long history, thanks to a profound intellectual and moral confidence, it

has been enriched by learning from Taoism, Buddhism and, more recently, Western thought. This enables Confucianism to incorporate useful insights from other pragmatic traditions, e.g. American pragmatism and Aristotelian practical wisdom,<sup>81</sup> which allows us to understand strategy experiences all over the world in a new light, and embrace them into a useful resource pool.

Consider the bulk of research and findings available to date on modern strategy. All of the key studies, such as Andrews' SWOT model, Chandler's scale–scope–speed triad, Porter's industrial analysis, Barney's resource-based view, Hamel and Prahalad's competence thesis, Teece's dynamic capability treaty, Ansoff's planning approach, Mintzberg's crafting school, Collins and Porras' *Built to Last*, Kim and Mauborgne's *Blue Ocean Strategy*, Barnard's *The Functions of the Executive* and Walton's *Made in America: My Story*, are based on Western experience and underpinned by Western thinking.<sup>82</sup> The enormous value of these stories is in no doubt; they are a treasure for the whole of humankind. Meanwhile, Akio Morita's *Made in Japan* and Ikujiro Nonaka's *Knowledge-Creating Company* remain lonely exceptions,<sup>83</sup> while modern Chinese business strategies are almost unknown, let alone lessons from other emerging economies.<sup>84</sup> This does no good to anyone. If the economic powerhouse is indeed moving eastward and the world is on course for an 'Asian century', as many suggest, what unique contributions will Eastern experiences make to strategy? How should people all over the world learn from each other and together make the world better and happier? Seen this way, an inquiry based on Confucian pragmatism might not be a bad idea.

In our view, pragmatism is not the private property of the descendants of Confucius. Rather, it is a treasure shared by the global community. Many other cultures can also contribute to pragmatic strategy. Throughout this book, we use Confucianism as an umbrella to embrace ideas, experiences and findings from many places around the world, from the US to India, from Bangladesh to Japan, from the UK to China. Although rooted in our particular culture, we design

for the pragmatic turn a global outlook. We hope that readers will connect this broad church with their local experiences. Inviting contributions from diverse cultures, we shall conclude this book with a chapter titled 'Pragmatism East and West'. Indeed, the whole book can be read as such an invitation.

#### THE JOURNEY AHEAD

Our journey will take us through four stages (see [Figure 1.1](#)). In [Part I](#) 'Why pragmatism, why now?', [Chapter 2](#) explores the spirits of pragmatism. This is intended to lay an intellectual platform for the pragmatic turn. We emphasise these spirits: practical, processual, creative, holist, ethical and communal. Individually, these spirits may appear in various forms in many traditions. However, it is the network effect, the working together of the spirits that makes pragmatism an enduring and timely wisdom, that enables us to achieve the urgently needed paradigm shift. Examples discussed in this chapter include the Bangladeshi Grameen Bank, the Toyota Production System, Yamaha's piano innovation, China's Hisap computer retailing business, the Mazda turnaround and the Third Italy community building.

In [Part II](#), 'What do pragmatic strategies look like?', we continue the journey by looking at how the spirits of pragmatism shed new light on our understanding of strategy. [Chapter 3](#) posits that strategy is a form of life experience, it is in what we say, believe, have, do and live through. Strategy is a tool in managers' hands that fulfils various tasks, including prompting action, imposing discipline, gaining legitimacy and consolidating power. As such, strategies in a pragmatic world display rich features: contingent, consequential, continuous, courageous, collective, co-creative; we call these the '6Cs' of strategy.<sup>85</sup> In [Chapter 4](#), we consider strategy formation as multi-path system emergence, a purposeful evolutionary process in which the environment selects strategies while managers' actions change the world. Following this, pragmatic strategy as purposefully opportunistic action is contrasted with the ad hoc image of 'strategy

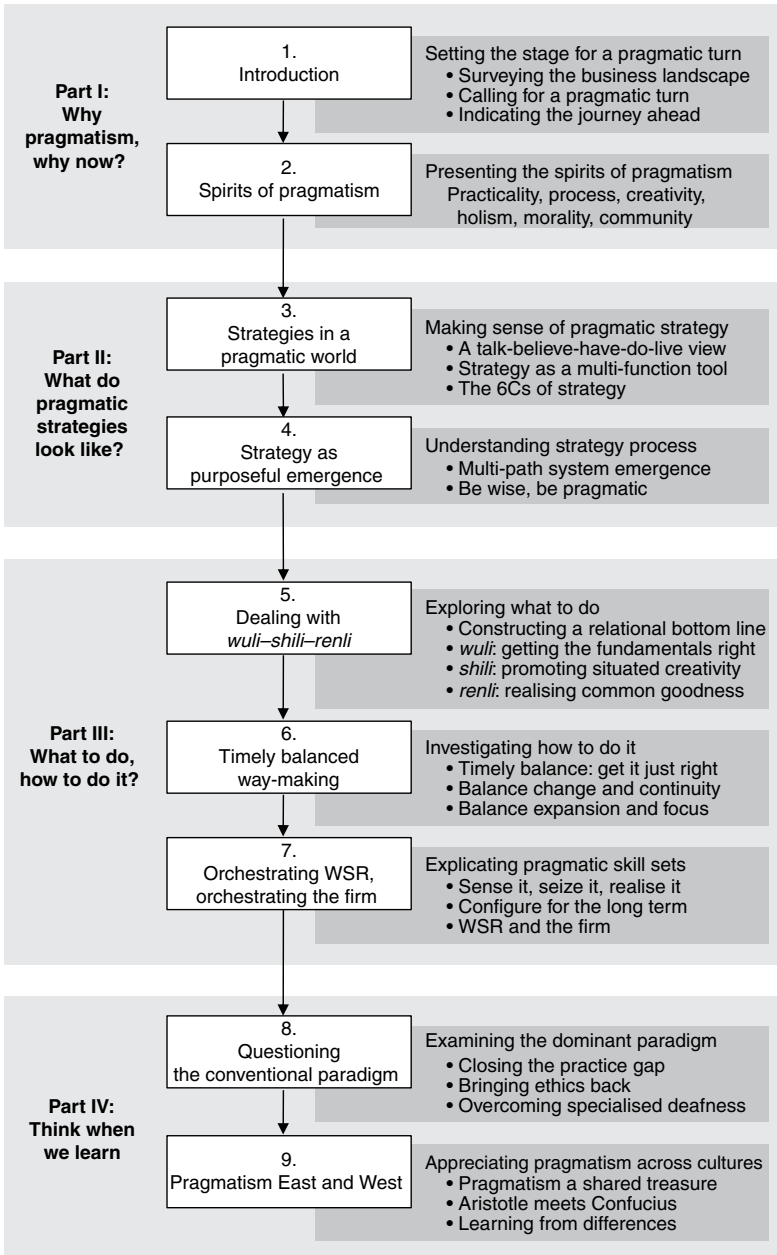


FIGURE I.1 Structure of the book

without intent'.<sup>86</sup> We shall illustrate pragmatic strategy with cases such as China's economic reform, the cochlear implant industry, Alibaba.com, Master Kong Noodles, Intel Corporation's microprocessor strategy, 3M's iconic Post-it Notes innovation, Lenovo's manoeuvre over China's production licence, and more.

If [Part II](#) presents a descriptive view of what pragmatic strategies look like, then [Part III](#) probes the all-important normative question 'what to do, how to do it?' In [Chapter 5](#), we begin with a corporate executive's reflection on what managers do on the messy business front line in their efforts to rescue a failing company. We then, based on this reflection, introduce a Confucian worldview that conceives life experience and strategy as ongoing engagements with problems and opportunities emerging from dynamic relationships between *wuli* (物理) the material-technical, *shili* (事理) the mental-cognitive, and *renli* (人理) the social-normative. This relational worldview enables us to discern a triple bottom line that underpins business success: getting fundamentals right, envisioning a valued future, realising common goodness.

A discussion of the Confucian teaching *shizhong* (时中, timely balance) in [Chapter 6](#) then suggests how to make one's way in the world. The art of strategy is pragmatism-upon-time. We shall take strategic options such as change–continuity and expansion–focus as pairs of constructive companions rather than antagonistic contradictions. Questioning the popular 'golden mean', we suggest that practically wise strategy lies not in 'sticking to the middle', 'retaining two extremes' or 'synthesising into a higher whole', but in getting business just right, appropriate, fitting with ever-changing circumstances. Winning strategies may be in the middle, at either end, or somewhere between – it depends on unfolding particulars. It is timely judgement, collective justification and situated experimentation that make the difference.

Following this, [Chapter 7](#) presents a broad 'sensing–seizing–realising' skill set useful for creating and capturing value amid complexity, ambiguity and uncertainty. While one size does not fit

all, a broad skill set will enable managers to put in place configurations that allow beneficial strategies and valued outcomes to emerge. Useful configurations include generating a population of initiatives, exercising real options, setting up selection mechanisms and investing in diversity. **Part III** concludes with a Confucian imagery that conceives the modern firm as a path-dependent constellation of unique *wuli* assets, *shili* capabilities and *renli* relationships evolving in the wider WSR space. Running business and doing strategy, the manager's job is to orchestrate asset complementarities, facilitate co-specialisation, renew capability and heighten ethical sensibility.

Together, the *relational* WSR bottom line and the *temporal* timely balance constitute a mode of thinking that engages managers to generate value efficiently, creatively, ethically. Again, we use practical cases to illustrate the normative implications. These include China Merchants Bank, Xerox, Airbus, Seven-Eleven Japan, Komatsu, Nintendo, Lenovo, Swatch, General Electric, Lego, Li & Fung, Intel, Mayekawa, Hewlett-Packard, IBM, Microsoft, Google, Philips, YKK, Rolls-Royce, Huawei, Tencent, Alibaba, Edison, Honda, as well as the collapse of Polaroid and Marconi, the run on Northern Rock, Toyota's recall and Madoff's Wall Street fraud.

**Part IV**, 'Think when we learn', reflects on learning from our past and from others. **Chapter 8** is a critical examination of the past – the conventional paradigm behind the current crisis. The paradigm is found to be disabling because it diminishes practical orientation, ethical sensibility and holistic thinking. These damaging effects reinforce each other in a vicious spiral. The quest for a scientific status diverts strategy from front-line business; managing-by-numbers marginalises moral sensibility; amoral strategy needs a 'scientific' cover to look good; and specialised deafness is both the cause and effect of all this – it brings comfort to strategies that lack collective purpose, domain experience and practical relevance. In the conventional paradigm, the whole is larger than the sum of its parts, just in value-destroying ways. The damage caused

by the conventional paradigm is illustrated by the UK Channel 4's *Big Brother* race row, BP's Gulf of Mexico disaster and China's tainted-milk scandal. Our examination is critical but constructive, aiming at a richer understanding of strategy and ways for strategising differently, wisely.

Chapter 9, 'Pragmatism East and West', is intended to expand the reader's vision by putting pragmatic strategy into a global context. Our message is that pragmatism is a treasure for the whole of mankind, and pragmatic strategy is meaningful and doable to people with different cultural roots. We shall present affinities between Confucian and American pragmatisms along the six spirits we outlined in Chapter 2. We will then compare Confucian and Aristotelian teachings along five dimensions: 'what is' vs 'how to act'; articulative reasoning vs suggestive exemplars; hierarchical vs circular knowledge; polarising-and-choosing vs associating-and-complementing; and brain-driven vs heart-inspired thinking styles. By appreciating these differences we aim at better learning from 'other' and knowing 'the self' in order to pursue pragmatic strategies that are workable in heterogeneous localities.

Throughout the book, we draw enthusiastically from available findings and hard-learned lessons generated in many places of the world. A pragmatic turn is not to abandon or replace past experiences and insights. We do not strategise with complete doubt or empty hands; we are always already resourced.<sup>87</sup> Pragmatism engages us to enrich our resource pool and to use it for generating timely, workable solutions. The richer our resource pool, the more effective our *bricolage*, and the more successfully we get jobs done. By interpreting past experiences and business cases in a new light, we show how a pragmatic turn can help managers to learn, think and act differently.

This book does not have a separate section for case studies. Instead, plenty of cases are dispersed throughout the chapters. They illustrate pragmatic strategy in action, in real companies, in the

dreams and efforts of real managers framing and solving life problems. It is unwise, from a pragmatic point of view, to separate inquiries and cases, theory and practice, what is on paper and what is at the front line. We have intentionally selected cases from different industries and sectors, various societal-organisational levels and diverse cultural-institutional contexts.<sup>88</sup> The world is complex and rich, so should be our mode of thinking, learning and acting.

Strategies are dead things unless we put them into action. In the end, it is our ideals, values, purpose, judgement, political will, social skill, technical competence and experimental action that make the difference. We believe that business and strategy can be a positive force for making our world better and happier, not just for the few, but for all, including Mother Nature. The following business case convinces us that our optimism is well-founded. The case is small, yet it gives us a taste of what is to come: the power of technical competence, creative imagination and moral purpose in action.

*Strategy for a better world*<sup>89</sup>

In 2006, a vaccine to prevent rotavirus was licensed by the US Food and Drug Administration. Rotavirus is a disease of young children that causes vomiting, high fever, diarrhoea and dehydration. It killed 2,000 children in the developing world every day and caused a great deal of suffering in the developed world. Penny Heaton of Merck was the pharmaceutical company executive who headed the vaccine programme.

At the end of a pre-licensure study that took four years to complete, involved 70,000 children and cost about \$350 million, Dr Heaton called together 200 people at her company. She started with a series of slides. 'This is what the world looks like now', she said, pointing to a map that contained hundreds of small black dots concentrated in Asia, Africa and Latin America. 'Each of these dots represents 1,000 deaths a year from rotavirus.' Then Dr Heaton showed a map without any black dots. 'Now', she said, 'we have the technology in hand to eliminate deaths from this disease.'

Then she wept. She stood in front of 200 people with her head down and her shoulders shaking. This is no one's image of a typical pharmaceutical company executive. The rotavirus vaccine is now available in Mali, Ghana, Vietnam, Bangladesh and Nicaragua.

Tomorrow can be better, and the future is in our hands. With hope and aspiration, let us begin our journey.

## 2 Spirits of pragmatism

Pragmatism is king in our vague new world.<sup>1</sup>

Pragmatism is replacing the old 'Washington Consensus'.<sup>2</sup>

Pragmatism will become the watchword in business strategy.<sup>3</sup>

Corporate pragmatism will get us out of the mess.<sup>4</sup>

Why Rorty's search for what works has lessons for business.<sup>5</sup>

These are the headlines that have, since the recent economic crisis exploded, featured in the business media and the speeches of world leaders. Suddenly, everyone appears to be rediscovering pragmatism. But is this merely a short-lived fashion? Is pragmatism, like austerity, just a short-term measure for sorting out the mess? Will it be kicked back into the long grass as soon as the world returns to 'normal', and picked up again only when we face another bust? If history tells us anything, then our caution is not entirely unjustified.

Pragmatism has its roots in many cultures. It is an intellectual and moral sensibility in Confucian traditions.<sup>6</sup> Pragmatism is also the most distinctive way of American life.<sup>7</sup> A unique pragmatist spirit is manifested throughout European thought, from Aristotle's *phronesis* thesis<sup>8</sup> to Heidegger and Wittgenstein's later works,<sup>9</sup> and the theories of Nietzsche, Foucault and Habermas.<sup>10</sup> Pragmatism is the heritage of all humankind. It shows us what to do and how to do it in our world of shifting experiences. Pragmatism informs our life in many ways, with or without our being aware of it.

Pragmatism has, however, had a humble history, no less humble than Galileo Galilei facing the Inquisition. In the name of Science, it has been caricatured as anything-goes, utilitarian thinking, amoral and opposed to Reason, Truth, Progress. The American pragmatist thought of Charles Sanders Peirce and William James was condemned by the whole 'intellectual community' in Europe a

century ago.<sup>11</sup> In Japan, the pragmatist samurai spirit was put aside when the nation embraced Western logic to become modern.<sup>12</sup> Once the communists took power in China, Confucius and John Dewey were sentenced to sudden death.<sup>13</sup> Today, pragmatism continues to be criticised, not least in academic circles, for being 'distasteful of theory' and 'restricting learning'. In business, pragmatism is allegedly responsible for corner-cutting opportunism and corruption. China's recent tainted-milk saga, for example, has been attributed to a get-rich-quickly-by-any-means 'pragmatism'.<sup>14</sup>

Despite all this, pragmatism survives. It is currently going through a renaissance in management studies and the social sciences, regaining influence on business strategy, public policy, international relations and the actions and lives of people around the globe.<sup>15</sup> Why? The reason is plain and simple: pragmatism engages people to act upon what works, and the real world appears to reward what works and penalise what doesn't.<sup>16</sup>

Let us go academic for a moment: pragmatism is a bias for action with focus and energy, a willingness to make-do without knowing how things might unfold, a habit that looks at situated particulars rather than generalised principles, an orientation that seeks knowledge based on the consequences of acting upon it, a mindscape that embraces plural perspectives and methods, an attitude that appreciates novelty and surprises, a conviction that collectively we can make a positive difference, a belief that practical consensus is often achieved at social-cultural-aesthetic levels instead of grounded on Truth or Reason.<sup>17</sup> As such, pragmatism is theoretically engaging rather than soft-heading, instrumentally delivering not empty-talking, morally inspiring instead of anything-goes or paralysing.

Sounds abstract? Then consider Deng Xiaoping, Bill Gates, Chester Barnard, Akio Morita, Honda and Grameen Bank. These, among many others, are real people and real companies delivering real benefits to real people. Their experiences show us that pragmatism is useful, doable, helping us accomplish what we want to achieve. Of course, we are not talking about 'pragmatism' of the

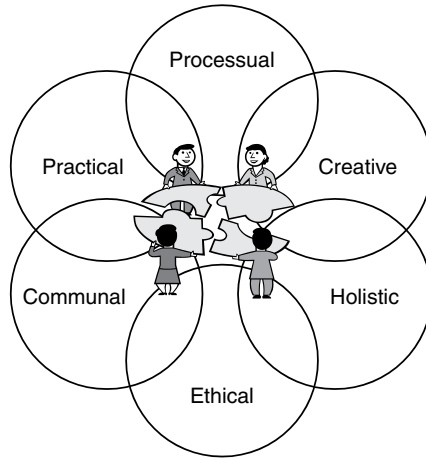


FIGURE 2.1 Spirits of pragmatism

anti-theory or corner-cutting sort. As managers facing pressing problems, what we should explore is the pragmatism that engages us to generate value efficiently, creatively, legitimately. Such pragmatism works when we act upon a set of differentiated yet interconnected spirits. In this chapter we introduce readers to the spirits of pragmatism. Figure 2.1 presents an overview of the forest. Let us have a brief look at each of the trees.<sup>18</sup>

### A PRACTICAL FACE

At the core of Confucianism is an ‘action orientation’: being human is to act in the world. The purpose of mastering way-making (道, *Tao*) is to cope wisely with life problems.<sup>19</sup> If there is truth, it is made through human experience. Detached from experience or abstracted from action, *Tao* is valueless, meaningless.

This ‘primacy of practice’, as it is called in contemporary Western terminology,<sup>20</sup> has its roots deep in all major East Asian traditions.<sup>21</sup> The purpose of *The Analects* (论语) is not to investigate the essence of the universe, but to recount how the Master made his way in social affairs. The *Daodejing* (道德经) does not purport to supply a mirror of the world, but to advise us to interact wisely with life contexts. The *Yijing* (易经) is not meant to describe every scenario we

might encounter; rather, it offers guidance for responding appropriately to shifting life conditions. Hence we read in the classics:

It is Man who makes *Tao* great, not *Tao* that makes Man great.<sup>22</sup>

*Tao* is not far from men. When men try to pursue a course, which is abstracted from men, this course cannot be considered *Tao*.<sup>23</sup>

The *Tao* of heaven is far away, while that of humans is near ... It is from humans themselves, that good and bad fortunes are produced.<sup>24</sup>

*Tao* is made in the walking of it.<sup>25</sup>

Peter Drucker, Russell Ackoff and Sumantra Ghoshal, perhaps the best minds in contemporary strategy, with their 'bias for action', would feel at home with Confucius.<sup>26</sup> To the Chinese mandarin, the sages are great because they engage in here-and-now affairs; to the Japanese samurai, being a 'man of action' 'on the spot' is far more important than prudent intellectual abstraction.<sup>27</sup> In contrast with Descartes' 'I think therefore I am', Confucian pragmatism is characterised by what Kitaro Nishida (西田 幾多郎, 1870–1945) called 'acting intuition': 'the human being-in-the-world as originally having the character of action; the essential mode is to act on the world, not to cognise it.'<sup>28</sup> As Roger Ames and Henry Rosemont comment, Confucius is less a philosopher than a *philosophe*:

His vision was not simply one to be understood, and then accepted, modified, or rejected on the basis of its congruence with the world 'objectively' perceived ... On the contrary, his vision was one that had to be felt, experienced, practiced, and lived. He was interested in how to make one's way in life, not in discovering the 'truth'.<sup>29</sup>

What is knowledge, and what is it for? In Confucianism, the practical-performative dimension is paramount. The Chinese *kanji* character 知 (know) is composed of an 矢 (arrow) which means to

direct and command, and a 口 (mouth) which means to express and communicate. Hence, 'know' does not simply mean, as usually translated into English, to discover or comprehend a pre-given reality; it denotes coming to realise, make present, actualise a world.<sup>30</sup> Knowledge is the process of experiencing and changing life conditions. The 'product' of this process is less about the nature of things – 'what is it?' than about appropriate action – 'what is to be done?'<sup>31</sup>

To Wang Yangming (王阳明), an eleventh-century Confucian, knowledge and action are one: to know is to authenticate in action (知行合一). Knowing *what* contingent particulars are is, although important, not the purpose; knowing *how* to envision a valued future and make it real by acting upon those particulars is.<sup>32</sup> Faithful to Wang Yangming's spirit, Ikujiro Nonaka suggests: 'knowing is a bodily action with a will to bring about changes in the state of affairs rather than with a detached stance toward the world.'<sup>33</sup> Donald Munro, a 'Westerner', observes: 'in Confucianism there was no thought of knowing that did not entail some consequence for action.'<sup>34</sup> Knowledge is our capacity to act; it is not representational, but performative. We act, therefore we are.

Not all actions, however; only actions with a compelling purpose. The late Indian-born strategy professor Sumantra Ghoshal stressed, in his wonderful 2004 book *A Bias for Action*, the difference between 'purposeful action-taking' and 'active non-action'. While the former gets what matters done against all odds, the latter keeps busy all the time but fails to make a difference. A purposeful action-taker solves pressing life problems with a clear focus and persistent energy.<sup>35</sup> Confucius is a good example. In his time, people were suffering from betrayal, cruelty, wars and natural disasters, and the Middle Kingdom was in pieces. Confucius devoted his whole life to a single mission: engaging people to restore harmony in and between communities, as well as between man and Nature.

Not all knowledge either; managing-by-numbers will not do. Sam Steinberg, the founder-manager of Steinberg Inc., a supermarket chain headquartered in Montreal, told the Canadian strategy professor Henry Mintzberg the secret behind the company's success:

'Nobody knew the grocery business like we did. Everything has to do with your knowledge. I knew merchandise, I knew cost, I knew selling, I knew customers. I knew everything, and I passed on all my knowledge; I kept teaching my people. That's the advantage we had. Our competitors couldn't touch us.'<sup>36</sup> In the twenty-first century, the practical spirit that focuses on coping with pressing problems continues to underpin strategic successes. Given the plentiful suffering and limited resources around, the spirit is urgently needed, as the case below illustrates.

*Muhammad Yunus: a scholar who changed the world*<sup>37</sup>

After completing his Ph.D. on a Fulbright scholarship in the US, Muhammad Yunus became the head of the Economics Department at the Chittagong University in his birth-country Bangladesh. That was 1974. That year, Bangladesh had a severe famine and Yunus saw, day after day, people dying on the university's doorstep. This shook him to the core of his being:

I used to get excited teaching my students how economics theories provided answers to economic problems of all types. I got carried away by the beauty and elegance of these theories. Now all of sudden I started having an empty feeling. What good were all these elegant theories when people died of starvation on pavements and on doorsteps?

My classroom now seemed to me like a cinema where you could relax because you knew that the good guy in the film would ultimately win. In the classroom I knew, right from the beginning, that each economic problem would have an elegant ending. But when I came out of the classroom I was faced with the real world. Here, good guys were mercilessly beaten and trampled. I saw daily life getting worse, and the poor getting ever poorer. For them death through starvation looked to be their only destiny.

Where was the economic theory which reflected their real life? How could I go on telling my students make-believe stories in the name of economics?

I wanted to run away from these theories, from my textbooks. I felt I had to escape from academic life. I wanted to understand the reality around a poor person's existence and discover the real-life economics that were played out every day in the neighboring village – Jobra.<sup>38</sup>

So Yunus abandoned the bird's-eye view and adopted a worm's-eye view. What he saw in Jobra shook him further. In the village, he found poor women borrowing from money-lenders to purchase materials in order to make bamboo furniture and sell it in the market. On a good day, these women earned 50 *paisa* – 2 US cents – for a whole day's work. The money-lenders charged them 10 per cent in interest per week or even per day. Borrowers would have to borrow again just to repay the first loan, and the only way out was death. Watching one villager, Sufia Begum, busy making bamboo furniture with her hungry children around her, Yunus began to understand the real world. Sufia was poor not because she was stupid or lazy. She had useful skills and worked all day long, doing complex physical tasks. She suffered because the bamboo cost 5 *taka* and she didn't have that cash to start with. Her life was miserable because she could not find that 5 *taka*. She did not have credit: banks served only the rich, not the poor. She survived in that tight cycle by borrowing from the trader and selling back to him. She could not break free; when she died, she would pass the tight cycle on to her children. With all this unfolding before his eyes, Yunus got angry:

She earned the equivalent of 2 US cents a day and it was this knowledge which paralysed me. In my university courses, I dealt in millions and billions of dollars, but here before my eyes, the problems of life and death were posed in terms of pennies. Something was wrong. Why did the university course I taught not mirror the reality of her life? I was angry at myself, angry at the world which was so uncaring.<sup>39</sup>

Within a week, Yunus and his students made a list of how many of the poorest Jobra villagers were borrowing from traders and losing

the fruit of their labour. The list named 42 women who had borrowed a total of 856 *taka*, less than US\$27. Yunus handed his student Maimuna that sum of money and told her, 'Lend this money out to the forty-two on our list. They can repay the traders what they owe and sell their products wherever they can get a good price.'<sup>40</sup> Yunus knew, however, this would not be sufficient because it was an ad hoc, personal, emotional solution. Handing out a pittance is a way of making ourselves feel good while leaving the fundamental problem unsolved. We have merely thrown money at it and walked away. What the poor needed was an institutional solution.

In 1976, overcoming many difficulties, Yunus secured a loan from the governmental Janata Bank to lend to the poor. This was based on his faith in human nature – both its ingenuity and desire to do good, given the opportunity. The microfinance project was designed to provide those opportunities to the poorest.

However, doing good was not easy. When Yunus tried to convince the villagers to accept loans, these were the usual replies:

Your words frighten us, Sir.

I wouldn't know what to do with money.

No, no, not me. We have no use for money.

No, no, we cannot take your money.

No, when my mother died the last advice she gave me was never to borrow from anybody.

Give the loan to my husband, he handles the money, I've never touched any. And I don't want to.

We have all had enough trouble with dowry payments that we don't want another fight with our husbands. Professor, we don't want to get into more trouble.<sup>41</sup>

The villagers sent Yunus away, day after day, telling him not to come again. According to local custom, Yunus could not enter the women's houses, so he brought a female student with him. While Yunus stood in the courtyard between houses, the student introduced him, spoke on his behalf and brought back any questions the women had.

The student shuttled back and forth for over an hour without any result. One day, during the monsoon, both Yunus and the student were caught in a downpour. One of the women said, 'Let the professor take shelter next door, there is no one there. And that way the girl won't get wet anymore.' Then, the conversation continued, with Yunus and the women shouting questions and answers directly back and forth across the bamboo wall. Through the monsoon, Yunus and his students tramped around the village; during the dry season, they visited the same houses under the hot sun.

There were other obstacles. Money-lenders and mullahs threatened to hurt Yunus and his students, and told the villagers that anyone who accepted a microloan would be tortured, sold into prostitution, dropped at the bottom of the sea, denied a Muslim burial or sent to hell. In the end, it was usually the most desperate women – abandoned by their husbands, trying to feed their children by begging – who took the lead in accepting microloans. Whatever the mullahs threatened, these desperately poor women had no other choice: get help through microfinance or watch their children die. Other women then followed when they recognised that what the mullahs said were merely lies.

In 1983, the Jobra pilot project began operation as a fully fledged institution and was renamed the Grameen Bank (*Village Bank*). On 13 October 2006, Yunus and the Grameen Bank jointly received the Nobel Prize for Peace – the first time it was ever awarded to a business. By that time, microfinance had spread to more than 100 countries, from Uganda to the US, benefiting more than 100 million people through loans of often less than \$100. As of March 2011, Grameen Bank had \$955 million in outstanding loans to 8.3 million borrowers, of whom 97 per cent were women, with a 99 per cent repayment rate. Borrowers owned 94 per cent of the bank, with the remaining 6 per cent owned by the government. The bank also provided a micro-deposit service and helped villagers build houses and send their children to school. It lent to beggars free of interest, diversified into textiles, fisheries, irrigation and mobile phone operations: 260,000

'phone ladies' provided a phone service for more than 80 million people in some 28,000 villages all over the country. In the 1970s, 80 per cent of Bangladeshis lived below the poverty line; today the number is 38 per cent, with more than half of borrowers raised out of acute poverty. In its prize announcement, the Norwegian Nobel Committee said:

Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh, but also in many other countries. Loans to poor people without any financial security had appeared to be an impossible idea. From modest beginnings three decades ago, Yunus has, first and foremost through Grameen Bank, developed microcredit into an ever more important instrument in the struggle against poverty.<sup>42</sup>

For a young nation usually known for its massive poverty, natural disasters and political violence, the Nobel Prize was a source of national pride. Thousands of Bangladeshis poured onto the streets of Dhaka, with a big banner that read 'Professor Yunus, we are proud of you'.<sup>43</sup>

#### A PROCESSUAL FACE

The root metaphors of life in Confucianism are change (易), movement (动) and activity (行). It has been, and still is, a widely shared concept that whatever we experience in life is transitory, undetermined.<sup>44</sup> This is expressed beautifully in *The Analects*: 'The Master was standing on the riverbank, and observed, "Isn't life's passing just like this, never ceasing day or night!"'<sup>45</sup> Becoming, even from life to death, is to be celebrated. When his beloved wife died, the Chinese Taoist Zhuangzi (庄子 396?-286? BC) danced and sang with passionate gratitude. The Japanese Buddhist, Yoshida Kenkō (吉田兼好, 1293-1350), praised perishability in poetic language:

If man were never to fade away like the dews of Adashino, never to vanish like the smoke over Toribeyama, but lingered on