BOOK REVIEW

Managing flow: a process theory of the knowledge-based firm

Ikujiro Nonaka, Ryoko Toyama and Toru Hirata
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When a new book co-written by Ikujiro Nonaka appears, anyone claiming to be working in knowledge management (KM) really must glance through it, at the very least, and for many it will be seen as required reading. For 'Managing flow', Nonaka is joined by two co-authors, namely previous co-worker Ryoko Toyama and Toru Hirata, and three collaborators, Susan Bigelow, Ayano Hirose and Florian Kohlbacher (the third of the team to have published in *KMRP*). This international collaboration has delivered a book that takes its detailed examples from companies based in Japan, but draws lessons that are surely valid worldwide, especially in the uncertain future we all face as a consequence of the recent global financial crisis.

Although the book's title emphasizes the word 'flow', for this reviewer the key message of the book is more about the word 'process'. This permeates the book, taking many forms, including business processes, management processes and knowledge processes. Both flow and process give the impression of something dynamic, and it is this dynamic nature of the issues surrounding knowledge creation in organizations that Nonaka *et al*. have set out to explore and capture.

Their overall aim is made clear by the sub-title of the Introduction, which is 'Why we need a new theory of the knowledge-based firm', and on page 3 the scope of this is further clarified as 'to theorize management not only as science but also as art'. A challenging aim indeed, as it has to cover everything from ancient Greek philosophers to 21st century managers, but who better to tackle such an undertaking than Nonaka?

The book comprises nine substantive chapters: the first three set out the foundations, then come five chapters based on detailed discussion of case studies, and finally a short concluding chapter.

The first chapter addresses the philosophical foundations for the rest of the work, and in particular the characteristics of knowledge that need to be accounted for in a knowledge-based view of the firm that are not covered in the earlier resource-based view. The authors are well aware of the work already done on the knowledge-based theory of the firm by people such as Grant (1996) and Spender (1996), having contributed to it themselves (Nonaka and Toyama, 2003, 2005). One of the principal additions to earlier work here is the explicit adoption of the process perspective, which the authors take from the work of the philosopher Whitehead. A consequence of this is that not only is knowledge about knowing, but that knowing affects, and is affected by the environment at all times. People are therefore

the sum of their experiences, and exist in a perpetual state of *becoming* (p. 11).

The artistic dimension is introduced in this chapter as well, the authors seeing aesthetics as crucial to the vision that drives successful organizations – and also contributes to the differences between them. We shall return to this aspect when considering the case chapters.

Chapters 2 and 3 deal with the theoretical foundations. The now-familiar concepts of the SECI or knowledge spiral model and *ba* play a central role in the discussion. The added ingredient this time is the use of the concept of *phronesis*. *Phronesis* represents practical wisdom (based on experience), and was contrasted by Aristotle with other types of knowledge, namely *episteme* (universally valid, scientific knowledge) and *techne* (skills-based technical know-how). Linking this concept to leadership rather elegantly brings in the importance of middle management and a middle-up-down approach, which Nonaka and his co-workers have emphasized before. *Phronetic* leadership is, by nature, distributed. A major practical leadership skill is the ability to cultivate *phronesis* in others. Unless middle managers are part of this leadership, then the top-level decision makers in the organization will literally be disconnected from the frontline workers.

The five case chapters consider two major cases each, making 10 in total. As we have come to expect from Nonaka, the cases are well documented, and rely strongly on what the founders and/or leaders of the companies concerned have said and written. Each one starts with corporate philosophy and vision, the first step in translating these into action being the development of what the authors term the *driving objective(s)* of the company. These can be across the whole company, such as 'human health care' for the Eisai Group, or specific to a particular project, as with '1 cc = 1000 yen' for a new scooter for Suzuki. These objectives give scope for the aesthetic dimension to enter also, as is particularly apparent in the discussion of Muji, almost literally a 'non-brand brand'. Each of the five chapters has a theme: values, *ba*, dialogue, dynamic knowledge assets and leadership. Nevertheless, as these themes are all inter-linked, there is a useful sense of continuity between the chapters.

The use of metaphors in KM has been one of the 'hot topics' of the last few years (Andriessen, 2008). Andriessen drew our attention to a difference between typical 'Western' and 'Eastern' metaphors for knowledge, but in this book this difference in thinking also shows in different metaphors for the organization. For many readers, especially those less familiar with the work of Nonaka's school of thought, any strangeness is likely to stem not from the fact that the case organizations have their physical headquarters in Japan, but from the issues that arise and the language in which they are expressed. The phrase 'values for the common good' is part of the title of Chapter 4, and recurs in various forms throughout the case discussions. This is clearly the world of the organic organization, with a definite call to a higher purpose than the view of the organization as profit-generating machine often found in Western literature. An especially interesting case in this context is that of Seven-Eleven Japan Co. Ltd., which effectively carried out a reverse takeover of its original American parent, 7-Eleven Inc. The contrasts – but also the similarities – between operations in Japan and the U.S.A. come over extremely well.

Of all the many useful points in the various cases, your reviewer found the discussion of leadership at Canon particularly insightful. The approaches adopted at Canon to link the dry but significant reality of management information such as the balance sheet and accounts with the softer yet equally – if not more – significant reality of leading the people in the organization sparked off several interesting avenues of thinking. Other readers will no doubt find their own different lessons within the cases.

The concluding chapter briefly (five pages) summarizes what the authors call 'the first step in building a knowledge-based theory of the firm from a process-relational point of view' (p. 244). There is, of course, nothing like a 'how to do it' set of guidelines to be found here, although surely anyone who had read the book carefully to this point would not be expecting any. There is broad guidance, but the overall message is that managing in a world of constant, sometimes unforeseeable change demands vision, dialogue and leadership, and needs to engage all employees in the organization. Knowledge creation is vital to organizations of all kinds, and so the organization must put a corresponding amount of effort into helping to ensure that it happens.

The book is not an easy read: many academics as well as practitioners will have to work hard when faced with subsection headings such as 'The organization as an organic positioning of diverse *ba*' (p. 39). Nevertheless, it will be worth it.

So, to return to one of my opening remarks, 'flow' is important, but the concepts I would suggest that people take from this book are 'process' and 'vision'. The word 'flow', at least in my understanding of it, does not do full justice to the dynamic nature of the issues at hand – 'flow' sounds altogether too controlled, unless we are thinking about the flow of a river in flood, which is closer to the situation that the authors are addressing. To my mind, 'flux' would perhaps capture the essence of this better, adding an extra dimension of – perhaps unpredictable –change. In such circumstances, only a vision and a very high-level objective can remain unchanged, and the challenge for (knowledge) managers is to interact with others to find a way through.

I recommend this book to anyone (practitioner, academic or student) who is interested in KM in practice, especially the more strategic aspects, and indeed to anyone who is interested in strategy generally.

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