

**DEVELOPING HOLISTIC LEADERSHIP:
A SOURCE OF BUSINESS INNOVATION**

DEVELOPING HOLISTIC LEADERSHIP: A SOURCE OF BUSINESS INNOVATION

BY

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Preface – Age of Strategic Knowledge Creation and Leadership

A host of innovations including the rapid extension of ICT and environmentally friendly systems are accelerating changes in industry, the economy, society, and other fields at a dizzying pace. ICT is interactively networking people all over the world and is continuing to develop as a platform that enables the transmission, sharing, inspiration, creation, and stockpiling of information and knowledge that people have. At the same time, environmentally friendly systems are becoming vital infrastructure as core technology in recycling-oriented social and economic systems. Amid these changes, a new business model based on an ICT platform has emerged. Represented by innovative products such as U.S. Apple's iPhone and iPad and the advent of new systems of technology including smart grid frameworks and electric cars aimed at realizing a recycling-oriented society and economy, this model transcends different technologies and industries and significantly diverges from the strategic model that focused on competition among firms within the conventional business world.

Underlying this new business model that traverses new developments in technology and different industries through the integration of different technologies including ICT in recent years is the phenomenon of "convergence," and this phenomenon is making conventional competition among corporations more complex. Convergence is accelerating strategic partnerships including their customers, joint ventures, strategic outsourcing, and M&A among companies at a rapid pace and is becoming a dynamic force with the potential to significantly change existing corporate boundaries.

Therefore, strategic collaboration based on partnerships among different industrial sectors, which transcends the business axes of ordinary cross-industrial competition, is becoming increasingly important as a core driver of corporate strategies. In other words, the transition from a strategy that focused on competition among companies in an industry or competition among different business sectors to strategic collaboration with various industries (companies) including their customers is becoming an urgent need for today's innovation companies.

At the same time, in recent years strategic collaboration with partners throughout the world and leadership for executing strategic collaboration are becoming pressing issues for companies promoting business on a world scale including emerging countries. In knowledge economies of the 21st century, values regarding the way individuals live and work are also changing significantly and at the same time the existence and view of “communities” such as corporate organizations and nonprofit organizations, which are the collective bodies of individuals, are also changing.

Following the rapid extension of ICT in corporate organizations in particular, companies are actively adopting methods of knowledge management aimed at the accumulation and utilization of knowledge of individuals and knowledge inside and outside the company. As a result, corporate transformation and business innovation are progressing at a global level. Nevertheless, it is important to bear in mind that even if a company adopts ICT and undertakes the transformation of its business, the most vital element in initiating strategic behavior in a company is business innovation based on the values of individuals and the knowledge and core competence accumulated in individuals.

Moreover, to promote ICT business or recycling-oriented business that intersects different industries as described above, a company must strategically adopt knowledge and core competence that it does not possess within its own company. It also requires leadership capable of generating ongoing business innovation through strategic collaboration that places importance on relationships with other partners.

Therefore, practitioners (employees of all management levels including top management) must strategically form business communities that start with the formation of diverse “Ba” with internal and external partners including customers to build organizational platforms for promoting strategic collaboration. Moreover, in addition to promoting innovation in its own core competence, a company must endeavor to absorb the core competence of superior external partners as well as promote integration and consolidation of core competence within the company.¹ The strategic behavior of practitioners, who include corporate leaders, managers, and all staff, in forming business communities that originate with the formation of “Ba” ultimately leads to the ongoing creation of new values in customers.

Dense strategic collaboration through the formation of such business communities promotes strategic knowledge creation processes among various organizations within and outside the company. The formation of business communities within the company is an element that enhances the

¹The author calls companies that integrate superior knowledge at a global level “knowledge integration firms.” For details, see Kodama (2009b).

company's organizational competence, and at the same time the formation of business communities among companies including customers can become the trigger for creating synergies in the mutual core competencies of companies.²

The fundamental aim of strategic collaboration based on partnerships with companies in different industries is to promote cocreation and coevolution through the formation of business communities. "Cocreation" means creating new business, new economies, and new societies together with customers and partners, while coevolution is rooted in the concept of not only developing business communities together with customers and partners, but also bringing about the development of broader economic communities and social communities.

Essentially, the most important task for a company in promoting strategic collaborations is to determine how to form business communities that will generate cocreation and coevolution inside and outside the company including with customers. To achieve that, it is essential that all practitioners demonstrate leadership that will result in the formation of business communities as an extension of the formation of diverse "Ba" within and outside the company and, simultaneously, acquire leadership that transcends the conventional narrow view of competition, that is, a strategic view of a competitive strategy within the industry or competition across sectors of the industry, to focus on strategic collaboration with diverse partners and customers throughout the world.

In other words, in today's world there is a strong demand for the kind of leadership that facilitates strategic knowledge creation through strategic collaboration across and within corporations as strategic collaboration among companies accelerates at a global level. This book presents in-depth case studies of hi-tech companies and their approaches to new strategic knowledge creation through the formation of business communities and offers a new perception of existing leadership theory through the concept of holistic leadership as a new theoretical concept.

²The author calls innovation systems that integrate this kind of diverse core knowledge within and outside the company "hybrid innovation" (which is an intermediary form of closed innovation and open innovation, and is equivalent to half-open innovation).

PART I

STRATEGIC KNOWLEDGE CREATION AND THEORETICAL FRAMEWORK OF HOLISTIC LEADERSHIP

This part discusses the theoretical framework of the strategic knowledge creation process for realizing business innovation. Bearing in mind reviews of existing corporate management leadership theory, this part presents a theoretical framework of holistic leadership for top and middle management as well as staff for strategically promoting knowledge creation activities in companies in industries with rapidly changing competitive environments.

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Chapter 1

Business Innovation through Strategic Knowledge Creation

Abstract

This chapter discusses the importance of strategic knowledge creation where new business innovation across different technologies and industries forms dynamic business ecosystems through “co-creation and co-evolution.” To accelerate strategic knowledge creation through high-quality global strategic collaboration that intersects departments and industrial sectors internally and externally, the formation of business communities that originate with the formation of “Ba” and the holistic leadership of practitioners at every management level, which also promotes the ongoing growth of business communities are particularly important management elements.

Keywords: Strategic knowledge creation; co-creation; co-evolution; collaboration; business ecosystems; holistic leadership

1.1. New Business Innovation across Different Technologies and Industries

Superior core technologies in areas of cutting-edge technologies in industries such as ICT, energy, cars, electronics, semiconductors, biotechnology, pharmaceuticals, and material science are dispersed among companies, organizations, and even individuals throughout the world, and innovation in these superior core technologies becomes a fountainhead that generates new products and services. In hi-tech companies until now, the development of products through ongoing innovation in individual technologies was also a strategic goal. In recent years, however, a host of demands has been placed on the manufacturing industry including not only to produce high-function, high-performance products, but also to offer low-priced products and products with extensive line ups and to significantly shorten the product development cycle (e.g., [Kodama, 2007a](#)). At the same time,

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the diversity of customer needs and changes in values has created user needs arising from new product values such as “disruptive technology” (Christensen, 1997).

In world markets where demand from emerging countries is growing, new marketing strategies and creative product strategies are an urgent issue for global companies. Moreover, for the world’s hi-tech companies, there is a growing need for the development of new products and services based on new technology achieved through the “convergence” of different technologies as an approach to developing new products and services that will differentiate their products from those of other companies. This is because of the many cases where the integration of technology in one field with the technology of another field has resulted in the successful development of new products and services based on novel ideas that had not previously existed. Therefore, there is a growing need for business strategies that provide for convergence, that is, the integration and consolidation of different technologies, the development of products and services that intersect different industries, and the construction of a new business model.

Furthermore, the evolution of ICT has brought about a temporal-spatial contraction in business processes and supply chains in all industries. In addition to enhancing management efficiency and accelerating decision-making, ICT has also spawned a new business model that crisscrosses and integrates different industries. For example, the realization of diverse e-businesses and the creation of new contents (particularly for smartphones and tablet PCs, an area where Google and Apple have had the most impact in the world of ICT) have brought about “business innovation” not only in technical areas such as the development of ICT, but also in the creation of new markets through the integration of knowledge sourced from diverse players.

In addition, NTT DOCOMO’s i-mode (the world’s first mobile phone business model and developed in Japan), Sony’s and Nintendo’s game devices (PlayStation/DS/Wii) and, in recent years, rapidly growing social networking services (SNS) such as Facebook and Twitter as well as various kinds of social games have brought about innovation not only in product development technology, but also in service innovation through new marketing resulting from the creation of new markets (contents, applications, game software). Moreover, these product and service innovations have facilitated co-creation and co-evolution in the ICT industry as a whole by forming dynamic “business ecosystems” as a new value chain. Internet business, SNS, and social games, etc. using mobile telephones and smartphones originate in the dynamic construction of business ecosystems developed through co-creation and co-evolution (e.g., Kodama, 2009b).

The convergence of such different technologies and industries is currently progressing at a rapid pace in a wide range of hi-tech areas including

smartphones, RFID, smart grids, solar cells, computerization of cars, environmental cars, semiconductors, biotechnology, and life science, among others. Moreover, the sophistication and diversity of such technologies as well as dramatic developments in ICT are transforming into more complex designs of the business models that companies will need to propose.

Amid today's vastly changing business environment marked by rapid technological innovations and short product life cycles, mature markets of developed countries and expanding markets of emerging countries, and progress in ICT and the search for new business models, it is essential for companies to explore the development of new technologies and the construction of new business models. Through drivers such as the integration of different technologies and the creation of ICT business across various industries, companies must also pursue business innovation to offer new value to customers. This will require not only the integration and consolidation of different kinds of specialist knowledge within their companies. The integration of different kinds of knowledge possessed by other companies will also be a vital element for companies in achieving this.

The question then is what kind of strategies and actions involving the organization should a company take to generate new products and services and a new business model through "convergence," that is, the creation of ICT business that integrates different technologies and intersects industries. In addition, what kind of leadership and management is required to achieve this? There are many issues for hi-tech and global corporations to consider in this regard.

While the contents of strategies of individual industries and corporations will be various and sundry, the key concept for corporate action for adapting to such a world view of convergence (or itself creating one) of this nature lies in new "strategic knowledge creation" for promoting knowledge integration globally. Moreover, the corporate or organizational platform that supports strategic knowledge creation originates not only in the formation of business communities that have their roots in the formation of "Ba" (which will be discussed later), but also in leadership which is demonstrated not only by the leaders and managers of a company, but also by all employees at the frontline of the workplace who are involved in knowledge creation activities (in this book such leadership is referred to as "holistic leadership"; see [Figure 1.1](#)).

Furthermore, the most important issue in promoting such strategic knowledge creation is not only the need for the integration of diverse knowledge that intersects different organizations and specialist areas within the company, but also the need to create global networks comprising outstanding international partner companies including customers, and to integrate knowledge within the company with superior knowledge in the external environment, where ecosystems of knowledge exist dispersed