

# Mass Flourishing, Innovation, and Case Studies :

## Focus on the Theory of Edmund Phelps

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### I Introduction

There are no days when we do not hear or see the word "innovation" in our daily lives, even if we are not businessmen. The term "innovation" is common nowadays. On the contrary, I have a suspicion that the number of people who positively recognize innovation as their own work is decreasing. I guess that more and more people tend to think that innovation is someone else's job, and that they are the ones who will solely enjoy the fruits of it. Am I the only one who worries that it will have a negative impact on the economic growth and the vitality of society if such people increase in number?

The Nobel Prize-winner, a labor economist Edmund Phelps, using the term "grassroots innovation," proposed the idea that the development of individual capabilities through involvement in the innovation process would enhance the good-life of individuals and bring vitality and prosperity to the society. Phelps's ideas are based on empirical research, and are highly regarded as being clarified the link between economics and philosophy.

However, Phelps' theory has little perspective on the management of organizations that

links innovation and individual participation. If most units engaging in innovation are typically organizations such as companies, it is up to management to decide whether the innovation process should be a grassroots one in which many people participate in or the one that is occupied by a few elites.

Therefore, the discussion on management determining the way individuals participate in the innovation process can be considered as complementary to Phelps' theory. However, Phelps believes that the organization of modern companies tends to suppress innovation, and there is no expectation that management will promote innovation. Therefore, in this paper, after reviewing Phelps' theory, I would like to discuss how the major management theories deal with the issue of individual participation in the innovation process.

In the following sections, I summarize Phelps' arguments and discuss the relationship between his arguments and related academic theories in business administration, and finally insist that there should be a critical lack of materials of factual evidence for a desirable relationship between innovation process and the individuals.

## II Terminology Specific to Phelps

Phelps' argument is summarized in the original title, "*Mass flourishing : How grassroots Innovation created jobs, Challenge and Change.*" What I found most encouraging is that, as an economist, he uses measured data as evidence to argue that innovation in the United States was more prevalent in the past (1920-1970) than it is today. Phelps' definition of innovation is "a new method or new product that becomes a new practice somewhere else in the world."<sup>1</sup> Certainly, Phelps knows and has experienced the IT revolution of GAFA in the early 21st century as a contemporary. Still, he says, workers were more flourishing in the past. At first glance, this may seem retrospectivism, but the Nobel economist is seriously arguing the point. In the next section, I introduce the keywords that carry the argument forward, focusing on their definitions and use.

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1 Phelps, E. (2013) *Mass Flourishing, How Grass-Roots Innovation Created Jobs, Challenge, and Change*, Princeton, and Oxford : Princeton University Press, p.20.

The reason for the emphasis on "new practices" is that while scientists often refer to innovation as the "invention" of a new method or product, Phelps, in keeping with the tradition of economics since Schumpeter's *Theory of Economic Development* in 1912, uses the term practice to refer to the process by which an idea is adopted.

## 1 Modern and Modern Economy

The concept of “modern” is not defined by Phelps in the general sense of a “pre-contemporary stage. For him, the terminology of “modern” is defined as “the original ideas of creativity and grounded on the uniqueness of each person’s private knowledge, information and imagination. Modern economies is also defined as “the economies driven by the new ideas of the whole roster of business people, mostly unsung.”<sup>2</sup> It is defined as a super-historical concept that favors the “forwardness” and “new ideas” of human beings. Therefore, in the text, the phrase “the modern economy of that time”<sup>3</sup> or “the economy that can no longer be called modern”<sup>4</sup> is used in a way that transcends the time axis. In other words, the “direction” of forces, regions, and organizations that actively participate in economic management with new ideas is what is meant by “modern,” and the definition of “modern economy” in this book is an economy that is rich in innovation through the exercise of “modern.” Thus, what a modern economy was before ceased to be a modern economy in this terminology.

## 2 Grassroots Innovation

Grassroots innovation, according to Phelps, is defined as “the broad involvement of people in the processes of innovation.”<sup>5</sup> As we have already seen, “innovation” takes the definition of a new method or a new product that has become a new practice somewhere in the world, so the terminology of “grassroots” is unique. The title of the Japanese translation of this book is “Why Modernity Prospered,” but the original book is “Mass Flourishing.” The word “Mass” is the keyword among the keywords. Modern or modernism does not lead to prosperity, even for upper and elite classes. The conditions for modernity to lead to mass flourishing is that the positive attitudes and beliefs of people based on “engagement, meeting challenges self-expression and personal growth” become the property of the masses, that is, the extent to which “grassroots innovation” spreads widely determines the rise and fall of mass flourishing.

Note that the term “Flourishing” is also used with a definition. Flourishing, here, is not merely economic growth or an increase in monetary income. In addition to these quantitative measures, it encompasses the qualitative concept of “the good life” through the accumulation of new experiences, new situations, new problems, new insights and new ideas.”<sup>6</sup> External

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2 *Ibid.*, p.ix

3 *Ibid.*, p.279

4 *Ibid.*, p.222

5 *Ibid.*, p.vii

6 *Ibid.*

economic growth is only an increase in monetary income, not flourish. The definition of flourish requires “the good life.”<sup>7</sup> This is why, as we shall see later, many reviewers have described this book as a link between economics and philosophy.

### 3 Dynamism

*Dynamism* is defined as “a compound of the deep-set forces and facilities behind innovation.”<sup>8</sup> A “force” is a “region” or “organization” that shares certain behavioral routines, and a “facility” is a “place” such as a factory that has specific technological capabilities and spatial characteristics. The combination of these two is called dynamism. Therefore, a region of innovation such as Silicon Valley or a business enterprise with specific organizational capabilities and culture embodies dynamism and the unit responsible for dynamism. In other words, Phelps refers to the incubators and drivers of innovation as dynamism.

This must be distinguished from Schumpeter’s focus on entrepreneurs (as elites) who sublimate exogenously given knowledge, science, and technology into business as the bearers of innovation, and his use of the term “dynamism” to refer to their ability to carry things through to the end. This is because Phelps makes a clear distinction between “dynamism,” which he calls endogenous and spontaneous innovation, and “dynamism,” which is not given exogenously, and “dynamism,” which is the ability to overcome barriers, ideas, and barriers to change, which are carried by the masses, ordinary workers. Thus, for example, economic growth achieved by a less developed country by adopting technologies and institutions from a developed country is economic growth in which the “vitality of imitation” is demonstrated and must be distinguished from economic modernization through dynamism.<sup>9</sup> In this context, it is interesting to note that Phelps uses the example of Japan’s rapid economic growth from the 1950s to the 1990s to evaluate that it was not a “modernization” of Japan as a whole. This point is worth considering in the face of the unevenness of the rise and fall of the Japanese industry after the collapse of the bubble economy. It is consistent with a new type of suspicion that the postwar Japanese economy was a catch-up economy, lacking the innovation of developed countries.<sup>10</sup>

Phelps, as an economist, argues that the transition of the total amount of dynamism can be estimated. This can be done by aggregating the portion of the GDP growth that is not

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7 *Ibid.*, p.271

8 *Ibid.*, p.20

9 Phelps, *op.cit.*, p.21

10 Otsuka, K. (2010) *The Breakthrough and Stalling of a Catch-Up Economy: A Look Back at the Postwar Japanese Economy*, Nakanishiya-Shuppan. (in Japanese).

attributable to capital and labor or by observing changes in job satisfaction. They also suggest a combination of measures, such as observing the average income of innovators over ten years, the number of new companies founded, the retirement rate of employees, and the average life expectancy of universal product codes.<sup>11</sup> The results of existing studies on the evolution of total factor productivity were used to approximate the rise and fall of dynamism. However, no calculations were made using all of the proposed measures.<sup>12</sup> The average growth of total factor productivity from 1922 to 1972 was 2.26%, whereas it fell to 1.04% and 0.82% from 1972 to 1996 and 2004 to 2011, respectively, except for an exceptional recovery of 1.91% from 1996 to 2004, when the Internet spread rapidly.<sup>13</sup>

#### 4 Identification of Vitalist and Pragmatist

In connection with the notion of “practice” in the good life already mentioned, Phelps uses the terms “vitalist” and “vitalism. He uses these terms concerning the notion of “practice” in the good life, which uses mean “rich practice,” even more so than the terms pragmatist and pragmatism, which are often used to refer to “practice” in the traditional American sense.

Phelps defines pragmatists as “a group of people who focus on knowledge acquired and used for the purposes of producing or acting in someway,”<sup>14</sup> whereas vitalists are those who, in the same practice, “thrill of imagining new possibilities, new conquests and the satisfactions that result if the dreams are realized.”<sup>15</sup> In the literature, Homer, Cervantes, and Shakespeare embody the vitalist, and Amartya Sen’s concept of capability applies in economics.<sup>16</sup> I expand on this below.

### III The Relations of Mass Flourishing to the Management Theories

#### 1 Capability

Sen emphasized the connection between happiness and the development of human “capability” while opposing the neoclassical view that equates utility with happiness and

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11 A product code that is common throughout the world. The code is converted into a bar code, the POS scans, and the sales data are collected.

12 Phelps, *op.cit.*, p.21

13 *Ibid.*, p.221 Phelps uses Gordon’s unpublished calculations. Gordon, R. J. (2012) “Economic Growth Over? Faltering Innovation Confronts the Six Heat winds,” Working Paper 18315, National Bureau of Economic Research, Cambridge, Mass.

14 *Ibid.*, p.275

15 *Ibid.*, p.279

16 *Ibid.*, p.277

views happiness as a function of the set of selected consumer goods and leisure.<sup>17</sup> In Sen's view, "capability" is defined as "the potential ability to do things," and the acquisition of any capability is part of the individual's satisfaction with life. Its acquisition is a condition for obtaining happiness from life.<sup>18</sup> If, as Sen says, whether individuals acquire a capability plays a part in their life satisfaction, and if the acquisition of such a capability is a condition for gaining happiness from life, then the business enterprise is an institution that has to do with whether or not individuals will be happy.

Nelson and Winter defined organizational capability as a "bundle of routines."<sup>19</sup> They believed that routines are company-specific methods and work procedures and that employees learn routines and adapt their work to them. Since routines remain unchanged even when employees are replaced, they considered "routines" in companies to be genes in a living organism. They believed that specific routines and sets of routines are the factors that create differences between business organizations, and they positioned business organizations with specific routines as the unit of analysis in their theory of economic evolution.

This is groundbreaking, but Nelson and Winter did not go into the interdependence of the routines with the capabilities of individual employees because they wanted to emphasize the universality of the routines for the sake of genetic contrast. The individuals in this study adapt their work contents to the routine model of the organization in question. Simultaneously, they are employed, and there is no perspective on what capabilities they can obtain by adapting to the company's routine. Therefore, the capability of the firm in Nelson and Winter is only a unit of the organization and does not correspond to the problematic interest of Phelps, who focuses on the capability of the individual.

Chandler also conducted a systematic comparative study of the organizational capability of large enterprise in the United States, the United Kingdom, and Germany.<sup>20</sup> His concept of capability is also based on that of Nelson and Winter, however, he adds his definition of "skills" to the that of lower-level management and shop-floor workers in addition to middle and top management skills. Nevertheless, in his description, he mainly discussed the investment decisions of managers and did not discuss in detail the skills of frontline workers or their participation in innovation as focused on by Phelps.<sup>21</sup> For Chandler, the organizational

17 Sen, A. (1992) *Inequality Reexamined*, New York : W. W. Norton.

18 Phelps, *op.cit.*, p.278

19 Nelson, R. R. and S. G. Winter (1982) *An Evolutionary Theory of Economic Change*, Cambridge, MA : Harvard University Press.

20 Chandler, A. D. (1990) *Scale and Scope : The Dynamics of Industrial Capitalism*, Cambridge, MA : Harvard University Press.

21 Chandler makes this point : "although the recruitment, training, and capabilities of the work force and the ↗

capability is a concept used to maximize the “potential of physical facilities” for production and distribution in the manufacturing industry. It does not include the meaning of developing the potential of individual employees through their participation in innovation, Phelps said. The term “skills” is also assumed to be static and job descriptive. Chandler’s use of organizational capability, while including individuals at the shop-floor level, should be understood to mean not individual potential developed through participation in innovation, but rather the ability of individuals to perform formulated tasks to realize the potential of physical equipment.<sup>22</sup>

Phelps refers to Chandler’s work. While noting the rapid spread of Chandler’s hierarchical organization, which integrates and coordinates multiple functions such as production and sales within a company, as the most efficient way to save production costs, he raises the following question : Yet other impediments arose : In a company of traditional size, even the lowest-paid employees if he had an idea—for doing something new or different, could expect a chance to get the ear of someone well up the ladder, if not at the top. So, employees of the company were alert to new ideas crossing and were, for that reason, more likely to have new ideas. There is no such prospect in giant companies larded with managerial hierarchies.<sup>23</sup> In other words, Phelps believes that the hierarchical organization that Chandler identified as innovation in the organization of modern companies may guarantee optimal operations at the moment. However, it cannot nurture and suppress the small seeds of innovation that will optimize the future.

Rather than complaining about Chandler, Phelps criticizes the innovation suppression function of vertical integration.<sup>24</sup> For example, even in Microsoft, when Bill Gates, the company’s founder, reigned over the organization, the organizational culture of competing for new ideas became malfunctioning, and resistance emerged.<sup>25</sup> Here, we discuss how to address this problem. Therefore, even today, the adverse effects of the increase in the management hierarchy of corporations are as the critique of governance failure as developed by Burley and

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↘ evolving relationship between managers and workers in both production and distribution are, indeed, central to the history of the industrial enterprise, a careful analysis of these factors would have demanded a second volume as extensive as this one” *Ibid.*, p.13

22 *Ibid.*, p.36

23 Phelps, *op.cit.*, pp.241-242

24 Vertical integration refers how different functions such as raw material production, component production, finished product production, wholesale, and retail are divided among independent firms and traded in the market, where a single firm has these different jobs as different functional divisions and trades within the firm. Chandler argued that organizational hierarchy increases in order to manage and coordinate these intrafirm transactions.

25 Phelps, *op.cit.*, pp.241-243

Means in “*Modern Corporations and Private Property*.”<sup>26</sup>

## 2 Business Organization and Acquisition of Individual Capability

As well as Schumpeter in the 1940s, Phelps is pessimistic about the current state of affairs in his time and believes that the West will never regain its former dynamism. He says that Bill Gates is a genius but a ordinary manager in the face of the laws of hierarchical organization. However, it is unclear on what information based on these judgments.

Phelps is an economist specializing in labor economics ; therefore, it is important to carefully examine how many business organizations he has examined in developing individual capability and how many case studies he has relied on to take his pessimistic stance. If Bill Gates were to take a pessimistic stance on his own, he would not be able to do so. Is it possible that Bill Gates thought that there were potentially many people like him who would change the world with their intuition? He wanted to build a business organization where such individuals could participate in innovation and grow their capability in Microsoft? Alternatively, is it possible that an organizational development project based on such an idea is currently underway? Furthermore, did he envision and explore the possibility of the existence of business groups in Microsoft and all ages and countries that are designed around the acquisition by individuals of capabilities that are in line with their personalities and strengths?

To the best of my knowledge, Phelps does not adequately examine these points. It is safe to say that, except for the reference to Chandler, Phelps largely ignores business administration and organization theory. Without reviewing management and organization theories, he seems to have gone straight to the conclusion of pessimism about capitalism, as if following the precedents of Schumpeter and Max Weber in the past. The results are obvious when we consider only weak alternatives to capitalism, such as the stereotypical socialist planned economy and corporatism. In the following section, I fill the gap in his examination by examining what he calls flourish and innovation from the business administration and organization theory, which he rarely mentions.

## 3 Unused Productive Resources and the Role of Entrepreneur in Penrose

Since most theories of the firm in economics neglect entrepreneurial and managerial capabilities, it may be impossible to focus on the capabilities of individual employees at the

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26 Berle, A. and G. Means (1932) *The Modern Corporation and Private Property*, New York : Transaction Publishers.



end of the firm. In contrast, business administration, especially management strategy theory, has focused on the role of entrepreneurs and intrapreneurs.<sup>27</sup> In particular, the theory of strategy, known as the resource-based approach, takes the opposite view that internal factors act on external factors whereas Chandler et al. believed that external factors (population change, change in national income, technological innovation) define internal factors (strategy and management structure), as the famous thesis that “organizations follow strategy” shows.<sup>28</sup> Here, we take the opposite view. He has focused on the differences in entrepreneurs’ and management’s unique roles and abilities as variables that affect internal factors. They have considered the differences in how they work on internal factors produce different market outcomes for different firms in response to the same external factors.

Penrose is regarded as one of the first to argue that internal factors determine external factors in the academic theories. While Schumpeter and Chandler believed that external factors define internal factors, Penrose turned the direction of causality. Penrose was able to make this claim because she focused on the internal resources of the company and the role of the entrepreneur.<sup>29</sup> The internal resources of a company are, first of all, its technology and facilities. However, what is extraordinary about Penrose’s perspective is that she indicated that only a portion of the technology and facilities of a company are used for business, and many internal resources remain unused. By utilizing these unused resources, companies can gain new growth opportunities. This is why companies can use their internal resources to start new businesses, rather than waiting for new demand to emerge in the market and then react to it. Companies can use unused resources to develop new demand ahead of the market, thus reversing the arrow of cause and effect.

The entrepreneur’s role is to reverse the arrow of causality. Penrose states that the entrepreneur’s role is to make subjective judgments about what the company can achieve with its unused internal resources and change external factors.<sup>30</sup> In other words, the entrepreneur’s role is to know that the company can change external environmental conditions through its activities, and the environment is not independent of the company’s activities. Therefore, for Penrose, a company’s growth opportunity depends on how the entrepreneur subjectively judges the potential of the company’s internal resources. This point extends Schumpeter’s

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27 Project leaders organizing the development of new businesses and products within a company are called intracompany entrepreneurs or intrapreneurs.

28 Chandler, A. D. (1962) *Strategy and Structure : Chapters in the History of the Industrial Enterprise*, Cambridge MA, The M.I.T. Press.

29 Penrose, E. T. (1959) *The Theory of the Growth of the Firm*, England : Basil Blackwell & Mott Ltd.

30 *Ibid.*, pp.31-33

theory of entrepreneurship in the opposite direction and brings us closer to the role that entrepreneurs play in the real economy.

In this way, Penrose eloquently discusses unused productive resources in companies and the role of entrepreneurs in utilizing them. Conversely, he is only limited in describing the source of unused resources and only mentions entrepreneurs as the people who use them. In other words, he only discusses the capability of organizations from the perspective of unused resources and entrepreneurs. He does not reach individual employees' capability and their happiness, as discussed by Phelps, such as what the stock of unused resources that hold the potential for future corporate growth will be, and to what extent, will depend on the capabilities of the individuals engaged in technology, product development, marketing, and so on. Penrose's view of the firm was later positioned as the pioneer of resource-based theory. However, it was not until Drucker's theory in the 1980s that it was extended to include individuals' capabilities.

## IV Organizational Structure for Entrepreneurship

### 1 Drucker's Foresight

Drucker was one of the first to expand the role of entrepreneurs, applying to every employee of an organization. In his 1985 book, *Innovation and Entrepreneurship*, Drucker wrote, "It is necessary to have a structure that allows people to be entrepreneurial."<sup>31</sup> We will use the short term a "SAPE" to describe a "Structure that Allows People to be Entrepreneurial." Various relationships must be built around the entrepreneurship. Furthermore, rewards, accolades, and human resources must reward the entrepreneurship and not hinder it.

This condition, which Drucker states that "each one of us can become an entrepreneur," is the same condition that has existed since Schumpeter first argued for the role of entrepreneurs as the "engine of economic growth," and since the recent "dynamic capability" of David Teece, O'Reilly and Tuschman as we show later. The role of entrepreneurs as an "engine of economic growth" has been a major focal point in economics and business administration ever since Schumpeter first argued for the role of entrepreneurs. If it were easy to build a SAPE, we would be able to solve all the problems brought by conservative and bureaucratic employee behavior in large, mature companies, often known as the "big company disease" at the micro-level, and the slowing trend of economic growth in developed economies at the

31 Drucker, P. F. (1985) *Innovation and Entrepreneurship*, HarperCollins Publishers, p.161

macro level. However, as we can see from the reality, the disease of large corporations and the slowdown of economic growth rates are eternal issues that we are still searching and working to improve the management of a business and the economy.

In this section, I discuss what Drucker meant by a SAPE and what makes it challenging to realize such an organization. The core guiding principle of Drucker's concept of SAPE is that all management systems must be designed and constructed with a single goal in mind : to enable ordinary people to exercise entrepreneurship. The first condition is that new businesses that require entrepreneurship must be separated from existing businesses. By separating them, the people in charge of the existing businesses must not be put in charge of them. In many cases, existing businesses provide nourishment for struggling new businesses. However, simultaneously, they are faced with urgent issues every day, and the people responsible for them devote an enormous amount of time and energy in managing existing businesses alone. We must not deprive such people of the time to new businesses.<sup>32</sup>

Conversely, Drucker also emphasizes that at least one person in top management must be responsible for the new business. As a general rule, work related to innovation and aimed at developing products and services must be directly linked to this top management, not to the management of existing businesses. In other words, the only way to prevent new businesses from being choked off is to start them as independent businesses from the beginning, and simultaneously hold top management accountable and ensure that sufficient funds, personnel, and management attention are allocated to them.<sup>33</sup>

There is another reason why work related to new businesses and innovation should be done independently. This reduces the burden on people working on innovation. New businesses need different systems, rules, and evaluation criteria from those of existing businesses. This is because a compensation system linked to return on assets or return on investment, as in existing businesses, would be an obstacle for new businesses.<sup>34</sup> Most criteria for evaluating a mature business are too strict for a new business. The individuals in charge of the new business will not be inspired as soon as they are assigned but will hesitate about their future. Drucker also points out that the systems, rules, and evaluation criteria should be new and different from those of the existing business, but also the people in charge of innovation should be able to return to their original jobs and rewards even if they fail.<sup>35</sup> Drucker goes so far as to call it a "taboo" to have management and innovation in the same organization

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32 *Ibid.*, p.163

33 *Ibid.*, p.164

34 *Ibid.*, p.166

35 *Ibid.*

because the principles and methods for optimizing existing businesses are different from those for innovation, and it is impossible to have management and innovation people living together under the same employment regulations, salary rules, and personnel evaluations.

Next, Drucker stated that innovation should not be confused with diversification. This interesting point is not often mentioned in later management studies. In the diversification strategy, responsible for corporate growth in Anzoff, innovation is naturally assumed when a new product is brought into a new market. To develop a new market or product, it is necessary to pursue new opportunities beyond the allocation of resources in the existing business. Drucker, however, argues that for existing firms, innovation should not be diversified and that innovation cannot succeed in fields other than those in which they excel.<sup>36</sup> This is because existing companies can only innovate in areas with superior market and technology capabilities, and it is challenging for them to try new things in areas they do not understand.<sup>37</sup> In Anzoff's diversification strategy, the "market penetration" in existing products and markets is the area where existing companies can achieve innovation results, according to Drucker.

Third, although Drucker limits his analysis to the case of large American enterprises, he says that many large American enterprises have formed joint ventures with startups, but not many of them have succeeded.<sup>38</sup> Startups entrepreneurs are stifled by the bureaucratic, formal, and conservative principles, rules, and culture of large enterprises. Moreover, large enterprises find what startups entrepreneurs do to be undisciplined, crude, and dreamy and cannot understand it. In many cases, existing large enterprises succeed only when they create new businesses with their human resources.

Drucker's discussion of the organizational structure for entrepreneurs is extremely prescient, and it has been deeply explored and newly developed in subsequent academic theories. A representative example is Christensen's concept of "disruptive technology."<sup>39</sup> It is a study in which emerging companies change a pattern of competition that existing companies cannot control. The argument that the work of innovation departments in existing companies is relativized as "continuous technology" innovation. They tend to improve the performance of their products and services beyond the ability of customer's evaluating. Startups exploit these gaps from the low-end, which is a logical argument that still holds even if we affirm

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36 *Ibid.*, p.175

37 *Ibid.*

38 *Ibid.*, p.174

39 Christensen, C. M. (1997) *The Innovator's Dilemma ; When New Technologies Cause Great Firms to Fall*, Boston MA., HBS Press.

Drucker's argument. This logic is still valid. However, there is also a developmental succession in Drucker's argument. The arguments of "dynamic capability" and "ambidextrous management" from March to Teece and from Teece to Tushman are so far one of the few prescriptions that can help existing companies resist the competition of Christensen's disruptive technology. Drucker's principle of physically separating the organizations of existing and new businesses, but having top management take responsibility for new businesses, has been inherited.

## 2 Founder's Role to Build a "SAPE"

Conversely, there is one that has hardly been inherited among Drucker's points and has not been developed. One of Drucker's points is that founding entrepreneurs should build a SAPE. In other words, according to Drucker, there is no example of a company that failed to do, so that continued to have an entrepreneurial organization. Companies that were successful because of the skill and individuality of the founding entrepreneur who created a huge corporate empire in a single generation may have been successful while the founder was alive and well. If they did not establish management and organization that enabled each individual to become an entrepreneur, they would not have remained entrepreneurial after the founder was gone. Drucker argues that no single company has remained entrepreneurial after the founder has left.<sup>40</sup>

He does not explain why he thought that only founding entrepreneurs could create a SAPE. The functional requirements for a SAPE have been greatly developed since the 2000s in the dynamic capability organizations of Teece and others. However, Teece himself asks the question about the origin of why companies with dynamic capabilities were able to have dynamic capabilities.<sup>41</sup> He assumes that it is a historical path dependence, but there is no comprehensive evidence for it yet.<sup>42</sup> This may be the influence of Drucker's omission of why he argued that only founding entrepreneurs could create organizations in which each individual can become an entrepreneur. However, since this is a big issue, I will leave it for another time.<sup>43</sup>

40 *Ibid.*, p.169

41 Teece, D. J. (2012) "Dynamic Capabilities : Routines versus Entrepreneurial Action," *Journal of Management Studies* vol.49 No.8, pp.1395-1401.

42 *Ibid.*, pp.1398-1400

43 Although only at the level of ideas, this problem may have similar logic to establishing "philosophy management" or "visionary companies. In other words, the hypothesis is that while there are actual founding entrepreneurs who embody what it means to be an entrepreneur or what the management philosophy of a company is, and who can be referred to as role models, a mechanism must be constructed to duplicate or inherit their unique characteristics in the organization. The hypothesis is that we need to build a mechanism to ↗

If, as Drucker says, founding entrepreneurs must build a SAPE before they take responsibility and retire, why is there not enough evidence of this, as Teece says? Drucker stated that Disney and McDonald's are examples of entrepreneurship lost because the founding entrepreneurs neglected to build an organization for entrepreneurship, and P&G, Johnson & Johnson, and Marks & Spencer are examples of founding companies that left an organization for entrepreneurship. What kind of organization and personnel system did P&G, Johnson & Johnson, and Marks & Spencer have? What kinds of organizations and personnel systems were in those companies. If so, why do subsequent researchers such as Teece who started this study, try to unravel the history of these companies?

### 3 The Fiction of Mass Flourishing

I want to point out the fictional nature of Drucker's SAPE based on the suspicion that it is a goal that has yet to be realized. There may be many companies that have tried to achieve this goal, but I doubt that any of them, at least among the large and prominent American companies, can say that they have achieved it with the clarity that Drucker describes. I want to discuss why I think this is so.

First, the founding entrepreneurs succeeded in creating new businesses because they were blessed to become entrepreneurs. However, this does not mean that they are good at thinking about systems and organizational structures to enable their successors to work like them. This is because, as the saying goes, an individual who is a good entrepreneur is not necessarily good at nurturing the next entrepreneur. It may be more challenging for entrepreneurs to believe that their subordinates or employees can do the job as they do.

To do so, the entrepreneur needs to believe that their success as an entrepreneur is a matter of behavior, principles, and methods, not of personality or ability. It may be most challenging for the entrepreneur to believe that anyone can become an entrepreneur if all corporate institutions are designed and built according to entrepreneurial behaviors, principles, and methods. It is not because of the ego or narrow-mindedness of the successful entrepreneur, but because the more they look back on their circumstances and think about them calmly, the more they judge that it is challenging to express as general behaviors, principles, and methods the twists and turns that depend on their qualities but also includes many chances and luck. This is a very rational thought, and that is why we judge it as such.

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↘ replicate or pass on their unique characteristics in our organization. Even if there is no founding entrepreneur, if the business is run by a direct family member who has inherited the emperor's philosophy, it is assumed to be better than a professional or salaried manager when it can be replicated or maintained.

Drucker does not consider the challenges of entrepreneurs believing that their subordinates and employees can do the job as they do. Instead, he considers that in a SAPE the entrepreneur does not have to worry about who can do the job well. The optimism is that people of all personalities and backgrounds will do a good job. Personnel decisions must be made carefully, meticulously, and thoroughly.<sup>44</sup> They must have a significant number of candidates. Naturally, not everyone in the organization can excel as an entrepreneur simultaneously, even if a SAPE is realized. This is because we must select those who are willing to continue to learn, work tenaciously, discipline themselves, adapt, and apply the right principles and methods. This is just a generalization that applies to business organizations generally and different organizations.

There is a leap here, so Drucker is positioned as a kind of thinker rather than a management scholar. Unlike the management historian Chandler, in many of Drucker's writings, the examples of business organizations he relies on are presented to the reader as names of companies or episodes but rarely as empirical descriptions. In the 2010s, the organizational structure for the entrepreneurship that Drucker discussed was conceptualized again as "ambidextrous management." It is emerging with the evidence of new business development of companies that utilize ICT and digitalization, such as Amazon.<sup>45</sup> In this sense, Drucker was a prophet, and his prediction is being realized 30 years later. Nevertheless, to return to the discussion of Phelps at the beginning of this study, as a labor economist who has witnessed the digital economy, he has not actively found happiness in the development of capabilities for those who participate in grassroots innovation, even amid the growth of IT companies in the digital economy.<sup>46</sup> In the 1970s, Phelps claimed that many organizations in the United States widely involved in the innovation process and where the individual's good-life was brought about by the capability gained by participating in innovation. Neither Drucker, Chandler, nor Phelps has anything to say on this point. Where are SAPEs develop capability through innovation, and experience happiness through organizational labor, not as an ideal theory but as facts?

## V Conclusion

Such an organization has not yet been discovered, described, or studied in a way that would

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44 Drucker, *op.cit.*, pp.170-171

45 O'Reilly, C. A. and M. L. Tushman (2016) *Lead and Disrupt : How to Solve the Innovator's Dilemma*, Stanford, CA : Stanford Business Books.

46 Phelps, *op.cit.*, pp.310-316.

satisfy everyone. However, I have the prospect that there are, or have been, a certain number of business organizations in various parts of the history, that even temporarily, have aspired to had the opportunity to, or followed a promising process to realize an organization that fulfills the concept of Phelps. As mentioned at the beginning of this study, some business organizations are or have been. I believe that the 1950s and the 1960s of Honda, the leading company in the motorcycle industry may have been such an organization. If it can be found in Japan, I believe that it can be found in other countries as well.

The Japanese management scholar Tadashi Mito visited Honda Motor in the 1960s and had a conversation with Takeo Fujisawa, the vice president of Honda Motor. Mito said, “Fujisawa is ahead of Drucker.” Mito is a representative researcher who wrote “Drucker : Freedom, Society, and Management” in 1971 and evaluated the essence of Drucker’s theories against the journalistic coverage of the Drucker boom among Japanese businessmen since the 1950s.<sup>47</sup> According to Mito, he first learned about Drucker from Shigetaka Mori’s “A Study of Drucker’s Theory of Management” in 1959, and while initially studying Drucker to criticize him from the perspective on Marxian economics, he came to be devoted to him. In contrast to Marx, who attempted to overcome the human alienation through the social ownership of the means of production, Drucker attempted to overcome it through responsible choice by leaving decision-making to the individual.<sup>48</sup> What did Takeo Fujisawa say to Mito at that time, when Mito, who appreciated Drucker to such an extent, thought that he was “ahead of Drucker”?

As I mentioned, this is the core reason I have been studying Honda as an organization in the history of the motorcycle industry for so long. I have already done some empirical research on Honda during this period. However, I have not been able to find any evidence of the development of individual capability through participation in grassroots innovation as described by Phelps, the perspective of individual good-life through the development of individual capability, or any evidence of the development of individual capability for such a sequence to take place. I have never done it with the clear concept of SAPE, concerning the concept of Mass Flourishing. There is a need for a case study to demonstrate the lifework of Takeo Fujisawa, who was referred to by Mito as “ahead of Drucker,” as an entrepreneur, to position it as a case study of approaching the goal of Mass Flourishing and to clarify what we can learn from it.

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47 Mito, T. (1971) Drucker : Freedom, Society, and Management (in Japanese), Miraisha, pp.243-244.

48 *Ibid.*, pp.248-250



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