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## Case Study

### Disruptive Philosophy: A Turnaround Artist with a Heart

Shannon E. French

Inamori Professor of Ethics,

Director, Inamori International Center for Ethics and Excellence,  
Case Western Reserve University;

Diana Bilimoria

Chair, Department of Organizational Behavior,

KeyBank Professor,

Case Western Reserve University;

and

Richard E. Boyatzis,

Distinguished University Professor,

H.R. Horvitz Professor of Family Business,

Case Western Reserve University

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As Ishiro Tanaka<sup>1</sup> left the train and walked to the hanger, he felt something odd. He was not excited to spend time with his engines. Yes, he felt the jet engines on which he worked were “his” engines. He loved to hear them sing a song as they hummed. Like a shadow over his heart, in recent weeks, he had been feeling less eager to be at work. The airline was in trouble and he suspected that any day he might be laid off. But perhaps today would be a moment of change, and his feelings would return to the excitement he used to feel coming to work.

After changing into his work clothes and getting his tools laid out for his first preventative maintenance, an activity at the other end of the hanger caught his attention. People were gathering, and he said to himself,

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1. This is a composite story, based on the experience of more than one JAL employee. With the exception of Dr. Inamori and senior leaders Mr. Oota and Mr. Nishizawa, names and some details were changed to preserve confidentiality. Stories are from interviews with JAL employees and representatives that were conducted by phone and in Kyoto and Tokyo, Japan, by Drs. French and Bilimoria. The core principles of Dr. Kazuo Inamori’s management philosophy presented here, including the Twelve Management Principles, can be found online and in all of Dr. Inamori’s major publications. They are also included in Chapter Two, “Have the Right Attitude,” of the *JAL Philosophy Handbook* and “The Reprimanding Methods of Kazuo Inamori,” from *President*, March 18, 2013.

“Oh no, here comes the announcement!” Instead of an announcement, a striking man walked up to a group of the mechanics and began talking. One of his friends whispered that this was Kazuo Inamori, the new CEO of Japan Airlines. Inamori was asking his friends questions about their maintenance tasks. He seemed genuinely interested in how often they did each task. Ishiro lowered his eyes and slightly bowed when Inamori asked him how he knew when a task was done well. In almost a whisper, Ishiro said the engine sings to me. Mr. Inamori smiled and said that was better than karaoke, and everyone laughed.

Ishiro Tanaka was experiencing the arrival of a new CEO and a new brand of CEO—an ethical turnaround artist, someone who led by the heart not the budget. When we think of turnaround leaders, images of tough, no-nonsense executives come to mind, like Al Dunlap (aka Chainsaw Al), who see the world in purely financial terms. In more recent eras, whether as venture capitalists or private equity providers, the turnaround executive is known for cutting the workforce, selling off assets, and stripping the company. Seldom would we think of concepts like ethical leadership, caring for and including staff and customers, and emotional sensitivity as part of a turnaround. It is a rare turnaround leader who leads simultaneously from the head, heart, and soul. Kazuo Inamori is just such an ethical turnaround artist, and he has proved it more than once. He uses philosophy as a disruptive innovation.

On February 1, 2010, Kazuo Inamori made a speech to the management of Japan Airlines (JAL), a legacy carrier that had fallen into bankruptcy in the wake of post-9/11 airline industry decline and the global economic downturn. “I would like to manage this company just for the employees,” he said, “not for the government or the shareholders.” This powerful statement provided a glimpse of the philosophy behind the sweeping transformation that Inamori planned to undertake, as he answered a call from the Japanese government to step in and save JAL. Although he was technically in retirement, Inamori was sought out for this seemingly hopeless task because of his remarkable track record of building strong companies based on shared vision and authentic, values-driven, transparent leadership rooted in the deep appreciation for and empowerment of employees at every level within the organization. The Inamori philosophy and amoeba management style had previously established and sustained the success of international corporations Kyocera and KDDI.

While some would double down on goals and metrics, focus efforts, and cut costs to return to profitability, Kazuo Inamori did something different.

He focused on people and the customers and believed that if you do this, profits will come. This is not a new philosophy. Some family businesses have been doing this for generations, like the J.M. Smucker Company, and have used it to grow their businesses into multibillion dollar enterprises.

But this was different. Inamori used his philosophy as a disruptive innovation from the way things were done in big business, in Japan, in the airline industry, and in failing companies. Like the national culture in Japan, in the airline business, stress and hierarchy rule. The airline industry is fighting for survival worldwide *and* in Japan. Like Japanese culture, the airline industry is known for its status distinctions—there is a pilot and a copilot, a first officer, a chief flight attendant, etc. —a very clear hierarchy. Amid this hierarchy, Inamori believed they should focus on the people who provide the service. Herb Kelleher, Rollin King, and Colleen Barrett did something similar with Southwest Airlines in the United States and changed an industry. Most formerly or currently nationalized airlines were not having this type of success in adapting.

### Turnaround with Soul

The troubled JAL that Kazuo Inamori was handed suffered from many practical challenges, including a poor corporate structure with a bloated middle management tier, the siloing of units, ineffective internal communication, and inefficient operations characterized by wasted or misdirected resources and frequent duplication of effort. Beyond this, there was an overarching issue of low morale, a sense of helplessness in the face of external pressures on the airline industry, and the complete lack of a clear identity for the company.

Some of the existing JAL leadership even believed that airlines should not be required to be profitable at all: that providing air travel was a service, like the postal service, that ought to be subsidized and protected and certainly not asked to compete in the marketplace. JAL had a leadership crisis as well as the rest of their troubles.

Into this space came Inamori, asserting determinedly that JAL must be made profitable and that the first step that had to be taken was for the entire company to adopt and train deeply in a consistent management philosophy with the ethical value at its core that every decision should be made based on an altruistic answer to the question, “What is the right thing to do as a human being?”

## It Starts with Training

Kazuo Inamori had an established reputation throughout Japan (and elsewhere around the world) as a highly successful and inspirational business leader, so there were certainly many among the ranks of JAL employees who listened with hope and open minds to his plans to remake the corporate culture of the company. However, not everyone was so receptive. In order for the changes he planned to enact to take root, Inamori had to break down the hierarchical organization that had characterized JAL, flatten the organization, imbue a sense of personal responsibility throughout the ranks, and make individuals at every level feel invested in the success of the company.

To accomplish this, he took a remarkably hands-on approach that shattered the usual rigid status and role barriers found in Japanese business culture. For example, in his introduction statement, Inamori shared sayings from sages and philosophers that focused on profound goals like happiness and leading meaningful lives. JAL's executives were in shock. One executive voiced his opposition, saying, "What you said makes no sense!" Another executive icily retorted, "Recoveries aren't found in idealism!" A third asserted, "JAL isn't a slogan-posting kind of company. From now on we can post a large number of posters, but it's just about pointless. Plus we don't have the money to make posters." Another senior manager said, "You won't make any progress" and immediately pressed Inamori to revoke what he had just said.

Yet, Inamori remained unfazed by the discord. He had drinks with managers at JAL and invited them to "let their hair down" and speak frankly about their concerns about the future of JAL and feelings about whether the company's problems could be fixed. He wanted his interactions to be more than a typical karaoke night out with executives. He engaged the doubters one-on-one, answering their questions about how his reorganization idea, improvements in accounting techniques, and training in corporate values could lead to a turnaround for the airline.

In the first memorable drinking get-together, Inamori threw his hand towel at a nay-saying executive. As this executive explained later, "I feel proud to have been strongly reprimanded by Inamori. Although it was something that happened while we were drinking, the next day when we saw each other, I felt it was still awkward, but it wasn't anymore when he called out and greeted me. With this sort of attitude from the top of JAL, I regained my conviction. I'm going to give my honest views on things. I still haven't forgotten when I

felt that. There was that, and one other time I'll never forget. Once a month (on the 3rd), we'd have a progress report meeting (Inamori brought all the executives and all the section chiefs in to attend these meetings) and before we started he bellowed, "Are you bystanders?" He was definitely taking this all seriously. There had never been a boss like this in JAL who would be so passionate that his face would turn red."

At that get-together, Inamori was also confronting some internal and external criticism that he was too "pro-labor." One executive said to Inamori, "You are wrong, because you are focused on being for the good of the employees, which means that you're too pro-labor. I warn you, do not trust the employees." Showing his commitment to his philosophy, Inamori demanded, "Why can't you trust your employees? They will never trust you, if you don't trust them."

Inamori personally took part in executive level training programs and met with employees at all levels. Training sessions also included videos of Inamori explaining his philosophy. He encouraged all JAL employees to think about how to raise profits and cut expenses and to share their ideas and suggestions—even down to everyday changes around offices, such as bringing coffee mugs to work instead of using disposable cups and taking notes instead of making copies of papers. This made employees feel both individually empowered and accountable to one another, and "this transparency and active communication with their colleagues led to a strong sense of unity."

One executive remembers leaving one of the leader training meetings shaking his head. He could not believe a CEO, someone independently wealthy and beyond retirement age, would spend his time with others in these detailed discussions. Yet, as Managing Director Yoshihito Ohta, who came from Kyocera with Inamori to help turn around JAL, described: "Truth be told, at the outset of the leader training, there were many executives who wanted an outside lecturer to come. It seemed to be a common thing in the past. I had said time and time again—at Kyocera we developed our own lecturers. One's own company should build one's company culture. If JAL doesn't build JAL's culture, it won't take root." Inamori, in this training "dojo," like in so many formal and informal meetings, in offices, on the hangar floor, and behind ticket counters, had begun to model the emerging culture passionately and from his heart.

He was not always soft spoken or gentle about his message. In one such exchange, an executive argued with Inamori about the necessity of JAL turning a profit, insisting that their role was merely one of providing public

transportation. Others agreed, even suggesting that they should fear profitability, because “if we make a profit, people will ask us to do more, make more demands on us.” Inamori became very frustrated with this jaded, civil servant-type attitude (likely a product of when the company had been government-owned, before the 1980s) and challenged the executive to try to think instead from the perspective of JAL employees who would never be able to enjoy job security and “peace of mind” unless the company provided the stability that came only from sustained profitability. He reprimanded the executive and others at the company for having too much concern for their own comfort and not enough for the overall health of the organization, saying that “in self-interest, there is no room for altruism,” and “that the company did not have people who would work desperately for the employees.” Inamori told all the managers that they had to have genuine care for JAL’s survival—that they could not merely “be bystanders” and allow the company to fail. He framed this as an ethical obligation.

In June of 2010, Inamori arranged for about fifty senior executives of JAL, including the president of the company, to receive no fewer than seventeen sessions of instruction in the new JAL Philosophy (based on the established Inamori management philosophy). This training was not primarily about how to do double entry accounting or plan flight routes to maximize profits. It was about being good people, within and outside of the context of working at the company. The topics covered included (but were not limited to) these examples:

#### The Twelve Management Principles

1. Clearly state the purpose and mission of your business.
2. Set specific goals.
3. Keep a passionate desire in your heart.
4. Strive harder than anyone else.
5. Maximize revenues and minimize expenses.
6. Pricing is management.
7. Success is determined by willpower.
8. Possess a fighting spirit.
9. Face every challenge with courage.
10. Always be creative in your work.
11. Be kind and sincere.
12. Always be cheerful and positive. Hold great dreams and hopes in the pureness of your heart.

### Kazuo Inamori's Pragmatic Studies: Management and Accounting The Six Endeavors

1. Strive Harder than Anyone Else
2. Remain Humble
3. Reflect Daily
4. Appreciate Life
5. Do Good Deeds and Serve Others Endlessly
6. Don't Dwell on the Past

Through this training, Inamori urged the adoption of “unity of purpose,” a “common language,” and a sense of “being in the same boat” among all JAL employees. His hands-on approach provided dramatic evidence that he took this more seriously than posters and sayings. During these training programs, employees were invited to discuss possible ways to improve their service, maximize customer experience, and reduce costs. This made the training more than listening to someone preach; rather executives and employees alike began to take ownership of their own role in the company's failure (rather than blaming others) and began collectively determining the way forward. As one executive put it: “In retrospect, I think coming together seventeen times in one month for leader training turned out well.” Another noted that undertaking the training four times a week “gave birth to a transformation in our hearts.”

### Nice Guys Do Finish First

With this approach, Inamori made his leadership at JAL about issues of character. He brought with him tried-and-true methods of accounting and unit organization. He is a back to basics person, but back to philosophical basics of common courtesy, being respectful of others, and being motivational. It was not surprising that he would use a one-cell biological creature as his metaphor for management—the amoeba. Inamori called his approach “amoeba management” because it was simple but ever changing and adapting. This approach divided an organization into small, flexible units that are each accountable for hitting targets of achievement within their areas of responsibility and for communicating extremely detailed financial information, best practices, and cost-saving innovations to other units and to the leadership, to ensure that every unit is doing everything possible to increase profitability.

At the same time, he insisted that the adoption of this approach was meaningless and the company would still fail if the employees, from highest

to lowest ranks, did not also at the same time study and wholeheartedly adopt the Inamori philosophy that demands not just changes in conduct but the intentional shaping of character. According to Inamori, “The outcome of our lives and work is the product of three factors: attitude, effort, and ability. Effort and ability range from 0 to +100 points. As these two factors are multiplied rather than simply added, it means that people who passionately exert unbeatable efforts to compensate for “average” abilities can accomplish more than geniuses who rely only on their abilities while making minimal efforts. This product is further multiplied by attitude, which can range from -100 to +100. If our attitude is the least bit negative, the outcome of our lives will also be negative. Thus, while ability and effort are important, it is our attitude which counts the most.”

### Disruptions and Disbelievers

Despite his positive reputation, Inamori experienced pushback from some executives who refused to believe that the change in corporate culture he was trying to effect was either necessary or sufficient to save the company. Some managers who could not adjust to the new management approach were culled, either by being encouraged to leave voluntarily or through reductions in force that were part of the downsizing.

To dissolve attitudes of disdain and detachment that had developed at the bankrupt JAL between managers and employees and employees and customers, Inamori led by example. He insisted that every person at the airlines should be willing to assist with any job that needed doing and never say, “that’s not my job.” He said that everyone should step up and help: “Carry bags if they need to be carried, even if you’re the pilot.” He also told executives to keep similar hours to their subordinates and not to afford themselves unnecessary privileges and luxuries not enjoyed by all.

When one executive complained, “Why should we have to work as hard as our employees? We are executives.” Inamori told him, “Because you are leaders, you should work harder!” Inamori modeled the humbleness he was asking for by eating a simple rice bowl in the company cafeteria, just like all the other employees. He always carried his own bags, and he used economy class seating when he flew JAL.

Inamori asked every employee to make customer service and customer satisfaction their personal responsibility. Even cargo workers should go up to departure lounges to watch the passengers with their families and be reminded of their humanity. He advised all employees to show appreciation

for customers “from the bottom of their hearts.” He advised all employees to show compassion for customers and always treat them as fellow human beings.

Displaying a positive attitude at all times became the most highly weighted factor in employee merit evaluations. Employees were moved when a JAL passenger wrote to the company, telling how Inamori had helped her get her heavy bags down from the overhead compartment on a flight, without even being asked to do so. The general response from employees was, “If even our chairman does such things, we must do better, too.”

### Being Mindful of Core Values and Relationships

Inamori also showed JAL what he meant by making decisions based on the criteria of “doing the right thing as a human being” when he was faced with the choice of breaking the alliance that JAL had with American Airlines as part of the OneWorld program and potentially aligning instead with the then-seemingly more successful Sky Team network of international carriers. JAL had joined OneWorld in 2007 and found many benefits to being connected through the program with other international carriers. OneWorld links up several major “home city” airlines like British Airways (London) and JAL (Tokyo), and it tends to be more business-focused and aimed at premium/business passengers. JAL had had an even longer code-sharing relationship with American Airlines that dated back to 1999.

When the argument was made to Inamori that JAL should abandon its longstanding ties to American Airlines in order to pursue higher profits through other potential alliances, he said that JAL should not consider such a move because it would be like “tossing away an old friend like a used piece of paper.” The leadership of JAL listened to this and agreed to stay with American Airlines, despite impressive counteroffers from their competitors. Some both inside and outside the company saw this as “a very astonishing decision.” However, it had tremendous positive impact. JAL employees saw the move to stay with OneWorld as a sign of the values that JAL intended to embody, including loyalty, fairness, and integrity. The relationship between JAL and American Airlines also deepened, with the two airlines making greater efforts to learn best practices from one another and to support each other. As a result, both airlines are now flourishing, and American Airlines, after its merger with US Airways, is the largest airline in the United States.

Sticking with American Airlines showed an appreciation for the importance of relationships that illustrated an important value to JAL employees.

Inamori repeatedly emphasized the vital need to nurture key relationships throughout his turnaround process, including the relationships between managers and employees and employees and customers. Taking fiduciary responsibilities seriously and fostering mutual respect are highlighted themes in the new JAL corporate culture.

### Back to Basics: Recognize Why Everyone's Role Matters

Near the Haneda Airport in Tokyo, there is a Sky Museum that celebrates every job at JAL and the importance of each employee's contributions. There are areas in the museum—which is interactive and kid-friendly—that highlight and explain the kind of work done by maintenance engineers, cabin attendants, air staff, flight crews, and ground and cargo staff. Nearby, the JAL Safety Education Center depicts, in excruciating detail, the events of the tragic crash of a JAL jet on Mt. Osutaka, Japan, in August 1985, that resulted in the deaths of 520 people (making it the most deadly airline crash in history). Together, these exhibits underline the message in the JAL Philosophy that each employee at the company matters when it comes to being stewards of the airline's ongoing safety and profitability. They represent a unique way to make emotional connections with employees so that the messages coming from leadership resonate more profoundly and authentically throughout the organization.

Now, with Inamori no longer at the helm, JAL continues to train all its employees extensively in the JAL Philosophy, from new arrivals to the highest-ranking executives. Members of subsidiary companies and contract employees are also included in the training, so that they can see what JAL is all about and study the core values that set the company apart. Often, a customer's first encounter with JAL is through a subsidiary company or contract employee (e.g. in booking tickets), and the training is to ensure that the messaging, impressions, and ethical practices are consistent and reflect positively back on JAL. This comprehensive training has the additional benefit of providing the opportunity for all these contributors to JAL to network and get to know one another. It has helped to reduce old barriers of bureaucracy and excessive red tape. For example, in the past, JAL might have flown an airship that can hold two hundred people filled with only twenty passengers. Now, they can scale down to a smaller plane that fits the actual demand of the route with a simple phone call between executives who know and trust each other through their ongoing JAL Philosophy training.

When Inamori left his post at the airlines, he received over twenty thousand handwritten thank you messages from JAL employees. Employees report that the feeling of being members of a team, all pulling together for the safety of their passengers and the profitability of the company, persists. The airline, now relisted on the stock exchange, remains profitable and continues to stand by its commitment to the OneWorld network. JAL's value increased dramatically in less than three years, and in 2014, it had the highest operating margin in the industry: truly a v-shaped turnaround. All the "amoeba" units within the company share daily numbers, as well as monthly results, and budgets are revised for accuracy every month to maintain full transparency and accountability.

### Concluding Thoughts and Hope for the Future

By combining keen business acumen and tried-and-true highly transparent management and accounting techniques with empathy, charisma, personal example, and a passionate commitment to employee welfare and consistent, ethical policies and practices, Kazuo Inamori has demonstrated that being successful and doing the right thing as a human being are not only compatible, they are a soundly reinforced strategy. Although he initially faced skepticism that establishing philosophical ideals throughout an organization could drive up real-world profits, he proved that his approach, which appeals to both the practical and emotional sides of employees and managers, yields dramatic and lasting results. Through his Seiwajuku business management training and other programs that disseminate his philosophy, Inamori encourages other aspiring ethical turnaround artists not to shy away from the challenge of replicating these results, even in extremely diverse organizations: "Uniting the hearts of people raised in different environments requires a universal management rationale. The rationale must inspire confidence, respect, sympathy, and passion in people everywhere. I believe that sharing such a management rationale with employees in all parts of the world enables us to break down cultural barriers and proceed with business as a unified body."