

# Radical Innovation Inspired by Cultural Diversity: A Case-Study of a Japanese Small Organisation

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## 1. Introduction

This paper analyses the case of Otaru Soko No 1, one of the branches of the regional brewery Otaru Beer in northern Japan. The branch had been unprofitable for around 18 years, before successfully completing a turnaround in the fiscal year of 2012. More than a few attempts to reach the profitability had been made by different Japanese managers appointed by Otaru Beer's parent company Aleph KK (hereafter: Aleph). However, their efforts remained inefficacious. Profitability was attained only after a German brewing engineer was appointed manager in 2008. After his appointment, he introduced multiple radical innovations, changing the paradigm under which the branch operated.

We seek to answer the questions of why the last manager of the branch was able to complete the turnaround, despite all others having failed in similar attempts before. We are also going to analyse how the radical change of business model, which was the key factor for returning to profitability, was legitimised within in the organisation.

For most of the 20th century, the primary focus of innovation management

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had been on how to efficiently mobilise resources internally developed and preserved within a firm. However, recent research has shown that closed type innovation strategies are inadequate to cope with increasingly rapid changes of business environments (e.g. Floyd & Lane, 2000).

Emerging theories emphasise the importance of acquiring new innovative capabilities and creative talents from outside the firm's boundaries. Analytical frameworks emphasizing the concept of open innovation coined by Chesbrough (2003) have grown in popularity among researchers and practitioners with an increasing emphasis of collaborated innovation activities superseding companies' boundaries.

The importance of diversity for innovation has also been recognised in the field of human resources, where the theory of boundaryless careers has gained increasing attention (cf. Arthur, 1994; Briscoe & Hall, 2006; Inkson, Gunz, Ganesh, & Roper, 2012; Lazarova & Taylor, 2009; Sullivan & Arthur, 2006). It is argued that employees with non-traditional career paths, and experience from multiple employers can significantly benefit a company's competitiveness, by providing the firm with access to new knowledge sources that would have otherwise been inaccessible (Vedres & Stark, 2010).

These new theoretical trends indicate growing challenges to a large part of Japanese firms. As Koike (1996) pointed out, a key strength of Japanese style business management was constituted by the development and mobilisation of innovation resources *within* the firm. This management style works well as long as environmental changes are small and gradual, but has been argued to be inadequate for situations where change is fundamental, and more radical innovation is necessary (Aoki & Dore, 1995).

This case-study provides in-depth insights of how a small organisation was able to create both the organisational structures necessary to generate ideas for radical innovation, as well as the social structures needed to implement these

innovations into the organisation. We show how an international manager was able to radically alter the branch's business model, by utilising social capital that he had built up during over 15 years working at Otaru Beer to legitimise and explain his radically new vision to his employees.

With this, we present an example of how cultural diversity in management positions can increase the performance even in the purely localized business. Through this, we contribute an in-depth analysis to a theoretical field which has been largely dominated by macro-level statistical analyses.

After introducing our theoretical framework in the next chapter, we will present our empirical findings. In the following chapter we are then going to discuss theoretical and practical implications, and it will be shown how the theoretical frameworks of social capital theory, sensemaking and sensegiving can be combined to conduct micro-level analysis of radical innovation processes.

## **2. Theoretical Framework**

### **2.1. Innovation**

Innovation as a key element for sustained organisational success has attracted extensive attention from researchers with various backgrounds. Based on the degree of novelty involved, innovations are usually classified into one of two types: (1) incremental or (2) radical (Tidd & Bessant, 2011).

The former features continuous and small innovations that lead to an evolutionary transformation of products, services and organisations over time. This type of innovation is most beneficial for increasing efficiency, and has been one of the key factors the rise of Japanese companies after World War II has been attributed to (Argyris & Schon, 1978; Liker, 2004; Imai, 1986; March, 1991).

The latter is describing innovations that are completely new, and impacts the product, process or organisation it is target at on a grand and holistic scale. Its

main goal is an increase of efficacy, which is why even successful radical innovations will usually be accompanied by a decrease in efficiency (Davenport, 1994; Dewar & Dutton, 1986; Möller, 2010).<sup>3)</sup>

Innovation research has been strongly influenced by March's (1991) article on explorative and exploitative learning. Following research has produced two central findings concerning organisational learning

1. Both types of learning require fundamentally different organisational routines and structures (March, 1991; Gupta, Smith, & Shalley, 2006).
2. Organisational resources are scarce, making it necessary to prioritise one type of learning over the other (March, 2006; Voss, Sirdeshmukh, & Voss, 2008).

Researchers influenced by March have investigated extensively the influence of particular organisational configurations on both types of learning. While there is no consensus about which type of learning is ultimately more important, it is generally agreed upon that a disproportionate emphasis on either type will have negative effects on the organisation's capability to sustain competitiveness.

Levinthal and March (1993) illustrated how an over reliance on explorative learning can lead to a 'failure trap', while Gupta et al. (2006) have shown how disproportionate dependence on knowledge exploitation can lead to a 'success trap'. Both are, what can be described as vicious circles of learning in which either organisational efficacy (in case of a failure trap) or efficiency (in case of a success trap) are being increasingly over-emphasised. This can ultimately lead to a complete inability to innovate, threatening the survival of a company. Both

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3) Innovation is often used interchangeably with the term 'organisational learning'. Instead of incremental innovation, researchers here talk of 'exploitative learning', and instead of radical innovation, they will usually talk of 'explorative learning'. In this paper, both terms will be used interchangeably.

examples can be frequently observed in the real world.

While this classical innovation research has significantly contributed to our understanding of organisational structures and innovative capability, its critical limitation is the narrow focus on structural design based on the distribution of existing internal resources. This ignores the existence of innovation sources outside of an organisation, and implies that organisations are closed systems. However, external resources and talents can be of critical importance, especially when pursuing a strategy focussed on explorative learning radical innovation. We therefore believe that it is necessary to expand our research scope, by integrating the concept of social capital.

## 2.2. Social Capital

Social capital describes capital that is embedded in social ties and networks between people. It is thus different from physical capital, as it is not owned by any single entity, but a joint product of both involved parties, which ceases to exist for both sides, should it be lost by either party.

Social capital increasingly gained recognition among social scientists since the early 1970s due the work of scholars such as Granovetter (1973) and Coleman (1988), and has since established itself firmly among researchers of the social sciences<sup>4)</sup>.

### **Types of Social Capital**

Within social capital, Nahapiet and Ghoshal (1998) identified three distinct categories:

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4) Google Scholar lists an astonishing 25,700 of citations to Granovetter's article as of September 2013.

- (1) *Structural social capital* describes network ties between organisational members, which serve as channels for information transmission, as well as the configuration of these channels. Structural social capital is therefore a necessary precondition for the existence of any other form of social capital (Burt, 1992; Coleman, 1988; Möller & Svahn, 2004; Nahaplet & Ghoshal, 1998).
- (2) *Cognitive social capital* refers to the elements of shared-cognition that are necessary for effectively transmitting information between people. As such, cognitive social capital is embedded in each individual's social background and experiences. Examples of cognitive social capital are shared languages, vocabulary and narratives (Inkpen & Tsang, 2005; Lazarova & Taylor, 2009; Nonaka et al., 1996; Nahaplet & Ghoshal, 1998).
- (3) *Relational social capital* refers to trust, norms and obligations, as well as associability, and is embedded in either the relationship between two specific individuals, or in a social group (Adler & Kwon, 2002; Fukuyama, 1995; Jones & George, 1998; Kang et al., 2007; Krackhardt, 1992; Lazarova & Taylor, 2009; Nahaplet & Ghoshal, 1998).

### **Strong & Weak Social Ties**

Traditionally, social capital researchers have identified two different types of social ties (Michelfelder & Kratzer, 2013). The first kind of ties, *strong ties*, was coined by Putnam (1993) in political science and by Coleman (1988) in education sociology. Both placed a strong emphasis on the beneficial role of strong ties in networks of individuals, as they found them to be leading to social solidarity, and thus supporting the functioning of formalised social systems.

For their analyses, closed system such as communities or organisations and the networks among their members were the primary scope. The key premise

was the assumption that stronger ties between members, would increase the performance of an organisation.

Based on this understanding, researchers also investigated the role of social capital for organisational learning and innovation. Here, strong ties were shown to lead to higher reciprocity in inter-organisational alliances, and to have a positive effect on the intra-organisational diffusion of knowledge (Uzzi, 1997; Kale & Singh, 2007).

In this context, strong ties within a firm or a group of firms<sup>5)</sup> were identified to be one of the primary sources of competitive advantage of Japanese companies, and Japanese style management (cf. Nonaka, Takeuchi, & Umemoto, 1996).

The definition of the second type of ties, *weak ties*, was strongly influenced by the works of Granovetter (1973) and Burt (1992). Weak ties were found to primarily exist between different social groups, whereas strong ties exists between members of each group. Members thus are often well connected to each other, but only weakly connected to people outside their group.

Individuals who are members of more than one group, are especially important in this regard, as they enable an organisation to integrate radical new knowledge into their existing knowledge stock (Vedres & Stark, 2010).

Michelfelder and Kratzer (2013) summarised and compared the different functions of strong and weak ties from the open innovation perspective, and came to the conclusion that weak ties are beneficial for idea generation, exploration of knowledge and searching of new knowledge. In contrast, strong ties were found to be having a positive effect on idea implementation, exploitation of existing knowledge and transfer of complex, tacit knowledge within an

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5) c.g. Keiretsu systems: A hierarchical cooperative network of multiple firms are a common feature of Japanese economy.

organisation (see Table: 2-1).

Table 2-1 Functions of Strong weak ties in an innovation setting

Weak Ties	Strong Ties
Idea Generation	Idea Implementation
Exploration of knowledge	Exploitation of knowledge
Search for knowledge	Transfer of complex knowledge

Source: Adapted after Michelfelder and Kratzer (2013)

### Corporate Archetypes

Building on this understanding of social capital's effect on innovative capability, and analysing it from a human resource management (HRM) point of view, (Kang, Morris, & Snell, 2003, 2007) developed a set of different HRM archetypes that could usually be found in firms with a predominant focus on strong- or weak ties respectively.

(1)

The cooperative archetype:

This archetype is commonly found in firms that focus on generating strong social ties, and that pursue exploitative learning as a basis for incremental improvements. Their focus lies thus on generating innovations by utilising knowledge stocks existing inside of their organisation (Dewar & Dutton, 1986). This form of organisational learning helps to 'refine and reinforce' existing products and processes through incremental updates (McFadyen & Cannella, 2004).

Firms featuring this archetype typically rely on an interdependent work structure, where members work in closely coordinated team-based units. Job rotation is also a commonly applied policy, as it facilitates the creation of universal social linkages within the organisation. Oftentimes, these firms train employees extensively, and have thorough socialisation processes for new members to get accustomed to the firm's values. Finally, cross-functional jobs play an important role, as they enable members to gain a holistic understanding of their company.



Firms with a cooperative archetype place strong emphasis on generating generalised trust between members through clan-fostering initiatives. These initiatives include policies such as selecting new members according to their fit to the organisational culture, as well as the creation of collective achievement and reward systems. If well designed, these reward systems lead to members autonomously adopting norms and goals which fit the organisational culture and confirm with its goals (Kang, Morris, & Snell, 2003, 2007).

(2)

The entrepreneurial archetype:

The second archetype can be found in companies with a focus on explorative learning, which benefits from weaker social linkage that do not obstruct access to external knowledge sources (Hansen, 1999). Due to the dominant focus on acquiring external knowledge that this type of learning necessitates, maintaining the capability of integrating this new knowledge into organisational routines is highly important (Leana & Van Buren, 1999).

Firms engaging into explorative knowledge acquisition require less dense, less redundant and wider spread social linkages compared to those engaging into exploitative knowledge acquisition. The formation of such a network can be promoted through various HRM policies. One example is forming (temporary) project teams with intra- and inter-organisational partners, which allows organisational members to create social linkages to many different sources of information.

Another effective policy is to create broadly defined jobs, forcing people to adopt an independent and holistic approach when dealing with uncertainty, which necessitates an autonomous search for information sources to deal with these situations.

Firms that engage into explorative learning have a need for strong common component knowledge, which requires employees who are specialists, rather than generalists. It is sought to breed organisational members who have highly

specific knowledge, but are at the same time knowledgeable about the interfaces and knowledge-fields that are connected to their own. To achieve this, limited job rotations and cross-departmental trainings are effective HR policies.

As strong generalised trust is deemed to hamper the influx of new ideas into an organisation, resilient dyadic trust is preferable for explorative learning. Furthermore, the process of obtaining knowledge is very difficult to standardise, which leads to HRM policies that provide (knowledge) result based incentive systems. While reducing social loafing<sup>6)</sup>, these sort of incentives also bear the inherited risk that they might motivate employees to act purely in self-interest, rather than in the interest of the organisation. Generally, result-based incentives were found to weaken group dynamics, and promote experience based resilient dyadic trust over generalised trust (Fukuyama, 1995, Kang et al., 2007).

### **Social Capital**

The importance of weak ties, which often come as a direct result of diversity has been widely recognised in innovation research. For example, Florida (2002), a widely recognised researcher of urban economies, found urban areas with a tolerant cultural climate could attract diverse human talents and feature high innovation capabilities and economic growth. He also showed that city areas which featured very strongly developed social capital are usually not able to attract diverse and creative immigrants. His conclusion was thus, that weaker social capital will lead to a higher rate of immigrant population, increasing the rate of demographic diversity, which will in turn lead to increased economic growth.

Scholars like Nonaka, Takeuchi and Umemoto (1996) on the other hand, came to a contrary conclusion. Their primary findings were that strong ties

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6) Social loafing is defined as the 'tendency to exert less effort when [...] individual contributions cannot be measured' while working on a group task (Gilovich et al., 2006, p.60)

would increase the ease with high-context, tacit knowledge could be transmitted, which they saw as a primary source of competitive advantage.

This concept will show how the same stimulus makes the different responses among people with different cultural background.

Japan's demographic composition is comparatively homogeneous among developed countries because she has long been limited the immigration flow from outside. Diversity of that kind is quite rare resources here in Japan. Especially when we think over the issues on radical innovation ability, our case study will show a lot of implications about that important point.

Another concept needed to analyse our case is sense making and sense giving. Social capital theory cuts well when we analyse such issues as transfer or acquisition of information and knowledge. However it doesn't help a lot when we are to understand the process of idea generation in the mind of individual person.

Sense giving process is also important in relation to the implementation ability and the role of strong ties accumulated during the long service within a firm.

As has been shown, social capital plays a central role in enabling organisations to acquire knowledge.

What has not yet been discussed, however, is a framework that helps us to understand the specific micro-processes of individuals making sense of their environment, and how different stakeholders attempt to influence the cognition of others. This is highly relevant, as analyses of social capital do not allow us to gain an understanding of the peculiar measures that individuals take to take influence on the social capital in their organisation. To supplement the social capital perspective, we will therefore introduce the theories of sensemaking and sensegiving to close this gap.

## 2.3. Sensemaking & Sensegiving

While the importance of relational and cognitive social capital were discussed above, we will now introduce two theories that provide insights to how cognition is being determined on an individual level, as well as showing how this cognition is altered. Here we will focus on what catalyses and impedes cognitive change. Having focused on innovations and how organisational social capital can enable them, this section is going to discuss pre-requisites of changes on the level of individual recognition micro-processes.

The theories of Sensemaking and Sensegiving both originate from the sphere of sociology and psychology (cf. Weick, 1979; Gioia & Chittipeddi, 1991). They are based on the premise that humans live in a socially constructed reality that makes it impossible for us to directly perceive an objective and physical reality. Instead, we only perceive an enacted personal reality, which is based on objective reality, but grounded in a person's individual understanding and social context (Garfinkel, 1967; Weick, 1995). This assumption also applies to the theories of social capital, which is why we consider these theories to be suitable complements, despite little effort having been made to integrate them (Bourdieu, 1986).

For innovations to be successful, they have to be considered legitimate by the members of the organisation (Hekkert et al., 2007; Kimberly & Evanisko, 1981). For this, an innovation has to be within the boundaries of a person's framework of sensemaking (Weick, 1979). Any innovations that do not achieve this, require the initiator of the innovation to change the sensemaking within the organisation, through what has been described as sensegiving.

## 2.4. Sensemaking

The term sensemaking was conceptualised by Weick (1979) and has since spawned a variety of research by numerous scholars (e.g. Colville & Murphy, 2006; Maitlis & Lawrence, 2007; Humphreys, Ucbasaran, & Lockett, 2012).

Sensemaking describes the process of humans attributing meaning to situations with a degree of uncertainty, enabling them to take actions. It is important to note, that people are said to 'generate what they subsequently interpret' (Colville & Murphy, 2006), a process which has been described as 'enactment' (Weick, 1995). How reality is enacted does not solely depend on the individual, but also on the organisation to which the individual belongs. As Bennis and Shepard (1956), and Smircich and Morgan (1982) had shown earlier, belonging to the same organisation will facilitate interactions between members and lead to similar experiences. This encourages the formation of a distinct, shared understanding of reality in organisations, which is one of the reasons socially endorsed information obtained through one's network is often valued higher than information obtained through other means (Nahapiet & Ghoshal, 1998)

The process of enactment and the phenomenon of shared realities can be illustrated by considering that children in different countries use different colours to draw the sun. While children in Japan would generally draw the sun using the colour red, children in Europe would usually use the colour yellow. Children in each region will make sense of their environment by drawing on their individual cultural framework as mentioned above. While the colour of the sun is an objective reality, different people will still perceive this reality in a very different way. Once this reality is enacted, people will then come to very different results when they try to interpret it. Hofstede (1993) described a situation where a professor at INSEAD business school was able to observe distinctively different approaches towards solving the same business problem, depending on a person's

cultural background.

Nevertheless, sensemaking is not only influenced by the general cultural frame of a person, but also by individual experiences (Weick, 1979). Otherwise, we would need to assume that people sharing similar cultural macro background would always make the same decisions and thus supersede any individual character traits. It can be said that sensemaking of individuals will usually correlate in certain directions, depending on what groups they belong to.

Researchers deem sensemaking to be especially significant in situations where it is attempted to alter an existing culture. It can therefore be assumed that the more unstable an environment is, the more often radical changes (and innovations) become necessary, which will then constitute a higher need for sensemaking alterations (Möller, 2010). These alterations are however not limited to being passive and undirected, as different interested groups and stakeholders will naturally seek to alter the dominant culture of an organisation according to their own sensemaking. This process is called 'sensegiving' and will be explained in the next section.

## 2.5. Sensegiving

Sensegiving can be characterised as the attempt of stakeholders of an organisation to influence sensemaking processes of other organisational members and change the ways in which they enact organisational reality towards a preferred redefinition (Gioia & Chittipeddi, 1991; Humphreys et al., 2012).

Researchers consider sensegiving to be an activity whose relevance and necessity will strongly correlate with need of an organisation to adapt to a changed external or internal situation, as well as the scope of the necessary change. This is why sensegiving can be considered to be one of the most important leadership qualities for managers (cf. Smircich & Morgan, 1982; Foldy,

Goldman, & Ospina, 2008). A re-construction of reality becomes necessary when radical changes/innovations are attempted, especially when their scope touches the paradigms underlying a company's way of creating value.

A prominent example of a failed attempt to initiate such change might be the one by former HP CEO Apotheker to radically alter HP's business model by stopping to produce PC, a business function that HP stakeholders considered a core aspect of the firm's identity. For Apotheker, this change likely made sense, as he had no personal background in selling hardware and no history at HP. His plan, however, was swiftly aborted and he was replaced by a CEO whose sensemaking was closer to the corporate identity of the firm (Mick, 2011). From this example we can derive that sensegiving is not always possible, especially when it is attempted in a way that runs contrary to the established corporate paradigms (Humphreys et al., 2012).

As the general scope of sensegiving has been introduced above, the next step will be to take a closer look at how the process of sensegiving leads to an altering of organisational perception. The overall process consists of different iterative phases in which a sensegiver will engage into actions that he or she deems appropriate on basis of his or her own sensemaking. Other organisational managers will then interpret the actions taken by the sensegiver, and make sense of them, on basis of their own sensemaking. Based on their interpretation they will then decide to abide or reject their interpretation of the demanded change (Gioia & Chittipeddi, 1991).

This is very similar to a process that had already been proposed much earlier by Smircich and Morgan (1982), who explained how leaders would influence followers through a three step process of (1) Framing Experience, (2) Interpretation (3) Meaning and Action.

In connection with social capital theory, sensegiving offers a framework that helps to understand how an individual can significantly alter how a company is

operating. Specifically, literature about successful sensegiving activities can help to understand how radically new ideas can gain legitimacy in an organisation. Researchers of sensegiving also showed that people would tend to engage into sensegiving when confronted with major change events that are deemed significant for the organisation by its members, and when environments are uncertain (Maitlis & Lawrence, 2007; Humphreys et al., 2012).

Sensegiving is a process that becomes necessary when uncertainty is rising, and the present interpretation of reality becomes less and less effective in governing people's actions. It aims to influence change-value compatibility, which is often of great importance when changes are initiated that are incompatible with the organisations culture (Lines, 2004).

## 2.6. Theoretical Framework Summary

In this chapter, we have discussed the different forms of innovation, as well as the different prerequisites in the form of knowledge acquirement are necessary. It was shown how social capital formations are interlinked with HR policies, and how strong relationships can benefit and damage a company.

It was furthermore demonstrated how boundaryless careers can become a source of competitive advantage, but at the same time possess a strong potential for disrupting internal processes. Using the theory of social capital in organisations, we are able to explain the different change capabilities of organisations, as well as how different organisational structures and human resource policies benefit different forms of innovation.

We finally made it clear how individual realities influence on organisation's capability to adapt to changing environments, and how managers and other stakeholders engage in activities of sensegiving to alter the dominant interpretation within an organisation. We furthermore showed how sense-making and -giving is triggered and hindered. Complementing the previously



introduced theories of innovation and social capital theory, sensemaking and sensegiving make it possible to analyse the actions of individuals that lead to a (re)definition of organisational capital. Through this, we are expanding the traditional macro-level approach of social capital research to the micro-level of an individual. This expansion is highly significant, because it allows us to analyse the dynamic processes that lead to a change in social capital. Encompassing these processes, we are able to adopt an analytical approach which accounts for human agency, as well as the social relations that influence them. In the next chapter, we will introduce the research questions which we seek to answer by applying this framework.

### 3. Research Questions

In this paper, the authors seek to answer two main research questions:

1. Why did Otaru Beer's branch 'Otaru Soko No 1' turn profitable only after the German brewing engineer Johannes Braun became manager?

It is sought to be answered, why different Japanese managers, who were employed directly at Otaru Beer's parent company Aleph were unable to achieve this. The question will be answered under the premise that social capital configurations play a critical role in enabling change and innovation, as has been introduced in the previous chapter.

2. How was the organisational outsider Johannes Braun able to effectively manage his Japanese employees through the change he initiated?

Answering the second question, we seek to clarify how a Braun was able to convince and explain his vision to his employees, and gain their active support. Many of the business paradigms of Otaru Soko No 1 were changed during the course of the turnaround, which has an inherit risk of leading to active or passive

resistance by employees, who do not share or understand the manager's vision.

In the next chapter we will outline our methodology, which was used for this paper.

## 4. Methods

For our research we used both qualitative and quantitative methods, although the main focus clearly laid on the former, and the latter were mostly used to confirm qualitative findings. Most of the data was gathered through a series of in-depth interviews conducted in German, Japanese and English, and lasted between 40–90 minutes each. Most of the time no direct access to internal documentation was available, but indirect access was provided by organisational actors, who used documentary evidence to confirm details provided in the interviews. A questionnaire was also created, targeted at part-time workers of Otaru Beer, to provide them with an opportunity to supply information anonymously. Finally, the authors conducted a series of on-sight observations at the brewery and different events conducted by Otaru Beer throughout the year. The collected data was then used to construct a phenomenological, explorative case study of Otaru Beer's branch 'Otaru Soko Number 1'.

### 4.1. Interviews

All Interviews were recorded and later transcribed. Interviews were conducted in a semi-structured way. To reduce misunderstandings and misinterpretations, one Japanese native speaker assisted in the initial translation of interview questions into Japanese, as well as the transcription of interviews that were conducted in Japanese. Following, a brief overview of the interviewees is given in Table 4-1.

Table 4-1 Conducted Interviews

Name	Position	Language	Dates
J. Braun	Director (Otaru Beer)	German	2013-03-15 2013-06-19
T. Kawata	Branch Manager (Otaru Beer)	Japanese	2013-05-15 2013-10-07
Y. Ino	Chief Waitress (Otaru Beer)	Japanese	2013-05-15
Anonymous	Hall Staff (Otaru Beer)	Japanese	2013-05-15
R. Kuniyoshi	Controller (Aleph)	Japanese	2013-05-20
B. Dishman	Manager (Otaru Beer)	English	2013-05-28
Y. Usui	Event Manager (Otaru Beer)	Japanese	2013-10-09

## 4.2. On-sight Observations

To triangulate findings generated on the base of the interviews, and as a way to obtain first-hand information, the authors conducted numerous on-sight observations, which took place between July 2012 and December 2014.

During these events, the authors used the opportunity to engage into conversations with customers, as well as employees. These first-hand accounts were often only possible, because they happened in an informal atmosphere, and thus were not conducted in an interview. Their main purpose was to collect impressions and gain a holistic understanding of Otaru Soko No1. While it is plausible to argue that this influenced the authors' opinion and overall perception of Otaru Beer, possibly introducing a bias, we argue that due to the phenomenological nature of this research, the benefit gained through the obtained insights outweigh this risk.

Table 4-2 On-Sight Observations

Name	Place
Beer Club	Otaru Soko No1, Leibspeise
-Summer Beer festival -Tour through main brewery	Zenibako Brewery
-Tour through pub brewery -Oktoberfest festival	Otaru Soko No1
Special Summer Beer Club	Otaru Marina

### 4.3. Customer Rating Online

Ratings of Otaru Soko No1 on Japan's biggest gastronomy review site 'TABELOG' were aggregated into a database and analysed using descriptive statistics. A total of 79 sets of data were available, all of which were integrated into the database. The data was scaled on an ordinal scale from 1 (lowest) to 5 (highest). Ratings were available for five different categories, (1) overall, (2) drinks, (3) food, (4) atmosphere and (5) service, although not all data sets included ratings for every category. Descriptive statistics were chosen to account for the low number of data sets. As the data was not representative, this data source was only use for triangulating existing findings, rather than to derive new ones.

## 5. Empirical Data

### 5.1. Organisational structure and Employees

The main focus of this chapter lies on the analysis of the Otaru branch of Otaru Beer, Otaru Soko No1. Nevertheless, it is also important to understand the organisational context of Otaru Soko No1 business activities.

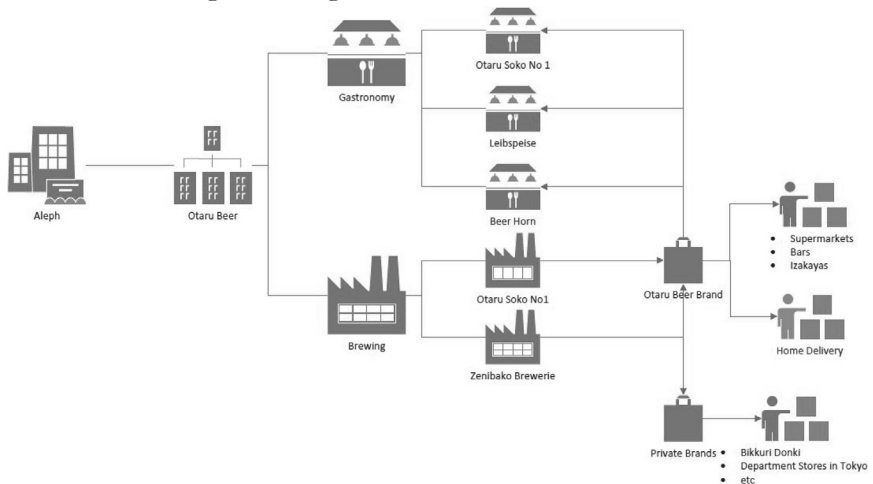
Completely owned and founded by Aleph KK (hereafter: Aleph) in 1994, Otaru Beer is nowadays a mostly independent business unit. While Aleph is

otherwise organised along organisational functions, Otaru Beer includes corporate functions that are normally supplied centrally, such as production and sales. Aleph primarily governs Otaru Beer by setting budgets and financial targets, exercising only little direct control on business decisions.

Otaru Beer currently consists of two divisions. First, the gastronomy division which includes three restaurants, Otaru Soko No1 in Otaru, Leibspeise in Sapporo and Beer Horn in Akasaka, Tokyo. Second, the brewing division which includes the main brewery which is located in the Zenibako-ward of Otaru city and producing over 2,000,000 l/year, and the brewing facilities at Otaru Soko No 1 producing 120,000 l/year.

Beer is sold from the brewing division to the restaurants in the gastronomy division, as well as to independent supermarkets and bars in Sapporo and Otaru. Direct-sales to the end-consumer are also conducted through a home-delivery service, which is available in Otaru and Sapporo (see Figure-5-1).

Figure 5-1 Organisational Structure of Otaru Beer



Source: Self-creation using data obtained from interviewees and Aleph.

As mentioned earlier, the German director and braumeister Johannes Braun acts as executive manager, overseeing all corporate operations of Otaru Beer and reports directly to the board of directors of Aleph. He also fills the role of chief-brewer, and directly manages the Otaru branch Otaru Soko No 1.

Braun has a diploma in beer brewing from Germany, as well as a master's degree in whiskey distilling he obtained in Scotland. Prior to coming to Japan, Braun worked in Germany, Greece and Scotland. Brewing is a craft that has been in his family for generations, with first-records of his ancestors' brewing activity dating back to 1752. This still influences the beers Otaru Beer sells today. For example, the dark beer DUNKEL is brewed according to a recipe created by Braun's great grandfather. Prior to coming to Japan, Braun did not speak Japanese, and was not familiar with Japanese culture. His responsibilities were therefore initially strictly limited to the actual beer brewing process.

In one interview, Braun described two motivations for accepting Aleph's job offer:

1. His main interest was to help develop Japanese beer culture, by introducing new varieties of beer.
2. He was impressed by the long-term focus of the CEO and Aleph founder Akio Shoji, who wanted to establish a regional beer brand over the span of 50 years.

Seemingly contradicting this long-term orientation, Braun is employed on the base of annual contract which has been renewed 18 times to this date. According to his explanation, this is derived from his strong belief that he should only remain in the company, as long as he and Aleph are both satisfied with his work.

The restaurants Leibspeise and Beer Horn are managed by the American

national Brian Dishman, who also acts as back-up brewer for Braun as well as managing the organisation's IT systems. Dishman has an academic background in finance, and acquired a degree in beer brewing after he started working with Braun at Otaru Beer. Dishman has been employed at Aleph since before the creation of Otaru Beer, and is nowadays employed as regular (life-time) employee.

Other than Braun and Dishman, all of Otaru Beer's employees are of Japanese nationality. Presently the total number of employees stands at 120, although this number fluctuates throughout the year. During the summer months, the number of employed part-timers usually rises sharply, due to events such as the Odori beer garden festival in Sapporo. About 100 of all employees are employed as part-timers, only 20 are permanently employed. Included in these permanent employees are two Japanese brewers who were trained by Braun, and Aleph employees who were transferred to Otaru Beer at some point of time.

## 5.2. Products and Customer Groups

### **Products**

Otaru Beer's main product is beer sold under its own brand. Additional beers are brewed under private brand labels as an original equipment manufacturer (OEM), to supply among others, Aleph's Bikkuri Donki restaurant chain. This OEM beer currently accounts for about 40% of all brewed beer. Otaru Beer produces three sorts of Otaru Beer branded beer throughout the year, Pilsner (pale lager), Dunkel (dark lager) and Weiss (wheat beer). In addition to those three, one seasonal beer that changes regularly throughout the year is often offered.

All beers that are sold under the Otaru Beer label are only sold in a radius of 100km surrounding the brewery, to ease difficulties associated with delivery

and quality control. These difficulties mainly arise from the fact that this beer is sold unfiltered, and thus contains living yeast. Beer produced in this way is generally said to have a richer taste and to be more nutritious than the more common, filtered beer. However, not filtering beer leads to a drastically reduced shelf-life and the requirement to be kept cool at all times (i.e. an uninterrupted complete cool-chain (Blaschke, 2010)). The high logistic costs that are associated with this cool-chain is one of the main reasons for unfiltered beer being unattractive for big breweries, but often favoured by regional ones (Hornsey, 2003).

All raw materials necessary for brewing are imported from Germany, and are sourced in accordance with ecological criteria, set by the corporate policy of Aleph (Aleph, 2013). Contrary to many other breweries in Japan, Otaru Beer is sourcing barley that has been specifically malted according to their own specifications, and no standard malt. This allows them to exercise greater control over the taste of their beer. The only local resource being utilised is the water from Otaru.

It is finally important to note that the beer is created in accordance with German beer purity law, drafted in 1516. This law forbids the utilisation of any ingredients except hops, barley and yeast for brewing (Dornbusch, 1997). Its application at Otaru Beer was one of Braun's core demands when Aleph sought to recruit him, as he wanted to be able to produce authentic, unaltered German beer.

Other than beer, the company also serves food in their restaurants. This food is mostly based on original recipes, and features a variety of different dishes that are intended to be fitting side-dishes for beer. Necessary ingredients for these dishes are partly sourced from food companies, but mostly created from local sources.

When talking about products, we need to recognise that beer and food are not what Otaru Beer claims to sell. Indeed, multiple interviewees proclaimed that



Otaru Beer was selling 'a good time, through the medium of beer'. This philosophy is also reflected in sales targets, where it is not sought to sell Otaru Beer to everybody, but to people who enjoy drinking good beer.

## **Customer Groups**

Otaru Soko No1 has four distinct groups of customers, (1) tourists, (2) locals, (3) home-delivery customers and (4) local businesses. All of these groups have different needs and peculiarities, which are discussed below:<sup>7)</sup>

### 1. Tourists

Tourists play a big role for many businesses in Otaru, as over 6.5 million tourists are annually visiting the city, many from outside Hokkaido and Japan (Otaru City, 2013). The seasonal peak for tourists visiting Otaru Beer is traditionally during the summer months.

Many tourists are one-time customers, and have a relatively low price elasticity. However, of those who visit Hokkaido regularly, many are returning customers, who visit Otaru Beer whenever they are in Hokkaido. As very few of the tourists visiting Otaru are staying overnight, tourists mostly visit Otaru Soko No1 during daytime.

### 2. Local Customers

Local customers are people living in and around Otaru. While they are more sensible towards changes in pricing, they are visiting the branch throughout the whole year. Many local customers are regulars, who will visit Otaru Soko No1 at least every few months. As most locals are working, they will usually visit the

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7) The classification of customer groups is directly supplied by Otaru Beer, the description of their peculiarities was created according to the statements given during interviews, as well as observations made by the authors.

branch during the afternoon, or at night.

### 3. Home-Delivery Customers

For members of the Otaru Beer beer club, a home-delivery service exists in Sapporo and Otaru. Customers are able to buy bottles and small barrels of Otaru Beer beer, and pick them up at the branch (if in Otaru), or have them delivered right to their door (if in Sapporo). Acquiring customers for home-delivery is associated with high initial acquisition costs, but many of the home-delivery customers are using the service regularly.

### 4. Local Businesses

Otaru Beer also sells its beer to local bars and supermarkets. While many of these customers order regularly, the market penetration is still low.

## 5.3. Historical Phases of Otaru Beer

In this section, we are going to give an overview over Otaru Beer's historical development in general, as well as the specific history of Otaru Soko No1. The historical development of Otaru Soko No1 can be divided into three distinct phases:

- 1) The dependency phase, after the foundation of Otaru Soko No 1, but before the creation of the main brewery. During this phase Otaru Beer consisted only of Otaru Soko No1, and corporate functions were supplied by the parent company Aleph (e.g. sales of beer to bars, supermarkets etc.). During this phase, Otaru Beer was still primarily an experiment of Aleph's president, and used with the intention to test the markets acceptance. The creation of the brewery marks the end of this phase, as it marks a clear increase in investment, and commitment to the brewing business.

- 2) The expansion and struggle phase, before Braun was appointed manager at Otaru Soko No 1, in which Otaru Beer expanded to Sapporo and showed increasing business success, wherever self-managed, but also saw a strongly increased focus on achieving profitability through Aleph's local management at Otaru Soko No 1. This phase ended when Aleph became increasingly willing to close Otaru Soko No 1 to cut their losses, and Braun was appointed manager as a last resort to turn business around.
- 3) The cultural change and turnaround phase. In this last phase, the business paradigms of Otaru Soko No 1 were drastically changed through radical innovations introduced by the new management. In this phase, Otaru Soko No 1 achieved profitability for the first time, in the fiscal year 2012.

Each of these phases will be explained in detail below.

### **Phase 1: Dependency 1995 – 1999**

In the first phase, Otaru Beer was for the most parts as much integrated into the parent company Aleph as any other division. The only responsibility of German brewer Johannes Braun's was producing beer and facilitating the process of importing raw materials from Germany. At this point of time, Otaru Beer consisted only of Otaru Soko No 1. The branch itself was functionally divided into a gastronomy department, managed by Aleph and a brewing department managed by Johannes Braun. Corporate functions such as sales, marketing and logistics were supplied through Aleph's centralised departments.

After eased beer regulations had considerably lowered minimum brewing quantities necessary to obtain a brewing license in 1994, Otaru Soko No 1 was created as an experiment to test the acceptance for new, regional beer. In the long term, Otaru Beer was supposed to supply Aleph's Bikkuri Donki restaurant chain with self-produced beer. It was clear from the beginning, however, that to

fulfil this task, additional brewing facilities would become necessary (see Chapter 5.2). As a direct result of the policy of Aleph's president at that time, beer prices were initially set at high, but still affordable prices. The rationale was that beer should be affordable for local people, and not just for tourists with a higher spending tolerance.

When Otaru Soko No 1 opened in 1995, it was initially only opening for a few hours every day, as by then the stored beer would have been depleted. Demand greatly exceeded supply and sales at Otaru Soko No 1 saw a steady growth during this time.

However, the integration of Otaru Beer's organisational functions into Aleph was creating high fixed costs, which combined with a lack of specialisation and experience in selling beer, reduced the profitability of the division considerably. In response to what he understood to be a threat to the long-term goals of Otaru Beer, Braun demanded to take over the responsibilities for beer sales to local bars and supermarkets, and to integrate them directly into Otaru Beer. Aleph gave in to his demands and he assumed managerial responsibilities for sales in 1998. Subsequently, Braun managed Otaru Beer's sales with one employee, where previously 4-5 people had been employed, significantly reducing overhead.

Another significant event during this time was the holding of the first Otaru Beer 'Beer Club'. Following the suggestion of a local customer from Otaru, the first beer club was held in July 1996, and soon became a monthly tradition where local fans of Otaru Beer would assemble. At this time, the beer club was held in two hours sessions, and included food and drinks for the price of 3000 Yen.

As the first couple of years had had shown increasing demand for Otaru Beer, Aleph decided to expand brewing capacities by creating a new main brewery in Zenibako, a ward of Otaru city. While financial performance was improving and Otaru Beer as a whole was already profitable at this point, Otaru Soko No 1 did not reach profitability during this phase.

Despite the fact that Otaru Beer made some steps towards emancipating itself from Aleph, it was still deeply dependent on its parent company at this point. Direct management of Otaru Soko No1 as well as employment systems and corporate functions were directly controlled by Aleph.

## **Phase 2: Expansion & Suppression 2000 – 2008**

After the construction of the Zenibako brewery was completed, Otaru Beer entered its second phase, which was marked by two important events. Firstly, the parent company adapted the local strategy of Otaru Soko No1 to achieve profitability. Secondly, Otaru Beer expanded to Sapporo, by opening the beer restaurant 'Leibspeise' in Sapporo TV Tower.

### 1. Strategic Change at Otaru Soko No1

In response to the ongoing losses during the first five years, management at Aleph decided to modify the branch's strategy, without involving Braun and Dishman in the decision making process. The new strategy was centred around how to attract the tourists to Otaru whose number had been growing every year (Otaru City 2013). This involved creating a cooperation with travel agencies like Japanese Travel Bureau (JTB), as well as an extensive change of the restaurants interior, menu and staff training.

Tourists were deemed to be the most relevant customer group because they had a lower price elasticity of demand compared to local citizens. To seize this potential, beer prices were increased by over 40%, despite the fact that this would hurt sales to the local citizens, who were less willing and able to pay these new premium prices. Another measure was to double the restaurant's area and change the interior's theme from that of a German beer pub to a medieval restaurant.

The strategy of Otaru Soko No1 by this time might best be described as a restaurant with beer, with a strong focus on providing food famous in the Hokkaido area, and only a very limited focus on promoting beer sales. Emphasising food over beer, the local BEER CLUB event that had been created to increase the appeal of Otaru Beer to local citizens was ceased, and was subsequently organised by Braun personally in nearby hotels until it returned to Otaru Soko No1 in 2006.

Overall, these strategic measures proved to be unsuccessful. The number of customers did not increase enough to cover the increased fix-costs associated with doubling the branch's area. Furthermore, customers that were brought in through the cooperation with Japanese Travel Bureau (JTB) would contribute very little to overall profitability, as a fixed percentage of the money they spent had to be paid to JTB as commission. Finally, the number of local citizens visiting the branch sharply declined, as a result of the aforementioned new prices.

As a result of being unable to cover fix-costs, Aleph's management was more than eager to accept, when Braun approached them in 2006, and proposed to bring the beer club back to Otaru Soko No1 by renting the required space. Under this agreement, drinks would be brought from the brewery in Zenibako, and food could either be ordered at the branch, or be brought by the participants of the beer club. As food was no longer covered, the price was subsequently reduced to 1,800Yen. Furthermore, the previously existing limitation of the beer club to two hours was abandoned, so that one beer club would be held over the course of a whole evening.

During this phase, profitability was not only not achieved, but compared to the previous period, the existing loss worsened, due to payments that had to be made to the travel agencies in return for being included in tours. In 2008, the financial situation of the branch had deteriorated to the point where Aleph considered closing down the branch.

## 2. Expansion to Sapporo and Zenibako

While the Zenibako brewery was primarily a brewing facility, a beer club that was similar in concept to the one in Otaru, but without any time restrictions, was held for the first time in 2002. The intention for this course of action was stated to be an attempt to create closer bonds with local citizens. The strategy of gaining local support was complemented by the strong presence of Otaru Beer at local festivals, and also the creation of own festivals, such as an Oktoberfest or holding fireworks in summer. All of these measures proved to be so successful that Otaru Beer's event manager stated during an interview that he believed Otaru Beer was better known in Zenibako than in the main town of Otaru.

The second milestone was the expansion to Sapporo in 2004. Aleph had rented space in the Sapporo TV tower through a long-term contract, but the business that they initially sought to establish had failed. Aleph then approached Otaru Beer to see if there was interest in creating a new branch in Sapporo, which was indeed the case. This resulted in the creation of the restaurant Leibspeise. This branch was initially managed by Mr Sato, who was also the event manager of Otaru Beer. However, the heavy workload associated with filling the two positions at the same time led to Dishman taking over the branch after about two years. While the specific strategy of Leibspeise is not the focus of this thesis, it is important to note that this was the first branch that was managed by a foreigner, albeit a foreigner who had been employed at Aleph for many years, and that it marked a departure of Otaru Beer from being just a division, to a state of increasing independence from its parent company Aleph. Furthermore, it is important that Leibspeise's general strategy was distinctively different from Otaru Soko No1 at this point, focusing on food that was specifically created to go well with beer, instead of offering famous Hokkaido food.

In this second phase, Otaru Beer expanded and grew. It also saw a steady increase in popularity everywhere but at its initial branch, Otaru Soko No1. The

overall operations of Otaru Beer remained profitable during this time.

### **Phase 3: Success & Cultural Change 2008 – present**

#### 1. Otaru Soko No 1

In 2008, Alephs overall business performance worsened, which led to its management becoming increasingly willing to terminate Otaru Soko No1. At this point Braun offered Alephs's management to appoint him as direct branch-manager and allow to try out his own business strategy, a request which he had made multiple times, but which, until then, had always been turned down. This time, however, Aleph's management agreed, and gave him three years, upon which the branch would be closed if profitability had not been reached. Immediately, the branch was closed temporarily, and numerous changes, organisational and physical, were initiated. Braun described the new local strategy as aiming to create a 'brewery that also serves food', and was aimed to create an equal appeal to tourists and locals. It included a variety of changes, the most significant of which are discussed below.

- The medieval interior theme was abolished, and reversed to a state that came close to the original beer pub decoration of the branch.
- Beer prices were cut by roughly 30%, as the high prices were regarded as a major barrier for attracting more locals.
- Cooperation with travel agencies were stopped, due to them contributing little to profitability.
- Free guided tours of Otaru Soko No 1's brewing facilities were created, giving interested tourists and locals the chance to learn about the history of the firm, German beer culture and the production processes of different beers.
- The food menu shifted from offering famous Hokkaido food to food that would fit well with beer, as it had been done in Leibspeise previously. For this purpose, a professional chef was hired and employed on a contract basis, in



contrast to the former policy to utilise only part-timers in the kitchen.

- Three core-employees were selected by Braun, not as part-timers, but as regular employees. These employees were taken one by one to Germany for a two week trip, over a span of three years, so that they could learn how beer breweries and restaurants operate in Germany.
- Marketing budgets were drastically reduced.
- Part-timers at Otaru Soko No1 were reduced from 50 to 16, a decrease of 68%, to save costs.
- The size of the branch was halved, returning the dimensions of 1995.

As a direct result of the initiated cost-savings and because number of customers was not decreasing despite the reduction in market expenses, profitability steadily increased. Online ratings of Otaru beer show an upwards trend of the means from just above 2 to over 3.5, on a 5 point scale. Combined with a declining variance of review values, this is hinting that customers generally appreciated the conducted changes (see Figure 5-2). In the fiscal year of 2012, Otaru Soko No1 reached profitability.

## 2. Otaru Beer Overall

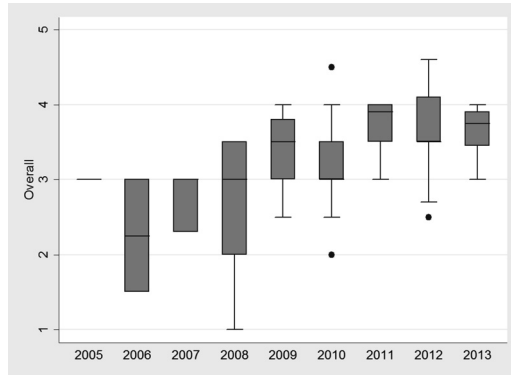
In 2009, Leibspeise moved from the TV tower location to the present location in Sapporo's Susukino area. As for Soko No1, it has since reached profitability.

In 2011, Otaru Beer expanded to Tokyo by opening the beer-restaurant 'Beer-Horn', managed by Dishman. While it belongs to Otaru Beer, it does not serve Otaru Beer branded beer, due to the problems associated with shipping unfiltered beer from Hokkaido to Tokyo. Instead, a filtered version of Otaru Beer is served. Beer Horn has yet to reach profitability at this point in time, but Dishman and Braun indicated that business results are steadily improving.<sup>8)</sup>

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8) Exact business data could not be obtained, however, multiple interviewees gave similar statements.

Figure 5-2: Development of Otaru Soko No1's overall online reputation from 2005 - 2013



Source: Created after Data from Tabelog (Tabelog, 2013)

## 5.4. Outlook and Future Developments

### 1. Otaru Soko No1

While business key performance indicators (KPI) have improved dramatically since Braun was appointed manager, Otaru Beer's main goal has not been attained just yet. Market shares in Otaru and especially in Sapporo are still low, and thus far away from the desired state described by the restaurant manager: 'It is our goal that if you order a beer anyway in Otaru, people will just serve you our beer. We want to reach a level of recognition, as it has been achieved by Orion Beer in Okinawa.'<sup>9)</sup> Braun described Otaru Soko No1's goal as achieving a steady growth of about 10% annually, and to reach even more people who would appreciate good beer, and who would think of Otaru Beer's prices reasonable, considering the high quality ingredients, craftsmanship involved and superior taste.

9) Orion beer is a regional beer brand only available in Okinawa, which enjoys an extremely high local market share.

## 2. Otaru Beer Overall

Overall, Otaru Beer is planning to massively expand to the Kanto area around Tokyo, with multiple new beer restaurants to be created throughout the coming next years. This plan, which is strongly pushed for by Aleph, will certainly provide new challenges, whether these restaurants are to be operated under the same roof of Otaru Beer or by Aleph.

## 3. Discussion

Applying the theoretical frameworks introduced in Chapter 2, namely social capital, sensemaking and sensegiving, we are going to analyse the developments introduced in the previous chapter, and attempt to answer the two research questions:

1. Why did Otaru Beer's branch 'Otaru Soko No 1' turn profitable only after the German brewing engineer Johannes Braun became manager?
2. How was the organisational outsider Johannes Braun able to effectively manage his Japanese employees through the change he initiated?

For this, we will analyse the pre- and post-Braun situations along with the three dimensions of social capital: structural, relational and cognitive. Integrated in this framework, the theoretical concepts of organisational learning and sense-making and -giving will be actively utilized to clarify the processes where the different types of social capital were connected together and made these developments possible.

### 3.1. Structural Social Capital

#### Aleph Era

While Otaru Soko No1 was managed by Aleph, the branch's structural social capital was very similar to other restaurants of the firm, such as Bikkuri Donki. Strong Social ties existed between the restaurant manager who was employed as a lifetime employee, and managers at Aleph's gastronomy division, to which he reported.

A major source for the strength of these social linkages can be found in the mandatory period of three years, which new (lifetime) employees initially spend working as a restaurant manager at a Bikkuri Donki. Only after this period of on the job training (OJT) has been completed, employees are transferred to different functional areas or restaurants. This provides a common background and understanding which also influences the other two areas of social capital.

In contrast to these strong ties between permanent employees stood the relationship between permanent and part-time employees. As part-timers made up 98%<sup>10)</sup> of all restaurants employed at the branch, they played a significant role in defining the configuration of its social capital. Part-time employees traditionally make up a large share of all employees working in the Japanese restaurant industry.<sup>11)</sup> Following this industry model is likely the main reason that part-timers also made up a large majority of employees at Otaru Soko No1.

In contrast to regularly employed personnel, part-timers resemble many of the features of externally enacted boundaryless employees (Lazarova & Taylor, 2009). Without any long-term prospects of employment, many part-timers have

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10) One restaurant manager was managing up to 60 part-timers.

11) In 2011, 69.2% of all workers in the Japanese restaurant industry were employed as non-regular employees, (Asao et al., 2011).

little incentive to heavily invest into contributing to the branch's success. Linkages to Aleph headquarters were inexistent for this group, and owned to their large numbers, ties to the restaurant manager would be relatively superficial. As part-timers would not interact with many (if any) other parts of Alephs organisation, there would be little no appropriability of social capital for this group of employees.

Finally, the large number of employees, combined with a strong focus on attracting tourists as customers, were inhibiting the creation of strong social ties between customers and part-timers. Some ties likely existed between the few regular customers and the restaurant manager.

In summary, it can therefore be said that during the Aleph Era, strong social ties existed between permanent Aleph employees, but only weak and limited linkages between part-timers and permanents, as well as between most part-timers, due to their short average time of employment and large number. Ties with customers were also weak, if at all existent. We will now contrast this situation with the one during the Braun era.

### **Braun Era**

After being appointed manager, Braun initiated a series of organisational changes, which significantly altered the nature of the branch's structural social capital.

Firstly, responsibilities for the kitchen were transferred from the restaurant manager to a newly employed chief cook, who was employed as a contract employee and not a part-timer. Additionally, a chief-waitress was appointed and also employed as a contract-employee. Her task would be to support the restaurant manager in training newly employed part-timers as well as directly serving customers as a *primus inter pares*. These three employees already knew Braun, and possessed social linkages to him. The chief cook and waitress were both recruited mid-career and employed as contract workers, leading to weaker

linkages to Aleph headquarters, than it would have been the case if regular Aleph employees had been employed.

In contrast to this stands the restaurant manager, who had been working for Aleph since graduating from university, and who underwent the initial extensive training and socialisation process by Aleph, mandatory for all employees employed under a life-time employment scheme. All three core employees are excluded from Aleph's internal job rotation policy, providing them with the chance to build stronger social linkages to long-term part-timers and customers. These linkages are further strengthened by the reduced number of part-timers. Where the ratio of regulars to part-timers were 1:60, it is now 3:16, not including Braun. It is finally worth noting that both chief cook and restaurant manager directly report to Braun, who decides about their respective budgets.

Long-term part-timers now had the possibility to grow strong social linkages among them, extending to spending time together in outside work, which is likely a result of the reduced number of employees. Part-Timers have no strong social ties to Braun, as his responsibilities as executive of the Otaru Beer division, as well as his brewing duties do not allow him to spend extensive periods of time at Otaru Soko No1. Part-Timers do also not possess social linkages to Aleph headquarters. Both core-employees and long-term part-timers were able to develop stronger social ties to regular customers, building social capital outside of the organisation.

Finally, Braun possess social linkages to Aleph headquarters and the Aleph CEO, as he reports regularly to them in the context of deciding Otaru Beer's budget. However, Braun clearly has weaker social linkages than previous managers of Otaru Soko No1 had, as he joined the company mid-career, and never underwent the initial process of training and social-bonding, making it easier for him to access knowledge sources outside the organisation (Lazarova & Taylor, 2009). It is also important to point out that Braun has a special

relationship to the former CEO, who was the main driving force behind Alephs decision to enter the brewing business as well as employ a German brewing engineer. Both Dishman and Braun mentioned repeatedly that they felt to have always had the full support of the president, and that the differences about the strategic direction of Otaru Soko No 1 originated in Alephs middle management.

Overall, structural social capital changed from an organisation which mainly featured strong ties to its corporate headquarters, to an organisation that featured less redundant and more self-sufficient ties. Its higher degree of independence furthermore enabled it to react more flexibly on a local level, and to actively build strong social ties with the local community and regular customers.

## 3.2. Relational Social Capital

### **Aleph Era**

As indicated in the previous section, strong social bonds existed between regularly employed Aleph employees. This enabled the generation of unspecific, generalised trust, grounded in shared experience and narratives, which we will have a closer look at in the next section. We can assume that a high amount of associability existed, and tacit knowledge sharing was easily possible between these employees (Nonaka et al., 1996). However, as managers changed at regular intervals, building relational capital with non-regular employees was difficult.

Similar to structural social capital, building relational social capital was largely limited to regular employees. As the prerequisite for generalised trust is time that is spent in a particular organisational setting, the lower average time of employment would make it impossible for many part-timers to ever build this kind of trust (Leana & Van Buren, 1999; Lazarova & Taylor, 2009). In this context, we need to assume that the level of associability was equally low, as chances to ever be reprimed for a subordination of personal to organisational goals would be

severed by the short average time of employment of most part-timers working at Otaru Soko No1. Long-term part-timers were able to build trust and associability with regular customers and the restaurant manager; however, these part-timers were a small minority.

Management objectives of that time further aggravated this situation through their strong focus on attracting tourists, and associated measures such as ceasing the beer club, which would have eased the creation of relational social capital between customers and Otaru Beer.

To summarise, we can say that relational capital only existed between Aleph and the restaurant manager, as well as between some long-term part-timers and the restaurant manager, during this period of time. As such, Otaru Soko No1 had very little access to social capital outside of its parent company. In contrast to this stands Braun, who was able to build relational social capital with the local community, during the beer clubs that he hosted in hotels in Otaru, by this time.

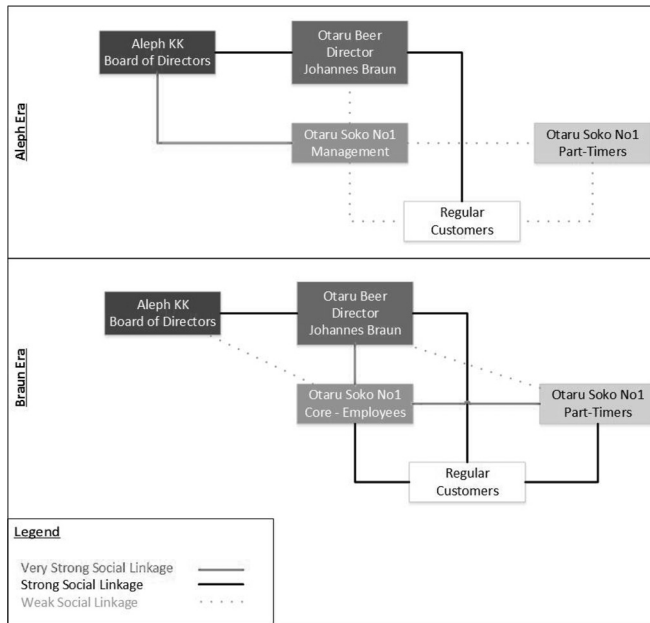
### **Braun Era**

We can observe the following changes in relational social capital within the branch, which have been depicted in Figure 6-1.

Very Strong ties exist between top and middle management as well as between middle management and employees. Braun's strong ties to his core employees are grounded in the long-time they spent working together, and thus of a mostly dyadic resilient nature. Core employees and part-time employees, on the other hand, profit from the long-term part-timers, as well as from a small number of group-members and shared national culture on a macro level. The very strong ties between core-employees and part-timers are accordingly based on generalised trust. Core employees as well as long-term part-timers are willed to subordinate personal to organisational goals (i.e. associability).



Figure 6-1 Comparison of Social Linkages at Otaru Soko 1 during the Aleph and Braun Era



Source: Self Creation.

One particularly interesting example can be used to illustrate the initial difficulties that arose from the very strong relation between Aleph’s management and the restaurant manager. During one interview, Braun mentioned that the relationship between both was not without tension. Due to the strong ties between the restaurant manager and Aleph there were instances in which Aleph bypassed the official chain of command, and directly gave orders to the restaurant manager. These problems could only be overcome after Braun had succeeded in making his vision for Otaru Beer comprehensible for the restaurant manager.<sup>12)</sup>

12) Taking the restaurant manager to Germany, played a central role in this act of sensegiving. For a detailed account, please refer to the next section.

Strong ties exist between Braun and regular customers, as well as between Braun and Aleph's management. Strong ties also exist between all employees (core-employees and part-timers alike) and regular customers. Braun's relational social capital within Aleph is mostly of dyadic-resilient nature.

For example, a strong relationship existed with the previous president of Aleph, as well as with his son and successor. The strong relationship between employees (and Braun) and regular customers is based on a high degree of generalised trust that regular customers poses in regard to Otaru Soko No 1 and Otaru Beer. Strong presence at local festivals and the reintroduction of the Beer Club at Otaru Soko No 1 have considerably contributed to the increase of social capital embedded in this relationship.

Finally, weak ties exist between Braun and part-time employees, as well as between Aleph's management and core-employees. According to statements from both Braun and part-timers there is little contact between these two groups. As operational management lies fully in the hand of the restaurant manager and the chief cook, many part-time employees will have very little opportunity to ever get into contact with Braun. In one interview, Braun mentioned that he had on occasion been mistaken for a customer by part-time employees. When it comes to the relation between core employees and Aleph's management, it is imperative to understand that the ties between restaurant manager and Aleph are very strong and feature high levels of generalised trust and associability, but the other two core-employees have no ties whatsoever with Aleph's management, considerably weakening the overall strength of ties.

To summarise, we can observe that within the local organisation, core employees play a central role as intermediaries. The strong relationship between them and both Braun and part-time employees serves as a substitute for the virtually non-existent direct relationship between Braun and part-timers. Finally, we can say that ties between the local community and Otaru Soko No 1 were significantly strengthened, while the overall relationship to Aleph was weakened

during this era.

Trying to improve the dyadic trust that was necessary for a functioning working relationship, Braun took the measure to take each of his core-employees to Germany, where he presented them with a real life example of what he envisioned for Otaru Beer. This event was also relevant on a level of cognition, which is why we will discuss it in more detail in the next section. Here it shall suffice to say that over time Braun was able to improve the working relationship through improving dyadic trust.

Clearly, Braun's measures hurt relational capital grounded in the relationship between Aleph HQ and local managers, but at the same time they strengthened social capital internally, as well as built stronger linkages to customers.

### 3.3. Cognitive Social Capital

#### **Aleph Era**

During the Aleph era, Otaru Soko No 1 was a purely Japanese organisation. As such, the shared language of all organisational members was Japanese. Shared understanding of (national) macro culture provided an asset for this form of social capital. Within regular employees, it can be assumed that shared narratives existed, and shared goals were the norm. This understanding, or sensemaking, had therefore three distinct sources, (1) Japanese culture, (2) Aleph's corporate culture and (3) Japanese craft beer culture.

Given their shared background at Bikkuri Donki, we can assume that Aleph's managers have a mind-set strongly focussed on restaurants, rather than one necessary to manage a beer brewery or a beer pub. This is likely the explanation for the strong focus on food that we could observe at Otaru Soko No 1. The managers responsible for Otaru Soko No 1 at Aleph's headquarter had background of working at the groups 'Half-Dime' restaurants, which are famous

for their themed interior. This might offer us an explanation for why a medieval theme was adopted for the branch's interior in 2000 it was simply tried to reapply strategies that had been successful in the past.

Finally, craft-beer culture, or rather the absence thereof, is significant. As Japan has had no tradition of regional beer breweries, due to strict governmental regulation and a powerful oligopoly of major beer firms dominating the market, craft beer was initially thought of as something that would be primarily interesting for tourists, and which might have the potential to revitalise regional economics (Seki & Osakaya, 2001). Accordingly, many craft-beers were priced highly and had less focus on quality, focusing more on novelty to attract tourists as one-time buyers.

To summarise we can state that during this same period, Otaru Soko No 1 possessed a very narrow range of sources for sensemaking, which were highly redundant among its organisational members. There were no precedents of successful regional breweries in Japan, or within Aleph, making it highly difficult for the involved management and employees to acquire the kind of knowledge that would have been necessary to succeed.

## **Braun Era**

Of all three categories of social capital, cognitive social capital is probably the one that saw the biggest changes after Braun was appointed manager. Given his different background in work, education, language and working experience in multiple cultures, he possessed a diverse range of sensemaking sources distinct from those of any other employee at Aleph or Otaru Soko No1. The two biggest differences lay in language and cultural background, which we will illuminate below:

### 1. Language

Although Braun is proficient in English and Greek and had become

proficient in Japanese since coming to Japan, his mother tongue is German. The ability to effectively communicate in a variety of languages has had the effect that Braun was able to gain access to diverse information only available in a specific language. This certainly provides him with access to external sources of information, which are not available to other employees, and can thus be regarded as an advantage.

However, Braun also has a liability when it comes to languages, namely that he is no native speaker of Japanese. This likely sometimes inhibits his ability to express himself as freely as he might be able to in his own mother-tongues, which can have serious consequences when it comes to the transmission of tacit knowledge. Sharing tacit knowledge relies heavily on shared culture and narratives, which Braun has less access to than other members of his organisation.

## 2. Cultural Background

Braun is a brewing engineer with a university diploma in beer brewing from Germany and a master obtained in Scotland. Before coming to Japan, he had primarily technical, rather than managerial responsibilities. During interviews Braun often showed his deep involvement and high affection for the beer brewing craft, and we can certainly assume that craftsmanship is a major source of his sensemaking.

One example is that his motivation for accepting the position as brewing engineer at Aleph was his interest in enriching the Japanese beer culture, which was very limited in tastes and brewing techniques at that time.<sup>13)</sup> He expressed his fascination of getting the opportunity of enriching a beer culture that he described as underdeveloped for an otherwise highly developed industrial nation.

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13) At this time, only two sorts of Japanese beer existed, black and pilsner, which stands in stark contrast to the hundreds of different beers available in Germany.

Braun also has a strong family background in beer brewing, as his ancestors were beer brewers. This provides an important influence, which becomes apparent when looking at the 'Dunkel' Beer sold at Otaru Beer, and whose recipe was drafted by Braun's great grandfather.

Finally, as Braun grew up in Germany, he is very familiar with Germany's beer industry, which is characterised by hundreds of small, regional breweries. These breweries often have very little ambition to export their beers, and depend heavily on the support of their local communities and stakeholders. This stands in clear contrast to the initial craft beer movement in Japan, which was primarily concerned with appealing to tourists.

To convey his vision of a regional beer brewery grounded in its community, Braun took his three core-employees to Germany in consecutive years. This act of providing his employees with a concrete example of what his vision would look like in reality made it possible for Braun to make them understand his vision for Otaru Beer. It allowed the core-employees to grasp what he meant, when talking about wanting to spread 'German Beer Culture', giving them access to a completely new base of sensemaking. It is because he was able to influence their sensemaking that this can be categorised as an act of sensegiving.

The success of this sensegiving activity is highly relevant, as Braun is largely refraining from meddling with the daily operational affairs of the branch, but instead controls strategic decisions and budget targets that he sets for restaurant manager and chief chef. If there was a fundamental disagreement in what the goals of the branch ought to be, we could assume that this kind of work-sharing agreement would lead to an increase of tension, damaging the efficiency of the branch's operations.

As core employees are also responsible for training and socialising newly hired part-timers, they have the everyday task of needing to explain Otaru Beer's (and thus Braun's) vision and goals, and operationalising them by transforming them into concrete work directives.

Another sensegiving activity was the newly introduced free tour through Otaru Soko No 1's brewing facility. This tour served a double purpose: (1) to attract tourists and locals to Otaru Soko No 1, and convey its vision, history and brewing styles for free; (2) part-timer's become aware of these same peculiarities. Having to explain brewing processes, differences between beer sorts and German beer culture required the part-timers to become knowledgeable in all these facts, and thus understand what Otaru Soko No1 was all about: giving people a place to enjoy their time with beer. Braun emphasised that he regarded the tours as the most important tool that made his part-timers understand his vision. Training for the tours was initially conducted by Braun, but is nowadays mostly in the hand of his core-employees.

Finally, Otaru Soko No 1 is present at most if not all festivals in and around Otaru, as well as hosting the monthly beer club. This, too, can be considered a sensegiving activity, aimed to change customer's perception of Otaru Beer from 'tourist beer' to 'our beer'. Especially during the winter months, when the influx of tourists is much lower than in summer, Otaru Soko No 1 depends heavily on these customers, which is why it is important for the firm to spread its beer culture into the local community.

### 3.4. Summary

The above outlined changes in Otaru Soko No 1's social capital formation can be considered the key determinants for the successful execution of the turnaround. Before the appointment of Braun, much of Otaru Soko No 1's social capital formation resembled the cooperative HR archetype described by Kang et al. (2007). This archetype would likely have proven to be appropriate, If Otaru Soko No1. (and Otaru Beer) had been a business well within the boundaries in which Aleph had experienced enough (e.g. opening a new family restaurant chain).

However, beer brewing, selling and the operation of a regional brewery were not only a new concept to Aleph's management, but also a business model that had been previously unknown in Japan. As shown in the repeated failures by different managers to turn around the branch, it was never an easy task to engage in the kind of radical innovation and explorative learning urgently needed in this situation. This becomes especially apparent when we look at the fact that Aleph's initial intention was to close down Otaru Soko No1 in 2008, because they could not come up with any way of turning the branch profitable, before Braun took the initiative.

The case of Otaru Soko No1 therefore presents an example in which an increase in diversity can be the prerequisite of radical innovation and optimized resource allocation in Japanese companies. Accordingly, the positive effects of externally enacted boundaryless careers that Lazarova et al. (2009) identified, can also be valid even for medium-scale companies in Japan. Nevertheless, in the case of Otaru Soko No1, a number of additional factors that strongly contributed to its success should be taken into account:

- Braun was able to relatively freely choose the radical changes he wished to initiate, as he had the support of Aleph's top management and was placed in the managerial position. If Aleph's president had not chosen to recruit Braun during the foundation of Otaru Beer, and to continue to support him over time, Braun's task would have been considerably more difficult, if not impossible.
- Braun had a strong understanding of his regular customers in Otaru, which he gained by working for Aleph for over 15 years as a brewer, and by hosting beer clubs and directly interacting with his customers, before becoming Otaru Soko No1's manager. If he had been appointed immediately after coming to Japan, his lack of shared cognition (most prominently language wise), as well as his lack of any kind of network (structural and relational social capital) he could rely on, would have condemned any attempt of change to fail. Braun was also the only manager of Otaru Soko No1 who ever lived in Otaru, while all



his predecessors had commuted from Sapporo to the branch. This also gave him a chance to catch potential needs of the local community and environment.

- The authors were furthermore able to empirically confirm the findings of previous studies that a successful organisation will always need both explorative and exploitative ways of learning. Braun's cultural background and knowledge provided the indispensable source for explorative learning. On the other hand, the transition from the traditional system of one restaurant manager with many part-timers, to another system of a team of core-employees with fewer part-timers, was essential for translating this vision into concrete objectives, which required tacit knowledge to be transmitted.
- Finally, providing employees with autonomy in how they conduct daily operations was of great importance. A manager such as Braun who didn't have a long experience in the shop he had to manage, might not be able to efficiently control daily operations of his subordinates. Braun's approach of setting budget goals instead of micro-managing for his employees provides an example for an effective management technique in this regard.

Taking all those factors into account, we can safely say that an increase in employee diversity has some potentials highly beneficial even for small local business in Japan. While big Japanese companies such as Sony or Nissan have already made experiences with foreigner CEOs, many smaller Japanese firms are still highly dependent on home-grown, purely Japanese workforces and managers. This approach will benefit them as long as no necessity arises to adjust the overall business model or to laterally expand the firm's business operations. If such a necessity arises, however, seeking to tap outside knowledge sources not by relying on consultancies and external advisors, but by employing (and thus internalising) the persons that possess the desired knowledge is deemed to be an option that ought to be considered.

From a theoretical perspective, we propose that the combination of social capital theory with theories of sensemaking and sensegiving into an integrated analytical framework has been proven to be effective in the current case. Certainly, more work is necessary to test this approach's reliability for analysing different organisations, especially because the main concern of this thesis has been to provide an accurate analysis of Otaru Soko No 1's development, and the framework had been created as a by-product.

## 4. Conclusion

In this case study, the social and psychological phenomena underlying Otaru Beer's branch Otaru Soko No 1 turnaround have been clarified, and an overview over important measures that were taken as a result of these phenomena has been presented. While the results of this single case study cannot be generalised, they still provide us with important indications about the interplay of individual decision-making (i.e. sense-giving) and social structures for generating successful innovations.

Drawing upon frameworks of innovation, social capital and sensemaking the authors showed how a change in social capital configuration was an essential prerequisite for radical innovation to happen; how the German brewing engineer Braun was able to see solutions, which other managers had been unable to see, due to his different sources of sensemaking. It was furthermore made clear that his attempts to change the organisation were only successful, because Japanese core-employees were able to translate his vision into comprehensible and concrete action for regular (part-time) employees. Therefore it can be said that sensegiving, utilised as a way to transmit the highly tacit idea of German beer culture from Braun to his core employees, was another highly significant element in turning around the company.

Derived from this analysis, we propose that rather than attributing Otaru Soko No 1's turnaround to just one man, it was indeed the impact that this man had on the organisation, and the core-employees that made it possible to create

a common understanding of a radical new organisational paradigm.

Self-understanding of Otaru Soko No. 1. has evolved from mere a part of the Aleph restaurants interested mainly in tourists, and whose original function was to at some point supply beer to the Bikkuri Donki chain, into a beer pub which seeks to tailor its service not only to tourists but also to the local community in Otaru. Coming close to the business model of traditional small breweries in Germany, Otaru Beer was able to succeed.

From a theoretical point of view, this thesis helps showing that the theories of social capital and the HR archetypes that influence it are, while oftentimes devised with big corporations in mind, are highly relevant for smaller firms. For smaller companies though, it has been shown how strong relationships with local stakeholders can prove to be significant for a company. As has been shown, these local stakeholders can be both resources<sup>14)</sup> and targets of sensegiving, which can provide a significant regional competitive advantage for a firm.

For practitioners, especially for not so large firms in Japan, the findings presented in this thesis are significant as they show the dangers associated with a strong integration of members, as well as the opportunities possibly offered by the people with different sources of sensemaking. Furthermore, this implication holds true even for a purely domestic business, which does not engage into any sales activities abroad. It is our hope that these findings can ultimately help regional companies in Japan realise a higher potential.

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14) For example the monthly beer club, that was an idea suggested by a local customer.

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# Appendix

## Interviews

All interviews were conducted in a semi-structured way. Questions were prepared by the interviewers, but room was allowed for the interviewee to freely explain his or her opinion, and gain in-depth information.

### **Johannes Braun, Director of Otaru Beer**

2013-03-15

Pilot interview, which included many general questions concerning Otaru Beer's history, development and the person of Braun himself. It was the goal of this interview to get a first understanding of Otaru Beer, and to evaluate its potential as a candidate for this paper. The interview was conducted in German at the Zenibako main brewery, and took approximately 1.5 hours.

2013-06-19

The main goal was to confirm and expand upon the information obtained by different stakeholders with which the authors had conducted interviews in the mean-time. The interviews main-topics were the relationship between Braun, Dishman and Aleph, the concept of the beer club, the relationship to part-timers and core employees at Otaru Soko No 1 and conflicts and their resolution as they occurred at Otaru Beer. The interview was conducted in German at Otaru Soko No 1, and took approximately 1.5 hours.

### **Takeshi Kawata, Branch Manager of Otaru Soko No 1**

2013-05-15

The main goal of this interview was to better understand the role of Kawata

as a branch manager, as he had been working at Otaru Soko No1 from since before Braun's appointment as direct manager of the branch. Important topics were his opinion of Otaru Soko No1's concept, his relationship to part-timers and to Braun, as well as to the branch's business model. The interview was conducted in Japanese. It took approximately 1 hour at a private premise.

2013-10-07

This was a very short interview, which served the purpose of confirming information concerning part-timers working at Otaru Soko No1, as well as organisational change instigated by Braun. It was conducted in Japanese. The interview took approx. 10 minutes and was held at Otaru Soko No1.

### **Yuko Ino, Chief Waitress at Otaru Soko No1**

2013-05-15

During this interview, the relationship between Ino, Kawata, Braun and the part-timers was the first focus point. We also investigated about her opinion of German beer culture and the business culture under Braun and under Aleph management. The interview took roughly 80 minutes at Otaru Soko No1, and was held in Japanese.

### **Anonymous, Hall Staff at Otaru Soko No1**

2013-05-15

To avoid focussing too much on the management level, we conducted the interview with a long-time part-time employee. He had worked at the branch for over 5 years, and openly answered our questions concerning the relationship between part-timers, part-timers and management and German beer culture as well as his relationship to Braun. The interview took approx. 70minutes, and was conducted in Japanese and on private premises.

**Rika Kuniyoshi, Controller at Aleph for Otaru beer**

2013-05-20

Kuniyoshi was included to get some opinions from the Aleph side of view, as she was a long-term employee working for nearly two decades for the company. She also supplied some data concerning Otaru Beer. The main questions revolved around the opinion of Aleph towards Otaru Beer, its present management, as well as its products. The interview took roughly 70 minutes and was conducted at Otaru Soko No 1.

**Brian Dishman, Manager of 'Leibspeise', 'Beer Horn' branch**

2013-05-28

Dishman has been working at Aleph since before the foundation of Otaru Beer, and has worked in the organisation since its foundation. During the interview, he answered questions concerning his relationship to Braun and Alephs management, as well as to the turnaround of Otaru Soko No 1. The interview took roughly 2 hours, and was conducted at Leibspeise and in English.

**Yasuhiro Usui, Event Manager at Otaru Beer**

2013-10-09

As Otaru Beer's event manager, Usui was very familiar with the different kind of events that Otaru Beer holds throughout the year. The main focus of the interview laid on Otaru Beer's participation at festivals, as well as its recognition by the local population. The interview took roughly 45 minutes and was conducted at Otaru Soko No 1 and in Japanese.

## Otaru Beer

### Aleph Company Profile

Founded	1968
Capital	442,615,500JPY
President	Dai Shoji
Employees	667
Part-Time Employees	3,082
Sales	36.4 billion yen (FY2004)
Food Processing Factories	Hokkaido Factory, Iwate Factory, Fukushima Factory, Saitama Factory, Gifu Factory, Fukuoka Factory, Otaru Brewery, Coffee Roast Factory, Biratori Factory
	340 (142 company-owned, 198 franchised) (as of September 2014)
	* The total outlets number excludes Ginga Teien.
	- Bikkuri Donkey: hamburger steak restaurant chain
	- Pepesale: Italian casual restaurant
	- Otaru Soko No.1: brewery and pub
	- Leibspeise: beer pub
	- Beer Horn: all draught beer and stone oven food
Restaurants	- Rakuda-ken: pizza and pasta restaurant
	- Restaurant Bocca, Kitano Branch
	- 43°STEAKHOUSE: dry-aged beef steak speciality restaurant
	- Half Dime: roast beef restaurant
	- Ginga Teien: English theme garden
	- Hananomakiba: garden centre
	- Restaurant Ten-man: salad buffet restaurant
Head Office	1-26, 6-jo 3 chome, Kikusui, Shiroishi, Sapporo, Hokkaido, 003-8515, Japan TEL: 011-823-8301 FAX: 011-823-8192

Source: Aleph 2014: [http://www.aleph-inc.co.jp/english\\_business/outline\\_en.html](http://www.aleph-inc.co.jp/english_business/outline_en.html)  
Retrieved on 2014-10-13

## History of Otaru Beer

Year	Event
1995	Founding of Otaru Beer and Otaru Soko No1 by Aleph.
1997	- Beer sales to independent bars/supermarkets are integrated from Aleph into Otaru Beer. - First Beer Club is held at Otaru Soko No1.
1999	New main brewery is opened in Zenibako.
2000	- Redesign of Otaru Soko No1 interior and price increases are implemented to achieve profitability. - Beer Club is seized at Otaru Soko No1.
2002	First Beer Club held at Zenibako Brewery.
2004	Sapporo Branch 'Leibspeise' opens.
2005	Beer Club returns to Otaru Soko No1.
2008	Johannes Braun is appointed direct manager of Otaru Soko No1. Introduces changes to business model and changes interior design.
2011	Tokyo branch 'Beer Horn' opened in Akasaka.
2012	Otaru Soko No1 turns profitable for first time.

Source: Conducted Interviews

## Organisational Structure of Otaru Soko No1

