Functioning As a Joint Industry-Government-Academia Research Base, the Russian Research Center Brings Together Researchers from Around the World

A new page in industry-academia collaboration

With the incorporation of Japanese national universities, Hitotsubashi University has begun to step up its joint industry-academia activities. In discussions between Yoshio Ishizaka, Hitotsubashi University Board Member and Senior Advisor to the Board of Toyota Motor Corporation, and the University's Executive Vice President for Research and General Affairs Yoshiaki Nishimura, the idea of joint research relating to Russia came up. Then on November 1, 2007 the Russian Research Center was established in the Institute of Economic Research (IER), occasioned by a Toyota-commissioned project on the Russian economy.

I belong to the U.S., European and Russian Economies research department, which conducts empirical studies on regional economies not only in the United States and Europe but also in Russia (the former Soviet Union). Russian studies have also been carried out in the Comparative Economic Systems research department. The Russian Research Center was established based mainly on these two departments.

Since World War II, the IER has been a major center of research in Japan on socialist planned economies. It has come to be regarded as Japan's leading place for theoretical and empirical research on the process of economic system transition in the former Communist world following the collapse of the Berlin Wall in 1989.

The Russian Research Center, besides bringing together the knowledge in Russian studies accumulated through these earlier activities, promises to help further the development of Russia-related research, taking advantage of a network of research organizations and researchers in Japan and abroad. At the same time, by providing academic backing to Japanese corporations doing business in Russia or contemplating such plans, the Center seeks to strengthen ties between the IER and the industrial world.

The organizational change, in other words, makes clear both internally and to the outside world that after having focused mainly on academic research, we are now embarking actively on a path of contributing to society through industry-government-academia partnerships.

The change in focus also means that we can no longer be content with having our research results understandable only among specialists. Our message will have to be presented more comprehensibly and convincingly, as well as dealing with more specific topics. For example, Russia's policy on the auto industry was not an object of much IER attention in the past, but became a research theme ("A Study of the State Policy for Promotion of Automobile Industry in Russia") for the 2007 academic year. In such ways, we are shifting to a more open research style, breaking free from the strict confines of the past approach.

The BRICs Report and the Russian Economy

As Russia becomes more market oriented, it aims to become a new type of economic powerhouse, not only drawing on energy resources such as oil and gas but seeking as well to develop automotive and other industries. It is also reforming its military-based industrial structure to restore manufacturing industries. How these efforts will turn out is of major interest.

As evident from problems with its neighboring Georgia, Russia is at the center of the former Soviet bloc and wields considerable influence on surrounding nations. Russia's position is a special one, both in the global economy and in global politics, making it a player of deep interest. Given the importance of international relations to business development by private companies, "Effective Economic Zones and Industrial Policy in the Areas of the Commonwealth of Independent States" was adopted as a research project for the 2008 academic year.

The Goldman Sachs' BRICs report painted a picture of Russia as a "dream," and in reality Russia's growth has surpassed even the expectations given in that report.

An additional factor is that the state decision-making structures in Russia have changed more than is generally realized. Democratic elections take place; and while there are problems with processes and transparency, private ownership of corporations has progressed and a private enterprise system is in place. Even though China has advanced further in allowing foreign investment and other areas of economic openness, Russia's economy has also changed greatly.

What kinds of barriers exist in Russia today? How will these change in the future? Since Russia right now is not globally competitive in passenger automobiles, the entry by Toyota, Nissan, Suzuki and other automakers comes with expectations for modernizing the Russian auto industry. With each step forward, however, there are concerns that these companies will encounter problems peculiar to Russia or special issues, or will bump up against government-related obstacles.

The Russia That Russia Researchers See Best

Former Soviet Bloc countries, partly due to language issues, are not very well known. Companies tend not to develop their own Russian experts. While there are companies like Komatsu, the construction equipment maker, who have made deep inroads into Russia and have developed good relations, they are the exception. Most companies have no experience of deal-

ing with Russia. That makes all the more significant the existence of Russian researchers who have continued studying in Universities. We also have the advantage of knowing most of the leaders of the new industry-government system in Russia, with their background in the academic world.

Some observers are pessimistic as to whether the Russian economy can continue to grow. My understanding, however, is that while it faces some problems, Russia's economy has the capacity for strong continued growth. This topic of the long-term outlook for the Russian economy is one that has been discussed extensively at our Research Center.

The reason for believing it has this growth capacity is that the problems existing up to now only require a little fixing to achieve major improvements. Even with a little more management effort, or a little effort to introduce slightly better machinery, the benefits will be great. The important thing in management is to raise management efficiency. The effects of resource allocation are large, as are the benefits to be had from updating equipment that has not been upgraded in decades. It does not even have to be the very latest equipment.

As for why the potential of the Russian economy has not been viewed more favorably, this is because people have underestimated its capabilities as growth factors. Besides holding too low an estimate of the existing situation, they have not been able to see clearly the effects from changing this situation.

Currently we are conducting research in a tie-up with Russia's Federal State Statistics Service. We are trying to improve the data, putting it in a form that can be viewed a bit more objectively. The observations above are so far borne out by what we have seen up to now in this process.

Russian Industry Statistics Are Still 30 Percent Uncharted

One thing that makes Russia studies so interesting is the special nature of the subject. While dragging along the Soviet legacy, Russia has launched a completely different system in the 21st century, building anew from what the country itself destroyed. It has taken up for a second time the challenge of capitalism that began a century earlier. There is no other case like this. We cannot mechanically map this course onto previous paths or trajectories. That makes the studies difficult, but this is where the significance of Russia researchers lies.

In the course of our efforts, we have helped improve Russian statistical data. The government has become more forthcoming about releasing this data, but it is not yet up to international standards of openness.

Another factor is that while in the Soviet era it was possible to order companies to submit information, today it is difficult to obtain reliable information. Besides, in the controlled economy of the past, data tended to be inflated, whereas now it is more likely to be understated, for tax reasons among others. The so-called "10-5-3" income transparency phenomenon in Japan is now reflected in Russian statistics like the GDP. Whereas the GDP figures are able to reflect 90 to 100 percent of the reality for industrial corporations, this level is only around 50 percent for commerce and 30 percent for agricultural companies. Overall, some 20 to 30 percent of economic output is completely below the radar.

With the collapse of Communism, people with old ways of thinking or those who would like to change but cannot are left behind. While it was a bloodless revolution, no one foresaw that more than a million people, or several million over a ten-year period, would lose their lives not to war but to stress. A change in regime does not bring only good results right away.

A Research Center Able to Obtain Cooperation

Following the lead of the first Director Shigeto Tsuru, the Institute of Economic Research after World War II has carried out researches mainly on Japan and Asia, with emphasis also on the United States and Soviet Union. We have thus been involved in Russian studies from early on. The IER library, in fact, boasts Japan's largest collection of works on the Russian economy.

Within the rather large category of society and the public sphere, our emphasis from this time has been on collaborative research. Since this is our first involvement in joint research with private corporations on specific themes, it is being supported also by the IER as a whole.

In addition, outside researchers from private corporations are taking part in our projects. In that sense, the Russian Research Center has gone beyond simply offering cooperation to become a research center capable of attracting outside cooperation. I would like us to continue being an organization where various researchers and economists gather, both from Japan and overseas, as a central place of the researcher community. By actively seeking cooperation of outside researchers and carrying out our studies together with them, the importance of the Russian Research Center as a base of worldwide research will continue to grow.

[Based on an interview with Masaaki Kuboniwa, Professor, Institute of Economic Research]

Masaaki Kuboniwa
Professor, Institute of Economic Research

Major fields of specialization: Comparative economic systems, Russian economy, Input-output (Inter-industry) analysis, Econometrics

Graduated with a B.A. in Economics from Yokohama National University in 1972. In 1974, earned an M.A. in Economics from Hitotsubashi University, followed by a Doctoral candidate degree in 1977. Became Assistant Professor at Hitotsubashi University in 1977, Associate Professor in 1981, and Professor in 1990.
In 1987, served as guest researcher in the Central Economics and Mathematics Institute, USSR Academy of Sciences.
From 1990 to 1991, was guest researcher at the University of California, Berkeley and at the Harvard University Russian Research Center (now called the Davis Center for Russian and Eurasian Studies).
In 2003, received an honorary doctorate from the Central Economics and Mathematics Institute, Russian Academy of Sciences.
In 2004, awarded the International Leontief Medal.
From 2004 to 2005, was Director of the Institute of Economic Research
In 2006, served as guest researcher at the Leontief Center.

Service-Dominant Logic
The new perspective, "value co-creation," creating value together with customers

Managing the Four Characteristics of Services

The service sector has driven growth in the global economy. It accounts for 70 to 80 percent of economic activities in Japan, the United States and many other developed nations, while the relative size of this sector is expanding in developing nations like China and India as their economies grow. Research on services has also changed greatly in response to this reality.

Service research started out originally as a sub-field of marketing. By first of all making a clear distinction between "things" (manufactured goods) and services, researchers attempted to determine the characteristics specific to services.

Generally services are considered to have characteristics like the following.

- Simultaneity: Production and consumption of services occur during the same time period.
- Perishability: Services cannot be stored up.
- Intangibility: Services cannot be seen or touched.
- Variability: Services change depending on who provides them to whom, when, and where.

These characteristics of services give rise to many different management challenges.

Simultaneity means that consumption of a service occurs while the customer is involved in the service production process. This makes it necessary to manage both the customer and the customer serving staff at the same time. Perishability requires rigorous management of the supply-and-demand balance. Intangibility, moreover, makes it essential to exercise ingenuity in how to convey customers what one is offering. Finally, since variability means the content and quality of service vary depending on the provider, recipient, and situation, it is important to exercise proper management on service providing process and skills.

Total service management is needed for solving management issues like these. It is an integrated management approach combining the three basic functions of marketing management (managing the points of customer contact), operations management (managing the service provision process), and human resources management (managing the people who provide services). These three functions are carried out concurrently, in interaction with each other. The key point here is that this integrated management must be conducted in a way that involves customers in the service provision process (see Figure).

Core Concept of Service-Dominant Logic: Value Co-Creation

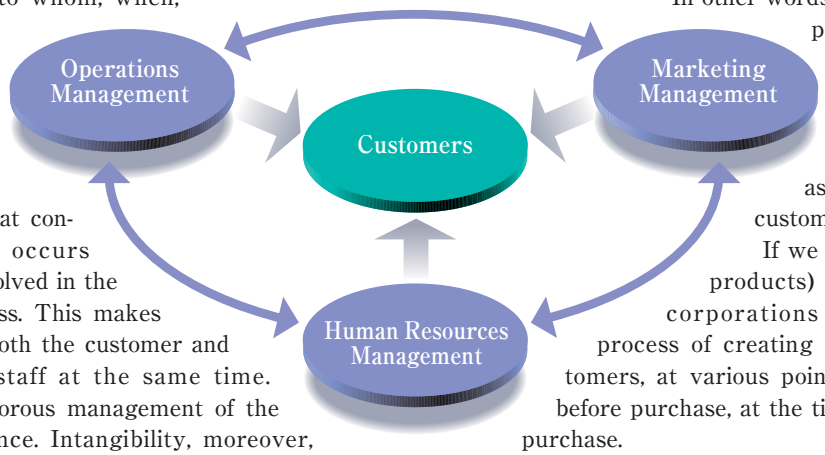
In this way, service research has developed from the starting point of a clear distinction between goods and services. Recently, however, businesses that have aspects of both goods and services; and moreover, the manufacturing and other industries have come to be studied by service researchers. In contrast to the extant research based on a dichotomy of "goods versus services" and "manufacturing industry versus service industry," recently attempts are being made to understand the logic underlying both goods and services. This approach is known as service-dominant logic. A core concept is "value co-creation." The idea that not only the service providers but the recipients of service get involved in production activities, and that value is created together through the interactions between corporations and customers, is being applied to various industries in order to build a common management logic.

As an example, consider the value realized by products in the manufacturing industry. Is value created at the time a customer purchases a product? It would be more natural to think value as being created in the process of using the product after purchase. To take a well-worn example, the value that a drill maker creates for customers is realized not at the time the drill is purchased, but when the customer uses it to drill a hole.

In other words, in the process of using a product, value is created through interaction of the customer with the company and product. The product is viewed as a means of creating such customer value.

If we see things (manufactured products) from this standpoint, all corporations need to manage the process of creating value together with customers, at various points of customer contact - before purchase, at the time of purchase, and after purchase.

[Service Management Perspective]



Service Innovation: Putting the Service Field alongside the Manufacturing Industry as Twin Engines of Growth

The U.S. Council on Competitiveness in 2004 issued a report, *Innovate America*, calling for investment in research in the service field as part of a national strategy. In Japan, as well, a New Economic Growth Strategy was announced in 2006, followed by "Innovation 25" in 2007, both calling for the service sector to be placed alongside the manufacturing industry as twin engines of economic growth. Today it is actively argued across different fields in industry, government, and academia that innovation in the service field is essential to future growth.

Although the service industry in Japan, from an international standpoint has been said to suffer from low productivity and lack of competitiveness, we can also find some examples of successful companies that have created new customer value through innovative ideas and strategies. Among these are Bookoff Corporation in the used book industry and Studio

Alice in the studio photography industry.

These examples can be seen as the result of entrepreneurship, taking advantage of the low productivity and lack of competitiveness in an existing industry and seeing it as an opportunity to try creating new customer value. What's more, these entrepreneurs have actively embraced the concept of "value co-creation." Recognizing a gap between the business-as-usual service concept and customers/markets, they succeeded in newly defining their own original service concept.

Service Globalization: Globalization Strategy Originating from a High-Context Culture

When thinking of Japanese companies that have succeeded on global markets, names like Toyota, Canon, and Sony most often come to mind, all of them in the manufacturing industry. It is more difficult to come up with the names of Japanese companies in the service sector that have made major globalization strides. How did this come to be?

It might be helpful to consider, from the standpoint of "value co-creation," the issue of cultural differences, in particular the degree to which context is culturally dependent.

Context is shared understanding of background, rule and situation. It is one way of understanding different cultures. The cultural anthropologist Edward T. Hall advanced the concepts of "high-context culture" and "low-context culture." In a high-context culture, the conveying of information by non-verbal communication, implicit rules and other tacit knowledge plays an important role, whereas a low-context culture depends largely on communication by verbal communication, codified rules and explicit language.

In a high-context culture like Japan, unseen aspects such as customs, beliefs, and values play a more important role than obvious aspects like language, behavior, and structural mechanisms. The opposite is true in a low-context culture like that of the United States.

In low context culture, the service provision process and service content are made more codified and visible to employees and customers. It should therefore be easier to transplant the concepts and know-how when bringing these services to other cultures, including high-context ones. In contrast, where such effort toward codification have not proceeded in high-context cultures, this can be expected to hamper attempts to transfer service businesses to low-context cultures.

Assuming this analysis is on the mark, the issue for Japanese service companies trying to become more global is whether they can develop the means for gaining the understanding of employees and customers across cultural contexts.

Manufactures as Service Providers: Building the Means for Maintaining Customer Contact Points After Sales

If, as noted earlier, we adopt the idea that what a drill maker sells is not "drills" but "holes," it becomes possible to see a manufacturer also as a service providers. So what must be done in order to "sell holes"? Its success depends on whether to be able to create continued contact points with customers, and to continue creating customer value, after a product is sold.

Among B2B (business-to-business) success stories is the case of GE Healthcare, which after selling medical equipment such as MRI and CT scanners, continues to monitor equipment usage remotely, and offers to manage and analyze patient data on behalf of client hospitals. Another is Komatsu, which outfits all the construction equipments it sells with GPS and computer-based monitoring device and tracks their use in the field in real time on its own Komtrax network, then advises customers how to use the equipment more efficiently.

A B2C (business-to-consumer) example is Asics. Based on 3D foot data measured at its company owned stores, the sport shoes manufacturer is able to provide accurate advice regarding the best-fitting shoes for each customer. Their stores are also equipped with locker rooms and showers, and offer customers such services as group running lessons.

In these ways, companies are finding successful ways to maintain after-sale contact points with customers and to continue creating value.

Looking at various examples of manufacturing organizations that have adopted a service approach, we can see differences between the American type and the Japanese and German type. American companies like IBM and GE in the process of going over to services have largely given up on manufacturing, choosing to expand their sales and earnings through service business. On the other hand, Japanese and German companies, which are skilled at making things, do not discard their manufacturing capabilities. Instead, by integrating services into manufactured products as in the Komatsu example, they seem to be moving toward a model aimed at revenue and profit growth through increased sales of goods.

The above issues of "service innovation," "service globalization," and "manufacturers as service providers" are all issues that many corporations are faced with at this very moment. Expectations will continue to grow for service research, which raises these real-world issues as research topics, and aims to build a foundational management logic.

[Based on an interview with Yoshinori Fujikawa, Associate Professor, Graduate School of International Corporate Strategy]

Yoshinori Fujikawa
Associate Professor, Graduate School of International Corporate Strategy

After graduating with a B.A. in Economics from Hitotsubashi University, he went on to earn a Master's degree in Commerce from the graduate school. Later he received an M.B.A. from Harvard Business School and then a Ph.D. in Marketing from Pennsylvania State University.
He also worked as a Research Assistant at Harvard Business School, as a Lecturer at Pennsylvania State University, and as a consultant with Olson Zaltman Associates before assuming his present position. His main areas of specialization are marketing, service management, and consumer behavior. He has contributed to the Yuhikaku series *The Age of Marketing Innovation*, as well as the *Harvard Business Review* (Harvard Business Press), *Hitotsubashi Business Review* (Toyo Keizai), *Marketing Journal* (Japan Marketing Association), and many other publications.