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Top Management Forum: Management Innovation for Productivity Improvement in the Service Sector


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TOP MANAGEMENT FORUM

Management Innovation for Productivity Improvement in the Service Sector

ASIAN PRODUCTIVITY ORGANIZATION
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The service sector has been playing an important role in economic growth in Asia in recent years. The contributions of the service sector to labor productivity growth are also notable in the APO member countries as well. In the meantime, while Asia enjoyed double-digit growth in the past, it began to experience downward dips due to the global financial crisis beginning in 2008. In this climate, urgent solutions are sought to revamp national economies.

The service sector has been identified as the engine to trigger an economic rebound. This sector includes a broad spectrum, ranging from education to IT industries, and different types of service businesses have taken different paths for management innovation. In the era after the financial crisis, service enterprises will assume an important role in economic recovery.

The APO Top Management Forum 2009 was held in Kyoto and attended by 32 overseas participants from 16 APO member countries, as well as by 11 local observers. The forum invited speakers from various service businesses to introduce outstanding examples and management models that allowed leading Japanese corporations to succeed in both domestic and global competition. The forum participants benefited from insightful information and experiences shared by the distinguished speakers, to whom I would like to convey my gratitude. With extensive coverage of a variety of service businesses and their management innovation, I am sure that the APO participants will be able to adopt some of the tools and knowledge introduced during the forum to their own national contexts to start economic recovery and further growth in the region.

This publication contains summaries of the presentations on management innovation for productivity improvement in the service sector. I hope that it helps readers review the topics covered in the APO Top Management Forum 2009 as well as expand knowledge of the best practices of service management innovation by leading Japanese companies.

Finally, I would like to express my sincere gratitude to the Japanese government for financial support and to the Japan Productivity Center for its assistance in organizing the Top Management Forum.

Shigeo Takenaka
Secretary-General

Tokyo
June 2009
Summary of Presentations
The Way Towards Productivity Improvement in the Japanese Service Sector

Dr. Kazuhito Hashimoto
Professor
Faculty of Engineering
School of Engineering, The University of Tokyo

In Japan, the GDP of tertiary industries has gradually increased over the last 20 to 30 years. Tertiary industries account for nearly 70% of the Japanese economy in both GDP and number of workers. The term “service industry” is narrowly defined as medical, nursing care, education, distribution and other service industries, and these are targeted by the government. Over the last 10 years, the number of employed workers in the service industry has decreased while it has increased in the manufacturing industry.

It is important that productivity is increased in the service industry due to factors such as the drastically changing social structure in Japan, advanced modularization in the manufacturing industry, and the expansion of new service markets. The productivity growth ratio in the service industry in Japan is much smaller than that in the United States, the United Kingdom and Germany and is decreasing drastically, especially in the narrowly defined service industry. Factors behind this low productivity include a high proportion of SMEs and the fact that many areas are not subject to global competition.

The Japanese government is serious about improving service industry productivity. In 2007, it established the Service Industry Productivity Council and implemented the Growth Power Acceleration Program, which is built around such policies as IT information technology innovation. Productivity can be increased in two ways: by adding value improvements or creating new businesses or by improving efficiency. We are confident that the quality of Japanese service is very high, and we believe that the service industry can serve as an engine for Japan's economy.

With the rapidly changing times, something has to be done for the next 50 years in the service industry, otherwise the market will shrink and consumption preferences will change. The globalization of commodities and the market is a very clear trend for the next 30 years or so. Features of Japan's service industry include high-quality service, trustworthy human relations, wonderful tourism resources, superior science and technology, and geographic superiority. The service industry is widely distributed and has the characteristics of intangibility and simultaneity. Consumers are very strict in Japan which drives the improvement of quality.

To improve productivity, we are thinking of four approaches: regulatory reform by the public sector, value creation with consumers, supply-side innovation and globalization. We need to avoid homogenized competition and provide a high level of satisfaction by sharing value with consumers. Supply-side innovation involves improving productivity and developing new demand through adoption of scientific methods, reform of service processes, information technology use, and so forth. Examples include the introduction of an automated food transport system at the Japanese inn Kagaya, the use of web-camera
PCs to monitor farmland conditions by the agricultural company Shinpukuseika, and the installation of GPS systems in construction and mining equipment by the construction company Komatsu.

The service industry and secondary industries need to collaborate to develop new social systems such as zero-emissions type mobility and high-level healthcare systems. Examples of such collaboration are the Smart Robot, which can be used for nursing care, housework, and manufacturing, and the advanced diagnosis and prevention of illness. Thus, the future goal is services supported by the technologies and science and new markets based on technologies and science. Last is globalization of the service industry. The service industry cannot be exported, so people must be invited from overseas, and a framework for this has to be developed. The other option is expansion overseas, which is not easy because of cultural differences, but it is possible to transport high-quality services overseas.

The framework of service productivity and innovation for growth includes eight committees. The Japan 300 High-Service Award Committee selects 300 firms in the service industry in recognition of their approach to service and provides support for their further development and growth. The Customer Satisfaction Index Committee proposes targets and identifies problems regarding productivity. Although the eight committees are working on how to improve the productivity of the service industry, there is now the big problem of the drastic financial and economic crisis. Globalization is one of the key points for the service industry, yet there seems to be a movement toward localization and protectionism. Increased international cooperation and collaboration among Asian countries in particular will be very important in overcoming these challenges.
Questions and Answers

**Question:** What has been the impact of the eight committees on productivity growth thus far?

**Prof. Hashimoto:** Efforts of the committees include: trying to introduce newly developed technologies to service, discussing how to improve the service processes, educating the human service sector, increasing the quality of service, and creating new markets in service.

**Question:** How will mechanization and robots affect employment in the service industry?

**Prof. Hashimoto:** The replacement of humans with robots is increasing productivity, and it is needed because the population of Japan is decreasing. In the future, simple things will be done by robots, and more complicated things will be done by humans, but this is a controversial problem.

**Question:** What kind of support does the Japan 300 High-Service Award Committee provide to the companies that it selects?

**Prof. Hashimoto:** The committee provides information, organizes lectures and offers opportunities to learn. This is inactive support, and financial support is not provided.

**Question:** Maybe different types of criteria are needed for calculating productivity per person taking into consideration seasonal fluctuations and other factors which influence business.

**Prof. Hashimoto:** Taking the example of massage, if the time is shortened, productivity increases, but satisfaction decreases. The calculation cannot be applied generally but needs to be thought about case by case.

**Question:** Have you done some work on developing a generic model for service excellence?

**Prof. Hashimoto:** At the moment we have not, but the government believes that we have to decide on target areas in the future in order to overcome conditions such as the aging society and shrinking population.
“Mujirushi Ryohin” is our brand in Japan, and “Muji” is our brand abroad. Ryohin Keikaku was established in 1989, and we employ about 5,000 people in Japan and overseas. Our consolidated net sales amount to 160 billion yen with less than 19 billion yen as ordinary profit. We have 344 stores in Japan and 100 stores overseas. We have customers who love our products in all age groups. Each year we have about 70 billion visitors, and they usually visit twice a month. Seiyu established the “Muji” brand in 1980, and four months later it decided to use the brand name “Mujirushi Ryohin.”

We set out to offer department store level quality at 70% of the price. In order to achieve this we did three things: re-examine materials, inspect processes and simplify packaging. Our brand is based on supplying simple and functional products for the market, and thanks to wise choices and modifications to our strategies, we are the only private brand that has survived until today. We are an SPA, meaning items produced at factories go to our customers directly.

Success factors include: formulation of the Muji concept, growth results from our household goods expansion policy and our SPA business model. I took the job of president in 2001 when the company was facing serious difficulties in terms of business performance. Reasons for these difficulties include self complacency, big-company disease, dilution of our “low priced for a reason” concept, and rapid expansion. In the area of apparel we had to reduce inventory, and we now operate more efficiently. Our production capabilities were weakening, but we managed to improve quality and reduce the number of customer complaints. Looking at our overseas expansion over the past 11 years, we faced losses in the very beginning, but we grew in 2000 through 2004.

One factor in our turnaround was evolution of the Muji concept through increased imagination. This included starting to work with world-class designers, boosting value through a “this is good enough” rather than “this is good” approach, and using high quality materials and ingredients. We introduced concepts such as “it happened this way naturally,” “let's talk about home,” and “let's be kind” in the development of our products.

We saw a big turnaround in our apparel section from working with world-class designers like Yoji Yamamoto. High-selling products for our “World Muji” and “Found Muji” brands include a wall-mounted CD player, ultimate comfort socks and a sofa that fits to your body. We increased the success ratio of new store openings from 20% to 80% and eliminated outsourcing as much as possible in order to become self-sufficient. We have also done a lot in terms of visualization and standardization, including use of the “Muji Gram” sales manual, and our manuals are updated based upon proposals from the stores.
Initially we were too aggressive in opening new stores overseas, but from around 2003 we began to see steady growth in other countries. We decided that unless we achieve a profit at one store we would not open another store. For products to be sold in Europe and the United States, we need to have design capability in the local market, and we make sure that our products match the local climate and preferences. As of the end of February this year we have 100 stores overseas, and last year the number of new store openings in other countries overtook that in Japan. We are thus making major inroads into the international market.

For the end of March in 2011, we would like to achieve 40 billion yen in net sales overseas. Business has been quite difficult recently, and we believe that we have to maintain a reasonable speed in expanding our business. With that in mind, we would like to continue to grow, and at the earliest possible time, we would like to achieve a 20% share for overseas sales relative to total consolidated sales of the whole group.

**Questions and Answers**

**Question:** What were the two hardest decisions that you made regarding organization change?

**Mr. Matsui:** It was a very hard decision to end our point card service, but the response from the customers was not so negative, and this was a good way to eliminate our deficit. We had to cause difficulty to the customers instead of the employees, so this was a very difficult decision. The second was restructuring overseas. In Europe we had to close stores that were running deficits and cut down the number of employees, and the negotiations were difficult.

**Question:** I would like to know about your personnel committee.

**Mr. Matsui:** At our company we have a personnel committee, and all the board members
participate. We use a “five boxes” system to classify our personnel, and we have a “caliber potential report” to evaluate capability. Using a “profile sheet,” all the board members and top executives can think about how they choose their successors, and this process takes place twice a year. We have a company-wide consensus among top level executives as to how we should choose the next generation leaders and how we should give training. We also have human resources development sub-committees that decide how training is done and for whom.

**Question:** As you expand again overseas, how can you ensure that you do not repeat the same strategic mistakes at your company?

**Mr. Matsui:** Rapid expansion alone does not produce a profit, and our policy is that each store we open must turn a profit. We have to maintain the right speed for expansion in other countries. This issue is a serious topic for discussion at board meetings, and as director of the board I make sure that hasty decisions are not made.

**Question:** How many products are displayed in your stores worldwide, and in what countries are they made?

**Mr. Matsui:** In Japan, Muji store has 7,500 items, but only one shop can display all 7,500. The average store in Japan can display 4,500 or 5,000 items, while only 2,500 to 3,000 items are available at stores overseas. The displays vary from one country to another depending on customer preferences. About 50% to 70% of production is done in China and Southeast Asia, and the rest is done in Europe.

**Question:** Which do you think is more important: creating the right system or providing personal leadership? Does your company have a customer relationship management philosophy?

**Mr. Matsui:** I believe that the right system is necessary, otherwise the right leadership cannot be exercised, and this is why we have pursued standardization and visualization. Leadership is basically decision-making power and a sense of responsibility. About customer management, the customer relations department is very important because they receive all the comments from the customers and share the information for further product development. Customer complaints are taken up at the board management meeting every Tuesday.
“Challenge to People-to-People Exchange Culture Industry: JTB’s Corporate Strategy”

Mr. Norihito Shiga
Managing Director
Corporate Planning Department
New Business Planning, IT Planning
JTB Corporation

Established as a railway organization of the Japanese government in 1912, the JTB Group today is a group of companies focused on the travel industry. As the Japanese people started traveling overseas freely in the 1960s, we took up a tourism orientation. Business subsequently expanded dramatically as Japan’s economic growth progressed. In terms of our volume of transactions, we advanced to become the number one travel company in the world, although we are currently ranked number six in the world. Our shareholders are service suppliers and employees, and our capital is 2.3 billion yen, which is very small. However, a feature of the travel industry is that you get cash up front, so currently we are operating without any borrowing. Currently we have 195 companies, 29,000 employees, and a network of over 2,000 outlets. Our turnover in FY2007 was 1.3 trillion yen, but business has become very difficult and our ordinary profit may drop by half in FY2008. Close to 90% of our turnover and usually around 70% of our ordinary profit are from the travel industry.

In FY2007, our sales from domestic travel amounted to US$10.2 billion, and we sent about 3.9 million people overseas to destinations such as Hawaii, Europe and China. Our brands include “Ace” domestic tours, “Look” overseas package tours, “Sunrise” Japanese inbound tours and “Tabi Monogatari” direct-marketing package tours. Human resource training is of the utmost importance for us, and we offer classroom training, correspondence education, on-the-job training and overseas training.

The initial impact of the global recession has been quite serious, but with the yen being strong against the US dollar, British pound, and so forth, we believe that individual outbound trips are likely to recover. Three major changes in the environment for the Japanese travel industry in the mid to long term will be globalization, the advancement of IT and the changing demographic of Japan. With globalization, the increase of the movement of people should be quite positive for the travel industry, but this means that there will be severe international competition, and Japanese travel agents will need to be innovative. The rapid expansion of IT will have a big impact on the market, and the ratio of online sales is expected to increase in all regions. The decreasing population in Japan will have a serious impact on the growth of JTB if the company continues to focus on Japanese domestic activities.

In response to these factors, JTB in 2006 redefined its domain and changed its management style by establishing a holding company with many companies beneath it. The conventional business model of the travel industry will not sustain us anymore, and we need to quickly find a new business model and new added value. Having separate companies by area and by function will enable us to respond to market changes
immediately. Some of our companies have set out to focus on the local area in terms of marketing and sales, and other companies have set out to specialize in Internet sales.

We decided to shift from being an integrated travel industry to being a people-to-people exchange culture industry in which we reinvigorate regions and promote exchanges inside and outside of Japan and thereby contribute to society. Our global vision is to facilitate the culture exchange industry on a global level, and we aim to move from a star-shaped configuration centered on Japan to a global network type, pursuing optimization on a global level.

As for our IT system, since 2005 we have transferred from a legacy system to an open system in order to increase flexibility and reduce costs. Our long-term IT strategy focuses on the following points: sharing of a data, sharing of interfaces and the simplification of connections with other engines by making use of APIs.

One of the unique things that JTB has realized is multimedia terminals at convenience stores where customers themselves can make reservations and issue tickets. Tokyo Disney Resort is collaborating with JTB, and the admission tickets we offer using this service come with additional benefits. We also offer Internet-based business travel with a comprehensive payment system.

We expanded our business domain in 2006, and we now identify potential tourist destinations so that new experiences and exchanges can be developed. This includes “Mori no Nigiwai,” which introduces local traditional performances with the aim of helping local communities to develop. Our aim is thus to become a “destination management company.”

We have frequent discussions with the Japanese government in order to try to improve
productivity. In the service industry, a high level of customization is needed which pushes up the costs. At the JTB Group whenever we develop a system, we go through activity-based costing in order to evaluate the labor costs required for processes, and we then make improvements.

We have been offering service to Japanese customers, who are said to be the most demanding in the world, and I am sure that we can offer our skills and know-how to people across the world. We hope to contribute to expansion of the people-to-people exchange culture industry and thus grow our business.

Questions and Answers

**Question:** How many international tourists visited Japan in 2008, and what is JTB's share in the Japanese tourism industry?

**Mr. Shiga:** About 8 million inbound tourists came to Japan, and the share for JTB is probably 7 or 8%.

**Question:** How have innovations been used in your industry to reduce costs and to what extent have such cost reductions been passed on to the customer so that you can attract more customers?

**Mr. Shiga:** It is difficult to track how much cost reduction we can transfer to the customers because if we work very efficiently, we have to give back the merits to the employees. Lowering prices via information technology without added value is just cut-throat competition, so hospitality is an important added value in our service.

**Question:** How do you see the global tourism industry if the recession continues for the next two years? In JTB's business, how much turnover is Japan-centered business and how much is global?

**Mr. Shiga:** Depending on the situation, we may have to shift our focus from source markets like Korea and Europe to other countries in Asia or perhaps other regions. About 10% of our business is global and about 90% is domestic. We need to become a more web-based organization, and our focus will remain on Japanese tourists, but we need to be more global.

**Question:** Does JTB have any specific marketing strategy for dealing with the aging population?

**Mr. Shiga:** Instead of focusing on providing discounts, we have focused on middle-aged, elderly and wealthy persons. We have to continue to develop our business with this group as our major target.

**Question:** How much are your investment and maintenance costs and what percentage goes to your IT system? What is your backup system in case of a system breakdown?

**Mr. Shiga:** Our system cost is 25 billion yen per year, which is about 8 to 9% of our operating costs, and in the future we would like to drive this down to 5%. Our hardware is not duplicated, but all of our application software is duplicated, and this is our backup. Our computer center is earthquake resistant.
Ganko-Style Management: Tradition, Goodwill (Noren) and Service Innovation

Mr. Takeshi Shimmura  
Managing Director  
Member of the Board  
Ganko Food Service Co., Ltd.

Our company Ganko Food Service Co., Ltd. was founded in 1963 in the city of Osaka, and our restaurants mainly provide traditional Japanese cuisine such as sushi and tempura. We offer hand-made products to our customers, but at the same time we try to improve productivity. We have about 100 stores and 4,000 employees. In order to increase added value while improving productivity, we have decided to construct our own systems and approaches.

In our restaurants, guests are able to enjoy not just eating but many elements of traditional Japanese culture, and this is to increase the added value of the customers' experience. In order to differentiate our products in terms of ingredients and raw materials, we also function as a developer company, and we produce and process the food ourselves. Our main kind of restaurant, a Japanese traditional restaurant, features seasonal variations, extensive use of fish, and high fixed costs, and each of these presents difficulties in terms of cost. In order to overcome these difficulties, we have introduced businesses based on different foods which are more cost-effective and compliment our Japanese cuisine business: tofu and tonkatsu deep-fried pork businesses, the Nishiya noodle food service, and “Little Okinawa” Okinawan cuisine.

We have four strategies which serve as the core activities for us to improve productivity as a service company: the people element, optimization of procedures, visualization of real-time information, and modeling points of contact with customers. Quality and price can be optimized by establishing operation management systems with scientific and engineering approaches. Our employees take the initiative in starting and maintaining
quality control activities, and we have established an environment of self-learning by providing opportunities for fair merit-based competition. Our experiments show that we can achieve the best taste through a combination of factory production and chefs. We are trying to introduce scientific engineering approaches to improve traditional methods of cooking and the ways in which certain ingredients are used.

Our POS information system enables information to be gathered from customers and shared among employees on a real-time basis. In order to identify and overcome weak points at our company, we carry out value chain analysis. Combining our information system with the element of “people,” a key characteristic of the service industry, leads to successful construction of the value chain. In addition to the POS system, we have an inspector system in which inspectors visit our restaurants and evaluate the qualitative aspects our services for customers. Each month we get results on the strong and weak points of each restaurant, and it is possible to see the connection between cooking levels, service levels, customer satisfaction, and profitability. This data is prepared and presented to the restaurants like a health check-up.

The service industry can improve productivity through scientific engineering methods. We aim to use machines where suitable in order to give employees the opportunity to focus on what is best done by people and thus provide better quality service and better taste. We want to give people the chance to strive for something higher. We have not completed our innovations for improving productivity, and we invite others to share information so that we can contribute to boosting productivity in the service industry.

Questions and Answers

**Question:** From your customer database, do you do an analysis of the percentage of loyal or repeat customers?

**Mr. Shimmura:** The percentage varies from one restaurant to another amongst our restaurant chains. In the area of tonkatsu, pork cutlets, the percentage of loyal customers is about 1 to 2%. Some customers visit our restaurants 10 times per week, and the percentage of customers who mainly use Ganko restaurants among other restaurants is 10 to 20%. Corporate customers account for 30% of our sales revenue, 35 to 70% of individual customers are passers-by, and 10 to 20% are so-called hard users. Individual customers sometimes develop very strong ties with certain employees at a certain restaurant, and this means it is very important for employees to try to improve the restaurant.

**Question:** What are your best practices to make customers feel happy?

**Mr. Shimmura:** High-performing employees are good at understanding the signals that the customers are emitting so they can anticipate what the customers will demand, and we have to collect data so that we can identify the characteristics of high-performing employees.

**Question:** How many customers visit your restaurant and what is the ratio of customers who make complaints? If you want to plan a restaurant outside of Japan, can you do that in the future?

**Mr. Shimmura:** On average, the number of customers is about 10 million per year,
meaning about 100,000 customers per restaurant. The percentage of customers who make complaints is 2 to 3%, but Japanese customers are shy so the actual percentage is probably higher. Overseas expansion would be difficult due to legal restrictions and different local preferences, so we would need to work with a local partner.

**Question:** On the last slide, what are the four product items? What are the eight variables for shop training?

**Mr. Shimmura:** The four items for products are size, temperature, seasoning and presentation. As for the eight variables, we picked these factors because they are likely to have a big impact on customer satisfaction, and what is measured is the performance by employees at the shop. Most of the financial information is known, so this comes from visual information which is only available when an inspector visits the shop.
Management is not very difficult; it is important to just go back to the basics. Our important basic rules are meeting customer needs, not just customer wants; understanding the market, especially trends; understanding who we are and knowing our weaknesses; finding the right way, not just the best way; and keeping in mind that profits are the number one concern.

The Super Mill Group is made up of the Super-Mill Enterprise specializing in chicken processing; the Rich-Mill Company which owns the three brands of the My Warm Day (MWD) breakfast chain, the ET Cafe chain and the Ice Home beverage chain; and High-Mill Investment Co. which has investments in the United States and Shanghai, China. In 1993, the Super Mill Group decided to merge with the My Warm Day breakfast chain in order to integrate raw material supply and end-selling, enlarge our economic scale for purchasing, and so forth, and as a result, our sales have grown to 2 billion New Taiwan dollars.

The breakfast industry in Taiwan consists of traditional Chinese breakfasts, Western fast food outlets and Western-style breakfast chains first inspired by McDonald's. My Warm Day is the number one breakfast chain in Taiwan with 1,400 stores and double-digit sales growth almost every year for the past 13 years. In 1993, MWD had a very weak chain store system, no consistency and no unique market position, so at the time of the merger with the Super Mill Group, we set out to become the number one breakfast chain utilizing Michael Porter's generic strategies of low cost, differentiation and focus. In order to achieve this we carried out business process reengineering and business process management, and created a fundamental management system focusing on standard operating procedures and strategic thinking. Standardization enabled us to improve efficiency, and we introduced holiday promotions and new product promotions and also formed tie-ups with companies such as Nescafé. We also carried out franchise promotion including package selling and began advertising in magazines, newspapers and on the radio.

In 2000, however, we faced the Internet bubble, a negative growth rate in Taiwan, growing complacency among our human resources and slowing development, so we introduced a new business strategy incorporating multi-brand development, improving efficiency with key performance indicators, e-learning and investment in China. We carried out business process reengineering again, and this time we focused on procedures such as using outsiders to improve human capital and basing salary on performance. We also renewed our store appearance and introduced many new products such as dumplings in soup and submarine sandwiches. We then introduced the ET Cafe coffee chain and Ice Home beverage chain because these were fast-growing markets.
In 2005, our strategy was being copied by many competitors, and MWD lost its unique market position. Therefore, we shifted from a breakfast focus to health focus, extended our operating hours, introduced an ERP computer system and acquired TTQS and TGCS certification from the government. We decided not to be a food supplier but a “happiness supplier” and set out to offer our customers value rather than just food at low prices. We provide customers what they need, not what they want, such as healthy food, more comfortable spaces, more convenient locations and new concepts. We are totally different from the traditional western-style breakfast chain. For our employees, we also introduced a bonus-sharing system and a training system with more opportunities. Education and training are very important and we hope our employees can keep up with the company’s growth.

At every stage we introduced new concepts and new management systems to help as well as to stimulate us, and this is why we have been able to continue growing the past 13 years. Strategies and tactics require deep thinking, and the execution of plans must be done thoroughly with close attention to detail. We should always change ourselves, and it is extremely important to motivate and respect employees.

Questions and Answers

Question: What do you think is the greatest factor in the success of your company?

Mr. Wang: I think human resources is the most important thing because all of our ideas have come from our employees.

Question: Why did your company choose the differentiation strategy? Why not low cost and why not focus? How have you been successful in applying balanced costs in your management system?

Mr. Wang: Initially we could not buy cheaply from suppliers because we were not big enough, and we did not think we could open enough stores to focus only on certain regions. That is why we chose a differentiation strategy. Every department has its own strategy, so if everyone has the same balanced cost concept, it is a good tool for management.

Question: Is your goal only to earn profit or rather do you have some corporate social responsibility?

Mr. Wang: Our mission is to offer value to consumers and society, so it is not just about profits.

Question: How did you choose the color for your stores?
Mr. Wang: We chose green because we think it stands for nature and healthy food.

Question: How do you do training since you opened many new stores and started some new chains?

Mr. Wang: In our system, every instructor supervises about 20 to 30 stores, and this supervision system is very important in the chain store system. We also have Super-Mill University as well as an e-learning system. Our education system and human resource systems are important parts of our system.

Question: How do you measure productivity at MWD?

Mr. Wang: We compare ourselves to our competitors because there is heavy competition in the breakfast industry in Taiwan, and probably only the largest and second largest chains can survive.
The Kumon Method began with our founder Toru Kumon preparing worksheets for his son. The initial principles of the method were acquiring the ability to do high school level mathematics as quickly as possible through self-learning instead of being taught. In Kumon's approach, individualized instruction suited to individual ability is quite important. We utilize worksheets suited to the individual and aim to cultivate high basic academic ability in reading, writing and mathematics.

Kumon began in 1958 and opened its first center outside Japan in New York in 1974. We now have about 4 million students under the Kumon Method in 45 countries and regions. Part of the reason that we are widely accepted is because reading, writing and mathematics are the basis for all academic abilities, and by cultivating those abilities, children become able to learn by themselves and take up new challenges. At Kumon, the most important role of the instructor is to provide individualized instruction allowing students to self-learn.
In expanding our method, we have had to adjust our approach according to the local situation and environment, and this has included introducing our method into the formal school education system in places where we cannot pursue franchising. Our two important managerial challenges are to provide high quality and uniform study benefits and to pursue stable localization. Our long-cherished values include “there must always be something better” and “let’s give it a try,” and these have helped us to overcome the difficulties we have encountered in expanding into different countries. Kumon’s philosophy is expressed as Kumon’s Mission: “By discovering the potential of each individual and developing his or her ability to the maximum, we aim to foster sound, capable people and thus contribute to the global community.” We have also set forth the Kumon Vision and the Kumon Way, which is an expression of our values.

Stable localization is very important for us, and we carry out global networking within the Kumon Group. We have six regional headquarters and a total of 77 branch offices. We hold a variety of global conferences where staff and instructors exchange ideas. For example, at the World Human Capital Development Forum employees in charge of human capital development gather together from different regions to share values. We also hold the Study Conference on Instruction Principles where employees and instructors get together from the six regional headquarters to learn and confirm Kumon’s instruction philosophy. The participants speak with the same sense of values because we use the same math worksheets all around the world. There is also a regional meeting for “completers,” students who have completed the Kumon program. We believe that such meetings are truly important. We celebrated our 50th anniversary with a big event at Tokyo Dome last December, where we discussed our values and confirmed where we would like to go in the future.

As a provider of education services, People are Everything for us. Kumon’s Mission, Vision and values are the only things which keep us together and united, and every meeting between people is a uniquely precious encounter where new ideas and new values can be created. People are the assets that we rely upon, and our employees share their values and work together to bring out the potential of students. Global meetings are expensive, but they are an important investment which cannot be spared. I believe that there are a lot of children who will be able to expand their future development if they are helped by Kumon method of learning, and we would like to facilitate the development of each child. If many more children are given such opportunities, they will be making efforts towards realizing their goals and dreams. Through such education, we would like to contribute to make the world a better place.

Questions and Answers

Question: How does Kumon help children become interested in a specific subject?

Mr. Tsunoda: If a child finds the most suitable worksheet materials, he or she will become very motivated. If a child becomes capable in mathematics, he or she will likely become interested in studying mathematics.

Question: What is your comment on the hypothesis that if a child is good in mathematics he or she will also be good in other subjects?

Mr. Tsunoda: By learning one subject, children can acquire the process of learning which
Management Innovation for Productivity Improvement in the Service Sector

can then be applied to other subjects.

**Question:** How do you work with the authorities in different countries? How much standardization can you achieve given the wide cultural variations between countries?

**Mr. Tsunoda:** In the future, I believe that an individualized approach is going to be adopted by even more educational authorities, and thus we will likely have more contact with them. As for standardization, our mathematics worksheets and instruction methods are universal.

**Question:** How do your fees differ among countries?

**Mr. Tsunoda:** Our fees depend on the economic situation and the customer situation in a given country. In expanding to other countries, we have to maintain consistent educational services and make sure that we can find good Instructors.

**Question:** Do you have any follow-up for students who have difficulty liking mathematics? What are your main challenges over the next five years?

**Mr. Tsunoda:** We pursue an individualized approach and try to give each child the best materials, but not every child can be so successful with our system. At the moment we do not have any follow-up for those who do not complete the Kumon program. Over the next five years and beyond, we are faced with an everlasting challenge. For the next 50 years our challenge is for every learner to feel a sense of accomplishment having gone through the Kumon program, and we also have to continue improving our worksheets and instruction principles.

**Question:** Has Kumon had any outstanding graduates over the past 50 years?

**Mr. Tsunoda:** A large percentage of adults have studied with the Kumon Method. The shogi master Yoshiharu Habu studied at Kumon. But the Kumon Method is not the only factor in building a person. Some tens of millions of people have studied with the Kumon Method over the past 50 years, and I am sure that many play leading roles in society.

**Question:** How do you use your profits?

**Mr. Tsunoda:** We invest in better services for children’s education, including staff growth and development and a continual ongoing revision of the worksheets.
Global Strategy and Productivity Improvement of Watabe Wedding

Mr. Takao Watabe
Chairman
Watabe Wedding Corporation

Our approach to developing the bridal industry market has been primarily outbound: weddings overseas for Japanese couples. We opened our first overseas branch in Honolulu, Hawaii in 1973, and we now have 39 shops in 12 countries. Japan has entered a period of declining births, and from now to 2030, it is predicted that the number of marriages will fall to half that of 2001 or just over 50% of the peak level experienced in 1972. Overseas weddings arranged by our company have fallen by nearly half due to the international turmoil following 9/11 and demographic changes in Japanese society, but we still have the largest share of the market for overseas weddings by Japanese couples at 50%.

In 1993, we made the strategic decision to shift production of our wedding dresses from Japan to a wholly-owned subsidiary in Shanghai, China. This move enabled us to reduce the invoice price of our dresses by 75% and reduce delivery time from three to six months to just one month. Starting with 70 employees, this factory in Shanghai now has 600 workers. In addition, we opened a photo album shop in Shanghai in 2003, which produces around 6,000 wedding albums a year for our customers. We also established a plant in Shanghai to produce tuxedos, and the volume here is about 8,000 tuxedos per year. Finally, we opened a plant in Vietnam that produces 12,000 dresses a year. All of our dresses are custom-made with production being done by multi-skilled workers divided into 10-member teams. Importance is placed on management principles, productivity improvements, teamwork, taking into account everyone's opinion and knowledge sharing.

We are pursuing outbound, inbound and local market development strategies to promote the globalization of our business. For example, in 2007 and 2008, we opened stores in China that offer wedding services in Japan, Guam and Australia to Chinese couples. Over the last 35 years, we have accumulated extensive know-how by arranging weddings for Japanese couples in other countries, and we are working to use this knowledge and experience for an effective inbound strategy. We would like to strengthen further our business activities in order to become a truly global company.

Big business fluctuations are a major problem for bridal service companies and I believe they are the root cause of the low productivity in our industry. To overcome this, we are trying to develop new products that encourage couples to visit our stores on weekdays and have wedding ceremonies during the off-season. We also try to take advantage of the different weather conditions in various regions, for example promoting weddings in Hokkaido during the summer. To reduce business fluctuations, it is important for our management philosophy to be understood by all employees, and we encourage our staff to have a strong sense of mission toward their work. We place great importance on ideas from employees because it is they who know best what is happening in the field.
Employees are encouraged to acquire multiple skills so that they can perform multiple jobs, thus enabling staff to help others in busy sections. We make adjustments to workplace conditions in line with sales and profits, and delegate a lot of authority to our leaders in the field. This is possible because our management philosophy is well understood by employees, and their commitment to our philosophy is crucial. Understanding national characteristics, including culture, style and history, is essential to any effort to improve productivity in a global society.

We were the first company in our industry to achieve an IPO, and we are listed in the first section of both the Tokyo and Osaka securities exchanges. Our sales for the fiscal year ended 31 March are projected to be a little over 45 billion yen. We will continue to work for the globalization of our business with the aim of doubling this figure, and our employees are united toward that end.

Questions and Answers

**Question:** How did you become a successful entrepreneur? Is your entire business plan based on providing Japanese couples with wedding services?

**Mr. Watabe:** My long-term objective has been a growth rate of 15% per year, and we have been able to achieve this and are now viewed by customers and the industry as a stable company. I pay close attention to sales, our level of capital, the necessary level of manpower and plans for new growth products, and fortunately I have been successful.
**Question:** Where do the materials for your dresses come from? How many dress designers are there in your company and where are they from?

**Mr. Watabe:** The breakdown is: 20% from Taiwan, 20% from Europe, 30% from Japan, and 30% locally from China. We have 12 wedding dress designers: two Japanese designers and 10 designers hired locally in Shanghai. Our Chinese designers frequently come to Japan to study about Japanese customers' tastes in dresses.

**Question:** How do you deal with guests who go overseas for a wedding? Who is the target market for overseas weddings? What is the average price?

**Mr. Watabe:** There are usually about 10 guests for outbound weddings and 20 for domestic resort weddings. Often the wedding will take place overseas and the reception will be in Japan. Those who go for resort-style weddings are generally professional-type persons from large corporations, and the guests consist of their close relatives. Often the bride and groom choose a resort wedding because they are from different locations. Excluding plane fare, accommodations, and so forth, it is usually half a million yen for the ceremony and another half a million yen for the reception. A ceremony and reception in Japan generally costs about three million yen, so it is cheaper overseas, but there are fewer guests.

**Question:** Is your company practicing corporate social responsibility?

**Mr. Watabe:** We carry out various international assistance projects, such as well digging in Myanmar, and we would like to go into the area of constructing schools.
Managing Service Innovation for Malaysia's Services Sector Competitiveness

Dato’ Nik Zainiah Nik Abd Rahman
Director General
Malaysia Productivity Corporation (MRC)

The Malaysia Productivity Corporation (MPC) assumes an important role in promoting value creation among Malaysia's businesses and industries. A main focus of the MPC is the services sector given that Malaysia’s services sector accounts for 54% of the country’s GDP. A large number of establishments in the services sector are Small and Medium-sized Enterprises (SMEs), which are important suppliers and service providers to leading industries. Some have successfully ventured into overseas markets, while the others are capitalizing on market opportunities and enhancing their competitiveness for wider outreach.

In our endeavor to assist industries in enhancing productivity, quality, innovation and competitiveness, eleven Consultative Panels have been established by the MPC. The various Consultative Panels for the services sector consist of industry leaders who provide advice and feedback on research, training programs and promotional programs in the areas of Healthcare, Logistics and Transportation, Hospitality, Energy and Utility, and the Development of Financial Institutions. The members of the panels meet regularly to discuss issues and challenges with a view towards enhancing Malaysia’s national competitiveness.

The Industrial Master Plan 3 (IMP3) serves as a blueprint for the government in terms of developing the services sector during the period 2006 to 2020. The target of IMP3 is to attain overall growth of 7.5% during the plan’s period and increase the GDP contribution of the services sector to 59.7% by 2020.

Service innovation can accelerate economic growth through the enhancement of competitive advantages, speeding up the development and application of new technologies, and having the knowledge of a specialist and breadth of a generalist. A lot of Japanese best practices have in fact been adopted by the Malaysian government as a result of the “Look East” policy of former Prime Minister Tun Mahathir. Additional innovative measures in the area of service delivery that are being undertaken by the Malaysian public sector are privatization, reducing bureaucratic red tape, counter service innovation, a new code of conduct for public servants, and benchmarking.

5 (a). Everyone is talking about innovation

...new ways of doing things
...a renewal

Mitchell Ditkoff www.mitchellditkoff.com
ICT is also leveraged to enhance on-line delivery of government services through various electronic infrastructure and programs such as My Govt, e-Services, e-Procurement, e-Syariah, MyKad and Telehealth.

The Malaysian Benchmarking Index (MBI) is an extensive benchmarking resource, especially for SMEs, that aims to help improve the competitiveness and profitability of businesses. It offers the benefit of identifying where a company is performing so that it can take remedial action to improve profitability, productivity and competitiveness, as well as make effective strategic decisions.

Overall, service innovation leads to efficiency and speed in service delivery, flexibility and convenience, quality of services, responsiveness and client orientation, better access to services, reduced cost in doing business, and enhanced transparency and accountability.

To mitigate the impact of the current global economic crisis, various measures are undertaken by the government. This includes trade liberalization especially in the services sector; reducing the cost of doing business; reducing utility tariffs; reducing corporate taxes; a temporary suspension in the contribution of funds such as to the Human Resource Development Fund and Skills Fund; re-skilling the workforce; and provision of soft loans to affected companies to minimize retrenchment and prepare for a repositioning upon economic recovery. Assistance to SMEs include an expansion on the scope of matching grants; the appointment of SME expert Advisory Panels and SME Business Councilors to assist and provide wider outreach to affected SMEs; government assistance to reduce interest rates for various soft loan schemes for a duration of one year; and rescheduled payments on soft loans held by SMEs. Cost-cutting measures at the firm level include a freeze on both hiring and salary increments, restricting overtime, retrenchment, VSS and a release of temporary contract workers.

Questions and Answers

**Question:** How do you promote productivity consciousness in your country?

**Dato’ Nik Zainiah:** In Malaysia, the government drives productivity and competitiveness, in line with its motto: “One service, one delivery, no wrong door,” meaning that every department is looking at how to facilitate business operations through a more customer-centric public service.

**Question:** How are tensions among different ethnic groups and management and labor being dealt with?

**Dato’ Nik Zainiah:** Three major ethnic groups have been living side-by-side in Malaysia for the past 52 years since we gained our independence. Appreciation and respect for the culture and sensitivities of the various ethnic groups have been an important factor in forging a unique Malaysian identity. We have become like a family, and no matter what...
problems we have, we need to forge ahead. In terms of trade and industry, it is a level playing field for everyone.

**Question:** You mentioned that to face the global economic crisis the Malaysian government has introduced three types of remedies. Have these already been started or are they in the planning stage? If they have started, what has been the impact so far?

**Dato' Nik Zainiah:** The measures have been introduced. We cannot see the impact yet because in Malaysia the real impact of the crisis has not yet been felt.

**Question:** Do you have a special center that promotes innovation in both the services sector and manufacturing sector? What role do higher education institutions, universities in particular, play in assisting the implementation of government policy to improve the competitiveness of your manufacturing and services sectors?

**Dato' Nik Zainiah:** The eight sectors I mentioned are under the purview of the Ministry of International Trade and Industry (MITI), and there are several committees that report back to MITI in terms of development and the achievement of established targets. A lot of international students come to Malaysia to study at our universities, so universities are the main hubs of innovation, and they are involved in our Innovation and Creativity Circles (ICC) activities. Tenaga University is one of the best performing private universities in terms of programs on innovation.
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Top Management Forum:
Management Innovation for Productivity Improvement in the Service Sector
(2-4 March 2009, Kyoto, Japan)

List of Participants and Resource Speakers

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Management Innovation for Productivity Improvement in the Service Sector

Top Management Forum:
Management Innovation for Productivity Improvement in the Service Sector
(2–4 March 2009, Kyoto, Japan)

Program and Itinerary

Monday, 2 March 2009

09:00–09:40 Opening Ceremony

10:00–11:15 Session I: “The Way Towards Productivity Improvement in the Japanese Service Sector”
by Dr. Kazuhito Hashimoto, Professor, Faculty of Engineering, School of Engineering, The University of Tokyo

11:30–12:45 Session II: “Muji-Created Customer Value and Global Strategy”
by Mr. Tadamitsu Matsui, Chairman and Representative Director, Ryohin Keikaku Co., Ltd.

by Mr. Norihito Shiga, Managing Director, Corporate Planning Department New Business Planning, IT Planning, JTB Corporation

15:45–17:00 Session IV: “Ganko-Style Management: Tradition, Goodwill (Noren) and Service Innovation”
by Mr. Takeshi Shimmura, Managing Director, Member of the Board, Ganko Food Service Co., Ltd.

17:10–18:00 Session V: Discussion of Participants
Coordinated by Dr. Atsushi Sunami, Associate Professor, Director of Science and Technology Policy Program, National Graduate Institute for Policy Studies

Tuesday, 3 March 2009

09:30–10:45 Session VI: “From Simple to Delicate: How to Transform a Traditional Store into a Chain Store”
by Mr. Yu-Chia Wang, Senior Specialist of Chairman, Old-Don Co., Ltd. (Former Vice President, Rich-Mill Co., Ltd.

11:00–12:15 Session VII: “Nurturing the Potential of Children: Global Business Operations of Kumon”
by Mr. Akio Tunoda, President, Kumon Institute of Education Co., Ltd.

13:45–15:00 Session VIII: “Global Strategy and Productivity Improvement of Watabe Wedding”
by Mr. Takeo Watabe, Chairman, Watabe Wedding Corporation
15:15–16:30  Session IX: “Managing Service Innovation for Malaysia’s Service Sector Competitiveness” by Dato’ Nik Zainiah Nik Abd. Rahman, Director-General, Malaysia Productivity Corporation

16:45–18:00  Session X: Group Discussion and Presentation “Application of Results Learnt to APO Member Countries” Coordinated by Dr. Nobuhiko Hibara, Associate Professor of Finance, School of Business Administration, Graduate School of Technology, Ritsumeikan University

**Wednesday, 4 March 2009**

09:00–10:30  Session XI: Group Discussion and Presentation (continued)

11:30–13:30  Company Visit: Ganko Takasegawa Nijoen Closing Ceremony & Farewell Lunchen