

Chapter 2

A Theoretical Framework for Relationship-Based Strategies

In this chapter, I will present a theoretical framework for the concept of acquiring a competitive edge through co-creation. As I mentioned in the first chapter, existing theories relating to competitive advantage are structured on the assumption of corporate competition, and the competitive environment has come to be perceived as conferring a competitive advantage. In this regard, the author takes the position that corporate “co-creation” confers a competitive edge. Put another way, this is a story of creating value among multiple companies through co-creation that a company operating independently would be unable to produce, and going on to build a new competitive advantage.

But first, what kind of action is “co-creation” in the first place? In recent years, the term has come to be used in various fields, and this diverse concept is difficult to organize into a theoretical framework. In many cases the term is used similarly to refer to simple “collaboration” among organizations. In this chapter I will make a clear distinction between inter-organizational collaboration and co-creation, analyze the question of what actions “co-creation” suggests considering existing research, and formulate a clear definition.

In addition, I will examine three components—“ba,” or shared context in motion, “synthesis,” and “emergence”—comprising a theoretical framework for acquiring a competitive advantage through co-creation. Each component is an indispensable element for companies to create new value through co-creation. By organically linking these three elements, co-creation becomes a significant practice.

In this chapter, I will name the co-creation strategies developed from these three elements “relationship-based strategies.” I will adopt these strategies as a theoretical filter when I analyze case studies of smart city construction projects from Chap. 3 onward.

2.1 What Is Co-Creation?

In recent years, the concept of co-creation has come to be used in diverse fields. Traditionally, the creative practices that gave rise to revolutionary inventions, discoveries, or ideas were thought to depend on individual qualities, and creative

acts in science, the arts, and other fields were also taken to arise from the abilities of outstanding individuals. However, in-depth observation of the actual situation made it clear that they did not arise in a vacuum.

For example, the episode where Isaac Newton, who could be called the father of modern science, conceived the notion of universal gravitation when an apple fell out of a tree is famous, but this isn't to say that he conceived the law in a flash of inspiration out of the blue. He had accumulated scientific knowledge relating to gravity and the orbits of the planets established by his scientific forebears, including Galilei Galileo and Johannes Kepler, and he established the law of universal gravitation on the basis of these intellectual assets. The phenomenon of the apple falling from the tree simply provided the spark of opportunity. Generally speaking, while the discovery of the law of universal gravitation is thought to have sprung from Newton's individual nature, reevaluating this perspective, we can also say that that the law's discovery was a product of co-creation of knowledge from Newton and his scientific forebears.

Thus, properly speaking, creative acts do not follow the pattern of a single genius creating new knowledge with no context. Either in real time or in referring back to the past, they manifest through some kind of knowledge exchange with others. This process can also apply to corporate activities. To create innovative technologies, products, service, and expertise, rather than relying on the qualities of an individual, it is important to establish mechanisms to encourage knowledge exchange among multiple agents. In recent years, interest in this perspective has increased, and a wide range of research has been undertaken on the subject of co-creation.

2.1.1 A Review of Prior Research into Co-Creation

In recent years, co-creation research in the area of service marketing has produced some striking results. In this field, the idea of Service-Dominant Logic (S-D logic), seen as the co-creation of service value with the customer, has been put forward and is greatly changing the concept of services. Proposed by Vargo and Lusch (2004), S-D logic emphasizes how the value creation model is changing from the traditional product-price based model to one that prioritizes service systems and logic.

This idea kick-started a range of research analyzing the processes and mechanisms of value creation through companies and customers, including the work from Grönroos and Voima (2013), Echeverri and Skälen (2011), Payne et al. (2008), Vargo et al. (2008), Sssrijärvi (2012), Mele et al. (2010), Karababa and Kjeldgaard (2014), and Gummerus (2013). All of this research focuses on the mechanisms and processes of co-creation among companies and customers, emphasizing the view-point of co-creation among agents creating value. Nevertheless, this research focuses on analyzing the processes and mechanisms of value co-creation, and does not clearly define the practice of co-creation itself.

Prahalad and Ramaswamy (2003, 2004a, b) provide research that can be viewed from the perspective of corporate competitiveness through value co-creation among company and customers. They emphasized that corporate competitiveness in 21st-century markets is brought about through value co-creation and introduced the idea of co-creation in the strategic domain. According to these authors, companies were the agents of value creation in markets up to the 20th century, and the customers' role was only to compare value created by the company and to pay.

In contrast, in the 21st century, marketplace value is created through co-creation among corporations and customers, and the markets function as “ba,” shared context in motion, for the buying and selling of products and services as well as for value co-creation between companies and customers. Naturally, corporate and customer theories of value creation differ. To discover the point of contact, co-creation experiences between company and customer have to accumulate. Within this process of accumulation, dialogue is important.

Naturally, the dialogue I am referring to is not simple conversation. Rather, it is productive, creative dialogue linked to the process of creating of new value. Prahalad and Ramaswamy noted that it was necessary to create rules for participation in order to achieve productive, creative dialogue in an orderly way. Their research introduced the new concept of co-creation in strategic domains, and brought fresh ideas to the existing thinking on corporate competitiveness. However, their concerns were limited to questions of creating value with customers and did not deal with, for example, the co-creation of values among companies in different industries, which is the analytical aim of this chapter. Moreover, without a clear definition of the practice of co-creation, they are also vague on how co-creation differs from conventional inter-organizational collaboration.

Research on co-creation is not limited to the domain of social science. In recent years, interest in clarifying the mechanisms behind the practice of co-creation in the natural science domain has also grown. For example, in 2004 the University of Tokyo's RACE (Research into Artifacts, Center for Engineering) set up a co-creation department, and is taking an engineering approach to analyzing the mechanisms of co-creation. According to Ueda (2004) and others, the aim of co-creation engineering is to change the state of the co-creative relationship between human beings and artificial objects. This approach methodology is not the top-down analytical approach of control theory and optimization theory that is orthodox in the engineering field but the bottom-up method with the goal of constructing a theory. Research is ongoing in the engineering field, and the definition of co-creation practices is being clarified.

In more detail, the practice of co-creation in co-creation engineering is being defined as “the practice of creation as a general system obtaining results from interaction among active agents for solutions that cannot be obtained through active agents acting in isolation alone.” The subjects of the action are not limited to human beings but also include the organizational bodies of intelligent artificial bodies, corporations, and others. Co-creation engineering is not about clarifying the mechanism of mutual action through this kind of actor agent, taking an analytical approach (analyzing in detail the various elements behind the construction of a

system, checking their qualities, and thereby grasping the system as a whole) but should be understood as the partial interaction of various elements that by and by come to control the system as a whole and lead to new creation. This kind of analytical approach could be termed “synthesis.”

2.1.2 Defining Co-Creation

A review of prior research in recent years shows great activity in research relating to co-creation in various fields, but it would be hard to say that a clear definition of co-creation has been established. Provisionally, if the action of people cooperating together in some kind of work is understood as a co-creative practice, then co-creativity is happening in places where it reaches society. Moreover, concerning relationships among companies, if inter-corporate collaboration in the form of technology links and sales cooperation is recognized as co-collaboration, then co-collaboration is not a special, original practice, but something quite mundane. It could also be seen as inter-corporate co-creation including open innovation, as espoused by Chesbrough (2003a, b, 2006).

Looked at like this, co-creation can be considered not as a special, innovative concept but as a common practice in society. Without a clear definition of co-creation, it is difficult to distinguish it from these existing practices. Nevertheless, the following will show that the co-creation hypothesized in this chapter is clearly distinct from this. “Co-creation is a practice of creating value through cooperation among multiple active agents with certain shared purposes that agents acting in isolation cannot achieve.”

Put another way, the “co-creation” assumed in this chapter does not indicate simple cooperative relationships among individual actors. For example, if a 30 kg. weight were divided among three people, each person would assume a 10 kg. burden. Could the result of that action be termed “co-creation”? No, for the reason that these three individuals are not creating value but simply undertaking their task through a division of roles. The same logic applies to collaboration among companies. As I mentioned previously, the various forms of collaboration undertaken among companies, whether technology links, sales cooperation, or open innovation, cannot be termed “co-creation” if they are based on simple divisions of roles among companies and do not create new value.

Concerning co-creative practices, let’s consider soccer as a metaphor of a mass game. Soccer is played with 11 players but with the exception of the goalkeeper, the division of labor among the players is blurred. There is a general separation of offense and defense, but within the game’s flow each player is required to respond to changing conditions. If they see an opportunity, the players whose role was originally defense can join the attack, pressing to score against the opposing team by sallying forth in a variety of attacking patterns. Within this process, various creative plays are made that thrill the spectators. Soccer could be termed a very co-creative sport. The more the players work as a team, the higher the level of

co-creativity among the individual players. In this way it is different from mass gymnastics, which is another group sport.

In the case of mass gymnastics, the division of individual roles is strict, and the performance plays out exactly as planned. Individuals are not permitted to respond to conditions with creativity and originality. As a result, they display loyalty to their predetermined role with comprehensively controlled performances. These games show collaboration among actors but are not co-creative. Understanding co-creation in this way, I will consider, in order, the following three components involved in realizing co-creation.

2.2 The Presence of “Ba”

“Ba,” shared context in motion, is an important concept when considering the process of value being created amid interaction among different actors. Original research into “ba” can be traced back to the concepts of electrical and magnetic fields in 19th-century classical physics. “Electrical fields” are the condition of space surrounding electrically charged objects, and magnetic fields are created by electrical current. That magnetism indicates the condition of that magnetism acting on other electrical currents.

In classical physics, this kind of “ba” basically comprises physics-related entities, and was thought to be unrelated to objects. Later, in the 20th century, Einstein developed the theory of relativity, noting that matter and fields cannot be separated, and emphasized that where matter exists, a gravitational field also exists. According to Heisenberg (1958), in modern physics matter does not exist in isolation, but is indivisible from its surroundings. He grasped that the characteristics of matter are determined by its relationship with its surroundings.

Meanwhile, in the field of sociology, the research into gestalt social psychology of Lewin (1951)¹ is applicable. He defined the fact of coexistence considering general mutual dependence as “ba,” and thought it necessary to consider people and the lifestyle space that they inhabit as a single “ba” in psychological terms. Moreover, Nishida (1965) and Shimizu (2000, 2003) contributed with research in the field of philosophy. These people developed a theory of unique “ba” based on the concepts of the virtue of integrating the agent and object, or inseparability of the agent. Such concepts from Eastern philosophy also influenced the knowledge creation theories advocated by Nonaka (1995, 1998), and the concept of “ba” in the management domain was fully introduced. Hiroyuki Itami (1999) also contributed to research into “ba” in a management context.

In this way, research into “ba” has been carried out in a variety of fields, and recognition of the importance of such research in management is growing. In other

¹A collection of Lewin’s posthumous manuscripts edited by Cartwright and published in 1951.

words, as mentioned previously, amid the exchange of different actor agents and interaction incorporating a range of knowledge, expertise, and technology, the process by which new value is created can be considered to take place on the stage of “ba.” In these cases, “ba” does not only indicate physical areas such as offices and meeting rooms. For example, cases of information exchange through the internet among people separated geographically by some distance and not known to each other are recognized as “ba” of information exchange. By writing and other means, the actors can grasp ideas in the same way through psychological ties as “shared ‘ba’ of thinking.” In other words, “ba” is an extensive relationship concept including physical space, virtual space, and shared mental space among people.

So what conditions are required of “ba” in order to achieve co-creation? One is the existence of some kind of shared purpose among participating active agents. Simply bringing together independent active agents will not lead to interaction. The “ba” of a station is a place where numerous people interact, but these people have no shared purpose. People who board a train for the purposes of commuting to work or school use the station as a place to rendezvous, or to buy from a station shop. They have various purposes, and just happen to be present at that place. In such cases, the exchange of mental energy and knowledge among people participating in a “ba” does not take place, nor is any value created. In other words, this place (which is also pronounced “ba” in Japanese) has no meaning other than that a large number of people are present at the same place.

In contrast, a shared purpose exists among people taking part in a gathering at a plaza in front of the station. The meeting has an agenda, and the people taking part have some kind of purpose and interest regarding the agenda. They are participating in this “ba.” In this case, the participants exchange mental energy through being sympathetic, antagonistic, or angry, and the exchange of knowledge is encouraged through interchange of opinions among participants. As a result, some kind of message is developed through “ba” with the potential for creating value.

Another condition is the activation of “ba” and the presence of the kind of “management ba” that stimulates co-creation. Among active agents participating in “ba,” even if a shared purpose exists, that does not mean that new value is constantly created. What’s more, we can safely assume that productive, creative dialogue does not somehow arise simply by adjusting the interests among active agents. We can consider that the clash of competing interests among active agents can deepen, and lead to an irreparable situation. When “ba” falls into this kind of condition, we begin to doubt not only the creation of value but also the continued existence of “ba.”

In fact, on these points, past research analyzing collaboration among organizations bears this out.² For example, the research of Vangen and Huxham (2003),

²This chapter makes a clear distinction between “co-creation” and “collaboration,” but refers to this previous research from the viewpoint of proceeding with tasks through cooperation among different organizations.

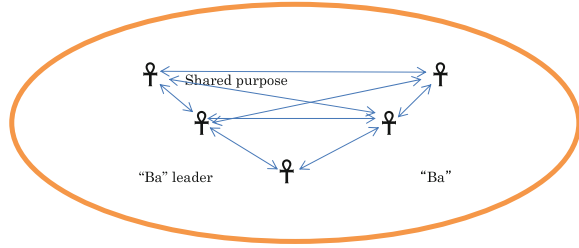
shows how numerous organizations co-create value by collaborating with other organizations, hoping to achieve excellence as a result, but in fact this is extremely difficult to manage, and success or failure depends on the ability to build inter-organizational trust. Moreover, research from Kanter (1994), Dacin et al. (1997), Gray (1985), Wistow and Hardy (1991), and others, while accepting the importance of creating value through inter-organizational collaboration, points to the difficulty of collaboration process management.

So what kind of “ba management” is necessary to activate ba vigorously, bring about creative interaction among participating active agents, and create value? Hiroyuki Itami mentions the following five conditions.

- (1) Stirring up (or fluctuation)
 - (2) Clearing up debris
 - (3) Creating a path
 - (4) Creating a flow
 - (5) Finishing off
- (1) Stirring up is to be stimulated by “ba.” This involves breaking down the existing order and values, and taking the opportunity to create new flows leading to fluctuations in the organization.
 - (2) Clearing up debris involves discovering flashes of insight among people who have started to perform new actions by stirring up.
 - (3) Creating a path involves perceiving directions indicated by clearing away diverse debris and consolidating with appropriate expression. However much debris is cleared up, an organization cannot find a direction while some is still scattered about. It is necessary to understand the values lying in the deep layers of debris and merge them.
 - (4) Creating flow involves giving a supportive push to get people leaning toward creating a path to move independently.
 - (5) Finishing off involves stopping regularly so that everyone can confirm the directional flow. Even if people start moving in the direction of flow, the flow can become wayward unless that work is undertaken regularly, and can move in unfavorable directions. Regularly “finishing off” is necessary to confirm the directional flow.

The duties of such management “ba” are undertaken by the “ba” leader. Outstanding leaders that can accomplish “ba management” in order to manage various actor agents with different backgrounds and interests and realize value co-creation are indispensable. However, the abilities required are clearly different from those needed by the leaders of bureaucratic organizations. Leadership dependent on power and authority will cause “ba” to wither. The abilities required of the leaders who take on the duties of “ba management” are different from those needed in conventional organizations. It is not easy to cultivate “ba” leaders. The only way is to go through a repeated process of trial and error and to accumulate experience. At these times, it is important to cultivate people who support the leaders (Fig. 2.1).

Fig. 2.1 Conceptual diagram of “Ba”



2.3 Synthesis

The second component for achieving co-creation is “synthesis.” Synthesis is a scientific inquiry methodology grasped conceptually with the meaning of general integration or unification, and generally understood in the field of natural sciences to be comparable to “analysis.”

In the world of the natural sciences, the analytical approach has been tried for everything from the origins of the universe to the mechanisms of the human body. Analysis is reductionism, and it is an approach method for comprehending multiple systems. It attempts to do this by grasping the nature of the individual elements and the relationships between them by dismantling the system element by element, and so understanding the system as a whole. Humanity has attempted to come to grips with the multiple mechanisms of the natural world by using the analytical method, and little by little, over a long period, it has come to grasp those systems.³ Put another way, the scientific approach is presented through analysis, and in recent years this approach has been incorporated even into the area of social science. For example, in order to pursue the facts in the background of some social phenomena, typical methods include trying to analyze the data statistically and grasp the quality of and relationships among data.

In contrast, “synthesis” indicates an opposite vector to “analysis” in the analytical approach. Where analysis dismantles the individual elements of a system, the synthesis approach combines each element to build a system. Put another way, analysis acts from the whole to subgroup while synthesis proceeds from subgroup to whole (Fig. 2.2).

But while analysis and synthesis are completely opposite approaches, they cannot be said to have no mutual relationship. For example, when analyzing natural phenomena, the analytical approach that is undertaken incorporates synthesis. After analyzing the individual elements of phenomena, the process of recombining them to understand the phenomena is always carried out. In contrast, even with some kind of creative process where the dismantled elements are recombined, the process

³Meanwhile, it is certain that the natural sciences have come to select only those targets that are capable of being analyzed. In other words, reductionism excludes those targets that resist analysis.

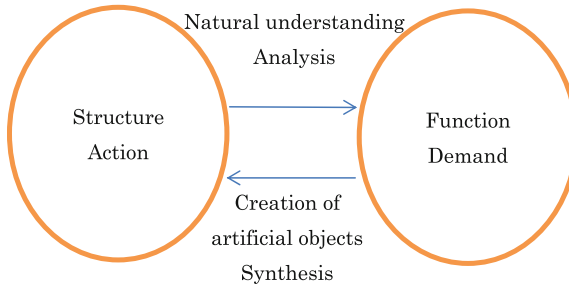


Fig. 2.2 Analysis and Synthesis. *Notes* Natural understanding: analysis through synthesis (wanting to understand multiple parts). Creation of artificial objects: synthesis incorporating analysis (wanting to create multiple objects). *Source* Ueda (2004) compilation. *What is Co-Creation?* Baifukan, p. 44

of combination requires that the individual elements be analyzed. In this way, analysis and synthesis are actually related in multiple ways, and whichever approach is taken, one cannot be said to bear no relation to the other.

In order to achieve co-creation among active agents, the active agents must implement synthesis. The reason is that the act of co-creation cannot arise from the analytical approach. In other words, the creative act of co-creation is not understanding by breaking down individual elements and rebuilding them, but rather the act of combining various elements and, while integrating them, building some kind of artificial creation. Let's consider the example of building a smart city. In order to understand the mechanisms by which environment, mobility, health care and other factors create value for the smart cities that already exist, it is necessary to take an analytical approach. By breaking down the various systems that comprise the smart cities into individual elements and examining the functions of each element and the inter-element mechanisms, we can try to understand the mechanisms that create value.

Set against this, to construct a smart city under a shared purpose, a synthesized approach is necessary in order to analyze the series of processes by which various companies create new value while mixing together and fusing technology, know-how, and knowledge through participating in “ba,” and so build the creation of a smart city population. More succinctly, a synthesized approach is required to understand the mechanisms by which different actor agents exchange and merge knowledge to create value. For example, research by Nonaka et al. (2006) analyzes the processes whereby individual knowledge merges with organizational knowledge through the synthetic approach. With this kind of thinking, we can consider that co-creation is truly synthetic, and that the analytical approach through synthesis can help us to understand the mechanisms of every creative act.

However, what we have to keep in mind here is the point that synthesis is an interpretative approach that involves the analyzer's subjectivity. Let's take another look at the example of the smart city given above. The co-creation mechanisms

involved in the creation of smart cities and the processes of knowledge exchange and fusion among active agents would yield the same results whoever was performing the analysis. Under the same conditions, you would expect to find the same results for other projects. If this is so, then it would be possible to hypothesize a general universal law on a scientific basis from these results. However, in reality this does not happen. The mechanisms of co-creation are obtained from the analysts' range of results, and different projects yield different kinds of knowledge. The reason is that the analysts focus on subjective interpretative theories.

Generally, with the scientific analytical approach, it is important that the analysts exclude subjectivity and pursue objective facts alone. Regarding results obtained from experience and observation, facts can be acknowledged as objective as long as the same facts are obtained by whoever investigates them. Any analytical approach that yields different results cannot be termed scientific. Accordingly, with the scientific approach, objectivity-focused methodologies of deductive and inductive reasoning are required.

Seen from such a standpoint, the analysts' subjective-based interpretative approach cannot be said to be scientific, since analysis through synthesis cannot be termed scientific. On this point, the writer's opinion is clear. In other words, when viewed from a scientific context from the viewpoint of the natural sciences, the interpretative approach is unscientific, but if the definition of science were established differently to that of dependence of natural science, the picture changes. Essentially, the objects of natural and social phenomena targeted by the natural science and social science approaches respectively differ, and the same standards are not applicable to both.

With the natural sciences, whose object is to clarify the mechanisms of natural phenomena, it is possible to establish universal laws by excluding subjectivity and pursuing the facts objectively, but in the social science domain this is very difficult to achieve.⁴ In the case of natural phenomena, although many areas have yet to be explained, fixed laws for the natural world do exist, and those laws are seen to be held universally. In contrast, it is difficult to discover universal laws among social phenomena, which comprise a collection of actions brought about by people with opinions that change in response to the situation. For example, human beings have fought each other since the dawn of history, and if a universal law could be provisionally formulated to explain the mechanisms by which wars occurred, it would become possible to prevent war. Yet such a law does not exist.

Given this reality, how should the scientific element of social science be defined? We certainly should not append the term "science" to a situation where multiple advocates arbitrarily develop their theories according to their own subjective ideas. On this point, I would stress the following: in the social sciences (especially in the

⁴Even in some fields of the social science domain, such as economics, there is a tendency to take an approach based on natural science models and pursue the formulation of universal laws through mathematical models.

writer's specialism of management studies), while it is difficult to formulate universal laws from the results of observing and analyzing social phenomena, it is possible to fathom the logic behind those phenomena.

However, such logic has specific characteristics for applicable social phenomena, and will not work on other phenomena. Nevertheless, studying this logic will help to make analysis of other social phenomena more accurate. It follows that the analytical approach through interpretative theories requires that the analyst understand the logic behind the social phenomena targeted for analysis and create an abstract working process. With such a process, social science can be understood as a science.

2.4 Emergence

The third component in realizing co-creation is “emergence,” a type of action that manifests bottom-up. The term might apply, for example, to a series of processes by which a minor activity that at first only occurs at the fringes of an organization grows as time goes by until it develops to drive the entire organization. Accordingly, this action is the opposite of top-down movements.

The first person to espouse the concept of “emergence” in management studies was Mintzberg. The field of management studies, especially management strategy theory, had come to see the conception and planning of strategy as work that should be undertaken by the upper echelons of top management, who should create systematic plans indicating an organization's future direction considering the various internal and external conditions surrounding the organization in a top-down manner (Ansoff 1965; Andrews 1971; Steiner 1969). Against this, Mintzberg stressed that rather than conceiving and planning strategy top-down in advance, it should take shape at the practical level of the workplace through a process of trial and error (Mintzberg 1973, 1978, 1990).

Mintzberg analyzed, in chronological order, Volkswagen strategies from 1920 to 1970 and American strategies for Vietnam from 1950 to 1973. He emphasized that the strategies were planned to begin with (intended strategy), and as time went by this intended strategy split into unrealized and deliberate strategies. Emergent strategy appeared part-way along the timeline and combined with deliberate strategy to become realized strategy. He believed that the limitations of human cognitive capacity make it impossible for a specific set of people to accurately grasp and plan the entire situation in advance, and that in reality, strategy was implemented differently to the originally planned intended strategy. Because of this, it is important for organizations to have the freedom for strategic ideas to bubble up from the middle and lower levels of the workforce and so activate hidden growth potential (Bower and Gilbert 2007; Quinn 1978, 1980; Burgelman 1983, 1994).

The way of thinking about these strategic theories leads to favorable suggestions when considering co-creation practices. For example, the Japanese automaker Honda has adopted a unique initiative known as “waigaya,” a term that refers to

informal discussions where staff can express themselves freely without regard for position, seniority, or gender. Honda's "waigaya" usually happen over a period of several days in a place chosen to be outside the daily routine, such as a hotel or recreational accommodation. Staff discuss issues freely while eating and sleeping at the venue.

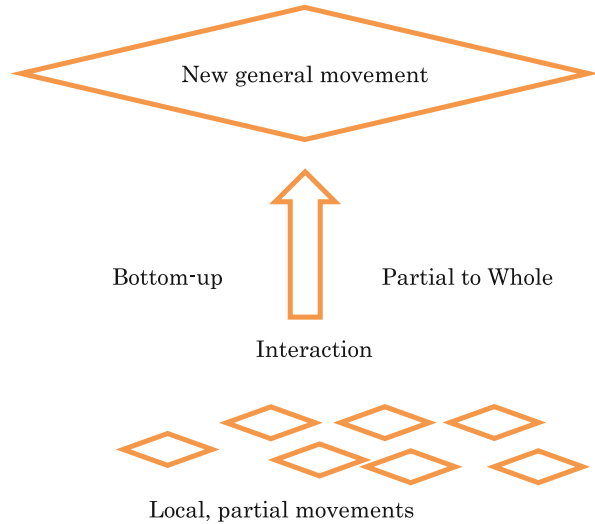
The topics of discussion are not specific issues such as how to raise sales and profit rates, but very abstract, substantive issues such as, "What is a car that people love?" Accordingly, "Waigaya" does not always lead to results, nor can the company expect results every day. Sometimes it becomes no more than an informal social gathering. Yet Honda perseveres with Waigaya despite the company footing all the bills. It does this not to convey innovative ideas and concepts top-down in a managed format, but rather because of the high possibility that something will emerge from the interactive exchanges among staff through "ba" in an atmosphere of greater freedom.

Under the "Waigaya" system, in many cases the first day of the stay is formal, and numerous participants take part in superficial discussions, but as the second, third, and more days go by, the atmosphere becomes less reserved, and in many case more substantive discussions develop. With "waigaya," participants are guaranteed the right to express themselves freely regardless of position, seniority, or gender, and care is taken that what is expressed during these discussions is not held against the employee. Although results are not guaranteed, this atmosphere of freedom draws out the real feelings of the participants, and amid the clash between this expression and the true feelings that cannot be shared at the office on a daily basis, new ideas and concepts take shape. This series of processes is truly co-creation through emergence.

Moreover, another Japanese company, the electronics manufacturer Canon, implements a "morning meeting" system where directors meet at 8 a.m. for a discussion with no set topic. This "morning meeting" differs from the usual directors' meeting due to its informality. Accordingly, the discussions that take place at these meetings do not directly influence corporate activity. The employees freely discuss a wide range of issues, from topics of the day to the weather, and exchange their opinions. The purpose of the "morning meetings" is to cultivate mutual trust among employees, but among these unstructured discussions new concepts are born that may influence Canon's strategy. Honda and Canon both create a succession of outstanding products, and both companies are deeply interested in having a system that can give rise to "emergence."

Here I would like to consolidate the features of "emergence." The first feature is the flow of activity from bottom to top of an organization known as "bottom-up." This is the process by which activity at the workplace of corporate organizations expands through interaction among employees and percolates up to the senior echelons in a more evolved form. It is quite different from the decision-making process undertaken by conventional organizations, which are typically more

Fig. 2.3 Conceptual diagram of emergence



bureaucratic. As touched on by the strategy theories discussed above, at conventional organizations, the senior echelons that hold the authority often create plans and implement them in a top-down manner, but this modus operandi does not give rise to “co-creation” among employees. With the top-down method, employees are only permitted to act within the boundaries of predetermined plans, and each person’s role is limited. Accordingly, to encourage co-creation among employees, it is necessary to assure a bottom-up rather than top-down flow of activity.

The second feature concerns the flow from partial to whole. This has similarities to the first feature, in which actions flow from bottom to top. In the initial stage, an organization’s local activities can be seen at a fringe level, and amid interaction among active agents, a number of localized movements consolidate to form a greater flow, and eventually develop to embrace the whole organization, having an effect on the organization’s character and activities. In other words, rather than having a rough idea of the whole from the beginning and breaking it down, the organization creates a structure that builds activities from partial to whole over time. The series of processes that builds from partial movement to the whole is implemented through interaction among actor agents.

Finally, the third feature is an organization’s degree of freedom. The greater the freedom, the higher the chance that emergence will appear. Put another way, the more open and “well-ventilated” the organization, the easier it is for emergence to appear. As seen in the case of Honda’s Waigaya mentioned above, emergence can easily appear in an organization that nurtures a climate where anyone can express themselves freely regardless of organizational level, age, or gender. In contrast, emergence can hardly be expected in organizations with rigid strata where it is difficult for those at the edges and in the middle strata of the organization to exchange opinions (Fig. 2.3).

2.5 Relationship-Based Strategies as Co-Creation Strategies

The three essential components to achieve a competitive edge through co-creation among actor agents are “ba,” “synthesis,” and “emergence.” These three components do not exist in parallel, but rather have a multilayered structure. When a co-creation strategy breaks down these components into their elements through an analytical approach, the presence of “ba” constitutes the foundation of this strategy. If the “ba” that the various actor agents participate in does not exist, co-creation strategies will not be established in the first place. However, as mentioned above, the presence of “ba” alone is meaningless. Some kind of shared purpose among participating actor agents is required, as is coordinating the interests of the participating actor agents and a “management ba” that encourages the exchange of knowledge. Innumerable “ba” with a wide range of actor agents participating under a shared purpose exist in society at large, but only in some cases will the interaction among them lead to new ideas and concepts or the creation of revolutionary products and services. The qualitative difference of “management ba” lies in the background.

In this way, the presence and quality of “ba” establish the roots of co-creation strategies, and can be said to form the essential connection between “ba” and “co-creation.” The other two components of synthesis and emergence have a great effect on the presence of “ba.” Even if “ba” exists temporarily, in cases where there are problems with its character, the elements of synthesis and emergence must be incomplete. For example, if the shared purpose set as “ba” is unclear, the actions of each actor agent will be consistently deficient, and co-creation become difficult to achieve. Moreover, when appropriate “management ba” does not exist, we run into the danger that repeated clashes of interests among actor agents will render “ba” meaningless, and if certain actor agents operate a “ba” with excessive authority, it will be difficult for bottom-up emergence to appear.

While it follows that appropriate “ba” are assumed to exist in synthesis and emergence, what is then manifested through “ba” in these situations is emergence. As mentioned above, emergence is a series of processes by which local movements at the fringes of an organization become a major movement that drives the entire organization through interaction among actor agents from the bottom up. Models that break down movements from top to bottom will not always fail to lead to co-creation, but a situation where the division of roles is determined by a plan drawn up in advance, though it may create co-creation temporarily, is very likely to develop in a limited way.

Even though various kinds of emergence can arise through “ba,” these are not directly connected to co-creation. In other words, as mentioned above, co-creation indicates creative action through cooperation among multiple actor agents that these actor agents could not achieve in isolation, but co-creation will not be seen until

new value is created as an organization. Thus even if emergence occurs everywhere that is reached by “ba” and previously unseen ideas and concepts arise, they will have no meaning unless they are connected to value creation. Then the role of connecting what arises from emergence to new value creation is carried out by synthesis. The act of synthesis scrutinizes the various elements that arise from emergence and combines them to create new value.

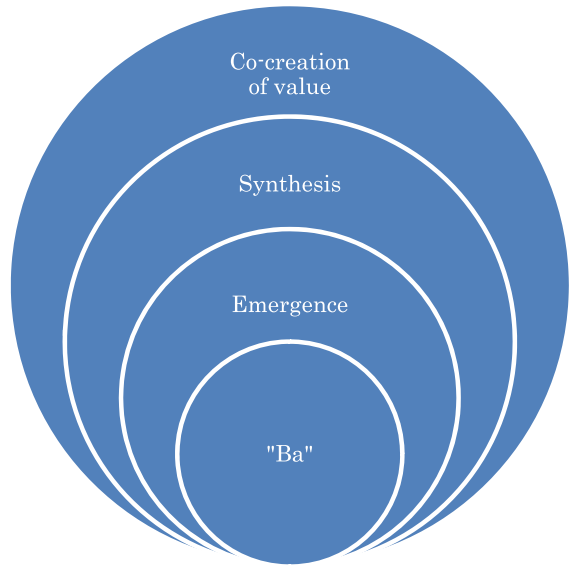
An open “ba” with a high degree of freedom can be considered enough for emergence to occur through interaction among participating actor agents. However, this emergence is not necessarily well connected to value creation. New ideas occurring at the workplace level that lead to greater work efficiency in part of the company may not lead to new value for the company as a whole. Accordingly, synthesis is required to extract the essence connected to value creation hidden within various forms of emergence and connect them.

High-level value creation occurs not by connecting everything but by selecting those elements related to value creation and integrating them effectively. For synthesis to play this role, a blueprint is needed as to what kind of value a company wants to create. Unless a company can indicate in advance what it wants to do and what value it wants to create, it will be unable to extract the essence from emergence. This thinking is known as abduction. As mentioned previously, among methods of scientific pursuit, analysis uses the methodologies of deduction and induction while synthesis uses abduction (a logical argument whose major premise is certain but whose minor premise is probable).

In this chapter, I have called the co-creation strategies arising from “ba,” “synthesis,” and “emergence” relationship-based strategies. These relationships can take place among actor agents or within society. The relationships among actor agents have already been noted, but the concept implies relationships based on co-creation that creates value and builds a competitive advantage rather than relevant relationships limited by competition among actor agents. For example, as seen in the thinking of game theory, the relationships among companies in a market are generally considered to be either competitive or cooperative (Brandenburger and Nalebuff 1996; Ghemawat 1997; McAfee 2002). Moreover, standard theories on competitive advantage, such as the positioning view (Porter 1980, 1985) and the resource-based view (Wernerfelt 1984; Rumelt 1984; Barney 1986), assume that corporate competition creates competitive advantages. While these ideas are dominant, the focus on relationships predicated on co-creation is the unique focus of this book, and can be said to be different from previous perspectives on relationships among actor agents.

Another relationship that exists is that with society. This point was mentioned in Chap. 1, but the value creation through co-creation assumed in this chapter must have significant value for society. Value created on the basis of self-interest or greed, even though this value may be significant for the person concerned, can only be harmful for society. Typical of this would be the malicious development of financial products that drive people to bankruptcy. It follows that values predicated

Fig. 2.4 Positioning of “ba,” “emergence,” and “synthesis” for relationship-based strategies



on relationship-based strategies must have social value that emphasizes relationships with society. Generating social value through co-creation is linked to acquiring societal trust, enhancing the reputation of the enterprise, and acquiring a competitive advantage (Fig. 2.4).

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